March 19, 2020

Gujarat State Electricity Corporation Limited: Ratings reaffirmed at [ICRA]AA-(Stable)/A1+

Summary of rating action

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	10636.10	6638.26	[ICRA]AA-(Stable) reaffirmed
Long Term Non-Fund Based Limits	389.00	389.00	[ICRA]AA-(Stable) reaffirmed
Short Term Fund based	1000.00	1000.00	[ICRA]A1+ reaffirmed
Short Term Non-Fund Based Limits	1014.15	1014.15	[ICRA]A1+ reaffirmed
Long Term/ Short Term Unallocated	1245.85	5243.69	[ICRA]AA-(Stable)/A1+ reaffirmed
Total	**14810.1**	**14810.1**	

** - 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 higher power subsidy allocation from the Government of Gujarat (GoG) in the budget for FY2019. ICRA takes comfort from the timely subsidy payment by 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 favourably factors in the declining transmission and distribution (T&D) loss level trajectory of all the four GUVNL distribution companies (discoms) over the past decade due the several measures undertaken to improve the efficiency of the network and reduce thefts and unmetered sales.

While ICRA notes that the overall T&D loss levels increased in FY2019 over the previous year due to additional power given to agricultural consumers because of a weak monsoon, the loss levels are expected to continue to follow the declining trend and come down significantly in FY2020 given the favourable monsoon. Furthermore, with continuing profitable operations and higher subsidy payments from the state government in the last 2-3 years, GUVNL's consolidated leveraging (Total Debt/OPBDITA) improved marginally to 2.8x in FY2019 and the gearing improved to 0.6x as on March 31, 2019. The leveraging is expected to further come down in FY2020 with pre-payment of certain BECL loans from GUVNL's healthy cash accruals. The rating also factors in the successful merger of the defunct Bhavnagar Energy Company Limited (BECL) with Gujarat State Electricity Corporation Limited (GSECL) and the operationalisation of the entire 500 MW capacity of BECL, albeit at low plant load factor (PLF) as of now.

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) had remained lower than the actual claims over the years, leading to a build-up of pending subsidy dues to Rs. 4,664 crore till March 2016. ICRA takes positive note of the relatively higher subsidy allocations made to GUVNL by the state government in the revised budget estimates for FY2018, FY2019 and FY2020, as well as the change in GUVNL's accounting policy from FY2017. The latter accounts for subsidy on receipt basis, which has brought down the unpaid subsidy dues to Rs. 3,260 crore as on March 31, 2019 and is expected to decline further by March 31,

2020. 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 when GUVNL's operational efficiencies weaken. 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. 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 capex. ICRA further notes that in spite of an improvement in the efficiency levels in the power generation segment in FY2019 over previous years, they still remain lower than the normative targets set by the regulator. Coupled with higher operating overheads, this affects the overall returns for GUVNL.

The Stable outlook reflects ICRA's expectations that GUVNL will continue to demonstrate strong operational performance over the medium term supported by significant capex (as approved by Gujarat Electricity Regulatory Commission, or GERC) undertaken to improve the efficiency levels in all segments of operations—i.e., generation, transmission and distribution. Also, with the completion of the merger of the financially weaker entity, BECL, ICRA now expects the financial profile of GUVNL to again showcase steady improvement, going forward.

Key rating drivers

Credit strengths

Healthy cash collections - GUVNL's cash collections from consumers has grown by 16% YoY to Rs. 51,802 crore in FY2019 from Rs. 44,494 crore in FY2018 primarily backed by around 10% increase in total units sold (to 80,093 Mus) and a 6% increase in average tariff realisations (to Rs. 5.82/unit) given the higher FPPCA charges. The cash collections as a percentage of revenue assessed have also remained high at ~100% for FY2019.

Quarterly subsidy release by GoG to GUVNL is timely as per the budgetary allocation for the year - On a relative basis, till FY2018, 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 the actual subsidy receipt as compared to FY2016 when the subsidy booked was higher than actual subsidy received. However, in FY2019, GoG paid the full subsidy claimed and hence the subsidy booked was much higher than the previous year. The subsidy allocation by GoG for FY2019 was Rs. 6,944 crore as against Rs. 4,407 crore for the previous year. As a result, the ratio of subsidy booked to total collections jumped to 13.4% in FY2019. The subsidy receipts continue to remain timely and received on a quarterly basis in advance.

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 the control period of FY2017-FY2021 to 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 in a timely manner. 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 - On an overall basis, state power sector on a consolidated basis continued to report profits at a net level, albeit with subsidy. The cash accruals for the sector as a whole remained healthy at Rs. 4,420 crore in FY2019. In spite of addition of BECL debt of ~Rs. 3,700 crore in the restated financials of

FY2018 as required by Ind AS-103 (effective date of BECL merger is set at April 1, 2018), strong accruals have allowed GUVNL to reduce debt levels in FY2019. Overall debt servicing indicators continued to remain satisfactory as reflected in adjusted gearing at 0.5x and NCA/Total Debt at 26% for the period ended March 31, 2019, as against 0.6x and 22%, respectively, for the previous year. While BECL's merger resulted in a deterioration in the Total Debt/OPBDITA metrics to 2.9x in restated financials of FY2018 from 2.7x in FY2017, the metrics improved to 2.8x in FY2019 given the scheduled debt repayments. GUVNL pre-paid a significant amount of debt in H1 FY2020 given the healthy accruals, which will improve the leveraging.

Credit challenges

Increase in T&D loss levels for discoms in FY2019 on the back of a weak monsoon - The T&D loss levels for all the four discoms of GUVNL combined increased to 18.29% in FY2019 from 16.92% in FY2018 due to two additional hours of power given to agricultural consumers for an extended period during the year due to a weak monsoon. This increase in loss levels was especially witnessed in Uttar Gujarat Vij Company Ltd. (UGVCL) and Paschim Gujarat Vij Company Ltd. (PGVCL) where the proportion of agricultural consumers is high. However, ICRA notes that the loss levels are expected to come down significantly in FY2020 because of the favourable monsoon, continuing to follow the overall declining trend in loss levels as witnessed over the past decade.

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 nearly Rs. 7,000 crore currently. While subsidy receipt has been timely, the actual claims by GUVNL have remained higher than the budgetary allocation in the past and as a result, outstanding subsidy receivable from GoG had built up to Rs. 4,664 crore till March 2016. Due to the change in accounting policy of GUVNL from FY2017 combined with an additional subsidy allocation of Rs. 1,231 crore and Rs. 173 crore, respectively, made to GUVNL by GoG in the revised estimates for the FY2018 and FY2019 budget, the unpaid subsidy receivable dropped to Rs. 3,260 crore as on March 31, 2019. ICRA takes positive note of additional subsidy allocation of over Rs. 1,000 crore in the revised budget estimates for FY2020, which would further bring down the subsidy receivable.

Large overall capex plans for the sector will keep the financing requirement high - In FY2019, capex amounting to Rs. 8,401 crore was incurred, of which Rs. 4,124 crore was incurred by GSECL and Gujarat Energy Transmission Company Ltd. (GETCO) combined, while the remaining was undertaken by the discoms. Amongst the discoms, PGVCL accounted for about 50% of total discom capex in FY2019. A bulk of the current and future capex (~Rs. 13,000 crore in FY2020 and FY2021) approved as per the MYT order and mid-term review (MTR) order is expected to be undertaken by GETCO (system strengthening) and PGVCL (loss reduction), largely financed by a mix of Government grants, subsidy, debt, equity and internal accruals. ICRA, however, draws comfort from GUVNL's strong financial flexibility as well as timely receipt of subsidy, equity (Rs. 3,545 crore in FY2019) and grants (Rs. 501 crore in FY2019) from the GoG in the past which have supported the expansions.

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 FY2019 over previous years, 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 still remain lower than 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.

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 power purchase agreement or PPA). After an initial delay in re-commissioning the plant due to issues in lignite and water availability, GUVNL has successfully operationalised both the units in FY2020. However, the plant is currently operating at low efficiency levels and ICRA expects it to reach the normative plant availability gradually over the medium term. In the interim, the operation at BECL is likely to impact the profitability of GUVNL on a consolidated level to some extent.

Risk associated with one-time payment for cancellation of PPA - GUVNL had a 1000-MW PPA with Adani Power Mundra Limited, which was terminated as per an order issued by the Supreme Court in July 2019. Based on the order, GUVNL could face a significant liability for the past periods for which it has been drawing power. The exact amount of liability is still being ascertained by the CERC. While GUVNL could still contest the amount decided, given that this has been an ongoing issue, it has made certain provisions in FY2018 and FY2019 so that there is limited impact on its financials and tariff shock to its consumers in case the liability was to materialise. The quantum of the liability and how it affects the cash flows of GUVNL would be a key monitorable.

Liquidity position: Strong

At a consolidated level, GUVNL's liquidity position remains strong with a healthy annual fund flow from operations of Rs. 4,311 crore in FY2019 and surplus free cash and liquid investments of Rs. 401 crore as on March 31, 2019. The company had a sanctioned fund-based working capital facility of Rs. 2,575 crore as on November 30, 2019, the average utilisation of which remained low at 14% over the past 12 months. The liquidity is also supported by the constant sizable fund inflow from the GoG by way of subsidy, equity and capital grants.

Rating sensitivities

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

Negative triggers – Negative pressure on the rating could arise if the rating if there is a deterioration in the credit profile of GoG 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 Methodology for Power Distribution Utilities
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 April 1, 2005. The generation, transmission and distribution businesses of the erstwhile Gujarat Electricity Board were transferred to seven successor companies. These successor companies were formed on functional lines into four distribution companies (along regional lines), one transmission entity, one generating entity and a 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, the company is responsible for overall co-ordination and supervision of its subsidiary companies, which also include raising and managing the overall loan portfolio on their behalf.

GSECL was an independent power producer of the GoG, but since the restructuring, it has become a 100% subsidiary of GUVNL. It is now the state generation utility and supplies 100% of the power generated to GUVNL.

In FY2019, GUVNL (consolidated) reported a net profit of Rs. 928 crore on an operating income of Rs. 50,949 crore, as compared to a net profit of Rs. 529 crore on an operating income of Rs. 43,824 crore in the previous year.

Key financial indicators – GUVNL Consolidated (audited)

	FY2018 restated	FY2019
Operating Income (Rs. crore)	43,824	50,959
PAT (Rs. crore)	529	928
OPBDIT/OI (%)	15.4%	12.0%
RoCE (%)	9.6%	7.1%
Total Outside Liabilities/TNW (times)	2.3	2.0
Total Debt/OPBDIT (times)	2.9	2.8
Interest coverage (times)	3.6	3.7
DSCR (times)	1.3	1.2

Source: Gujarat Urja Vikas Nigam Limited

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)	Date & Rating March 19, 2020	Chronology of Rating History for the past 3 years: Date & Rating in FY2019 March 20, 2019	Date & Rating in FY2018 March 15, 2018	Date & Rating in FY2018 April 18, 2017	Date & Rating in FY2017 April 14, 2016
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)
2	Long Term Loans	Long Term	10636.10	6638.26	[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)
4	Short Term Fund based	Short Term	1000.00	1000.00	[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+
6	Long Term/ Short Term Unallocated	Long Term/Short Term	1245.85	5243.69	[ICRA]AA- (Stable)/ A1+	[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

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	6638.26	[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	-	-	-	5243.69	[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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