Gujarat Industries Power Company Limited

October 05, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	1285.45 (reduced from Rs.1318.48 crore)	**CARE AA-; Stable (Double A Minus; Outlook: Stable)**	**Reaffirmed**
Short-term Bank Facilities	410.00 (reduced from Rs.532 crore)	**CARE A1+ (A One Plus)**	**Reaffirmed**
Long-term/ Short-term Bank Facilities	380.26 (enhanced from Rs.225.26)	**CARE AA-; Stable/ CARE A1+ (Double A Minus; Outlook: Stable)/ (A One Plus)**	**Reaffirmed**
Total Facilities	**2075.71 (Rupees two thousand seventy five crore and seventy one 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 established track record of timely completion of power projects, its healthy profitability, low leverage, strong debt protection indicators and sound liquidity.

The ratings also factor the planned merger of its affiliate company, Bhavnagar Energy Company Ltd (BECL; rated CARE D) with Gujarat State Energy Company Ltd (GSECL, rated CARE AA-; Stable/ CARE A1+) with effect from April 1, 2018 under the Gujarat Electricity Reform (Transfer of Generation Undertakings) Scheme 2018. Accordingly, GIPCL in the capacity of a shareholder in BECL will be issued one equity share of Rs.10/- by GSECL and in lieu of this all its rights and obligations in BECL shall get extinguished and there will be consequent diminution in the value of GIPCL's investment in BECL.

The above rating strengths, however, continue to be tempered by uncertainty prevailing over supply of gas at competitive rates along with expiry of power purchase agreement for part of its gas-based power generation capacity, susceptibility of its renewable power generation capacity to inherent risk of changes in climatic conditions; and inherent regulatory risk.

GIPCL's ability to maintain its comfortable leverage and debt coverage indicators, generate envisaged returns from its added capacity in 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

<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 the 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 also 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 expired in July 2016 and has not been renewed on account of its high generation cost. GIPCL has also signed firm PPAs with GUVNL for its 5 MW solar power capacity, 112.40 MW wind power capacity and ongoing capex for 75 MW solar capacities. It has also signed PPA with Solar Energy Corporation of India Limited (SECI) for its completed capex of 80MW solar capacities.

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

Established operations of its lignite based power plants: Attaining normative 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 parameters in the past. Plant Availability Factor (PAF) though declined during FY18, GIPCL could attain normative PAF. Station heat rate and fuel consumption was relatively higher during FY17 and FY18 on account of partial use of coal in place of lignite. However, benefit of captive lignite mines and healthy operating efficiency led to competitive tariff of both the plants which ensures revenue visibility 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. 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 33.86% during FY17 to 35.52% during FY18 due to benefit of added capacity of 112.40 MW in wind power and 80MW in solar power segment. GIPCL reported healthy PLF of 26% in wind energy segment and also received generation based incentive (GBI) on its added capacity in wind energy. The PBILDT margin further improved to 38.74% during Q1FY19. Debt protection indicators continued to remain strong on account of healthy profitability and low debt levels.

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 90 days in FY18 as the company discontinued availing bill discounting facilities as it has started realizing its payments from GUVNL quickly.

Extinguishment of rights and obligations as one of the promoters in Bhavnagar Energy Company Limited (BECL); albeit necessitating significant write-off of its investment: The Energy and Petrochemicals Department, Government of Gujarat (GoG) has issued a notification for effecting the merger of BECL with GSECL, a wholly owned subsidiary of GUVNL with effect from April 1, 2018 (date of merger) under the Gujarat Electricity Reform (Transfer of Generation Undertakings) Scheme 2018. In consideration of the merger, GSECL shall issue one equity share to each shareholder of BECL against the total number of equity shares of BECL held by each such shareholder, in respect of transfer of undertaking of BECL and extinguishment of their rights as shareholder of BECL. Accordingly, GIPCL is entitled to one equity share of GSECL as one of the promoter of BECL and all rights attached thereto by virtue of shareholding in BECL shall be extinguished. As on March 31, 2018, GIPCL had investment in BECL to the tune of Rs.218.08 crore. The merger will result in write off of the investments and consequent decline in the net worth of GIPCL to the tune of Rs.218.08 crore. However, simultaneously the contingent liabilities of GIPCL towards sponsor support undertakings and meeting cost overrun in BECL's project is also expected to be extinguished.

<u>Key Rating Weaknesses:</u>
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 which has not been renewed subsequently.

Susceptibility of its renewable power generation capacity to inherent risk of changes in climatic conditions: The operations of wind and solar renewable energy generation projects are susceptible to inherent risk of weather fluctuations (beyond the control of the company) such as changes in wind pattern or changes in solar irradiation levels respectively which can affect their PLF. Also the renewable energy generations are susceptible to seasonal variations.

Capital expenditure plans in the renewable energy segment: GIPCL has completed commissioning of the 2X40 MW solar power project in Gujarat solar park under the 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 has also won the bid for setting-up a solar power project of 75MW to be completed at a cost of Rs.366 crore which will be funded through debt equity of 2:1 and the same is expected to be completed by March 2019. Hence, its ability to complete this project within envisaged time and cost parameters and subsequently generate envisaged returns in renewable energy segment will be crucial from the credit perspective.

Regulatory risk and concerns in the power sector
There are concerns in the power sector like inadequate grid connectivity on account of poor evacuation infrastructure, delays in finalizing tariff, delays in land acquisition, high wheeling charges and open access charges levied in some states,

besides the weak financial risk profile of many State Discoms apart from inherent risk of variation in wind patterns/solar irradiation levels. Going forward, key monitorables would be level of competitive intensity, level of degradation of the solar modules given relatively lesser track record of technology in Indian conditions and tenability of claim of off-takers for renegotiation of PPAs.

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 operational installed capacity of 1007.40 MW as on March 31, 2018. It was incorporated in 1985 and is 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)	FY17 (A)	FY18 (A)
Total operating income	1345	1369
PBILDT	455	486
PAT	229	245
Overall gearing (times)	0.19	0.25
Interest coverage (times)	7.20	8.56

A: Audited

Based on unaudited published results for Q1FY19, GIPCL reported total operating income (TOI) of Rs.332 crore (Q1FY18: Rs.322 crore) with profit after tax (PAT) of Rs.58 crore (Q1FY18: Rs. 63 crore).

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History (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.*

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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	-	-	June 30, 2028	1027.70	CARE AA-; Stable
Fund-based - LT-Cash Credit	-	-	-	257.75	CARE AA-; Stable
Fund-based - ST-Bills discounting/ Bills purchasing	-	-	-	410.00	CARE A1+
Non-fund-based - LT/ ST-BG/LC	-	-	-	380.26	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Term Loan-Long Term	LT	1027.70	CARE AA-; Stable	-	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)	1)CARE AA- (16-Sep-15)
2.	Fund-based - LT-Cash Credit	LT	257.75	CARE AA-; Stable	-	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)	1)CARE AA- (16-Sep-15)
3.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	410.00	CARE A1+	-	1)CARE A1+ (21-Feb-18) 2)CARE A1+ (03-Nov-17) 3)CARE A1+ (29-Aug-17)	1)CARE A1+ (26-Sep-16)	1)CARE A1+ (16-Sep-15)
4.	Non-fund-based - LT/ ST-BG/LC	LT/ST	380.26	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (21-Feb-18) 2)CARE AA-; Stable / CARE A1+ (03-Nov-17) 3)CARE AA-; Stable / CARE A1+ (29-Aug-17)	1)CARE AA- / CARE A1+ (26-Sep-16)	1)CARE AA- / CARE A1+ (16-Sep-15)

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CIN - L67190MH1993PLC071691