

Rating Rationale

December 22, 2020 | Mumbai

Gujarat Gas Limited

Rating Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.2350 Crore
Long Term Rating	CRISIL AA+/Stable (Reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has reaffirmed its 'CRISIL AA+/Stable' rating on the bank facilities of Gujarat Gas Limited (GGL).

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

GGL has received the authorisation to set up city gas distribution (CGD) network in 7 Geographical Areas (GAs) that were won during the Round 9 and Round 10 bid conducted by the Petroleum and Natural Gas Regulatory Board (PNGRB). The Company would be incurring an annual capex of Rs 700-800 crore over the medium term, to be largely funded through internal accruals. Further, it also plans to expand the network within existing GAs. The project risk on account of sizeable capex and newer geographies is partially mitigated by GGL's long standing experience in the CGD business.

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 - Details of Consolidation, which captures the list of entities considered and their analytical treatment of 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 9th and 10th 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 of more than 14.4 lakh domestic households, 3700 industrial units, 12,600 commercial establishments and 403 CNG stations, as on March 31, 2020, thus providing strong revenue diversity. PNGRB has, vide letters dated June 29, 2020, accepted the proposal for the transfer of authorization of the Amritsar District GA and Bhatinda District GA from Gujarat State Petronet Limited (GSPL) to GGL, subject to certain conditions. Accordingly, PNGRB has permitted the Company to take over activities of laying, building, operating or expanding CGD network of Amritsar District GA and Bhatinda District GA.

*** Healthy operating performance**

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.

Operating performance improved in fiscal 2020, contributed by rise in the gas volumes sold and improved margin levels. Average gas volumes sold grew by 44% to 9.44 mmscmd in fiscal 2020 (from 6.54 mmscmd in fiscal 2019). The significant growth in volumes was mainly contributed by rise in sales in the Morbi industrial area, wherein the NGT has banned the usage of coal gasifiers. While volumes were impacted during the first quarter of fiscal 2021 largely by the Covid-19 induced lockdown restrictions placed, business has revived since then wherein the company has reached its pre-Covid volumes by second quarter of fiscal 2021. Average gas sale volumes for the second quarter of fiscal 2021 was at 9.85 mmscmd. Commercialisation of new geographical areas (GAs) will further support the volume growth.

Operating margins had improved to 16% in fiscal 2020 (from 13% earned in the fiscal 2019), mainly due to decline in the spot LNG prices. The sourcing mix has tilted towards the cheaper spot LNG to meet the incremental demand of industrial customers. CRISIL expects the margins to normalise to 12% - 14% going forward, with revival expected in the spot LNG prices.

*** Comfortable 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 1,434 crore during fiscal 2020 from Rs 640 crore in fiscal 2019. Despite the Covid-19 induced lockdown restrictions placed, the Company was able to report healthy cash accruals of Rs 708 crore during first half of fiscal 2021. Gearing improved to 0.67 times as on March 31, 2020 as compared to 1.18 times as on March 31, 2019. The annual cash accruals generated in excess of Rs 1,000 crore is expected to be sufficient to fund the capex plans of the company over the medium term, and accordingly the net 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 authorised GAs, the Company remains exposed to competition that could set in from the other CGD players. ~78% 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 its authorised GAs, wherein it has been able to grow its customer base, despite competition setting in from alternate fuels.

Liquidity Strong

Liquidity is strong with healthy cash and bank balance maintained of Rs. 653 crore as on March 31, 2020, as compared to Rs 271 crore as on March 31, 2019. The annual cash accruals generated in excess of Rs 1000 crore is expected to be sufficient to service the debt repayments of the Company. GGL has prepaid term loans of Rs 363 crore during the second quarter of fiscal 2021. Expected annual capex of Rs 700-800 crore would mainly be met through internal accruals. Liquidity is further supported by largely unutilized 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 factors

- * 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 factors

- * 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 CGD Company, with 25 CGD licenses spread across 42 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. Moreover, PNGRB has, vide letters dated June 29, 2020, accepted the proposal for the transfer of authorization of the Amritsar District GA and Bhatinda District GA from Gujarat State Petronet Limited (GSPL) to GGL, subject to certain conditions. Accordingly, PNGRB has permitted the Company to take over activities of laying, building, operating or expanding CGD network of Amritsar District GA and Bhatinda District GA.

For the six months ended September 30, 2020, GGL reported profit after tax (PAT) of Rs 535 crore on revenues of Rs 3,632 crore, against a PAT of Rs 751 crore on revenue of Rs 5,174 crore for the corresponding period of the previous fiscal.

Key Financial Indicators

Particulars	Unit	2020	2019
Revenue	Rs crore	10,300	7754
Profit after tax (PAT)	Rs crore	1,199	418
PAT margin	%	11.64	5.4
Adjusted debt/adjusted net worth	Times	0.67	1.18
Interest Coverage	Times	8.43	5.37

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL complexity levels are assigned to various types of financial instruments and are included (where applicable) in the Annexure -- Details of Instrument in this Rating

Rationale. For more details on the CRISIL complexity levels, please visit www.crisil.com/complexity-levels.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity levels	Rating assigned with outlook
NA	Term loan	NA	NA	Dec-27	475.0	NA	CRISIL AA+/Stable
NA	Term loan	NA	NA	Sep-27	1105.0	NA	CRISIL AA+/Stable
NA	Proposed term loan	NA	NA	NA	40.0	NA	CRISIL AA+/Stable
NA	Non-fund based limit *	NA	NA	NA	60.0	NA	CRISIL AA+/Stable
NA	Non-fund based limit	NA	NA	NA	670.0	NA	CRISIL AA+/Stable

*Rs. 0.05 crore interchangeable with fund based working capital limits

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		2020 (History)		2019		2018		2017		Start of 2017
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	1620.00	CRISIL AA+/Stable	06-01-20	CRISIL AA+/Stable	24-12-19	CRISIL AA+/Stable	23-02-18	CRISIL AA/Stable			CRISIL AA/Stable
						30-05-19	CRISIL AA/Positive					
Non Fund-based Bank Facilities	LT/ST	730.00	CRISIL AA+/Stable		--		--		--		--	--

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
Non-Fund Based Limit*	60	CRISIL AA+/Stable	Proposed Term Loan	235	CRISIL AA+/Stable
Non-Fund Based Limit	670	CRISIL AA+/Stable	Term Loan	2115	CRISIL AA+/Stable
Proposed Term Loan	40	CRISIL AA+/Stable	--	0	--
Term Loan	1580	CRISIL AA+/Stable	--	0	--
Total	2350	--	Total	2350	--

*Rs.0.05 crore interchangeable with fund based working capital limits

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](#)

For further information contact:

Media Relations	Analytical Contacts	Customer Service Helpdesk
<p>Saman Khan Media Relations CRISIL Limited D: +91 22 3342 3895 B: +91 22 3342 3000 saman.khan@crisil.com</p> <p>Naireen Ahmed Media Relations CRISIL Limited D: +91 22 3342 1818 B: +91 22 3342 3000 naireen.ahmed@crisil.com</p>	<p>Manish Kumar Gupta Senior Director - CRISIL Ratings CRISIL Limited B:+91 124 672 2000 manish.gupta@crisil.com</p> <p>Nitesh Jain Director - CRISIL Ratings CRISIL Limited D:+91 22 3342 3329 nitesh.jain@crisil.com</p> <p>Joanne Gonsalves Rating Analyst - CRISIL Ratings CRISIL Limited B:+91 22 3342 3000 Joanne.Gonsalves@crisil.com</p>	<p>Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301</p> <p>For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com</p> <p>For Analytical queries: ratingsinvestordesk@crisil.com</p>

Note for Media:

This rating rationale is transmitted to you for the sole purpose of dissemination through your newspaper / magazine / agency. The rating rationale may be used by you in full or in part without changing the meaning or context thereof but with due credit to CRISIL. However, CRISIL alone has the sole right of distribution (whether directly or indirectly) of its rationales for consideration or otherwise through any media including websites, portals etc.

About CRISIL Limited

CRISIL is a leading agile and innovative, global analytics company driven by its mission of making markets function better. We are India's foremost provider of ratings, data, research, analytics and solutions. A strong track record of growth, culture of innovation and global footprint sets us apart. We have delivered independent opinions, actionable insights, and efficient solutions to over 1,00,000 customers.

We are majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

For more information, visit www.crisil.com

Connect with us: [TWITTER](#) | [LINKEDIN](#) | [YOUTUBE](#) | [FACEBOOK](#)

About CRISIL Ratings

CRISIL Ratings is part of CRISIL Limited ("CRISIL"). We pioneered the concept of credit rating in India in 1987. CRISIL is registered in India as a credit rating agency with the Securities and Exchange Board of India ("SEBI"). With a tradition of independence, analytical rigour and innovation, CRISIL sets the standards in the credit rating business. We rate the entire range of debt instruments, such as, bank loans, certificates of deposit, commercial paper, non-convertible / convertible / partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 24,500 large and mid-scale corporates and financial institutions. CRISIL has also instituted several innovations in India in the rating business, including rating municipal bonds, partially guaranteed instruments and microfinance institutions. We also pioneered a globally unique rating service for Micro, Small and Medium Enterprises (MSMEs) and significantly extended the accessibility to rating services to a wider market. Over 1,10,000 MSMEs have been rated by us.

CRISIL PRIVACY

CRISIL respects your privacy. We may use your contact information, such as your name, address, and email id to fulfil your request and service your account and to provide you with additional information from CRISIL. For further information on CRISIL's privacy policy please visit www.crisil.com.

DISCLAIMER

This disclaimer forms part of and applies to each credit rating report and/or credit rating rationale that we provide (each a "Report"). For the avoidance of doubt, the term "Report" includes the information, ratings and other content forming part of the Report. The Report is intended for the jurisdiction of India only. This Report does not constitute an offer of services. Without limiting the generality of the foregoing, nothing in the Report is to be construed as CRISIL providing or intending to provide any services in jurisdictions where CRISIL does not have the necessary licenses and/or registration to carry out its business activities referred to above. Access or use of this Report does not create a client relationship between CRISIL and the user.

We are not aware that any user intends to rely on the Report or of the manner in which a user intends to use the Report. In preparing our Report we have not taken into consideration the objectives or particular needs of any particular user. It is made abundantly clear that the Report is not intended to and does not constitute an investment advice. The Report is not an offer to sell or an offer to purchase or subscribe for any investment in any securities, instruments, facilities or solicitation of any kind or otherwise enter into any deal or transaction with the entity to which the Report pertains. The Report should not be the sole or primary basis for any investment decision within the meaning of any law or regulation (including the laws and regulations applicable in the US).

Ratings from CRISIL Rating are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities / instruments or to make any investment decisions. Any opinions expressed here are in good faith, are subject to change without notice, and are only current as of the stated date of their issue. CRISIL assumes no obligation to update its opinions following publication in any form or format although CRISIL may disseminate its opinions and analysis. CRISIL rating contained in the Report is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment or other business decisions. The recipients of the Report should rely on their own judgment and take their own professional advice before acting on the Report in any way. CRISIL or its associates may have other commercial transactions with the company/entity.

Neither CRISIL nor its affiliates, third party providers, as well as their directors, officers, shareholders, employees or agents (collectively, "CRISIL Parties") guarantee the accuracy, completeness or adequacy of the Report, and no CRISIL Party shall have any liability for any errors, omissions, or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of the Report. EACH CRISIL PARTY DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall any CRISIL Party be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the Report even if advised of the possibility of such damages.

CRISIL Ratings may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of the instruments, facilities, securities

or from obligors. CRISIL's public ratings and analysis as are required to be disclosed under the regulations of the Securities and Exchange Board of India (and other applicable regulations, if any) are made available on its web sites, www.crisil.com (free of charge). Reports with more detail and additional information may be available for subscription at a fee – more details about CRISIL ratings are available here: www.crisilratings.com.

CRISIL and its affiliates do not act as a fiduciary. While CRISIL has obtained information from sources it believes to be reliable, CRISIL does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives and / or relies in its Reports. CRISIL keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of the respective activity. As a result, certain business units of CRISIL may have information that is not available to other CRISIL business units. CRISIL has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process. CRISIL has in place a ratings code of conduct and policies for analytical firewalls and for managing conflict of interest. For details please refer to: <https://www.crisil.com/en/home/our-businesses/ratings/regulatory-disclosures/highlighted-policies.html>

CRISIL's rating criteria are generally available without charge to the public on the CRISIL public web site, www.crisil.com. For latest rating information on any instrument of any company rated by CRISIL you may contact CRISIL RATING DESK at CRISILratingdesk@crisil.com, or at (0091) 1800 267 1301.

This Report should not be reproduced or redistributed to any other person or in any form without a prior written consent of CRISIL.

All rights reserved @ CRISIL