Rating Rationale

Gujarat Energy Transmission Corporation Ltd

15 Dec 2020

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of Rs. 2458.13 Crs of Gujarat Energy Transmission Corporation Ltd.

Particulars:

Facilities**	Amount (Rs.Crs)		Tenure	Rating*	
	Previous	Present		Previous (Mar 2018)	Present Rating
Fund Based – Term Loan	1805.76	1102.13	Long Term	BWR AA+ (Stable)	BWR AA+ (Stable) Reaffirmed
Fund Based – Cash Credit	200.00	200.00			
Fund Based – Bills Discounting	500.00	500.00	Short Term	BWR A1+	BWR A1+ Reaffirmed
Non-Fund Based - DPG	323.00	323.00	Long Term	BWR AA+ (Stable)	BWR AA+ (Stable) Reaffirmed
Non-Fund Based – LC + BG	333.00	333.00	Short Term	BWR A1+	BWR A1+ Reaffirmed
Total	3161.76	2458.13	INR Two Thousand Four Hundred Fifty Eight Crores and Thirteen Lacs Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
** Details of Bank Loan Facilities is provided in Annexure-I

Rating Action : Reaffirmed

Rationale/Description of Key Rating Drivers/Rating sensitivities:

The rating continues to derive strenght from its strong parentage support of GUVNL, being wholly owned by Government of Gujarat (GoG). The rating continues to factor the strong financial risk profile of the parent company along with all its subsidiaries with reduced debt at consolidated levels on account of the prepayment of the debt in its generation subsidiary i.e. Gujarat State Electricity Corporation Ltd (GSECL) leading to improved leverage levels and continuously improving debt coverage metrics. The rating further takes into account proactive regulatory framework in Gujarat state, with regular revision in tariffs along with pass through Fuel Price and Power Purchase Price Adjustments (FPPPA) mechanism under Multi-year Tariff regulation by GERC .Further the rating derives comfort from the continued improvement in the operational parameters of all the four power distribution companies, continuous reduction in transmission losses of its transmission company and the strong liquidity position, which is centrally managed by GUVNL for the working capital requirements of its six subsidiaries.

The rating is however constrained by its high dependence on the Government of Gujarat towards timely receipt of subsidy especially FPPPA subsidy of Agricultural consumers, modest operational performance of its Generation Subsidiary, risk associated with financing and timely implementation of sizeable capex plans in its generation subsidiary. The rating is also constrained by the risk associated with liability towards cancellation of PPA with Adani Power Mundra Ltd which is presently under litigation.

The rating also takes note of the impact of Coronavirus pandemic on the financial performance of GUVNL and all its subsidiaries in FY21. The loss of the revenue is expected to be there from the industrial and commercial consumers during the lockdown period, however there has been an recovery in the demand for the energy post lockdown, hence BWR does not expect any significant impact of Covid-19 pandemic on the overall financial health of the entity.

Key Rating Drivers

Credit Strengths:

Strong Parentage support:
GETCO, being wholly owned subsidiary of GUVNL which in turn is wholly owned by Government of Gujarat (GoG), derives need based support from the Govt of Gujarat by the way of regular infusion of Equity and Grants. During FY20, GoG has infused the equity of Rs.3285.93 crs.

Strengthening of Transmission Network :
The existing transmission network is strengthened every year by establishing new substations, energizing new transmission lines and upgrading the existing system to meet the capacity additions in generation to meet the demand. GETCO has continuously expanded its transmission network and during FY20 it has energized ~1966 Circuit Kilometers (CkT) of transmission lines taking the total transmission network to ~65608 Circuit Kilometer (CkT) of EHV lines under different voltage grades from 33/66KV to 400KV with total installed transmission capacity of about 133889 Mega Volt Ampere (MVA). During FY20, It has added 55 Substations and the total no. of substations stands at 2024 of various voltages of power. (33/66 kv to 400 kv).

Strong Financial Performance of the Group and GETCO:
GETCO has a strong financial risk profile and revenue from the Transmission services have improved by ~19% in FY20 as compared to FY19. Operating Profit Margins have remained healthy and have improved in FY20 mainly due to higher revenue from transmission charges and better realization from SDLC fees and parallel operation charges. PAT has increased significantly in FY20 to Rs. 749.13 crs from Rs.354.94 crs on account of the improvement in the EBITDA driven by increase in the revenue coupled with the decrease in interest cost. The total debt in the GETCO has reduced in FY20 improving the overall leverage levels. Total Debt to Equity ratio at the standalone level has improved from 1.37x in FY19 to 1.00x in FY20. Debt coverage indicators on the standalone basis remained healthy with ISCR at 6.04x and DSCR at 1.42x in FY20.
GUVNL's operating and financial performance on a consolidated basis have improved in FY20 as compared to FY19. On a consolidated basis, its total Operating income arising from the Revenue from the Sale of Power has grown by ~6% in FY20 as compared to FY19 on account of the increase in the demand for energy in the state. Profitability Margins have remained volatile in the range of ~9% to 12% in the last 3 years on account of volatility in the cost of average power purchase cost and average sales realization per unit even though profitability margins have improved in FY20 as compared to FY19.. Overall debt at

the consolidated level has reduced in FY20 on account of the prepayment of the debt in its generation subsidiary leading to overall lower leverage levels. Total Debt to Equity ratio at the consolidated level has improved from 0.65x in FY19 to 0.36x in FY20. Debt coverage metrics indicated by ISCR and DSCR have improved in FY20 on account of the significant reduction in interest cost upon prepayment of the debt. ISCR and DSCR remained healthy at 4.36x and 1.64x as on 31st March 2020.

Improvement in Operational Performance:
GUVNL's operational performance has improved over the years. Its transmission company (GETCO) has reduced its transmission losses to 3.68% in FY20 from 3.92% in FY18. The operational performance of all the four distribution companies have improved. Dakshin Gujarat Vij Company Ltd's (DGVCL) performance remains strong as it has the lowest AT&C losses among all the four discoms. DGVCL's AT&C losses have reduced from 5.89% in FY19 to 4.86% in FY20. AT&C losses of Uttar Gujarat Vij Company Ltd (UGVCL) and Madhya Gujarat Vij Company Ltd (MGVCL) have reduced to 6.33% and 9.38% respectively in FY20 from 8.97% and 10.63% respectively in FY18.. However, for Paschim Gujarat Vij Company Ltd (PGVCL) AT&C losses remain highest among all the four discoms at 18.64% in FY20 even though they have reduced from earlier levels. Overall Transmission & Distribution Losses of all the four discoms have reduced significantly to 14.77% in FY20 from 18.29% in FY19 on account of the favorable monsoon season during the year.

Supportive Regulatory Environment:
The company is benefited from the favorable regulatory provisions with timely issuance of tariff orders, regular revision in tariffs along with pass through Fuel Price and Power Purchase Price Adjustments (FPPPA) mechanism under Multi-year Tariff regulation by GERC. In April 2020, GERC issued the MYT order including the projected tariff levels which will be allowed for FY21, providing clear revenue visibility for the coming years.

Long Term PPA & FSA:
GUVNL has a long term PPA with Central and State power producers to fund its power purchase requirements. Majority of the power is purchased (in terms of units) from the Central Sector (27%) and IPPs (27%), followed by GSECL (20%) and others (including state utilities and windmills). In terms of distribution of power, PGVCL constitutes majority of the power consumption of 28,117 MU (~35% of the total requirement of 80,558 MU), followed by UGVCL (~29%), DGVCL (~24%) and MGVCL (~12%). GUVNL, also sources power from renewable sources and power exchanges. Further in FY20, the share of power purchase from renewables sources has increased as compared to FY19 and the corresponding share of the power purchase from exchanges has reduced in FY20, thus improving the overall power purchase mix in its efforts to lower the overall cost of power procurement.

Credit Risks:

Timely implementation of on-going capital expenditure:
At present, GUVNL is implementing majority of its Capital expenditure in GETCO and GSECL towards upgradation of transmission assets and generation assets. In FY20, capex amounting to ~Rs.7800 crs was incurred, of which around Rs~4000 crs was incurred in GSECL and GETCO combined. Further capex of

~Rs.12500 crs is proposed to be incurred from FY21 onwards till FY23 for adding new renewable capacities and upgradation of existing generation plants which is proposed to be funded by a mix of Govt grants, debt and equity. Hence timely implementation of ongoing planned projects without any time and cost overrun which may result in increase in the debt levels shall remain a key monitorable.

Dependence on Govt for subsidy:
GoG continues to support the operations of GUVNL. The dependence on the subsidy remains high, during FY20 GUVNL has received the subsidy of Rs.7850 Crs from Govt of Gujarat However, the outstanding Subsidy Receivables from GoG stands at Rs.2078.42 Crs as on FY20, which has reduced from Rs.3245.89 Crs as on FY19.

Modest operational performance of its Generation company:
GSECL's gross power generation declined by around ~17% to 20,130 MU units in FY20 as compared to 24,498 MU in FY19. All the operational parameters like Plant Availability Factor (PAF), Plant Load Factor (PLF) , Auxiliary Consumption rate have remained lower in FY20 as compared to FY19. Average PLFs have reduced from ~50.69% in FY19 to ~36.97% in FY20.

Risk Associated with Uncertainty in Liability towards Cancellation of PPA
GUVNL has been involved in a long standing dispute with Adani Power Mundra Ltd with respect to its 1000 MW of PPA. The siad PPA was entered into on a condition that GMDC (Gujarat Mineral Development Corporation) will provide domestic coal to Adani Power Mundra Ltd for generation of power. When GMDC could not provide the coal, Adani Power Mundra Ltd served termination notice as the tariff under the PPA was not viable in the absence of domestic coal. The notice was challenged by GUVNL and the matter has been under litigation since 2010. Adani Power Mundra Ltd was however supplying power to GUVNL as per the agreed tariff in the PPA. In June 2019, Supreme court ruled in favour of Adani Power Mundra Ltd and said that the termination of PPA is valid with effect from 4th Jan 2010. The Supreme Court also allowed one time compensation to Adani Power Mundra Ltd for all the additional costs borne under the PPA since inception. GUVNL could face a significant liability towards compensatory tariff for past periods, however the exact amount of the liability is yet to be determined. Even though GUVNL has created provisions for the same, the impact of the amount of the liability on its cash flows will remain a key monitorable. .

Impact of Covid-19 Pandemic on Cash Collection
The Covid-19 pandemic induced lockdown has impacted cash collections in the month of April and May as the demand for the energy was lower from high tariff paying industrial and commercial consumers which remained shut. There has been a recovery in the demand for energy post lockdown and average cash realization per month for the last 5 months (Post Lockdown period) was higher at around ~4300 crs as compared to average cash realization of the last 7 months which stood at ~3500 crs approx. BWR believes that revenue and profitability would be impacted to some extent in FY21, however the impact would not be significant. BWR will continue to monitor the prolonged impact of Covid-19 pandemic on the overall financial health of the entity.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

GETCO is the power transmission company of GUVNL, and the rating has factored GUVNL's ownership in the company, and the benefit arising out of the organization structure by which GUVNL co-ordinates the business of all its subsidiaries, involved in different aspects of power, like generation, transmission and distribution. In assigning a rating for the company, BWR has considered a Group approach and has taken a consolidated view of GUVNL and its six subsidiaries, and has also factored the 100% ownership of Govt of Gujarat in GUVNL and support from GoG in the form of Equity infusion, grants and subsidy.

RATING SENSITIVITIES

Positive: The rating may be upgraded if there is significant improvement in the credit profile of Govt of Gujarat, if there is significant improvement in the overall financial risk profile of GUVNL and significant improvement in the overall AT&C and T&D losses.

Negative: The rating may be downgraded if there is deterioration in the credit risk profile of Govt of Gujarat, if there is significant deterioration in the overall financial risk profile of the GUVNL , if there is significant debt addition leading to overall increased leverage levels above 1.0x and thereby having a substantial impact on the debt coverage indicators, if there is any adverse impact on the cash flows or profitability of GUVNL on account of the determination of the significant liability towards cancellation of PPA with Adani Power Mundra Ltd.

LIQUIDITY INDICATORS:- STRONG

GUVNL's liquidity position on the consolidated basis remained strong characterized by healthy cash accruals expected to remain in the range of ~Rs.4000 crs to ~Rs.5000 crs against the expected debt repayment of ~Rs.2000 crs in FY21 .Further GUVNL has ~Rs.3000 crs of working capital limits at the consolidated level which remains largely unutilized The liquidity is further supported by the demonstrated support from Govt of Gujarat in the form of equity infusion, subsidies and grants in timely manner. Further GUVNL has also demonstrated its financial flexibility through debt raising/refinancing from State Government Financial institutions like Gujarat State Financial Services Ltd (GSFC). In case of GETCO, the liquidity continues to remain strong with healthy cash accruals of Rs.~1800 crs along with the existing working capital limit of Rs.200 crs which largely remains unutilized as against the debt obligations of Rs.~1200 crs approx in FY21.

COMPANY PROFILE

GETCO: Gujarat Energy Transmission Corporation Ltd. (GETCO), is an electrical power Transmission Company in the state of Gujarat. The Company was promoted by erstwhile Gujarat Electricity Board (GEB) as its wholly owned subsidiary in the context of liberalization and as a part of efforts towards restructuring of the power sector. Since restructuring in 2005 of erstwhile Gujarat Electricity Board (GEB) in 2005 into seven companies, viz. Gujarat Urja Vikas Nigam Ltd. (GUVNL) and six Subsidiaries, GETCO became a Subsidiary of GUVNL, the successor company to GEB. Operations of GETCO mainly include transmission of power from power producers to Distribution Companies within the state of Gujarat through its transmission lines infrastructure

GUVNL: Gujarat Urja Vikas Nigam Ltd. (GUVNL) is an electrical services umbrella company in the state of Gujarat. Gujarat Electricity Board (GEB) was established in 1960 to generate, purchase, transmit and distribute electric power in the state of Gujarat. Consequent to the Electricity Act, 2003 and Gujarat Electricity Industry (Reorganization and Regulation) Act, 2003, the erstwhile GEB was reorganized

(w.e.f. April 1, 2005) into seven companies, viz. Gujarat Urja Vikas Nigam Limited (GUVNL), the Holding Company and six subsidiaries of GUVNL, which includes one Generation company, one Transmission and four Discoms as mentioned below.

Gujarat Urja Vikas Nigam Limited (GUVNL), Holding Company and its Six subsidiaries:

1. Gujarat State Electricity Corporation Limited (GSECL) - **Generation Company**
2. Gujarat Energy Transmission Corporation Limited (GETCO) - **Transmission Company**
3. Dakshin Gujarat Vij Company Limited (DGVCL) - **Distribution Company**
4. Madhya Gujarat Vij Company Limited (MGVCL) -**Distribution Company**
5. Paschim Gujarat Vij Company Limited (PGVCL) - **Distribution Company**
6. Uttar Gujarat Vij Company Limited (UGVCL) -**Distribution Company**

Operations of GUVNL mainly include purchase of power from power producers like Gujarat State Electricity Corporation Ltd. (GSECL), Central sector and other IPPs in the State, and sale of power to Distribution Companies (Discoms) and power distribution licensees in Gujarat by using transmission lines of Gujarat Energy Transmission Corporation Ltd. (GETCO). In addition, the Company is responsible for overall coordination & supervision of the activities of its Subsidiary Companies which also includes working capital management and managing the overall loan portfolio on behalf of its Subsidiaries.

Ownership & Management Profile:

GETCO is the wholly owned Subsidiary of GUVNL which in turn is wholly owned by Government of Gujarat (GoG).

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KEY FINANCIAL INDICATORS

Gujarat Energy Transmission Corporation Ltd - Standalone Financial Results

Key Parameters	Units	2019	2020
Result Type		**Audited**	**Audited**
Revenue from Transmission Services	Rs in Crs	3055.81	3694.88
Total Operating Income	Rs in Crs	3181.07	3883.26
PAT	Rs in Crs	354.94	749.12
Tangible Net worth	Rs in Crs	6007.35	7028.94
Total Debt/Tangible Net worth	Times	1.37	1.00
ISCR	Times	3.21	6.04

KEY FINANCIAL INDICATORS-
Gujarat Urja Vikas Nigam Ltd (GUVNL) - Consolidated Financial Results

Key Parameters	Units	2019	2020
Result Type		**Audited**	**Audited**
Revenue from Sale of Power	Rs in Crs	46291.39	48734.31
Total Operating Income	Rs in Crs	49719.35	52634.62
PAT	Rs in Crs	996.47	1559.14
Tangible Net worth	Rs in Crs	26616.48	31167.59
Total Debt/Tangible Net worth	Times	0.65	0.36
ISCR	Times	2.93	4.36

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED : The terms of sanction normally includes standard covenants stipulated for bank loan facilities.

NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY IF ANY : Nil

Rating History for the last three years (Rating assigned and Press Release Date) along with Outlook/ watch/ withdrawn/suspended ratings if applicable

S. N	Instrument /Facility	Current Rating			Rating History		
		Type	Amount (₹ Crs)	Rating	23 July 2019	31 Mar 2018	30 Aug 2016
1	Fund Based – Cash Credit & Term Loan	Long Term	1302.13	BWR AA+ Stable Reaffirmed	BWR AA+ (Stable) Reaffirmed	BWR AA+ Stable Reaffirmed	BWR AA+ (Stable)
2	Fund Based – Bill Discounting	Short Term	500.00	BWR A1+ Reaffirmed	BWR A1+ Reaffirmed	BWR A1+ Reaffirmed	BWR A1+
3	Non-Fund Based Deferred Payment Guarantee	Long Term	323.00	BWR AA+ (Stable) Reaffirmed	BWR AA+ (Stable) Reaffirmed	BWR AA+ (Stable) Reaffirmed	BWR AA+ (Stable)
4	Non-FundBased LC+BG	Short Term	333.00	BWR A1+ Reaffirmed	BWR A1+ Reaffirmed	BWR A1+ Reaffirmed	BWR A1+
	Total		2458.13	INR Two Thousand Four Hundred Fifty Eight Crores and Thirteen Lacs Only			

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- General Criteria
- Approach to Financial Ratios
- Infrastructure Sector
- Short Term Debt

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Gujarat Energy Transmission Corporation Ltd

ANNEXURE I

Details of Bank Loan Facilities rated by BWR

Figure In Rs. Crs.

Sr No.	Name of Bank/Lender	Fund Based			Non-Fund Based			Total
		Cash Credit	Term Loan	Bills Discounting	Letter of Credit	Bank Guarantee	DPG	
1	UCO Bank- (Lead Lender)	11.00			51.00	25.00		87.00
2	State Bank of India	75.00	1102.13		67.00		15.00	1259.13
3	Bank of Baroda	8.00				40.00	75.00	123.00
4	Dena Bank (Now merged into Bank of Baroda)	54.00			100.00	50.00		204.00
5	Central Bank of India	3.00					25.00	28.00
6	Bank of India	3.00	0.00				15.00	18.00
7	Syndicate Bank (Now merged into Canara Bank)	4.00					15.00	19.00
8	Canara Bank	10.00					20.00	30.00
9	Allahabad Bank (Now merged into Indian Bank)	7.00					35.00	42.00
10	Indian Overseas Bank	5.00					60.00	65.00
11	Indian Bank	6.00						6.00
12	Vijaya Bank (Now merged	6.00					30.00	36.00

	into Bank of Baroda)							
13	Union Bank of India	2.00					18.00	20.00
14	Karur Vysya Bank	6.00					15.00	21.00
15	Proposed - Unallocated			500.00				500.00
	Total	**200.00**	**1102.13**	**500.00**	**218.00**	**115.00**	**323.00**	**2458.13**

ANNEXURE II

List of Entities Considered for Consolidation.

Sr No.	Name of Company	Relationship with GUVNL	% Holding by GUVNL
1.	**Gujarat State Electricity Corporation Ltd**	**Subsidiary**	**100.00%**
2.	**Gujarat Energy Transmission Corporation Ltd**	**Subsidiary**	**100.00%**
3.	**Madhya Gujarat Vij Company Ltd**	**Subsidiary**	**100.00%**
4.	**Uttar Gujarat Vij Company Ltd**	**Subsidiary**	**100.00%**
5.	**Dakshin Gujarat Vij Company Ltd**	**Subsidiary**	**100.00%**
6.	**Paschim Gujarat Vij Company Ltd**	**Subsidiary**	**100.00%**

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