Gujarat State Petronet Limited

October 06, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	500.00 (Reduced from 712.47)	**CARE AA+; Stable (Double A Plus; Outlook: Stable)**	**Reaffirmed**
Long-term / Short-term Bank Facilities	300.00 (Enhanced from 100.00)	**CARE AA+; Stable / CARE A1+ (Double A Plus; Outlook: Stable / A One Plus)**	**Reaffirmed**
Short-term Bank Facilities**	-	-	**Withdrawn**
Total Bank Facilities	**800.00 (Rs. Eight hundred crore only)**		

Details of facilities in Annexure-1

***The rating has been withdrawn at the request of the company as the proposed facilities have not been availed.*

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Gujarat State Petronet Limited (GSPL) continue to derive strength from its established position as one of the largest players in the natural gas transmission business in India together with its leadership position in Gujarat, strategic location with connection to all major natural gas supply sources; along with GSPL's synergies with Gujarat State Petroleum Corporation Limited (GSPC) Group which has presence across the energy (natural gas) value chain. GSPL's open-access operating model, significant share in the natural gas transmission business along with increasing demand for natural gas from various consumer segments and its strong financial profile further underpin its ratings. The ratings also positively factor GSPL's strong liquidity profile, its majority stake in Gujarat Gas Limited (GGL; rated CARE AA+; Positive / CARE A1+) leading to synergies in operations and improvement in its debt coverage indicators due to significant amount of prepayments along with scheduled retirement of debt taken for acquiring stake in GGL.

The long-term rating of GSPL is, however, constrained due to its moderate revenue visibility upon scheduled expiry of part of its Gas Transmission Agreements (GTAs) in the near to medium term (however, as per past experience, this is an ongoing process and over the years the company has seen renewal of its contracts) and its vulnerability to regulatory risk. The long-term rating is also constrained due to project implementation and stabilization risks associated with its on-going capital expenditure programme especially the two very large-sized projects being implemented through its joint ventures (JVs). One JV is expected to gradually stabilise while the other JV has availed incremental debt and re-schedulement of the existing debt by two years due to time and cost overrun.

Rating Sensitivities

Positive Factors

- Ability to significantly expand its geographical operations outside the state of Gujarat with improvement in its revenue mix
- Growth in its scale of operations marked by total operating income (TOI) of more than Rs.5,000 crore along with PBILDT margin of more than 85% on a sustained basis and maintaining its comfortable capital structure

Negative Factors

- Decline in scale of operations marked by TOI of less than Rs.1,700 crore
- Major debt-funded capex and investments in JVs leading to deterioration in its overall gearing to more than 0.60 times and total debt/PBILDT to beyond 2.50 times on a sustained basis
- Higher-than-expected financial support required by JVs for their debt servicing and capex requirements; and its concomitant impact on GSPL

Detailed description of the key rating drivers

Key Rating Strengths

Synergies with parent i.e., GSPC Group which has presence across the natural gas value chain and other group companies

GSPL is promoted by GSPC, which is primarily engaged in trading of natural gas. GSPC has an established presence in the natural gas trading business in Gujarat, which is the largest natural gas-consuming state in the country. GSPC along with its subsidiaries and associates operates across the natural gas value chain with presence in bulk natural gas trading,

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

natural gas transmission, city gas distribution (CGD) through GGL and Sabarmati Gas Limited (SGL) and power generation. Accordingly, it provides significant synergies to the operations of GSPL for transportation of natural gas.

Strategic location in the highest natural gas consuming state viz. Gujarat

GSPL commenced its operations with transmission of natural gas being provided by GSPC. Over a period of time, GSPL has invested significantly in developing its natural gas pipeline network which is now connected to major natural gas supply sources in Gujarat including designated collection points near the natural gas fields of Cairn Energy, GSPC and GSPC-Niko (all located in Hazira), regassified liquified natural gas (LNG) from Shell's terminal at Hazira, Petronet LNG Limited's terminal at Dahej, GSPC LNG's terminal at Mundra along with the Panna-Mukta-Tapti natural gas fields. Furthermore, Gujarat is the primary origination or entry point for both domestic natural gas produced in the Arabian Sea and imported RLNG for Western and Northern India, owing to its strategic location and oceanic access to LNG exporting countries in the Middle East and Asia. Furthermore, it is also the highest natural gas consuming state with around 40% of total domestic natural gas consumption in the country. All these factors translate into steady utilization of GSPL's natural gas transmission pipelines.

Operating on an open access basis

GSPL is a pure natural gas transmission company operating on an open access basis; and it does not purchase or sell natural gas. Open access enables natural gas consumers to separately negotiate their natural gas supplies from several suppliers. In addition, operating on an open access basis allows GSPL to target both natural gas suppliers and consumers resulting in increased revenues from a broader customer base. Operating as a natural gas transmission only entity helps GSPL to minimize risks associated with fluctuations in natural gas prices.

GSPL had won the authorization for establishing and operating a CGD network development in Amritsar and Bhatinda districts in Punjab in FY16 and FY17 respectively, due to which it was marginally exposed to natural gas price fluctuations. However, the Petroleum and Natural Gas Regulatory Board (PNGRB) has accepted the proposal made by GSPL to transfer the authorizations for developing CGD network in these Geographical Areas (GAs) to its subsidiary GGL. Also, bank guarantees submitted by GSPL with respect to these GAs to the PNGRB have been received back.

Gas Transmission Agreements (GTAs) provide medium-term revenue visibility

GSPL enters into natural gas transmission agreements with its customers which typically provide for commercial terms such as quantity, quality, schedule, payment terms, security terms, events of default and remedies for the transportation arrangements; the tenure of which ranges from one month to even more than 15 years. Majority of GTAs also provide for 'ship or pay' for a minimum off-take requirement generally covering around 90% of the contracted volumes, which require customers to pay transportation tariff regardless of the actual volume of natural gas transported. GSPL has various contracts on hand with reputed clients located in the region, which includes large industries and CGD entities which use natural gas either as feedstock, fuel or supply it for further distribution. GSPL's total contracted volumes on hand as on June 30, 2021 were 43.21 million metric standard cubic meter per day (MMSCMD) which provides a medium-term visibility to its revenue stream. Furthermore, majority of GTAs which expired during FY21 were largely renewed.

Low level of competition because of regulated nature of business

GSPL, with its around 2,711 kms long natural gas pipeline network as on June 30, 2021, is presently the second-largest natural gas transmission network operator in the country after GAIL (India) Limited; (GAIL; rated CARE AAA; Stable / CARE A1+). GAIL's market share is around 70% in natural gas transmission business, with primary focus towards serving Western and Northern India. In contrast, GSPL has an extensive network in Gujarat, covering 25 out of 33 districts in the state. GSPL follows leading strategy and develops natural gas pipeline network in newer markets after a thorough research and assessment of potential for gas demand from various user segments. Furthermore, for laying any natural gas pipeline, GSPL and other players would have to undergo bidding process to obtain exclusive authorization from the PNGRB which ensures no duplication of the pipeline and low level of competition.

Increasing demand for natural gas

In India, natural gas contributes around 6.70% of the overall energy mix where major consuming sectors include fertilizers, petrochemicals and sponge iron (as feedstock) along with power and CGD (as fuel). Power and fertilizer sectors have always been the biggest contributors to India's total natural gas demand. Recently on award of various CGD GAs by the regulator across the country, CGD sector would be adding up natural gas transportation volume in the near future. Furthermore, infrastructure facilities for unloading, storage and re-gasification of imported LNG are also being improved by expansion at existing terminals and green-field capacities being established at various locations across the country.

Strong financial profile marked by healthy profitability and comfortable leverage

The PBILDT of GSPL declined by around 5.15% to Rs.1,547 crore in FY21 as compared with Rs.1,631 crore in FY20 mainly due to decline in natural gas transmission volumes to 13,349 MMSCM in FY21 as compared with 13,826 MMSCM in FY20.

Despite outbreak of COVID-19 pandemic, its profitability margin continues to remain healthy with PBILDT margin and PAT margin of 72.35% and 43.53% in FY21 respectively (FY20: 67.47% and 45.97% respectively).
During FY21, GSPL made significant amount of debt prepayments in addition to its scheduled repayments. This coupled with significant build-up of its net-worth base led to improvement in its overall gearing to 0.08 times as at FY21 end (FY20: 0.24 times). Also, GSPL has made additional prepayments of around Rs.233.28 crore during H1FY22 which has led to further improvement in its overall gearing. During FY21, the total debt / PBILDT and total debt / GCA of GSPL stood at 0.67 times (PY: 1.01 times) and 0.89 times (PY: 1.38 times) respectively. Also, its PBILDT interest coverage stood at 16.65 times (PY: 9.92 times) during FY21.

Synergetic benefit from GSPL's investment in GGL
GSPL holds 54.17% stake in GGL which provides synergetic benefits to both the companies as they are part of the same value chain of natural gas business. CGD is one of the largest categories of industry segments catered to by GSPL which is envisaged to grow further in view of the increased thrust of the government and regulatory authorities to expand the CGD network across the country. According to the company management, GGL's business being complementary to GSPL, holding of majority stake in GGL facilitates better synchronization of its natural gas transmission network with GGL's network. Furthermore, with Gujarat being the highest natural gas consumption market in India, there are synergies between the businesses of GSPL and GGL as CGD network provides last mile connectivity to the end-users of natural gas. GGL is also one of the largest customers of GSPL with approximately 20% share in its total sales during FY21.

Key Rating Weaknesses
Risk associated with its own mid-sized capex plans
GSPL has planned to undertake capex over the next five years towards expansion of its existing natural gas pipeline network, laying new spur lines and capacity augmentation. GSPL has sought approval of the regulator viz. the PNGRB for its capex plans and thus, significant amount of capex plans would be undertaken upon approval of the PNGRB. The said capex plans of GSPL are envisaged to be funded largely through internal accruals and free cash balance available with the company as articulated by the management.

Large-size projects being implemented through its two JVs
In July 2011, PNGRB had awarded the GSPL led JVs to lay natural gas pipelines on three routes. viz. Mehsana-Bhatinda (1,578 kms – now revised to 1,669 kms), Bhatinda-Jammu-Srinagar (434 kms – now revised to 260 kms) and Mallavaram-Bhilwara Pipeline (1,881 kms). GSPL has formed two special purpose vehicles (SPVs) namely – GSPL India Gasnet Limited (GIGL; rated CARE A-; Stable) for implementation of the first two routes and GSPL India Transco Limited (GITL; rated CARE A-; Stable) for the third one. GSPL owns 52% stake in these SPVs with the balance being held by Indian Oil Corporation Limited (IOCL), Bharat Petroleum Corporation Limited (BPCL: rated CARE AAA; Credit Watch with Developing Implications / CARE A1+) and Hindustan Petroleum Corporation Limited (HPCL). Share of JV partners in GIGL and GITL is GSPL (52%), IOCL (26%), BPCL (11%) and HPCL (11%). The total project cost of GITL and GIGL was originally estimated at around Rs.7,255 crore and Rs.6,392 crore respectively to be funded in a debt-to-equity ratio of 70:30. In case of GITL, part of the project has been completed for which around Rs.1,100 crore has been infused through a mix of debt and equity, there is fair amount of uncertainty with respect to balance scope of its project. Also, initial operational support of the promoters is expected which would be tapered down gradually because of incremental accruals in GITL. For another JV viz. GIGL, the company is in the process of completing implementation of phase-II of the project. Owing to delay in implementation of project due to COVID-19 pandemic and other issues, there has been significant time and cost overrun in the implementation of the project. The project cost of GIGL has been revised from Rs.6,391 crore to Rs.7,392 crore. The sponsors, including GSPL, had an undertaking to fund the entire cost overrun, however, the cost overrun has now been structured with debt equity mix of 61:39. As per the present sponsor support undertaking any further cost overrun in GIGL would now be funded entirely through equity from the sponsors. GIGL has also availed re-schedulement of debt by two years which has been sanctioned by all the lenders. GIGL continues to have undertakings from sponsors to maintain DSCR of at least unity during GIGL's operational phase. The extent of any further cost overrun in the project and the extent of shortfall requirement, if any, would be key credit monitorable for GSPL which owns 52% of the equity in GIGL.
GSPL, along with other JV partners, is expected to infuse additional equity in the coming years for balance project sections and other operational requirements of these JVs. Accordingly, timely completion of the on-going phases of the projects in JVs, stance of PNGRB with respect to balance scope of initially estimated projects which have not yet been taken up by the JVs, effective utilization of those infrastructure and realization of envisaged returns from the investments would be very critical for GSPL.

Exposure to regulatory risk in tariff determination
GSPL's high pressure and low-pressure pipeline network had been authorized by the PNGRB, which has an established methodology to determine the tariff for the transportation of natural gas. As per the PNGRB regulations, a 'cost-plus' approach for determining the tariff is followed which allows the natural gas transmission entities to earn an annual return of 12% (post-tax) on their capital employed. The methodology provides for tariff review at five-year intervals. In

September 2018 (with effect from April 2018), PNGRB issued order for natural gas pipeline tariff for GSPL's pipeline network, which has led to increase in the tariff for the transportation of natural gas by approximately 28%. In the event of any significant change in government policy and the tariff, the revenues generated from the pipeline may be impacted. Hence, GSPL remains exposed to regulatory risk.

Liquidity: Strong
Liquidity of GSPL is strong marked by expected cash accruals of more than Rs.1,000 crore during FY22 against total outstanding debt of Rs.1,030 crore as on March 31, 2021. Furthermore, GSPL had free cash and bank balance of Rs.96 crore as on March 31, 2021. Also, the market value of GSPL's stake in GGL which stood at around Rs.23,166 crore (as on September 24, 2021) imparts a great degree of flexibility to its liquidity. Furthermore, comfort can be drawn from significant financial flexibility it has with its very low leverage and good revenue visibility. Also, the debtors' level of GSPL which had risen to Rs.208 crore on March 31, 2019, due to GSPL's tariff revision during FY19, has improved to Rs.159 crore on March 31, 2021. Also, due to transfer of Bhatinda and Amritsar GAs from GSPL to GGL, the bank guarantees (BGs) submitted by GSPL have been returned which provides additional cushion. GSPL has sanctioned fund-based working capital limits of Rs.200 crore and non-fund based working capital limits of Rs.2,000 crore. Out of the same, the average utilization fund-based working capital limits was around 84% from September 2020 to June 2021 whereas the average utilization of non-fund-based limits was around 22% from April 2020 to June 2021.

Analytical Approach: Standalone; along with planned investments in its two JVs and guaranteed debt.
Majority of GSPL's income and cash flows are generated from its core natural gas transmission business. Hence, a standalone approach has been considered for analysis. However, the equity support envisaged to be provided by GSPL for the project implementation in its two JVs, primarily for construction of their natural gas transmission pipelines, along with other planned investments has been suitably factored in the analysis. This apart, the operational support envisaged to be provided by GSPL to its JVs in their initial phase of operations is also factored in GSPL's credit assessment. Also, GSPL has provided corporate guarantee (CG) for certain non-fund-based BG limits to its JVs, which have also been considered in the analysis.

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: Notching by Factoring Linkages in Ratings]
[Rating Methodology: Infrastructure Sector Ratings (ISR)]
[Financial Ratios: Non-Financial Sector]
[Policy on Withdrawal of Ratings]

About the Company
Incorporated in December 1998, GSPL is promoted by GSPC, a Government of Gujarat (GoG) owned company which is primarily engaged in gas trading business. GSPC held 37.63% equity stake in the company as on June 30, 2021. By virtue of provisions in the Articles of Association of GSPL, the right to appoint majority of its Directors vests with GSPC, hence GSPL is a subsidiary of GSPC. Furthermore, it is a Government Company as per Section 2 (45) of the Companies Act, 2013. GSPL's primary business objective is to connect various supply sources and users of natural gas in Gujarat through its gas pipeline network. GSPL is the leader in natural gas transmission business in Gujarat and is the second-largest natural gas transmission player in India. It owns and operates around 2,711 kms of gas transmission pipeline in the state of Gujarat as on June 30, 2021. GSPL also sells electricity generated through its 52.50 MW windmills.

Brief Financials - GSPL (Standalone) (Rs. Crore)	FY20 (A)	FY21 (A)
Total Operating Income	2,418	2,138
PBILDT	1,631	1,547
PAT	1,111	931
Overall Gearing (times)	0.24	0.08
Interest Coverage (times)	9.92	16.65

A: Audited; The above brief financials are as per CARE's criteria

During Q1FY22, as per the standalone unaudited financial results, GSPL has reported PAT of Rs.233 crore on TOI of Rs.531 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Complexity level of various instruments rated for this company: Annexure-3

Annexure-1: Details of Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Rating assigned along with Rating Outlook
Fund-based - ST-Term loan	-	-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan	-	-	-	October 31, 2026	500.00	CARE AA+; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	-	300.00	CARE AA+; Stable / CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument	Current Ratings			Rating History			
		Type	Amount Outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (09-Oct-19)	1)CARE AA+; Stable (08-Oct-18)
2.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST*	-	-	-	-	1)Withdrawn (09-Oct-19)	1)CARE AA+; Stable / CARE A1+ (08-Oct-18)
3.	Fund-based - ST-Term loan	ST	-	-	-	1)CARE A1+ (07-Oct-20)	1)CARE A1+ (09-Oct-19)	1)CARE A1+ (08-Oct-18)
4.	Fund-based - LT-Term Loan	LT	500.00	CARE AA+; Stable	-	1)CARE AA+; Stable (07-Oct-20)	1)CARE AA+; Stable (09-Oct-19)	1)CARE AA+; Stable (08-Oct-18)
5.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST*	300.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (07-Oct-20)	1)CARE AA+; Stable / CARE A1+ (09-Oct-19)	1)CARE AA+; Stable / CARE A1+ (08-Oct-18)

**Long-term / Short-term*

Annexure-3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based - ST-Term loan	Simple
3.	Non-fund-based - LT/ ST-Bank Guarantees	Simple

Annexure-4: Bank/Lender details for this company
To view the lender-wise details of bank facilities please click here

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Contact Us

Media Contact
Name: Mradul Mishra
Contact No.: +91 22-6837 4424
Email ID: mradul.mishra@careratings.com

Analyst Contact
Name: Sudhir Kumar
Contact No.: +91 11-4533 3232
Email: sudhir.kumar@careratings.com

Relationship Contact
Name: Deepak Prajapati
Contact No.: +91 79-4026 5656
Email: deepak.prajapati@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**