YEARS OF CELEBRATING THE MAHATMA

GUJARAT GAS

GGL/SEC/2021 **29th April, 2021**

BSE Limited,	National Stock Exchange of India Ltd,
Phiroze Jijibhoy Tower, Dalal Street, Mumbai Company Code: BSE-GUJGAS	Exchange Plaza, 5th Floor, Plot No. C/1, G Block, Bandra Kurla Complex, Bandra (East), Mumbai – 400 051 Company Code: NSE-GUJGASLTD

Sub: Disclosure under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Dear Sir/Madam,

Pursuant to SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we inform you that, India Ratings and Research (Ind-Ra) has revised its Outlook on Gujarat Gas Limited (GGL) to Positive from Stable while affirming the Long-term Issuer Rating at 'IND AA+'. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue(billion)	Rating/Outlook	Rating Action
Bank loans*	-	-	-	INR32.0	INDAA+/Positive/INDA1+	Affirmed; Outlook revised to Positive from Stable
Commercial paper (CP)**	-	-	7 to 365days	INR0.35	IND A1+	Affirmed

* Interchangeable with working capital limits
**to be carved out of existing working capital limits

Kindly take it on record.

Thanking you,

For, Gujarat Gas Limited

Rohan

For, Sandeep Dave
Company Secretary

GUJARAT GAS LIMITED (A GSPC Group Company – Government of Gujarat Undertaking) (Formerly known as GSPC Distribution Networks Limited)
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Website : www.gujaratgas.com, www.gspcgroup.com **CIN :** L40200GJ2012SGC069118

India Ratings & Research
A Fitch Group Company

India Ratings Revises Outlook on Gujarat Gas to Positive; Affirms 'IND AA+'; CP Affirmed at 'IND A1+'

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APR 2021

By Bhanu Patni

India Ratings and Research (Ind-Ra) has revised its Outlook on Gujarat Gas Limited (GGL) to Positive from Stable while affirming the Long-term Issuer Rating at 'IND AA+'. The instrument-wise rating actions are as follows:

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Ind-Ra continues to take a standalone view of GGL while arriving at the ratings. The agency does not expect GGL to extend/receive any financial support to/from its 54.17% parent, Gujarat State Petronet Limited (GSPL). Ind-Ra has not factored any linkages between GGL and GSPL, apart from GSPL being the promoter shareholder in GGL. In case GGL steps in to support GSPL in any tangible form in the future, Ind-Ra will re-evaluate its rating approach.

The Outlook revision reflects the continued improvement in GGL's business profile, driven by the National Green Tribunal (NGT) order of March 2019 that banned the use of coal gasifiers in the Morbi region. With the ability of end-users to switch to other fuels having diminished significantly, GGL's pricing power has improved post the ruling. Hence, Ind-Ra believes GGL would be able to maintain healthy EBITDA margins in line with its peers in the near-to-medium term. Additionally, the company has moved forward with respect to tying up long-term volumes, increasing the overall share of long-term gas in the sourcing mix. The ramp-up in GGL's volume sales to the Morbi cluster has made it the largest city gas distributor (CGD) entity in the country, and Ind-Ra expects the company to retain the position for a considerable time, given that other CGD companies are still in the ramp-up phase. Lastly, Ind-Ra expects the introduction of electric vehicle (EV) fleet in the state transport undertakings (STUs) to cause only limited disruption in the volumes of GGL, as the threat of EVs would be the highest for companies that mainly operate in the metro cities of India, and also for those companies for which compressed natural gas (CNG) volumes from STUs form a significant proportion of overall CNG sales volumes. GGL is also likely to see a healthy increase in the geographical presence through new geographical areas won under the ninth and 10th rounds of the city gas distribution licence auctions, which were focussed on CNG and domestic piped natural gas (PNG). This is likely to support the diversification of customer as well as margin profiles in the medium term. On the financial front, GGL's RoCE and net leverage continue to be healthy. Furthermore, with the volume ramp-up and rise in margins, the cash flow generation would be sufficient to help the company meet its capex requirements through internal accruals, leading to positive free cash flows.

KEY RATING DRIVERS

Improved Business Profile: GGL's business profile has seen a continuous improvement post the March 2019 NGT order banning the use of coal gasifiers in the Morbi industrial cluster. Ind-Ra expects the volumes sold to the Morbi region to increase meaningfully and contribute more than two-thirds to the overall volumes during FY22. The demand from the Morbi region is likely to see a healthy ramp-up, as the units there are operating at capacity utilisation of 80%-85% and the setting up of any new units in Morbi will augment GGL's sales volumes. Export demand from the US and Europe has also been strong, giving further visibility to end-user industries to set up capacity. The NGT order has also resulted in a strong pricing power for GGL, given that the end-users have limited options to switch to alternate fuels. Ind-Ra expects the near-to-medium-term margins to average INR5.0-5.5/scm compared to the FY16-FY20 average of about INR4/scm. However, the company continues to face geographical concentration risk, as a major share of GGL's volumes come from Morbi. In addition, GGL is exposed to end-consumer industry concentration, as the end-users of its Morbi volumes are mainly tiles manufacturing entities, which are dependent on the real estate sector. Furthermore, it derives 70%-80% of its volumes from the industrial/commercial segment against 10%-15% for other CGD entities. However, the risk of disruption could be lower for GGL because i) CGD entities that derive higher share from STUs in metros are facing the highest risk, given the penetration of EV buses; and ii) metro CGD companies derive nearly 70% of the CNG volumes from STUs, exposing them to similar concentration risks.

The CGD entities benefit from a favourable industry structure, characterised by high entry barriers through marketing and infrastructure exclusivity for a period of eight years and 25 years, respectively, along with regulatory support in the form of allocation of natural gas for PNG-household and CNG, ensuring a near-monopolistic nature of business. However, GGL remains vulnerable to government policies with regard to domestic gas allocation for CNG/PNG-household segments.

Long-Term Volume Tie-Ups: GGL has been able to tie up additional long-term gas which augurs well for GGL as it reduces the company's exposure to the spot market. Ind-Ra believes that, given GGL's business model, it is unlikely to go for a 100% long-term gas tie-up and might keep aside nearly 25%-30% for spot purchases to capitalise on the market dynamics. Additionally, the regulatory backdrop allows for strong pricing ability even if the short-term portfolio were to see a significant increase.

Entry of New Players: The recent regulatory developments that have fixed the network compression and transportation tariffs for the relevant networks could expose GGL to the risk of competition. However, the regulations require the new entrant to pay the charges to the incumbent as determined under the Petroleum and Natural Gas Regulatory Board's (PNGRB) regulations. Hence, even if a new entrant were to foray into the segment in view of the lucrativeness of Morbi volumes, Ind-Ra expects the margins earned by GGL on its Morbi volumes to compress only to a certain extent. Based on its discussions with CGD players, however, Ind-Ra considers the possibility of competition to be limited, as the players have been focusing on expanding the network in areas won rather than competing in an existing geographical area (GA).

Sustained Improvement in Credit Metrics: Despite undertaking an average annual capex of about INR6 billion-7 billion over FY15-FY21, GGL's credit metrics improved over the same period because of continued deleveraging (estimated gross debt - FY21: INR9 billion; FY15: INR32.5 billion). During 9MFY21, the cash flow generation on account of improvement in volumes, resulting from network expansion/diversification and supportive policy actions, along with an improvement in EBITDA margin per unit led to the company pre-paying long-term debt of INR9.9 billion. As a result, the agency expects the gross interest coverage (EBITDA/gross interest expense) to have improved on a yoy basis in FY21 (9MFY21:15.6x; FY20: 8.5x; FY19: 5.0x). GGL's net leverage (net debt/EBITDA) is likely to have fallen to less than 0.5x in FY21 (FY20: 0.82x; FY19: 1.9x; FY18: 2.4x) and the company is likely to become net debt negative in FY22.

Despite the impact of COVID-19-led disruptions on volumes in 1QFY21 GGL's EBITDA improved on yoy basis to INR15.35 billion during 9MFY21 (9MFY20: INR12.1 billion; FY20: INR16.34 billion) due to the fall in gas prices during the year. The average volumes declined on a yoy basis to 8.8mmscmd in 9MFY21 (9MFY20: 9.8 mmscmd, FY20: 9.4 mmscmd), with volumes in 1QFY21, 2QFY21 and 3QFY21 standing at 4.1mmscmd, 9.9mmscmd, and 11.4mmscmd, respectively. As in the case of all CGD players, the EBITDA/scm for GGL improved in 9MFY21 because of the fall in gas prices.

Liquidity Indicator - Adequate: GGL's cash and cash equivalents stood at INR8.4 billion at end-1HFY21(FY20: INR6.9 billion, FYE19: INR3.1 billion). The company reported positive cash flow from operations over FY15-1HFY21, led by the improvement in volumes and operating margins, and a short working capital cycle (FY20: 5 days, FY19: 8 days; FY18: 5 days), which is an inherent characteristic of the industry. Ind-Ra expects the cash flow from operations (1HFY21: INR10.4 billion; FY20: INR17 billion) to remain sufficient to fund a major portion of the cash outflows in the form capex, debt repayments and dividend payments over the near-to-medium term, thereby limiting the need for incremental debt and/or refinancing. GGL plans to continue to incur annual capex of INR6 billion-7 billion for network expansion, with scheduled debt repayments of INR1.1 billion each year over FY22-FY23. Furthermore, the company has sufficient fund-based working capital limits, which were not utilised over the 12 months ended December 20. The unutilised lines coupled with access to capital markets and other prudent sources of funding provide sufficient cushion for any liquidity mismatches in the near term.

Future Growth Drivers: GGL was awarded 11 GAs between FY15-FY17, one GA in the ninth city gas distribution round and six GAs in the 10th distribution round during FY19. All the GAs awarded between FY15-FY17 are operational. Ind-Ra believes GGL could potentially add over 1-1.5mmscmd to the sales volumes from the new GAs over the next three-to-five years and improve its segment mix. Additionally, the six new GAs of GGL are spread across Haryana, Punjab, Madhya Pradesh and Rajasthan; this will augment its presence in the north and west of India and enable diversification of its portfolio.

GGL's balance sheet would remain comfortable even if there were to be a volume decline in the Morbi region over a period of three-to-four years. This is because the impact of the same would be partially offset by a healthy volume ramp-up from the other GAs. Moreover, as more GAs become connected, the intercity movement and use of CNG is likely to see a faster uptick, supporting volume growth. Also, Ind-Ra expects the supportive regulatory actions, such as the one announced by NGT on 8 March 2019, which prohibits the use of coal gasifiers in Morbi, will continue to benefit the company in the medium term if implemented in other regions also.

The Indian government's thrust on increasing the share of natural gas (about 7% at present) in the country's energy basket levels underpins the robust growth outlook of the sector. The GAs won by the company in the ninth and tenth rounds had PNG connections and CNG stations as the parameters carrying the highest weightage. Hence, any underperformance/delay by GGL in meeting the deadlines could result in penalties being imposed. The PNGRB had permitted an extension on the timelines for meeting the minimum works program targets due to COVID-19-led disruptions in FY21.

RATING SENSITIVITIES

Positive: Any supportive regulatory policy action and higher share of household PNG/CNG in the overall sales mix, resulting in a further improvement in the business profile, could lead to a positive rating action. Higher–than-expected growth in volumes along with expansion in EBITDA margins per unit, leading to a sustained improvement in the credit metrics, will be positive for the ratings.

Negative: A substantial fall in the operating margin or lower-than-expected volume growth, leading to deterioration in the credit metrics, will be negative for the ratings. Unexpected debt-led capex, leading to a sustained increase in net leverage, and any adverse regulatory development could also lead to a negative rating action.

COMPANY PROFILE

GGL is India's largest CGD player, with 25 CGD licenses spread in 42 districts across the six states 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 authorisation of the Amritsar District GA and Bhatinda District GA from 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. GGL was initially owned by Gujarat State Petroleum Corporation. During 2018, Gujarat State Petroleum Corporation sold its majority shareholding in GGL to GSPL, an erstwhile associate company of GGL.

GGL benefits from the economies of scale, diversified customer and sourcing bases, and extensive pipeline infrastructure. It has more than 25,000 km pipeline infrastructure, more than 480 CNG stations, around 1.5 million domestic customers and 3,900 industrial consumers with sales of around 11.5mmscmd during 3QFY21.

FINANCIAL SUMMARY

Particulars	9MFY21	FY20	FY19
Revenue (INR billion)	65.5	103.0	77.5
EBITDA (INR billion)	15.3	16.3	9.8
EBITDA margin (%)	23.4	15.9	12.7
Gross debt (INR billion)	10.1	20.1	22.1
Gross interest coverage (x)	15.6	8.5	5.0
Cash (INR billion)	-	6.5	3.1
Net leverage (x)	-	0.8	1.9
Source: GGL, Ind-Ra			

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (billion)	Rating	29 April 2020	29 March 2019	21 December 2017
Issuer rating	Long-term	-	IND AA+/Positive	IND AA+/Stable	IND AA/Positive	IND AA/Stable
Bank loans	Long-term/Short-term	INR32.0	IND AA+/Positive/IND A1+	IND AA+/Stable/IND A1+	IND AA/Positive/IND A1+	IND AA/Stable/IND A1+
CP	Short-term	INR0.35	IND A1+	IND A1+	IND A1+	IND A1+

COMPLEXITY LEVEL OF INSTRUMENTS

Instrument Type	Complexity Indicator
Bank loans	Low
CP	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

SOLICITATION DISCLOSURES

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Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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Applicable Criteria

Corporate Rating Methodology
Short-Term Ratings Criteria for Non-Financial Corporates

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