

**GAIL (India) Limited (Revised)**

July 05, 2024

Facilities/Instruments	Amount (₹ crore)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	3,500.00	CARE AAA; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	5,000.00	CARE AAA; Stable / CARE A1+	Reaffirmed
Short Term Bank Facilities	4,000.00	CARE A1+	Reaffirmed
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 robust 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
- Material decline in profitability on sustained basis

**Analytical approach:** Consolidated financials of GAIL, along with notching-up based on linkages with the GoI. The list of entities consolidated in the FY24 (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, 2024, 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 natural gas transmission business in the country with around 16,243 km of operational natural gas pipelines which accounts for around 70% of country's pipeline as on March 31, 2024, with a natural gas handling capacity of 208 million metric standard cubic meter per day (MMSCMD). Besides, the company earns stable cash flows from its natural gas transmission business, although it accounted for only around 7% of its total revenues in FY24. However, the profit before interest and tax (PBIT) margin during FY24 for the segment is around 44% against 29% in FY23 mainly on account of resumption of natural gas supply from SMTS and softening of gas prices which led to increase in demand. GAIL's integrated

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

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 FY24, GAIL sourced around 41% of its total natural gas requirements through domestic sources, which include those from Oil and Natural Gas Corporation Limited (ONGC), Ravva, Coal Bed Methane (CBM) 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 United States of America (USA) and up to 2.85 MMTPA of LNG annually on a delivered basis from Gazprom Marketing & Trading Singapore Pte Limited (GMTS), now known as Sefer Marketing & Trading Singapore Pte Limited (SMTS), while another 4.80 MMTPA from RasGas Qatar and 0.4 MMTPA from Australia. Supply resumption from SMTS has limited GAIL's reliance on spot market for its natural requirements. Going forward, the capacity utilization 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 FY24, natural gas marketing, transmission, petrochemicals, and CGD contributed around 84%, 7%, 5%, and 4% to the total revenues of GAIL, respectively (FY23: 84%, 4%, 3%, 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 FY24, GAIL's TOI reduced to Rs.1,33,228 crore (FY23: Rs.1,45,668 crore) mainly on account of decline in natural gas prices. GAIL's profit before interest, lease rentals, depreciation and taxation (PBILDT) and profit-after-tax (PAT) margin increased to 10.73% and 7.43%, respectively in FY24 (FY23: 4.89% and 3.67% respectively). Last year, i.e., FY23 GAIL faced challenges amid discontinuation of supplies from SMTS and underutilization of the Pata plant. However, supplies from SMTS have resumed which led to recovery in the profitability margins of GAIL. The company enjoys a comfortable capital structure with an overall gearing of 0.29x as on March 31, 2024 (FY23: 0.30x). The interest coverage ratio stood comfortable at 19.88x in FY24 (FY23: 22.70x). Also, the debt coverage indicators, including total debt / GCA and total debt / PBILDT stood comfortable at 1.60x (FY23: 2.00x) and 1.52x (FY23: 2.22x), respectively.

#### **Key weaknesses**

##### **Risk related to un-hedged USA LNG contract:**

GAIL has long-term contracts to buy 5.8 MMTPA of LNG from the USA out of its total 14 MMTPA long-term contracts. GAIL's USA 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 USA through destination swaps, leading to a reduction in the shipping cost for the natural gas imported to India from the USA.

##### **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 realizations from petrochemicals also vary. Also, GAIL's PBIT level in the petrochemicals division is at Rs.125 crore in FY24 as against a PBIT loss of Rs.1,061 crore in FY23 whereas in case of LPG and other liquid hydrocarbons division, the PBIT declined to Rs.770 crore in FY24 as against Rs.1,228 crore in FY23.

##### **Liquidity:** Strong

The liquidity position of GAIL remained strong as on March 31, 2024, with free cash and bank balance and investments of Rs.1,464 crore. The company's operating cycle remained comfortable at 26 days in FY24. GAIL is also undertaking major expansion projects while maintaining robust liquidity levels. Being a renowned player in the gas utility industry, its cost of borrowings from capital markets is quite low.

#### **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:** GAIL has an Integrated Management System in place through which the company is committed towards maintaining and ensuring a safe and clean environment.

**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

[Consolidation](#)

[Definition of Default](#)

[Factoring Linkages Government Support](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

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### 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, 2023 (A)	March 31, 2024 (Ab)
Total operating income	1,44,545	1,33,228
PBILDT	7,075	14,296
PAT	5,302	9,903
Overall gearing (times)	0.30	0.29
Interest coverage (times)	22.70	19.88

A: Audited; UA: Unaudited; Ab: Abridged; 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 and not yet 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 2024-2025	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
1	Non-fund-based - LT/ ST-BG/LC	LT/ST	1,000.00	CARE AAA; Stable / CARE A1+	-	1)CARE AAA; Stable / CARE A1+ (06-Jul-23)	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)

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	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
2	Bonds	LT	-	-	-	-	1)Withdrawn (05-May-22)	1)CARE AAA; Stable (06-Jul-21)
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+ (06-Jul-23)	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)
4	Non-fund-based - LT/ ST-BG/LC	LT/ST	1,500.00	CARE AAA; Stable / CARE A1+	-	1)CARE AAA; Stable / CARE A1+ (06-Jul-23)	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)	1)CARE AAA; Stable / CARE A1+ (06-Jul-21)

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	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
							5)CARE AAA; Stable / CARE A1+ (05-May-22)	
5	Fund-based - LT-Term Loan	LT	3,500.00	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Jul-23)	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 (06-Jul-23)	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 / CARE A1+	-	1)CARE AAA; Stable / CARE A1+ (06-Jul-23)	1)CARE AAA; Stable / CARE A1+ (08-Mar-23)	-
8	Fund-based - ST-Term loan	ST	4,000.00	CARE A1+	-	1)CARE A1+ (06-Jul-23)	-	-

LT: Long term; ST: Short term; LT/ST: 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	Extent of Consolidation	Rationale For Consolidation
GAIL Gas Limited	Full	100.00%
GAIL Global (USA) Inc.	Full	100.00%
GAIL Global Singapore Pte Limited	Full	100.00%
Tripura Natural Gas Company Limited	Full	48.98%
Bengal Gas Company Limited	Full	88.13%
Konkan LNG Limited	Full	93.50%
Aavantika Gas Limited	Proportionate	49.99%
Bhagyanagar Gas Limited	Proportionate	48.73%
Maharashtra Natural Gas Limited	Proportionate	22.50%
Central U.P. Gas Limited	Proportionate	25.00%
Green Gas Limited	Proportionate	49.98%
Indradhanush Gas Grid Limited	Proportionate	20.00%
Talcher Fertilizers Limited	Proportionate	33.33%
Vadodara Gas Limited	Proportionate	50.00%
TAPI Pipelines Company Limited	Proportionate	5.00%
Mahanagar Gas Limited	Moderate	32.50%
Indraprastha Gas Limited	Moderate	22.50%
Petronet LNG Limited	Moderate	12.50%
Brahmaputra Cracker and Polymer Limited	Moderate	70.00%
ONGC Petro Additions Limited	Moderate	49.21%
Ramagundam Fertilizers and Chemicals Limited	Moderate	14.72%
Fayum Gas Limited	Moderate	19.00%
China Gas Holdings Limited	Moderate	2.76%
ONGC Tripura Power Company Limited	Moderate	26.00%
Bharat Energy Office LLC	Moderate	20.00%
LNG Japonica Shipping Corporation Limited	Moderate	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](mailto:care@careedge.in) for any clarifications.

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### About us:

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