

## GAIL (India) Limited

December 01, 2022

### Ratings

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	2,000.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Long-term/Short-term bank facilities	3,950.00	CARE AAA; Stable/CARE A1+ (Triple A; Outlook: Stable/A One Plus)	Reaffirmed
<b>Total bank facilities</b>	<b>5,950.00</b> <b>(₹ Five thousand nine hundred fifty crore only)</b>		
Bonds	2,500.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Assigned
<b>Total long-term Instruments</b>	<b>2,500.00</b> <b>(₹ Two thousand five hundred crore only)</b>		

Details of facilities/instruments in Annexure-1.

### Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of GAIL (India) Limited (GAIL) continue to derive strength from its majority ownership by the Government of India (GoI) and its experienced management team, its leadership position in the natural gas transmission and distribution segment in India, and the pivotal role it plays in meeting the GoI's target of an increased share of natural gas in India's energy mix in the long term.

The ratings continue to factor in the tie-ups of natural gas through domestic and overseas sources on a long-term, medium-term, as well as short-term basis, and the diversified revenue streams. The ratings continue to derive comfort from the regulated nature of the natural gas transmission business, where GAIL receives pre-defined returns, thus ensuring stable profitability. The ratings also factor in GAIL's strong financial risk profile, characterised by comfortable leverage and coverage metrics.

The ratings, however, remain susceptible to the volatility associated with the prices of petrochemicals, liquefied petroleum gas (LPG) and other liquid hydrocarbons, besides the risk associated with unhedged liquefied natural gas (LNG).

### Rating sensitivities

#### Positive factors – Factors that could lead to positive rating action/upgrade:

Not applicable

#### Negative factors – Factors that could lead to negative rating action/downgrade:

- Reduction in the shareholding of GoI below 51%.
- Higher-than-expected debt-funded capital expenditure (capex) plans, leading to pressure on the capital structure, thereby increasing the overall gearing above 1x.

### Detailed description of the key rating drivers

#### Key rating strengths

**Majority ownership by the GoI and an experienced management team:** The GoI held a 51.52% stake in GAIL as on September 30, 2022, while the balance stake is held by various institutions and the general public. As a Maharatna among the central public sector undertakings (CPSUs), GAIL enjoys financial and functional autonomy. The company is being managed by a professional and experienced management team having relevant experience in the pipeline transportation and downstream processing of natural gas.

**Leadership position in the natural gas transmission business:** GAIL is the market leader in the transmission of natural gas in the country with around 14,385 km of pipeline network (ie, around 70% of the country's pipeline) as on March 31, 2022, with a natural gas handling capacity of 206 million metric standard cubic meter per day (MMSCMD). Furthermore, pipelines of around 6,277 km are under construction, of the total approved pipelines of around 17,000 km being laid in India. Besides, the company earns stable cash flows from its natural gas transmission business, although it accounted for only around 5% of its total revenues in FY22 (refers to the period from April 1 to March 31). However, the profit before interest and tax (PBIT) margin during FY22 for the segment stood at 60% against 62% during FY21. The PBIT margin for the segment reduced to 45% in H1FY23 on account of an increase in natural gas prices. GAIL gets around 12% internal rate of return (IRR) for its natural gas transmission business. GAIL's integrated pipeline network of Hazira-Vijaipur-Jagdishpur, Dahej-Vijaipur, and Vijaipur-Dadri accounts for over 65% of its natural gas transmission volumes.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

**Adequate gas tie-ups:** Over the years, GAIL has developed adequate tie-ups for the supply of natural gas both, domestically and internationally. During FY22, GAIL sourced around 43% of its total natural gas requirements through domestic sources, which include those from Oil and Natural Gas Corporation Limited (ONGC), Panna-Mukta and Tapti, Ravva, Ravva Satellite, etc. The remaining natural gas requirement is sourced through imported regasified liquefied natural gas (RLNG), which includes long-term, mid-term, and spot contracts. GAIL has multiple long-term LNG contracts of around 14 million tonne per annum (MTPA). It has a long-term contract to buy 5.8 MTPA of LNG from the US and up to 2.5 MTPA of LNG annually on a delivered basis from Gazprom Marketing & Trading Singapore Pte Limited (GMTS), a subsidiary of Russia's Gazprom, while another 5 MTPA from RasGas Qatar. However, GMTS has stopped supplying LNG to GAIL since June 2022. Although cargo supply disruptions started in May 2022, GAIL received one cargo in June 2022. The matter is under discussion between both, GAIL and GMTS and also at the government level. As articulated by the management, in the absence of supplies from GMTS, GAIL is supplying RLNG to its customers equivalent to ship-or-pay quantity, wherever possible, and has reduced its own requirement for its petrochemical plant in Pata and the LPG business. GAIL is also advancing the supply of cargo (which is expected to be received in the next year) through swaps. Furthermore, the company is also exploring alternative sources, including spot purchases, in case the demand for natural gas rises further. Going forward, the capacity utilisation of GAIL is not only dependent upon the company's ability to market the available natural gas, but also on securing the additional natural gas supply for its increasing pipeline infrastructure.

**Revenue risk mitigated by a regulated nature of natural gas transmission business and a diversified revenue stream:** Besides having a dominant position in the transmission of natural gas and LPG, GAIL has a diversified revenue stream with an established presence in various other business segments, like city gas distribution (CGD), petrochemicals, liquid hydrocarbons, exploration and production (E&P), and telecom. During FY22, natural gas marketing, transmission, petrochemicals, and CGD contributed around 76%, 5%, 7%, and 6% to the total revenues of GAIL, respectively (FY21: 70%, 8%, 9%, and 6%, respectively), whereas during H1FY23, the share of these segments was around 85%, 3%, 3%, and 6%, respectively. In the transmission segment, GAIL receives a regulated return on capital employed (RoCE) of 12%, which is determined by the Petroleum and Natural Gas Regulatory Board (PNGRB), leading to stable cash flows and healthy profitability.

**Strong financial profile, marked by increased scale of operations and a healthy capital structure:** During FY22, GAIL's total operating income (TOI) increased to ₹93,175 crore (FY21: ₹57,734 crore), mainly on account of an increase in the sales volumes in the natural gas marketing and natural gas transmission segments, coupled with an increase in the sales realisation in almost all segments due to an increase in the prices of natural gas. In H1FY23, GAIL's TOI stood at ₹38,680 crore. The profit before interest, lease rentals, depreciation and taxation (PBILDT) margin and profit-after-tax (PAT) margin of the company improved to 16.96% (FY21: 13.20%) and 13.45% (FY21: 10.64%), respectively. However, the same reduced to 4.92% and 3.37%, respectively, in H1FY23. The company enjoys a comfortable capital structure with an adjusted overall gearing of 0.17x as on March 31, 2022 (FY21: 0.19x). The interest coverage ratio stood comfortable at 78.06x in FY22 (FY21: 42.50x) and 23.27x in H1FY23. Also, the debt coverage indicators, including total debt (TD) to gross cash accruals (GCA) and TD/PBILDT stood comfortable at 0.63x (FY21: 0.95x) and 0.61x (FY21: 1.03x), respectively. However, this has moderated to 1.77x and 1.88x, respectively in H1FY23.

#### **Key rating weaknesses**

**Risk related to un-hedged US LNG contract:** GAIL has long-term contracts to buy 5.8 MTPA of LNG from the US out of its total 14 MTPA long-term contracts. GAIL's US LNG price is linked with the Henry Hub (HH) natural gas prices, while the sale price is linked with various indices, including three-month Brent crude oil prices. To mitigate the fluctuations in prices, the company undertakes commodity hedging. Furthermore, GAIL procures natural gas from the US through destination swaps, leading to a reduction in the shipping cost for the natural gas imported to India from the US.

**Susceptibility to volatile commodity prices associated with petrochemicals, LPG, and other liquid hydrocarbons:** Petrochemicals, LPG, and liquid hydrocarbons are directly exposed to changes in commodity prices. With changes in the prices of crude oil and petroleum, the realisations from petrochemicals also vary. GAIL's revenue from the petrochemicals sector, LPG, and other liquid hydrocarbons improved on account of an increase in the average sales realisation by around ₹27,100 per MT and ₹19,500 per MT, respectively, in FY22. The average sales realisation further improved by ₹21,150 per MT and ₹14,700 per MT, respectively, in H1FY23. Furthermore, due to higher sales realisation, GAIL posted a profit at the PBIT level in the petrochemicals, LPG, and other liquid hydrocarbons division at ₹1,245 crore and ₹2,900 crore, respectively, in FY22 as against a PBIT of ₹1,065 crore and ₹1,303 crore, respectively, in FY21. In H1FY23, for petrochemicals, GAIL incurred a PBIT loss of ₹311 crore, whereas the LPG and other liquid hydrocarbons division earned a PBIT of ₹1,135 crore, respectively.

#### **Liquidity: Strong**

The liquidity position of GAIL remained strong as on September 30, 2022, with free cash and bank balance and investments of ₹1,473 crore. The company's operating cycle remained comfortable at 18 days in FY22 as against 25 days in FY21. GAIL is also undertaking major expansion projects while maintaining high cash reserves. Being a renowned player in the gas utility industry, GAIL also enjoys a low cost of borrowings from capital markets as compared with its competitors. Furthermore, GAIL (on a standalone basis) had fund-based working capital limits of ₹2,825 crore as on March 31, 2022, which remained largely unutilised during the trailing 12-month period.

## Analytical approach

Consolidated financials of GAIL, along with notching-up based on linkages with the GoI. The list of entities consolidated in the FY22 financials of GAIL is placed in Annexure-6.

## Applicable criteria

[Rating Outlook and Credit Watch](#)

[Policy on Default Recognition](#)

[Policy On Curing Period](#)

[Short Term Instruments](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Consolidation](#)

[Factoring Linkages Government Support](#)

[Manufacturing Companies](#)

[Infrastructure Sector Ratings](#)

[Financial Ratios – Non-Financial Sector](#)

## About the company

GAIL, India's principal natural gas transmission and distribution company, was set up by the GoI in August 1984 to create natural gas transportation and distribution infrastructure for the development of the natural gas sector across the country. The company's activities range from natural gas transmission and distribution to processing (for fractionating LPG, propane, special boiling point [SBP] solvent, and pentane), transmission of LPG, production and marketing of petrochemicals like high-density polyethylene (HDPE) and linear low-density polyethylene (LLDPE) and leasing bandwidth in telecommunications. Being the owner of the largest natural gas pipeline infrastructure in India, GAIL has leveraged its position to extend its presence in power, LNG regasification, CGD, and E&P through various equity and joint venture (JV) participations.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
TOI	57,734	93,175	76,577
PBILDT	7,619	15,805	6,450
PAT	6,143	12,530	4,556
Overall gearing (times)	0.15	0.15	0.23
Interest coverage (times)	42.50	78.06	46.17

A: Audited; UA: Unaudited; NA: Not Available; The above financials have been adjusted as per CARE Ratings' criteria.

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for the last three years:** Please refer Annexure-2

**Covenants of the rated instruments/facilities:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments/facilities rated for this company:** Annexure-4

## Annexure-1: Details of instruments/facilities

Name of the Instrument/Bank Facilities	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Bonds	-	-	-	**	2,500.00	CARE AAA; Stable
Fund-based - LT-Term loan	-	-	-	31-03-2033	2,000.00	CARE AAA; Stable
Fund-based - LT/ ST-Working capital demand loan	-	-	-	-	2,200.00	CARE AAA; Stable / CARE A1+
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	1,500.00	CARE AAA; Stable / CARE A1+
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	250.00	CARE AAA; Stable / CARE A1+

\*\*The bonds are proposed.

**Annexure-2: Rating history for the last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1.	Non-fund-based - LT/ST-BG/LC	LT/ST*	250.00	CARE AAA; Stable / CARE A1+	1)CARE AAA; Stable / CARE A1+ (28-Oct-22) 2)CARE AAA; Stable / CARE A1+ (06-Jul-22) 3)CARE AAA; Stable / CARE A1+ (05-May-22)	1)CARE AAA; Stable / CARE A1+ (06-Jul-21)	1)CARE AAA; Stable / CARE A1+ (07-Jul-20)	1)CARE AAA; Stable / CARE A1+ (04-Jul-19)
2.	Bonds	LT	-	-	1)Withdrawn (05-May-22)	1)CARE AAA; Stable (06-Jul-21)	1)CARE AAA; Stable (07-Jul-20)	1)CARE AAA; Stable (04-Jul-19)
3.	Fund-based - LT/ ST- Working Capital Demand loan	LT/ST*	2,200.00	CARE AAA; Stable / CARE A1+	1)CARE AAA; Stable / CARE A1+ (28-Oct-22) 2)CARE AAA; Stable / CARE A1+ (06-Jul-22) 3)CARE AAA; Stable / CARE A1+ (05-May-22)	1)CARE AAA; Stable / CARE A1+ (06-Jul-21)	1)CARE AAA; Stable / CARE A1+ (07-Jul-20)	1)CARE AAA; Stable / CARE A1+ (04-Jul-19)
4.	Non-fund-based - LT/ST-BG/LC	LT/ST*	1,500.00	CARE AAA; Stable / CARE A1+	1)CARE AAA; Stable / CARE A1+ (28-Oct-22) 2)CARE AAA; Stable / CARE A1+ (06-Jul-22) 3)CARE AAA; Stable / CARE A1+ (05-May-22)	1)CARE AAA; Stable / CARE A1+ (06-Jul-21)	1)CARE AAA; Stable / CARE A1+ (07-Jul-20)	1)CARE AAA; Stable / CARE A1+ (04-Jul-19)
5.	Fund-based - LT-Term Loan	LT	2,000.00	CARE AAA; Stable	1)CARE AAA; Stable (28-Oct-22) 2)CARE AAA; Stable (06-Jul-22) 3)CARE AAA; Stable (05-May-22)	-	-	-
6.	Bonds	LT	2,500.00	CARE AAA; Stable				

\*Long-term/Short-term

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities**

Not applicable

**Annexure-4: Complexity level of various instruments/facilities rated for this company**

Sr. No.	Name of Instrument	Complexity Level
1.	Bonds	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Fund-based - LT/ ST-Working Capital Demand loan	Simple
4.	Non-fund-based - LT/ ST-BG/LC	Simple

**Annexure-5: Bank/Lender details for this company**

To view the lender-wise details of bank facilities please [click here](#)

**Annexure-6: List of entities consolidated into GAIL**

Name of the Entity	Subsidiary/Associate/JV	% Shareholding by GAIL as on March 31, 2022
GAIL Gas Limited	Subsidiary	100.00%
GAIL Global (USA) Inc.	Subsidiary	100.00%
GAIL Global Singapore Pte Limited	Subsidiary	100.00%
Tripura Natural Gas Company Limited	Subsidiary	48.98%
Bengal Gas Company Limited	Subsidiary	77.20%
Konkan LNG Limited	Subsidiary	90.83%
Aavantika Gas Limited	Joint venture	49.99%
Bhagyanagar Gas Limited	Joint venture	48.73%
Maharashtra Natural Gas Limited	Joint venture	22.50%
Central U.P. Gas Limited	Joint venture	25.00%
Green Gas Limited	Joint venture	49.97%
Indradhanush Gas Grid Limited	Joint venture	20.00%
Talcher Fertilizers Limited	Joint venture	33.33%
Vadodara Gas Limited	Joint venture	50.00%
TAPI Pipelines Company Limited	Joint venture	5.00%
Mahanagar Gas Limited	Associate	32.50%
Indraprastha Gas Limited	Associate	22.50%
Petronet LNG Limited	Associate	12.50%
Brahmaputra Cracker and Polymer Limited	Associate	70.00%
ONGC Petro Additions Limited	Associate	49.21%
Ramagundam Fertilizers and Chemicals Limited	Associate	14.72%
Fayum Gas Limited	Associate	19.00%
China Gas Holdings Limited	Associate	2.71%
ONGC Tripura Power Company Limited	Associate	26.00%
Bharat Energy Office LLC	Associate	20.00%

**Note on complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for any clarifications.

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