Gujarat Gas Limited
September 09, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term bank facilities	2,900.00 (Reduced from 4,000.00)	CARE AAA; Stable / CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Gujarat Gas Limited (GGL) continue to derive strength from GGL's leading position in the city gas distribution (CGD) business in India, its well-established and significantly large scale of operations, natural gas sourcing arrangements in place and moderately diversified customer segment mix.

GGL's total sales volume stood at 3,421 million metric standard cubic metre (MMSCM) in FY24, increased from 3,056 MMSCM in FY23 which can be attributed to increase in CNG sales and higher contribution of Industrial PNG segment. With the softening of RLNG prices, the company offered PNG to industrial customers at lower price, considering Propane prices which is relatively cheaper. This led to decline in revenue by 6.4% in FY24 and moderation in profitability from 12.13% in FY23 to 14.45% in FY24. Ratings also continue to factor in comfortable leverage and debt coverage indicators. The company continues to have a robust financial profile with absence of debt, strong liquidity position and efficient working capital management. Furthermore, ratings continue to derive strength from its professional and experienced management and favourable outlook for the CGD business, being an environmentally-cleaner fuel.

Ratings also consider the proposed scheme of arrangement, where Gujarat State Petroleum Corporation Limited (GSPCL; CARE AA; Rating Watch with Positive Implications/CARE A1+), Gujarat State Petronet Limited (GSPL; CARE AA+; Rating Watch with Developing Implications/CARE A1+) and GSPC Energy Limited (GEL) would be amalgamated into Gujarat Gas Limited and later transmission business will be demerged into GSPL Transmission Limited (GTL). The scheme is expected to simplify the corporate structure and unlock value with elimination of layered structure within the group. The merger of gas trading business is likely to augment the scale and improve GGL's profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin. With GSPC being a debt free entity, no adverse impact on GGL's financial profile is envisaged on completion of the merger. Any unenvisaged liabilities falling on GGL pursuant to the scheme would be a key monitorable and important from credit perspective. The transaction is expected to be completed by August 2025.

However, ratings continue to remain exposed to susceptibility of demand for natural gas based on price dynamics of competing fuels and its concomitant impact on GGL's profitability and risk related to domestic natural gas availability and RLNG prices. Ratings are also constrained by its medium-term capex plans for developing CGD network in geographical areas (GAs) and regulatory risk associated with CGD business.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Not applicable

Negative factors

- Substantially declining operating profitability margins on a sustained basis.
- Large debt-funded capex or acquisitions leading to increasing total debt/PBILDT of 1x on a sustained basis.
- Regulatory development, which may have material adverse impact on the business and financial profile of the company.
- Significantly delaying achievement of MWP targets leading to imposition of material penalties on GGL.
- Unenvisaged liabilities on GGL arising from the proposed amalgamation.

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects CARE Ratings Limited's (CARE Ratings') expectation that GGL would maintain its strong market position in the industry and steady operational performance and continued robust financial position.

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

Detailed description of key rating drivers:

Key strengths

Leading player in CGD business with its established business presence in its area of operations

GGL is the leading player in CGD business in India and has a dominant market position, particularly in Gujarat, which is the largest natural gas-consuming state in the country. This is considering its first-mover advantage in major areas, continuous infrastructure development and high level of entry barriers, primarily in the form of capex requirement and regulated near-monopoly marketing and infrastructure exclusivity for a given period. Petroleum and Natural Gas Regulatory Board (PNGRB) has granted marketing exclusivity and infrastructure exclusivity to GGL for GAs it operates in, where other players are not allowed to operate within these GAs till the end of the exclusivity period.

Moderately diversified customer mix

GGL's customer mix is skewed towards piped natural gas (PNG). In FY24, of GGL's total sales volumes, proportion of PNG-Industrial, Commercial, Domestic and CNG segments stood at ~62%, 1%, 8%, and 29%, respectively. Contribution of segments to total sales volume in Q1FY25 stood at 66%, 1%, 6% and 27% respectively.

GGL introduced Full Dealer-owned Dealer Operated (FDODO) scheme under which dealers will invest and operate CNG Stations. This would enable the company to channel its resources into laying of PE and steel pipelines for enhancing infrastructure and accessibility and expansion of CGD network. Going forward, the envisaged ramp-up of number of CNG stations and commercialising of new GAs outside Gujarat is expected to aid further diversification in its sales mix and some improvement in its operating profitability.

Satisfactory operating and financial performance

GGL is the largest CGD player in the country in terms of total sales volumes. GGL has been able to demonstrate strong operating performance in terms of growth in the CGD infrastructure and sales volumes. While the number of GGL's CNG stations stood stable at 811 as on June 30, 2024 (808 as on March 31, 2023 and 711 as on March 31, 2022), the number of PNG customers increased to 2.17 million as on June 30, 2024 (1.95 million as on March 31, 2023 and 1.72 million as on March 31, 2022). GGL's total sales volumes increased from 3,056 MMSCM in FY23 to 3,421 MMSCM in FY24 considering higher CNG and industrial PNG sales. Due to competitive pricing of PNG, in line with Propane, the sales volume of the company reported y-o-y growth of 12% in FY24. In Q1FY25, total sales volume stood at 999 MMSCM, increased from 839 MMSCM in Q1FY24 (y-o-y growth of 19%).

GGL reported total operating income (TOI) of ₹15,690 crore in FY24 (FY23: ₹16,759 crore). While the company's sales volume improved by 12% in FY24 against FY23, gross spread per SCM declined from ₹11/SCM in FY23 to ₹9/SCM in FY24, moderating PBILDT margin to 12.13% (from 14.45% in FY23). However, overall performance continued to remain satisfactory with PAT margin at 7.28% in FY24. On consummation of GSPC with GGL, business operation would expand further with synergies of gas trading business accruing to GGL.

In Q1FY25, the company reported TOI of ₹4,450 crore with PBILDT margin of 12.04% and PAT margin of 7.41% (Q1FY24: TOI: ₹3,782 crore; PBILDT margin: 10.26% and PAT margin: 5.69%).

Robust financial position

The company continues to be debt free as on March 31, 2024, post prepayment of term loans in FY23. Debt comprises only lease liabilities of ₹150 crore as on March 31, 2024. PBILDT interest coverage stands robust 35.89x in FY24 (FY23: 37.16x).

The merger of GSPC with GGL is not expected to result in addition of debt/other liabilities which may adversely impact GGL's financial profile. Any deviation from this on consummation of the scheme would be a key rating sensitivity.

Stable industry outlook

To address the environmental concerns, Government of India (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 court directives. In the last many years, CGD volumes have been continuously rising, considering 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 to other conventional fuels and its environment friendliness over other alternative fuels. GGL is expected to benefit from the continued increase in the natural gas demand (CNG and PNG) in Gujarat, which is among the highest natural gas-consuming states in India. Going forward, the number of CNG vehicles is expected to increase, and an increasing number of CNG variant models by car manufacturers, which can support higher CNG demand, despite 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. GoI aims to increase the share of natural gas in India's primary energy mix from 6.7% at present to ~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, CGD players are expected to thrive, given GoI's impetus on a gas-based economy, favourable regulatory regime, competitiveness of natural gas over alternative fuels, and emphasis on environmentally-cleaner fuels.

Key weaknesses

Risk related to domestic natural gas availability and RLNG prices

Under the existing Ministry of Petroleum and Natural Gas (MoPNG) regulations for natural gas allocation, CGD companies are accorded the highest priority and are allotted domestic natural gas under the administered price mechanism (APM) to meet their requirement for supply to piped natural gas (PNG)-Domestic and CNG segments, whereas they have to rely on imported RLNG 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 to alternative natural gas sources such as RLNG.
At present, most of the 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 to meet the demand. GGL's ability in passing on the impact of rising natural gas cost to its consumers and maintaining its profitability would be a key monitorable. In terms of balance natural gas requirement, which is sourced as RLNG/ HPHT (high pressure high temperature) gas, GGL has a mix of long-term and spot contracts, making it vulnerable to vagaries of the spot market, especially amidst present volatile RLNG prices.

Project risk associated with its medium-term capex plans

GGL has envisaged capex in the range of around ₹1,000 crore each year over the next three years. These capex plans of GGL are envisaged to be funded through internal accruals and available liquidity with the company without availing additional debt. Despite high amount of internal accruals committed for capex, GGL's credit profile is expected to remain comfortable considering robust cash accruals resulting into comfortable debt coverage indicators.

Regulatory risks in CGD business

CGD entities are regulated by PNGRB with risk associated with entry of new players post expiry of the marketing/network exclusivity period which may impact the profitability of players. The segment is vulnerable to demand-supply of natural gas and changes in the pricing mechanism. GGL's operating margins, like other CGD companies, are vulnerable to the mix of APM gas and costlier imported RLNG used in its product mix. Any unexpected change in regulations regarding priority in allocation of APM gas for PNG-Domestic and CNG segments and/or its pricing can adversely impact profitability margins of CGD companies, including GGL. While CGD entities have the pricing power, and thus, the flexibility to increase the price of natural gas sold to pass on the increase in the cost of the raw material to customers, the increase will only be limited to the extent that natural gas remains competitive in the market against other alternative fuels. Going forward, the extent to which GGL is able to pass on the incremental price to its customers and its consequent impact on the demand would be crucial.

Liquidity: Strong

GGL's liquidity is marked by strong cash accruals against its nil debt levels and availability of free cash and cash equivalents of ~₹1,367 crore as on June 30, 2024. GGL has a very short operating cycle, which results into low fund based working capital limit requirement. Furthermore, the envisaged capex is most likely to be funded from its internal accruals and available liquidity.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks

Environmental

CARE Ratings takes note of the fact that natural gas is a relatively cleaner source of energy, it has lower carbon emissions against other fossil fuels. Also, there is strong impetus of GoI to increase share of natural gas in India's primary energy mix. This mitigates the environmental risk to some extent. GGL has taken initiatives such as blending of green hydrogen gas with natural gas to reduce carbon emissions, blending of compressed biogas (CBG) into PNG and CNG system contributing to waste management and pollution control, among others. Also, GGL has played a pivotal role in shifting Morbi ceramic industry gasifiers from coal to PNG, which has led to significant improvement in air quality index of Morbi.

Social

GGL is focused on safety aspects especially at all its GAs with implementation of Health, Safety & Environment (HSE) management system relevant to project requirement, trainings, visits and meetings by the management team members focusing on safety requirements.

Governance

From a governance point of view, GGL's board is diversified with four of seven directors as independent directors. Also, the quality of financial reporting and disclosures are adequate.

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
Short Term Instruments
City Gas Distribution

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Energy	Oil, Gas and Consumable Fuels	Gas	LPG/CNG/PNG/LNG Supplier

GGL is India's largest CGD company, with 27 CGD licenses spread across 44 districts in six states and one union territory across the states of Gujarat, Maharashtra, Rajasthan, Haryana, Punjab, Madhya Pradesh and Union Territory of Dadra and Nagar Haveli. Of these, seven GAs have been awarded to the company in the 9th and 10th CGD bidding rounds. GGL is engaged in the marketing and distribution of natural gas (piped and compressed) and currently supplies PNG to industrial, commercial and domestic customers and CNG to the transportation sector. GGL benefits from the economies of scale, diversified customer and sourcing bases, and extensive pipeline infrastructure. GGL has a customer base of over 2.15 million domestic households, 15,200 commercial customers, 4,440 industrial units and 811 CNG stations as on June 30, 2024, providing strong revenue diversity. As on June 30, 2024, the promoter and promoter group holding in GGL was 60.89%.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (U/A)
Total operating income	16,759	15,690	4,450
PBILDT	2,423	1,904	536
PAT	1,525	1,143	330
Overall gearing (times)	0.02	0.02	NA
Interest coverage (times)	37.16	35.89	68.67

A: Audited U/A: Unaudited; 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: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based/Non-fund-based-LT/ST	-	-	-	-	2900.00	CARE AAA; Stable / CARE A1+

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	Fund-based/Non-fund-based-LT/ST	LT/ST	2900.00	CARE AAA; Stable / CARE A1+	-	1)CARE AAA; Stable / CARE A1+ (23-Aug-23) 2)CARE AAA; Stable / CARE A1+ (04-Jul-23)	1)CARE AA+; Positive / CARE A1+ (27-Sep-22) 2)CARE AA+; Positive / CARE A1+ (06-Apr-22)	1)CARE AA+; Positive / CARE A1+ (14-Sep-21)

LT/ST: Long term/Short 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/Non-fund-based-LT/ST	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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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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