

Press Release
Gujarat State Investments Limited

November 27, 2020



Rating Reaffirmed & withdrawn

Total Facilities Rated*	Rs.5000.00 Cr. (Reduced from Rs.6000 Cr.)
Long Term Rating	ACUITE AA (CE) / Outlook: Stable (Reaffirmed & Withdrawn)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE AA (CE)** (read as ACUITE double A (Credit Enhancement)) on the Rs.5000 crore Non-Convertible Debentures of Gujarat State Investments Limited (GSIL). The outlook is '**Stable**'.

Further, Acuité has withdrawn the long term rating of '**ACUITE AA (CE)** (read as ACUITE double A (Credit Enhancement)) on the Rs.1000 crore Non-Convertible Debentures of Gujarat State Investments Limited (GSIL). The withdrawal is on account of redemption of NCD.

Acuité has reaffirmed its long term rating on account of strong parentage, strategic importance of GSIL towards the Government of Gujarat (GoG) indicated by timely support for servicing its coupon payment and redemption of NCD. GSIL has been receiving revenue grants from GoG for servicing its coupon. Further, NCD with ISIN INE08EQ08015 has been redeemed on a timely manner.

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. Pankaj Joshi IAS is the Chairman, and Mr. Milind Torawane IAS 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 ^a	Amount (Rs in Crs)	Previous Coupon	Previous Maturity	Revised Coupon	Revised Maturity	ISIN	Interest Payable
NCD	28-May-19	1000	9.45%	01-Oct-22	9.45%	01-Oct-22	INE08EQ08023	Semi Annually
NCD	28-May-19	1000	10.45%	28-Sep-72	9.45%	28-Sep-22	INE08EQ08049	
NCD	28-May-19	2000	9.03%	22-Mar-28	9.03%	22-Mar-28	INE08EQ08031	
NCD	28-May-19	1000	9.80%	22-Mar-73	9.45%	22-Mar-25	INE08EQ08056	
Total		5000						

Standalone (Unsupported) Rating:

ACUITE AA-

Analytical Approach

Acuité has considered the standalone financial and business risk profile of GSIL while also taking into account a strong 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. has been transferred to GSIL. GSIL has executed the call option for the perpetuity NCDs and hence the maturity along with coupon rate has been revised. 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 registered CIC, GSIL's revenue is highly dependent on the performance of the companies wherein 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 is now registered as a CIC by Reserve Bank of India (RBI). 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. 8008.56 Cr. as per the book value as on 31 March 2020. GSIL has earned dividends and interest income worth Rs.72.88 Cr. for FY2020 as against Rs.96.69 in the previous year. Further, GSIL has been receiving revenue grants from GoG for servicing its coupon towards the outstanding NCDs. 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 2017-18 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. 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 stood at Rs.1141 Cr. in FY19-20 (RE). The Debt to GSDP for the state stood at 19.6 per cent for FY19-20 (RE) vis-à-vis 19.9 per cent for FY18-19. The per capita income at current prices is estimated to be at Rs.1,11,782 for FY 2017-18. The state has attracted investments worth ~Rs.23,000 Cr. in the 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 an 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.

Rating Sensitivity

- Credit profile of GoG

Material Covenants

- None

Assessment of Adequacy of Credit Enhancement

Not Applicable

Liquidity Position: Adequate

GSIL has received revenue grants of Rs.571 Cr. in FY2020 for timely servicing of coupon payments. Further, the liquidity is expected to be supported by GoG in the form of Grants and/or loans for debt servicing of NCDs that has been transferred to GSIL. As per the Government Resolution (GR) dated 26 July, 2018, Government of Gujarat (GoG) through state budgetary will support for servicing of the rated NCDs. GSIL has received

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	FY20 (Actual)	FY19 (Actual)
Total Assets	Rs. Cr.	8,025.39	8,237.85
Total Income	Rs. Cr.	72.88	96.69
PAT	Rs. Cr.	41.71	262.95
Net Worth	Rs. Cr.	1,647.94	1,793.64
Return on Average Assets (RoAA)	(%)	0.5	5.2
Return on Average Net Worth(RoNW)	(%)	2.42	15.8
Total Debt/Tangible Net Worth (Gearing)	Times	3.87	3.63
Gross NPA	(%)	NM	NM
Net NPA	(%)	NM	NM
Total Investment (Book Value)	Rs. Cr.	8,008.56	8,000.13

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-52.htm>
- Explicit Credit Enhancements - <https://www.acuite.in/view-rating-criteria-49.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- State Government Support - <http://www.acuite.in/view-rating-criteria-26.htm>
- Entities in Non-Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-44.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/view-rating-criteria-55.htm>
Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
04-Dec-19	Unsecured Redeemable Non-Convertible Debentures	Long Term	1000.00	ACUITE AA (CE) / Stable (Assigned; Converted from Provisional to Final)
	Unsecured Redeemable Non-Convertible Debentures	Long Term	1000.00	ACUITE AA (CE) / Stable (Assigned; Converted from Provisional to Final)
	Unsecured Redeemable Non-Convertible Debentures	Long Term	1000.00^	ACUITE AA (CE) / Stable (Assigned; Converted from Provisional to Final)
	Unsecured Redeemable Non-Convertible Debentures	Long Term	2000.00	ACUITE AA (CE) / Stable (Assigned; Converted from Provisional to Final)
	Unsecured Redeemable Non-Convertible Debentures	Long Term	1000.00^	ACUITE AA (CE) / Stable (Assigned; Converted from Provisional to Final)
17-May-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)
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)
	Unsecured Redeemable Non-Convertible Debentures	Long Term	1000.00	ACUITE Provisional AA / Stable (Assigned)
31-Oct-2018	Unsecured Redeemable Non-Convertible Debentures	Long Term	1000.00	ACUITE Provisional AA / Stable (Assigned)
	Unsecured Redeemable Non-Convertible Debentures	Long Term	1000.00	ACUITE Provisional AA / Stable (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
INE08EQ08015	Unsecured Redeemable Non-Convertible Debentures	28-May-19	9.39%	21-Sep-20	1000.00	ACUITE AA (CE) (Withdrawn)
INE08EQ08023	Unsecured Redeemable Non-Convertible Debentures	28-May-19	9.45%	01-Oct-22	1000.00	ACUITE AA (CE) / Stable (Reaffirmed)
INE08EQ08049	Unsecured Redeemable Non-Convertible Debentures	28-May-19	9.45%	28-Sep-22	1000.00	ACUITE AA (CE) / Stable (Reaffirmed)
INE08EQ08031	Unsecured Redeemable Non-Convertible Debentures	28-May-19	9.03%	22-Mar-28	2000.00	ACUITE AA (CE) / Stable (Reaffirmed)
INE08EQ08056	Unsecured Redeemable	28-May-19	9.45%	22-Mar-25	1000.00	ACUITE AA (CE) / Stable (Reaffirmed)

	Non-Convertible Debentures					
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About Acuité Ratings & Research:

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