Gujarat State Electricity Corporation Limited

April 02, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	525.00	CARE AA; Positive	Reaffirmed; Outlook revised from Stable
Long-term/short-term bank facilities	346.00	CARE AA; Positive/CARE A1+	Reaffirmed; Outlook revised from Stable
Short-term bank facilities	1,434.15	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings of bank facilities continue considering Gujarat State Electricity Corporation Limited (GSECL) to be an important part of the Gujarat Urja Vikas Nigam Limited (GUVNL) group, including GUVNL, Gujarat Energy Transmission Corporation Limited (GETCO), Gujarat State Electricity Corporation Limited (GSECL), Dakshin Gujarat Vij Company Limited (DGVCL), Madhya Gujarat Vij Company Limited (MGVCL), Paschim Gujarat Vij Company Limited (PGVCL), and Uttar Gujarat Vij Company Limited (UGVCL). This is owing to the common ultimate ownership of the Government of Gujarat (GoG), common management with integrated finance function, and deep integration across the entire power value chain – generation, transmission, and distribution.

Entities have also demonstrated high cashflow fungibility in the past, evidenced from inter-company sales and loans. Ratings continue deriving strength from its strong parentage, its regulated operations based on 'cost-plus' tariff structure with conducive regulatory environment for the power sector in Gujarat, evident from the track record of regular tariff revisions.

Ratings are further strengthened by the stable operating profile of all its distribution companies (discoms) with aggregate technical & commercial (AT&C) losses lower than both the national average. The stable operating performance has led to steady growth in its total operating income (TOI) and profitability with adequate cashflows and comfortable leverage position.

Need-based equity infusion and timely subsidy receipts from the GoG with healthy cash collections have also resulted in steady cashflows for the group, which remain as credit positives. The significantly reducing consolidated debt levels of GUVNL, led by prepaying debt in FY23, has led to comfortable leverage and enhanced financial flexibility. Ratings also derive strength from the efficient working capital management with unutilised working capital limits and timely payments to creditors for power purchase, resulting in significant earnings through rebates on prompt payments. CARE Ratings Limited (CARE Ratings) notes GUVNL signing a supplementary power purchase agreement (SPPA) with Adani Power Mundra Limited (APMuL), which has given access of 2,434 megawatt (MW) of power on a long-term basis to the state.

The group's initiatives on promoting green energy with fair compliance continue providing strength to ratings. However, these strengths are tempered by its subsidy dependence from GoG, although the same is largely adjusted against electricity duty and the balance is received regularly. Ratings note the partial recovery of power purchase cost, which increased significantly in FY23, thus impacting profitability. This is offset to some extent by the increasing FPPPA component, enabling the company to recover power cost spikes, although at a delay. Ratings remain sensitive to modest operational performance of the power generation business, which has witnessed sizeable under-recovery of capacity charge in the past.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Maintaining strong leverage profile on a sustained basis.
- Significantly improving operational performance of entities on a sustained basis.
- Significantly improving credit profile of GoG or significantly reducing the subsidy dependence on GoG.

Negative factors

- Significant delay in receiving equity and subsidy support from the GoG on a sustained basis.
- Adverse changes in regulatory environment governing the power sector in Gujarat.
- Materialising of large liabilities in relation to disputes with independent power producers (IPPs).

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

Analytical approach

CARE Ratings has taken a consolidated view of GUVNL and its six subsidiaries while arriving at their ratings as these operate on a common management and operational platform with GUVNL, the holding company, managing cashflows at a consolidated level. The list of entities consolidated is in Annexure-6.

Outlook: Positive

CARE Ratings has revised the outlook from stable to positive due to the anticipated improvement in leverage metrics with steady profitability in the near term. The outlook may be revised to stable if the company's financial performance does not significantly improve.

Detailed description of key rating drivers

Key strengths

Strong parentage of GoG

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 part of domestic power sector reforms. It is the holding company of power generation, transmission, and distribution companies of Gujarat. Post unbundling of the erstwhile GEB, GoG has demonstrated considerable support to GUVNL and its subsidiaries, mainly in the form of timely equity infusion and disbursement of capital grants and subsidies.

Robust regulatory environment in Gujarat with cost-reflective tariffs

Since unbundling of the erstwhile GEB, there has been timely filing of tariff petitions based on multi-year tariff (MYT) regulations issued by the Gujarat Electricity Regulatory Commission (GERC). Simultaneously, tariff orders have bene issued on time every year before the financial year commences. In addition, true-up and tariff orders by the GERC are also issued on time. Although the last MYT order issued by the GERC was for the control period from FY17 to FY21, MYT regulations have been extended by GERC for FY22 and FY23 as well, based on which the tariff petitions have been filed by utilities. This conducive regulatory framework has provided a level-playing field for power sector companies of the GUVNL group. The presence of FPPPA mechanism has helped the GUVNL group, whereby power purchase cost is reviewed on a quarterly basis and the required revision in FPPPA is made applicable from the next quarter, without regulator intervention, if the increase in fuel surcharge is up to ₹10 paisa per unit and with regulatory approval for increase in fuel surcharge above ₹10 paisa per unit as compared with FPPPA recovery rate of the previous quarter. This mechanism is followed on a sustained basis, reducing the revenue gap at the time of true-up.

Long-term power purchase agreements (PPAs) at competitive rates with continuing power supply by IPPs

GUVNL, as a power purchaser on behalf of its discoms in Gujarat, has signed long-term PPAs with power generators at reasonably low prices. Upon unbundling of the erstwhile GEB, GUVNL renegotiated all existing PPAs with different IPPs, resulting in substantial savings for the group. GUVNL as a single point of contact for power purchase also provides significant economies of scale in the business. PPAs have been allocated by GUVNL among its discoms in a way that each discom is sustainable on a long-term basis. GUVNL also procures power through renewable sources by floating tenders through competitive bidding, to achieve both, fulfilment of its renewable power purchase obligation (RPO) and procure clean power on a long-term basis for energy security. GUVNL has been able to discover tariffs at highly competitive rates in its last two solar power auctions, depicting the confidence of developers and bidders on GUVNL's credit profile given its track record of making prompt payments to its creditors.

To amicably resolve pending disputes and litigations, GUVNL had signed a settlement deed with APMuL. Subsequently, supply from 1,234 MW capacity under Bid-02 PPA has been restored and SPPAs have been signed for both PPAs – Bid-01 PPA and Bid-02 PPA, aggregating to 2,434 MW, allowing fuel cost pass-through in a prudent and transparent manner. GUVNL has also signed an SPPA with Essar Power Gujarat Limited (EPGL), allowing fuel cost pass-through on a prudent basis. Discussions are ongoing with The Tata Power Company Limited (TPCL; rated 'CARE AA; Positive') for its coastal Gujarat project in Mundra.

Consistently improving operating and financial performance of the group

Operating parameters for discoms and GETCO have been consistently improving over past three years, which were also better than parameters approved by the regulator. AT&C losses of discoms have also been significantly lower than the national average. The credit risk profile has been healthy, with comfortable solvency and a strong liquidity position. Operational performance of GETCO and discoms were stable in FY23. AT&C losses of all discoms significantly declined in FY23 over FY22.

On a consolidated basis, GUVNL's operating and financial performance was stable in FY23. The TOI increased by about 28% in FY23, mainly due to increasing average realisation rate on the back of increase in power procurement cost due to high demand. Due to significant prepayment of debt, the interest coverage also significantly improved and with additional equity infusion, the overall gearing stood stable at 0.08x as on March 31, 2023, and total debt (TD)/gross cash accruals (GCA) ratio stood at 0.69x in FY23.

GUVNL's strong financial flexibility with common treasury management of power sector entities

There has been common treasury management by GUVNL on behalf of its six subsidiaries. GUVNL must make payments to Gujarat State Electricity Corporation (GSECL) for power purchase and to GETCO for transmission charges, whereas it collects power cost from discoms. Accordingly, excess funds in one company are channelised to other companies where it is required, leading to significant savings in interest expenses. GoG infuses the required equity in GUVNL for project financing of utilities that are disbursed by GUVNL, depending on project progress. GUVNL has also been sanctioned sufficient line of credit by Gujarat State Financial Services Limited (GSFS), which is wholly owned by GoG and is registered with the Reserve Bank of India (RBI) as a non-banking finance company (NBFC), whereby borrowing cost is reasonably lower compared with the bank finance. This provides additional liquidity to the group and is a source for refinancing its higher interest bank debt.

Key weaknesses

Moderate operational performance of GSECL in FY23, although rise in share of power purchase from other state utilities and power exchanges

The plant availability factor (PAF) of GSECL's thermal plants stood lower in FY23 at 64.46% (FY22: 66.06%). The PAF of GSECL's plants was low in FY23 due to maintenance activities undertaken in some plants. However, the plant load factor (PLF) has marginally improved from 41.03% in FY22 to 42.61% in FY23 due to higher off-take by GUVNL for meeting increased demand. GSECL's thermal plants have cost-plus PPAs with GUVNL, whereby they can recover fixed costs from GUVNL. The renewable plants of GSECL have been operating under must-run category. GUVNL continues to purchase power from gas-based power plants of GSECL and other IPPs, where it already has an established practice of making payments for bare minimum fixed cost even without corresponding power off-take due to their higher variable cost of power generation.

The average cost of power purchase increased in FY23 to ₹5.33 per unit from ₹4.44 per unit in FY22, mainly due to costlier power available from IPPs and other sources such as short-term PPAs and power exchanges owing to geopolitical crisis and increasing prices of imported coal and gas. GUVNL is in the process of lowering its overall cost of power purchase by increasing the share of low-cost renewable sources of power in its overall mix. GUVNL also expects to signs PPAs with developers for procuring power mainly from renewable energy projects. Despite the increasing TOI, GUVNL's profit before interest, lease rentals, depreciation and taxation (PBILDT) margin declined from 8.44% in FY22 to 6.61% in FY23, as it has been unable to pass on the increase in power procurement costs entirely to customers.

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

The total subsidy assessed (after netting-off with electricity duty) as a percentage of its TOI was relatively stable in the range of 3-5% in past three years. GUVNL received a total subsidy of ₹10,627 crore in FY23 as against the total subsidy requirement for agricultural power sales in FY23 of about ₹9,005 crore (₹7,305 crore for FY22), of which about ₹6,938 crore (₹5,639 crore for FY22) was adjusted against electricity duty collected by discoms and payable to GoG, while about ₹1,622 crore excess subsidy received was adjusted against past dues. As a major portion of the subsidy requirement of GUVNL is adjusted against electricity duty, it provides liquidity to the group and insulates it from delays in subsidy release from GoG. Outstanding subsidy receivable from GoG as on March 31, 2023, stood nil.

Ongoing capex programme, largely augmenting renewable capacity

Efficient functioning of operations requires a robust transmission and distribution system and expansion in generation capacity. Hence, GUVNL's subsidiaries are involved in new projects and renovation of existing plants. On a consolidated basis, GUVNL incurred a capex of about ₹8,597 crore in FY23 towards projects. Two solar power projects of GSECL are under implementation – one at Khavda (Kutch) having a total capacity of 3,325 MW, expected to be completed within five years from the date of letter of award (LoA), and another project of 2,500 MW on the government wasteland near GETCO substations (in four phases). GSECL is also planning to incur capex in the flue-gas desulfurisation (FGD) system. Solar projects on government wasteland near GETCO substations are expected to be funded through a debt and equity ratio of 50:50, and the solar project at Khavda is expected to be funded through a debt and equity ratio of 80:20. However, historically, the GUVNL group has shown a track record of funding large part of its capex through equity infusion from GoG, capital grants, consumer contributions, and internal accruals. GoG infused equity of ₹3,459 crore in GUVNL in FY23.

Apart from the inherent risk of project implementation and its stabilisation, dependence on the government for subsidies, capital grants, and equity capital also poses a risk to an extent. However, the GUVNL group has vast experience in executing similar projects and there is demonstrated support from the GoG for funding majority portion of the total capex, thus reducing project risk to an extent.

Liquidity: Strong

GUVNL receives payments from discoms and pays it to power generation companies, including GSECL. The total working capital limit is handled by GUVNL on behalf of all its subsidiaries with certain portions allocated to subsidiaries for their management. GUVNL also has sanctioned limits from GSFS to meet cashflow mismatches, in addition to largely unutilised fund-based working capital limits of ₹3,000 crore distributed among GUVNL and its six subsidiaries. GUVNL earned ₹1,064 crore in FY23 towards rebate for prompt payments from IPPs. The average monthly cash collection has been about ₹6,200 crore in FY23. Demonstrated timely support by GoG through equity infusions, subsidies, and grants also aids its liquidity. On a consolidated level, GUVNL had a free cash and bank balance of ₹13,297 crore as on March 31, 2023.

Applicable criteria

Consolidation
Definition of Default
Factoring Linkages Government Support
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Thermal Power
Financial Ratios – Non financial Sector
Infrastructure Sector Ratings
Solar Power Projects
Short Term Instruments
Power- Transmission
Power Distribution
Wind Power Projects

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Utilities	Power	Power	Power – Generation

GSECL was incorporated in 1993 with the objective of generating power in Gujarat. GSECL took over the power generation plants of the erstwhile GEB as part of domestic power sector reforms post the unbundling exercise in compliance with the Electricity Act, 2003. Consequent to the Gujarat Electricity Industry (Reorganization and Regulation) Act, 2003, the erstwhile GEB was reorganised (from April 01, 2005) into seven companies – GUVNL, the parent entity of GSECL, and its six subsidiaries as follows:

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

GSECL's operations mainly include generating power and selling it to GUVNL on long-term PPA basis. Equity requirement in all ongoing and proposed projects is met by GoG by infusing equity through GUVNL. GSECL has a total power generation capacity of 7,106 MW as on December 31, 2023, including a mix of coal, lignite, gas, hydro, and renewable sources.

Brief financials of GUVNL (Consolidated)

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	60,984	77,922
PBILDT	5,221	5,147
PAT	1,710	1518
Overall gearing (times)	0.09	0.08
Interest coverage (times)	8.07	7.38

A: Audited. These financials have been adjusted per CARE Ratings' criteria.
Note: These are latest financial results available.

Brief financials of GSECL

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	11,357	13,113
PBILDT	1,240	1,154
PAT	283	28
Overall gearing (times)	0.04	0.04
Interest coverage (times)	29.20	36.19

A: Audited. These financials have been adjusted per CARE Ratings' criteria.
Note: These are latest financial results available.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

Covenants of rated instruments/facilities: Annexure-3

Complexity level of 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		-	-	-	525.00	CARE AA; Positive
Fund-based - ST-Bill discounting/Bills purchasing		-	-	-	500.00	CARE A1+
Non-fund-based - LT/ ST-Deferred payment guarantees		-	-	-	346.00	CARE AA; Positive / CARE A1+
Non-fund-based - ST-BG/LC		-	-	-	934.15	CARE A1+

Annexure-2: Rating history for 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	Fund-based - LT-Cash credit	LT	525.00	CARE AA; Positive	-	1)CARE AA; Stable (21-Mar-23)	1)CARE AA; Stable (07-Mar-22)	1)CARE AA-; Stable (17-Mar-21)
2	Non-fund-based - ST-BG/LC	ST	934.15	CARE A1+	-	1)CARE A1+ (21-Mar-23)	1)CARE A1+ (07-Mar-22)	1)CARE A1+ (17-Mar-21)
3	Term loan-Long term	LT	-	-	-	1)Withdrawn (21-Mar-23)	1)CARE AA; Stable (07-Mar-22)	1)CARE AA-; Stable (17-Mar-21)
4	Non-fund-based - LT/ ST-Deferred payment guarantees	LT/ST	346.00	CARE AA; Positive / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (21-Mar-23)	1)CARE AA; Stable / CARE A1+ (07-Mar-22)	1)CARE AA-; Stable / CARE A1+ (17-Mar-21)
5	Fund-based - ST-Bill discounting/Bills purchasing	ST	500.00	CARE A1+	-	1)CARE A1+ (21-Mar-23)	1)CARE A1+ (07-Mar-22)	1)CARE A1+ (17-Mar-21)

*Long-term/Short-term.

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

Not applicable

Annexure-4: Complexity level of 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-Deferred payment guarantees	Simple
4	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

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

Annexure-6: List of entities consolidated into GUVNL

Sr. No.	Name of Entity	Extent of Consolidation	Rationale for Consideration
1.	Gujarat State Electricity Corporation Limited	Full	Wholly owned subsidiary
2.	Gujarat Energy Transmission Corporation Limited	Full	Wholly owned subsidiary
3.	Dakshin Gujarat Vij Company Limited	Full	Wholly owned subsidiary
4.	Madhya Gujarat Vij Company Limited	Full	Wholly owned subsidiary
5.	Paschim Gujarat Vij Company Limited	Full	Wholly owned subsidiary
6.	Uttar Gujarat Vij Company Limited	Full	Wholly owned subsidiary

Note on complexity levels of 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:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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