

## Rating Rationale

### Gujarat State Electricity Corporation Ltd. (GSECL)

23 Jul 2019

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of Rs.13564.25 Crs (enhanced from Rs.11699.06 Crs) of Gujarat State Electricity Corporation Ltd. (GSECL or “the company”).

#### Particulars:

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (Mar 2018)	Present Rating
Fund based – Term Loan	7770.91	10636.10	Long Term	BWR AA+ (BWR Double A Plus) (Outlook: Stable)	BWR AA+ (BWR Double A Plus) (Outlook: Stable) Reaffirmed
Fund Based – Cash Credit	525.00	525.00		BWR A1+ (BWR A One Plus)	BWR A1+ (BWR A One Plus) Reaffirmed
Fund Based – Bill Discounting	2000.00	1000.00	Short Term	BWR AA+ (BWR Double A Plus) (Outlook: Stable)	BWR AA+ (BWR Double A Plus) (Outlook: Stable) Reaffirmed
Non-Fund Based- DPG	389.00	389.00	Long Term	BWR A1+ (BWR A One Plus)	BWR A1+ (A One Plus) Reaffirmed
Non-Fund Based- LC/BG	1014.15	1014.15	Short Term	INR Thirteen Thousand Five Hundred Sixty-Four Crs and Twenty-Five Lacs Only	
<b>Total</b>	<b>11699.06</b>	<b>13564.25</b>			

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

#### Ratings: Reaffirmed

#### Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the audited financial results of Gujarat State Electricity Corporation Limited (GSECL) and its parent company Gujarat Urja Vikas Nigam Limited (GUVNL) up to FY18, latest tariff order published by GERC, publicly available information and information/ clarifications provided by the company’s management.



The rating reaffirmation factors, *inter alia*, strong parentage support, being wholly owned GUVNL and in turn GUVNL 100% held by Government of Gujarat (GoG), equity infusion as required, budgetary allocation for subsidy and timely release of Grants & Subsidies by the GoG, strong financial position of the state power sector companies with low consolidated debt level and continuous improvement in operational performance such as lower distribution losses and improving collection efficiency, pro-active and supportive regulatory framework in Gujarat state, regular revision in tariffs with pass through Fuel Price and Power Purchase Price Adjustments (FPPPA) mechanism under Multi-year Tariff regulation by GERC and comfortable consolidated leverage position of GUVNL and its six subsidiaries. Further the rating derives comfort from the continued reduction of Distribution losses of 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 and the financial flexibility available with the company.

However, the rating is constrained by high dependence on the Government of Gujarat towards timely receipt of subsidy especially FPPPA subsidy of Agricultural consumers, high subsidy receivable from GoG of Rs.3421.42 Crs as on FY18 (difference between actual claim vs. release of subsidy), though it has reduced from Rs.4663.63 Crs as on FY17, and low average PLF (~50%) of power generation company (GSECL), as GSECL is currently fulfilling ~24% of the state requirement only. Further the rating is also constrained by the merger of strained Bhavnagar Energy Co. Ltd. (BECL) with the company (w.e.f. 1<sup>st</sup> Apr 2018) due to availability of lignite and water, which has 500 MW capacity with long term PPA.

Going forward, continuous support from Government of Gujarat (GoG), timely receipt of equity and subsidy from GoG, as well as timely implementation of on-going and planned capital expenditure in generation (GSECL), transmission (GETCO) and four distribution companies without any cost overrun, improvement in operational parameters such as improvement in PLF for its generation assets, reduction in transmission and distribution losses along with reduction in the ACS-ARR gaps within regulatory framework of GERC, will remain key rating sensitivities.

#### **Description of Key Rating Drivers**

- **Credit Strengths:**

##### **Strong Parentage support:**

GSECL, being wholly owned subsidiary of GUVNL, which in turn wholly owned by Government of Gujarat (GoG), derives support from the parentage as well as continuous need-based Infusion of Equity/Grants by the GoG. During FY18, GoG have infused Rs.2512.94 Crs as compared to Rs.2959.90 Crs in FY17, on a rights basis at par towards capital contribution to GUVNL for capital infusion in subsidiaries/implementation of GoG schemes pursuant to various resolutions. Further, share application money pending for allocation was stood at Rs.1175.19 Crs as on FY18. GSECL has received Rs.71.17



Crs towards equity contribution from GUVNL in FY18 as compared to Rs.124.31 Crs in FY17.

**Investment in its Subsidiaries and funding its CapEx:**

GUVNL continues to invest in its subsidiaries towards creation of more power generation assets, upgradation of transmission and distribution assets, which has resulted in improved financial as well as operational performance on a consolidated basis. During FY18, GUVNL has invested Rs.3156 Crs in its six subsidiaries, the highest amount being Rs.1409 Crs in PGVCL, followed by Rs.447 Crs in GSECL, Rs.444 Crs in UGVCL and Rs.424 Crs in GETCO. Further, out of the total Capital Expenditure (CapEx) of Rs.7702.14 Crs in FY18, it has invested an amount of ~Rs.4500 Crs towards transmission and generation assets and capital expenditure towards meeting environmental norms in GETCO and GSECL. Further, majority of its future capital expenditure of ~13,000-14,000 Crs over the next couple of years, is expected to be incurred in GETCO (system upgradation) and PGVCL (distribution losses reduction).

**Adequate Generation capacities and raw material supplies:**

At present GSECL has total generation capacity of ~6041 MW as of FY19, including 24 MW of wind and Solar generation power capacities. It has generated ~24,499 mn units during FY19, an increase of 3.45% in FY18. Most of its requirements are being met through domestic coal/lignite availability, expect one plant (Sikka Unit 3&4), which is running on imported coal.

**Strong and continuously improving credit metrics:**

GSECL has a strong financial and operational risk profile and is consistently improving its leverage position. During FY18, its Debt to Equity ratio reduced to 1.04x from 1.38x as on FY17. This was primarily due to continuous equity infusion by GUVNL and continuous improving profitability of GSECL. Further, it also has moderate debt protection metrics with ISCR of 3.61x in FY18. On the operating revenues front, it has shown a healthy improvement by ~26% to Rs.10,102.71 Crs in FY18 (vs. Rs.8002.79 Crs in FY17) with a multifold increase in Profitability to Rs.229.37 Crs in FY18 from Rs.38.33 Crs in FY17. However, EBITDA reduced by ~20% to Rs.1722.79 Crs in FY18 from Rs.2144.21 Crs in FY17, mainly due to higher fuel charges and lower average realization of per unit generation.

**Adequate Cash Accrual Generation:**

GUVNL is continuously generating adequate cash accruals to fund its debt servicing and on-going capital expenditure. During FY18, on a consolidated basis, GUVNL has generated Rs.4278 Crs of cash accruals, a marginal increase from Rs.4236 Crs in FY17, as against debt servicing obligations of Rs.2753 Crs. Further, it had cash and cash equivalents of Rs.1663 Crs as on FY18. GSECL has generated cash accruals of Rs.953.31 Crs in FY18, as against the debt servicing of Rs.994.54 Crs in FY18.

**Supportive Regulatory Environment:**

The company is benefitted from the favorable regulatory provisions with timely issuance of tariff orders, regular revision in tariffs with pass through Fuel Price and Power Purchase Price Adjustments (FPPPA)



mechanism under Multi-year Tariff regulation by GERC. In April 2019, GERC has issued the MYT order including the projected tariff levels which will be allowed for FY20 & FY21, providing clear revenue visibility for the coming years.

#### **Long Term PPA & FSA:**

GUVNL has 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 Central Sector (27%) and IPPs (27%), followed by GSECL (24%) and others (including state utilities and windmills). In terms of distribution of power, area covered by PGVCL accounts of the power consumption of 34,065 MU (38% of the total requirement of 88,829 MU), followed by UGVCL (27%), DGVCL (22%) and MGVCL (13%). GUVNL, also purchases power from alternate sources like power exchanges & DEEP online portal. Gujarat State has a total generating capacity of 19,555 MW as of FY18 (excluding renewable sources of 7286 MW), of which 70% are from Coal/lignite sources. It also has long term FSAs towards coal/lignite supplies.

#### **Operational Performance:**

GUVNL's operational performance has improved over the years. Its transmission company (GETCO) has reduced its transmission losses to 3.72% in FY18 from 3.85% in FY17. Its four distribution companies are continuously improving collection efficiency and reducing Distribution and AT&C losses. DGVCL's performance remains strong as it has reduced its Distribution losses to 6.23% in FY18 from 9.58% in FY16, with AT&C losses of 10.98% and collection efficiency of 100.08% in FY18. AT&C losses of UGVCL and MGVCL remain at 8.97% and 10.63% respectively in FY18. However, for PGVCL AT&C losses remain high at 20.07% with Distribution losses of 17.89% and collection efficiency of 99.43% in FY18. GSECL generated ~24,499 mn units during FY19, with a plant availability of 79.44%.

- **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 and reduction in distribution losses at PGVCL. CapEx remains high at around Rs.7500 Crs per year, therefore, timely implementation of ongoing planned projects without any time and cost overrun will remain a key monitorable for the company. Further this is going to be largely funded through mix of equity infusion from GoG, grants, cash accruals and additional debt. Any cost increase may result in increase in debt of the company.

#### **Timely disbursement of subsidy:**

GoG continues to support the operations of GUVNL. However, the outstanding Subsidy Receivables from GoG remain high at Rs.3432.59 Crs as on FY18, though it has reduced from Rs.4670.60 Crs as on FY17,



mainly towards agricultural subsidy and various other schemes of GoG. Further in its petition to GERC, GUVNL has sought that the agriculture subsidy to be increased to Rs.5000 Crs from Rs.1100 Crs, due to increase in the number of agriculture consumers in the state. GSECL has receivables of Rs.932.49 Crs as of FY18 from GUVNL.

**Weak operational performance of its Generation company:**

GSECL's gross power generation stood at 24,499 mn units for FY19, with an average PLF of ~49.95% (excluding hydro generation assets). However, has average PAF was at 79.44% in FY19 slightly reduced from 82.71% in FY18. Low PLF is a concern as it increases the average generation cost for GESCL.

**Trading gains from Power:**

Over the years, GUVNLs' revenue from bilateral arrangements and trading has declined to Rs.259 Crs during FY18 from Rs.2776 Crs in FY13. In terms of units traded this has reduced from 7147 mn units in FY13 to merely 834 mn units, representing the reduction in surplus power availability in the state. This is expected to result in overall pressure on average per unit realization.

**Liquidity Position:**

GUVNL's liquidity position remained strong and healthy with Cash and equivalents of Rs.1800.64 Crs as of FY18. Further it has Cash credit facilities of Rs.2899 Crs at a consolidated level, which can be utilized centrally by GUVNL towards its working capital requirements. Further it has generated healthy cash accruals of Rs.4278 Crs as against the debt servicing requirement of Rs.2753 Crs in FY18. Also, the company, in the past, has demonstrated its financial flexibility through debt raising/refinancing from State Government institutions (GSFC) and Financial institutions (PFC & REC). In case of GSECL, it has very low cash and equivalents of Rs.4.42 Crs in FY18 with a Cash Credit limits of Rs.525 Crs to fund its working capital requirements, shows high dependency on the parent towards funding support.

**Analytical Approach:**

GSECL is the Genco of Govt of Gujarat, 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, as also factored the 100% ownership of Govt of Gujarat in GUVNL and support in the form of Equity infusion, grants and subsidy.

**Rating Outlook: Stable**

BWR believes the **Gujarat State Electricity Corporation Ltd** business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues average cost of power purchase,



realization of power sales, timely receipt of subsidy and profitability shows sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down than expected levels, higher distribution losses for its Discoms, lower PLF by its generation company, delays in implementation in on-going CapEx and profit margins show lower than expected figures.

### **About the Company**

**GSECL:** Gujarat State Electricity Corporation Limited (GSECL) was incorporated in August 1993 with the objectives to mobilize resources from the market for adding to the generating capacity of Gujarat and improving the quality and cost of existing generation. GSECL is engaged in a wide spectrum of activities to improve the electricity infrastructure and generation of power in Gujarat and has the status of Independent Power Producer (IPP) with approval to undertake new power projects. The Company commenced its commercial operation in the year 1998. As a part of the reform process, the Government of Gujarat has unbundled the various functions of GEB and GSECL was given responsibility of electricity generation.

Currently, the total power generation capacity of GSECL is 6041 MW (including 24MW of wind and solar). The company's portfolio of generation has a mix of thermal and hydro in the ratio of approx. 91:09. GSECL completed projects of 500 MW at Sikka 376 MW at Dhuvaran in 2015 BLTPS of 500 MW in 2017 and solar projects of 12 MW during 2015 16 GSECL has further taken up imported coal based power project of 800 MW at Wanakbori ( at a total cost of Rs.4465 Crs and 75 MW solar based power plant at DTPS Dhuvaran with a project cost of Rs 323 Crs. It has incurred a cost of Rs 3942 Crs and Rs 343 Crs respectively, as of Mar'19.

**GUVNL:** Gujarat Urja Vikas Nigam Ltd. (GUVNL) is an electrical services umbrella company in the state of Gujarat, India. 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 Genco, one Transco 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 Viji Company Limited (DGVCL), Distribution Company
4. Madhya Gujarat Viji Company Limited (MGVCL), Distribution Company
5. Paschim Gujarat Viji Company Limited (PGVCL), Distribution Company
6. Uttar Gujarat Viji 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:**

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

### **Company Financial Performance**

GSECL's operating income increased by 26.24% to Rs.10102.71 Crs in FY18 from Rs.8002.79 Crs in FY17. However, its EBITDA decreased by 19.65% to Rs.1722.79 Crs in FY18 from Rs.2144.21 Crs in FY17, mainly due to higher fuel charges and lower realization of per unit cost. Further, its profitability has seen multi fold jump to reach at Rs.229.37 Crs in FY18 from Rs.38.33 Crs in FY17, due to lower depreciation and interest charges. Its debt to equity marginally reduced to 1.04x as on FY18 from 1.38x as on FY17 with the tangible net Worth of Rs.6,360.84 Crs as on FY18 due to equity infusion of Rs.71.17 Crs by GUVNL in FY18. Current ratio remains less than one as on FY18.

#### **Key Financial Indicators (GSECL)**

<b>Key Parameters</b>	<b>Units</b>	<b>2017</b>	<b>2018</b>
<b>Result Type</b>		<b>Audited</b>	<b>Audited</b>
Operating Revenue	Rs in Crs	8002.79	10102.71
EBITDA	Rs in Crs	2144.21	1722.79
PAT	Rs in Crs	38.33	229.37
Tangible Net worth	Rs in Crs	5587.44	6360.84
Total Debt/Tangible Net worth	Times	1.38	1.04
Current Ratio	Times	0.64	0.58

#### **Key Financial Indicators (Consolidated - GUVNL)**

<b>Key Parameters</b>	<b>Units</b>	<b>2017</b>	<b>2018</b>
<b>Result Type</b>		<b>Audited</b>	<b>Audited</b>
Operating Revenue	Rs in Crs	39218.79	42861.21
EBITDA	Rs in Crs	5487.44	5760.54
PAT	Rs in Crs	600.47	1190.45

Tangible Net worth	Rs in Crs	19068.87	22870.24
Total Debt/Tangible Net worth	Times	1.30	1.01
Current Ratio	Times	0.73	0.67

### Rating History for the last three years

S. N	Instrument /Facility	Current Rating			Rating History		
		Type	Amount (₹ Crs)	Rating	Mar 2018	2017	Aug 2016
1	Fund Based (TL&CC)	Long Term	11161.10	<b>BWR AA+</b> (BWR Double A Plus) <b>(Outlook: Stable)</b> <b>Reaffirmed</b>	<b>BWR AA+</b> (BWR Double A Plus) <b>(Outlook: Stable)</b>	NA	BWR AA+ (Stable)
2	Fund Based (BD)	Short Term	1000.00	<b>BWR A1+</b> (A One Plus) <b>Reaffirmed</b>	<b>BWR A1+</b> (BWR A One Plus)	NA	BWR A1+
3	Non-Fund Based (DPG)	Long Term	389.00	<b>BWR AA+</b> (BWR Double A Plus) <b>(Outlook: Stable)</b> <b>Reaffirmed</b>	<b>BWR AA+</b> (BWR Double A Plus) <b>(Outlook: Stable)</b>	NA	BWR AA+ (Stable)
4	Non-Fund Based (LC/BG)	Short Term	1014.15	<b>BWR A1+</b> (A One Plus) <b>Reaffirmed</b>	<b>BWR A1+</b> (BWR A One Plus)	NA	BWR A1+
<b>Total</b>			<b>13564.25</b>	<b>INR Thirteen Thousand Five Hundred Sixty-Four Crs and Twenty-Five Lacs Only</b>			

Status of non-cooperation with previous CRA (if applicable)-Reason and comments: NA

Any other information: NA

### Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Infrastructure Sector](#)



- [Short Term Debt](#)

For any other criteria obtain hyperlinks from website

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**Note on complexity levels of the rated instrument:**

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BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 10,00,000 Cr. In addition, BWR has rated over 6300 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹24,440 Cr have been rated.



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