Press Release

Gujarat Gas Limited
October 08, 2018

Ratings

<table>
<thead>
<tr>
<th>Facilities</th>
<th>Amount (Rs. crore)</th>
<th>Ratings¹</th>
<th>Rating Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term/ Short-term Bank Facilities</td>
<td>2,000.00</td>
<td>CARE AA; Positive/ CARE A1+ (Double A; Outlook: Positive/ A One Plus)</td>
<td>Revised from CARE AA; Stable/ CARE A1+ (Double A; Outlook: Stable/ A One Plus)</td>
</tr>
<tr>
<td>Total</td>
<td>2,000.00 (Rupees Two Thousand Crore Only)</td>
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</table>

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings for the bank facilities of Gujarat Gas Ltd. (GGL) continue to derive strength from its leading position in the city gas distribution (CGD) business in India, well-established and significantly large scale of operations, established gas sourcing arrangements, moderately diversified customer segment mix, comfortable debt coverage indicators, healthy cash accruals and efficient working capital management. The ratings further continue to derive strength from its professional and experienced management and favorable industry outlook for the CGD business.

GGL’s long-term rating, however, continues to remain constrained on account of its medium sized capex plans for developing CGD network in various geographical areas towards its growth plans, moderate leverage, susceptibility of demand for natural gas from its industrial customers based on price dynamics of competing fuels with its concomitant impact on its profitability and regulatory risk associated with CGD business.

GGL’s ability to ensure sustained growth in demand from its industrial segment customers along with sustained improvement in operating profitability and its capital structure would be the key rating sensitivities.

Outlook: Positive

The outlook on the long term rating of GGL has been revised from ‘Stable’ to ‘Positive’ on CARE’s expectation of growth in GGL’s scale of operations along with improvement in its leverage and debt coverage indicators. The outlook may be revised to ‘Stable’ if GGL’s leverage and debt coverage indicators do not improve as envisaged.

Detailed description of the key rating drivers

Key Rating Strengths

Leading player in CGD business and its established presence: GGL is the leading player in the domestic CGD business and has a dominant market position in Gujarat, the largest gas consuming state in the country, on account of its first mover advantage in major areas, continuous infrastructure development and high level of entry barriers, primarily in the form of capex requirement as well as regulated near-monopoly marketing and infrastructure exclusivity for a given period of time. The Petroleum and Natural Gas Regulatory Board (PNGRB) has granted marketing exclusivity and infrastructure exclusivity to GGL for various geographic areas (GAs).

Established gas sourcing arrangement: GGL procures Administered Pricing Mechanism (APM) gas for domestic Piped Natural Gas (PNG) & Compressed Natural Gas (CNG) segment from GAIL (India) Ltd [GAIL; rated CARE AAA; Stable/ CARE A1+] and imported re-gasified liquefied natural gas (R-LNG) for its industrial and commercial segment requirements which is majorly sourced through Gujarat State Petroleum Corporation Ltd. (GSPC; rated CARE BBB+; Stable/ CARE A2).

Moderately diversified customer mix: GGL’s customer mix is moderately diversified with industrial segment contributing the largest volumes (70% in Q1FY19), while the balance is divided amongst domestic (6%), commercial (2%) and transportation (CNG; 22%) customers.

Comfortable debt coverage indicators; albeit moderate leverage: GGL’s total operating income increased by 21% on y-o-y basis due to growth in its sales volume owing to higher demand from industrial customers as well as increase in sales realization. Operating profitability (PBILDT margin) remained stable during FY18. Its PBILDT interest coverage improved during FY18 and Q1FY19. But, GGL’s capital structure continued to remain at a moderate level as on March 31, 2018. However, with receipt of income tax refund of Rs.215 crore (including interest on this refund) during Q1FY19, there is improvement in its liquidity as well as reduction in its net debt figure as on June 30, 2018 compared to the position as on March 31, 2018. GGL also collects security deposits from domestic PNG customers towards their gas connections, which is

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.
repayable only on surrender of the connection, which provides a steady long-term source of funding the capex for the CGD network.

**Favorable demand outlook for CGD business:** GGL is expected to benefit from the continued increase in natural gas demand (CNG and PNG) in Gujarat, as per CARE, which is amongst the highest natural gas consuming state in India. Also, there is increase in the number of CNG operated vehicles on account of the pricing economics of natural gas compared with other conventional fuels. Going forward, the increasing number of CNG variant models by car manufacturers would also increase the number of CNG vehicles and thus lead to higher CNG demand. Also, domestic gas consumption is at a very nascent stage and offers healthy opportunities for further growth. Also, there is an ongoing expansion of imported R-LNG handling capacity in India which is expected to result in availability of cheaper/environment-friendly fuel in the future. Upon availability of cheaper gas, majority of the industrial & commercial users are envisaged to shift to natural gas from alternate fuels due to ease in usage and favourable regulatory push since natural gas is a lower carbon-emission fuel.

**Key Rating Weaknesses**

**Demand from industrial and commercial customers has close linkages with prevailing price of competing fuels:** GGL’s industrial and commercial customers account for ~70% of its total gas sales volumes. Demand from these segments are inherently prone to price and volume risks depending on the price of alternate fuel like furnace oil, as the industrial furnaces in some of the user segments are designed for switch between fuels within a short time period and without any major production disruption, to take advantage of lower price of competing fuel. However, during FY18, the sales volume of gas to GGL’s industrial customers increased by around 18% on a y-o-y basis; aided partly by economically competitive price of gas during the year. However, with expected increase in natural gas prices, its impact on industrial demand for gas and GGL’s profitability in this user-segment remains a key monitorable.

**Medium sized capex plans:** GGL received authorizations from PNGRB for development of CGD network in the geographical areas of Amreli, Dahod, Panchmahal, Ahmedabad (excluding the area already authorized), Anand (excluding the area already authorized) and Dahej-Vagra Taluka (all in Gujarat) during H1FY17. Further, during September 2018, GGL has been allotted license to develop CGD network in Geographic Area of Narmada (Rajpipla) district of Gujarat in the 9th round of CGD bidding by PNGRB.

It has envisaged moderate sized capex of around Rs. 400-500 crore p.a. during next 5 years for development of CGD network in these new areas along-with routine expansion of CGD network in its already authorized/operational areas. As GGL’s management has articulated to primarily fund this capex through its internal cash accruals, its leverage is expected to improve.

**Analytical approach:** Standalone

**Applicable Criteria**

- Criteria on assigning Outlook to Credit Ratings
- CARE’s Policy on Default Recognition
- Criteria for Short Term Instruments
- Rating Methodology: Factoring linkages in ratings
- Rating Methodology – Infrastructure Companies
- Financial Ratios: Non-Financial Sector

**About the Company**

GGL is India’s largest city gas distribution company. It 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. GGL is engaged in marketing and distribution of natural gas (piped and compressed) and currently supplies piped natural gas (PNG) to industrial, commercial, domestic customers and compressed natural gas (CNG) to transportation sector. GGL has a presence in 18 Geographical Areas (GAs) largely spread across Gujarat. GGL has a user base of around 1.28 million domestic households, more than 3,300 industrial units, over 12,000 commercial customers with 291 CNG stations as on June 30, 2018. The average daily sales volume of gas by GGL was 6.22 mmcmd (million metric standard cubic meter per day) in FY18.

In March 2018, GSPC sold its 28.40% stake in GGL to GSPL; thus GSPL holds 54.17% stake in GGL as on June 30, 2018 whereas the balance is with public and other institutions/corporates.
Credit Analysis & Research Limited

Press Release

**Brief Financials (Rs. crore)**

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<tr>
<th></th>
<th>FY17 (A)</th>
<th>FY18 (A)</th>
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<tbody>
<tr>
<td>Total operating income</td>
<td>5,113</td>
<td>6,202</td>
</tr>
<tr>
<td>PBILDT</td>
<td>783</td>
<td>942</td>
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<tr>
<td>PAT</td>
<td>177</td>
<td>291</td>
</tr>
<tr>
<td>Overall gearing (times)</td>
<td>1.46</td>
<td>1.28</td>
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<tr>
<td>Interest coverage (times)</td>
<td>3.59</td>
<td>4.60</td>
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*A: Audited; The above brief financials are as per CARE’s criteria for calculating financial ratios*

As per the unaudited results for Q1FY19, GGL reported PAT of Rs.121 crore on a TOI of Rs.1,872 crore as against PAT of Rs.104 crore on a TOI of Rs.1,525 crore in Q1FY18.

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/ regulators or others are welcome to write to care@careratings.com for any clarifications.

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**For detailed Rationale Report and subscription information, please contact us at** [www.careratings.com](http://www.careratings.com)

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In case of partnership/proprietary concerns, the rating/outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.
Annexure-1: Details of Facilities

<table>
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<tr>
<th>Name of the Instrument</th>
<th>Date of Issuance</th>
<th>Coupon Rate</th>
<th>Maturity Date</th>
<th>Size of the Issue (Rs. crore)</th>
<th>Rating assigned along with Rating Outlook</th>
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<tbody>
<tr>
<td>Fund-based/Non-fund-based-LT/ST</td>
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<td>-</td>
<td>-</td>
<td>2000.00</td>
<td>CARE AA; Positive/ CARE A1+</td>
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Annexure-2: Rating History of last three years

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Name of the Instrument/Bank Facilities</th>
<th>Current Ratings</th>
<th>Rating history</th>
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<td>Type</td>
<td>Amount Outstanding (Rs. crore)</td>
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<td>2.</td>
<td>Fund-based/Non-fund-based-LT/ST</td>
<td>LT/ST</td>
<td>2000.00</td>
</tr>
</tbody>
</table>
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