

Indus Gas Limited (Revised)

March 31, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	325.12	CARE BBB-; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of Indus Gas Limited (Indus) derives its strength from its participating interest in the RJ-ON/6 block - an operational gas block in Rajasthan, India, and presence of gas sales and purchase agreement (GSPA) with GAIL India Limited (GAIL; rated 'CARE AAA; Stable/CARE A1+') for the supply of gas to Rajasthan Rajya Vidyut Utpadan Nigam Limited's (RRVUNL; rated 'CARE BBB+ (CE); Stable/ CARE A3+ (CE)') gas-based power plant, which provides good revenue visibility over the medium-term. The rating also draws comfort from favourable industry outlook for domestic gas producers, which is backed by Government of India's (GoI's) impetus on promoting environmentally cleaner fuels, substantial reserves position of the RJ-ON/6 block, and financial flexibility coupled with support from the promoters in the past.

The rating is, however, constrained due to the risks related to the unavailability of evacuation arrangement to ramp-up the volumes, project implementation risk owing to continuous capex requirement, geological risk inherent in exploration & production (E&P) activities, regulatory risk, and moderate financial risk profile.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Availability of adequate evacuation infrastructure along with ramp-up of volumes.
- Signing of additional GSPA leading to diversification of customer base.
- Improvement in leverage marked by an overall gearing of less than 2x.

Negative factors

- Significantly lower-than-envisaged production of gas from the block impacting its cash accruals and debt coverage indicators.
- Large-size debt-funded capex without commensurate increase in the volumes leading to deterioration in leverage and debt coverage indicators.
- Any shortfall in the need-based support from the promoters.

Analytical approach: CARE Ratings Limited (CARE Ratings) has considered the consolidated financials of Indus for arriving at the rating, as Indus is the holding company having 90% participating interest in the RJ-ON/6 gas block through its two wholly-owned subsidiaries. The entities getting consolidated into Indus are placed at **Annexure-6**.

Outlook: Stable

The stable outlook reflects CARE Ratings' expectations that Indus will continue to have a stable operational financial performance over the medium-term which will be backed by its GSPA with GAIL.

Key strengths

Operational gas block along with PSC with GoI for RJ-ON/6 gas block

Indus, through with its wholly-owned subsidiaries iServices Investment Limited, Mauritius (iServices) and Newbury Oil Company Limited, Cyprus (Newbury) respectively and affiliate company Focus Energy Limited (Focus), is producing gas from three operational gas fields in the RJ-ON/6 block in Rajasthan. The production sharing contract (PSC) for the block was signed on June 30, 1998, between GoI, Ministry of Petroleum and Natural Gas (MoPNG), Focus and Oil and Natural Gas Corporation Limited (ONGC; rated 'CARE AAA; Stable/ CARE A1+') (the licensee). Initially, Focus was holding 100% participative interest in the block. On October 04, 2006, Focus assigned 90% of its participating interest in RJ-ON/6 block to iServices (65%) and Newbury (25%), while retaining a 10% share. Focus is the operator of the block. Field development plan for the discovered gas field in the block have been approved by the MoPNG and the production is continuing.

GSPA with GAIL providing good revenue visibility; albeit with customer concentration risk

At present, Indus (along with Focus) is supplying gas under its GSPA of 0.95 million metric standard cubic metre per day (MMSCMD) with GAIL for onward supply to RVUNL's gas-based power plant. The total contracted quantity under the agreement initially was 0.20 MMSCMD and it was increased later in phases to 0.95 MMSCMD. The supplies are being made through a dedicated 90-KM pipeline laid by GAIL. Furthermore, there is pricing and marketing freedom available as the gas block is not regulated under administered price mechanism (APM). The existing GSPA of 0.95 MMSCMD with GAIL for onward supply to RVUNL's gas-based power plant is valid up to September 2024. The GSPA with GAIL also has a take-or-pay provision for 90%

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

of the quantity. The presence of GSPA along with take-or-pay provision provides medium-term revenue visibility to the company.

Favourable industry scenario for domestic gas producers

In order to address the environmental concerns, the GoI has been actively promoting a shift toward cleaner energy sources, including gas. The GoI aims to increase the share of gas in India's primary energy mix from 6% at present to around 15% by 2030, with an aim to make India a 'gas-based economy'. Over the past years, gas consumption has been continuously rising. Domestic gas consumption is at a nascent stage and offers healthy opportunities for further growth. India's demand for gas is expected to grow significantly in the coming years, driven by factors, such as economic growth, increasing city gas distribution network and thrust towards cleaner energy sources. This provides an opportunity to domestic gas producers to increase their output and tap into this growing demand. Also, around 50% of the gas consumed in India is sourced through imports because of low domestic production.

India's gas consumption has increased from 141 MMSCMD in FY15 to 175 MMSCMD in FY22 (compounded annual growth rate [CAGR]: 3.19%). However, the imports during the corresponding period increased from 51 MMSCMD to 84 MMSCMD (CAGR: 7.45%), i.e., with increased consumption, reliance on the imports has increased in the recent years. Increasing consumption of gas coupled with high reliance in the imports is expected to be favourable for the domestic gas producers in the medium to long run.

Significant reserves position

Indus has made several gas discoveries in the RJ-ON/6 block. As per the revised field development plan of SGL field as approved by the Director General of Hydrocarbons (DGH), the reserve position for the field is expected to be 290.5 billion cubic feet(BCF) (proved – p1) + 89.8 BCF (probable – p2) + 328.2 BCF (possible – p3). Furthermore, the reserve position as per the field development plan as approved by the DGH for non-SGL fields, i.e., SSG and SSF is expected to be 1,481 BCF (probable – p2).

Financial flexibility and continued support from the promoters

In FY23, Indus has been successfully able to refinance its existing USD 150 million bond issue due in December 2022. In addition, the Indus also made an issue of additional bonds of USD 10 million. Thus, Indus was able to raise debt of USD 160 million which included refinanced debt of USD 150 million and additional debt of USD 10 million. Also, to meet the capex requirement, the promoters have extended unsecured loans to Indus aggregating to USD 625.79 million as on March 31, 2022. These unsecured loans from the promoters are subordinate to the bank facilities. Furthermore, Indus also has financial flexibility by virtue of being listed on the London Stock Exchange.

Key weaknesses

Unavailability of adequate evacuation infrastructure for diversifying the customer base and achieving higher volumes

Currently, Indus is unable to increase the volumes / diversify its customer base on account of unavailability of adequate evacuation infrastructure. Presently, the RJ-ON/6 block lacks connectivity with the national carrier thereby impeding its potential to cater to a diverse customer base. The supplies to RVUNL's gas-based power plant are being made through a dedicated 90-KM pipeline laid by GAIL. Nevertheless, to boost production and increase the supplies, it is crucial for Indus to establish a connection with the national carrier, which will allow Indus to meet the demand of broad range of customers, including those in city gas distribution, fertilizer, power, refineries, and other sectors, as well as to sell the gas in the spot market through Indian Gas Exchange (IGX).

The block operator, Focus, had earlier submitted an expression of interest in February 2018 to lay, construct and operate a 580 KM gas pipeline from Langtala, Jaisalmer, to Bhilwara in Rajasthan. However, the bid was cancelled due to high transportation cost quoted by the participants. Currently, Indus is exploring options to evacuate the produced gas. Indus is evaluating proposals of connecting the gas block with national carriers / set-up pipeline between Langtala and Pachpadra to supply gas to customers at pachpadra or in the national pipeline grid.. Additionally, bids have been invited for shorter route from Langtala to Pachpadra. Nonetheless, the said pipeline is yet to be awarded. The connection with national grid / availability of additional evacuation infrastructure will enable Indus to achieve higher volumes and diversify its customer base.

Geological and execution risk inherent in E&P activities

In addition to being a highly capital-intensive activity, E&P business has long gestation period. The exploration activity involves high uncertainty with respect to estimation of reserves as it is a function of the quality of the available data engineering and geological interpretation. Overall, the E&P activities involves complex and multi-stage process, requiring significant investment, expertise and technological innovation. Also, there are various stages involved in an E&P activity, and Indus is exposed to the geological risks in each of the stage which might adversely impact its ability to extract the reserves. However, the risk is mitigated considering the long-standing operational track record of Indus and large amount of proved resources (p1) and prolific gas production in Indus basin.

Regulatory risk

Considering the gas being a cleaner source of energy vis-à-vis alternative fuels, there is great emphasis from the government in increasing the share of gas in India's primary energy mix. The government in the recent years have taken various initiatives to increase the domestic gas production, including introduction of Hydrocarbon Exploration and Licensing Policy (HELP), Open Acreage Licensing Policy (OALP), gas pricing reforms, and giving push for development of gas transmission and distribution infrastructure.

Nevertheless, oil and gas exploration sector is highly regulated sector and thus Indus is exposed to the regulatory risk related to timely extension of PSC beyond the contract period, timely approval of field development plan, approval related to creation of additional evacuation infrastructure for transport of gas to the end users, etc. However, considering the significant deficit of resources and thrust of the government on the gas sector, the stated risks are likely to have limited impact on Indus.

Project implementation risk

At present, Indus is producing gas from of the RJ-ON/6 block and is supplying gas to RUVNL's gas-based power plant through GSPA with GAIL. Indus plans to ramp-up its production and diversify its customer base post connection with the national grid / availability of additional evacuation infrastructure. The ramp-up of production will require additional drilling, gas handling and evacuation capex. However, this risk is likely to be mitigated with long-standing experience of Indus in executing E&P projects. Also, availability of evacuation infrastructure would take around 2-3 years. Until then, Indus would continue to supply gas as per the existing volumes. Post availability of evacuation infrastructure, Indus will have to incur additional capex and consequently avail additional debt to ramp-up the volumes. However, this capex would be undertaken post FY25 only, after the availability of evacuation infrastructure as stated by the management. By that time, the existing debt would largely get paid-off.

Moderate financial risk profile

In FY22, Indus reported a total operating income (TOI) of USD 53.72 million, up from USD 48.53 million in FY21 mainly on account of increase in the gas volumes. The PBILDT of the company also increased to USD 51.79 million in FY22 from USD 45.74 million in FY21. However, the overall gearing was moderate at 2.68x in FY22 (FY21: 2.98x). Indus has annual capex plans of around USD 18 million each year from FY23 to FY25. The capex would be for digging wells annually for maintaining the same level of volumes. These capex plans would be funded entirely through internal accruals. Considering internal accruals' requirement for meeting the capex, the debt coverage indicators are expected to remain moderate.

Liquidity: Adequate

The expected gross cash accruals (GCA) of Indus are expected to provide adequate cushion to its total debt repayment obligations of USD 18.94 million and capex requirements in FY23. Also, the promoters are infusing additional subordinated funds required on a need basis. Furthermore, in FY23, Indus has successfully refinanced its existing USD 150 million bonds and issued additional USD 10 million bonds, which will be used for meeting the capex and liquidity needs of Indus. Cash and cash equivalents of the company stood at USD 4.12 million as on September 30, 2022.

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](#)

[Manufacturing Companies](#)

[Consolidation](#)

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

[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Energy	Oil, Gas & Consumable Fuels	Gas	Gas Transmission/Marketing

Incorporated in 2008 in Guernsey, Indus is engaged in the business of gas exploration and development in the RJ-ON/6 gas block in Rajasthan, India. Along with its subsidiaries and affiliate, Indus is producing gas from the RJ-ON/6 block in Rajasthan. Currently, Indus through its wholly-owned subsidiaries has participating interest of 63% in SGL field and 90% participating interest in the non-SGL fields. Focus, an affiliate of Indus has a 7% participating interest in the SGL field and 10% participating interest in the non-SGL fields. Focus is also the operator of the gas block. The block measures an area of 2,176 sq. km and lies onshore in a highly prospective mid Indus basin. The first discovery in the block was made in 2006 and the first commercial production commenced in 2010. The company has received approval from the DGH and the government for integrated field

development plan of SSG and SSF discoveries and for the enhancement of the production from the SGL field. Indus is listed on the Alternative Investment Market (AIM) of the London Stock exchange since June 06, 2008.

Brief Financials (USD Million)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	48.53	53.72	27.48
PBILD	45.74	51.79	26.48
PAT	27.93	35.21	12.83
Overall gearing (times)	2.98	2.68	2.55
Interest coverage (times)	NM	NM	NM

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

Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Brickwork has classified the rating of Indus under 'Issuer Not Cooperating' vide its press release dated November 24, 2022, on account of inadequate information from the company to carry out review.

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 the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments/facilities rated: Annexure-4

Lender details: Annexure-5

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
Fund-based - LT-Term Loan	-	-	-	November 2024	325.12	CARE BBB-; Stable

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-Term Loan	LT*	325.12	CARE BBB-; Stable	-	-	-	-

*Long-term.

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

Not applicable

Annexure-4: Complexity level of the various instruments/facilities rated

Sr. No.	Name of the Instrument/Bank Facilities	Complexity Level
1.	Fund-based - LT-Term Loan	Simple

Annexure-5: Lender details

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

Annexure-6: List of entities getting consolidated

Name of the Company	Relationship	Stake of Indus
iServices Investment Limited, Mauritius	Subsidiary	100%
Newbury Oil Company Limited, Cyprus	Subsidiary	100%

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:

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