

## Rating Rationale

December 24, 2019 | Mumbai

### Gujarat Gas Limited

Rating upgraded to 'CRISIL AA+/Stable'

#### Rating Action

<b>Total Bank Loan Facilities Rated</b>	<b>Rs.2350 Crore</b>
<b>Long Term Rating</b>	<b>CRISIL AA+/Stable (Upgraded from 'CRISIL AA/Positive')</b>

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

#### Detailed Rationale

CRISIL has upgraded its rating on the long-term bank facilities of Gujarat Gas Limited (GGL) to '**CRISIL AA+/Stable**' from 'CRISIL AA/Positive'.

The upgrade reflects CRISIL's expectations of an improvement in GGL's credit profile over the medium term. Sustainable improvement in cash accruals is expected to improve GGL's financial risk profile notwithstanding the sizeable capital expenditure (capex) programme.

GGL has reported a healthy growth in operating profit led by higher gas sales volumes and benign cost of re-gasified liquefied natural gas (R-LNG), in the first half of fiscal 2020. The volume growth was mainly driven by higher gas sales in the Morbi industrial area. In March 2019, the National Green Tribunal (NGT)'s order of banning the use of coal gasifiers in Morbi (Gujarat) region led to migration of industrial customers, mainly ceramic tile manufacturers, to piped natural gas from coal. Commercialisation of new geographical areas (GAs) will further support the volume growth.

GGL has annual capex plan of Rs 700-800 crore, to be largely funded through internal accruals. GGL has received the authorisation to set up city gas distribution (CGD) network in 7 new GAs won under the Round 9 and Round 10 bid conducted by the Petroleum and Natural Gas Regulatory Board (PNGRB). Further, it plans to expand the network within existing GAs as well. The project risk on account of sizeable capex and newer geographies is partially mitigated by GGL's long standing experience in CGD business.

The rating continues to reflect the company's sizeable scale of operations as the largest CGD entity in India, its healthy financial risk profile and stable profitability levels. These strengths are partially offset by its exposure to volatility in R-LNG and domestic natural gas prices and exposure to regulatory risks.

#### Analytical Approach

CRISIL has combined the business and financial risk profiles of GGL and its subsidiaries/associates to arrive at the ratings.

Please refer Annexure - List of entities consolidated, for details of the entities considered and their analytical treatment for consolidation.

## **Key Rating Drivers & Detailed Description**

### **Strengths**

#### **\* Largest CGD player in India with diversified customer profile**

GGL's strong and established market position in the CGD industry in India is indicated by its industry-leading presence in 23 districts spread across Gujarat, Dadra and Nagar Haveli, and Maharashtra. Further, the Company has also won bids during the 9<sup>th</sup> and 10<sup>th</sup> CGD bidding round to set up CGD networks in 7 new GAs in the states of Gujarat, Rajasthan, Haryana, Punjab and Madhya Pradesh. New GAs should help attain geographical diversification while expanding the scale of operations. The company's user base comprised around 14 lakh domestic households, 3626 industrial units, 12,397 commercial establishments and 347 CNG stations, as on September 30, 2019, thus providing strong revenue diversity.

#### **\* Sustained improvement in operating performance, driven by rise in gas volumes sold and stable realisations**

GGL is the largest CGD player in India, with strong and established market share. The company has been able to sustain improvement in its operating performance, despite volatility in RLNG and domestic gas prices. The domestic gas prices rose 19% during fiscal 2019, while the spot RLNG increased by 10%. Despite this hike, the company was able to pass on the increased cost to its customers, and maintain a healthy gross profit per standard cubic metre (scm).

Operating performance during first half of fiscal 2020 further improved, contributed by rise in the gas volumes sold and improved margin levels. Gas volumes sold grew by 43% to 9.3 mmscmd (from 6.5 mmscmd in fiscal 2019). Significant growth in volumes was mainly contributed by sales recognised in the Morbi industrial area, wherein the NGT has banned the usage of coal gasifiers. CRISIL expects such volumes to sustain going forward. Operating margins improved to 17% during first half of fiscal 2020 (from average 13% earned in the past) mainly due to decline in the spot LNG prices. The sourcing mix had tilted towards the cheaper spot LNG to meet the incremental demand of industrial customers. CRISIL however expects the margins to normalise to 12% - 14% going forward, with revival expected in the spot LNG prices.

#### **\* Healthy financial risk profile**

GGL's financial risk profile is driven by healthy cash accruals, comfortable debt protection metrics, and adequate liquidity. Cash accruals increased to Rs 640 crore during fiscal 2019 from Rs 515 crore in fiscal 2018. The company also reported healthy cash accruals of Rs 627 crore during first half of fiscal 2020. Gearing improved to 0.86 times as on September 30, 2019 as compared to 1.18 times as on March 31, 2019 and 1.49 times as on March 31, 2018. The annual cash accruals generated is expected to be sufficient to fund the capex plans of the company over the medium term, and accordingly the Debt/EBITDA position is not expected to exceed 2.5 times.

### **Weakness**

#### **\* Exposure to regulatory risks**

Regulation of natural gas, including CGD, is still in the initial stage in India and hence there is considerable uncertainty regarding the regulatory norms for natural gas allocation and distribution. Though the uncertainty in regulation is expected to subside as the industry attains maturity, any unexpected change in regulations regarding allocation of natural gas and pricing of end-product can adversely impact CGD players like GGL.

#### **\* Exposure to competition from alternate sources**

Post the end of the marketing exclusivity period for the allotted GAs, the company remains exposed to competition that could set in from the other CGD players. ~70% of GGL's volume mix accrues from the industrial/commercial segment, which is generally price sensitive to the pricing of alternate fuels. However, GGL has demonstrated a healthy track record of supplying gas in the allotted GAs, wherein it has been able to maintain its customer base and margin levels, despite competition setting in from alternate fuels.

## Liquidity Strong

Liquidity is strong with cash and bank balance of Rs 478 crore as on September 30, 2019 as compared to Rs 289 crore as on March 31, 2019. Net cash accrual, healthy at Rs 640 crore during fiscal 2019, has further improved to Rs 627 crore during first half of fiscal 2020. Annual cash accruals generated is expected to be sufficient to service the debt repayments due of Rs 164 crore in fiscal 2021. Expected annual capex of Rs 700-800 crore is expected to be mainly met through internal accruals. Liquidity is further supported by largely unutilised working capital bank lines.

## Outlook: Stable

CRISIL believes GGL will continue to depict a steady growth in operating performance, backed by healthy volume growth and stable realisation levels.

## Rating Sensitivity factors

### **Upward Factor**

\*Improvement in the financial risk profile, with a net debt/EBITDA below 1 time

\*Reduction in project risk with early commercialization of newly won GAs.

### **Downward Factor**

\*Material impact on operating performance on account of significant delays in project execution

\*Large debt-funded capex or acquisitions, leading to net debt/EBITDA position exceeding 2.5 times.

## **About the Company**

GGL is India's largest City Gas Distribution company, with 25 CGD licenses spread across 41 districts in 6 states and 1 Union territory across the states of Gujarat, Maharashtra, Rajasthan, Haryana, Punjab and Madhya Pradesh and Union Territory of Dadra & Nagar Haveli.

For the six months ended September 30, 2019, GGL reported profit after tax (PAT) of Rs 751 crore on revenues of Rs 5,174 crore, against a PAT of Rs 163 crore on revenue of Rs 3,807 crore for the corresponding period of the previous fiscal.

## Key Financial Indicators

Particulars	Unit	2019	2018
Revenue	Rs crore	7754	6175
Profit After Tax (PAT)	Rs crore	418	292
PAT Margin	%	5.3	4.7
Adjusted debt/adjusted network	Times	1.18	1.49
Interest Coverage	Times	5.37	4.60

Any other information: Not applicable

## **Note on complexity levels of the rated instrument:**

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## Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Cr)	Rating assigned with outlook
NA	Term Loan	NA	NA	Dec-27	516	CRISIL AA+/Stable
NA	Term Loan	NA	NA	Sep-27	1599	CRISIL AA+/Stable
NA	Term Loan	NA	NA	Mar-29	100	CRISIL AA+/Stable
NA	Proposed Term Loan	NA	NA	NA	135	CRISIL AA+/Stable

## Annexure - List of entities consolidated

Names of entities consolidated	Extent of consolidation	Rationale for consolidation
Gujarat Gas Limited Employees Welfare Stock Option Trust	Fully consolidated	100% Sole beneficiary
Gujarat Info Petro limited	Equity method	Associate company

## Annexure - Rating History for last 3 Years

Instrument	Type	Current		2019 (History)		2018		2017		2016		Start of 2016
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
--	CCR		--		--		--		--	22-11-16	Withdrawal	CCR AA/Stable
Fund-based Bank Facilities	LT/ST	2350.00	CRISIL AA+/Stable	30-05-19	CRISIL AA/Positive	23-02-18	CRISIL AA/Stable			30-11-16	CRISIL AA/Stable	CRISIL AA/Stable
										22-11-16	CRISIL AA/Stable	
Non Fund-based Bank Facilities	LT/ST		--		--		--		--	22-11-16	CRISIL AA/Stable/ CRISIL A1+	CRISIL AA/Stable/ CRISIL A1+

All amounts are in Rs.Cr.

## Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Proposed Term Loan	135	CRISIL AA+/Stable	Proposed Term Loan	135	CRISIL AA/Positive
Term Loan	2215	CRISIL AA+/Stable	Term Loan	2215	CRISIL AA/Positive
<b>Total</b>	<b>2350</b>	<b>--</b>	<b>Total</b>	<b>2350</b>	<b>--</b>

## Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating criteria for manufacturing and service sector companies](#)

[CRISILs Criteria for Consolidation](#)

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