Gujarat Industries Power Company Limited

August 30, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	1,281.68 (reduced from Rs.1285.45 crore)	**CARE AA-; Stable (Double A Minus; Outlook: Stable)**	Reaffirmed
Long-term/ Short-term Bank Facilities	384.03 (enhanced from Rs.380.26)	**CARE AA-; Stable / CARE A1+ (Double A Minus; Outlook: Stable / A One Plus)**	Reaffirmed
Short-term Bank Facilities	410.00	**CARE A1+ (A One Plus)**	Reaffirmed
Total Facilities	**2,075.71 (Rupees two thousand seventy five crore and seventy one lakh 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 along with low fuel supply risk due to its captive lignite mines with adequate mineable reserves, strong credit profile of its power off takers, Gujarat Urja Vikas Nigam Ltd (GUVNL; rated CARE AA-; Stable/CARE A1+) and Solar Energy Corporation of India (SECI) 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, its 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.

GIPCL's ability to maintain its comfortable leverage and debt coverage indicators, generate envisaged returns from its added capacity in the renewable energy segment, improve the operating performance of its gas-based power plants; and any adverse changes in the regulatory framework governing power sector would be the key rating sensitivities.

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 entire power from its lignite based power plants. According to the PPAs, GIPCL is eligible to receive actual capacity 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 and GSFC for supply of power generated from 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 expired in July 2016. As intimated by the company's management, Gujarat Electricity Regulatory Commission (GERC) has recently approved renewal of the said PPA with GUVNL for a further period of 5 years. GIPCL has also signed firm PPAs with GUVNL for 82 MW solar power capacity and 112.40 MW wind power capacity and with SECI for 80MW solar capacity. Also, it is in the process of signing PPA for on-going capex for 100 MW solar power capacity with GUVNL.

Established operations of its lignite based power plants: Attaining normative plant parameters is relatively difficult in lignite based power plant as compared to coal based power plant on account of challenges involved in handling of lignite which in turn results in disruption in the operations due to higher boiler tube leakages. Nevertheless, GIPCL's healthy operating efficiency is reflected from its ability to achieve normative plant parameters. Plant Availability Factor (PAF) remained above normative levels during FY19 and Q1FY20. Station heat rate and auxiliary consumption have remained relatively high during FY17 - FY19 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

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

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.

Healthy operating profitability, low leverage and strong debt protection indicators: PBILDT margin of the company improved from 35.52% during FY18 to 39.43% during FY19 and further improved to 46.22% during Q1FY20 largely due to increase in contribution from solar power segment. However, PAT margin has reduced from 17.85% during FY18 to 12.42% during FY19 owing to write-off of investment of Rs.218 crore in Bhavnagar Energy Company Ltd (BECL) in FY19 post merger of BECL with Gujarat State Electricity Corporation Ltd (GSECL; rated CARE AA-; Stable / CARE A1+) with effect from April 1, 2018. Debt protection indicators continued to remain strong on account of healthy profitability and low debt levels.

Liquidity analysis: GIPCL has sound liquidity as marked by healthy cash accruals, negligible utilisation of fund based working capital limits and presence of unencumbered cash & bank balance to the tune of Rs.261 crore as on March 31, 2019. Also, its average collection period has improved from 117 days during FY17 to 61 days in FY19 owing to quick realization of payments from GUVNL.

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. Decline in operating efficiency of gas based power plants was mainly due to expiry of PPA of VS II plant with GUVNL in July 31, 2016. However, as articulated by the company's management, GERC has recently approved renewal of the said PPA with GUVNL for a further period of 5 years vide order dated June 3, 2019.

Susceptibility of its renewable power generation capacity to inherent risk of changes in climatic conditions: 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 plant load factor (PLF). Also the renewable energy generation projects are susceptible to seasonal variations.

Capital expenditure plans in the renewable energy segment: GIPCL has completed commissioning of the 75 MW solar power project in Gujarat solar park under the National Solar Mission (NSM) during June 2019 at a cost of Rs.350 crore which has been largely funded through internal accruals. GIPCL has also won the bid invited by GUVNL for setting-up a solar power project of 100MW at Banaskantha, Gujarat. Estimated cost of the said project is around Rs.500 crore which is proposed to be funded through debt equity of 70:30 and the same is expected to be completed by September 2020. 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. Also, the management of the company has articulated that it is looking forward to expand the share of renewable energy, specifically solar energy, in its portfolio by participating in the renewable energy bids invited by GUVNL, SECI and National Thermal Power Corporation Limited (NTPC).

Regulatory risk and concerns in the power sector: GIPCL's operations are exposed to regulatory and other risks such as delays in finalizing 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.

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 1,084.40 MW as on June 30, 2019. 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, 162 MW solar power plants located in North Gujarat and 112.40 MW wind power capacities at different locations in Gujarat.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	1,369	1,420
PBILDT	486	560
PAT	245	176
Overall gearing (times)	0.25	0.23
Interest coverage (times)	8.56	11.13

A: Audited

Based on unaudited published results for Q1FY20, GIPCL reported total operating income (TOI) of Rs.367 crore (Q1FY19: Rs.332 crore) with profit after tax (PAT) of Rs.85 crore (Q1FY19: Rs.58 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

Annexure-1: Details of Facilities

Name of the Bank Facilities	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, 2035	1,048.93	CARE AA-; Stable
Fund-based - LT-Cash Credit	-	-	-	232.75	CARE AA-; Stable
Fund-based - ST-Bills discounting/ Bills purchasing	-	-	-	410.00	CARE A1+
Non-fund-based - LT/ ST-BG/LC	-	-	-	384.03	CARE AA-; Stable / CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Term Loan-Long Term	LT	1,048.93	CARE AA-; Stable	-	1)CARE AA-; Stable (05-Oct-18)	1)CARE AA-; Stable (21-Feb-18) 2)CARE AA-; Stable (03-Nov-17) 3)CARE AA-; Stable (29-Aug-17)	1)CARE AA- (26-Sep-16)
2.	Fund-based - LT-Cash Credit	LT	232.75	CARE AA-; Stable	-	1)CARE AA-; Stable (05-Oct-18)	1)CARE AA-; Stable (21-Feb-18) 2)CARE AA-; Stable (03-Nov-17) 3)CARE AA-; Stable (29-Aug-17)	1)CARE AA- (26-Sep-16)
3.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	410.00	CARE A1+	-	1)CARE A1+ (05-Oct-18)	1)CARE A1+ (21-Feb-18) 2)CARE A1+ (03-Nov-17) 3)CARE A1+ (29-Aug-17)	1)CARE A1+ (26-Sep-16)
4.	Non-fund-based - LT/ ST-BG/LC	LT/ST	384.03	CARE AA-;	-	1)CARE AA-; Stable / CARE	1)CARE AA-; Stable / CARE A1+	1)CARE AA- / CARE A1+

Sr. No.	Name of the Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
				Stable / CARE A1+		A1+ (05-Oct-18)	(21-Feb-18) 2)CARE AA-; Stable / CARE A1+ (03-Nov-17) 3)CARE AA-; Stable / CARE A1+ (29-Aug-17)	(26-Sep-16)

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.*

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