Rating Rationale

Paschim Gujarat Vij Company Ltd. (PGVCL)

23 Jul 2019

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of Rs.783.64 Crs (reduced from Rs.808.66 Crs rated earlier) of Paschim Gujarat Vij Company Ltd. (PGVCL or "the Company")

Particulars:

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (Mar 2018)	Present Rating
Fund Based - (TL)	94.66	69.64	Long Term	**BWR AA+** (BWR Double A Plus) **(Outlook: Stable)**	**BWR AA+** (BWR Double A Plus) **(Outlook: Stable)** **Reaffirmed**
Fund Based - (CC)	575.00	575.00			
Non-Fund Based – DPG	49.00	49.00	Long Term	**BWR AA+** (BWR Double A Plus) **(Outlook: Stable)**	**BWR AA+** (BWR Double A Plus) **(Outlook: Stable)** **Reaffirmed**
Non-Fund Based – LC	90.00	90.00	Short Term	**BWR A1+** (BWR A One Plus)	**BWR A1+** (BWR A One Plus) **Reaffirmed**
Total	**808.66**	**783.64**	**INR Seven Hundred Eighty-Three Crs and Sixty-Four Lacs Only**		

*Please refer to BWR website 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 Paschim Gujarat Vij Company Ltd. (DGVCL) 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 subsidiary of GUVNL and which 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 low transmission losses, lower distribution losses and improving collection efficiency, it's one of the largest transmission network, 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 (MGVCL, PGVCL, DGVCL and UGVCL), 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 total state requirement and GETCO's transmission losses, which is slightly higher than the benchmark specified as per the regulations. Further the rating is also constrained by the merger of strained Bhavnagar Energy Co. Ltd. (BECL) with GSECL (w.e.f. 1st 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:
PGVCL, being 100.00% 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. PGVCL received Rs.1224.96 Crs towards equity contribution from GUVNL in FY18 as compared to Rs.1021.84 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 in incurred in GETCO (system upgradation) and PGVCL (distribution losses reduction).

Adequate Generation capacities and improving transmission Network:
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. GETCO has continuously expended transmission network and has one of the largest Transmission Network of 61056 Circuit Kilo Meter (CKM) EHV lines of different grades ranging from 400KV to 66KV, with a total installed transmission capacity of 1,10,047 Mega Volt Ampere (MVA), as of FY18.

Strong and continuously improving credit metrics:
PGVCL has a strong financial and operational risk profile and is consistently improving its leverage position. During FY18, its Debt to Equity ratio remained low at 0.04x from 0.07x as on FY17. This was primarily due to continuous equity infusion by GUVNL and continuous improving operating profitability of PGVCL. Further, it also has strong debt protection metrics with ISCR of 4.43x and DSCR of 3.34x in FY18. On the operating revenues front, it has shown a healthy improvement by ~12% to Rs.14,414.38 Crs in FY18 (vs. Rs.12,815.32 Crs in FY17) with a multifold increase in Profitability to Rs.136.87 Crs in FY18 from Rs.36.69 Crs in FY17. However, EBITDA increased marginally by ~5% to Rs.740.85 Crs in FY18 from Rs.706.97 Crs in FY17, mainly due to higher cost of power purchase from GUVNL.

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. PGVCL has generated cash accruals of Rs.808.31 Crs in FY18, as against the low debt servicing of Rs.58.11 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 8.02% in FY17, 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 as compared to 9.14% and 11.22% respectively in FY17. However, PGVCL AT&C losses remain high at 20.07% (vs. 19.01% in FY17) with Distribution losses of 17.89% and collection efficiency of 99.43% in FY18, mainly due to largely catering to large no of agriculture customers. GETCO has total transmission capacities of ~110,047 MVA as of FY18, with a transmission line availability of 99.87% in FY18. PGVCL's customer base increased to 56.62 lacs in FY18 from 54.42 Lacs customers in FY17.

- **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.7,000-7500 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. PGVCL's receivables stood at Rs.1559.74 Crs in FY18, towards receivable for sale of power from customers.

Weak operational performance of GUVNL's 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 sale of 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.

Ageing of distribution infrastructure:
Ageing of existing distribution infrastructure is the area of concern considering the life cycle of the infrastructure. PGVCL has highest distribution and AT&C losses. The Company required to incur continuous CapEx towards upgradation of distribution assets to reduce distribution losses.

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 PGVCL, it has cash and equivalents of Rs.139.65 Crs in FY18 with a Cash Credit limits of Rs.575 Crs to fund its working capital requirements and generated cash accruals of Rs.808.31 Crs in FY18, as against the debt servicing of Rs.58.11 Crs in FY18, shows relatively low dependency on the parent towards debt servicing.

Analytical Approach

PGVCL is the power distribution company of Govt of Gujarat, and the rating has factored GUVNL's ownership of the company, and the benefit arising out of the organizational structure by which GUVNL co-ordinates the business of all its subsidiaries, involved in different aspects of power, like generation, transmission and distribution. While 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 **Paschim Gujarat Vij Company Ltd. (PGVCL)** 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, achieving lower transmission losses, 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 towards generation, transmission and distribution assets and profit margins show lower than expected figures.

About the Company

PGVCL: PGVCL was incorporated as a Public Limited Company on 15th Sep 2003, primarily to carry out distribution of electricity to retail and bulk consumers and has become operational effective from 1st Apr 2005. The Company is engaged in distribution of electricity in twelve districts namely Rajkot, Jamnagar, Junagadh, Porbandar, Bhuj, Bhavnagar, Surendranagar and Amreli.

Distribution loss of the Company shows a declining trend from 20.55% in FY14 to 17.89% in FY18. However, AT&C losses increased from 19.01% in FY17 to 20.07% in FY18. The collection efficiency of the Company remains at 99.43% in FY18. Further, average cost of power purchase increased to Rs.3.70 /unit (from Rs.3.60 /unit in FY17) with a moderate sales realization of Rs.5.25 /unit (Rs.5.15 unit in FY17).

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 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:

PGVCL is the wholly owned subsidiary of GUVNL which in turn is wholly owned by Government of Gujarat.

Company Financial Performance

PGVCL's operating income increased by 12.48% to Rs.14,414.38 Crs in FY18 from Rs.12,815.32 Crs in FY17 with an increase in Profitability by 273.06% to Rs.136.87 Crs in FY18 from Rs.36.69 Crs in FY17. However, EBITDA increased marginally by ~4.79% to Rs.740.85 Crs in FY18 from Rs.706.97 Crs in FY17, mainly due to higher cost of power purchase from GUVNL and lower sales realization. Its debt to equity remains low at 0.04x as on FY18 with tangible Net-Worth of Rs.7,977.65 Crs as on FY18 due to improved profitability and continuous equity infusion of Rs.1224.96 Crs by GUVNL in FY18. Current ratio remains at 1.25 as on FY18.

Key Financial Indicators (PGVCL)

Key Parameters	Units	2017	2018
Result Type		**Audited**	**Audited**
Operating Revenue	Rs in Crs	12,815.32	14,414.38
EBITDA	Rs in Crs	706.97	740.85
PAT	Rs in Crs	36.69	136.87
Tangible Net worth	Rs in Crs	6307.08	7977.65
Total Debt/Tangible Net worth	Times	0.07	0.04
Current Ratio	Times	0.96	1.25

Key Financial Indicators (Consolidated - GUVNL)

Key Parameters	Units	2017	2018
Result Type		**Audited**	**Audited**

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	644.64	**BWR AA+** (BWR Double A Plus) **(Outlook: Stable) Reaffirmed**	**BWR AA+** (BWR Double A Plus) **(Outlook: Stable)**	**NA**	**BWR AA+ (Stable)**
2	**Non-Fund Based – DPG**	Long Term	49.00	**BWR AA+** (BWR Double A Plus) **(Outlook: Stable) Reaffirmed**	**BWR AA+** (BWR Double A Plus) **(Outlook: Stable)**	**NA**	**BWR AA+ (Stable)**
3	**Non-Fund Based - LC**	Short Term	90.00	**BWR A1+** (BWR A One Plus) **Reaffirmed**	**BWR A1+** (BWR A One Plus)	**NA**	**BWR A1+**
	Total		**783.64**	**INR Seven Hundred Eighty-Three Crs and Sixty-Four Lacs Only**			

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:
BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

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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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