

## Gujarat State Electricity Corporation Limited

March 15, 2018

### 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	9626.00	7770.91	[ICRA]AA-(Stable) reaffirmed
Long Term Non-Fund Based Limits	389.00	389.00	[ICRA]AA-(Stable) reaffirmed
Short Term Fund Limits	2000.00	2000.00	[ICRA]A1+ reaffirmed
Short Term Non-Fund Based Limits	1014.00	1014.15	[ICRA]A1+ reaffirmed
Long Term/ Short Term Unallocated	1256.10	3111.04	[ICRA]AA-(Stable)/A1+ reaffirmed
<b>Total</b>	<b>14810.1</b>	<b>14810.1</b>	

### Rating action

ICRA has reaffirmed the long term rating assigned to the Rs. 7770.91 crores (reduced from Rs.9626.00 crores) term loan facility, Rs. 525.0 crores fund based facility and Rs. 389 crores non-fund based facility of Gujarat State Electricity Corporation Limited (GSECL) at [ICRA]AA- (pronounced ICRA double A minus). ICRA has also reaffirmed the short term rating assigned to the Rs. 2000.00 crores short term fund based and Rs.1014.15 crore (enhanced from Rs.1014.00 crore) short term non fund based limits of GSECL at [ICRA]A1+ (pronounced as ICRA A one plus). ICRA has also reaffirmed the long-term rating at [ICRA]AA- (pronounced as ICRA double A minus) and reaffirmed the short-term rating at [ICRA]A1+ (pronounced as A one plus) to Rs 3111.04 crore (enhanced from Rs.1256.10 crore) proposed unallocated limit of GSECL. The outlook on the long-term rating is 'Stable'

### 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 reduction in debt level supported further by regular fund infusion by the Government of Gujarat (GoG), GUVNL's consolidated leveraging (Total Debt/OPBDITA) improved to 2.7x in FY2017 as compared to 3.4x in FY2016. ICRA further takes comfort from the timely subsidy receipts from the GoG, timely tariff revisions with FPPCA mechanism in place and overall strong financial flexibility of GUVNL.

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 period which has led to a build-up of pending subsidy dues of Rs 4664 crore over the years. ICRA positively takes note of additional subsidy allocations made to GUVNL by State Government in the revised budget estimates for FY 2017-18 and the change in accounting policy 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 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 agriculture category or in years when due to some other reason, there is a weakening of operational efficiencies resulting in a high gap between subsidy required and subsidy received. 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 the overall returns for GUVNL on consolidated basis continue to remain affected due to under-recoveries arising from lower efficiency levels in power generation segment as compared with normative targets set by the regulator, lower subsidy booked against the requirement and higher operating overheads. On a consolidated basis, the utilities also remain exposed to financing and project risks given the sizeable capex plans in generation & transmission segment which in turn would imply a continued reliance on debt for funding of capex.

## Outlook: Stable

The Stable outlook factors in expectation of continuing improvement in GUVNL's overall financial risk profile FY2018. The outlook may be revised to 'Positive' if there is significant improvement in performance or a material reduction in pending receivables which result 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 the consumers (inclusive of electricity duty) have grown by 1% over previous year to Rs. 40408 Cr. in FY 2017 from Rs 40046 Cr in FY 2016 primarily backed by around 3% increase in total units sold, even as average tariff realizations declined by 0.5% on the back of under-booking of subsidy requirements as part of change in accounting policy. The cash collections as a % of revenue assessed have also remained high at ~98.7% levels for FY2017. Also, GUVNL has witnessed continuous improvement in its efficiency parameters over the years. The T&D loss levels for the sector improved to 18.03% in FY 2017 as compared to 20.4% in FY 2016 on the back of a relatively favorable monsoon during the year and the various efficiency improvement measures taken by the company. Overall loss levels of GUVNL are have been witnessing an improving trend as compared to earlier years.

**Subsidy release by GoG to GUVNL is timely as per the budgetary allocation for the year, and is on a quarterly basis** - On relative basis, subsidy booked as a proportion of total collections has been declining over the years and stood at about 10.8% in FY2017 (13% in FY2016). The ratio was lower in FY2017 as the company only booked actual subsidy receipts (Rs 4384 crore) as compared to FY2016 when the subsidy booked (Rs 5241 crore) was higher than the 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 significant amount of equity and capital grants 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 Multi Year Tariff (MYT) petition for control period FY2017-FY2021 to Gujarat Electricity Regulatory Commission (GERC) in November 2016 along with true-up for FY 2015-16 and tariff determination for FY 2017-18. 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 over Rs 4522 crore in FY2017. Further, with efforts to improve efficiency of the network and reducing theft and unmetered sales, the overall loss levels towards the high realization consumers have come down. Strong accruals have allowed GUVNL to reduce debt levels in FY 2017 and FY2018. Overall debt servicing indicators continue to remain moderate as reflected in adjusted gearing at 0.68x & NCA/Total Debt at 24% for the period ended March 2017 as against 0.87x and 18% respectively for previous year. Total Debt/OPBDITA has improved to 2.7x in FY2017 from 3.4x in FY2016. Liquidity remains strong as reflected by the high unutilized cash credit 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.

## Credit weaknesses

**High levels of unpaid subsidy from GoG for previous years; Subsidy dependence the state remains high** – The absolute level of subsidy dependence on GoG remains high at over Rs 5000 crore currently. While subsidy receipt has been timely, the actual claims by GUVNL have remained higher than the budgetary allocation in previous years and as a result, outstanding subsidy from GoG has built up to Rs 4664 crore over the years upto FY2016. The same is currently funded by debt and is a long term concern. Due to the change in accounting policy discussed above, the subsidy receivables did not increase in FY2017 and remained at the same level, however, the outstanding receivables continue to burden the sector. ICRA positively takes note of additional subsidy allocation of Rs 1160 crore made to GUVNL by State Government in the revised budget estimates for FY 2017-18. GUVNL continues to seek the pending dues from GoG in its budgetary allocations.

**Overall capex plans for a sector are large which would keep the consolidated leveraging level high** - The overall financing requirements remain high given the large capex plans. Overall capital expenditure worth Rs. ~7273 Cr. was incurred in FY17 of which ~Rs. 4436 Cr. was incurred by GSECL and GETCO while remaining was undertaken by DISCOMs. Bulk of the current and future capex requirement (~Rs. 13000 Cr. in FY 2018 and FY 2019) is being undertaken by GETCO (system strengthening) and PGVCL (loss reduction) largely financed through a mix of government grants, subsidy, internal accruals and debt. Thus, overall financing requirement in terms of debt and equity infusion remains high. ICRA however draws comfort from strong financial flexibility as well as the timely receipt of subsidy payments as well as grants from the Government of Gujarat in the past which have supported the expansions conducted in the past.

**Trading gains for distribution utilities 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 8464 Million Units(MU) of power, in FY 2017, only 2168 MUs were traded and the overall gains have also 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 realizations, since cheaper power was available to the consumers from other sources with overall demand going down.

**Generation units operating at low PLF levels; Fuel cost under-recoveries due to operating inefficiencies of old generating stations dampening overall returns** – The operational efficiencies (in term of Plant Availability Factor(PAF), Plant Load Factor (PLF), Auxiliary consumption and Station Heat Rate (SHR)) of GUVNL’s power stations continue to remain weak due to vintage of the plants. Due to the higher variable cost of generation, there has been large scale backing down of generating units as these plants fall much lower on merit order basis. The under-recoveries are largely due to i.) Higher SHR and auxiliary consumption due to break-down/ overhaul of old units ii.) gas shortage leading to low PLFs though the fixed and transmission charges have to be borne. However under recoveries were lower in FY2017 as the company de-commissioned old and inefficient plants at Gandhinagar, Ukai and Sikka totalling ~855 MW. On a net basis, GSECL has made fuel under-recoveries of Rs.103 Cr during FY2017 (Rs. 204 Cr. during FY2016 and Rs. 143 Cr. in FY2015).

**Analytical approach:** For arriving at the ratings, ICRA has taken a consolidated view of the state owned power sector utilities in Gujarat which consists of GUVNL(the holding company) and its six subsidiaries namely - 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), Paschim Gujarat Vij Company Limited (PGVCL) .

Further, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:**

- [Corporate Credit Rating Methodology](#)
- [Rating Methodology for Power Distribution Utilities](#)

**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)

**Gujarat Urja Vikas Nigam Ltd (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.

**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.

In FY2017, GUVNL (consolidated) reported a net profit of Rs. 539 crore on an operating income of Rs. 40,333 crore, as compared to a net profit of Rs. 379 crore on an operating income of Rs. 39,435 crore in the previous year.

### Key Financial Indicators (Consolidated)

	FY2016	FY2017*
Operating Income (Rs. crore)	39,435	40,333
PAT (Rs. crore)	379	539
OPBDIT/ OI (%)	15.0%	16.3%
RoCE (%)	9.8%	9.6%
Total Debt/ TNW (times)	1.3	0.9
Total Debt/ OPBDIT (times)	3.4	2.7
Interest coverage (times)	2.4	3.2
NWC/ OI (%)	-16%	-22%

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

**Any other information: None**

### Rating history for last three years:

S. No.	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 2018 (Rs Crore)	Date & Rating Mar 2018	Date & Rating in FY2017@ Apr 2017	Date & Rating in FY2016 Apr 2016	Date & Rating in FY2016 Apr 2015
1	Long Term Fund Based Limits	Long Term	525.00	525.00	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]A+(Stable)	[ICRA]A+(Stable)
2	Long Term Loans	Long Term	7770.91	7770.91	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]A+(Stable)	[ICRA]A+(Stable)
3	Long Term Non-Fund Based Limits	Long Term	389.00	389.00	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]A+(Stable)	[ICRA]A+(Stable)
4	Short Term Fund based	Short Term	2000.00	2000.00	[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+
6	Long Term/ Short Term Unallocated	Long Term/Short Term	3111.04	3111.04	[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	7770.91	[ICRA]AA- (Stable)
NA	Long Term Non-Fund Based Limits	-	-	-	389.00	[ICRA]AA- (Stable)
NA	Short Term Fund based	-	-	-	2000.00	[ICRA]A1+
NA	Short Term Non-Fund Based Limits	-	-	-	1014.15	[ICRA]A1+
NA	Long Term/ Short Term Unallocated	-	-	-	3111.04	[ICRA]AA- (Stable)/[ICRA]A1+

Source: Gujarat State Electricity Corporation Limited

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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](http://www.icra.in)

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