Gujarat Industries Power Company Limited

November 14, 2024

Facilities/Instruments	Amount (₹ crore)	Ratings[1]	Rating Action
Long-term bank facilities	3,387.83	CARE AA-; Stable	Reaffirmed
Long-term / Short-term bank facilities	677.88 (Enhanced from 627.88)	CARE AA-; Stable / CARE A1+	Reaffirmed
Short-term bank facilities	810.00 (Reduced from 860.00)	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of ratings on bank facilities of Gujarat Industries Power Company Limited (GIPCL) factors in satisfactory operational performance from its 500 MW lignite-based capacity, as reflected by healthy plant load factor (PLF) and key operating parameters such as the actual station heat rate (SHR) and auxiliary consumption, which are consistent with FY23 levels and align with normative standards. CARE Ratings Limited (CARE Ratings) notes the gas-based power capacity of 310 MW is non-operational considering high natural gas prices. Further, the performance of renewable portfolio of ~374 MW remains satisfactory.

Ratings continue to derive strength from the long-term power purchase agreements (PPAs) for GIPCL's entire power generation capacity. Its thermal power portfolio benefits from a cost-plus tariff structure. Additionally, CARE Ratings also notes the company has well-established operations for its lignite-based power plants and faces low fuel supply risk owing to its captive lignite mines with sufficient reserves. Ratings also draw comfort from the company's strong promoters as Gujarat Urja Vikas Nigam Limited (GUVNL) ('CARE AA; Positive/CARE A1+'), Gujarat Alkalies and Chemicals Limited (GACL; rated 'CARE AA+; Stable/CARE A1+') and Gujarat State Fertilizers and Chemicals Limited (GSFC; rated 'CARE AA+; Stable/CARE A1+') on a combined basis own ~55% of the company. Also, the majority power generated by the company is consumed by one of the above entities resulting in low counterparty credit risk. Even though the company has not had a funding requirement in the last few years, however in case of requirement, CARE Ratings believes that funding support would be forthcoming given GIPCL's strategic and economic importance. Also, GIPCL's healthy profitability, low leverage, strong debt coverage indicators and strong liquidity profile are other credit positives.

However, ratings continue 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. Additionally, there is risk associated with under recovery of costs considering lower-than-normative plant parameters in its lignite-based power plants. Ratings are further constrained by GIPCL's 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

- Successful commissioning of GIPCL's 1,175 MW solar capacity in Khavda solar park.
- Improvement in operating performance with PAF remaining above normative parameters on a sustained basis.
- Significant improvement in leverage and debt coverage indicators on a sustained basis.

Negative factors

- Delay in project execution resulting in material cost/time overrun for GIPCL's 1,175 MW solar capacity in Khavda solar park.
- Non-achievement of normative PAF on a sustained basis leading to under-recovery of capacity charges.
- Significant elongation in receivables, impacting GIPCL's liquidity and leverage profile.

Analytical approach: Standalone

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

Outlook: Stable

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

Detailed description of key rating drivers

Key strengths

Long-term PPAs in place for the entire power generation capacity and cost-plus tariff for its thermal power portfolio leading to assured return on equity (ROE)

GIPCL entered long-term power purchase agreements (PPAs) with GUVNL. These agreements cover GIPCL's 500 MW lignite-based power plants and operate on a cost-plus tariff model which ensures recovery of actual fixed costs, energy charges, and an assured average return on equity (ROE) of 13.50%, upon achievement of normative parameters such as plant availability factor (PAF), station heat rate (SHR), and auxiliary consumption.

It has a memorandum of understanding (MoU) with GUVNL, GACL, GSFC, 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. GIPCL had a PPA with GUVNL for 165-MW gas-based power plant capacity (VS-II), which was renewed in March 2019 for five years. Currently, GIPCL is in talks with GUVNL to extend the VS-II PPA for another 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.

Established operations of its lignite-based power plants

Attaining normative PAF is relatively difficult in lignite-based power plants compared to the coal-based power plants considering the challenges involved in handling lignite, which results in disruption in operations of some plants due to higher boiler tube leakages. GIPCL's healthy operating efficiency is reflected from its ability to achieve normative PAF historically. However, in FY24, SLPP-I and SLPP-II achieved lower than normative PAF which led to under-recovery of fixed cost. Lower-than-normative PAF was considering technical issues faced by GIPCL primarily owing to high moisture content of lignite. However, the company has managed this issue by blending high quality imported coal (~10% blending ratio). The PLF of SLPP-I and SLPP-II stood at 67% in FY24 (FY23: 62%) and 74% (FY23: 70%), respectively.

SHR and auxiliary consumption have remained relatively high compared to the normative levels per the PPA largely considering ageing of plant and machinery. However, the benefit of captive lignite mines and healthy operating efficiency has led to competitive tariff of the plants, which ensures revenue visibility and stable profitability.

Low fuel supply risk due to availability of captive lignite mines with adequate mineable reserves

GIPCL has captive lignite mines at Vastan, Valia and Mangrol (in Gujarat) which have been allocated by the Government of Gujarat (GoG) for its lignite-based power plants. Mineable reserves are adequate to support the current capacity for the entire economic lifespan of thermal plants. The company has mineable reserves of 197 million metric tonne (MMT) as on March 31, 2024, which is sufficient to cater the current capacity in the economic life of plants. The mine was leased to GIPCL in 1996 for 30 years with the option of extension. GIPCL consumed ~3 MMT of lignite in FY24. The captive mines ensure uninterrupted supply of lignite for operations.

Healthy profitability, low leverage and strong debt coverage indicators

GIPCL reported total operating income (TOI) of ₹1,349 crore in FY24 (FY23: 1,356 crore) which is aligned with the previous year owing to moderation of tariff realisation pursuant to decrease in fuel prices. The company's profitability has remained stable with earnings before interest, taxation, depreciation, and amortisation (EBITDA) margin of 29% in FY24 (FY23: 30%) and profit after tax (PAT) margin of 15 (FY23: 14%), which is largely due to assured recovery of fixed cost considering 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% 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 FY24 end, GIPCL's overall gearing stood at 0.19x (FY23: 0.16x), whereas its total debt (TD) to EBITDA and TD to gross cash accruals (GCA) stood at 1.61x (FY23: 1.21x) and 1.63x (FY23: 1.32x), respectively. In Q1FY25, GIPCL reported TOI of ₹320 crore and EBITDA and PAT margins of 36% and 21%, respectively, mainly due to improvement in the PAF and PLF of its lignite-based plants.

Promotors having strong financial risk profile and low counter-party credit risk for GIPCL

GIPCL's promoters, state public sector undertakings (PSUs) of Gujarat, including 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), wind power (112.40) and solar power plants (182 MW) and with SECI for power off-take from its solar power plants (80 MW). GIPCL previously had a power purchase agreement (PPA) with GUVNL for its VS-II plant (165 MW). Currently, GIPCL is negotiating with GUVNL to extend this PPA by additional five years. GIPCL 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 GIPCL's gas-based plants have become debt free, 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. Both the plants did not operate in FY24 and Q1FY25 owing to high natural gas prices.

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 3-4 years. However, GIPCL plans to develop ~50% of this capacity by itself, while the balance would be sub-let to other developers. GIPCL currently has operational capacity of 1,184.40 MW. CARE Ratings notes 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 ~₹1,353 crore. 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 project developers. The estimated cost for developing the solar power projects of 1,175.00 MW (~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 time and cost overruns. CARE Ratings will continue to monitor GIPCL's ability to complete this project within the envisaged time and cost parameters and subsequently generate returns, which will be crucial from the credit perspective.

Susceptibility of its renewable capacity to inherent risk of changes in climatic conditions, albeit currently operating at stable PLFs

Operations of wind and solar projects are susceptible to the inherent risk of weather fluctuations such as variations in wind patterns and solar radiation levels which can affect its PLFs. Also, the renewable energy generation projects are susceptible to seasonal variations. Despite this, GIPCL's solar and wind projects are operating at satisfactory PLF levels.

Liquidity: Strong

GIPCL maintains a strong liquidity position, characterised by healthy cash accruals, sufficient cash and bank balances, minimal use of fund-based working capital limits, and a low average collection period. This is due to timely payments from GUVNL, which has a robust financial risk profile and is GIPCL's largest off-taker. For FY25, GIPCL has scheduled debt repayment of ~₹84 crore against which it has envisaged GCA of ~₹425 crore. GIPCL has fund-based working capital limits of ₹145.15 crore, average utilisation of which was negligible at 0.57% from April 2023 to June 2024. It has adequate unencumbered cash and bank balance of ~₹609 crore as on March 31, 2024, and ₹547 crore as on September 30, 2024. Also, GIPCL has non-fund-based working capital limits of ₹528.71 crore (reduced from ₹608.70 crore), average utilisation of which was 24% from April 2023 to June 2024.

Environment, social, and governance (ESG) risks

Environmental: To mitigate the environmental 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, and development of village infrastructure, among others. 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 other category.

Governance: From a governance point of view, GIPCL's board is diversified with six out of eleven directors as independent directors. GIPCL's board also includes one women director. Furthermore, the quality of financial reporting and disclosures are adequate.

Applicable criteria

Definition of Default
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
Wind Power Projects

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 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, including 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 parts of Gujarat (aggregate solar capacity of 262 MW) and wind capacities of 112.40 MW as on September 30, 2024.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	1,356	1,349	320
EBITDA	408	381	116
PAT	188	199	68
Overall gearing (times)	0.16	0.19	NA
Interest coverage (times)	10.86	10.25	13.15

A: Audited; UA: Unaudited; NA: Not available; Brief financials have been adjusted per CARE Ratings' criteria
Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of 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		-	-	-	145.15	CARE AA-; Stable
Fund-based - ST-Bill Discounting/ Bills Purchasing		-	-	-	810.00	CARE A1+
Non-fund-based - LT/ ST-BG/LC		-	-	-	677.88	CARE AA-; Stable / CARE A1+
Term Loan-Long Term		-	-	March 2035	3242.68	CARE AA-; Stable

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 2024-2025	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
1	Term Loan-Long Term	LT	3242.68	CARE AA-; Stable	-	1)CARE AA-; Stable (04-Oct-23)	1)CARE AA-; Stable (04-Oct-22)	1)CARE AA-; Stable (25-Aug-21)
2	Fund-based - LT-Cash Credit	LT	145.15	CARE AA-; Stable	-	1)CARE AA-; Stable (04-Oct-23)	1)CARE AA-; Stable (04-Oct-22)	1)CARE AA-; Stable (25-Aug-21)
3	Fund-based - ST-Bill Discounting/ Bills Purchasing	ST	810.00	CARE A1+	-	1)CARE A1+ (04-Oct-23)	1)CARE A1+ (04-Oct-22)	1)CARE A1+ (25-Aug-21)
4	Non-fund-based - LT/ ST-BG/LC	LT/ST	677.88	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (04-Oct-23)	1)CARE AA-; Stable / CARE A1+ (04-Oct-22)	1)CARE AA-; Stable / CARE A1+ (25-Aug-21)

LT: Long term; ST: Short term; LT/ST: 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-BG/LC	Simple
4	Term Loan-Long Term	Simple

Annexure-5: Lender details

To view lender wise details of bank facilities please click here

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