Gujarat Industries Power Company Limited

October 04, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Ratings[1]	Rating Action
Long-term bank facilities	919.37	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed
Long-term/Short-term bank facilities	421.34	CARE AA-; Stable/CARE A1+ (Double A Minus; Outlook: Stable/ A One Plus)	Reaffirmed
Short-term bank facilities	735.00	CARE A1+ (A One Plus)	Reaffirmed
Total bank facilities	**2,075.71 (₹ Two thousand seventy-five crore and seventy-one lakh only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Gujarat Industries Power Company Limited (GIPCL) continue to derive strength from the long-term power purchase agreements (PPAs) in place for the entire power generation capacity along with cost-plus nature of tariff for its thermal power portfolio, established operations of its lignite-based power plants and low fuel supply risk due to its captive lignite mines with adequate mineable reserves. The ratings also draw comfort from strong credit profile of its power off-takers and its strong parentage. The ratings further continue to factor GIPCL's healthy profitability, low leverage, strong debt coverage indicators and strong liquidity profile.

The long-term rating, however, continues to be constrained by the subdued operating performance of its gas-based power plants due to uncertainty prevailing over supply of natural gas at competitive rates along with the risk associated with under recovery of costs on account of lower-than-normative plant parameters in its lignite-based power plants. The ratings are further constrained by its large upcoming capital expenditure plans in the renewable energy segment, susceptibility of its renewable power generation capacity to the inherent risk of changes in climatic conditions and regulatory risk and concerns in the power sector.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Significant improvement in its profitability, capital structure, liquidity and debt coverage indicators on a sustained basis.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Non-achievement of normative plant availability factor (PAF) on a sustained basis leading to under-recovery of capacity charges.
- Deterioration in the credit profile of counterparty with substantial power off-take.
- Deterioration in its overall gearing above 0.75x on a sustained basis.

Detailed description of the key rating drivers

Key rating strengths

Long-term PPAs in place for the entire power generation capacity along with cost-plus nature of tariff for its thermal power portfolio leading to assured return on equity (ROE): According to the PPAs with Gujarat Urja Vikas Nigam Limited (GUVNL; rated 'CARE AA; Stable/CARE A1+') for lignite-based plants, GIPCL is entitled to receive actual fixed cost and energy charges along with assured ROE of 13.50% upon achievement of normative plant parameters like PAF, station heat rate (SHR) and auxiliary consumption. It has a memorandum of understanding (MoU) with GUVNL, Gujarat Alkalies and Chemicals Limited (GACL; rated 'CARE AA+; Stable/CARE A1+'), Gujarat State Fertilizers and Chemicals Limited (GSFC; rated 'CARE AA+; Stable/CARE A1+') and GAIL (India) Limited (GAIL; rated 'CARE AAA; Stable/CARE A1+') for the supply of power generated from its gas-based power plant with a capacity of 145 MW (VS-I) for their captive consumption. It also has another PPA with GUVNL for 165 MW gas-based power plant capacity (VS-II), which was renewed in March 2019 for a period of five years. GIPCL also has outstanding PPAs with GUVNL for 182 MW solar power capacity and 112.40 MW wind power capacity, and with Solar Energy Corporation of India (SECI) for 80 MW solar power capacity. Furthermore, as articulated by the management, the PPAs for the upcoming Khavda project of GIPCL of 2,375 MW are expected to be entered into with central counterparties like NTPC Limited (NTPC; rated 'CARE AAA; Stable/CARE A1+'), SECI, or GUVNL.

Established operations of its lignite-based power plants: Attaining normative PAF is relatively difficult in lignite-based power plants generally as compared to the coal-based power plants on account of the challenges involved in handling of lignite,

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

which in turn results in disruption in the operations of some plants due to higher boiler tube leakages. Nevertheless, GIPCL's healthy operating efficiency is reflected from its ability to achieve normative PAF historically.
However, during FY22 (refers to the period April 1 to March 31), both SLPP-I and SLPP-II achieved PAFs, which were lower than their normative PAF, leading to under-recovery of fixed cost. While the plant load factor (PLF) of SLPP-II continued to remain largely stable at 78% in FY21 and 72% during FY22, the PLF of SLPP-I deteriorated significantly to 60% in FY21 and 61% in FY22 due to forced stoppage of Unit-II (125 MW) of SLPP-I from December 05, 2020 onwards, due to sudden cracking and detaching of economizer duct casing and damage to economizer beam. However, after completion of economizer beam replacement and other related works, the plant has been operational and has been synchronised with the grid from July 01, 2021 onwards.
SHR and auxiliary consumption have remained relatively high as compared to the normative levels as per the PPA largely on account of ageing of plant and machinery. However, the benefit of captive lignite mines and healthy operating efficiency has led to competitive tariff of both the plants, which ensures revenue visibility along with stable profitability.

Low fuel supply risk due to availability of captive lignite mines with adequate mineable reserves: GIPCL has captive lignite mines located at Vastan, Valia and Mangrol (in Gujarat), which have been allocated by the Government of Gujarat (GoG) for its lignite-based power plants wherein the mineable reserves are sufficient to cater current capacity during its economic life. The company has mineable reserves of 199.29 million metric tonne (MMT) as on March 31, 2022, which is sufficient to cater to the current capacity during the economic life of the plants. The mine was leased to GIPCL in 1996 for a period of 30 years with the option of extension. GICPL consumed around 3.24 MMT of lignite in FY22 and 0.85 MMT in Q1FY23. The captive mines ensure uninterrupted supply of lignite for operations.
Also, the company's natural gas arrangements are diversified with allocation of administered price mechanism (APM) gas from various sources along with tie-ups for spot natural gas.

Healthy profitability, low leverage and strong debt coverage indicators: The total operating income (TOI) of GIPCL declined in FY22 as compared with the previous year as its gas-based power plant VS-I is non-operational since few months due to high natural gas prices. VS-I operated at a PLF of 29% in FY22 as against 56% in FY21. There was also under recovery of fixed cost in SLPP-I due to lower-than-normative PAF, as Unit-II of SLPP-I was shut down in Q1FY22 due to damage to the economiser beam. However, the company's profitability has remained stable with PBILDT margin of 34.62% in FY22 (FY21: 31.78%) and profit after tax (PAT) margin of 14.61% (FY21: 13.46%), which is largely due to assured recovery of fixed cost on account of the cost-plus tariff structure under its PPAs for the thermal power portfolio and also due to compulsory off-take of power from its renewable capacity of 374.40 MW. GIPCL's lignite-based plants have an assured average ROE of 13.5% as per their PPAs. However, GIPCL's actual ROE has been lower historically due to under-recovery of the fixed cost. The company's capital structure also remained strong with low leverage. During FY22 end, the overall gearing of GIPCL stood at 0.17x (FY21: 0.17x), whereas its total debt/PBILDT and total debt/gross cash accruals (TDGCA) stood at 1.30x (FY21: 1.13x) and 1.49x (FY21: 1.28x), respectively. Also, its PBILDT interest coverage was 14.11x in FY22 (FY21: 13.67x).
During Q1FY23, GIPCL reported TOI of ₹303 crore and PBILDT and PAT margins of 41.77% and 20.77%, respectively, due to improvement in the operating performance of its lignite-based and renewable power plants.

Parentage of GUVNL, GACL and GSFC having strong financial risk profile and low counter-party credit risk as GUVNL is GIPCL's largest off-taker: The promoters of GIPCL, state public sector undertakings (PSUs) of Gujarat viz., GUVNL, GACL and GSFC, have a strong financial risk profile. The low counter party credit risk is signified by GIPCL's long-term PPAs with GUVNL for the purchase of power from its lignite-based (500 MW under SLPP-I and SLPP-II), gas-based (165 MW under VS-II), wind power (112.40) and solar power plants (182 MW) and with SECI for power off-take from its solar power plants (80 MW). It also has an MoU with GUVNL, GACL and GSFC for supply of power being generated by VS-I (145 MW).

Key rating weaknesses

Subdued operating performance of gas-based power plants: Although the gas-based plants of GIPCL have become debt free, the operations of these plants have been affected due to uncertainty prevailing over supply of natural gas at competitive rates. GIPCL operates its gas-based power plants based on the availability of natural gas under the APM. Earlier, decline in the operating efficiency of gas-based power plants was mainly due to the lower off-take of power from VS-II plant by GUVNL since it operates on a need-based basis. However, the operating performance of VS-I has also been affected due to high natural gas prices. VS-I operated at a PLF of 29% in FY22 as against 56% in FY21. Also, it remained on-operational during Q1FY23.

Large upcoming capital expenditure plans in the renewable energy segment: GIPCL commissioned a 100 MW solar capacity on August 10, 2021, taking its total solar capacity to 262 MW. Along with this, GIPCL also has operational wind capacity of 112.40 MW tied-up under PPA with GUVNL.
GIPCL has also been awarded land for implementing 2,375 MW solar project in Khavda (Kutch), which is to be developed over the next 4-5 years. However, as informed by the management, GIPCL plans to develop only 50% of this capacity, while the balance 50% would be sub-let to other developers. GIPCL currently has operational capacity of 1,184.40 MW. With the completion of this project, GIPCL would double its operational capacity, of which majority would be renewable capacity.

As articulated by the management, the total cost of developing the solar park and solar power projects of 1,187.50 MW (50% capacity) is estimated at around ₹6,500 crore. Solar park development cost is proposed to be funded through subsidy from the Ministry of New and Renewable Energy (MNRE) (30%), user development charges (UDC) from the project developers (45%) and balance in a debt-to-equity ratio of 70:30. The solar power project development cost for 1,187.50 MW (50% capacity) is expected to be funded in a debt-to-equity ratio of 70:30.
GIPCL is exposed to significant project execution risks associated with these projects, including any time and cost overruns. Thus, the ability of GIPCL to complete this project within the envisaged time and cost parameters and subsequently generate envisaged returns will be crucial from the credit perspective.

Susceptibility of its renewable power generation capacity to inherent risk of changes in climatic conditions, albeit currently operating at stable PLFs: The operations of wind and solar energy generation projects are susceptible to the inherent risk of weather fluctuations (beyond the control of the company), such as variations in wind patterns and/or variations in the solar irradiation levels, respectively, which can affect their PLFs. Also, the renewable energy generation projects are susceptible to seasonal variations. Despite that, the solar and wind projects of GIPCL are operating at satisfactory PLF levels.

Regulatory risk and concerns in the power sector: GIPCL's operations are exposed to the regulatory as well as other risks in the power sector, such as delays in finalisation of tariff and approval of lower tariff for its lignite-based and gas-based power plants, delays in land acquisition, lack of tenability of long-term PPAs given renegotiation of PPAs in some states and subdued demand for power.

Liquidity: Strong
GIPCL has sound liquidity position marked by healthy cash accruals, availability of adequate amount of unencumbered cash and bank balance, negligible utilisation of fund-based working capital limits and low average collection period of around 60 days on account of timely realisation of payments from GUVNL, which has a strong financial risk profile and is the largest off-taker of GIPCL. During FY23, GIPCL has scheduled debt repayment of around ₹75 crore against which it has envisaged GCA of around ₹400 crore. It has adequate unencumbered cash and bank balance to the tune of ₹282 crore as on March 31, 2022 and ₹373 crore as on June 30, 2022. Average utilisation of fund-based working capital limits was negligible at 0.74% from April 2021 to June 2022, whereas average utilisation of non-fund-based working capital limits was 18.01% during the same period.

Analytical approach
Standalone

Applicable criteria
Rating Outlook and Credit Watch
Policy on Default Recognition
Policy on Curing Period
Liquidity Analysis of Non-Financial Sector Entities
Factoring Linkages Parent Sub-JV Group
Solar Power Projects
Wind Power Projects
Thermal Power
Financial Ratios – Non-Financial Sector

About the company
GIPCL is a Vadodara-based listed public limited company engaged in the business of power generation with an installed capacity of 1,184.40 MW as on June 30, 2022. It was incorporated in 1985 and is promoted by the state government undertakings of Gujarat, viz., GUVNL, GACL and GSFC.
GIPCL operates two gas-based power plants in Vadodara, VS-I and VS-II aggregating 310 MW, two lignite-based power plants in Surat, SLPP-I and SLPP-II aggregating 500 MW, a 5 MW solar power plant in Surat and 257 MW solar power plants in various parts of Gujarat (aggregate solar capacity of 262 MW) along with wind capacities of 112.40 MW as on June 30, 2021.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
Total operating income	1,335	1,172	303
PBILDT	424	406	125
PAT	180	171	63
Overall gearing (times)	0.17	0.17	NA
Interest coverage (times)	13.67	14.11	13.82

A: Audited; UA: Unaudited; NA: Not available

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments/facilities rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instruments/Bank Facilities	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Term loan-Long term	-	-	-	March 31, 2034	766.88	CARE AA-; Stable
Fund-based - LT-Cash credit	-	-	-	-	152.49	CARE AA-; Stable
Fund-based - ST-Bill Discounting/ Bills Purchasing	-	-	-	-	735.00	CARE A1+
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	421.34	CARE AA-; Stable / CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1.	Term loan-Long term	LT	766.88	CARE AA-; Stable	-	1)CARE AA-; Stable (25-Aug-21)	1)CARE AA-; Stable (10-Sep-20)	1)CARE AA-; Stable (30-Aug-19)
2.	Fund-based - LT-Cash credit	LT	152.49	CARE AA-; Stable	-	1)CARE AA-; Stable (25-Aug-21)	1)CARE AA-; Stable (10-Sep-20)	1)CARE AA-; Stable (30-Aug-19)
3.	Fund-based - ST-Bill Discounting/ Bills Purchasing	ST	735.00	CARE A1+	-	1)CARE A1+ (25-Aug-21)	1)CARE A1+ (10-Sep-20)	1)CARE A1+ (30-Aug-19)
4.	Non-fund-based - LT/ ST-BG/LC	LT/ST*	421.34	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (25-Aug-21)	1)CARE AA-; Stable / CARE A1+ (10-Sep-20)	1)CARE AA-; Stable / CARE A1+ (30-Aug-19)

*Long term/Short term

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Not applicable

Annexure-4: Complexity level of various instruments/facilities rated for this company

Sr. No.	Name of the Instruments/Bank Facilities	Complexity Level
1.	Fund-based - LT-Cash credit	Simple
2.	Fund-based - ST-Bill Discounting/ Bills Purchasing	Simple
3.	Non-fund-based - LT/ ST-BG/LC	Simple
4.	Term loan-Long term	Simple

Annexure-5: Bank/Lender details for this company

To view the lender-wise details of bank facilities please [click here]

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Janki Aswani
Phone: +91-79-4026 5612
E-mail: janki.aswani@careedge.in

Relationship contact
Name: Deepak Prajapati
Phone: +91-79-4026 5656
E-mail: deepak.prajapati@careedge.in

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