

Gujarat Energy Transmission Corporation Limited

March 21, 2023

Facilities/Instruments	Amount (₹ crore)	Ratings ¹	Rating Action
Long-term bank facilities	200.00	CARE AA; Stable	Reaffirmed
Long-term / Short-term bank facilities	293.00	CARE AA; Stable / CARE A1+	Reaffirmed
Short-term bank facilities	333.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Gujarat Energy Transmission Corporation Limited (GETCO) continue to derive strength from its strong parentage Gujarat Urja Vikas Nigam Limited (GUVNL; rated 'CARE AA; Stable/ CARE A1+'), being wholly owned by the Government of Gujarat (GoG), its regulated operations based on 'cost-plus' tariff structure with conducive regulatory environment for the power sector in Gujarat which is evident from the track record of regular tariff revisions and presence of fuel and power purchase price adjustment (FPPPA) mechanism. The 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 and that approved by the regulator for FY22 (refers to the period April 01 to March 31). The stable operating performance has led to steady growth in its total operating income (TOI) and profitability along with adequate cash flows and comfortable leverage position. Furthermore, need-based equity infusion and timely subsidy receipts from GoG coupled with healthy cash collections have resulted in steady cash flows for the Group. Significant reduction in the consolidated debt levels of GUVNL led by prepayment of debt in FY22 has led to comfortable leverage and enhanced financial flexibility. The ratings also derive strength from the efficient working capital management with unutilised working capital limits and timely payment to the creditors for power purchase, resulting in significant earnings through rebates on prompt payments. CARE Ratings Limited (CARE Ratings) makes note of signing of supplementary power purchase (SPPA) by GUVNL with Adani Power Mundra Limited (APMuL) which has given access of 2,434 MW of power on a long-term basis to the state.

The rating strengths are, however, tempered by its dependence on subsidy from GoG, albeit the same is largely adjusted against electricity duty and the balance is being received regularly, inherent risks associated with the rise in power purchase cost due to fuel price escalations and the corresponding lag of at least one quarter under the FPPPA mechanism, and lower power generation from its captive thermal plants due to low operational efficiency parameters.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant improvement in the operational performance of the entities on a sustained basis.
- Significant improvement in the credit profile of GoG or significant reduction in the subsidy dependence on GoG.

Negative factors

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

Analytical approach: CARE Ratings has taken a consolidated view of GUVNL and its six subsidiaries while arriving at their ratings since they all operate on common management and operational platform with GUVNL, the holding company, managing the cash flows at a consolidated level. The list of entities getting consolidated is as per Annexure-6.

Outlook: Stable

The stable outlook reflects CARE Ratings' expectations that GUVNL and its subsidiaries will continue to demonstrate strong operational efficiency and financial performance over the medium-term. CARE Ratings also expects the regulatory environment to remain conducive for the operations of GUVNL and its subsidiaries.

Key strengths

Strong parentage of GoG that 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. 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.

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

Robust regulatory environment in the state of 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, there has been timely issuance of tariff orders every year before commencement of the financial year. In addition, there has been timely issuance of true-up and tariff orders by the GERC. 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 the utilities. This conducive regulatory framework has provided a level playing field for the power sector companies of the GUVNL Group. The presence of FPPPA mechanism has helped the GUVNL Group whereby the power purchase cost is reviewed on a quarterly basis and the required revision in FPPPA is made applicable from the next quarter without intervention of the regulator if the increase in fuel surcharge is up to ₹10 paise per unit and with the approval of the regulator for increase in fuel surcharge above ₹10 paise per unit as compared with FPPPA recovery rate of the previous quarter. This mechanism is being followed on a sustained basis which reduces the revenue gap at the time of true-up process.

Long-term PPAs at competitive rates with the continuation of power supply by IPPs

GUVNL, being a power purchaser on behalf of its Discoms in Gujarat, has entered into long-term PPAs with power generators at reasonably low prices. Also, upon unbundling of the erstwhile GEB, GUVNL renegotiated all the existing PPAs with different IPPs which resulted in substantial savings for the Group. Furthermore, GUVNL being a single point of contact for power purchase, provides significant economies of scale in the business. PPAs have been allocated by GUVNL amongst its Discoms in such a way that each Discom is sustainable on a long-term basis. Furthermore, GUVNL also procures power through renewable sources by floating tenders through competitive bidding, to achieve both, fulfilment of its renewable power purchase obligation (RPO) as well as procuring clean power on a long-term basis for energy security. GUVNL has been able to discover tariffs in the range of ₹2.49 per unit to ₹2.51 per unit in its last two solar power auctions, which 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. Furthermore, the average cost of power purchase increased in FY22 to ₹4.44 per unit from ₹3.81 per unit in FY21, mainly on account of costlier power available from IPPs and other sources like short-term PPAs and power exchanges due to geopolitical crisis and increase in the prices of imported coal and gas. In order to amicably resolve the pending disputes and litigations, GUVNL had entered into 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 the PPAs i.e., Bid-01 PPA and Bid-02 PPA aggregating 2,434 MW allowing fuel cost pass through in a prudent and transparent manner. GUVNL has also entered into an SPPA with Essar Power Gujarat Limited (EPGL) allowing fuel cost pass through on a prudent basis. discussions are going on with The Tata Power Company Limited (TPCL; rated CARE AA; Stable) for its Coastal Gujarat project in Mundra.

Consistent improvement in the operating and financial performance of the Group

There has been consistent improvement in the operating parameters for the Discoms and GETCO over the past three years which were also better than the parameters approved by the regulator. The AT&C losses of the Discoms have also been significantly lower than the national average. Furthermore, the credit risk profile has been healthy with comfortable solvency and strong liquidity position. The operational performance of GETCO and the Discoms remained stable during FY22. AT&C losses of the all the Discoms declined significantly in FY22 over FY21.

On a consolidated basis, the operating and financial performance of GUVNL was stable during FY22. The TOI increased by around 27% in FY22 mainly due to increase in the average realisation rate on the back of increase in the power procurement cost due to high demand. Despite increase in the TOI, GUVNL's PBILDT margin declined from 12.52% in FY21 to 8.44% in FY22, as GUVNL has not been able to pass on the increase in the power procurement cost entirely to the customers. Furthermore, due to significant prepayment of debt, the interest coverage improved significantly and with additional equity infusion, the overall gearing also improved from 0.16x as on March 31, 2021, to 0.09x as on March 31, 2022, and the total debt to gross cash accruals (TDGCA) ratio improved from 1.07x in FY21 to 0.71x in FY21.

Strong financial flexibility of GUVNL along with common treasury management of power sector entities

There has been common treasury management by GUVNL on behalf of its six subsidiaries. GUVNL is required to make payment to Gujarat State Electricity Corporation (GSECL) for power purchase and to GETCO for transmission charges, whereas it collects power cost from the Discoms. Accordingly, excess funds in one company are channelised to the other companies where it is required, which leads to significant savings in interest expenses. Furthermore, GoG infuses the required equity in GUVNL for project financing of utilities that are being disbursed by GUVNL depending upon the 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 as well as a source to refinance its higher interest bank debt.

Key weaknesses

Operational performance of GSECL remained moderate in FY22; albeit rise in the share of power purchase from other state utilities and power exchanges

The plant availability factor (PAF) of GSECL's thermal plants declined from 82.94% to 66.06% in FY22. The PAF of GSECL's plants was low in FY22 due to maintenance activities undertaken in some of the plants. The PLF has, however, improved from

35.49% in FY21 to 41.03% in FY22 due to higher off-take by GUVNL to meet the 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. Furthermore, 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 the 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 increased during FY22, mainly on account of costlier power available from IPPs and other sources like short-term PPAs and power exchanges due to increase in the demand. Furthermore, 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. Presently, GUVNL has outstanding PPAs for the purchase of solar power of around 3,582 MW and wind power of around 4,280 MW from operational projects. GUVNL also expects to enter into PPAs with various developers for procuring power mainly from renewable energy projects.

Reliance on subsidy support from GoG; albeit 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 remained relatively stable in the range of 3%-5% during the past three years. GUVNL received a total subsidy of ₹10,128 crore during FY22 as against the total subsidy requirement for agricultural power sales during FY22 of around ₹7,305 crore (₹6,746 crore for FY21), out of which around ₹5,639 crore (₹4,578 crore for FY21) was adjusted against electricity duty collected by Discoms and payable to GoG, while around ₹2,823 crore excess subsidy received was adjusted against the 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 any delays in the release of subsidy from GoG. Outstanding subsidy receivable from GoG as on March 31, 2022, stood at ₹1,622 crore.

On-going capex programme largely augmenting the renewable capacity

Efficient functioning of the operations requires robust transmission and distribution system and required expansion in the generation capacity. Hence, GUVNL's subsidiaries are involved in various new projects as well as renovation of existing plants. On a consolidated basis, GUVNL incurred a capex of around ₹7,399 crore during FY22 towards various projects. Two solar power projects of GSECL are under implementation; one at Khavda (Kutch) having a total capacity of 3,325 MW, which is expected to be completed within 5 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), out of which 30 MW commissioned in August 2021. Moreover, GSECL is also planning to incur capex in the flue-gas desulfurisation (FGD) system. The solar projects on the government wasteland near GETCO substations are expected to be funded through debt and equity in the ratio of 50:50, and the solar project at Khavda is expected to be funded through debt and equity ratio of 80:20. GETCO has also proposed to incur capex of around ₹9,006 crore from FY23-FY25 to augment its transmission capacity. The four Discoms together have envisaged a total capex of around ₹10,168 crore in from FY23-FY25. 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 ₹3,710 crore in GUVNL during FY22.

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 some extent. However, the GUVNL Group has vast experience in the execution of similar projects and there is demonstrated support from GoG for funding the majority portion of the total capex, which reduces the project risk to an extent.

Liquidity: Strong

GUVNL receives payment from the Discoms and pays it to the power generation companies, including GSECL. The total working capital limit is being 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 any cash flow mismatches in addition to largely unutilised fund-based working capital limits of ₹3,000 crore distributed among GUVNL and its six subsidiaries. During FY22, GUVNL's creditor days declined to 23 days from around 57 days in FY21. Furthermore, GUVNL earned ₹783 crore during FY23 towards rebate for prompt payment from IPPs. Average monthly cash collection has been around ₹5,000 crore in FY22. During the current year (FY23) till January 31, 2022, the average monthly cash collection has been around ₹6,000 crore. Furthermore, on the back of its healthy cash generations and collection efficiency, the GUVNL Group has been able to repay debt of around ₹654 crore during FY22. Demonstrated timely support by GoG in the form of equity infusions, subsidies and grants also aids its liquidity. Furthermore, GUVNL, on a consolidated level, had free cash and bank balance of ₹10,687 crore as on March 31, 2022.

Applicable criteria

[Rating Outlook and Credit Watch](#)

[Policy on Default Recognition](#)

[Policy On Curing Period](#)

[Short Term Instruments](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Consolidation](#)

[Factoring Linkages Government Support](#)

[Power Generation Projects](#)

[Power Distribution Companies](#)
[Power transmission](#)
[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 – Transmission

GETCO commenced business from April 01, 2005, with the objective of carrying out the power transmission activity of the erstwhile GEB as a part of the 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 (w.e.f. April 01, 2005) into seven companies, viz. (GUVNL, the parent entity of GETCO) and its six subsidiaries as follows:

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

GETCO is also engaged in setting-up substations and laying new transmission lines. As on March 31, 2022, the company had 2,246 substations with transmission lines of 70,378 circuit kilometre (ckm) length. GETCO's substation and transmission lines achieved system availability of 99.91% and 99.67%, respectively, during FY22, which was largely stable as compared with that during FY21. Furthermore, it had transmission losses of 3.60% in FY22 as compared with 3.41% in FY21. Equity requirement in all the on-going and proposed projects is being met by GoG by way of equity infusion through GUVNL.

Brief financials of GUVNL (Consolidated) are placed below:

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)
Total operating income	47,919	60,907
PBILDT	5,999	5,140
PAT	1,925	1,712
Overall gearing (times)	0.16	0.09
Interest coverage (times)	5.97	7.99

A: Audited; The above financials have been adjusted as per CARE Ratings' criteria.

Note: The above results are latest financial results available

Brief financials of GETCO are placed below:

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)
Total operating income	4,418	4,623
PBILDT	3,114	3,077
PAT	1,104	971
Overall gearing (times)	0.56	0.31
Interest coverage (times)	7.98	11.92

A: Audited; 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 the 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	-	-	-	-	200.00	CARE AA; Stable
Non-fund-based - LT/ ST-Deferred Payment Guarantees	-	-	-	-	293.00	CARE AA; Stable / CARE A1+
Non-fund-based - ST-BG/LC	-	-	-	-	333.00	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.	Fund-based - LT-Cash Credit	LT	200.00	CARE AA; Stable	-	1)CARE AA; Stable (07-Mar-22)	1)CARE AA-; Stable (17-Mar-21)	1)CARE AA-; Stable (06-Mar-20)
2.	Non-fund-based - ST-BG/LC	ST	333.00	CARE A1+	-	1)CARE A1+ (07-Mar-22)	1)CARE A1+ (17-Mar-21)	1)CARE A1+ (06-Mar-20)
3.	Term Loan-Long Term	LT	-	-	-	1)Withdrawn (07-Mar-22)	1)CARE AA-; Stable (17-Mar-21)	1)CARE AA-; Stable (06-Mar-20)
4.	Non-fund-based - LT/ ST-Deferred Payment Guarantees	LT/ST*	293.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (07-Mar-22)	1)CARE AA-; Stable / CARE A1+ (17-Mar-21)	1)CARE AA-; Stable / CARE A1+ (06-Mar-20)
5.	Fund-based - ST-Bill Discounting/ Bills Purchasing	ST	-	-	-	1)Withdrawn (07-Mar-22)	1)CARE A1+ (17-Mar-21)	1)CARE A1+ (06-Mar-20)

*Long-term/Short-term.

Annexure-3: Detailed explanation of the 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.	Non-fund-based - LT/ ST-Deferred Payment Guarantees	Simple
3.	Non-fund-based - ST-BG/LC	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.

Contact us

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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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