Gujarat Industries Power Company Limited

October 04, 2023

Facilities/Instruments	Amount (₹ crore)	Ratings[1]	Rating Action
Long-term bank facilities	3,387.83 (Enhanced from 919.37)	CARE AA-; Stable	Reaffirmed
Long-term / Short-term bank facilities	627.88 (Enhanced from 421.34)	CARE AA-; Stable / CARE A1+	Reaffirmed
Short-term bank facilities	860.00 (Enhanced from 735.00)	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

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 the 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 and susceptibility of its renewable power generation capacity to the inherent risk of changes in climatic conditions.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

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

Negative factors

- 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 total debt / profit before interest, lease rentals, depreciation and taxation (PBILDT) above 4.50x on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects GIPCL's steady operational and financial performance backed by its long-term PPAs with strong counterparties coupled with low fuel supply risk on the back of captive lignite mines.

Detailed description of the key rating drivers

Key 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):

GIPCL has long-term PPAs in place with Gujarat Urja Vikas Nigam Limited (GUVNL; rated 'CARE AA; Stable/CARE A1+') for its lignite-based power plants of 500 MW with cost-plus nature of tariff whereby it 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 and its subsidiaries 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. The availability of long-term PPAs provides good revenue visibility to GIPCL.

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

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, 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 FY23, both SLPP-I and SLPP-II achieved PAF which were lower than their normative PAF, leading to under-recovery of fixed cost. Lower-than-normative PAF was on account of replacement of the economizer beams in SLPP-I (in Unit-I), as a precautionary measure to prevent any technical failure, due to which the plant was shut down from June 30, 2022 to September 03, 2022 and capital overhauling in SLPP-II (Unit-II), from August 20, 2022 to October 05, 2022. The PLF of SLPP-I and SLPP-II stood at 62% in FY23 (FY22: 61%) and 70% (FY22: 72%, respectively).

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, 2023, 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 GIPCL consumed around 2.9 MMT of lignite in FY23 and 0.79 MMT in Q1FY24. 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 increased to ₹1,356 crore in FY23 (FY22: ₹1,172 crore) mainly due to higher tariff realisation from its lignite-based pursuant to increase in the fuel prices due to blending of imported coal. The company's profitability has remained stable with PBILDT margin of 30.09% in FY23 (FY22: 34.62%) and profit after tax (PAT) margin of 13.90% (FY21: 14.61%), 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. At FY23-end, the overall gearing of GIPCL stood at 0.16x (FY22: 0.17x), whereas its total debt/PBILDT and total debt/gross cash accruals (GCA) stood at 1.21x (FY22: 1.30x) and 1.32x (FY22: 1.49x), respectively. Also, its PBILDT interest coverage was 10.86x in FY23 (FY22: 14.11x).

During Q1FY24, GIPCL reported TOI of ₹342 crore and PBILDT and PAT margins of 30.95% and 16.77%, respectively, mainly due to improvement in the PAF and PLF of its lignite-based 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 and its subsidiaries 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 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 did not operate in FY23 and Q1FY24 and its PLF in FY22 was 29%.

Large upcoming capital expenditure plans in the renewable energy segment

GIPCL has been awarded land for implementing 2,375 MW solar park in Khavda, Kutch, which is to be developed over the next 4-5 years. However, as informed by the management, GIPCL plans to develop around 50% of this capacity by itself, while the balance 50% would be sub-let to other developers. GIPCL currently has operational capacity of 1,184.40 MW. CARE Ratings notes that with the completion of proposed solar projects, 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 is estimated at around ₹1,353 crore and the total cost of developing the solar power projects of 1,175.00 MW (around 50% capacity) is estimated at around ₹5.50 crore per MW. Out of the total estimated solar park development cost of ₹1,353 crore, 30% would be funded through subsidy from the Ministry of New and Renewable Energy (MNRE), whereas 40% would be funded through user development charges (UDC) from the project developers. Balance cost is expected to be funded in a debt-to-equity ratio of 20:80. The estimated cost for developing the solar power projects of 1,175.00 MW (around 50% capacity) is expected to be funded in a debt-to-equity ratio of 80:20. Entire equity requirement for the project would be met through internal accruals.
GIPCL is exposed to significant project execution risks associated with these projects, including any time and cost overruns. CARE Ratings will continue to monitor the ability of GIPCL to complete this project within the envisaged time and cost parameters and subsequently generate envisaged returns, which 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 solar radiation levels, respectively, which can affect their PLFs. Also, the renewable energy generation projects are susceptible to seasonal variations. Also, the renewable energy generation projects are susceptible to seasonal variations. Despite that, CARE Ratings observes that the solar and wind projects of GIPCL are operating at satisfactory PLF levels.

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 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 FY24, GIPCL has sufficient cushion in its scheduled debt repayment of around ₹75 crore against its envisaged GCA. 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. GIPCL has fund-based working capital limits of ₹144.15 crore, average utilisation of which was negligible at 0.64% from July 2022 to June 2023, whereas it has non-fund-based working capital limits of ₹528.71 crore, average utilisation of which was 15.13% from during the same period.

Environment, social, and governance (ESG) risks

Environmental: In order to mitigate the environment risk, the company has set-up renewable power generation capacity of 374.40 MW and is in the process of adding solar power generation capacity of 1,175 MW. Also, the company follows a robust waste management practice with the aim of reducing, reusing or recycling the waste generated from its operations. Fly ash is the key waste generated as part of the electricity generation from thermal sources. There are procedures in place where the company captures 100% of the fly ash generated which is then onward sold to the companies in real estate sectors for use in producing green cement / concrete mix.
Social: As a part of its corporate social responsibility (CSR) initiatives, GIPCL has undertaken projects in the areas of health, education, livelihood, development of village infrastructure, etc. GIPCL believes in providing equal opportunities to everyone and therefore, it does not discriminate based on race, caste, religion, colour, ancestry, marital status, gender, age, nationality, ethnic origin, disability, or any other category.
Governance: From a governance point of view, the Board of GIPCL is diversified with five out of ten directors as independent directors. The Board of GIPCL also includes one women director. Furthermore, the quality of financial reporting and disclosures are adequate.

Applicable criteria

Rating Outlook and Rating Watch
Policy on Default Recognition
Policy On Curing Period
Short Term Instruments
Liquidity Analysis of Non-Financial Sector Entities
Factoring Linkages Parent Sub JV Group
Infrastructure Sector Ratings
Thermal Power
Solar Power Projects
Wind Power Projects
Financial Ratios – Non-Financial Sector
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Utilities	Power	Power	Power Generation

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, 2023. 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, 2023.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	1,172	1,356	342
PBILDT	406	408	106
PAT	171	188	57
Overall gearing (times)	0.17	0.16	NA
Interest coverage (times)	14.11	10.86	11.24

A: Audited; UA: Unaudited; NA: Not available; The above financials have been adjusted as per CARE Ratings' criteria.
Note: 'the above results are latest financial results 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 the various instruments/facilities rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument/Bank Facilities	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit	-	-	-	-	145.15	CARE AA-; Stable
Fund-based - ST-Bill discounting/ Bills purchasing	-	-	-	-	860.00	CARE A1+
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	6,27.88	CARE AA-; Stable / CARE A1+
Term loan-Long term	-	-	-	March 2034	3,242.68	CARE AA-; Stable

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 2023-2024	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
1.	Term loan-Long term	LT	3,242.68	CARE AA-; Stable	-	1)CARE AA-; Stable (04-Oct-22)	1)CARE AA-; Stable (25-Aug-21)	1)CARE AA-; Stable (10-Sep-20)
2.	Fund-based - LT-Cash credit	LT	145.15	CARE AA-; Stable	-	1)CARE AA-; Stable (04-Oct-22)	1)CARE AA-; Stable (25-Aug-21)	1)CARE AA-; Stable (10-Sep-20)
3.	Fund-based - ST-Bill discounting/ Bills purchasing	ST	860.00	CARE A1+	-	1)CARE A1+ (04-Oct-22)	1)CARE A1+ (25-Aug-21)	1)CARE A1+ (10-Sep-20)
4.	Non-fund-based - LT/ ST-BG/LC	LT/ST*	627.88	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (04-Oct-22)	1)CARE AA-; Stable / CARE A1+ (25-Aug-21)	1)CARE AA-; Stable / CARE A1+ (10-Sep-20)

*Long-term/Short-term.

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

Not applicable

Annexure-4: Complexity level of the various instruments/facilities rated

Sr. No.	Name of the Instrument/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: Lender details

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

Note on the 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.

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About us:
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