

## Gujarat State Electricity Corporation Limited

March 20, 2019

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term Fund Based Limits	525.00	525.00	[ICRA]AA-(Stable) reaffirmed
Long Term Loans	7770.91	10636.10	[ICRA]AA-(Stable) reaffirmed
Long Term Non-Fund Based Limits	389.00	389.00	[ICRA]AA-(Stable) reaffirmed
Short Term Fund based	2000.00	1000.00	[ICRA]A1+ reaffirmed
Short Term Non-Fund Based Limits	1014.15	1014.15	[ICRA]A1+ reaffirmed
Long Term/ Short Term Unallocated	3111.04	1245.85	[ICRA]AA-(Stable)/A1+ reaffirmed
<b>Total</b>	<b>14810.1</b>	<b>14810.1</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating reaffirmation takes into account the healthy financial position of the state power sector utilities in Gujarat supported by consistently strong cash collections and improving efficiency levels in distribution segment. With continuing profitable operations and gradual reduction in debt level supported further by regular fund infusion by the Government of Gujarat (GoG) in the form of equity and capital grants, Gujarat Urja Vikas Nigam Limited's (GUVNL's) consolidated leveraging (Total Debt/OPBDITA) improved to 2.3x in FY2018 as compared to 2.7x in FY2017. ICRA further takes comfort from the adequate budgetary allocation towards power subsidy as well as timely subsidy payment by the GoG, timely tariff revisions with Fuel and Power Purchase Cost Adjustment (FPPCA) mechanism in place and overall strong financial flexibility of GUVNL. The rating also factors in the declining transmission and distribution (T&D) loss levels of the four GUVNL distribution companies (discoms) over the years due the several measures undertaken to improve the efficiency of the network and reduce thefts and unmetered sales.

The ratings are, however, constrained by the fact that absolute subsidy dependence for the sector still remains high implying that timely receipt of subsidy from the GoG remains critical. Moreover, actual release of subsidy (which is in line with budgetary provisions) has remained lower than the actual claims over the years which led to a build-up of pending subsidy dues to Rs. 4,664 crore till March 2016. ICRA takes positive note of higher subsidy allocations made to GUVNL by the State Government in the revised budget estimates for FY2018 and FY2019 and the change in accounting policy of GUVNL from FY2017 to account for subsidy on receipt basis which would arrest the increase in pending subsidy dues. However, the change in accounting policy also exposes the company to the possibility of under-recoveries due to higher subsidy requirement than the budgetary allocation in case of any adverse monsoon or increased duration of power supply to agricultural consumers or in years when there is a weakening of operational efficiencies of GUVNL. ICRA notes that while GUVNL expects GoG to gradually bring down the outstanding subsidy receivables, any significant delays or inadequacy in release of subsidy payments from GoG continues to remain a key rating sensitivity. ICRA further notes that in spite of an improvement in the efficiency levels in the power generation segment in FY2018 as compared to previous years, they still remain lower as compared to normative targets set by the regulator. Coupled with higher operating overheads, this affects the overall returns for GUVNL.

The ratings also factor the merger of Bhavnagar Energy Company Limited (BECL) with Gujarat State Electricity Corporation Limited (GSECL), wherein BECL has an operational lignite based asset (500 MW, based on cost plus PPA) of

which operations remain impacted due to lignite and water availability risk resulting into risk of fixed cost under recovery. This in turn is likely to impact the profitability of GUVNL on consolidated level to some extent, and hence, improvement in lignite and water availability for BECL on expected lines over the next 6-12 months remains important. Also, on a consolidated basis, ICRA notes that the utilities also remain exposed to financing and project risks associated the sizeable capex plans at GUVNL in the distribution and transmission segments as per the multi-year tariff (MYT) order of March 2017, which would imply a continued reliance on debt for funding of capex.

## Outlook: Stable

The Stable outlook factors in the continued stable operating performance of GUVNL and expected marginal moderation in the leveraging and coverage indicators in FY2019 given the recently completed BECL merger. The outlook may be revised to 'Positive' if there is any significant improvement in the operating performance or a material reduction in pending receivables resulting in an improvement in debt coverage indicators. The outlook may be revised to Negative if there are any substantial under-recoveries from GoG or deterioration in efficiency levels resulting in any weakening of the financial risk profile of the company.

## Key rating drivers

### Credit strengths

**Healthy cash collections; improving trend in loss levels over the years** - GUVNL's cash collections from consumers has grown by 10% annually to Rs. 44,494 crore in FY2018 from Rs. 40,408 crore in FY2017 primarily backed by around 10% increase in total units sold, even as average tariff realisations declined marginally. The cash collections as a percentage of revenue assessed have also remained high at ~99% for FY2018. Also, GUVNL has witnessed continuous improvement in its efficiency parameters with the T&D loss levels for the sector improving to 16.92% in FY2018 over 18.03% in FY2017.

**Subsidy release by GoG to GUVNL is timely as per the budgetary allocation for the year, and is on a quarterly basis** - On a relative basis, subsidy booked as a proportion of total collections has been declining over the years and stood at about 9.9% in FY2018 (as against 13.0% in FY2016). The ratio remained lower in FY2018 as GUVNL only booked actual subsidy receipt as compared to FY2016 when the subsidy booked was higher than actual subsidy received. The subsidy receipts continue to remain timely and received on a quarterly basis in advance. Further, in addition to the subsidy, the GoG has been regularly contributing equity (Rs. 2513 crore in FY2018) and capital grants (Rs. 233 crore in FY2018) towards the capex funding requirements of the sector.

**Regulatory clarity, timely issuance of tariff orders and timely tariff revisions ensure adequate pass through of cost variations** - The utilities had submitted the MYT petition for control period FY2017-FY2021 to Gujarat Electricity Regulatory Commission (GERC) in November 2016. On March 31, 2017, GERC issued the MYT order including the projected allowed levels for the control period FY2017-FY2021 giving regulatory clarity for the sector over the period. Likewise, annual finalisation of accounts, filing of tariff petitions, issuance of tariff orders and implementation of tariff revisions continue to be done in a timely manner. The automatic adjustment of increase in fuel costs through the Fuel and Power Purchase Cost Adjustment (FPPCA) route also ensures the smooth and profitable functioning of the sector.

**Strong financial flexibility; improving leveraging levels** - On an overall basis, state power sector on consolidated basis continued to report profits at net level, although with subsidy. The cash accruals from operations for the sector as a whole have increased over the years and stand at healthy levels of Rs. 4,669 crore in FY2018. Further, with efforts to improve efficiency of the network and reduce thefts and unmetered sales, the overall loss levels have come down. Strong accruals have allowed GUVNL to reduce debt levels in FY2018. Overall debt servicing indicators continue to

remain moderate as reflected in adjusted gearing at 0.50x and NCA/Total Debt at 30% for the period ended March 2018 as against 0.68x and 25% respectively for previous year. Total Debt/OPBDITA has improved to 2.3x in FY2018 from 2.7x in FY2017. The consolidated gearing and coverage indicators are expected to weaken marginally in FY2019 given the completion of merger the merger of BECL with GSECL. However, from FY2020 onwards, indicators are expected resume the earlier trend of continuing de-leveraging and improving debt coverage indicators.

## Credit weaknesses

**High levels of unpaid subsidy from GoG for previous years; subsidy dependence on the state remains high** - The absolute level of subsidy dependence on GoG remains high at over Rs. 5,000 crore currently. While subsidy receipt has been timely, the actual claims by GUVNL have remained higher than the budgetary allocation and as a result, outstanding subsidy receivable from GoG built up to Rs. 4,664 crore upto March 2016. Due to the change in accounting policy of GUVNL from FY2017 combined with an additional subsidy allocation of Rs. 1,231 crore made to GUVNL by GoG in the revised budget estimates for FY2018, the subsidy receivable dropped to Rs. 3,433 crore as on March 2018. ICRA takes positive note of additional subsidy allocation of ~Rs. 2,000 crore in the revised budget estimates for FY2019 which would further bring down the subsidy receivable.

**Overall capex plans for the sector remains large which would keep the consolidated leveraging level high** - In FY2018, capex amounting to Rs. 7,595 crore was incurred of which Rs. 4,236 crore was incurred by GSECL and GETCO combined while remaining was undertaken by the discoms. The overall financing requirements in FY2019 remain high given the large capex plans in the distribution and transmission segments of GUVNL. Bulk of the current and future capex at GUVNL (total ~Rs. 13,300 crore over FY2019 and FY2020) is being undertaken by GETCO (system strengthening) and PGVCL (loss reduction) largely financed through a mix of government grants, subsidy, internal accruals and debt. ICRA, however, draws comfort from GUVNL's strong financial flexibility as well as timely receipt of subsidy and grants from the GoG in the past which have supported the earlier expansions.

**Fixed cost under-recovery risk at BECL may impact the profitability of GUVNL on a consolidated level** - BECL has an operational lignite based asset (two units of 250 MW each, based on cost plus PPA). However, its operation has remained impacted by delays in the commencement of lignite supply as well as a lack of required water supply resulting in a risk of fixed cost under recovery. Over the last six months, lignite supply has commenced, and water availability has also improved and is likely to improve further over the next 6-12 months which should allow the plant to reach normative plant availability in the medium term. However, given the merger of BECL with GSECL, the current operational risk at BECL is likely to impact the profitability of GUVNL on a consolidated level to some extent.

**Trading gains for discoms have declined significantly, given the subdued tariffs in short term trading market** - GUVNL's units traded and gains from trading of power have declined significantly over the years. As compared to FY2013 when GUVNL traded as high as 8,464 Million Units (MUs) of power, in FY2018, only 2,117 MUs were traded and the overall gains have come down significantly. The decline in gains is attributable to the decline in power demand-supply gap, especially for power at viable rates from prospective consumers. The same has also resulted in an overall pressure on power realisations, since cheaper power was available to consumers from other sources with overall demand going down.

**Generation units operating at weak efficiency levels dampen overall returns** - In spite of an improvement in the efficiency levels in the power generation segment in FY2018 over previous years, the operational efficiency parameters (in terms of Plant Availability Factor (PAF), Plant Load Factor (PLF), auxiliary consumption and Station Heat Rate (SHR)) of a large number of GSECL's power stations still remain lower as compared to normative targets set by the regulator due to the vintage of the plants. Coupled with higher operating overheads, this affects the overall returns for GUVNL.

## Liquidity position

As of March 2018, GUVNL's liquidity position remained healthy with surplus cash and bank balance of Rs. 1,801 crore and high unutilised fund based and non-fund based bank limits. GUVNL has further demonstrated strong financial flexibility and refinancing ability in terms of raising debt from banks, state government institutions (GSFS) and other financial institutions.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Power Distribution Utilities</a>
Parent/Group Support	The assigned rating factors in the systemic importance that GUVNL (consolidated) holds, which we expect should induce the government to extend timely financial support to the rated entity, should there be a need.
Consolidation / Standalone	For arriving 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

The Government of Gujarat unbundled and restructured the Gujarat Electricity Board with effect from 1st April, 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)

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

**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.

In FY2018, GUVNL (consolidated) reported a net profit of Rs. 1,146 crore on an operating income of Rs. 43,877 crore, as compared to a net profit of Rs. 579 crore on an operating income of Rs. 40,230 crore in the previous year.

## Key Financial Indicators - GUVNL Consolidated (Audited)

	FY2017	FY2018
Operating Income (Rs. crore)	40,230	43,877
PAT (Rs. crore)	539	1,146
OPBDIT/ OI (%)	16.4%	15.5%
RoCE (%)	9.6%	11.0%
Total Debt/ TNW (times)	0.9	0.7
Total Debt/ OPBDIT (times)	2.7	2.3
Interest coverage (times)	3.6	4.6
NWC/ OI (%)	-22%	-28%

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

## Rating history for last three years

Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years				
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)	Date & Rating March 2019	Date & Rating in FY2018			Date & Rating in FY2017	
					March 2018	April 2017	April 2016	April 2015	
1 Long Term Fund Based Limits	Long Term	525.00	525.00	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)
2 Long Term Loans	Long Term	10636.10	10636.10	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)
3 Long Term Non-Fund Based Limits	Long Term	389.00	389.00	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)
4 Short Term Fund based	Short Term	1000.00	1000.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5 Short Term Non-Fund Based Limits	Short Term	1014.15	1014.15	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
6 Long Term/ Short Term Unallocated	Long Term/Short Term	1245.85	1245.85	[ICRA]AA-(Stable)/A1+	[ICRA]AA-(Stable)/A1+	[ICRA]AA-(Stable)/A1+	-	-	-

## Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long Term Fund Based Limits-CC	-	-	-	525.00	[ICRA]AA- (Stable)
NA	Long Term Loans	August 2011	-	2030	10636.10	[ICRA]AA- (Stable)
NA	Long Term Non-Fund Based Limits	-	-	-	389.00	[ICRA]AA- (Stable)
NA	Short Term Fund based	-	-	-	1000.00	[ICRA]A1+
NA	Short Term Non-Fund Based Limits	-	-	-	1014.15	[ICRA]A1+
NA	Long Term/ Short Term Unallocated	-	-	-	1245.85	[ICRA]AA- (Stable)/ [ICRA]A1+

Source: Gujarat Urja Vikas Nigam Limited

### Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Gujarat Urja Vikas Nigam Limited (GUVNL)	Parent of rated entity	Full Consolidation
Dakshin Gujarat Vij Company Limited (DGVCL)	Fellow subsidiary	Full Consolidation
Madhya Gujarat Vij Company Limited (MGVCL)	Fellow subsidiary	Full Consolidation
Uttar Gujarat Vij Company Limited (UGVCL)	Fellow subsidiary	Full Consolidation
Paschim Gujarat Vij Company Limited (PGVCL)	Fellow subsidiary	Full Consolidation
Gujarat Energy Transmission Corporation Limited (GETCO)	Fellow subsidiary	Full Consolidation

Note: ICRA has taken a consolidated view of GUVNL (holding company) and its six subsidiaries

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