

GAIL (India) Limited

May 05, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings ¹	Rating Action
Long Term Bank Facilities	2,000.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Assigned
Long Term / Short Term Bank Facilities	2,450.00 (Reduced from 4,450.00)	CARE AAA; Stable / CARE A1+ (Triple A; Outlook: Stable / A One Plus)	Reaffirmed
Total Bank Facilities	4,450.00 (Rs. Four Thousand Four Hundred Fifty Crore Only)		
Bonds	-	-	Withdrawn

Details of facilities / instruments in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of GAIL (India) Limited (GAIL) continue to derive strength from the majority ownership by the Government of India (GoI), GAIL's leadership position in the natural gas transmission segment, its diversified revenue stream and a favourable demand situation for natural gas in India. The ratings also factor-in GAIL's strong financial risk profile with a favourable capital structure.

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).

CARE has withdrawn the rating assigned to the bonds of GAIL with immediate effect, as the company has repaid the aforementioned issue rated by us in full and there is no amount outstanding as on date.

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 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 GoI and experienced management team

GoI held 51.45% stake in GAIL as on March 31, 2022, while the balance stake is held by various institutions and general public. As a Maharatna among central public sector undertakings (CPSUs), GAIL enjoys financial and functional autonomy. The company is being managed by professional and experienced management team having a relevant experience in the pipeline transportation and downstream processing of natural gas.

Leadership position in natural gas transmission business

GAIL is the market leader in the transmission of natural gas in the country with over 13,389 km of pipeline network (i.e., 70.86% of the country's pipeline) as on March 31, 2021, with natural gas handling capacity of 204 million metric standard cubic meter per day (MMSCMD). Furthermore, pipeline of around 6,366 km is under construction and approved by GAIL out of the total under-construction and approved pipelines of around 17,000 km being laid in India. Besides, the company earns stable cash flows from its natural gas transmission business, though it accounted for only around 9% of its total revenues in FY21 (refers to the period April 1 to March 31). However, the PBIT margin during FY21 for the segment stood high at 61% against 58% during FY20. 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 account for over 65% of its natural gas transmission volumes.

LNG import tie-up

Over the years, GAIL has developed adequate tie-ups for the supply of natural gas both domestically and internationally. GAIL sources around 50% of its total natural gas requirement through domestic sources which includes Oil and Natural Gas Corporation Limited (ONGC), Panna-Mukta and Tapti, Ravva, Ravva Satellite, etc. The remaining 50% natural gas requirement is sourced through imported re-gasified liquefied natural gas (RLNG) which includes long-term, mid-term and spot contracts. GAIL has multiple long-term LNG contracts of around 14 million tonnes per annum (MTPA). GAIL has long-term contract to buy 5.8 MTPA of LNG from the U.S. and up to 2.5 MTPA of LNG annually on a delivered basis from Gazprom Marketing & Trading Singapore Pte Limited, subsidiary of Russia's Gazprom, while another 5 MTPA from RasGas Qatar. Going forward, capacity

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

utilisation of GAIL is not only dependent upon the company's ability to market the available natural gas but also securing the additional natural gas supply for its increasing pipeline infrastructure.

Revenue risk mitigated by a regulated nature of pipeline transportation 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. In the transmission segment, GAIL receives regulated return on capital employed (ROCE) leading to stable cash flows and healthy profitability.

Strong financial profile marked by increase scale of operation and healthy capital structure

During FY21, GAIL's operating income moderated to Rs.60,207 crore from Rs.75,983 crore in FY20, mainly on account of the dip in the income from natural gas marketing, LPG and other liquid hydrocarbons (both on account of dip in the sales realisations and sales volumes) segments. However, during 9MFY22, the operating income of GAIL increased to Rs.66,284 crore, attributable to significant increase in its income from natural gas marketing segment aided by higher LNG prices. The PBILDT margin of the company improved to 16.74% and 17.65% in FY21 and 9MFY22, respectively, as against 16.19% in FY20. GAIL has a comfortable capital structure with overall gearing of 0.16x as on March 31, 2021 (PY: 0.15x). Also, its debt coverage indicators including total debt to gross cash accruals and interest coverage ratio stood comfortable for FY21 at 0.97x (PY: 0.73x) and 56.22x (PY: 39.81x), respectively.

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 Henry Hub (HH) price, while the sale price is linked to three-month Brent prices. In order to mitigate the fluctuations in the HH-based LNG prices and crude oil prices, the company procures natural gas from the US through destination swaps and commodity hedging leading to reduction in shipping cost for the natural gas imported to India from the US. GAIL has hedged most of its US LNG purchases under the long-term deals, however, some position remains open, and thus, it is exposed to the market demands.

Susceptibility to volatile commodity prices associated with petrochemicals, LPG and other Liquid hydrocarbons

Petrochemicals, LPG and liquid hydrocarbons are directly exposed to the changes in the commodity prices. With the change in crude oil and petroleum prices, the realisations from petrochemicals also vary. GAIL's revenue from the petrochemicals sector improved on account of the increase in the average sales realisation by around Rs.7,500/MT, whereas the revenue from liquid hydrocarbons reduced on account of the dip in the average sales realisation by around Rs.4,550/MT in FY21. Furthermore, due to higher sales realisation, GAIL posted profit at PBIT level in the petrochemicals sector of Rs.1,065 crore in FY21 and Rs.866 crore in 9MFY22 as against loss of Rs.246 crore in FY20.

Liquidity: Strong

GAIL's liquidity position remained strong as on September 30, 2021, with its cash and bank balance and investments of Rs.2,039 crore. The company's operating cycle remained comfortable at 25 days in FY21 as against 22 days in FY20. GAIL is also undertaking major expansion projects while maintaining high cash reserves. Being a renowned player in the gas utility industry, GAIL also enjoys low cost of borrowings from capital markets as compared with its competitors. Furthermore, GAIL (on a standalone basis) had an unutilised fund-based working capital limits of Rs.2,550 crore.

Analytical Approach: Consolidated financials of GAIL along with notching-up based on linkages with GoI. List of entities getting consolidated in the FY21 financials of GAIL are placed at **Annexure-6**.

Applicable Criteria

[Criteria on Assigning 'Outlook' and 'Credit Watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

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

[Rating Methodology - Manufacturing Companies](#)

[Rating Methodology - Infrastructure Sector Ratings \(ISR\)](#)

[Rating Methodology - Notching by Factoring Linkages with Government](#)

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

[Policy on Withdrawal of Ratings](#)

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 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 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 participations.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (UA)
Total Operating Income	75,983	60,207	66,284
PBILDT	12,300	10,079	11,697
PAT	9,515	6,143	8,830
Overall Gearing (times)	0.15	0.16	NA
Interest Coverage (times)	39.81	56.22	80.41

A: Audited: UA: Unaudited: NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Covenants of 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 (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	250.00	CARE AAA; Stable / CARE A1+
Fund-based - LT/ ST-EPC/PSC	-	-	-	-	700.00	CARE AAA; Stable / CARE A1+
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	1,500.00	CARE AAA; Stable / CARE A1+
Fund-based - LT-Term Loan	-	-	-	March 31, 2033	2,000.00	CARE AAA; Stable
Bonds	INE129A07198, INE129A07206, INE129A07214, INE129A07222	-	-	-	0.00	Withdrawn

Annexure-2: Rating history of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2022-2023	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & 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+ (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)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-EPC/PSC	LT/ST*	700.00	CARE AAA; Stable / CARE A1+	-	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+ (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	-	-	-	-

*Long-term / Short-term

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

Not Applicable

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

Sr. No.	Name of the Instrument/Bank Facilities	Complexity Level
1.	Bonds	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Fund-based - LT/ ST-EPC/PSC	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 Getting Consolidated into GAIL

Name of the Entity	Subsidiary / Associate / Joint Venture	% Shareholding by GAIL as on March 31, 2021
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	50.00%
Konkan LNG Limited	Subsidiary	89.28%
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	14.69%
Fayum Gas Limited	Associate	19.00%
China Gas Holdings Limited	Associate	2.87%

Note on complexity levels of the rated instrument: CARE Ratings Limited 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 for any clarifications.

Contact Us

Media Contact

Name: Mradul Mishra
Contact No.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact

Name: Agnimitra Kar
Contact No.: +91-11-4533 3285
Email ID: agnimitra.kar@careedge.in

Relationship Contact

Name: Swati Agrawal
Contact No.: +91-11-4533 3200
Email ID: swati.agrawal@careedge.in

About CARE Ratings Limited:

Established in 1993, CARE Ratings Limited is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

Disclaimer

The ratings issued by CARE Ratings Limited are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings Limited has based its ratings/outlooks based on information obtained from reliable and credible sources. CARE Ratings Limited does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings Limited have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings Limited or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE Ratings Limited is, inter-alia, based on the capital deployed by the partners/proprietor and the current financial strength of the firm. The rating/outlook may undergo a change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE Ratings Limited is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE Ratings Limited's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at www.careedge.in**