GAIL (India) Limited

July 06, 2023

Facilities/Instruments	Amount (₹ crore)	Ratings[1]	Rating Action
Long-term bank facilities	3,500.00 (Enhanced from 2,000.00)	CARE AAA; Stable	Reaffirmed
Long-term / Short-term bank facilities	5,000.00 (Enhanced from 4,950.00)	CARE AAA; Stable / CARE A1+	Reaffirmed
Short-term bank facilities	4,000.00	CARE A1+	Assigned
Bonds	2,500.00	CARE AAA; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities and bonds issue of GAIL (India) Limited (GAIL) continue to derive strength from its majority ownership by the Government of India (GoI) and its experienced management team, its leadership position in the natural gas transmission and distribution segment in India, and the pivotal role it plays in meeting the GoI's target of an increased share of natural gas in India's energy mix in the long-term.

The ratings continue to factor in the tie-ups of natural gas through domestic and overseas sources on a long-term, medium-term, as well as short-term basis, and the diversified revenue streams. The ratings continue to derive comfort from the regulated nature of the natural gas transmission business, where GAIL receives pre-defined returns, thus ensuring stable profitability. The ratings also factor in GAIL's strong financial risk profile, characterised by comfortable leverage and coverage metrics.

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) and availability of natural gas.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

Not applicable

Negative factors

- Material reduction in the shareholding of GoI.
- Higher-than-expected debt-funded capital expenditure (capex) plans, leading to pressure on the capital structure, thereby increasing the overall gearing above 1x.

Analytical approach: Consolidated financials of GAIL, along with notching-up based on linkages with the GoI. The list of entities consolidated in the FY23 (refers to the period from April 1 to March 31) financials of GAIL is placed in Annexure-6.

Outlook: Stable

The stable outlook on long-term rating reflects expectation that GAIL will continue to benefit from its leadership position in the natural gas transmission business and continued support from the GoI given the strategic importance of the sector. CARE Ratings Limited (CARE Ratings) expects GAIL to maintain healthy operational and financial risk profile with increased scale of operations and a healthy capital structure.

Key strengths

Majority ownership by the GoI and an experienced management team:

The GoI held a 51.52% stake in GAIL as on March 31, 2023, while the balance stake is held by various institutions and the general public. As a Maharatna among the central public sector undertakings (CPSUs), GAIL enjoys financial and functional autonomy. The company is being managed by a professional and experienced management team having relevant experience in the pipeline transportation and downstream processing of natural gas.

Leadership position in the natural gas transmission business:

GAIL is the market leader in the transmission of natural gas in the country with around 15,413 km of pipeline network (i.e., around 70% of the country's pipeline) as on March 31, 2023, with a natural gas handling capacity of 206 million metric standard cubic meter per day (MMSCMD). Furthermore, pipelines of around 6,000 km are under construction. Besides, the company earns stable cash flows from its natural gas transmission business, although it accounted for only around 4% of its total revenues in FY23. However, the profit before interest and tax (PBIT) margin during FY23 for the segment declined to around 29% against 60% during FY22 mainly on account of de-allocation of domestic gas for compression coupled with increase in natural gas prices. The company expects the loss of account of de-allocation of domestic gas and increase in natural gas prices

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

to be recovered from the future tariff hikes. GAIL's integrated pipeline network of Hazira-Vijaipur-Jagdishpur, Dahej-Vijaipur, and Vijaipur-Dadri accounts for over 65% of its natural gas transmission volumes.

Adequate gas tie-ups:
Over the years, GAIL has developed adequate tie-ups for the supply of natural gas both, domestically and internationally. During FY23, GAIL sourced around 44% of its total natural gas requirements through domestic sources, which include those from Oil and Natural Gas Corporation Limited (ONGC), Panna-Mukta and Tapti, Ravva, Ravva Satellite, etc. The remaining natural gas requirement is sourced through imported regasified liquefied natural gas (RLNG), which includes long-term, mid-term, and spot contracts. GAIL has multiple long-term LNG contracts of around 14 million metric tonne per annum (MMTPA). It has a long-term contract to buy 5.8 MMTPA of LNG from the US and up to 2.85 MMTPA of LNG annually on a delivered basis from Gazprom Marketing & Trading Singapore Pte Limited (GMTS), now known as Sefe Marketing & Trading Singapore Pte Limited (SMTS), while another 4.80 MMTPA from RasGas Qatar and 0.4 MMTPA from Australia. However, SMTS had stopped supplying LNG to GAIL since June 2022. Although cargo supply disruptions started in May 2022, GAIL received one cargo in June 2022. In the absence of supplies from SMTS, GAIL was supplying RLNG to its customers equivalent to ship-or-pay quantity, wherever possible, and had reduced its own requirement for its petrochemical plant in Pata and the LPG business. Subsequently, supplies from SMTS have been resumed from March 2023. Furthermore, SMTS has also committed to supply 3-4 cargoes each month in FY24. Supply resumption from SMTS is likely to limit GAIL's reliance on spot market for its natural requirements. Going forward, the capacity utilisation of GAIL is not only dependent upon the company's ability to market the available natural gas, but also on securing the additional natural gas supply for its increasing pipeline infrastructure.

Revenue risk mitigated by a regulated nature of natural gas transmission business 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. During FY23, natural gas marketing, transmission, petrochemicals, and CGD contributed around 84%, 4%, 3%, and 6% to the total revenues of GAIL, respectively (FY22: 76%, 5%, 7%, and 6%, respectively). In the transmission segment, GAIL receives a regulated return on capital employed (RoCE) of 12%, which is determined by the Petroleum and Natural Gas Regulatory Board (PNGRB), leading to stable cash flows and healthy profitability.

Strong financial profile, marked by increased scale of operations and a healthy capital structure:
During FY23, GAIL's total operating income (TOI) increased to ₹1,45,668 crore (FY22: ₹93,175 crore), mainly on account of an increase in the sales realisation in all the segments due to an increase in the prices of natural gas. The profit before interest, lease rentals, depreciation and taxation (PBILDT) margin and profit-after-tax (PAT) margin of the company, however, declined to 5.14% (FY22: 16.72%) and 3.84% (FY22: 13.20%), respectively mainly on account of discontinuation of supplies by SMTS. The company enjoys a comfortable capital structure with an adjusted overall gearing of 0.29x as on March 31, 2023 (FY22: 0.15x). The interest coverage ratio stood comfortable at 20.43x in FY23 (FY22: 76.94x). Also, the debt coverage indicators, including total debt (TD) to gross cash accruals (GCA) and TD/PBILDT stood comfortable at 2.06x (FY22: 0.63x) and 2.38x (FY22: 0.59x), respectively.

Key weaknesses

Risk related to un-hedged US LNG contract:
GAIL has long-term contracts to buy 5.8 MMTPA of LNG from the US out of its total 14 MMTPA long-term contracts. GAIL's US LNG price is linked with the Henry Hub (HH) natural gas prices, while the sale price is linked with various indices, including three-month Brent crude oil prices. To mitigate the fluctuations in prices, the company undertakes commodity hedging. Furthermore, GAIL procures natural gas from the US through destination swaps, leading to a reduction in the shipping cost for the natural gas imported to India from the US.

Susceptibility to volatile commodity prices associated with petrochemicals, LPG and other liquid hydrocarbons:
Petrochemicals, LPG and liquid hydrocarbons are directly exposed to changes in commodity prices. With changes in the prices of crude oil and petroleum, the realisations from petrochemicals also vary. GAIL's revenue from the petrochemicals sector, LPG and other liquid hydrocarbons improved on account of an increase in the average sales realisation by around ₹ 15,000 per MT and ₹11,300 per MT, respectively, in FY23. However, despite higher sales realisation, GAIL posted a loss at the PBIT level in the petrochemicals division at ₹1,061 crore in FY23 as against a PBIT of ₹1,245 crore in FY22 whereas in case of LPG and other liquid hydrocarbons division, the PBIT declined to ₹1,228 crore in FY23 as against ₹2,900 crore in FY22 mainly on account of discontinuation of supplies by SMTS.

Liquidity: Strong

The liquidity position of GAIL remained strong as on March 31, 2023, with free cash and bank balance and investments of ₹878 crore. The company's operating cycle remained comfortable at 21 days in FY23 as against 18 days in FY22. GAIL is also undertaking major expansion projects while maintaining high cash reserves. Being a renowned player in the gas utility industry, GAIL also enjoys a low cost of borrowings from capital markets. Furthermore, GAIL (on a standalone basis) has fund-based working capital limits of ₹10,000 crore average utilisation of which stood at around 24% during 12-months ended May 2023.

Environmental, social, and governance (ESG) risks

Environment: CARE Ratings takes note of the fact that natural gas is a relatively cleaner source of energy i.e., it has lower carbon emissions vis-à-vis other fossil fuels. Also, there is strong impetus of the GoI to increase share of natural gas in India's primary energy mix. This mitigates the environment risk to some extent. GAIL is also taking initiatives such as setting -up of compressed biogas (CBG) plants, blending hydrogen with natural gas, installation of renewable capacities for producing green hydrogen. GAIL has an Integrated Management System in place through which the company is committed towards maintaining and ensuring a safe and clean environment.
Social: During FY22, GAIL exceeded its corporate social responsibility (CSR) spending. GAIL's CSR expenditure during FY22 was ₹204.97 crore (3% of the average net profit of the preceding three years) i.e., higher than the statutory mandated expenditure of ₹136.46 crore (2% of the average net profit of the preceding three years).
Governance: From a governance point of view, the Board of GAIL is diversified with six out of twelve directors as independent directors. Also, the quality of financial reporting and disclosures are adequate.

Applicable criteria

Rating Outlook and Rating Watch
Policy on Default Recognition
Policy On Curing Period
Short Term Instruments
Liquidity Analysis of Non-Financial Sector Entities
Manufacturing Companies
Infrastructure Sector Ratings
Consolidation
Factoring Linkages Government Support
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

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 the 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 the 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 (JV) participations.

Brief Financials (₹ crore)	March 31, 2022 (A)	FY23 (Ab.)
Total operating income	93,175	1,45,668
PBILDT	15,578	7,488
PAT	12,304	5,596
Overall gearing (times)	0.15	0.29
Interest coverage (times)	76.94	20.43

A: Audited; UA: Unaudited; 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: 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 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
Bonds	INE129A08014	December 2022	7.34%	December 2027	1,575.00	CARE AAA; Stable
Bonds**	-	-	-	-	925.00	CARE AAA; Stable
Fund-based - LT-Term Loan	-	-	-	March 2033	3,500.00	CARE AAA; Stable
Fund-based - LT/ ST-Working Capital Demand loan	-	-	-	-	1,500.00	CARE AAA; Stable / CARE A1+
Fund-based - LT/ ST-Working Capital Limits	-	-	-	-	1,000.00	CARE AAA; Stable / CARE A1+
Fund-based - ST-Term loan	-	-	-	-	4,000.00	CARE A1+
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	1,500.00	CARE AAA; Stable / CARE A1+
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	1,000.00	CARE AAA; Stable / CARE A1+

**Proposed

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 2023-2024	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
1.	Non-fund-based - LT/ ST-BG/LC	LT/ST*	1,000.00	CARE AAA; Stable / CARE A1+	-	1)CARE AAA; Stable / CARE A1+ (08-Mar-23) 2)CARE AAA; Stable / CARE A1+ (01-Dec-22) 3)CARE AAA; Stable / CARE A1+ (28-Oct-22) 4)CARE AAA; Stable / CARE A1+ (06-Jul-22) 5)CARE AAA; Stable / CARE A1+ (05-May-22)	1)CARE AAA; Stable / CARE A1+ (06-Jul-21)	1)CARE AAA; Stable / CARE A1+ (07-Jul-20)
2.	Bonds	LT	-	-	-	1)Withdrawn (05-May-22)	1)CARE AAA; Stable (06-Jul-21)	1)CARE AAA; Stable (07-Jul-20)
3.	Fund-based - LT/ ST-Working Capital Demand loan	LT/ST*	1,500.00	CARE AAA; Stable / CARE A1+	-	1)CARE AAA; Stable / CARE A1+ (08-Mar-23) 2)CARE AAA; Stable / CARE A1+ (01-Dec-22)	1)CARE AAA; Stable / CARE A1+ (06-Jul-21)	1)CARE AAA; Stable / CARE A1+ (07-Jul-20)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	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
						3)CARE AAA; Stable / CARE A1+ (28-Oct-22) 4)CARE AAA; Stable / CARE A1+ (06-Jul-22) 5)CARE AAA; Stable / CARE A1+ (05-May-22)		
4.	Non-fund-based - LT/ ST-BG/LC	LT/ST*	1,500.00	CARE AAA; Stable / CARE A1+	-	1)CARE AAA; Stable / CARE A1+ (08-Mar-23) 2)CARE AAA; Stable / CARE A1+ (01-Dec-22) 3)CARE AAA; Stable / CARE A1+ (28-Oct-22) 4)CARE AAA; Stable / CARE A1+ (06-Jul-22) 5)CARE AAA; Stable / CARE A1+ (05-May-22)	1)CARE AAA; Stable / CARE A1+ (06-Jul-21)	1)CARE AAA; Stable / CARE A1+ (07-Jul-20)
5.	Fund-based - LT-Term Loan	LT	3,500.00	CARE AAA; Stable	-	1)CARE AAA; Stable (08-Mar-23) 2)CARE AAA; Stable (01-Dec-22) 3)CARE AAA; Stable (28-Oct-22) 4)CARE AAA; Stable (06-Jul-22) 5)CARE AAA; Stable (05-May-22)	-	-
6.	Bonds	LT	2,500.00	CARE AAA; Stable	-	1)CARE AAA; Stable (08-Mar-23) 2)CARE AAA; Stable (01-Dec-22)	-	-
7.	Fund-based - LT/ ST-Working Capital Limits	LT/ST*	1,000.00	CARE AAA; Stable /	-	1)CARE AAA; Stable / CARE A1+	-	-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	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
				CARE A1+		(08-Mar-23)		
8.	Fund-based - ST-Term loan	ST	4,000.00	CARE A1+	-	-	-	-

*Long-term/Short-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.	Bonds	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Fund-based - LT/ ST-Working Capital Demand loan	Simple
4.	Fund-based - LT/ ST-Working Capital Limits	Simple
5.	Fund-based - ST-Term loan	Simple
6.	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure-5: Lender details

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

Annexure-6: List of entities consolidated into GAIL

Name of the Entity	Subsidiary/Associate/JV	% Shareholding by GAIL as on March 31, 2023
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	81.83%
Konkan LNG Limited	Subsidiary	93.50%
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	49.98%
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	14.72%
Fayum Gas Limited	Associate	19.00%
China Gas Holdings Limited	Associate	2.71%
ONGC Tripura Power Company Limited	Associate	26.00%
Bharat Energy Office LLC	Associate	20.00%
LNG Japonica Shipping Corporation Limited	Associate	26.00%

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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