Gujarat State Electricity Corporation Limited

April 12, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	10,124.51	**CARE AA-; Stable [Double A Minus; Outlook: Stable]**	**Revised from CARE A+ [Single A Plus]**
Short term Bank Facilities	3,014.15	**CARE A1+ [A One Plus]**	**Reaffirmed**
Long /Short term Bank Facilities	389.00	**CARE AA-; Stable / CARE A1+ [Double A Minus; Outlook: Stable/ A One Plus]**	**Revised from CARE A+/ CARE A1+ [Single A Plus/ A One Plus]**
Total Facilities	**13,527.66 (Rs. Thirteen thousand five hundred twenty seven crore and sixty six lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale

The revision in ratings of the bank facilities of Gujarat State Electricity Corporation Ltd. (GSECL) takes into account conducive regulatory environment for power sector in the State of Gujarat with track record of regular tariff revisions leading to improved cash flows which coupled with need-based equity infusion by Govt. of Gujarat (GoG) has resulted in reduction in consolidated debt levels of GUVNL during FY16 & 9MFY17 and consequent improvement in its leverage.

The ratings further continue to derive strength from strong parentage of Gujarat Urja Vikas Nigam Limited (GUVNL) being wholly owned by GoG, its strong financial flexibility, regulated operations based on 'cost-plus' tariff structure, implementation of fuel cost pass through mechanism and largely stable operating profile of all the power distribution subsidiaries with good control over Aggregate Technical & Commercial losses (AT&C) leading to steady growth in its total operating income (TOI) and profitability margins along with comfortable liquidity.

The long-term rating of the bank facilities is, however, constrained on account of rise in aggregate level of subsidy receivable to GUVNL from GoG w.r.to supply of power to agricultural category consumers (although it has remained relatively stable as a % of its TOI), low Plant Load Factors (PLFs) of its power generation plants, large-size projects in generation and transmission businesses which are predominantly debt funded and inherent regulatory risk. CARE also notes that GUVNL has made a provision of Rs.1915 crore during FY16 -towards probable pay-out to IPPs/ GETCO in the ongoing tariff related matters.

Timely implementation of the on-going projects in generation, transmission and distribution companies, improvement in its PLF and power trading business, ability to pass through higher power purchase pay-out to Independent Power Producers (IPPs) as per Central Electricity Regulatory Commission (CERC) directions along-with timely receipt of equity & subsidy from GoG shall be key rating sensitivities. Significant adverse impact on GUVNL's debt coverage indicators arising out of unfavourable outcome, if any, of the CT claim raised on it by IPPs shall be a key rating monitorable.

Detailed description of the key rating drivers

Key Rating Strengths

Government company along with strong parentage

GUVNL was incorporated as a government company with 100% equity share capital being held by Govt. of Gujarat upon unbundling of erstwhile GEB as a part of domestic power sector reforms. Post unbundling of GEB, GoG has demonstrated considerable support to GUVNL and its subsidiaries mainly in the form of equity infusion, timely disbursement of grants and subsidies.

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Conducive regulatory framework for power sector along with GUVNL's regulated operations under cost-plus tariff scheme and revenue visibility through Multi-Year Tariff (MYT) order

Since unbundling of GEB, there has been timely filing of tariff petitions and correspondingly there has been timely issuance of tariff order on a yearly basis. MYT petitions are also filed in time. There has been timely issuance of True-up order by Gujarat Electricity Regulatory Commission (GERC). This conducive regulatory framework has provided a level playing field for the power sector companies of GUVNL group.

Effective implementation of fuel and power purchase cost pass through mechanism has helped GUVNL group whereby power purchase cost is reviewed on a quarterly basis and any required revision in the tariff (+/-) is made applicable from the next quarter without intervention of the regulator if tariff revision is up to 10 paisa and with the intervention of regulator for tariff revision above 10 paisa. Over more than last -several years, this mechanism is being followed which reduces the revenue gap at the time of true up process.

Long-term Power Purchase Agreements (PPAs) with competitive rates

GUVNL being a power purchaser on behalf of all distribution companies and power distribution licensees has one of the best power purchase infrastructures in place whereby it has entered in to long-term PPAs with power generators at reasonably low prices. Also, upon unbundling of GEB, GUVNL renegotiated all the existing PPAs with different Independent Power Producers (IPPs) which resulted in substantial savings for the group. PPAs have been allocated by GUVNL amongst the Discoms in such a way that each Discom is sustainable on a long-term basis.

Strong financial flexibility of GUVNL along-with common treasury management

There has been common treasury management by GUVNL on behalf of its 6 subsidiaries. GUVNL is required to pay GSECL for power purchase and GETCO for transmission charges whereas it collects power cost from Discoms. Accordingly, GUVNL handles the treasury of all the entities and excess funds in one company is channelized to the other company where it is required which leads to significant savings in interest expenses and convenience. Further, GoG infuses the required equity in GUVNL for ongoing projects of utilities which is being disbursed by GUVNL depending upon the progress and requirement. GUVNL has been sanctioned significant amount of Line of Credit from Gujarat State Financial Services Ltd. (GSFS) which is wholly owned by GoG and is registered with R.B.I as a Non-Banking Finance Company (NBFC) whereby borrowing cost is reasonably low compared with bank finance. Further, overall gearing of GUVNL on a consolidated level as on March 31, 2016 is comfortable which poses no major problem for GUVNL to raise additional debt. Also, GUVNL has significant amount of un-utilized working capital limits which further provides liquidity comfort.

Steady improvement in operating and financial performance of the group

There has been steady improvement in operating performance of the group; albeit during FY16, AT&C losses of PGVCL and UGVCL has marginally increased compared with FY15. However, aggregate AT & C losses for the state are at a reasonably comfortable level. During FY16, PBILDT margin has declined over FY15 because of providing Rs.1915 crore towards probable pay-out to IPPs/GETCO in the on-going tariff related matters. Even after above-said provision, PAT margin has improved upon decline in finance cost with rationalization of debt levels. Given the regulated nature of its business model, GUVNL's interest coverage remained comfortable at 2.82 times during FY16. Also, capital structure of the group has further improved upon repayment of debt and increase in net-worth due to accretion of profit & equity infusion by GoG. Its overall gearing improved from 1.14 times as on March 31, 2015 to 0.87 times as on March 31, 2016. Consolidated debt level of GUVNL has declined from Rs.22,139 crore as on March 31, 2015 to Rs.20,301 crore as on March 31, 2016 and further to Rs.18,065 crore as on December 31, 2016. However, significant adverse impact on GUVNL's debt coverage indicators arising out of unfavourable outcome, if any, of the CT claim raised on it by IPPs shall be a key rating monitorable.

Key Rating Weaknesses

Reliance on subsidy support from GoG w.r.to agricultural power sales

Subsidy receivable from GoG has increased from Rs.3587 crore as on March 31, 2015 to Rs.4664 crore as on March 31, 2016. However, the total subsidy assessed as a % of its TOI remained relatively stable in the range of 13%-15% during the past three years. Total subsidy support for agricultural power sales during the year stands at around Rs.5000 crore p.a. out of which around Rs.3700 crore is adjusted against electricity duty collected by Discoms and payable to GoG and balance is required to be paid by GoG. During FY16, though GoG has not fully paid this difference, equivalent amount is paid under equity route to GUVNL. Accordingly, total flow of funds from GoG to GUVNL has been maintained. Major portion of subsidy requirement of GUVNL is adjusted against electricity duty which provides liquidity to the group and insulates it from any delays in release of subsidy from GoG.

Significant pay-out to solar power plants & gas based power plants along-with declining PLFs of own power generation plants

GUVNL has entered in to PPAs for purchase of solar power of around 882 MW. Majority of solar PPAs were entered few years back with a very high cost when compared with conventional sources albeit its share in total power purchase is very small. Also, in case of gas based power plants of IPPs & GSECL, where GUVNL has entered in to PPA, it has agreed and commenced payment of bare minimum fixed cost even without corresponding power off-take which also is one of the major cost contributors. Further, there is continuous decline in power generation by GSECL's power plants as can be seen from the PLF's of GSECL declining from 47.05% in FY15 to 40.14% in FY16 mainly upon availability of cheaper power from IPPs.

Implementation and stabilization risk of ongoing projects in subsidiaries which are being predominantly debt-funded; albeit partly offset by wide experience in implementing such projects
GUVNL's subsidiaries, being state power utilities, are involved in various new projects as well as renovation of existing infrastructure projects. It has capital expenditure plans of around Rs.6500 crore p.a. Apart from inherent risk of project implementation and its stabilization, dependence on government for subsidies, grants and equity capital also poses a risk. However, GUVNL group has vast prior experience in execution of the similar projects and there is demonstrated support of GoG which reduces the project risk to an extent.

Analytical approach: Consolidated
CARE has taken consolidated view of GUVNL and its six subsidiaries since they all operate on a common management and operational platform with GUVNL, the holding company managing the cash flows for all the companies at a consolidated level.

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology: Factoring Linkages in Ratings
Rating Methodology - Infrastructure Companies
Rating Methodology - Private Power Producers
Financial ratios - Non- Financial Sector

About the Company
GSECL was incorporated in 1993 with the objective of carrying out the power generation business in the state of Gujarat. GSECL took over the power generation plants of erstwhile Gujarat Electricity Board (GEB) post unbundling in April 2005. Consequent to Gujarat Electricity Industry (Reorganization and Regulation) Act, 2003, the erstwhile GEB was reorganized (w.e.f. April 1, 2005) into seven companies, viz. GUVNL and its six subsidiaries as follows;

1. GSECL-Generation company
2. Gujarat Energy Transmission Corporation Ltd. (GETCO-Transmission company)
3. Uttar Gujarat Vij Company Ltd. (UGVCL-Distribution company)
4. Dakshin Gujarat Vij Company Ltd. (DGVCL-Distribution company)
5. Madhya Gujarat Vij Company Ltd. (MGVCL-Distribution company)
6. Paschim Gujarat Vij Company Ltd. (PGVCL-Distribution company)

Operations of GSECL mainly include generation of power and selling it to GUVNL on the basis of long-term PPA. Equity requirement in all ongoing and proposed projects is being met out by GoG by way of infusing equity capital through GUVNL. As on March 31, 2016, GSECL had total power generation capacity of 6396 Mega Watt (MW) which includes mix of coal, lignite, gas, hydro and renewable sources.

During FY16 (refers to the period April 1 to March 31), GSECL (on a standalone basis) reported a total operating income of Rs.8065 crore (FY15: Rs.8420 crore) with a PAT of Rs.138 crore (FY15: Rs.158 crore).

During FY16 (refers to the period April 1 to March 31), GUVNL (on a consolidated basis) reported a total operating income of Rs.39,406 crore (FY15: Rs.36,918 crore) with a PAT of Rs. 722 crore (FY15: Rs.655 crore).

Status of non-cooperation with previous CRA:
Not Applicable

Any other information:
Not Applicable
Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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Annexure-1: Details of Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	499.00	CARE AA-; Stable
Non-fund-based - ST-BG/LC	-	-	-	1014.15	CARE A1+
Term Loan-Long Term	-	-	January 01, 2030	9625.51	CARE AA-; Stable
Non-fund-based - LT/ ST-Deferred Payment Guarantees	-	-	-	389.00	CARE AA-; Stable / CARE A1+
Fund-based - ST-Bills discounting/ Bills purchasing	-	-	-	2000.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	499.00	CARE AA-; Stable	-	-	1)CARE A+ (28-Mar-16)	1)CARE A+ (26-Mar-15)
2.	Non-fund-based - ST-BG/LC	ST	1014.15	CARE A1+	-	-	1)CARE A1+ (28-Mar-16)	1)CARE A1+ (26-Mar-15)
3.	Term Loan-Long Term	LT	9625.51	CARE AA-; Stable	-	-	1)CARE A+ (28-Mar-16)	1)CARE A+ (26-Mar-15)
4.	Fund-based - ST-Term loan	ST	-	-	-	-	1)Withdrawn (28-Mar-16)	1)CARE A1+ (26-Mar-15)
5.	Non-fund-based - LT/ ST-Deferred Payment Guarantees	LT/ST	389.00	CARE AA-; Stable / CARE A1+	-	-	1)CARE A+ / CARE A1+ (28-Mar-16)	1)CARE A+ / CARE A1+ (26-Mar-15)
6.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	2000.00	CARE A1+	-	-	1)CARE A1+ (28-Mar-16)	1)CARE A1+ (26-Mar-15)

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CIN - L67190MH1993PLC071691