April 09, 2024

Gujarat Energy Transmission Corporation Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund-based limits	200.00	200.00	[ICRA]AA- (Stable); reaffirmed
Long term - Non-fund based limits	293.00	293.00	[ICRA]AA- (Stable); reaffirmed
Short term - Non-fund based limits	333.00	333.00	[ICRA]A1+; reaffirmed
Long term/Short term - Unallocated limits	12,066.89	12,066.89	[ICRA]AA- (Stable)/[ICRA]A1+; reaffirmed
Total	**12,892.89**	**12,892.89**	

**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 stable operating efficiency levels in the distribution segment. GUVNL's consolidated leveraging (total debt/OPBDITA) was comfortable at 0.6 times in FY2023 (0.6 times in FY2022 as well), backed by continuing profitable operations and a sharp reduction in the debt level over the years, aided by regular repayments and prepayments in some of the fiscals. The consolidated leveraging is expected to remain comfortable for FY2024 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 regular infusion of equity/grant by state government.

The ratings also positively factor in that the distribution loss levels of the four GUVNL distribution companies (discoms) have remained largely in line with the approved levels over the years due to several measures taken to improve the efficiency of the network and reduce thefts & 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. 1,622 crore as on April 01, 2022 and were entirely cleared in FY2023. 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 and the higher operating overheads due to the vintage of the plants affect GUVNL's overall returns. The generation plants rank lower in the merit order owing to high variable cost of generation.

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 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 - The cash collections in FY2023 improved to Rs. 74,721.0 crore from Rs. 59,918.0 crore in FY2022, driven by the increase in sales volumes to the industrial customers {mainly industrial high tension (HT)}. The average tariff realisation also improved in FY2023 as the tariffs for the industrial customers are higher compared to the other consumer categories. Additionally, the tariffs increased in FY2023 due to the increase in FPPCA charges to compensate for the higher power procurement costs, driven by higher coal prices. The collections have improved further and are expected to stay at around Rs. 84,000-85,000.0 crore in FY2024. Further, GUVNL's efficiency parameters have improved over the years with the overall T&D loss levels of the discoms at 14.75% in FY2023 from the level of 20.35% in FY2016. Also, the aggregate technical and commercial (AT&C) losses of the discoms remain significantly lower than the national average.

Timely subsidy release by GoG to GUVNL, as per budgetary allocation for the year - The subsidy receipts continue to be timely for GUVNL. The subsidy arrears, which stood at Rs. 4,445 crore as on March 31, 2021, reduced to ~Rs. 1,622 crore as on April 01, 2022 and were entirely cleared in FY2023. The total subsidy allocation (excluding arrears) by the GoG was Rs. 9,005.0 crore in FY2023 compared with Rs. 9,274.0 crore in FY2022. The ratio of the subsidy booked to the total collections stood at ~12.1% in FY2023 compared with ~15.5% in FY2022.

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 Gujarat Electricity Regulatory Commission (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 had 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 are on time. The last tariff order was issued on March 31, 2023 with a true-up of FY2022 and tariff determination for FY2024. The tariff order for FY2025 is expected to be issued after the conclusion of the general elections (to be held over April 19, 2024 to June 01, 2024) as the Model Code of Conduct is in effect currently. Notwithstanding this, the filing of tariff petitions and the public hearing by GERC has been done. Further, the automatic adjustment of the increase in fuel costs through the FPPCA route also ensures smooth and profitable functioning of the sector.

Strong financial flexibility; improving leveraging levels - On a consolidated basis, GUVNL continued to report profits at the net level, although with subsidy. The consolidated cash accruals stayed healthy at Rs. 6,854 crore in FY2023 compared with Rs. 6,868 crore in FY2022. However, the cash accruals remained largely flat in FY2023 despite the increase in the scale of operations due to the decline in the operating profit margin owing to higher power procurement cost, driven by the spike in coal prices in the fiscal. GUVNL's debt has reduced over the years, aided by regular repayments and prepayments in some of the fiscals due to the healthy accruals. The total debt has declined over the years and stood at Rs. 4,769 crore as on March 31, 2023 compared with Rs. 17,299 crore as on March 31, 2019.

The consolidated debt servicing indicators continue to be satisfactory, reflected in a gearing of 0.1 times and NCA/total debt at 144% for the period ended March 31, 2023, over a gearing of 0.1 times and NCA/total debt of 140% for the period ended March 31, 2022. The total debt/OPBDITA stood at 0.6 times in FY2023 (0.6 times in FY2022 as well). The operating profit margin (OPM) declined to 9.6% in FY2023 from 12.6% FY2022 due to higher power purchase cost. Going forward as well, 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. 9,005 crore in FY2023 (~11.2% of the revenue) compared with ~Rs. 9,274 crore (~14.5% of the revenue) in FY2022. However, the subsidy receipt continues to be timely.

Large overall capex plans for the sector - In FY2023, a capital expenditure of Rs. 8,647 crore was incurred compared with Rs. 8,107 crore in FY2022. Of the total capex incurred in FY2023, Rs. 4,806 crore was incurred by Gujarat State Electricity Corporation Limited (GSECL) and Gujarat Energy Transmission Corporation Limited (GETCO) (Rs. 4,830 crore incurred in FY2022), while the remaining ~Rs. 3,790 crore was incurred by the discoms. A bulk of the future capex is expected to be undertaken by GSECL (mainly renewable capacity addition and towards flue gas desulfurisation to comply with the revised emission norms), GETCO (for setting up transmission lines and strengthening the system) and Paschim Gujarat Vij Company Limited (PGVCL, loss reduction). GSECL is expected to incur a capex of ~Rs. 1,564 crore in FY2024 and ~Rs. 8,774 crore in FY2025, including the capex towards building solar power capacities. GETCO's capex for laying transmission lines and setting up sub-stations is expected to be around Rs. 3,062 crore in FY2024 and Rs. 7,000 crore in FY2025. The capex for the discoms is expected to be around Rs. 4,386 crore in FY2024 and Rs. 7,696 crore in FY2025. 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 the capex incurred in the past.

Generation units operating at weak efficiency levels dampen overall returns - The operational efficiency parameters (in terms of plant availability factor, plant load factor, auxiliary consumption and station heat rate) 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 and the higher operating overheads affect GUVNL's overall returns. The plants rank lower in the merit order owing to the higher variable cost of generation.

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 significantly over the years. Also, GUVNL has significant cushion in working capital limits, marked by nil utilisation of the Rs. 3,000.0-crore sanctioned fund-based limits. Additionally, the free cash and liquid investments stood healthy at Rs. 13,333 crore as on March 31, 2023. 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 and if there is a significant reduction in subsidy dependence on the state government, along with a 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, weakening the coverage metrics or liquidity.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Power- Distribution Power Transmission Power - Thermal

Analytical Approach	Comments
Parent/Group support	Not applicable
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-II)

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 12 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) - The company is a wholly-owned subsidiary of GUVNL and 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 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	FY2022	FY2023
Operating income	63,838	80,500
PAT	1,679	1,468
OPBDIT/OI	12.6%	9.6%
PAT/OI	2.6%	1.8%
Total outside liabilities/Tangible net worth (times)	1.4	1.3
Total debt/OPBDIT (times)	0.6	0.6
Interest coverage (times)	12.5	11.1

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					Apr 09, 2024	Apr 10, 2023	Apr 11, 2022	Apr 30, 2021
1	**Fund-based limits**	Long term	200.00	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2	**Term loan**	Long term	0.00	-	-	-	-	[ICRA]AA- (Stable)
3	**Non-fund based limits**	Long term	293.00	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
4	**Fund-based limits**	Short term	0.00	-	-	-	-	[ICRA]A1+
5	**Non-fund based limits**	Short term	333.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
6	**Unallocated limits**	Long term/ Short term	12,066.89	-	[ICRA]AA- (Stable)/ [ICRA]A1+	[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 limits	Simple
Long term - Non-fund based limits	Very Simple
Short term - Non-fund based limits	Very Simple
Long term/Short term - Unallocated limits	Not Applicable

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 - Fund-based limits	NA	NA	NA	200.00	[ICRA]AA- (Stable)
NA	Long term - Non-fund based limits	NA	NA	NA	293.00	[ICRA]AA- (Stable)
NA	Short term - Non-fund based limits	NA	NA	NA	333.00	[ICRA]A1+
NA	Long term/Short term - Unallocated limits	NA	NA	NA	12,066.89	[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	-
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 FY2023 annual report

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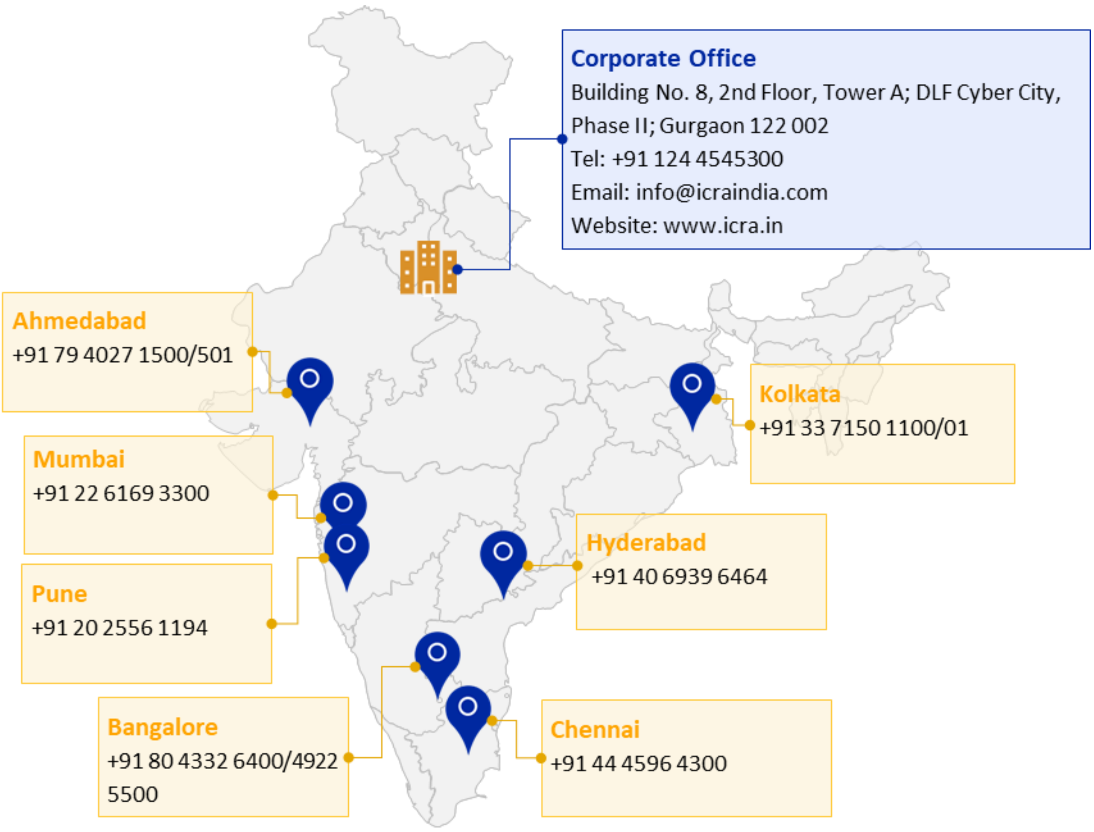

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