

## Rating Rationale

May 30, 2019 | Mumbai

## Gujarat Gas Limited

Rating outlook revised to 'Positive', rating reaffirmed

## Rating Action

Total Bank Loan Facilities Rated	Rs.2350 Crore
Long Term Rating	CRISIL AA/Positive (Outlook revised from 'Stable' and rating reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments &amp; Bank Facilities

## Detailed Rationale

CRISIL has revised its outlook on the long-term bank facilities of Gujarat Gas Limited (GGL) to **'Positive'** from 'Stable', and reaffirmed the rating at **'CRISIL AA'**.

The revision in outlook reflects CRISIL's expectation that GGL's business risk profile may improve if its profitability, financial risk profile and liquidity are sustained over the near term.

GGL is expected to clock healthy growth in volumes driven by commercialisation of new geographical areas (GAs) along with the National Green Tribunal (NGT)'s order of banning the use of coal gasifiers in Morbi (Gujarat) region over the medium term. The NGT order has led to migration of industrial customers, mainly ceramic tile manufacturers, to piped natural gas from coal. From the Morbi industrial belt, GGL has achieved peak volumes of over 4.5 million metric standard cubic meter per day (mmscmd) during April 2019, compared to an average 2.5 mmscmd earlier. Sustenance of volume growth and profitability in the industrial segment is a key monitorable.

Further, GGL is expected to incur annual capital expenditure (capex) of Rs 500-600 crore over the medium term.

The rating reflects the company's sizeable scale of operations as the largest city gas distribution (CGD) entity in India, healthy financial risk profile and stable profitability. These strengths are partially offset by exposure to volatility in re-gasified liquefied natural gas (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 &amp; 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 across Gujarat, Dadra and Nagar Haveli, and Maharashtra. It has also won bids for six new GAs during the 10<sup>th</sup> CGD bidding round, covering 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 13.55 lakh domestic households, 3540 industrial units, and 344 CNG stations, as on March 31, 2019, providing strong revenue diversity. Its total daily gas sale was 6.53 mmscmd in fiscal 2019. GGL's total gas volume is expected to grow 25-30% during fiscal 2020 following the ban on coal gasifiers in the Morbi region.

## \* Healthy financial risk profile

Financial risk profile is driven by healthy cash accrual, comfortable debt protection metrics, and adequate liquidity. Cash accrual increased to Rs 623 crore during fiscal 2019 from Rs 515 crore in fiscal 2018. The interest coverage ratio has also augmented to 5.59 times from 4.6 times, while gearing improved to 1.18 times as on March 31, 2019 from 1.49 times a year ago. Debt protections metrics could witness significant enhancement in fiscal 2020 with the upside in sales volumes.

## \* Profits remain healthy despite volatility in RLNG and domestic gas prices

The domestic gas prices rose 19% during fiscal 2019, while the spot RLNG increased 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)

During fiscal 2019, the total sales volumes increased to 6.53 mmscmd, compared to 6.22 mmscmd the previous fiscal. The

company generated an earnings before interest tax depreciation and amortisation (EBITDA) of Rs 984 crore on revenues of Rs 7,754 crore during fiscal 2019, as compared to Rs 914 crore on Rs 6,175 crore, respectively, the previous fiscal.

The ban on coal gasifiers in Morbi region, which is one of the biggest industrial markets for GGL, could further increase the sales realisation of the company, following the regulatory push for cleaner fuels.

### Weakness

#### \* Exposure to regulatory risks and volatility in RLNG prices

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.

### Liquidity

Liquidity is strong with cash and bank balance of Rs 313 crore as on March 31, 2019. Net cash accrual, healthy at Rs 623 crore during fiscal 2019, is expected to improve further with increase in volumes should comfortably meet debt repayment of Rs 124 crore during fiscal 2020. Expected capex of Rs 500-600 crore should be met through a prudent funding mix of debt and internal accruals. Liquidity is further supported by largely unutilised working capital bank lines.

### Outlook: Positive

CRISIL believes higher operating profits due to ramp-up in volumes may strengthen the business risk profile, and lead to an improvement in the debt protection metrics.

### Upside scenario

- \* Significant growth in volumes while maintaining healthy gross margins
- \* Sustained improvement in the financial risk profile, backed by growth in accruals

### Downside scenario

- \* Sizeable decline in operating performance, or deterioration in capital structure on account of higher-than-expected debt-funded capex.

### About the Company

GGL is India's largest natural gas distribution company, with operations concentrated in Gujarat. 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 has presence in 23 districts in Gujarat, Dadra and Nagar Haveli, and Maharashtra.

### 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	5.58	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/Positive
NA	Term Loan	NA	NA	Sep-27	1599	CRISIL AA/Positive
NA	Term Loan	NA	NA	Mar-29	100	CRISIL AA/Positive
NA	Proposed Term Loan	NA	NA	NA	135	CRISIL AA/Positive

### Annexure - List of Entities Consolidated

Names of entities consolidated	Extent of consolidation	Rationale for consolidation
Gujarat gas limited employees welfare stock	Fully consolidated	Sole beneficiary

option trust		
Gujarat info. Petro limited	Equity method	Related business and common promoters

## Annexure - Rating History for last 3 Years

Instrument	Current			2019 (History)		2018		2017		2016		Start of 2016
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
--	CCR		--		--		--		--	22-11-16	Withdrawal	CCR AA/Stable
<b>Fund-based Bank Facilities</b>	LT/ST	2350.00	CRISIL AA/Positive			23-02-18	CRISIL AA/Stable			30-11-16	CRISIL AA/Stable	CRISIL AA/Stable
										22-11-16	CRISIL AA/Stable	
<b>Non Fund-based Bank Facilities</b>	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/Positive	Proposed Term Loan	72	CRISIL AA/Stable
Term Loan	2215	CRISIL AA/Positive	Term Loan	2278	CRISIL AA/Stable
<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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