Gujarat Energy Transmission Corporation Limited

March 17, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	988.25 (Reduced from 1,302.13)	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	323.00	CARE AA-; Stable / CARE A1+ (Double A Minus; Outlook: Stable / A One Plus)	Reaffirmed
Short Term Bank Facilities	833.00	CARE A1+ (A One Plus)	Reaffirmed
Total Facilities	2,144.25 (Rs. Two Thousand One Hundred Forty-Four Crore and Twenty-Five Lakhs Only)		

Details of facilities in Annexure-1

Detailed rationale & key rating drivers

The ratings assigned to the bank facilities of Gujarat Energy Transmission Corporation Ltd. (GETCO) continue to derive strength from its strong parentage of Gujarat Urja Vikas Nigam Limited (GUVNL; rated CARE AA-; Stable / CARE A1+), being wholly owned by Government of Gujarat (GoG), GUVNL's regulated operations based on 'cost-plus' tariff structure with conducive regulatory environment for power sector in the state of Gujarat which is evident from track record of regular tariff revisions and implementation of fuel cost pass through mechanism; and largely stable operating profile of all GUVNL's power distribution subsidiaries having good control over aggregate technical & commercial (AT&C) losses, which continue to be not only significantly lower than the national average AT&C loss but are also largely lower than that approved by the regulator. These have led to steady growth in total operating income (TOI) and profitability of GUVNL on consolidated basis along with adequate cash flows and comfortable liquidity.

Furthermore, need-based equity infusion by GoG, track record of lower than envisaged debt addition for funding capital expenditure and healthy cash collections despite the impact of Covid-19 pandemic, have resulted in steady cash flows for the group and significant reduction in consolidated debt levels of GUVNL led by prepayment of debt in FY20 and 9MFY21 and comfortable leverage, which ultimately depicts its strong financial flexibility. The rating also derives strength from the efficient working capital management by the group on the back of non-utilization of working capital limits and timely payment to creditors for power purchase, resulting in significant earnings through rebate on prompt payment. Furthermore, the rating also takes note of significant realization of outstanding dues pertaining to subsidy receivable from GoG during FY20.

The long-term rating is, however, constrained on account of GUVNL group's dependence on subsidy from GoG, albeit the same is adjusted against the electricity duty and is being received regularly, inherent risk associated with rise in power purchase cost due to fuel price fluctuations and the corresponding lag of at-least one quarter under the fuel cost pass through mechanism, lower power generation from its captive thermal plants due to high cost of generation.

CARE also notes that GUVNL and its subsidiaries had not availed the moratorium granted by its lenders under the relief package announced by Reserve Bank of India (RBI) for Covid-19.

Rating Sensitivities

Positive factors

- Significant improvement in AT&C losses below 10% on a sustained basis

Negative factors

- Significant delay in receipt of subsidy support from GoG on a sustained basis
- Any adverse changes in the regulatory environment governing power sector in the state of Gujarat

Key Rating Strengths

Strong parentage of GoG which has demonstrated its need-based support to GUVNL

GUVNL was incorporated as a government company with 100% equity share capital being held by GoG upon unbundling of the erstwhile Gujarat Electricity Board (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 and disbursement of grants and subsidies.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in 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 based on MYT regulations issued by GERC and simultaneously 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). Although the last MYT order issued by GERC was for the control period from FY17 to FY21, MYT regulations have been extended by GERC for FY22 as well on account of Covid-19, based on which tariff petitions have been filed by the utilities. 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 the GUVNL group whereby power purchase cost is reviewed on a quarterly basis and the required revision in fuel surcharge (FPPPA) is made applicable from the next quarter without intervention of the regulator if fuel surcharge revision is up to 10 paise and with the intervention of the regulator for fuel surcharge revision above 10 paise. This mechanism is being followed on a sustained basis which reduces the revenue gap at the time of true-up process.

Long-term Power Purchase Agreements (PPAs) at competitive rates with resumption of power supply by certain IPPs

GUVNL, being a power purchaser on behalf of its distribution entities in the State of Gujarat, 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 and hence, provides significant economies of scale in the business. 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 its various discoms in such a way that each discom is sustainable on a long-term basis. Further, GUVNL also procures power through renewable sources by floating tenders through competitive bidding, so as to achieve both, fulfilment of its renewable power purchase obligation (RPO) as well as procuring power at much lesser cost as compared to conventional sources of power. GUVNL has been able to discover tariffs as low as Rs.1.99 per unit in its latest solar power auction which is lowest tariff discovered for renewable projects in the country and depicts the confidence of the developers and the bidders on the credit profile of GUVNL given its track record of making prompt payment to its creditors.

Intermittent power supply witnessed by GUVNL during FY19 from some of the imported coal-based IPPs in Gujarat had necessitated GUVNL to procure power from relatively expensive short-term sources and through merchant purchases from exchanges. However, with execution of supplemental PPAs with IPPs such as Adani Power Mundra Limited (APMuL) and Essar Power Gujarat Limited (EPGL), power supply from these IPPs have resumed.

Further, in July 2019, the Honourable Supreme Court of India had approved termination of Bid-02 PPA of 1,234 MW with APMuL with effect from January 4, 2010 allowing APMuL to recover compensation from GUVNL for the past losses incurred by APMuL. The amount of compensation, if any, required to be paid by GUVNL, is yet to be determined by CERC. However, CARE believes that if the payment is required to be made then GUVNL would comfortably be able to make the payment and considering the conducive regulatory environment the same would also be allowed by the Regulator to be passed in the tariff as has been done in some other states.

Strong financial flexibility of GUVNL along-with common treasury management

There has been common treasury management by GUVNL on behalf of its six subsidiaries. GUVNL is required to make payment to GSECL for power purchase and to 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 are 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 on-going projects of utilities which is being disbursed by GUVNL depending upon the progress and requirement. GUVNL has also been sanctioned a Line of Credit of Rs.7,000 crore from Gujarat State Financial Services Ltd. (GSFS), which is wholly owned by GoG and is registered with RBI as a Non-Banking Finance Company (NBFC), whereby borrowing cost is reasonably lower compared with bank finance. This provides additional liquidity to the group and as well as a source to refinance its higher interest bank debt. Consequently, the capital structure and debt coverage indicators of GUVNL have improved, marked by overall gearing of 0.50x as on March 31, 2019 to 0.29x as on March 31, 2020 and total debt to gross cash accruals ratio improving from 3.85x as on March 31, 2019 to 1.93x as on March 31, 2020. Also, GUVNL's working capital limits have largely remained unutilised during the 12-month period ended December 31, 2020, which further provides liquidity comfort.

Steady operating and financial performance of the group

GUVNL's operating and financial performance on consolidated basis was stable during FY20. Despite marginal degrowth in power demand by 2% in the state of Gujarat during FY20, GUVNL's TOI grew by around 6% due to regular tariff revisions to allow pass through of rise in fuel costs. GUVNL's profitability was impacted due to rise in fuel costs, which GUVNL was unable to pass through to its consumers in a timely manner. However, during FY20, due to improvement in transmission and distribution losses of discoms and timely pass through of fuel charges in the form of FPPPA charges, the PBILDT margin of the group has improved from 11.55% during FY19 to 14.09% during FY20.

While there was improvement in the distribution losses in all the Gujarat discoms during FY20, AT&C loss of the group reduced from 13.76% in FY19 to 11.11% in FY20 which was largely due to deterioration in collection efficiency on account of extension of payment due date announced by GoG due to Covid-19 pandemic. However, due to reduction in interest cost on account of significant prepayment of debt by the group and increase in net-worth due to infusion of equity by GoG, its PAT margin has improved from 1.90% in FY19 to 2.90% in FY20, along with improvement in interest coverage (from 3.53 times in FY19 to 5.11 times in FY20) and capital structure of the group (from 0.50x as on March 31, 2019 to 0.29x as on March 31, 2020). Consolidated debt level of GUVNL reduced from Rs.11,183 crore as on March 31, 2020 to Rs.7,846 crore as on January 31, 2021.

Key Rating Weaknesses

Reliance on subsidy support from GoG; albeit primarily set-off against electricity duty collected by discoms

From FY17 onwards, GUVNL changed its accounting policy for recognizing subsidy income from accrual basis to reasonable assurance basis. During FY20, GoG infused equity of Rs.3,285 crore in GUVNL which was as per the actual equity requirement. The total subsidy assessed (after netting-off with electricity duty) as a % of its TOI has remained relatively stable in the range of 2%-5% during the past three years. GUVNL received total subsidy of Rs.7,849 crore during FY20 as against total subsidy requirement for agricultural power sales during FY20 of around Rs.6,705 crore (Rs.7,218 crore for FY19), out of which around Rs.5,590 crore (Rs.4,700 crore for FY19) was adjusted against electricity duty collected by discoms and payable to GoG, while the balance excess subsidy received was adjusted against past dues. As on March 31, 2020 the outstanding subsidy receivable of GUVNL (as per the claims submitted) stood at Rs.5,939 crore. As major portion of subsidy requirement of GUVNL is adjusted against electricity duty, it provides liquidity to the group and insulates it from any delays in release of subsidy from GoG.

Significant pay-out to gas based power plants along-with low PLFs of own power generation plants; albeit rise in the share of solar and wind power PPAs at lower prices

GSECL's operating performance has dipped during FY20 with reduction in average PLF from 50.69% in FY19 to 36.06% in FY20 on account of lower off-take of power from GSECL's thermal plants due to it being a relatively costlier source of power for GUVNL. Average PAF had also declined from around 84% in FY19 to around 74% during FY20 on account of forced outages and extended overhauling in some of its thermal plants. However, average PAF has now increased to around 86% during 9MFY21. GSECL's thermal plants have cost plus PPAs with GUVNL whereby they can recover fixed costs from GUVNL. Further, GUVNL continued to purchase power from various gas-based power plants of GSECL and other IPPs, where it already has an established practice of making payment for bare minimum fixed cost even without corresponding power off-take due to their higher variable cost of power generation.

However, GUVNL's per unit power purchase cost has reduced during FY20 post resumption of power supply by the IPPs and lower procurement from relatively expensive short-term sources. Further, GUVNL is in process of lowering its overall cost of power purchase by increasing the share of low-cost renewable sources of power in its overall mix. As on January 31, 2021, GUVNL now has total PPAs for purchase of solar power of around 4,387 MW (2,086 MW is operational) and wind power of around 4,321 MW (4,219 MW is operational). Majority of the existing solar PPAs were entered few years back at a very high cost as compared to conventional sources and despite the fact that solar power rates have feel significantly, GUVNL has not renegotiated its earlier high cost solar PPAs with any developer.

GUVNL has entered into 25-year PPAs with GSECL for total solar capacity of 350 MW GUVNL also expects to enter into PPAs with various developers for procuring power mainly from renewable energy projects. So far GUVNL has tied up 3,950 MW renewable energy projects through competitive bidding at tariff in the range of 1.99 to 2.80 per unit.

On-going capital expenditure program largely augmenting the renewable capacity

GUVNL's subsidiaries, being state power utilities, are involved in various new projects as well as renovation of existing power plants. GSECL is currently executing three solar projects, a 75 MW solar project at Dhuvaran and two 100 MW solar projects at Raghaneshda. These projects were earlier envisaged to be completed by FY21-end. However, due to curtailment of construction activity due to Covid-19, these projects are now expected to be completed by H1FY22. Further, GSECL is planning to undertake two solar power projects, one at Khavda (Kutch) having total capacity of 3,325 MW and another project of 2,500 MW on the waste land near GETCO substations, both of which are at nascent stage and are expected to be completed within a period of 5 years. As articulated by the management, GUVNL has already tied-up debt for these projects from GSFS. The group, thus, has capital expenditure plans of over Rs.25,000 crore during FY21-FY23 which are planned to be funded by debt and equity in the ratio of 2.33:1 apart from infusion of grants and equity contribution by GoG. Although GUVNL is expected to incur large debt-funded capital expenditure over the course of next five years, its capital structure and total debt to PBILDT ratio are expected to remain stable on the back of stable power demand in the state of Gujarat, regular tariff revisions and stable operating performance of the group.

Apart from inherent risk of project implementation and its stabilization, dependence on government for subsidies, grants and equity capital also poses a risk to some extent. However, GUVNL group has vast experience in execution of similar projects and there is demonstrated support from GoG for funding majority portion of the total capital expenditure, which reduces the project risk to an extent. GoG has infused equity of Rs.3,298 crore in GUVNL during FY20 and around Rs.3,000 crore during 11MFY21.

Liquidity: *Strong*
GUVNL centrally handles the working capital requirement of itself and its six subsidiaries. GUVNL purchases power from GSECL, Central Sector, IPPs and from renewable energy sources and sells power to discoms.
GUVNL receives payment from discoms and pays it to power generation companies including GSECL. Total working capital limit is being handled by GUVNL on behalf of all its subsidiaries with certain portion allocated to subsidiaries for their own management. GUVNL also has sanctioned limits from GSFS to meet any cash flow mismatches in addition to significant unutilised fund based working capital limits of Rs.3,149 crore distributed among its six subsidiaries. Due to Covid-19 outbreak in March 2020 and lockdown imposed by the government, GoG had extended the due date for payment of electricity bills for the months of March and April 2020 till May 31, 2020 without levy of any penalty. Further, fixed charges were waived off for industrial and commercial consumers and some relief was also offered to residential consumers. This resulted in decline in cash collection in April and May 2020. However, cash collections have improved from June 2020 onwards and average cash collection between June 2020 and January 2021 has been around Rs.4,400 crore. Despite lower cash collection during April-May 2020, the working capital utilization limits have largely remained unutilized for majority part of the 12-month period ended December 2020, which provides significant liquidity. Further, even during COVID scenario, GUVNL has made timely payments to generation companies and has not renegotiated the terms of the PPAs of the high tariff renewable assets which were awarded to GUVNL. Furthermore, on the back of its healthy cash generations and collection efficiency, GUVNL group has been able to prepay debt of around Rs.4,800 crore during FY20 and 10MFY21. Demonstrated timely support by GoG in the form of equity infusions, subsidies and grants also provide significant comfort to its liquidity. Further, GUVNL on a consolidated level had free cash and bank balance of Rs.238 crore as on March 31, 2020. On the back of availability of such significant liquidity, GUVNL and its subsidiaries had not availed the moratorium granted by its lenders as per the RBI's relief package for Covid-19.

Analytical approach: Consolidated
CARE has taken consolidated view of GUVNL and its six subsidiaries while arriving at their ratings since they all operate on a common management and operational platform with GUVNL, the holding company, managing the cash flows at a consolidated level. List of entities getting consolidated is as per **annexure – 4**.

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology: Consolidation
Rating Methodology: Notching by factoring linkages with Government
Rating Methodology - Power Generation Projects
Rating Methodology – Power Transmission Projects
Rating Methodology – Power Distribution Companies
Liquidity Analysis of Non-Financial Sector Entities
Financial ratios - Non- Financial Sector

About the Company
GETCO commenced business from April, 2005 with the objective of carrying out the power transmission activity of erstwhile Gujarat Electricity Board (GEB) in the State of Gujarat as a part of domestic power sector reform post unbundling exercise in compliance with Electricity Act 2003. 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. Gujarat State Electricity Corporation Ltd. (GSECL-Generation company)
2. 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)

GETCO is also engaged in setting up substations and laying new transmission lines. As on March 31, 2020 the company had 2,024 substations with transmission lines of 65,608 circuit kilometer (ckm) length. GETCO's substation and transmission lines achieved system availability of 99.89% and 99.54% respectively during FY20 which was largely stable as compared to that during FY19. Further, it had transmission losses of 3.68% in FY20 as compared to 3.92% in FY19.

Brief financials of GETCO (Standalone) are placed below:

Brief Financials (Rs. Crore)	FY19 (A)	FY20 (A)
Total Operating Income	3,451	4,139
PBILDT	2,294	2,936
PAT	355	749
Overall Gearing (times)	0.82	0.56
Interest Coverage (times)	3.51	5.95

A: Audited

Brief financials of GUVNL (Consolidated) are placed below:

Brief Financials (Rs. Crore)	FY19 (A)	FY20 (A)
Total Operating Income	50,703	53,740
PBILDT	5,854	7,572
PAT	996	1,559
Overall Gearing (times)	0.50	0.29
Interest Coverage (times)	3.53	5.11

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Complexity level of various instruments rated for this company: Please refer Annexure- 3

Annexure-1: Details of Instruments/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	-	-	-	200.00	CARE AA-; Stable
Non-fund-based - ST-BG/LC	-	-	-	333.00	CARE A1+
Term Loan-Long Term	-	-	September 2028	788.25	CARE AA-; Stable
Non-fund-based - LT/ ST-Deferred Payment Guarantees	-	-	-	323.00	CARE AA-; Stable / CARE A1+
Fund-based - ST-Bills discounting/ Bills purchasing	-	-	-	500.00	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	200.00	CARE AA-; Stable	-	1)CARE AA-; Stable (06-Mar-20)	1)CARE AA-; Stable (28-Mar-19) 2)CARE AA-; Stable (02-Apr-18)	1)CARE AA-; Stable (12-Apr-17)
2.	Non-fund-based - ST-BG/LC	ST	333.00	CARE A1+	-	1)CARE A1+ (06-Mar-20)	1)CARE A1+ (28-Mar-19) 2)CARE A1+ (02-Apr-18)	1)CARE A1+ (12-Apr-17)
3.	Term Loan-Long Term	LT	788.25	CARE AA-; Stable	-	1)CARE AA-; Stable (06-Mar-20)	1)CARE AA-; Stable (28-Mar-19)	1)CARE AA-; Stable (12-Apr-17)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
							2)CARE AA-; Stable (02-Apr-18)	
4.	Non-fund-based - LT/ ST-Deferred Payment Guarantees	LT/ST	323.00	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (06-Mar-20)	1)CARE AA-; Stable / CARE A1+ (28-Mar-19) 2)CARE AA-; Stable / CARE A1+ (02-Apr-18)	1)CARE AA-; Stable / CARE A1+ (12-Apr-17)
5.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	500.00	CARE A1+	-	1)CARE A1+ (06-Mar-20)	1)CARE A1+ (28-Mar-19) 2)CARE A1+ (02-Apr-18)	1)CARE A1+ (12-Apr-17)

Annexure – 3: Complexity level for various rated instruments for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - ST-Bills discounting/ Bills purchasing	Simple
3.	Non-fund-based - LT/ ST-Deferred Payment Guarantees	Simple
4.	Non-fund-based - ST-BG/LC	Simple
5.	Term Loan-Long Term	Simple

Annexure-4: List of entities considered for consolidated analysis

Sr. No.	Name of company	% of holding by GUVNL
1.	Gujarat State Electricity Corporation Ltd.	100.00
2.	Gujarat Energy Transmission Corporation Ltd.	100.00
3.	Dakshin Gujarat Vij Company Ltd.	100.00
4.	Madhya Gujarat Vij Company Ltd.	100.00
5.	Uttar Gujarat Vij Company Ltd.	100.00
6.	Paschim Gujarat Vij Company Ltd.	100.00

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

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