Gujarat State Petroleum Corporation Limited

October 07, 2022

Ratings

Facilities	Amount (₹ crore)	Rating[1]	Rating action
Long-term bank facilities	5,389.00	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Assigned
Long-term/Short-term bank facilities	8,186.00	CARE AA-; Stable/CARE A1+ (Double A Minus; Outlook: Stable/A One Plus)	Assigned
Total bank facilities	**13,575.00 (₹ Thirteen thousand five hundred seventy-five crore only)**		

Details of facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Gujarat State Petroleum Corporation Limited (GSPC) derive strength from its majority ownership by the Government of Gujarat (GoG), which has demonstrated strong support for the company, and the GSPC group's strong presence across various segments of the natural gas energy value chain. The ratings also consider GSPC's strong position in the natural gas trading business with favourable long-term growth prospects. The company's improved leverage and debt coverage indicators over the past few years post its major exit from the exploration business and its strong liquidity and strong financial flexibility derived from the large market value of its investments in Gujarat State Petronet Limited (GSPL; rated CARE AA+; Stable/CARE A1+) and indirect investment in Gujarat Gas Limited (GGL; rated CARE AA+; Positive /CARE A1+) further underpin its ratings.

The long-term rating is, however, constrained by its moderate capital structure on the back of significant write-offs in the past pertaining to its exploration business, the inherent risks associated with its gas trading business, which has relatively low-profit margins and the risks associated with elevated gas prices, which is likely to result in a decline in its gas trading volume in the near term.

Rating sensitivities

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

- Improvement in gas trading volume to more than 18 million metric standard cubic meters per day (MMSCMD) and profit before interest, lease rentals, depreciation and taxation (PBILDT) margins of more than 9% on a sustained basis.
- Significant improvement in the capital structure and debt coverage indicators, marked by an improvement in its overall gearing to around 0.50x and total debt (TD)/PBILDT to around 1.50x on a sustained basis.

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

- Gas trading volume falling below 9 MMSCMD on a sustained basis.
- Moderation in the profitability margin, marked by a PBILDT margin of less than 7%, leading to a deterioration in its TD/PBILDT to more than 3x on a sustained basis.
- Any significant investment in oil and gas exploration and production (E&P) assets or a significant impairment in the E&P assets, having an adverse impact on its net worth base.

Detailed description of the key rating drivers

Key rating strengths

Strong parentage of GoG along with demonstrated support: GSPC is a state-owned entity promoted by the GoG, wherein, as on March 31, 2022, GoG held 94% equity stake – 32% directly and the balance stake indirectly through other GoG-owned entities. The GoG has provided need-based financial support to GSPC in the past. As per GSPC's earlier debt rationalisation plan, GoG, via Gujarat State Investments Limited (GSIL), had infused ₹6,000 crore equity in GSPC and had also taken over GSPC's non-convertible debentures (NCDs) of ₹6,000 crore along with its debt servicing obligation wef April 01, 2018.

Strong presence of GSPC group across the natural gas energy value chain: In the past, GSPC was focused on gas trading as well as exploration, development and production of oil and natural gas, albeit has now largely exited the E&P business. Also, GSPC along with its subsidiaries and affiliates has evolved as an integrated energy company with a presence across the natural gas business value chain spanning natural gas trading, setting up liquefied natural gas (LNG) terminals, gas transmission pipeline infrastructure, city gas distribution (CGD), gas-based power generation, and a small presence in E&P activity.

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

Established gas trading business with favourable long-term growth prospects: GSPC has had a presence in the gas trading business since 2004 and is considered India's second-largest gas marketing company. It is a leading player in natural gas in Gujarat, which is the highest gas-consuming state in the country with almost 40% of the total natural gas consumption in India. Furthermore, the share of natural gas in the total energy consumption of Gujarat stood at a significantly high level of 25% as compared with around 7% share of natural gas in India's total energy consumption. The Government of India (GoI) has plans to increase the share of natural gas in India's energy mix with an aim to convert India into a 'gas-based economy'. Hence, the demand growth is expected to come from the transport, residential, and energy sectors. Natural gas is expected to meet this growing demand for clean, affordable energy with limited deployment of capital and a significant reduction of emissions, reflecting favourable long-term growth prospects.

Improved leverage and debt coverage indicators over the past few years since its major exit from the exploration business in KG basin: Upon substantial write-offs and impairment of its E&P assets in FY17 (FY refers to the period from April 1 to March 31), a huge amount of debt had got piled up on the books of GSPC, amounting to ₹22,864 crore as on March 31, 2017. Accordingly, it put in place a debt rationalisation plan, whereby, it sold off 80% of its participating interest (PI) in Deen Dayal West (DDW) block in KG basin to ONGC for consideration of ₹7,738 crore, sold its equity stake in Gujarat Gas Limited (GGL) to GSPL for ₹3,256 crore, and additionally the GoG infused equity capital to the extent of ₹6,000 crore to take over GSPC's NCDs, which cumulatively resulted in bringing down the debt level of GSPC to a sustainable level. Over the last three years, the TD of GSPC further reduced from ₹6,805 crore as on March 31, 2019, to ₹4,405 crore as on March 31, 2022, out of its healthy operating cash flows. Also, its net worth base, which had turned negative to ₹5,552 crore as on March 31, 2018, has improved and stood at ₹2,948 crore as on March 31, 2022, leading to an improvement in its overall gearing to 1.49x as on March 31, 2022, from 10.10x as on March 31, 2019. This apart, its debt coverage indicators also improved significantly, as reflected by an improvement in its TD/PBILDT from 5.72x as on March 31, 2019, to 2.53x as on March 31, 2022.

Strong financial flexibility derived from GSPC's investment in GSPL: GSPC also derives strong financial flexibility by virtue of its equity investment in GSPL, having a market value of around ₹4,800 crore as on Sept. 30, 2022, vis-à-vis its total outstanding debt of ₹4,405 crore as on March 31, 2022.

Liquidity: Strong
The liquidity of GSPC is strong, marked by a comfortable current ratio of 1.25x as on March 31, 2022. Furthermore, the company has a minimal operating cycle of three days in FY22. The company had free liquidity of ₹221 crore as on March 31, 2022. GSPC largely requires non-fund-based working capital limits for its gas sourcing, whereby, it has enhanced its non-fund-based working capital limits in line with an increase in gas prices, so as to have adequate limits in place. Additionally, there is minimal utilisation of its sanctioned fund-based working capital limits of ₹1,750 crore, and accordingly, its unutilised working capital limits will be adequate to meet its working capital requirements over the next year. On the back of its healthy liquidity, in comparison to March 2022 borrowings, GSPC repaid ~₹500 crore of its term loans / working capital facility till September 2022. Also, it is planning to further rationalize its debt level from its cash accruals in coming few months.

Key rating weaknesses

Moderate capital structure on the back of significant write-offs in the past pertaining to the exploration business: GSPC had announced the commercial operations date (COD) for its DDW Block wef April 01, 2016. After the declaration of the COD, the capital work-in-progress (CWIP) of around ₹23,000 crore was capitalised. As per the requirement of Ind AS, GSPC had tested the carried asset value of the block for impairment against the consideration to be received as per the farm-in/farm-out agreement with ONGC, which had led to an impairment loss to the extent of ₹14,924 crore in FY17. The impairment loss exceeded the net worth of the company, leading to a negative net worth of ₹4,779 crore as on March 31, 2017. Upon take over of the NCDs of ₹6,000 crore of GSPC by the GoG, its net worth turned positive in FY19. With continuous net profit since FY19, including a significantly high profit in FY22, its net worth base improved along with the rationalisation of its debt level. Despite the improvement, its capital structure stood moderate, marked by overall gearing of 1.49x as on March 31, 2022.

Susceptibility of gas trading volume to movement in gas prices; volumes likely to be impacted in the near term: The demand for natural gas is linked to its price movement and that of alternative fuels used in industries. With the significant increase in the prices of natural gas in the past year, the gas trading volume of GSPC declined, marked by a total gas trading volume of 15.12 MMSCMD in FY22 vis-à-vis 18.93 MMSCMD in FY21. The gas trading volume declined further to 12.61 MMSCMD in Q1FY23. With a nearly 40% increase (effective from October 01, 2022) in the prices of natural gas for domestically-produced gas, the demand for gas is likely to be further impacted in the balance part of FY23. However, GSPC is benefitting from the off-take of natural gas by the subsidised fertilizer sector companies to partially offset the fall in demand from CGD companies. The ability of GSPC to again improve its gas trading volume will be one of the key monitorable, going forward.

Inherent risks associated with the gas trading business, wherein, the operating profitability is moderate: Of the total gas trading volume of GSPC, around 30% is procured by way of imports under long-term agreements, and around 35% is procured from domestic sources under short- to medium-term agreements, and the balance is imported on a spot basis. Also, around 65% of its sourcing volume is under the take-or-pay arrangement. GSPC also has a back-to-back sales arrangement for around 40-50% of its gas trading volume with CGD companies, whereas the balance is sold to companies in fertilizer and other industries. On the back of the recent increase in gas prices in the spot market, a few suppliers of natural gas in the international market are moving away from their contractual commitments under long-term supply agreements by paying marginal penalties since the price of gas under these agreements is lower than at spot market prices. However, GSPC has been currently receiving its committed gas volume under its long-term sourcing agreements. Also, its sales volume to CGD companies has declined on the back of higher gas prices. Accordingly, GSPC is exposed to various risk factors associated with its gas trading business, wherein, the operating profitability margin stood moderate in the range of 7-10%. However, with its long-standing experience in this business, it has been able to effectively handle these risk factors until now.

Analytical approach: Standalone

Applicable criteria
Criteria for assigning outlook and credit watch to credit ratings
CARE Ratings' policy of Default Recognition
Rating methodology – Wholesale trading
Financial ratios – Non-financial sector
Liquidity analysis of non-financial sector entities
Criteria for short-term instruments

About the company
Incorporated in 1979, GSPC is a GoG undertaking. At present, GoG along with its other entities, hold more than a 90% equity stake in GSPC. On a standalone basis, GSPC is mainly engaged in the gas trading business, whereas through its subsidiaries and JVs and affiliates, it has evolved as an integrated energy company with a significant presence across the gas value chain spanning from import of gas, LNG terminal, gas transmission, city gas distribution and gas-based power plants. GSPC is engaged in the gas marketing business since 2004 and is India's second-largest gas marketing company. It sources gas and supplies to customers across several industries such as city gas distribution, fertilizers, power generation, etc.

Brief Financials of GSPC (Standalone) (₹ crore)	FY21 (A)	FY22 (A)	Q1FY23 (Prov.)
TOI	13,695.52	24,468.78	7,874.50
PBILDT	1251.85	1738.29	227.08
PAT	738.77	1183.73	146.83
Overall gearing (times)	2.72	1.49	NA
Interest coverage (times)	3.02	4.89	2.89

A: Audited; Prov: Provisional; NA: Not available; Financials are classified as per CARE Ratings' standards.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Annexure-2

Covenants of the rated instruments/facilities: Not applicable

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

Annexure-1: Details of facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	December 31, 2028	3639.00	CARE AA-; Stable
Fund-based - LT-Cash Credit		-	-	-	1750.00	CARE AA-; Stable
Non-fund-based - LT/ ST-BG/LC		-	-	-	8186.00	CARE AA-; Stable / CARE A1+

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	Fund-based - LT-Cash Credit	LT	-	-	-	-	1)Withdrawn (01-Oct-20)	1)CARE A; Stable (03-Jul-19)
2	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (01-Oct-20)	1)CARE A; Stable (03-Jul-19)
3	Non-fund-based - ST-BG/LC	ST	-	-	-	-	1)Withdrawn (01-Oct-20)	1)CARE A1 (03-Jul-19)
4	Fund-based - LT-External Commercial Borrowings	LT	-	-	-	-	1)Withdrawn (01-Oct-20)	1)CARE A; Stable (03-Jul-19)
5	Non-fund-based - ST-BG/LC	ST	-	-	-	-	1)Withdrawn (01-Oct-20)	1)CARE A1 (03-Jul-19)
6	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (03-Jul-19)
7	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (03-Jul-19)
8	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (03-Jul-19)
9	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (03-Jul-19)
10	Fund-based - LT-Term Loan	LT	3639.00	CARE AA-; Stable				
11	Fund-based - LT-Cash Credit	LT	1750.00	CARE AA-; Stable				
12	Non-fund-based - LT/ ST-BG/LC	LT/ST*	8186.00	CARE AA-; Stable / CARE A1+				

*Long term/Short term

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

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure-4: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on the 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 for any clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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