DNP Limited

March 28, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	250.00	CARE A-; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to bank facilities of DNP Limited (DNPL) continues to derive strength from its strong and experienced promoter entities with operational synergies, and strategic importance of the pipeline in terms of gas transportation for Numaligarh Refinery Limited (NRL), being the sole pipeline connecting Oil India Limited (OIL) gas field to refinery plant of NRL and long-term gas transportation agreement with take or pay arrangement for 80% of the minimum contracted quantity. This arrangement imparts strong cashflow visibility to DNPL and insulates it from revenue volatility.
DNPL has constructed a pipeline with length of ~192 kilometres (KMs) with a capacity of 300 million metric standard cubic metre (MMSCM) per annum.
The rating also factors in satisfactory financial performance and capital structure and satisfactory debt protection metrices.

The above rating strengths are partially offset by high capital-intensive business, project risk pertaining to replacement of first 55 kms pipeline, ongoing residential township project for accommodation of DNPL's employees, geographical concentration risk, and risk of timely revision of transportation cost (TC).
CARE Ratings Limited (CARE Ratings) notes advance progress in revision of TC and receipt of letter of comfort dated January 09, 2025, issued by NRL relating to renewal of gas transportation agreement with DNPL beyond 2026. CARE Ratings also notes equity infusion commitment from promoters for the replacement capex.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant improvement in the scale of operation from the current level while maintaining profitability margins around current level on a sustained basis.

Negative factors

- The company's inability to renew gas transportation agreement in a timely manner resulting moderation in financial risk profile.
- Sizeable cost or time overruns in the estimated project cost or unplanned debt-funded capex leading to moderation in capital structure on a sustained basis.
- Delay in revision of rates leading to stretched liquidity profile of the company.

Analytical approach: Standalone with factoring group linkages.

Outlook: Stable

The outlook is likely to remain stable', considering assured cash flow visibility due to presence of long-term gas transportation agreement among OIL, NRL, and the company.

Detailed description of key rating drivers:

Key strengths

Strong parentage with operational synergies

DNPL was incorporated by Assam Gas Company Limited (AGCL), NRL, and OIL (rated 'CARE AAA; Stable/ CARE A1+'). AGCL has right of way (ROW) to lay the pipeline from competent authorities while OIL (supplier) has gas to supply NRL (buyer). Thus, these three entities came together to form a joint venture (JV) called DNPL in which AGCL, NRL, and OIL hold 51%, 26%, and 23% of

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

shareholdings, respectively. In DNPL's board of directors', there is one director from AGCL, NRL, and OIL each and two nominee directors of Government of Assam.

Strategic importance of the pipeline in terms of gas transportation for NRL

DNPL has constructed a pipeline with length of ~192 kilometres (KMs) having designed capacity of 1.2 million standard cubic metre per day (MMSCMD) at 44kg/cm^2 pressure level. This pipeline meets ~100% of NRL's natural gas requirement. Thus, this pipeline infrastructure is critical for NRL's operation, which consumes natural gas captively for use in different units and gas turbine. CARE Ratings notes that there is no other approved pipeline by Petroleum and Natural Gas Regulatory Board (PNGRB) in the vicinity which makes DNPL critically important for NRL, as NRL fully depends on DNPL for its natural gas requirements.

Long-term gas transportation agreement despite risk of timely renewal; take or pay arrangement for 80% of the minimum contracted quantity

AGCL has an agreement with OIL and NRL, where a JV (DNP Limited) would be formed to transport gas from gas field (well number 50) owned by OIL to NRL's refinery. The agreement is for 15 years (starting from March 28, 2011) which can be renewed further for five years through mutual consent. The agreement is for transportation of 300 million standard cubic metre (MMSCM) gas per annum from OIL's gas field to Numaligarh Refinery.
Although extension of agreement is yet to done, NRL has issued a letter of comfort dated January 09, 2025, and it has reiterated that NRL intends to renew the gas transportation agreement with DNPL beyond 2026. The renewal will be undertaken either in the current form or with necessary amendments, based on mutual agreement, to meet future operational and commercial requirements.
Thus, timely renewal of the agreement will remain as a key rating monitorable.

Satisfactory financial performance

DNPL's financial performance remained satisfactory in the last three fiscals ending March 31, 2024, marked by steady total operating income (TOI) in the range of ₹85 crore to ₹98 crore in the last three years, considering stable volume and largely steady rate. Operating margins continued to remain over 50% in the last three years despite moderation in FY23 and FY24 (profit before interest, lease rentals, depreciation, and taxation [PBILDT] margin hovered between 60% and 65% between FY20 and FY22) attributable to sharp increase in fuel cost. The company reported gross cash accruals (GCA) of ~₹41 crore in FY24 (PY: ~₹60 crore) against debt repayment obligations of ₹14 crore.

In 9MFY25, the company earned PBILDT of ₹38.53 crore on TOI of ₹74.51 crore.

Comfortable capital structure and debt protection coverage

The company's capital structure remained comfortable despite an increase in overall debt, marked by overall gearing ratio of 0.16x as on March 31, 2024 (compared to 0.10x as on March 31, 2023), owing to healthy net worth base. Total outside liabilities to net worth ratio was low at 0.23x as on March 31, 2024, against 0.19x as on March 31, 2023. Debt coverage indicators were strong marked by comfortable interest coverage ratio of 30.76x in FY24 and total debt to gross cash accruals (TD/GCA) ratio of 1.48x in FY24 (PY: 0.63x).

Key weaknesses

Project risk

The company has one ongoing project under which it is constructing residential township for accommodation of its employees at an estimated cost of ₹140 crore funded out of debt of ₹75 crore and equity/internal accruals of ₹65 crore. Till March 31, 2024, the company has already expended ~₹96 crore, which was financed by debt of ₹63 crore and balance ₹33 crore through internal accruals. As articulated by the management, this ongoing project will be completed by H1FY26.

The company is planning to undertake capex of ~₹222 crore for repair and maintenance of first 55 km of pipeline. The project will be funded by debt of ₹160 crore and remaining ₹62 crore out of equity. The project is scheduled to be completed by March 31, 2026. In January 2025, the financial closure for debt of ₹160 crore has been achieved, having 11.25 years tenure ending in March 2036, including moratorium period 1.50 years.

The company's promoters committed to infuse equity up to ₹100 crore based on need per Board Resolution dated March 04, 2024. As articulated by the management, promoters have already infused ₹40 crore. The management also maintained that the project's cost is pass through in the form of revision in TC rate.

Although the above capex would lead to moderation in overall gearing, the same will continue to remain satisfactory.

Working capital intensive operation
There is mechanism of metre reading and raising invoice. Metre reading is being done by both parties within seven days after month end and invoice should be raised within 10 days after month end. Thereafter payment shall be made within 30 days from invoice date. Thus, at given month end, outstanding debtors will be for two months. The company maintains sufficient stores and spares for repair and maintenance given the criticality of operation which further increase the working capital intensity. Working capital requirements are mainly funded through creditors and internal accruals.
The company's operating cycle stood at 132 days as on March 31, 2024. Given the operation, DNPL's working capital cycle is expected to remain range bound at around current level, going forward.

Geographical concentration risk
DNPL is exposed to significant geographical concentration risk due to its limited operational footprint, with most revenue derived from Assam and from single pipeline infrastructure. This concentration renders the company susceptible to region-specific uncertainties, including economic, demographic, and other changes, which could adversely affect its business prospects, financial condition, and operational results.

Risk of timely revision in TC rate
Per the gas transportation agreement, tariff escalation of 3% per annum (p.a.) was agreed and accordingly tariff was revised till FY17. Per apex level meeting between DNPL and NRL dated April 09, 2012, TC can be revised once pipeline throughput level reaches 82% and commitment level of 90% is achieved. NRL requested DNPL to revise the tariff in FY18 as pipeline throughput was 90%. NRL stopped tariff escalation of 3% p.a. in FY19 when pipeline throughput crossed 90%. However, in meeting dated April 27, 2022, DNPL and NRL reached consensus for 12% IRR post tax for tariff revision. The tariff was revised on April 01, 2021, and it was decided that TC will be revised after three years, next revision will take place on April 01, 2024, based on FY24 audited results. The risk of timely revision in TC rate for the period starting from FY25 to FY28 is mitigated to an extent, as the same is under active consideration of both the entities, NRL and DNPL, and is expected to be finalised shortly.

Liquidity: Adequate
The company's liquidity position is adequate backed by credit quality of assured cashflows governed by the gas transportation agreement with NRL and DNPL, which ensures timely servicing of debt obligations. The company has sufficient cushion in GCA (₹41 crore) against debt repayment obligations of ₹14.15 crore in FY24; supported by comfortable current ratio and cash and cash equivalents of ₹44 crore (including margin money of ₹13 crore) as on March 31, 2024. The company has unutilised limits of ₹20 crore pertaining to WCDL, which add comforts to the company's liquidity position. DNPL has entirely serviced its debt repayment obligation of ₹8.76 crore in FY25.

Going forward, it is projected that the company will generate adequate GCA to meet debt repayment obligations of ₹14.82 crore in FY26.

Environment, social, and governance (ESG) risks: Not applicable.

Applicable criteria

Definition of Default
Factoring Linkages Parent Sub JV Group
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

Macroeconomic indicator	Sector	Industry	Basic industry
Energy	Oil, gas & consumable fuels	Gas	Gas transmission/marketing

DNPL was incorporated in 2007 by Assam Gas Company Limited (AGCL), NRL, and OIL (rated CARE AAA; Stable/ CARE A1+'). AGCL has right of way (ROW) to lay the pipeline from competent authorities, while OIL (supplier) has gas to supply to NRL (buyer). Thus, these three entities came together to form a joint venture (JV) called DNPL in which AGCL, NRL, and OIL hold

51%, 26%, and 23% of shareholdings, respectively. In DNPL's board of directors, there is one director from AGCL, NRL, and OIL each and two nominee's directors of Government of Assam.
The pipeline has total length of ~192 kilometres (KMs) with designed capacity of 1.2 million standard cubic metre per day (MMSCMD) at 44kg/cm^2 pressure level, which meets ~100% of natural gas requirement of NRL and thus, this pipeline infrastructure is critical for NRL's operation.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	9MFY25 (UA)
Total operating income	92.32	86.46	74.51
PBILDT	47.81	45.29	38.53
PAT	49.21	23.09	21.34
Overall gearing (times)	0.10	0.16	NA
Interest coverage (times)	76.35	30.76	NA

A: Audited UA: 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 - LT-Term Loan	-	-	-	March 2036	235.00	CARE A-; Stable
Fund-based-Working capital facilities	-	-	-	-	15.00	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	Fund-based - LT-Term Loan	LT	235.00	CARE A-; Stable	1)CARE A-; Stable (06-Nov-24)	-	-	-
2	Fund-based-Working capital facilities	LT	15.00	CARE A-; Stable	1)CARE A-; Stable (06-Nov-24)	-	-	-

LT: Long term; ST: Short term; 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 - LT-Term Loan	Simple
2	Fund-based-Working capital facilities	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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