



GUJARAT GAS

GGL/SEC/488/2017

22<sup>nd</sup> December, 2017

<b>BSE Limited,</b> Phiroze Jijibhoy Tower, Dalal Street, Mumbai	<b>National Stock Exchange of India Ltd.</b> Exchange Plaza, 5 <sup>th</sup> Floor, Plot No. C/1, G Block, Bandra Kurla Complex, Bandra (East), Mumbai – 400 051
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**Dear Sir/ Madam,**

Pursuant to SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we request you to note the affirmation by India Ratings for Gujarat Gas Limited's (GGL) Long-Term Issuer Rating at 'IND AA'. The Outlook is Stable, please find attached the press release of ratings by India Ratings.

We request to take the above on record.

Thanking you,

**For Gujarat Gas Limited**

*R Sharma*  
**Rajeshwari Sharma**  
Company Secretary

## INDIA RATINGS AFFIRMS GUJARAT GAS AT 'IND AA'; OUTLOOK STABLE

India Ratings and Research-Mumbai-21 December 2017: Ind-Ra-Mumbai-21 December 2017: India Ratings and Research (Ind-Ra) has affirmed Gujarat Gas Limited's (GGL) Long-Term Issuer Rating at 'IND AA'. The Outlook is Stable. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
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Bank loans*	- - -	INR32,000	IND AA/Stable/	IND A1+	Affirmed	
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Commercial paper**	- -	7 to 365 days	INR350	IND A1+	Affirmed	
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\* Interchangeable with working capital

\*\* to be carved out of existing working capital limits

### KEY RATING DRIVERS

**Large Scale, High Entry Barriers:** GGL is India's largest city gas distributor (CGD) with presence in 22 districts across Gujarat, Dadra Nagar Haveli and Maharashtra. The company benefits from the economies of scale, diversified customer and supplier bases, and extensive infrastructure through large upfront capex. The company has around 20,000km pipeline infrastructure, 259 compressed natural gas (CNG) stations and around 1.2 million domestic customers with current sales of around 6mmscmd. Moreover, the CGD sector is characterised by high entry barriers through marketing and infrastructure exclusivity, ensuring a near-monopolistic nature of business.

**Strong Cash Flow and Robust Credit Metrics:** GGL has a robust financial profile with strong credit metrics, supported by positive cash flows from operations. GGL's FY17 EBITDA gross interest cover was 3.6x (FY16: 2.9x), which further rose to 4.8x in 1HFY18. Net leverage in FY17 remained stable at 3.1x (FY16: 3.1x). Liquidity situation is comfortable with efficient working capital management. The agency expects GGL to report sustained volume growth and an improvement in the current level of unit EBITDA margins, underpinning continued positive operating cash flows and strong credit metrics in the next 12-18 months.

**Favourable Demand Outlook, but Pricing is the Key:** The Indian government's thrust on increasing the share of natural gas in the country's energy basket levels underpins the robust growth outlook of the sector. Household piped natural gas (PNG) and CNG are likely to grow steadily, triggered by favourable economics, low penetration and environmental benefits. Penetration of CNG in public transportation is low - as such large-scale adoption could boost volumes meaningfully. Industrial sales also have seen initial signs of growth. A continuous regulatory push on environmental concerns provides a supportive backdrop for volume growth over the mid to long term.

**Strategic Importance to Parent, but Assessed on Standalone Basis:** Ind-Ra assesses the ratings based on GGL's standalone business and financial profile. The agency does not expect GGL to extend any support to the parent, Gujarat State Petroleum Corporation Limited, or any group entities.

**Cyclicality and Volatility in Earnings:** Industrial/ commercial segments account for around 70% of GGL's volumes. These segments are characterised by high price elasticity due to ease of



fuel substitution. With no preferential allotment of cheap domestic gas, industrial/ commercial segments are almost completely reliant on imported liquefied natural gas (LNG). Profitability is thus hostage to price differentials between imported LNG and competing fuels - coal/furnace oil for industries and commercial LPG for the commercial segment. As such, input price volatility, significant rupee fluctuations and exposure to industrial segment introduce cyclical and volatility to volume/margins.

**Continued Capex to Expand Network:** GGL has an annual capex plan of INR4.5 billion-5 billion, aimed at growing the penetration in the operating areas as well as an expeditious rollout of the distribution network in the newly acquired geographical areas (GAs). GGL has secured six new GAs in the sixth CGD bid round - Dahej-Vagra (Bharuch), Panchmahal, Ahmedabad (excluding areas already authorised), Anand (excluding areas already authorised), Dahod and Amreli districts. It is still ramping up operations in the new GAs won in 2014-2015. Ind-Ra expects the company to fund majority of the capex through internal accruals and as such expect credit metrics to remain stable.

## RATING SENSITIVITIES

**Positive:** Increased sales contribution from household PNG/CNG with increased domestic gas allocation leading to an improved and stable operating margin on a sustained basis, and sustained reduction in net leverage could lead to a positive rating action.

**Negative:** A sustained fall in the operating margin or pressure on volumes; and unexpected debt-led capex leading to a sustained increase in net leverage could lead to a negative rating action. Also, any adverse regulatory development could lead to a negative rating action.

## RATING CRITERIA

'Corporate Rating Methodology', dated 4 January 2017, is available at [www.indiaratings.co.in](http://www.indiaratings.co.in).

## COMPANY PROFILE

GGL was formed by the amalgamation of GSPC Gas Company Ltd, Gujarat Gas Company Ltd, Gujarat Gas Financial Services Ltd and Gujarat Gas Trading Company Ltd with GSPC Distribution Networks Ltd (later renamed GGL).

## FINANCIAL SUMMARY

Particulars	FY17	FY16
Revenue (INR million)	50,926	61,056
EBITDA (INR million)	7,433	7,277
EBITDA margin (%)	15	12
Total debt (INR million)	23,589	23,566
Gross interest coverage (x)	3.56	2.94
Net leverage (x)	3.09	3.15

Source: GGL, Ind-Ra

## RATING HISTORY

Current Rating/Outlook	Historical Rating/Outlook
Rating Type	Rated Limits (million)
Rating	2 December 2016
Outlook	01 December 2015



Issuer rating Long-term - IND AA/Stable IND AA/Stable IND AA/Stable  
Bank loans Long-term/short-term INR32,000 IND AA/Stable/IND A1+ IND AA/Stable/IND A1+  
IND AA/Stable/IND A1+  
Commercial paper Short-term INR350 IND A1+ IND A1+ IND A1+

## COMPLEXITY LEVELS OF THE INSTRUMENTS

For details on the complexity levels of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

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Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies, and structured finance and project finance companies.

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