Gujarat Industries Power Company Limited

February 21, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	1318.48 (enhanced from Rs.1015.48 crore)	**CARE AA-; Stable (Double A Minus; Outlook: Stable)**	**Reaffirmed**
Short-term Bank Facilities	532.00 (reduced from Rs.670 crore)	**CARE A1+ (A One Plus)**	**Reaffirmed**
Long-term/ Short-term Bank Facilities	225.26 (reduced from Rs.390.26)	**CARE AA-; Stable/CARE A1+ (Double A Minus; Outlook: Stable / A One Plus)**	**Reaffirmed**
Total Facilities	**2075.74 (Rupees two thousand seventy five crore and seventy four lakh only)**		

Details of instruments/facilities in Annexure - I

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 along with low fuel supply risk due to its captive lignite mines with adequate mineable reserves, strong credit profile of its power off taker, Gujarat Urja Vikas Nigam Ltd (GUVNL; rated CARE AA-; Stable/CARE A1+) and its strong parentage. The ratings further continue to factor GIPCL's healthy profitability, low leverage, strong debt protection indicators and sound liquidity. The ratings also factor successful commissioning of its wind mills with an aggregate capacity of 97.4 MW as on March 31, 2017.

The long-term rating, however, continues to be constrained by uncertainty prevailing over supply of gas at competitive rates along with expiry of power purchase agreement for part capacity of its gas based power plant, inherent regulatory risk and stabilization risk associated with capital expenditure plans in the renewable energy segment.

Generation of envisaged returns from added capacity in renewable energy segment, extent of exposure to its affiliate Bhavnagar Energy Company Ltd (BECL; rated CARE D) which is facing persistent time and cost overrun in the implementation of its lignite-based greenfield power project; and any adverse changes in the regulatory framework governing power sector would be the key rating sensitivities.

Detailed description of key rating drivers

<u>Key Rating Strengths:</u>

Strong parentage, cost plus nature of tariff and low counter-party credit risk: The promoters of GIPCL, state 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 agreement (PPA) with GUVNL for the purchase of entire power from its lignite based power plants. According to PPA, GIPCL is eligible to receive pre-determined per unit capacity and energy charges along with assured return on equity upon achievement of normative parameters. It has a Memorandum of Understanding (MoU) with GUVNL, GACL and GSFC for supply of power being generated by its gas based power plant with a capacity of 145 MW (referred as VS-I). However, PPA for 165 MW gas based power plant capacity (referred as VS-II) signed with GUVNL which expired in July 2016 has not been renewed. GIPCL has also signed firm PPAs with GUVNL for its 5 MW solar power capacity and 112.40 MW wind power capacity for 25 years.

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

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. 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.

Strong operating performance of Surat based lignite power plants (SLPP): Plant Availability Factor (PAF) of its lignite power plants were above normative availability during FY17 and largely during 9MFY18. Tariff for both the lignite based power plants improved marginally during FY17 as compared to FY16. However, cost of fuel consumption increased during FY17 on account of short term disruption in lignite supply necessitating purchase of higher cost lignite from the market.

Healthy operating profitability, low leverage and strong debt protection indicators: PBILDT margin of the company improved from 30.47% during FY16 to 33.86% during FY17 due to partial benefit of added capacity in wind mill segment installed in a phase wise manner till March 31, 2017 and receipt of insurance claim. The PBILDT margin further improved to 38.59% during 9MFY18 as compared to 33.06% during 9MFY17 due to benefit of entire 97.40 MW wind power plant and further improvement in operating efficiency of lignite based power plants.

Furthermore, interest coverage and total debt/GCA strengthened during FY17 mainly on account of rationalization of debt levels due to non-availment of bill discounting facilities for the payments received from GUVNL and funding of renewable capacity expansion mainly through surplus cash.

Successful completion of wind power project: GIPCL has successfully set up wind capacity aggregating 97.4 MW as envisaged at four locations in Gujarat which was mainly funded through internal accruals within the envisaged time and cost parameters as on March 31, 2017. Further during FY17, the company has also been eligible for Generation Based Incentive (GBI) for the capacities installed up to Rs. 1 crore per MW based on Rs.0.5 per kwh generation over and above fixed feed-in tariff according to PPA.

Sound liquidity: GIPCL has sound liquidity as reflected by negligible utilization of working capital limits and improvement in its average collection period from 189 days during FY16 to 150 days in FY17 as the company discontinued availing bill discounting facilities as it has started realizing its payments from GUVNL quickly.

Key Rating Weaknesses:

Decline in operating efficiency of gas based power plants: Though PAF of VS – I wherein off-takers are promoter companies improved marginally from 96.71% during FY16 to 98.15% during FY17, PLF remained moderate at 55.26% during FY17. Furthermore, VS-II was operative for only four months during FY17 due to expiry of PPA with GUVNL in July 31, 2016. Although the gas based plants are debt free, operations of these plants has been affected due to uncertainty prevailing over supply of gas at competitive rates.

Predominantly debt-funded capital expenditure plans in the renewable energy segment: GIPCL has completed commissioning of the 2X40 MW solar power projects in Gujarat solar park under National Solar Mission (NSM) during September 2017 at a cost of Rs.433 crore which has been largely funded through internal accruals and grant. GIPCL plans to avail term loan of Rs. 303 crore for the reimbursement of capital expenditure incurred for solar project. However, debt drawn by the company till December 31, 2017 was Rs.15.67 crore due to its healthy cash accruals. GIPCL has signed PPA with Solar Energy Corporation of India Limited (SECI) for a fixed tariff of Rs.4.43 per unit. The capacity utilisation factor (CUF) achieved by the company stood at around 15–17% since the plant became operational. GIPCL has also planned to add more capacities in the renewable energy segment wherein competition has increased recently. Hence, its ability to generate envisaged returns in renewable energy segment will be crucial from the credit perspective.

Investment in affiliate company, BECL: GIPCL has committed to invest in BECL to the tune of Rs. 220 crore as a strategic investment for 24% stake. GIPCL has also committed to contribute towards subordinate debt financing as well as any cost overrun in BECL's project. As on March 31, 2017, GIPCL's investment in BECL was Rs.206 crore. Although exposure to BECL is expected to remain moderate as compared to GIPCL's networth, extent of exposure to BECL shall be the key rating sensitivity in light of persistent time and cost overrun in the implementation of its 500 MW lignite-based greenfield power project in Bhavnagar.

Regulatory framework and concerns in the power sector

The total installed power generation capacity in India grew by 5.79% to 319GW (PY: 302 GW) with installed capacity of thermal power being 218GW as on March 31, 2017. The growth in installed capacity was driven by renewable energy sources which grew at 10.35% in FY17. The overall PLF of thermal stations in the country contracted by 241bps YoY to 59.88% in FY17 which is attributable to relatively higher capacity addition in FY17 against lower demand growth coupled with lower off-take by DISCOMs due to financial constraints. However, encouraging policy framework in renewable energy (RE) sector has resulted in rising share of installed capacity of RE from 5.9% of total energy capacity as on March 31, 2007 to around 17.5% as on March 31, 2017.

There are concerns like inadequate grid connectivity on account of poor evacuation infrastructure, delays in land acquisition, high wheeling charges and open access charges levied in some states, besides the weak financial risk profile of Discoms and inherent risk of variation in wind patterns. Going forward, key monitorables would be level of competitive intensity, level of degradation of the modules given relatively lesser track record of technology in Indian conditions, tenability of claim of off-takers for renegotiation of PPAs and success of UDAY scheme.

Analytical Approach: Standalone

Applicable Criteria:

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology - Private Power Producers
Rating Methodology - Manufacturing Companies
Financial ratios - Non Financial Sector

About the company

GIPCL is a Vadodara-based listed public limited company engaged in the business of power generation with an installed capacity of 1007.40 MW as on December 31, 2017. It was incorporated in 1985 and promoted by the state government undertakings viz. GUVNL, GACL and GSFC. GIPCL operates two gas-based power plants in Vadodara, VS-I and VS-II aggregating 310MW, two lignite-based power plants in Surat, SLPP-I and SLPP-II aggregating 500MW, 85MW solar power plant in North Gujarat and 112.4MW wind power capacities at different location in Gujarat.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	1387	1345
PBILDT	428	455
PAT	188	252
Overall gearing (times)	0.41	0.19
Interest coverage (times)	6.40	7.20

A: Audited

Based on unaudited published results for 9MFY18, GIPCL reported total operating income (TOI) of Rs.1012 crore (9MFY17: Rs.1005 crore) with profit after tax (PAT) of Rs.175 crore (9MFY17: Rs. 147 crore).

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure - II

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Analyst Contact
Name: Mr Maulesh Desai
Tel: 079-4026 5605
Mobile: +91-85111 90079
Email: maulesh.desai@careratings.com

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Annexure - I: Details of Instruments/Facilities

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 31, 2028	1075.73	CARE AA-; Stable
Fund-based - LT-Cash Credit	-	-	-	242.75	CARE AA-; Stable
Fund-based - ST-Bills discounting/ Bills purchasing	-	-	-	532.00	CARE A1+
Non-fund-based - LT/ ST-BG/LC	-	-	-	225.26	CARE AA-; Stable / CARE A1+

Annexure - II: 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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Term Loan-Long Term	LT	1075.73	CARE AA-; Stable	1)CARE AA-; Stable (03-Nov-17) 2)CARE AA-; Stable (29-Aug-17)	1)CARE AA- (26-Sep-16)	1)CARE AA- (16-Sep-15)	1)CARE A+ (08-Sep-14)
2.	Fund-based - LT-Cash Credit	LT	242.75	CARE AA-; Stable	1)CARE AA-; Stable (03-Nov-17) 2)CARE AA-; Stable (29-Aug-17)	1)CARE AA- (26-Sep-16)	1)CARE AA- (16-Sep-15)	1)CARE A+ (08-Sep-14)
3.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	532.00	CARE A1+	1)CARE A1+ (03-Nov-17) 2)CARE A1+ (29-Aug-17)	1)CARE A1+ (26-Sep-16)	1)CARE A1+ (16-Sep-15)	1)CARE A1+ (08-Sep-14)
4.	Non-fund-based - LT/ ST-BG/LC	LT/ST	225.26	CARE AA-; Stable / CARE A1+	1)CARE AA-; Stable / CARE A1+ (03-Nov-17) 2)CARE AA-; Stable / CARE A1+ (29-Aug-17)	1)CARE AA- / CARE A1+ (26-Sep-16)	1)CARE AA- / CARE A1+ (16-Sep-15)	1)CARE A+ / CARE A1+ (08-Sep-14)
5.	Term Loan-Long Term	LT	-	-	-	-	-	1)Withdrawn (08-Sep-14)

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

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