

## Great Eastern Energy Corporation Limited

August 06, 2024

Facilities	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	280.00	CARE A; Stable	Assigned

Details of facilities in Annexure-1.

### Rationale and key rating drivers

The rating assigned to bank facilities of Great Eastern Energy Corporation Limited (GEECL) draws significant comfort from operational coal-bed methane (CBM) block with proven gas reserves and its long-term Gas Sales and Purchase Agreement (GSPA) with Steel Authority of India Limited. (SAIL; rated CARE AA; Stable/CARE A1+) for large part of its total CBM production volume at a fixed pricing mechanism for five years providing strong revenue visibility. Further, the rating also takes into consideration healthy financial risk profile marked by improving total operating income (TOI) over the last three fiscals (FY22-FY24) supported by upward revision in contracted gas price and minimum guaranteed off-take agreement with customers. The rating further considers significant debt reduction over the last three years along-with sizeable liquidity build-up which provides significant headroom for undertaking its planned efficiency capex, without materially impacting its capital structure. GEECL's integrated infrastructure (consisting of wells, gas gathering stations and dedicated pipelines) and favourable pricing scenario also supports the company's overall credit profile. Recent refinancing of its outstanding debt with reduction in interest rates further supports its rating.

Above rating strengths are partially offset by consistent decline in CBM production volume from existing wells, exposure to project risk while undertaking a sizeable efficiency capex and risks associated with lower-than-envisaged gas production volumes and fluctuations in gas prices.

The rating also considers ongoing legal cases with Matix Fertilizers & Chemicals Limited and SRMB Srijan Limited. While the final verdict in these cases remains awaited, management expects favourable verdicts in these cases, which is likely to result in substantial cash inflows over the medium term.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive Factors

- Increasing production levels supported by ongoing efficiency capex and enhancing output from existing wells leading to profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin of above 60%.
- Sizeable recovery from ongoing litigations and its utilisation towards reduction of debt level.

#### Negative Factors

- Substantial debt funded capex or investment in acquisitions/expansion resulting in deteriorating financial profile with overall gearing increasing beyond 0.50x.
- Declining annual sales volumes below 60 million metric standard cubic meters (MMSCM) leading to moderating financial performance.
- Net debt/PBILDT increasing beyond 1.50x considering higher than anticipated debt levels or lower profitability.

### Analytical approach: Standalone

#### Outlook: Stable

The 'Stable' outlook reflects proven gas reserves in the field, favourable gas demand and improved pricing scenario with contracts having minimum guaranteed off-take, which is likely to support the company's credit risk profile in the medium term.

<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

**Detailed description of key rating drivers:****Key strengths****Operational Raniganj block with proven gas reserves and integrated infrastructure**

GEECL is the pioneer and one of the few CBM producers in India. The company started with commercial CBM production in 2007. Raniganj (South) block is GEECL's primary block, encompassing 210 square kilometre area falling in parts of Paschim Bardhaman, Bankura and Purulia districts and is adjacent to the industrial belt of Asansol-Raniganj-Durgapur in West Bengal. GEECL holds 100% participating interest in the block until 2038, with a potential extension till the reserve exists. The Raniganj (South) block, situated in Damodar Valley, is estimated to contain a substantial Gas-in-Place volume of 10.62 trillion cubic feet (TCF). To facilitate the distribution of CBM gas, GEECL has constructed a dedicated pipeline extending ~127 kms. This pipeline traverses close to the Asansol-Durgapur Industrial belt, ensuring a steady supply of CBM to a variety of industrial consumers within the region. The strategic placement of this pipeline and sizeable gas reserves places GEECL as a favourable supplier for meeting the energy demands of its industrial clientele.

**Long-term GSPA along-with minimum guaranteed off-take providing strong revenue visibility**

GEECL established a dedicated pipeline to SAIL for CBM's off-take being produced in the Raniganj block. The agreement is for a tenure of five years. The contract initially commenced in July 2008 and has been renewed subsequently with current contract maturing in November 2027. The contract is on fixed pricing (exclusive of applicable tax) of ₹46/ SCM increased from earlier rate of ₹23/ SCM; and also contains a Minimum Guaranteed Offtake ("MGO") clause which requires continuous and minimum off-take of 0.12 million standard cubic meters of gas per day (MMSCMD) by SAIL.

The company also benefits from MGO with other customers with contract period ranging between 2-5 years, which provides assured revenue visibility. While the company benefits from having SAIL as a major customer, an overall revenue contribution of 73% also indicates customer concentration risk. Moreover, in view of the need to adopt more of the cleaner energy options and keeping in view their production expansion plans, SAIL potentially is a growing and long-term customer for GEECL.

**Healthy financial performance marked by increasing TOI over the last three fiscals**

TOI grew at compound annual growth rate (CAGR) of ~20% in FY22-FY24 backed by upward revision in contracted gas prices, which negated the effect of declining output in this period.

Operating margin remained healthy in the range of 49%-51% over the last three fiscal. The company's operating profitability remains impacted by expenditures incurred for maintenance of low efficiency wells and high contribution of fixed cost amidst lower overall output. With increase in overall output, the margin may restore towards the FY20 levels, however this remains key monitorable.

Gross cash accruals (GCA) generated remained healthy at ₹104.95 crore in FY24 as against ₹42.19 crore in FY21. Accruals stood adequate for its debt service obligations for FY24, which further enabled the company to make prepayment as well. Total debt repayment including prepayment of ₹74.91 crore was done in FY24.

**Comfortable capital structure and satisfactory debt protection metrics**

The company's capital structure continues to remain comfortable with gearing staying below unity over the last five fiscals ended March 31, 2024. Further, the debt-to-equity ratio remains similar to gearing in the absence of short-term borrowings. Overall gearing at net debt levels (reducing debt by the available liquidity) stood at 0.19x.

Debt coverage indicators continued to remain adequate in FY23 with Total Debt to Gross Cash Accruals (TDGCA) of 2.66x as on March 31, 2024 (4.65x as on March 31, 2023) and interest coverage of 3.57x for FY24 (2.71x for FY23). Going forward, even with its large size planned capex, its capital structure and debt coverage indicators are expected to remain comfortable as large part of its capex is expected to be funded of its internal accruals and available liquidity.

**Favourable growth prospects of natural gas**

India aims to increase the share of natural gas in its primary energy mix from existing 6% to 15% by 2030, focusing on key end-use sectors like fertilisers, city gas distribution, power, refineries, and petrochemicals. Post subsiding of pandemic's impact, industrial activity rebounded which led to an increase in gas consumption in FY22, after declining in FY21, reaching pre-Covid levels. It was on course to grow further in the subsequent year, however, the sudden outbreak of war between Russia and Ukraine in February 2022 led to a sharp increase in prices of natural gas in FY23, whereby gas lost its cost competitiveness to alternate fuels. Accordingly, natural gas consumption declined in FY23. With imported gas prices normalising to ~\$10-\$12/mmbtu by the end of FY23 and remaining range bound in FY24, natural gas consumption again started its upward trajectory in FY24 and India recorded its highest-ever annual gas consumption in FY24.

Regulatory steps to adjust domestic gas pricing, stabilising imported gas prices, adequate LNG capacity in India, and expanding gas pipeline infrastructure are expected to support this shift towards a greater share of natural gas in India's overall energy mix.

**Liquidity: Strong**

GEECL's liquidity remains strong marked by healthy surplus liquidity balance of ₹164.60 crore as on June 30, 2024 (₹143 crore, including ₹25 crore of DSRA margin money as on March 31, 2024). The company made sizeable debt repayments/prepayment of ₹74.91 crore in FY24 of cash accruals generated. Over the medium term, repayments are likely to remain in the range of ₹15 crore – ₹47 crore which are likely to be serviced adequately by its cash accruals. Given low overall gearing level, GEECL has sufficient headroom to raise debt for its planned efficiency capex. Recently in June 2024, GEECL completed refinancing of its outstanding term debt with lower interest rate which is expected to further support its liquidity.

**Key weaknesses****Declining output due to natural decline in production from ageing wells**

GEECL's gas production is declining consistently, where the production reduced from 138.70 MMSCM in FY20 to 95.80 MMSCM in FY24, due to natural decline in production of some ageing wells after reaching their peak production. While the company has a total of 156 wells, 76 wells are currently operational, and 61 wells would be undergoing the proposed efficiency capex program. While the company has initiated a revival/ efficiency improvement capex plan on these select set of wells, which is expected to arrest the decline and increase the overall output; successful implementation of this capex will remain key monitorable over the medium term. In past, GEECL had rescheduled its debt servicing obligations in FY16, considering lower than expected Coal Bed Methane (CBM) production volume, where its lenders implemented 5:25 restructuring from March 2017 without haircut and with improvement in CBM production, the company has been regular in its debt servicing since then.

**Risks associated with lower-than-envisaged gas production volumes and fluctuations in gas prices**

The company has plans to undertake capex activities to improve the production from its existing wells. However, fields are exposed to inherent risks of lower-than expected volume of production. Furthermore, gas prices also exhibited volatility and despite having pricing freedom, the market dynamics may play crucial role while determining prices in contract revisions. Any sharp correction in alternative energy prices may continue to remain a threat for the company and will remain a key monitorable once its existing Gas Sale and Purchase Agreement (GSPAs) are up for renewal.

**Exposure to project risk owing to scheduled capex plans**

The company is undertaking efficiency capex of ~Rs.220 crore on enhancing the efficiency of some ageing wells in order to increase the CBM production. The company is expected to avail ₹75 crore of debt (yet to be tied-up) in FY26, while balance amount is planned to be funded of available liquidity and internal accruals. While the efficiency capex is essential to arrest the declining production, timely completion and expected ramp-up in production of CBM will remain key monitorable. Given low overall gearing level, GEECL has sufficient headroom to raise debt for its planned capex.

The work for its planned capex has been assigned to Halliburton India Operations Private Limited on a contractual basis and is likely to commence from October 2024 and likely to be completed over the next 14-18 months.

**Applicable criteria**

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)

[Infrastructure Sector Ratings](#)

## About the company and industry

### Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Energy	Oil, gas and consumable fuels	Gas	Gas transmission/Marketing

GEECL, erstwhile Modi Mckenzie Limited, was incorporated in India in 1992 to explore, develop, distribute and market CBM gas. GEECL was the first company to commercially produce CBM in India, at its Raniganj CBM Block, near Kolkata.

The company originally entered into an MoU and license agreement in 1993 with Coal India Limited (CIL, rated CARE AAA; Stable, CARE A1+) for the exploration and development of CBM for the Raniganj CBM Block. In 1994 to 2001, the company carried out preliminary exploration activities on the block. Following the transfer of Coal CBM administration from the Ministry of Coal (MoC) to the Ministry of Petroleum and Natural Gas (MoPNG), the company entered a production sharing contract (PSC) in May 2001 with the MoPNG for 35 years, comprising five years of pilot assessment, market survey and commitment phase, five years of development phase and 25 years of production phase.

The company's contract is valid until 2038 and has marketing rights to sell CBM at market determined prices. The company presently has a capacity of supplying ~0.90 MMSCMD with a total of 156 wells. Further, it has total of six maintenance/workover rigs and two drilling rigs. The company has another CBM block, at Mannargudi (Tamil Nadu) which is currently under arbitration.

Brief Financials (₹ crore)	FY23 (A)	FY24 (A)	Q1FY25 (Prov.)
Total operating income	239.55	289.54	69.95
PBILDT	122.46	139.44	34.71
PAT	25.23	26.65	5.99
Overall gearing (times)	0.50	0.38	NA
Interest coverage (times)	2.71	3.57	2.49

A: Audited; Prov.: Provisional; NA: Not Available, Note: these are latest available financial results

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating history for last three years:** Please refer Annexure-2

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated:** Annexure-4

**Lender details:** Annexure-5

### Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	30/09/2029	280.00	CARE A; Stable

**Annexure-2: Rating history for 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	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)CARE BB+; Stable; ISSUER NOT COOPERATING* (02-Jun-22) 2)Withdrawn (02-Jun-22)	-
2	Fund-based - LT-Term Loan	LT	280.00	CARE A; Stable				

\*Issuer did not cooperate; based on best available information.

LT: Long term;

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities-** Not applicable**Annexure-4: Complexity level of instruments rated**

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

**Annexure-5: Lender details**

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

**Note on complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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