April 10, 2023 (Revised)

Madhya Gujarat Vij Company Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-Term – Term Loans	3.00	3.00	[ICRA]AA- (Stable); reaffirmed
Long-Term Fund-Based Limits	375.00	375.00	[ICRA]AA- (Stable); reaffirmed
Long-Term Non-Fund Based Limits	47.00	47.00	[ICRA]AA- (Stable); reaffirmed
Short-Term Non-Fund Based Limits	37.00	37.00	[ICRA]A1+; reaffirmed
Long Term/Short Term Unallocated Limits	40.00	40.00	[ICRA]AA- (Stable)/[ICRA]A1+; reaffirmed
Total	**502.00**	**502.00**	

**Instrument details are provided in Annexure-I*

Rationale

The assigned ratings for Gujarat Urja Vikas Nigam Limited (GUVNL) at a consolidated level take into account the healthy financial position of the state power sector utilities of Gujarat, supported by consistently strong cash collections and improved efficiency levels in the distribution segment over the years. GUVNL's consolidated leveraging (total debt/OPBDITA) stood comfortable and improved to 0.6 times in FY2022 from 0.8 times in FY2021, backed by continuing profitable operations and a sharp reduction in its debt level following the pre-payment of external debt. The consolidated leveraging is expected to remain comfortable in the current fiscal as well. ICRA takes further comfort from the high budgetary allocation towards power subsidy as well as timely subsidy payment from the State Government of Gujarat (GoG), timely tariff revisions with the fuel and power purchase cost adjustment (FPPCA) mechanism in place and the overall strong financial flexibility of GUVNL. The ratings also factor in the declining transmission and distribution (T&D) loss levels of the four GUVNL distribution companies (discoms) over the years due to several measures taken to improve the efficiency of the network and reduce thefts and unmetered sales.

The ratings are, however, constrained by the fact that the sector's dependence on subsidy still remains high, implying that the timely receipt of subsidy from the GoG remains critical. GUVNL also remains exposed to the possibility of under-recoveries due to higher subsidy requirement than the budgetary allocation in case of any adverse monsoon trend or if GUVNL's operational efficiencies weaken. Notwithstanding this, ICRA notes that the subsidy arrears, which stood at Rs. 4,445 crore as on March 31, 2021, reduced to ~Rs. 1,600 as on April 01, 2022 and have been entirely cleared as on date. Any significant delays or inadequacy in the release of subsidy payments from the GoG continues to be a key rating sensitivity. Also, on a consolidated basis, ICRA notes that the utilities remain exposed to financing and project risks associated with sizeable capex plans. ICRA further notes that the efficiency levels in the power generation segment remain lower than the normative targets set by the regulator. The lower generation, coupled with the higher operating overheads, affects GUVNL's overall returns.

The Stable outlook on the long-term rating reflects ICRA's expectations that GUVNL will continue to demonstrate strong operational performance over the medium term, supported by the capex (as approved by the Gujarat Electricity Regulatory Commission, or GERC) undertaken to improve the efficiency levels in all segments of operations—i.e., generation, transmission and distribution.

Key rating drivers and their description

Credit strengths

Healthy collections; improving trend in loss levels over the years - GUVNL's collections from consumers remain healthy. The cash collections improved in FY2022 to Rs. 59,918.0 crore from Rs. 48,091.0 crore in FY2021. The cash collections had declined in FY2021 owing to Covid-19 as the pandemic had lowered the demand from industrial customers. The collections have improved further in the current fiscal and are expected to stay at around Rs. 75,000.0 crore, led by higher volumes and some increase in the realisations owing to higher power purchase/fuel costs. Also, GUVNL has witnessed continuous improvement in its efficiency parameters with the T&D loss levels improving over the years to 14.07% in FY2022 from 20.35% in FY2016. Further, the distribution losses for all the discoms remained within the approved levels in FY2022.

Timely subsidy release by GoG to GUVNL, as per budgetary allocation for the year - On a relative basis, till FY2018, the subsidy booked as a proportion of the total collections had been declining over the years and was around 9.9% in FY2018 (against 13.0% in FY2016). The ratio was lower in FY2018 as GUVNL only booked the actual subsidy receipt over that in FY2016, wherein the subsidy booked was higher than the actual subsidy received. However, over FY2019-FY2022, the GoG paid most of the subsidy claimed by GUVNL, unlike in the previous years and, hence, the subsidy booked was much higher than the previous years. The total subsidy allocation (excluding arrears) by the GoG was Rs. 9,274.0 crore in FY2022 compared with Rs. 6,745 crores in FY2021. As a result, the ratio of the subsidy booked to the total collections remained high at ~15.5% in FY2022 compared to ~14% in FY2021. The subsidy receipts continue to be timely and are received on a quarterly basis in advance.

Regulatory clarity and timely issuance of tariff orders and tariff revisions ensure adequate pass-through of cost variations - The utilities had submitted the multi-year tariff (MYT) petition for the control period of FY2017-FY2021 to the GERC in November 2016. On March 31, 2017, the GERC issued the MYT order, including the projected allowed levels for the control period of FY2017-FY2021, which has now been extended till FY2023, giving regulatory clarity for the sector over the period. Likewise, the annual finalisation of accounts, filing of tariff petitions, issuance of tariff orders and implementation of the tariff revisions were on time. The last tariff order was issued on March 31, 2023 with a true-up of FY2022 and tariff determination for FY2024. The automatic adjustment of increase in fuel costs through the FPPCA route also ensures the smooth and profitable functioning of the sector.

Strong financial flexibility; improving leveraging levels - Overall, on a consolidated basis, GUVNL continued to report profits at the net level, although with subsidy. The consolidated cash accruals remained healthy at Rs. 6,868 crore in FY2022. Strong accruals allowed GUVNL to prepay a significant portion of its long-term debt in FY2022 and the overall debt declined to Rs. 4,910 crore as on March 31, 2022 from Rs. 7,408 crore as on March 31, 2021. The total debt as of March 2023 is expected to be around Rs. 4,300 crore. The debt servicing indicators at the consolidated level continue to be satisfactory, reflected in a gearing of 0.1 times and NCA/total debt at 140% for the period ended March 31, 2022, over a gearing of 0.2 times and NCA/total debt at 93% for the period ended March 31, 2021. With lower debt and healthy profitability, the total debt/OPBDITA improved to 0.6 times in FY2022 from 0.8 times in FY2021. The operating profit margin declined to 12.6% in FY2022 from 17.5% FY2021 due to higher power purchase costs; the operating profitability is expected to decline in FY2023 as well owing to further increase in the power purchase costs. Nevertheless, the debt coverage metrics are likely to remain comfortable.

Credit challenges

Subsidy dependence on state remains high - The absolute level of subsidy dependence on the GoG remained high at ~Rs. 9,274 crore (~14.5% of the revenue) in FY2022; however, the subsidy receipt has been timely on a quarterly basis. Also, the subsidy arrears, which stood at Rs. 4,445 crore as on March 31, 2021, reduced to ~Rs. 1,600 as on April 01, 2022 and have been entirely cleared as on date.

Large overall capex plans for the sector - In FY2022, a capital expenditure of Rs. 7,191 crore was incurred against Rs. 5,721 crore in FY2021; of the total capex incurred in FY2022, Rs. 3,356 crore was incurred by GSECL and GETCO (Rs. 4,830 crore in FY2021), while the remaining was incurred by the discoms. A bulk of the future capex is expected to be undertaken by GSECL {mainly renewable capacity addition and towards FGD (flue gas desulfurization) to comply with the revised emission norms}, GETCO (system strengthening) and PGVCL (loss reduction). The total capex in FY2023 at the consolidated level is expected to be around Rs. 7,300.0 crore. Besides, a capex of ~Rs. 6,900.0 crore towards FGD, GSECL is expected to incur a capex of ~Rs. 4,100.0 crore to build solar power capacities over FY2024-FY2025. GETCO's capex towards the laying of transmission lines and setting up the sub-stations is expected to be ~Rs. 3000 crore per annum during FY2024 and FY2025. The capex at the discoms is expected to be around Rs. 2,500-3000.0 crore annually. The funding of the capex would be through a mix of debt and equity. ICRA, however, draws comfort from GUVNL's strong financial flexibility and timely equity infusion/grants, which have supported its expansion.

Generation units operating at weak efficiency levels dampen overall returns - The operational efficiency parameters (in terms of plant availability factor or PAF, PLF, auxiliary consumption and station heat rate, or SHR) of a large number of GSECL's power stations remain lower than the normative targets set by the regulator due to the vintage of the plants. The lower generation, along with the higher operating overheads, affects GUVNL's overall returns.

Liquidity position: Strong

The liquidity profile of GUVNL is strong, marked by healthy cash accruals (including subsidy), owing to which the debt levels have reduced in recent years. The debt level came down to ~Rs. 4,360 crore as of February 2023 from Rs. 19,198 crore in FY2018. Also, GUVNL has significant cushion in working capital limits, marked by almost nil utilisation, and the cash balances were healthy at Rs. 10,687.0 crore as on March 31, 2022. Further, the liquidity is also supported by constant support from the GoG by way of subsidy, equity and capital grants.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the credit profile of the GoG improves, or if there is a significant reduction in subsidy dependence on the state government, coupled with the sustained improvement in operational efficiencies.

Negative factors – Pressure on the ratings could arise if the credit profile of the GoG deteriorates, or if there are any significant operational under-recoveries or sustained increase in the AT&C loss levels for the distribution utilities of GUVNL.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Approach - Consolidation Rating Methodology for Power Distribution Utilities Rating Methodology - Power Transmission Rating Methodology - Thermal Power
Parent/Group support	The assigned rating factors in the systemic importance that GUVNL (consolidated) holds, which is expected to induce the GoG to extend timely financial support to the rated entity, should there be a need.
Consolidation/Standalone	To arrive at the ratings, ICRA has taken a consolidated view of the state-owned power sector utilities in Gujarat, which consists of GUVNL (holding company) and its six subsidiaries, Gujarat State Electricity Corporation Limited (GSECL), Gujarat Energy Transmission Corporation Limited (GETCO), Dakshin Gujarat Vij Company Limited (DGVCL), Madhya Gujarat Vij Company Limited (MGVCL), Uttar Gujarat Vij Company Limited (UGVCL) and Paschim Gujarat Vij Company Limited (PGVCL), given the close business, financial and managerial linkages among them (details in Annexure-2).

About the company

Gujarat Urja Vikas Nigam Ltd (GUVNL) is the holding company of all unbundled entities with responsibility for the bulk purchase of electricity and sale to four discoms and other private distribution licensees. In addition, the company is responsible for the overall co-ordination & supervision of the activities of its subsidiary companies, which also include raising and managing the overall loan portfolio on behalf of the subsidiaries.

The Government of Gujarat unbundled and restructured the Gujarat Electricity Board with effect from April 1, 2005. The generation, transmission and distribution businesses of the erstwhile Gujarat Electricity Board were transferred to seven successor companies. The seven successor companies were formed on functional lines into four distribution companies (i.e. formed on regional lines), one transmission entity, one generating entity and holding company as listed below:

Holding Company	Gujarat Urja Vikas Nigam Limited (GUVNL)
Subsidiary: Generation	Gujarat State Electricity Corporation Limited (GSECL)
Subsidiary: Transmission	Gujarat Energy Transmission Corporation Limited (GETCO)
Subsidiaries: Distribution	Dakshin Gujarat Vij Company Limited (DGVCL) Madhya Gujarat Vij Company Limited (MGVCL) Uttar Gujarat Vij Company Limited (UGVCL) Paschim Gujarat Vij Company Limited (PGVCL)

Dakshin Gujarat Vij Company Limited (DGVCL) - The company is a wholly-owned subsidiary of GUVNL. It is engaged in the distribution of electricity in seven districts, namely Bharuch, Narmada, Surat (except part of Surat City), Tapi, Dangs, Navsari and Valsad in south Gujarat.

Paschim Gujarat Vij Company Limited (PGVCL) - The company is a wholly owned subsidiary of GUVNL. It distributes electricity in twelve districts - Rajkot, Jamnagar, Junagadh, Porbandar, Bhuj, Bhavnagar, Surendranagar, Amreli, Botad, Morbi, Devbhumi Dwarka and Gir Somnath in Western Gujarat.

Madhya Gujarat Vij Company Limited (MGVCL) - The company is a wholly-owned subsidiary of GUVNL and is engaged in the distribution of electricity in the seven districts of Panchmahal, Dahod, Vadodara, Anand, Kheda, Mahisagar and Chhotaudepur in Central Gujarat.

Uttar Gujarat Vij Company Limited (UGVCL) - A wholly-owned subsidiary of GUVNL, UGVCL is engaged in the distribution of electricity in eight districts - Ahmedabad, Sabarkantha, Banaskantha, Patan, Mehsana, Gandhinagar, Palanpur and Himmatnagar.

Gujarat State Electricity Corporation Limited (GSECL) - GSECL was an independent power producer (IPP) of the Gujarat Government but since the restructuring, it is a 100% subsidiary of GUVNL. It is now the state generation utility and supplies 100% of the power generated to GUVNL.

Gujarat Energy Transmission Corporation Limited (GETCO) was incorporated as the state transmission utility as part of the re-organisation exercise. It is also responsible for load dispatch functions within the state for all government and private electricity entities in Gujarat. GETCO has entered into a joint transmission service agreement with GUVNL and the discoms for power transmission.

Key financial indicators (audited)

GUVNL Consolidated	FY2021	FY2022
Operating income	50,858	63,838
PAT	1,876	1,681
OPBDIT/OI	17.5%	12.6%
PAT/OI	3.7%	2.6%
Total outside liabilities/Tangible net worth (times)	1.6	1.4
Total debt/OPBDIT (times)	0.8	0.6
Interest coverage (times)	8.9	12.5

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					April 10, 2023	April 11, 2022	April 30, 2021	-
1	Term loans	Long term	3.00	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	-
2	Fund-based limits	Long term	375.00	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	-
3	Non-fund based limits	Long term	47.00	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	-
4	Non-fund based limits	Short term	37.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-
5	Unallocated limits	Long term/ Short term	40.00	-	[ICRA]AA- (Stable)/[ICRA]A1+	[ICRA]AA- (Stable)/[ICRA]A1+	[ICRA]AA- (Stable)/[ICRA]A1+	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term loan	Simple
Long-term fund-based – Cash credit	Simple
Long-term non-fund-based	Very Simple
Short-term non-fund-based – BG/LC	Very Simple
Long term/Short term Unallocated	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-Term – Term Loans	NA	NA	NA	3.00	[ICRA]AA- (Stable)
NA	Long-term fund-based limits	NA	NA	NA	375.00	[ICRA]AA- (Stable)
NA	Long-term non-fund based limits	NA	NA	NA	47.00	[ICRA]AA- (Stable)
NA	Short-term non-fund based limits	NA	NA	NA	37.00	[ICRA]A1+
NA	Long term/short term Unallocated limits	NA	NA	NA	40.00	[ICRA]AA-(Stable)/[ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	GUVNL's Ownership	Consolidation Approach
Gujarat Urja Vikas Nigam Limited (GUVNL)	Holding Entity	Full Consolidation
Dakshin Gujarat Vij Company Limited (DGVCL)	100.00%	Full Consolidation
Madhya Gujarat Vij Company Limited (MGVCL)	100.00%	Full Consolidation
Uttar Gujarat Vij Company Limited (UGVCL)	100.00%	Full Consolidation
Paschim Gujarat Vij Company Limited (PGVCL)	100.00%	Full Consolidation
Gujarat State Electricity Corporation Limited (GSECL)	100.00%	Full Consolidation
Gujarat Energy Transmission Corporation Limited (GETCO)	100.00%	Full Consolidation

Source: GUVNL annual report FY2022

Corrigendum

Document dated April 10, 2023 has been corrected with revision as detailed below:

- The 'Liquidity position' paragraph heading has been corrected to 'Strong' from 'Adequate'
- The complexity indicator for Long-term non-fund-based Instrument has been changed to 'Very Simple' from 'Simple'

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545304
sabyasachi@icraindia.com

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Sanket Thakkar
+91 79 4027 1528
sanket.thakkar@icraindia.com

Rishi S Tekchandani
+91 79 4027 1519
rishi.tekchandani@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

ABOUT ICRA LIMITED

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches