Indraprastha Gas Limited

September 12, 2023

Facilities/Instruments	Amount (₹ crore)	Ratings[1]	Rating Action
Long-term bank facilities	6,500.00	CARE AAA; Stable	Reaffirmed
Bonds	400.00	CARE AAA; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

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 risk related to domestic natural gas availability, 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 met its entire MWP targets till March 31, 2023.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

Not applicable

Negative factors

- 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 significantly affecting its total operating income (TOI) and profitability margins.
- Exit of its two main sponsors.

Analytical approach: Standalone

Outlook: Stable

The 'stable' outlook reflects CARE Ratings Limited's (CARE Ratings') expectation of IGL's ability to maintain its strong market position in its areas of operations, steady operational performance, strong liquidity and cash flows with comfortable debt coverage indicators.

Detailed description of the key rating drivers:

Key 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. CARE Ratings notes that although the marketing exclusivity available to IGL in Delhi NCT expired in December 2012, the company continues to retain infrastructure exclusivity as the city gas carrier in NCT of Delhi till December 2023.

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

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 the allocation of domestic natural gas produced in the country. As per the existing regulations of the MoPNG on domestic natural gas allocation, CGD companies are accorded the highest priority and are allotted domestic natural gas under the administered price mechanism (APM). The price of these is declared by Petroleum Planning and Analysis Cell (PPAC) on the basis of the recommendations of the Kirit Parikh Committee from April 2023 to meet their requirement for supply to PNG-Domestic and CNG segments, whereas they have to rely on imported regassifed liquified natural gas (RLNG) for meeting the requirement of PNG-Industrial and PNG-Commercial segments. However, continuation of the same allocation shall be key monitorable.

IGL procures APM gas for the PNG-Domestic and CNG segments from GAIL. To cater to the natural gas requirement in the PNG-Industrial and PNG-Commercial segments, IGL has existing arrangements under long-term and medium-term RLNG agreements with BPCL and GAIL. 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 FY22, 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%, 7% and 72%, respectively. Subsequently, the share of CNG segment increased to around 75% in FY23 and in Q1FY24 mainly due to higher CNG sales on the back of commercialising of the new GAs. Going forward, CARE Ratings expects the ramp-up in the operations in the new GAs to aid IGL's sales mix.

Strong financial risk profile

IGL achieved total sales volumes of 2,952 million metric standard cubic metre (MMSCM) during FY23 (FY22: 2,551 MMSCM) on the back of increase in its CGD infrastructure. This coupled with higher average sales realisation led to increase in the TOI of IGL by around 83% to ₹14,146 crore in FY23 (FY22: ₹7,710 crore). The average sales realisation of IGL increased from ₹33.10/SCM in FY22 to ₹52.65/SCM in FY23. However, its PBILDT margin and profit after tax (PAT) margin declined to 14.55% (FY22: 24.57%) and 10.22% (FY22: 17.05%), respectively, in FY23, mainly due to increase in the prices of natural gas, both domestic as well as imported. Nevertheless, the PBILDT margin and PAT margin improved to 18.85% and 12.87%, respectively, in Q1FY24 due to decline in the natural gas prices. Due to regular price hikes, IGL has been able to maintain its spreads per standard cubic metre (SCM).

IGL has not availed any debt. However, its overall gearing stood 0.01x as at FY23-end (FY22: 0.02x) due to inclusion of finance lease as a part of the total debt. During FY23, the total debt/PBILDT and total debt/gross cash accruals (GCA) of IGL stood at 0.04x (FY22: 0.06x) and 0.04x (FY22: 0.06x), respectively. Also, its PBILDT interest coverage stood comfortable at 76.67x during FY23 (FY22: 85.16x).

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 791 CNG stations as on FY23-end (FY22: 711). For PNG infrastructure, the company has a steel pipeline network of 1,868 km and a medium-density polyethylene (MDPE) pipeline network of 20,632 km as on FY23-end (FY22: 1,567 km and 17,277 km, respectively).

Government impetus on promoting natural gas

In order to address the environmental concerns, the GoI has been actively promoting a shift toward 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 the 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. Going forward, the number of CNG vehicles is expected to increase, coupled with an increasing number of CNG variant models by car manufacturers, which can support higher CNG demand, albeit this demand may be susceptible to technological disruptions such as the faster rollout of electric vehicles (EVs). Also, domestic natural gas consumption is at a nascent stage and offers healthy opportunities for further growth. The GoI aims to increase the share of natural gas in India's primary 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, the majority of the industrial and commercial users are envisaged to shift to natural gas from alternative fuels, due to the ease in usage and the favourable regulatory push. In the long run, given the GoI's impetus on a gas-based economy, the favourable regulatory regime, the competitiveness of natural gas over alternative fuels, as well as the emphasis on environmentally-cleaner fuels, the CGD players are expected to thrive.

Strong parentage

IGL was established in December 1998 as a joint venture (JV) between GAIL, BPCL and Government of National Capital Territory of Delhi (GNCTD) to implement the CGD project in the NCT of Delhi. As on June 30, 2023, GAIL and BPCL held equity of 22.50% each in IGL, while GNCTD owned 5% equity. 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 exist significant operational synergies between IGL and its promoters. IGL has been able to draw upon the natural gas distribution skills of GAIL (GAIL supplies natural gas to IGL through its pipelines), 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 weaknesses

Risk related to domestic natural gas availability

The CGD companies have to rely on imported RLNG and other domestic gas sources for meeting the requirement of PNG-Industrial and PNG-Commercial segments and shortfall in CNG and PNG-Domestic supplies. Currently, this domestic allocation is relatively cheaper compared with alternative natural gas sources such as RLNG. At present, large portion of CNG and PNG-Domestic demand is met through the APM gas. However, considering the expected growth in the CGD industry post award of GAs in the recent rounds of CGD biddings, APM gas may not be sufficient to meet the entire requirement and dependence on costlier alternative sources is likely to increase in order to meet the demand. CARE Ratings will continue to monitor IGL's ability in passing on the impact of rising natural gas cost to its consumers and also maintaining its profitability.

Regulatory risks in the CGD business

The PNGRB had granted exclusive marketing rights to the CGD players in the respective GAs for a stipulated time period. The marketing exclusivity period has ended in many of the GAs. Earlier, the PNGRB had formulated guidelines for determining CGD network tariff and allowing third-party access to the 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 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.

PNG-Domestic and CNG segments contribute heavily to the profitability of CGD companies, including IGL. 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. CARE ratings notes that 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 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, CARE Ratings will continue to monitor IGL's ability to pass on the incremental price to its customers and its consequent impact on the demand, which would be crucial.

Significant future capex plans

IGL has envisaged annual capex of around ₹1,200 crore from FY24 to FY26. This capex will be 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, CARE Ratings expects the credit profile IGL to remain comfortable on account of robust cash accruals.

Liquidity: Strong

The liquidity of IGL is strong marked by free cash and cash equivalents of around ₹2,326 crore as on March 31, 2023, and around ₹2,912 crore, as on June 30, 2023. With an overall gearing of 0.01x as on March 31, 2023, IGL has sufficient gearing headroom to raise debt for its capex (if required).

Furthermore, the company has a negative working capital cycle. IGL has total working capital limits (fund-based / non-fund-based) of ₹5,145 crore. Out of the same, fund-based limits remained largely unutilised. IGL utilises its non-fund-based limits for issuing PBGs for onward submission to the PNGRB towards authorisation of various GAs.

Environment, social, and governance (ESG) risks

Environmental: 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 environmental risk to some extent. IGL has taken various initiatives to reduce emissions. IGL has set-up EV charging stations and is also setting-up municipal solid waste (MSW)-based biogas plants and off-take of compressed bio gas (CBG) from CBG producers. The company also has plans to enter into renewable energy space by setting-up solar plants and green hydrogen plant in the future.

Social: IGL has implemented ISO 45001:2018 Occupational Health and Safety Management System. The occupational health and safety management system is strictly enforced by the top management of the organisation. Also, IGL follows policy of non-discrimination in race, caste, religion, marital status, gender, age, disability, or any other category.

Governance: From a governance point of view, the Board of IGL is diversified with five out of ten directors as independent directors (including one woman director). 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
Liquidity Analysis of Non-Financial Sector Entities
Factoring Linkages Parent Sub JV Group
Infrastructure Sector Ratings
City Gas Distribution
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	LPG/CNG/PNG/LNG Supplier

IGL was established in December 1998 as a JV between GAIL, BPCL and GNCTD to implement the CGD project in the NCT of Delhi. As on June 30, 2023, GAIL and BPCL held equity of 22.50% each in the company, while GNCTD owned 5% equity.
IGL enjoys exclusive position in the business of supplying CNG to the transport sector and PNG to the 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; rated 'CARE AA; Stable / CARE A1+') 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. 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, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	7,710	14,146	3,407
PBILDT	1,895	2,058	642
PAT	1,315	1,445	438
Overall gearing (times)	0.02	0.01	NA
Interest coverage (times)	85.16	76.67	271.05

A: Audited; UA: Unaudited; NA: Not Available; 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 instrument/facilities: Detailed explanation of 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	-	-	-	**	400.00	CARE AAA; Stable
Fund-based/Non-fund-based-Long term	-	-	-	-	6,500.00	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 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.	Bonds	LT*	400.00	CARE AAA; Stable	-	1)CARE AAA; Stable (14-Sep-22)	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 (14-Sep-22)	1)CARE AAA; Stable (30-Sep-21)	1)CARE AAA; Stable (07-Sep-20)

*Long-term.

Annexure-3: Detailed explanation of 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/Non-fund-based-Long term	Simple

Annexure-5: Lender details

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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