

Press Release

Gujarat State Investments Limited

May 17, 2019



Rating Update

Total Facilities Rated*	Rs.6000.00 Cr.
Long Term Rating	ACUITE Provisional AA / Outlook: Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed a long term rating of '**ACUITE Provisional AA**' (read as **ACUITE Provisional double A**) to the unsecured redeemable non-convertible debentures of **Gujarat State Investments Limited** (GSIL). The outlook is '**Stable**'.

Extension of Provisional Rating

Acuité had assigned a rating of '**ACUITE Provisional AA**' (read as **ACUITE Provisional double A**) to the Rs.6000.00 Cr. unsecured redeemable non-convertible debentures of Gujarat State Investment Limited (GSIL) vide Press Release dated January 31, 2019, with a validity of 90 days. These debentures were initially issued by Gujarat State Petroleum Corporation (GSPC) and as per the Financial Realignment Plan of Gujarat State Petroleum Corporation Limited (GSPC), which is approved by GoG and GSPC via Government Resolution (GR) dated 26 July, 2018 and the latter's board resolution dated 31 July, 2018 respectively, the NCDs amounting to Rs. 6000.00 Cr. is proposed to be transferred to GSIL. Since, the transfer is under process, Acuité has received a request from the client for the extension of provisional rating by 90 days. Thus, the provisional rating of GSIL is further extended by 90 days. Further, the coupon rate and maturity of two NCDs have been changed. Acuité has therefore review and subsequently reaffirmed the rating of '**ACUITE Provisional AA**' (read as **ACUITE Provisional double A**) to the Rs.6000.00 Cr. unsecured redeemable non-convertible debentures of Gujarat State Investment Limited (GSIL).

Instrument	Issue Date	Amount (Rs in Crs)	Previous Coupon	Previous Maturity	Revised Coupon	Revised Coupon	ISIN	Interest Payable
NCD	21-Sep-12	1000	9.39%	21-Sep-20	9.39%	21-Sep-20	INE065L08017	Semi Annually
NCD	01-Oct-12	1000	9.45%	01-Oct-22	9.45%	01-Oct-22	INE065L08025	
NCD	28-Sep-12	1000	10.45%	28-Sep-72	9.45%	28-Sep-22	INE065L08033	
NCD	22-Mar-13	2000	9.03%	22-Mar-28	9.03%	22-Mar-28	INE065L08041	
NCD	22-Mar-13	1000	9.80%	22-Mar-73	9.45%	22-Mar-25	INE065L08058	
Total		6000						

About the company

Gujarat State Investments Limited (GSIL) was incorporated on January 29, 1988 and is wholly owned by Government of Gujarat (GoG). GSIL is the investment arm of GoG and has both quoted and unquoted investments. The company is managed by a Board which comprises senior bureaucrats from Government of Gujarat. Presently, Mr. Arvind Agarwal IAS (Additional Chief Secretary (Finance) to the Government of Gujarat) is the Chairman, and Mr. Sanjeev Kumar (Secretary (Economic Affairs) to the Government of Gujarat) is the Managing Director. GSIL has applied to RBI for registering itself as a Core Investment Company (CIC). The rated Non-Convertible Debentures (NCDs) amounting to Rs.6000.00 Cr., issued by Gujarat State Petroleum Corporation (GSPC) are expected to be transferred to GSIL through the Novation method. The particulars of the NCDs are as below:

Instrument	Issue Date	Amount (Rs in Crs)	Coupon	Maturity	ISIN Number	Call Options Date	Interest Payable
NCD	21-Sep-12	1000	9.39%	21-Sep-20	INE065L08017	-	Semi Annually
NCD	01-Oct-12	1000	9.45%	01-Oct-22	INE065L08025	-	
NCD	28-Sep-12	1000	10.45%	28-Sep-72	INE065L08033	28-Sep-22^	
NCD	22-Mar-13	2000	9.03%	22-Mar-28	INE065L08041	-	
NCD	22-Mar-13	1000	9.80%	22-Mar-73	INE065L08058	23-Mar-25^	
Total		6000					

[^] if the call option is not exercised by the issuer, the interest rate shall be revised upwards by 200 bps thereafter any interest on Debenture shall be payable at such revised interest rate.

The rating on the Rs. 6000.00 Cr. NCDs is provisional and the final rating is subject to:

- Documentation in support of actual transfer of NCDs from Gujarat State Petroleum Corporation Limited (GSPC) to Gujarat State Investment Limited (GSIL)
- Final term sheet in the name of Gujarat State Investment Limited (GSIL)
- Confirmation from the debenture trustee regarding execution support from Government of Gujarat (GoG) and compliance with other terms and conditions as per the term sheet
- Financial Information (including P&L & Balance Sheet) for the latest financial year
- Documentation in support of registration of GSIL as Core Investment Company (CIC) with RBI

The provisional rating is valid for 90 days and Acuité reserves the right to alter/modify/extend/withdraw the rating any time prior to 90 days, if such an action is deemed appropriate.

Analytical Approach

Acuité has considered the standalone financial and business risk profile of GSIL while also taking into account a strong expectation of support from Government of Gujarat (GoG) through state budgetary support for servicing of the rated NCDs in addition to the 100% ownership of GSIL.

Key Rating Drivers

Strengths

• Direct Support from GoG for servicing of NCDs

As per the Financial Realignment Plan of Gujarat State Petroleum Corporation Limited (GSPC) which is approved by GoG and GSPC via Government Resolution (GR) dated 26 July, 2018 and the latter's board resolution dated 31 July, 2018 respectively, the NCDs amounting to Rs. 6000 Cr. is proposed to be transferred to GSIL. The terms of the NCDs and its maturity including the call option provisions are expected to remain unchanged. As per the GR, GoG will support GSIL for payment towards interest and principal repayment on the rated NCDs and necessary budgetary provision in the state budget for meeting these requirements in the coming years will be made by the Department of Energy & Petrochemicals. The rating assigned on the NCDs factors in such strong and direct support from the state government.

Being a proposed CIC, GSIL's revenues is highly dependent on the performance of the companies where in GSIL has invested. The revenue stream of GSIL is by way of dividends or interest received from the invested companies. Hence, the rating centrally factors in the support from GoG to GSIL for servicing the interest and principal repayment of the NCDs being transferred from GSPC. Acuité believes that the support from GoG to GSIL for the said debt servicing will be available in the form of grants or loans and advances made through state budgetary allocations in the subsequent years.

• Strategic Importance of GSIL to Government of Gujarat

GSIL, wholly owned by Government of Gujarat, is a holding company for various investments of Government of Gujarat. The company expects to get registered as a CIC by RBI shortly. It has investments in several listed state PSUs like Gujarat Narmada Valley Fertilizers Company Limited (GNVFCL), Gujarat Alkalies & Chemicals Limited (GACL), and Gujarat State Fertilizers & Chemicals Company Limited (GSFCCL) to name a few. The Board of Directors of GSIL comprises senior bureaucrats from the state government. GSIL has an investment portfolio of Rs. 2431.50 Cr. as per the book value as on 31 March 2018 and the aggregate market value of the quoted investments stood at Rs. 5147.00 Cr. as on 31 March 2018. GSIL has earned dividends worth Rs.68.19 Cr. and interest on investments worth Rs.8.57 Cr. for FY2018 as against Rs.47.00 Cr. and 18.18 Cr. respectively in the previous year. Acuité believes that GSIL is of strategic importance to GoG given its investment portfolio of PSUs and its status as a funding vehicle for

various investments and commitments of the state government.

- **Healthy fiscal profile of Government of Gujarat**

Gujarat has one of the strongest fiscal profiles among the states of India. It has demonstrated a strong ability to attract investments from foreign as well as domestic companies. The state's annual GDP growth from 2011-12 to 2016-17 at current prices averaged above 13 per cent. This growth has been supported by agricultural growth which is supported by crops such as cotton, and oilseeds among others. Gujarat state's GSDP accounts for ~7.6 per cent Nation's GDP (FY17). Gujarat is also one of the leading states in terms of industrial development with a contribution of 18.4 per cent to the country's industrial output. The revenue surplus as a percentage of GSDP for GoG stood at 0.50 per cent as compared to an all-state average revenue deficit of 0.4 per cent in FY18 (RE). The gross fiscal deficit to GSDP for the state stood at 1.7 per cent vis-à-vis the all-state average of 3.1 per cent for FY 18 (RE). The per capita income at current prices is estimated to be at Rs.11,782 for FY 2017-18. The state has attracted investments worth ~Rs.23,000 Cr. in form of FDI in FY2016-17. The total outstanding liabilities of GoG as a percentage of GSDP stood at 20.1 per cent as per revised estimates of FY18 which is relatively moderate as compared to the all-state average of 24.0 per cent. Gujarat is also one of the states which has shown significant progress in power sector reforms and has reduced the commercial losses in the power sector, thereby lowering the fiscal burden on the state.

Acuité believes that Government of Gujarat will maintain its fiscal profile in near to medium term given its fairly diversified economy and its economic infrastructure as compared to most of other states in India.

Weaknesses

- **Susceptibility to any changes in the fiscal profile of Gujarat**

GSIL's rating is driven by continued support from GoG. Hence the fiscal profile of Gujarat will be a key rating sensitivity factor influencing the rating. Any significant changes in the rating of GoG due to factors such as prolonged slowdown in industrial activities or challenges faced by Gujarat state in attracting investment due to factors such as socio-economic changes or other such events can have impact in its fiscal indicators. The influence of adverse macro-economic factors such as cutbacks in capex plans by corporates, and hardening of interest rates may impinge on the investment flows into the state in the near term thereby increasing the pressure on the Government to step up its expenditure plans. This in turn could impact its future fiscal profile & hence influence the rating on the instruments like GSIL's NCDs which are primarily driven by the rating of Government of Gujarat.

Further, timely budget allocation and timely receipt of revenue and capital grants from GoG for servicing the coupon and redemption of the NCDs is another rating sensitivity factor.

Liquidity Position:

GSIL has adequate liquidity marked by healthy net cash accruals to no long term debt maturity. The company currently does not avail any long term debt. The net cash accruals stood at a range of Rs.83 to Rs.58 crore for last three years ending FY2018. Acuité believes that the liquidity of GSIL is likely to remain adequate over the medium term on account of healthy cash accrual.

Outlook: Stable

Acuité believes that the outlook on GSIL will remain 'Stable' on account of strong support from GoG driven by both strategic importance and moral obligation. The outlook may be revised to 'Positive' in case of any improvement in the fiscal profile of the state government. Conversely, the outlook may be revised to 'Negative' in case of any deterioration in the fiscal risk profile of GoG and/or impeding its ability for timely budgetary provisions by the state.

About the Rated Entity - Key Financials of Gujarat State Investment Limited (GSIL)

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Total Assets	Rs. Cr.	2495.89	2543.00	2685.35
Total Income	Rs. Cr.	76.96	65.19	91.91
PAT	Rs. Cr.	72.83	57.51	82.90
Net Worth	Rs. Cr.	1907.57	1834.75	1777.24
Return on Average Assets (RoAA)	(%)	2.89	2.20	3.19
Return on Average Net Worth(RoNW)	(%)	3.89	3.18	4.78
Total Debt/Tangible Net Worth (Gearing)	Times	0.29	0.37	0.50

Gross NPA	(%)	NM	NM	NM
Net NPA	(%)	NM	NM	NM
Total Investment (Book Value)	Rs. Cr.	2431.50	2371.50	2316.65

NM: Not Meaningful

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Entities in Non-Banking Financing Entities - <https://acuite.in/view-rating-criteria-10.htm>
- State Government Support - <http://www.acuite.in/view-rating-criteria-26.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
22-Apr-2019	Unsecured Redeemable Non-Convertible Debentures	Long Term	1000.00	ACUITE Provisional AA / Stable (Reaffirmed)
	Unsecured Redeemable Non-Convertible Debentures	Long Term	1000.00	ACUITE Provisional AA / Stable (Reaffirmed)
	Unsecured Redeemable Non-Convertible Debentures	Long Term	1000.00^	ACUITE Provisional AA / Stable (Reaffirmed)
	Unsecured Redeemable Non-Convertible Debentures	Long Term	2000.00	ACUITE Provisional AA / Stable (Reaffirmed)
	Unsecured Redeemable Non-Convertible Debentures	Long Term	1000.00^	ACUITE Provisional AA / Stable (Reaffirmed)
31-Jan-2019	Unsecured Redeemable Non-Convertible Debentures	Long Term	1000.00	ACUITE Provisional AA / Stable (Reaffirmed)
	Unsecured Redeemable Non-Convertible Debentures	Long Term	1000.00	ACUITE Provisional AA / Stable (Reaffirmed)
	Unsecured Redeemable Non-Convertible Debentures	Long Term	1000.00^	ACUITE Provisional AA / Stable (Reaffirmed)
	Unsecured Redeemable Non-Convertible Debentures	Long Term	2000.00	ACUITE Provisional AA / Stable (Reaffirmed)
	Unsecured Redeemable Non-Convertible Debentures	Long Term	1000.00^	ACUITE Provisional AA / Stable (Reaffirmed)
31-Oct-2018	Unsecured Redeemable Non-Convertible Debentures	Long Term	1000.00	ACUITE Provisional AA / Stable (Assigned)
	Unsecured Redeemable Non-Convertible	Long Term	1000.00	ACUITE Provisional AA / Stable

	Debentures			(Assigned)
	Unsecured Redeemable Non-Convertible Debentures	Long Term	1000.00^	ACUITE Provisional AA / Stable (Assigned)
	Unsecured Redeemable Non-Convertible Debentures	Long Term	2000.00	ACUITE Provisional AA / Stable (Assigned)
	Unsecured Redeemable Non-Convertible Debentures	Long Term	1000.00^	ACUITE Provisional AA / Stable (Assigned)

[^] If the call option is not exercised by the issuer, the interest rate shall be revised upwards by 200 bps thereafter any interest on Debenture shall be payable at such revised interest rate.

***Annexure – Details of instruments rated**

ISIN	Name of Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (Rs. Cr.)	Rating / Outlook
INE065L08017	Unsecured Redeemable Non-Convertible Debentures	21-Sep-12	9.39%	21-Sep-20	1000.00	ACUITE Provisional AA / Stable (Reaffirmed)
INE065L08025	Unsecured Redeemable Non-Convertible Debentures	01-Oct-12	9.45%	01-Oct-22	1000.00	ACUITE Provisional AA / Stable (Reaffirmed)
INE065L08033	Unsecured Redeemable Non-Convertible Debentures	28-Sep-12	9.45%	28-Sep-22	1000.00	ACUITE Provisional AA / Stable (Reaffirmed)
INE065L08041	Unsecured Redeemable Non-Convertible Debentures	22-Mar-13	9.03%	22-Mar-28	2000.00	ACUITE Provisional AA / Stable (Reaffirmed)
INE065L08058	Unsecured Redeemable Non-Convertible Debentures	22-Mar-13	9.45%	22-Mar-25	1000.00	ACUITE Provisional AA / Stable (Reaffirmed)

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About Acuité Ratings & Research:

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