Indraprastha Gas Limited

September 14, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Ratings[1]	Rating Action
Long-term bank facilities	6,500.00 (Enhanced from 600.00)	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Total bank facilities	**6,500.00 (₹ Six thousand five hundred crore only)**		
Proposed Bonds	400.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Total long-term instruments	**400.00 (₹ Four hundred crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the long-term bank facilities and instruments of Indraprastha Gas Limited (IGL) continue to reflect IGL's favourable customer mix, favourable demand outlook and growth prospects for the compressed natural gas (CNG) and piped natural gas (PNG), being an environmentally cleaner fuel and adequate natural gas sourcing tie-ups. IGL has witnessed growth in both these segments and has infrastructure exclusivity of 25 years as prescribed under the Petroleum and Natural Gas Regulatory Board (PNGRB) Act, 2006.The ratings also factor IGL's leadership position in the city gas distribution (CGD) business in the National Capital Region of Delhi (NCT of Delhi), strong financial risk profile marked by healthy profitability margins, strong solvency and liquidity position besides its strong sponsors GAIL India Limited (GAIL; rated 'CARE AAA; Stable/CARE A1+') and Bharat Petroleum Corporation Limited (BPCL; rated 'CARE AAA; Stable/CARE A1+') as majority shareholders.

The ratings, however, remain exposed to the regulatory risks in the CGD sector and IGL's relatively aggressive expansion plans in the coming years with respect to authorisations of the new geographical areas (GAs) under the 9th, 10th and 11th CGD bidding rounds, though the same is expected to be entirely funded through internal accruals. Furthermore, IGL is exposed to project execution risks with large contingent liabilities, primarily in the form of performance bank guarantees (PBGs) extended to the PNGRB for meeting the Minimum Work Programme (MWP) for its awarded GAs; albeit the company has largely met its MWP targets till March 31, 2022.

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:

- Increase in large debt-funded capex or acquisition thereby leading to overall gearing of more than 0.50x.
- Any major adverse regulatory changes such as open access affecting its income below ₹4,000 crore and PBILDT below 15% on a sustained basis.
- Exit of its two main sponsors.

Detailed description of the key rating drivers

Key rating strengths

Strong entry barriers with infrastructure exclusivity in the authorised GAs: IGL is one of the leading players in the CGD business in India and has a dominant market position, particularly in the NCT of Delhi. A first-mover advantage, continuous infrastructure development and high level of entry barriers, primarily in the form of capex requirement as well as regulated near-monopoly marketing and infrastructure exclusivity, for a given period of time, have augured well for IGL. The PNGRB has granted marketing exclusivity and infrastructure exclusivity to IGL for various GAs in which it operates, whereby other players are not allowed to operate within the said GAs till the end of the exclusivity period. As per the guidelines of the PNGRB, IGL has marketing exclusivity of five years from the date of authorisation for its existing two GAs till the 8th CGD bidding round and of eight years for the five GAs won in the 9th, 10th and 11th CGD bidding rounds (which is extendable further up to two years based on actual physical performance), which is expected to strengthen IGL's monopolistic position in its various GAs. Furthermore, it also has infrastructure exclusivity as the city gas carrier for 25 years from the date of receiving authorisation in its GAs. Although the marketing exclusivity available to IGL in Delhi NCT has expired in December 2012, the company continues to retain infrastructure exclusivity as the city gas carrier in NCT of Delhi till December 2023.

Adequate natural gas sourcing tie-up in place: In India, the Ministry of Petroleum and Natural Gas (MoPNG), Government of India (GoI), exercises control over allocation of natural gas produced in the country. As a part of its emphasis on augmenting the use of natural gas in the country, the MoPNG has been extending domestic natural gas to the maximum extent to the CGD

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

players under the Administered Price Mechanism (APM), price of which is declared by Petroleum Planning and Analysis Cell (PPAC)). As per the existing regulations of the MoPNG on domestic natural gas allocation, CGD companies are given highest priority and are allotted domestic natural gas under the APM to meet their requirement for supply to PNG-Domestic and CNG segments, thereby giving assurance of availability of natural gas to the CGD players in the country, whereas they have to rely on imported RLNG for meeting the requirement of PNG-Industrial and PNG-Commercial segments. IGL has signed Gas Supply Agreements for domestic natural gas for Delhi, Gautam Budh Nagar, Ghaziabad, Rewari, Muzaffarnagar and Karnal as per the quantities allocated by the MoPNG. CNG and PNG-Domestic together constitute around 80% of the volumes sold by IGL. Both these segments contribute heavily to the profitability of CGD companies, and accordingly, any adverse regulatory changes on this front can affect the profitability of CGD companies directly. Therefore, continuation of the same allocation shall be critical going forward.

To cater to the natural gas requirement in the PNG-Industrial and PNG-Commercial segments, IGL has existing arrangements under long-term RLNG agreements with BPCL and GAIL whose delivery point is at Petronet LNG Limited (PLL) Terminal at Dahej in Gujarat, and another long-term RLNG agreement with GAIL for delivery at IGL's locations, i.e., Delhi, Gautam Budh Nagar, Ghaziabad, Rewari and Gurugram. IGL also has entered into a Gas Transmission Agreement with GAIL for onward delivery of RLNG to the required GAs. Apart from the above-mentioned RLNG arrangements, IGL also procures RLNG on a short-term basis from time to time, based on requirements, through competitive bidding.

Favourable customer mix: During FY21 (refers to the period April 1 to March 31), out of the sales volumes of IGL, the proportion of PNG-Industrial + Commercial, Domestic, sale to other CGDs and CNG segments was around 14.7%, 8.7%, 6.8% and 69.8%, respectively. Subsequently, the share of CNG segment increased to around 72.4% in FY22 and 75.2% in Q1FY23 mainly due to uptick in the demand for natural gas after unlocking of the economic activities post outbreak of COVID-19 pandemic. Going forward, the envisaged ramp-up in the number of CNG stations by IGL along with commercialising of the new GAs is expected to aid its sales mix.

Strong financial risk profile: IGL achieved total sales volumes of 2,551 million metric standard cubic meter (MMSCM) during FY22 (FY21: 1,944 MMSCM), mainly due to uptick in the demand for natural gas after unlocking of the economic activities post outbreak of COVID-19 pandemic. This coupled with higher average sales realisation led to increase in the the total operating income (TOI) of IGL by around 56% to ₹7,710 crore in FY22 (FY21: ₹4,941 crore). The average sales realisation of IGL increased from ₹27.82/SCM in FY21 to ₹33.10/SCM in FY22. However, its profit before interest, lease rentals, depreciation and taxation (PBILDT) margin and profit after tax (PAT) margin declined to 24.57% (FY21: 30.25%) and 17.05% (FY21: 20.35%), respectively, in FY22, mainly due to increase in the prices of natural gas, both domestic as well as imported. The PBILDT and PAT margins further declined 19.33% and 13.18% in Q1FY23. However, due to regular price hikes, IGL has been able to maintain its spread/SCM.

IGL has not availed any debt. However, its overall gearing stood 0.02x as at FY22-end (FY21: 0.02x) due to inclusion of finance lease as a part of the total debt. During FY22, the total debt/PBILDT and total debt to gross cash accruals (TD/GCA) of IGL stood at 0.06x (FY21: 0.08x) and 0.06x (FY21: 0.09x), respectively. Also, its PBILDT interest coverage stood comfortable at 85.16x during FY22 (FY21: 70.35x).

Robust and improving infrastructure base: During the past decade of operations, IGL has been able to roll-out CNG and PNG distribution network across authorised GAs by installing infrastructure, such as pipeline network, compressor stations and marketing network. IGL had 711 CNG stations as on FY22-end (FY21: 612). For PNG infrastructure, the company has a steel pipeline network of 1,567 km and a medium-density polyethylene (MDPE) pipeline network of 17,277 km as on FY22-end (FY21: 1,265 km and 15,262 km, respectively).

Government impetus on promoting natural gas: In order to address the environmental concerns, the GoI has been actively promoting a shift towards cleaner energy sources, including natural gas. CGD projects have become an important segment in the natural gas business in India given the increasing impetus coming in the form of environmental concerns over certain polluting fuels and various court directives. Over past many years, CGD volumes have been continuously rising on the back of improved pipeline infrastructure, better availability of natural gas through imports, continuous rise in the number of CNG-operated vehicles due to better pricing economics of natural gas compared with other conventional fuels and its environment friendliness over other alternative fuels. IGL is expected to benefit from the continuous increase in the demand of natural gas (CNG and PNG) in NCT of Delhi. With Delhi being rated as one of the most polluted cities in the world, the usage of natural gas has been actively supported by the government through measures, including mandatory use of CNG for public transport in Delhi and conversion of cabs to CNG. Going forward, the number of CNG vehicles is expected to increase, coupled with increasing number of CNG variant models by car manufacturers, which could support higher CNG demand; albeit this demand might be susceptible to technological disruptions such as faster rollout of electric vehicles (EVs). Also, domestic natural gas consumption is at a very nascent stage and offers healthy opportunities for further growth. The GoI aims to increase the share of natural gas in India's energy mix from 6% at present to around 15% by 2030. Furthermore, there is an ongoing expansion of imported RLNG handling capacity in India, which is expected to augment the availability of natural gas in the future. Upon availability of natural gas and associated network, majority of the industrial and commercial users are envisaged to shift to natural gas from alternative fuels due to ease in usage and favourable regulatory push. In the long run, the CGD players are expected to thrive given GoI's impetus on gas-based economy, favourable regulatory regime, competitiveness of CNG over alternative fuels as well as emphasis on environmentally cleaner fuels.

Strong parentage: IGL was established in December 1998 as a JV between GAIL, BPCL and Government of National Capital Territory of Delhi (GNCTD) to implement the CGD project in the NCT of Delhi. As of June 30, 2022, GAIL and BPCL held equity of 22.50% each, while GNCTD owned 5% equity in IGL. IGL has been promoted by sector leaders, such as GAIL, the largest natural gas transmission company in India and BPCL, one of the leading oil refining and marketing companies in India. The CGD project was started as a pilot project in the year 1997 by GAIL to establish the viability of the venture and to resolve related technical and safety issues. These assets were transferred to IGL in 1998. IGL derives technical and managerial strength from its promoters who have supported it during the implementation phase and continue to support it in its operations. In addition to the same, there exists significant operational synergies as GAIL supplies natural gas to IGL through its pipelines. IGL has been able to draw upon the natural gas distribution skills of GAIL, the retail marketing skills of BPCL and the knowledge and project implementation skills of both GAIL and BPCL. IGL is being managed by a professional and experienced management team, having knowledgeable personnel with respect to various aspects of the natural gas industry in India.

Key rating weaknesses

Regulatory risks in the CGD business: The PNGRB, set up in 2007 by the GoI, is the regulating body of CGD business in India. Consequently, all the CGD players, including IGL, are subject to the regulations of the PNGRB. The PNGRB had granted exclusive marketing rights to the CGD players in the respective GAs post their formation for a stipulated time period. Many of the GAs have reached the end of the time frame for exemption from the purview of a common contract carrier. In November 2020, the PNGRB formulated new guidelines for determining CGD network tariff and allowing third-party access to existing CGD players' infrastructure network for supply of natural gas after expiry of the marketing exclusivity period. As and when such regulatory changes are implemented and the form in which they are implemented would be a key monitorable for the CGD sector going forward, as this could result in possible entry of competitors in the existing GAs through implementation of common contract carrier regulation after the expiry of the marketing exclusivity period and could lead to concomitant impact on the CGD sector's profitability. However, at the same time, it also would offer opportunities to IGL to enter into other lucrative markets.

Also, IGL's operating margins, like other CGD companies, are vulnerable to the mix of APM gas and costlier imported RLNG used in its product mix. Any unexpected change in the regulations regarding priority in allocation of APM gas for PNG-Domestic and CNG segments and/or its pricing can adversely impact the profitability margins of the CGD companies, including IGL. While CGD entities have the pricing power, and thus, the flexibility to increase the price of natural gas sold in order to pass the increase in the cost of raw material to the customers, the increase will only be limited to the extent that natural gas remains competitive in the market against other alternative fuels. Going forward, the extent to which IGL is able to pass on the incremental price to its customers and its consequent impact on the demand would be crucial.

Significant future capex plans: IGL has received authorisation by the PNGRB to set-up CGD networks in other geographies, in addition to Delhi-NCR. IGL has MWP targets in the GAs awarded to it. As articulated by the management, the PNGRB has given umbrella extension of two years to all the CGD players in India for completion of MWP targets owing to COVID-19-related lockdowns. Hence, the company does not envisage any penalty for delayed achievement of MWP. Furthermore, the company in largely on track in terms of achievement of its MWP targets.

There are inherent project risks associated with such projects due to unforeseen delay in regulatory approvals, etc., which could result in both time and cost overrun. The PNGRB has also specified penalties for any shortfall in the execution of the MWP in the GAs allotted from 9th bidding round onwards which elevates the project risk. IGL has envisaged annual capex of around ₹1,500 crore from FY23 to FY25. This capex will be largely for development of CGD network in the newly awarded GAs and expansion of CGD network in its already authorised/operational areas. The said capex plans of IGL are envisaged to be funded through internal accruals, available liquidity with the company and security deposits without availing any debt as articulated by the management. Despite high amount of internal accruals committed for capex, the credit profile IGL is expected to remain comfortable on account of robust cash accruals.

Liquidity: Strong

The liquidity of IGL is strong marked by comfortable current ratio of 1.19x as on March 31, 2022 (FY21: 1.31x). IGL had free cash and cash equivalents of around ₹3,060 crore as on March 31, 2022, and around ₹3,450 crore, as on June 30, 2022. With an overall gearing of 0.02x as on March 31, 2022, IGL has sufficient gearing headroom to raise debt for its capex (if required). IGL has total working capital limits (fund based/non-fund-based) of ₹3,980 crore. Out of the same, fund-based limits remained largely unutilised, whereas IGL utilises its non-fund-based limits for issuing PBGs for onward submission to the PNGRB towards authorisation of various GAs.

Analytical approach

Standalone

Applicable criteria

Rating Outlook and Credit Watch
Policy on Default Recognition
Policy On Curing Period
Liquidity Analysis of Non-Financial Sector Entities
Factoring Linkages Parent Sub JV Group
City Gas Distribution
Financial Ratios – Non-Financial Sector

About the company

IGL was established in December 1998 as a JV between GAIL, BPCL and GNCTD to implement CGD project in the NCT of Delhi. As of June 30, 2022, GAIL and BPCL held equity of 22.50% each, while GNCTD owned 5% equity in the company.
IGL enjoys exclusive position in the business of supplying CNG to the transport sector and PNG to industrial, domestic and commercial customers in Delhi along with Gautam Budh Nagar (Noida and Greater Noida) and Ghaziabad in Uttar Pradesh. Furthermore, the Delhi government has mandated the use of CNG. Over the years, the company has made two acquisitions in the CGD business, viz., 50% stake in Central U.P. Gas Limited (CUGL; rated 'CARE A1+') for ₹68 crore and 50% stake in Maharashtra Natural Gas Limited (MNGL) for ₹190 crore. CUGL serves the cities of Kanpur, Bareilly and Jhansi in Uttar Pradesh, whereas MNGL serves Pune and its nearby areas. IGL has expanded its area of operations in Rewari district, Karnal district and Gurugram in Haryana, and the sales volume in these areas is expected to increase gradually with the rollout of increased infrastructure. Furthermore, the company won one GA in the 9th CGD bidding round, namely, Meerut (except areas already authorised), Muzaffarnagar and Shamali districts in Uttar Pradesh, three GAs in the 10th CGD bidding round, namely, Kaithal district in Haryana, Ajmer, Pali and Rajsamand districts in Rajasthan and Kanpur (Except area already authorised) district, Fatehpur and Hamirpur districts in Uttar Pradesh and one GA in the 11th CGD bidding round, namely, Banda, Chitrakoot and Mahoba districts in Uttar Pradesh.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
Total operating income	4,941	7,710	3,194
PBILDT	1,495	1,895	618
PAT	1,006	1,315	421
Overall gearing (times)	0.02	0.02	NA
Interest coverage (times)	70.35	85.16	262.77

A: Audited; UA: Unaudited; NA: Not available

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 Instruments/Bank Facilities	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based/Non-fund-based-Long term	-	-	-	-	6,500.00	CARE AAA; Stable
Bonds	-	-	-	**	400.00	CARE AAA; Stable

**Not applicable as the bonds are yet to be placed

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instruments/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.	Bonds	LT	400.00	CARE AAA; Stable	-	1)CARE AAA; Stable (30-Sep-21)	1)CARE AAA; Stable (07-Sep-20) 2)CARE AAA; Stable (03-Apr-20)	-
2.	Fund-based/Non-fund-based-Long term	LT	6,500.00	CARE AAA; Stable	-	1)CARE AAA; Stable (30-Sep-21)	1)CARE AAA; Stable (07-Sep-20)	-

*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 the Instruments/Bank Facilities	Complexity Level
1.	Bonds	Simple
2.	Fund-based/Non-fund-based-Long Term	Simple

Annexure-5: 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 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:
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