Gujarat Industries Power Company Limited

September 10, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	1,003.31 (Reduced from 1,281.68)	**CARE AA-; Stable (Double A Minus; Outlook: Stable)**	**Reaffirmed**
Long Term / Short Term Bank Facilities	412.40 (Enhanced from 384.03)	**CARE AA-; Stable / CARE A1+ (Double A Minus ; Outlook: Stable / A One Plus)**	**Reaffirmed**
Short Term Bank Facilities	660.00 (Enhanced from 410.00)	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total Facilities	**2,075.71 (Rs. 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 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, risk associated with under recovery of fixed operating charges on account of lower than normative plant availability factor (PAF), 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.

The ratings also take cognizance of the fact that that GIPCL's operations were not materially impacted during the lockdown period due to the outbreak of Covid-19 pandemic. GIPCL has total generating capacity of 1,084.40 MW, of which renewable capacity of 274.40 MW (both wind and solar) was under mandatory off-take. Further, off-take from GIPCL's lignite based plants was also regular due to their lower variable cost, thereby resulting in higher ranking in the merit order. Also, the lignite based power plants of GIPCL operate under the cost plus tariff structure as per their PPAs. Further, Gujarat Urja Vikas Nigam Limited (GUVNL, rated CARE AA-; Stable / CARE A1+) is the largest counterparty of GIPCL (as well as one of the promoters) and has a track record of making payment to GIPCL within 30 days. Furthermore, on the back of strong liquidity available with GIPCL in the form of free cash and unutilized fund based facilities, GIPCL had not availed the moratorium granted by its lenders.

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

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

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

from its gas based power plant with a capacity of 145 MW (referred as VS-I) and another PPA with GUVNL for the 165 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 80 MW solar power capacity and 112.40 MW wind power capacity and with SECI for 80MW solar capacity. Also, GIPCL has executed a PPA with GUVNL for its on-going capex for 100 MW solar power project at Banaskantha, Gujarat.

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, during FY20 (refers to period April 1 to March 31), while SLPP-II achieved normative PAF of 80%, actual PAF for SLPP – I was 73.55%, which was marginally lower than the normative PAF of 75%. This was on account of the plant being shut temporarily on account of water logging due to excessive rain, coupled with capital overhauling as well as reduction in the overall power demand towards the end of FY20. This resulted in marginal under recovery of fixed charges in SLPP-I during FY20. However, PAF for both the plants improved during Q1FY21 to 76% and 82% respectively for SLPP-I and SLPP-II. Also, both the lignite plants of GIPCL rank amongst the top 35% as per the current merit order. Station heat rate and auxiliary consumption have remained relatively high as compared to normative levels as per PPA during FY17 – FY20 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 total operating income remained stable at Rs.1,417 crore during FY20 which was due to decline in the overall power demand and low PLF levels as compared to FY19, which led to lower off-take from thermal sources. However, this was compensated by mandatory off-take from renewable sources during the lockdown period having higher operating margins as compared to thermal sources. PBILDT and PAT margins of the company thus remained stable at 38.31% and 17.51% respectively during FY20 and 39.33% and 17.74% respectively during Q1FY21. Further, 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) and also due to under recovery of fixed charges due to lower than normative PAF. Company's capital structure also remained strong with low leverage marked by overall gearing of 0.17x during FY20 along with strong debt coverage indicators marked by Total Debt/GCA of 1.02x and interest coverage of 10.70x during FY20.

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. The VS-II plant was partially non-operational during FY20 due to expiry of PPA with GUVNL, which was later renewed for a further period of 5 years from March 2019 vide GERC's order dated June 3, 2019. However, operational performance of VS-I plant has been stable with PLF of 53% during FY20 and 59% during Q1FY21. VS-I plant operates under a 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 25% and 23% respectively.

Capital expenditure plans in the renewable energy segment: GIPCL commissioned its 75 MW solar power project in Gujarat solar park under the National Solar Mission (NSM) during FY20, thereby taking its total solar capacity to 162 MW. GIPCL is also setting-up another solar power project of 100 MW 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. The same was earlier scheduled to be completed by December 2020. However, as informed by the management, due to slowdown in construction due to COVID-19 outbreak, the same is now expected to be commissioned by February 2021. GIPCL has been granted extension of time by GUVNL till March 2021. 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 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***

GIPCL has sound liquidity as marked by healthy cash accruals, negligible utilisation of fund based working capital limits and low average collection period of 53 days in FY20 on account of quick realization of payments from GUVNL. As informed by the management, GIPCL also has adequate unencumbered cash & bank balance to the tune of Rs.380 crore as on August 31, 2020.

Impact of outbreak of COVID-19 pandemic: GIPCL's operations were not materially impacted during the lockdown period due to the Covid-19 outbreak. GIPCL has total generating capacity of 1,084.40 MW, of which renewable capacity of 274.40 MW (both wind and solar) was under mandatory off-take. Further, off-take from GIPCL's lignite based plants was also regular due to their lower variable cost. As per the current Merit Order, both the lignite plants rank amongst the top 35%. Also, the lignite based power plants of GIPCL have a cost plus tariff structure as per their PPAs, thereby ensuring recovery of fixed charges.

Also, GUVNL is the largest counterparty of GIPCL (as well as one of the promoters) having tied up capacity of nearly 850 MW, both solar and thermal. Although GUVNL procures power with a credit period of 30-60 days, GUVNL has a track record of making payment to GIPCL within 30 days. Furthermore, on the back of sufficient free cash balance and unutilised fund based limits, GIPCL had not availed the moratorium granted by its lenders.

Analytical Approach: Standalone

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
CARE's Policy on Curing Period
Short Term Instruments
Rating Methodology – Private Power Producers
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 1,084.40 MW as on June 30, 2020. 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)	FY19 (A)	FY20 (A)
Total operating income	1,420	1,417
PBILDT	560	543
PAT	176	248
Overall gearing (times)	0.23	0.17
Interest coverage (times)	11.13	10.70

A: Audited

Based on unaudited published results for Q1FY21, GIPCL reported total operating income (TOI) of Rs.343 crore (Q1FY20: Rs.367 crore) with profit after tax (PAT) of Rs.61 crore (Q1FY20: Rs.85 crore).

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History (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	770.56	CARE AA-; Stable
Fund-based - LT-Cash Credit	-	-	-	232.75	CARE AA-; Stable
Fund-based - ST-Bills discounting/ Bills purchasing	-	-	-	660.00	CARE A1+
Non-fund-based - LT/ ST-BG/LC	-	-	-	412.40	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Term Loan-Long Term	LT	770.56	CARE AA-; Stable	-	1)CARE AA-; Stable (30-Aug-19)	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)
2.	Fund-based - LT-Cash Credit	LT	232.75	CARE AA-; Stable	-	1)CARE AA-; Stable (30-Aug-19)	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)
3.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	660.00	CARE A1+	-	1)CARE A1+ (30-Aug-19)	1)CARE A1+ (05-Oct-18)	1)CARE A1+ (21-Feb-18) 2)CARE A1+ (03-Nov-17) 3)CARE A1+ (29-Aug-17)
4.	Non-fund-based - LT/ ST-BG/LC	LT/ST	412.40	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (30-Aug-19)	1)CARE AA-; Stable / CARE A1+ (05-Oct-18)	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)

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

Sr. No.	Name of the Bank Facilities	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

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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