Gujarat Industries Power Company Limited

August 25, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	919.37 (Reduced from 1,003.31)	**CARE AA-; Stable (Double A Minus; Outlook: Stable)**	**Reaffirmed**
Long Term / Short Term (LT/ST) Bank Facilities	421.34 (Enhanced from 412.40)	**CARE AA-; Stable / CARE A1+ (Double A Minus; Outlook: Stable / A One Plus)**	**Reaffirmed**
Short Term Bank Facilities	735.00 (Enhanced from 660.00)	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total Facilities	**2,075.71 (Rs. Two Thousand Seventy-Five Crore and Seventy-One Lakhs Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings of the bank facilities of Gujarat Industries Power Company Limited (GIPCL) continue to derive strength from the established operations of its lignite-based power plants under cost-plus tariff structure. Further, ratings also derive strength from low fuel supply risk due to its captive lignite mines with adequate mineable reserves, strong credit profile of its power off takers and its strong parentage. The ratings further continue to factor GIPCL's established track record of timely completion of power projects, its healthy profitability, low leverage, strong debt protection indicators and sound liquidity.

The long-term rating, however, continues to be constrained by subdued 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 fixed operating charges on account of lower than normative plant availability factor (PAF). The ratings are further constrained by its upcoming capital expenditure plans in the renewable energy segment, susceptibility of its renewable power generation capacity to inherent risk of changes in climatic conditions and inherent regulatory risk associated with the power generation sector.

The ratings also take cognizance of the fact that GIPCL has recently commissioned its 100 MW solar power project in Banaskantha, Gujarat, which has power purchase agreement (PPA) with Gujarat Urja Vikas Nigam Limited (GUVNL, rated CARE AA-; Stable / CARE A1+). With this, GIPCL now has operational capacity of 1,184.40 MW, of which 374.40 MW is renewable capacity. GIPCL has also been awarded land for developing renewable projects of 2,375 MW capacity in Khavda (Kutch), Gujarat, which would have to be developed over a period of five years.

Rating Sensitivities

Positive Factors:

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

Negative Factors:

- Non-achievement of normative PAF on a sustained basis leading to under-recovery of capacity charges
- Any adverse changes in the regulatory framework governing power sector
- Deterioration in credit profile of counterparty with substantial power offtake

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage, cost plus nature of tariff and low counter-party credit risk: The promoters of GIPCL, state public sector undertakings (PSUs) of Gujarat viz. GUVNL, Gujarat Alkalies and Chemicals Ltd (GACL; rated CARE AA+; Stable/ CARE A1+) and Gujarat State Fertilizers & Chemicals Ltd. (GSFC; rated CARE AA+; Stable/ CARE A1+), have a strong financial risk profile. The low counter party credit risk is signified by GIPCL's long-term power purchase agreements (PPA) with GUVNL for purchase of power from its lignite based, gas based, wind power and solar power plants and also with Solar Energy Corporation of India (SECI) for power off-take from its solar power plants. According to the PPAs with GUVNL for the lignite-based plants, GIPCL is eligible to receive actual fixed charges and energy charges along with assured return on equity upon achievement of normative plant parameters. It also has a Memorandum of Understanding (MoU) with GUVNL, GACL, GSFC and GAIL India Limited (GAIL, rated CARE AAA; Stable / CARE A1+) for supply of power generated from its gas-based power plant with a capacity of 145 MW (referred as VS-I) and another PPA with GUVNL for the 165

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

MW gas-based power plant capacity (referred as VS-II), which was renewed in March 2019 for a period five years. GIPCL also has outstanding PPAs with GUVNL for 180 MW solar power capacity and 112.40 MW wind power capacity and with SECI for 80 MW solar capacity. Further, as articulated by the management, the PPAs for the upcoming Khavda project of GIPCL of 2,375 MW are expected to be entered into with central counterparties like SECI, NTPC or GUVNL.

Established operations of its lignite-based power plants: Attaining normative plant parameters is relatively difficult in lignite-based power plant generally as compared to coal-based power plants on account of 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 plant parameters historically.
However, both the lignite plants achieved PAF which was marginally lower than their normative PAF during FY21. While SLPP-II's PLF continued to remain stable at 78% during FY21, SLPP-I's PLF deteriorated significantly due to forced stoppage of Unit-2 (125 MW) of SLPP-I from December 5, 2020 onwards due to sudden cracking and detaching of economizer duct casing and damage to economizer beam. However, after completion of economizer beam replacement and other related works, the plant has been operational and has been synchronised with grid from July 1, 2021 onwards. Operational performance of SLPP-I thus remained subdued during Q1FY22 also. However, PAF for SLPP-II improved during Q1FY22 to 88% and PLF improved to 80.42%.
Station heat rate and auxiliary consumption have remained relatively high as compared to normative levels as per PPA largely on account of ageing of plant and machinery. However, 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: GIPCL has captive lignite mines located at Vastan, Valia and Mangrol (in Gujarat) which have been allocated by Government of Gujarat (GoG) for its lignite-based power plants wherein the mineable reserves are sufficient to cater current capacity during its economic life. As articulated by company's management, extraction of lignite from these mines has been as per normal course even during the Covid-19 situation, which has ensured uninterrupted supply of lignite for its operations. Also, the company's gas arrangements are diversified with allocation of administered price mechanism (APM) gas from various sources along with tie-ups for spot gas.

Healthy operating profitability, low leverage and strong debt protection indicators: GIPCL's TOI for FY21 was impacted due to stoppage of Unit-2 (125 MW) of SLPP-I, which ultimately resulted in loss of profit of Rs.17.25 crore in FY21, albeit the same is expected to be recovered entirely from insurance policy. Further, TOI was also impacted by fall in overall power demand, especially through conventional sources. There was marginal under recovery of fixed cost in SLPP-I due to lower than normative PAF. Despite that, the company's profitability remained stable, marked by PBILDT margin of 35%, 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 gas-based plants continue to operate on need-based basis. 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 lower Gross Calorific Value (GCV) of lignite from its Valia mines (which fulfills majority of GIPCL's lignite requirements). Company's capital structure also remained strong with low leverage marked by overall gearing of 0.17x during FY21 along with strong debt coverage indicators marked by TD/GCA of 1.25x and interest coverage of 11.17x during FY21.
GIPCL's operating performance during Q1FY22 was also impacted due to partial curtailment of plant operations and increase in lignite prices. However, the plant was synchronised with the grid from July 1, 2021 onwards. As articulated by the management, the entire material loss and loss of profit incurred by the company in FY21 and Q1FY22 is covered under Industrial All Risk insurance policy.

Key Rating 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 gas at competitive rates. GIPCL operates its gas-based power plants based on availability of gas under APM. Decline in operating efficiency of gas-based power plants was mainly due to lower off-take of power from VS-II plant by GUVNL since it operates on need-based basis. However, operational performance of VS-I plant has been stable with PLF of 56% during FY21 and 44% during Q1FY21. VS-I plant operates under an MoU with its promoters under cost-plus tariff structure and having assured power off-take.

Susceptibility of its renewable power generation capacity to inherent risk of changes in climatic conditions, albeit currently operating at stable capacity utilization factor (CUF): The operations of wind and solar energy generation projects are susceptible to inherent risk of weather fluctuations (beyond the control of the company) such as changes in wind patterns or changes in solar irradiation levels respectively which can affect their capacity utilization factor (CUF). Also, the renewable energy generation projects are susceptible to seasonal variations. Despite that, the solar and wind projects of GIPCL are operating at current CUF of 23% and 22% respectively.

Large upcoming capital expenditure plans in the renewable energy segment: GIPCL recently commissioned a 100 MW solar capacity on August 10, 2021, taking its total solar capacity to 262 MW. Along with this, GIPCL also has operational wind capacity of 112.40 MW tied up under PPA with GUVNL.
GIPCL has also been awarded land for implementing 2,375 MW solar project in Khavda (Kutch) which is to be developed over the next five years. However, as informed by the management, GIPCL plans to develop only 50% of this capacity, while the balance 50% would be sub-let to other developers. GIPCL currently has operational capacity of 1,184 MW. With completion of this project, GIPCL would double its operational capacity, of which majority would be renewable capacity.
As articulated by the management, the project is to be developed considering project cost of Rs.4 per MW along with par development cost of Rs.700 crore (net-off subsidies), which would be funded in debt-equity ratio of 70:30. Ability of GIPCL to complete this project within envisaged time and cost parameters and subsequently generate envisaged returns will be crucial from the credit perspective.

Regulatory risk and concerns in the power sector: GIPCL's operations are exposed to regulatory and other risks such as delays in finalization of tariff and approval of lower tariff for its lignite based and gas based power plants, delays in land acquisition, lack of tenability of long-term PPAs given renegotiation of PPAs in some states, inherent risk of variation in wind patterns/solar irradiation levels and less track record of technology for its renewable energy projects and subdued demand for power.

Liquidity: ***Strong***
During FY22, GIPCL has scheduled debt repayment of Rs.50 crore against which it has envisaged GCA of around Rs.400 crore. This reflects GIPCL's sound liquidity position marked by healthy cash accruals, negligible utilisation of fund based working capital limits and low average collection period of around 60 days on account of timely realization of payments from GUVNL which is the largest off-taker. Average non-fund-based utilisation of the company for the 12-month period ended June 30, 2021 was 27%. GIPCL also had adequate unencumbered cash & bank balance to the tune of Rs.285 crore as on March 31, 2021.

Analytical Approach: Standalone

Applicable Criteria:
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Short Term Instruments
Rating Methodology – Power Generation Projects
Rating Methodology – Thermal Power Producers
Rating Methodology – Solar Power Producers
Rating Methodology – Wind Power Producers
Financial Ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

About the company
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 August 15, 2021. It was incorporated in 1985 and is promoted by three state government undertakings 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, 262 MW solar power plants located in North Gujarat and 112.40 MW wind power capacities at different locations in Gujarat.

Brief financials:

Particulars (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	1,417	1,361
PBILDT	543	472
PAT	248	183
Overall gearing (times)	0.17	0.17
Interest coverage (times)	10.70	11.17

A: Audited

Based on unaudited published results for Q1FY22, GIPCL reported total operating income (TOI) of Rs.300 crore (Q1FY21: Rs.343 crore) with profit after tax (PAT) of Rs.35 crore (Q1FY21: Rs.59 crore).

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure – 2

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

Annexure-1: Details of Facilities/Instruments

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Term Loan-Long Term	-	-	March 2035	721.22	CARE AA-; Stable
Fund-based - LT-Cash Credit	-	-	-	198.15	CARE AA-; Stable
Fund-based - ST-Bills discounting/ Bills purchasing	-	-	-	735.00	CARE A1+
Non-fund-based - LT/ ST-BG/LC	-	-	-	421.34	CARE AA-; Stable / 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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Term Loan-Long Term	LT	721.22	CARE AA-; Stable	-	1)CARE AA-; Stable (10-Sep-20)	1)CARE AA-; Stable (30-Aug-19)	1)CARE AA-; Stable (05-Oct-18)
2.	Fund-based - LT-Cash Credit	LT	198.15	CARE AA-; Stable	-	1)CARE AA-; Stable (10-Sep-20)	1)CARE AA-; Stable (30-Aug-19)	1)CARE AA-; Stable (05-Oct-18)
3.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	735.00	CARE A1+	-	1)CARE A1+ (10-Sep-20)	1)CARE A1+ (30-Aug-19)	1)CARE A1+ (05-Oct-18)
4.	Non-fund-based - LT/ ST-BG/LC	*LT/ST	421.34	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (10-Sep-20)	1)CARE AA-; Stable / CARE A1+ (30-Aug-19)	1)CARE AA-; Stable / CARE A1+ (05-Oct-18)

**Long-Term / Short-Term*

Annexure – 3: Complexity level of various instruments rated 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-BG/LC	Simple
4.	Term Loan-Long Term	Simple

Annexure-4: Detailed explanation of covenants of the rated facilities: NA

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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