Indraprastha Gas Limited
November 12, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[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.
#not yet placed

Rationale and key rating drivers

The rating assigned to the long-term bank facilities and instruments of Indraprastha Gas Limited (IGL) continue to factor in IGL's leadership position in the city gas distribution (CGD) business in the National Capital Region of Delhi (NCT of Delhi), its well-established and significantly large scale of operations, favourable outlook for the CGD business, being an environmentally-cleaner fuel, strong parentage with sponsors being GAIL India Limited (GAIL; rated 'CARE AAA; Stable/CARE A1+') and Bharat Petroleum Corporation Limited (BPCL; rated 'CARE AAA; Stable/CARE A1+').

The rating also factors in consistent growth in scale of operation with sales volume witnessing a y-o-y growth of ~5% during FY24 (to 3,084 million metric standard cubic metre (MMSCM) in FY24 from 2,952 MMSCM in FY23) attributed by increase in its CGD infrastructure. The volumes continued to grow during H1FY25 also with the company achieving highest ever revenue during Q2FY25. With the softening of gas purchase cost, the PBILDT margin of the company improved from 14.46% during FY23 to 17.08% during FY24.

IGL has infrastructure exclusivity of 25 years in NCT of Delhi as prescribed under the Petroleum and Natural Gas Regulatory Board (PNGRB) Act, 2006. Although the marketing exclusivity period is over for NCR, the company continues to benefit from the first mover advantage with established infrastructure in NCR region. IGL has medium to long term gas sourcing contracts with GAIL, BPCL and others which ensures the availability of natural gas for meeting the CGD requirements. IGL has 882 CNG stations, 10,585 Industrial and commercial PNG connections and 27 lakh domestic PNG connections as on Mar. 31, 2024. The company derives 75% revenue from CNG of which majority is derived from NCR and balance from PNG connections

The 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.

The rating, however, remain exposed to the regulatory risk associated with CGD business changes and volume and pricing risk associated with demand-supply of natural gas/RLNG with concomitant impact on IGL's profitability. IGL has received intimation from GAIL with respect to reduction in the domestic gas allocation for transportation segment by about 21% effective from October 16, 2024, in line with Government directives. With close to 72% of gas requirement sourced from domestic sources, the reduction would lead to increased reliance on costlier RLNG/HPHT gas with consequent impact on profitability. As per CARE Ratings Limited (CARE Ratings), the margins is likely to moderate by ~500 bps during FY26 in the event of complete absorption of price impact due to higher dependence on RLNG. With the presence of long-term sourcing arrangements, availability of RLNG is not expected to be an issue for the company. However, price fluctuations could moderate the profitability margins going forward. The ability of the company to pass on the increase in the gas prices to end users would be a key monitorable from profitability and return perspective.

The rating strengths are also tempered by the medium-term capex plans for developing CGD network in new geographical areas (GAs).

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.
- Regulatory changes impacting the volumes, profitability and return indicators on a continued basis.

Analytical approach: Standalone

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

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 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 2012, the company continues to retain infrastructure exclusivity as the city gas carrier in NCT of Delhi.

Robust infrastructure and dominant position in the CNG supply

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 882 CNG stations as on Mar. 31, 2024 (FY23: 791). For PNG infrastructure, the company has a steel pipeline network of 2,055 km and a medium-density polyethylene (MDPE) pipeline network of 23,565 km as on Mar. 31, 2024 (Mar. 31, 2023: 1,868 km and 20,632 km, respectively). The company is the market leader in CNG business with majority of supply catered to NCR. During FY24, out of the sales volumes of IGL, the proportion of CNG segments was 75% followed by PNG-Industrial + Commercial, Domestic (12%, 7%, 6% respectively). The customer mix continued to remain at similar levels during H1FY25.

However, with the government introducing various incentive schemes, the Delhi EV policy for commercial fleet aggregators, the popularity of electric vehicles has grown in India. These vehicles may pose a threat to CNG fuelled vehicles in the medium to long term. Ability of the company to ramp-up in the operations in the new GAs while maintaining its leadership position in Delhi NCT would thus be important from growth perspective.

Strong operational and financial performance

IGL achieved total sales volumes of 3,084 million metric standard cubic metre (MMSCM) during FY24 (FY23: 2,952 MMSCM) on the back of increase in its CGD infrastructure. On account of implementation of Kirit Parikh's committee, the average cost of procurement has seen reduction from Rs.34.26/SCM during FY23 to 30.72/SCM during FY24. The company passed only partial amount of decline in natural gas prices to its clients thereby improving the PBILDT margin and PAT margin to 17.08% (FY23: 14.46%) and 12.49% (FY23: 10.22%), respectively, in FY24.

During H1FY25, the company achieved total sales volume of 1,616 MMSCM (H1FY24: 1,510 MMSCM) with growth in Industrial and commercial PNG, domestic PNG, sales to other CGD entities and CNG segments stood at 8%, 14%, 1% and 7% respectively. The company reported its highest ever TOI during Q2FY25. During H1FY25, TOI of IGL stood at Rs.7,218 crore (Rs.6,866 crore during H1FY24) with PBILDT margin of 15.47% (18.93%) and PAT margin of 11.53% (14.18%). The decline in profitability margins during H1FY25 is on account of increase in the gas purchase cost due to lower domestic gas allocation.

Robust financial position:

The company continues to be debt free as on March 31, 2024. Debt comprises only lease liabilities of ₹81 crore as on March 31, 2024. The company had proposed raising bonds of Rs.400 crore, however, the same is not expected to be placed in the medium term considering the strong liquidity position of the company. The debt coverage metrics have remained robust due to the strong profitability and absence of debt.

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 September 30, 2024, 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.

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. IGL is expected to benefit from the continued increase in the natural gas demand (CNG and PNG). 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.

Liquidity: Strong

The liquidity of IGL is strong marked by free cash and cash equivalents of around Rs.3,289 crore as on March 31, 2024, and around Rs.3,000 crore, as on Sept. 30, 2024. With an overall gearing of 0.01x as on March 31, 2024, IGL has sufficient gearing headroom to raise debt for its capex (if required).

Furthermore, the company has comfortable working capital cycle. IGL has total working capital limits (fund-based / non-fund-based) of Rs.6,363 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.

Key weaknesses

Risk related to domestic natural gas availability

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.

In line with Government directive, the company has received intimation from GAIL with respect to reduction in the domestic gas allocation for transportation segment by about 21% effective from October 16, 2024. With close to 72% of gas requirement sourced from domestic sources, the reduction would lead to increased reliance on costlier RLNG/HPHT gas with consequent impact on profitability. As per CARE Ratings Limited (CARE Ratings), the margins is likely to moderate by ~500 bps during FY26 in the event of complete absorption of price impact due to higher dependence on RLNG. With the presence of long-term sourcing arrangements, availability of RLNG is not expected to be an issue for the company. However, price fluctuations could moderate the profitability margins going forward. The ability of the company to pass on the increase in the gas prices to end users would be a key monitorable from profitability and return perspective.

Also, 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. IGL'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, IGL 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 mid-term capex plans

IGL has envisaged annual capex of around Rs.4,700 crore during FY25 to FY27. 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.

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. 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. 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 IGL. 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 IGL is able to pass on the incremental price to its customers and its consequent impact on the demand would be crucial.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks

Environmental:

CARE Ratings Limited (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 als 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 organization.

Governance

From a governance point of view, the Board of IGL is diversified with five out of ten 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
City Gas Distribution

About the company and industry

Industry classification

Macroeconomic 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 Sept. 30, 2024, 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 Rs.68 crore and 50% stake in Maharashtra Natural Gas Limited (MNGL; rated 'CARE AA; Stable / CARE A1+') for Rs.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, 2023 (A)	March 31, 2024 (A)	H1FY25 (U/A)
Total operating income	14,133	14,000	7,218
PBILDT	2,044	2,391	1,117
PAT	1,445	1,748	833
Overall gearing (times)	0.01	0.01	NA
Interest coverage (times)	76.15	86.86	246.53

A: Audited U/A: Unaudited; NA: Not available; The above financials have been adjusted as per CARE Ratings' criteria;
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
Bonds*	-	-	-	-	400.00	CARE AAA; Stable
Fund-based/Non-fund-based-Long Term	-	-	-	-	6500.00	CARE AAA; Stable

*Proposed bonds

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	Bonds	LT*	400.00	CARE AAA; Stable	-	1)CARE AAA; Stable (12-Sep-23)	1)CARE AAA; Stable (14-Sep-22)	1)CARE AAA; Stable (30-Sep-21)
2	Fund-based/Non-fund-based-Long Term	LT	6500.00	CARE AAA; Stable	-	1)CARE AAA; Stable (12-Sep-23)	1)CARE AAA; Stable (14-Sep-22)	1)CARE AAA; Stable (30-Sep-21)

*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	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 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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