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January 07, 2020

Mr Nitesh Bhandari
CFOGujarat Gas Limited
2, Shanti Sadan Society,
Near Parimal Garden,
Elisbridge,
Ahmedabad - 380006

Dear Mr Nitesh Bhandari,

Re: Review of CRISIL Ratings on the bank facilities of Gujarat Gas Limited

All ratings assigned by CRISIL are kept under continuous surveillance and review.

Please find in the table below the ratings outstanding for the debt instruments/facilities of the company, and the rating actions by CRISIL on the ratings as on date.

| | |
|----------------------------------|-------------------|
| Total Bank Loan Facilities Rated | Rs.2350 Crore |
| Long-Term Rating | CRISIL AA+/Stable |

(Bank-wise details as per Annexure 1)

As per our Rating Agreement, CRISIL would disseminate the ratings, along with the outlook, through its publications and other media, and keep the ratings, along with the outlook, under surveillance over the life of the instrument/facility. CRISIL reserves the right to withdraw, or revise the ratings, along with the outlook, at any time, on the basis of new information, or unavailability of information, or other circumstances which CRISIL believes may have an impact on the ratings.

In the event of the company not availing the proposed facilities within a period of 180 days from the date of this letter, a fresh letter of revalidation from CRISIL will be necessary.

Should you require any clarifications, please feel free to get in touch with us.

With warm regards,

Yours sincerely,



Nitesh Jain
Director - CRISIL Ratings



Nivedita Shibu
Associate Director - CRISIL Ratings



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CRISIL Limited

Corporate Identity Number: L67120MH1987PLC042363

Annexure 1 - Bank-wise details of various facility classes (outstanding facilities)

| S.No. | Bank Facility | Bank | Amount (Rs. in Crore) | Outstanding Rating |
|-------|--------------------|---------------------|-----------------------|--------------------|
| 1 | Proposed Term Loan | Proposed | 235.0 | CRISIL AA+/Stable |
| 2 | Term Loan | HDFC Bank Limited | 516.0 | CRISIL AA+/Stable |
| 3 | Term Loan | State Bank of India | 1599.0 | CRISIL AA+/Stable |
| | Total | | 2350.0 | |

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CRISIL Limited

Corporate Identity Number: L67120MH1987PLC042363

Rating Rationale

January 06, 2020 | Mumbai

Gujarat Gas Limited

Rating Action

| | |
|----------------------------------|-------------------|
| Total Bank Loan Facilities Rated | Rs.2350 Crore |
| Long Term Rating | CRISIL AA+/Stable |

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL's rating on the bank facilities of Gujarat Gas Limited (GGL) continue 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.

On December 24, 2019, CRISIL had upgraded its ratings on the bank facilities of GGL to 'CRISIL AA+/Stable' from 'CRISIL AA/Positive'.

The rating 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.

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 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 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 networkth | 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 | Proposed term loan | NA | NA | NA | 235 | 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 | | 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 | 2350.00 | CRISIL AA+/Stable | | | 24-12-19 | CRISIL AA+/Stable | 23-02-18 | CRISIL AA+/Stable | | | CRISIL AA+/Stable |
| | | | | | | 30-05-19 | CRISIL AA/Positive | | | | | |

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 | 235 | CRISIL AA+/Stable | Proposed Term Loan | 135 | CRISIL AA+/Stable |
| Term Loan | 2115 | CRISIL AA+/Stable | Term Loan | 2215 | CRISIL AA+/Stable |
| Total | 2350 | -- | Total | 2350 | -- |

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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