Gujarat State Petronet Limited

September 27, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Ratings[1]	Rating Action
Long-term bank facilities	500.00	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Long-term/Short-term bank facilities	300.00	CARE AA+; Stable/CARE A1+ (Double A Plus; Outlook: Stable / A One Plus)	Reaffirmed
Total bank facilities	**800.00 (₹ Eight hundred crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Gujarat State Petronet Limited (GSPL) continue to derive strength from its established position as one of the largest players in the natural gas transmission business in India together with its leadership position in Gujarat, strategic location with connection to all major natural gas supply sources; along with GSPL's synergies with Gujarat State Petroleum Corporation Limited (GSPC) Group, which has presence across the energy (natural gas) value chain. GSPL's open-access operating model, significant share in the natural gas transmission business along with increasing demand for natural gas from various consumer segments, and its strong financial profile further underpin its ratings. The ratings also positively factor GSPL's strong liquidity profile, its majority stake in Gujarat Gas Limited (GGL; rated 'CARE AA+; Positive/CARE A1+') leading to synergies in operations and improvement in its debt coverage indicators due to significant amount of prepayments along with scheduled retirement of debt taken.

The long-term rating of GSPL is, however, constrained due to its moderate revenue visibility upon scheduled expiry of part of its Gas Transmission Agreements (GTAs) in the near to medium-term (however, as per past experience, this is an ongoing process and over the years the company has seen renewal of its contracts) and its vulnerability to regulatory risk. The long-term rating is also constrained due to project implementation and stabilisation risks associated with its on-going capital expenditure programme, especially the two very large-sized projects being implemented through its joint ventures (JVs). One JV is expected to gradually stabilise, while the other JV has availed incremental debt due to time and cost overrun and is in the process of seeking further re-schedulement of the existing debt by two years.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Ability to significantly expand its geographical operations outside the state of Gujarat with improvement in its revenue mix.
- Growth in its scale of operations marked by total operating income (TOI) of more than ₹3,000 crore along with PBILDT margin of more than 70% on a sustained basis and maintaining its comfortable capital structure.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Decline in the scale of operations marked by TOI of less than ₹1,700 crore.
- Major debt-funded capex and investments in JVs leading to deterioration in its overall gearing to more than 0.60x and total debt/PBILDT to beyond 2.50x on a sustained basis.
- Higher-than-expected financial support required by JVs for their debt servicing and capex requirements; and its concomitant impact on GSPL.

Detailed description of the key rating drivers

Key rating strengths

Strategic location in the highest natural gas-consuming state viz., Gujarat: GSPL commenced its operations with transmission of natural gas being provided by GSPC. Over a period of time, GSPL has invested significantly in developing its natural gas pipeline network, which is now connected to major natural gas supply sources in Gujarat, including designated collection points near the natural gas fields of Cairn Energy, GSPC and GSPC-Niko (all located in Hazira), regassified liquified natural gas (RLNG) from Shell's terminal at Hazira, Petronet LNG Limited's terminal at Dahej, GSPC LNG Limited's (GLL) terminal at Mundra, the Panna-Mukta-Tapti natural gas fields along with Swan LNG floating storage regasification unit (FSRU) (Phase-1) and Chhara LNG terminal. Furthermore, Gujarat is the primary origination or the entry point for both domestic natural gas produced in the Arabian Sea and imported RLNG for western and northern India, owing to its strategic location and oceanic access to LNG exporting countries in the Middle East and Asia. Furthermore, it is also the highest natural gas-consuming state, with around 40% of total domestic natural gas consumption in the country. All these factors translate into steady utilisation of GSPL's natural gas transmission pipelines.

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

Operating on an open access basis: GSPL is a pure natural gas transmission company operating on an open access basis; and it does not purchase or sell natural gas. Open access enables natural gas consumers to separately negotiate their natural gas supplies from several suppliers. In addition, operating on an open access basis allows GSPL to target both natural gas suppliers and consumers resulting in increased revenues from a broader customer base. Operating as a natural gas transmission only entity helps GSPL to minimise risks associated with fluctuations in natural gas prices.
GSPL had won the authorisation for establishing and operating city gas distribution (CGD) networks in Amritsar and Bhatinda districts in Punjab in FY16 (refers to the period from April 01 to March 31) and FY17, respectively, due to which it was marginally exposed to natural gas price fluctuations. However, the Petroleum and Natural Gas Regulatory Board (PNGRB), vide its letter dated June 29, 2020, has accepted the proposal made by GSPL to transfer the authorisations for developing CGD network in these Geographical Areas (GAs) to its subsidiary, GGL. Also, bank guarantees (BGs) submitted by GSPL with respect to these GAs to the PNGRB have been received back. GSPL had executed Business Transfer Agreement (BTA) on October 26, 2021, to transfer the CGD business of Amritsar and Bhatinda GAs to GGL by way of slump sale. The transfer is effective from November 01, 2021.

GTAs provide medium-term revenue visibility: GSPL enters into natural gas transmission agreements with its customers, which typically provide for commercial terms, such as quantity, quality, schedule, payment terms, security terms, events of default and remedies for the transportation arrangements; the tenure of which ranges from one month to even more than 15 years. Majority of GTAs also provide for 'ship or pay' for a minimum off-take requirement generally covering around 90% of the contracted volumes, which require customers to pay transportation tariff regardless of the actual volume of natural gas transported.
GSPL has various contracts on hand with reputed clients located in the region, which includes large industries and CGD entities which use natural gas either as feedstock, fuel or supply it for further distribution. GSPL's total contracted volumes on hand as on June 30, 2022 were 40.46 million metric standard cubic meter per day (MMSCMD) which provides a medium-term visibility to its revenue stream. Furthermore, majority of GTAs which expired during FY22 were largely renewed.

Low level of competition because of regulated nature of business: GSPL, with its around 2,715 kms long natural gas pipeline network as on June 30, 2022, is presently the second-largest natural gas transmission network operator in the country after GAIL (India) Limited (GAIL; rated 'CARE AAA; Stable/CARE A1+'). GAIL's market share is around 70% in natural gas transmission business, with primary focus towards serving western and northern India. In contrast, GSPL has an extensive network in Gujarat, covering 25 out of 33 districts in the state. GSPL follows leading strategy and develops natural gas pipeline network in newer markets after a thorough research and assessment of potential for gas demand from various user segments. Furthermore, for laying any natural gas pipeline, GSPL and other players would have to undergo bidding process to obtain exclusive authorisation from the PNGRB, which ensures no duplication of the pipeline and low level of competition.

Increasing demand for natural gas: In India, natural gas contributes around 6.70% of the overall energy mix where major consuming sectors include fertilizers, petrochemicals and sponge iron (as feedstock) along with power and CGD (as fuel). Power and fertilizer sectors have always been the biggest contributors to India's total natural gas demand. Recently, with the award of various CGD GAs by the PNGRB across the country, CGD sector would be adding up natural gas transportation volume in the near future. Furthermore, infrastructure facilities for unloading, storage and re-gasification of imported LNG are also being improved by expansion at existing terminals and green-field capacities being established at various locations across the country.

Strong financial profile marked by healthy profitability and comfortable leverage: The TOI of GSPL declined by around 2.86% to ₹2,020 crore in FY22 as compared with ₹2,079 crore in FY21 due to decline in transmission volumes to 12,369 million metric standard cubic meter (MMSCM) in FY22 as compared with 13,349 MMSCM in FY21 on the back of high natural gas prices. However, its profitability margin remained healthy in FY22 with PBILDT margin and PAT margin of 69.32% and 48.47% in FY22, respectively (FY21: 71.57% and 44.76%, respectively).
During FY22, GSPL made significant debt prepayments in addition to its scheduled repayments. This coupled with significant build-up of its net-worth base led to improvement in its overall gearing to 0.01x as at FY22-end (FY21: 0.08x). Also, GSPL has made additional prepayments during Q1FY23, which has led to further improvement in its overall gearing. During FY22, the total debt/PBILDT and total debt to gross cash accruals (TD/GCA) of GSPL stood at 0.07x (FY21: 0.69x) and 0.08x (FY21: 0.89x), respectively. Also, its PBILDT interest coverage during FY22 stood at 44.73x (FY21: 16.02x).

Synergetic benefit from GSPL's investment in GGL: GSPL holds 54.17% stake in GGL, which provides synergetic benefits to both the companies as they are part of the same value chain of natural gas business. CGD is one of the largest categories of industry segments catered to by GSPL, which is envisaged to grow further in view of the increased thrust of the government and regulatory authorities to expand the CGD network across the country. According to the company management, GGL's business being complementary to GSPL, holding of majority stake in GGL facilitates better synchronisation of its natural gas transmission network with GGL's network. Furthermore, with Gujarat being the highest natural gas consumption market in India, there are synergies between the businesses of GSPL and GGL as CGD network provides last mile connectivity to the end-users of natural gas. GGL is also one of the largest customers of GSPL with approximately 24% share in its total sales during FY22.

Synergies with parent i.e., GSPC Group, which has presence across the natural gas value chain and other group companies: GSPL is promoted by GSPC, which is primarily engaged in trading of natural gas. GSPC has an established presence in the natural gas trading business in Gujarat, which is the largest natural gas-consuming state in the country. GSPC along with its subsidiaries and associates operates across the natural gas value chain with presence in bulk natural gas trading, natural gas transmission, CGD through GGL and Sabarmati Gas Limited (SGL) and power generation. Accordingly, it provides significant synergies to the operations of GSPL for transportation of natural gas.

Key rating weaknesses

Risk associated with its own mid-sized capex plans: GSPL has planned to undertake capex over the next five years towards expansion of its existing natural gas pipeline network, laying new spur lines and capacity augmentation. GSPL has sought approval of the regulator, viz., the PNGRB and thus, significant amount of capex plans would be undertaken upon approval of the PNGRB. The said capex plans of GSPL are envisaged to be funded largely through internal accruals and free cash balance available with the company as articulated by the management.

Large-size projects being implemented through its two JVs: In July 2011, the PNGRB had awarded the GSPL led JVs to lay natural gas pipelines on three routes, viz., Mehsana-Bhatinda (1,578 kms – now revised to 1,669 kms), Bhatinda-Jammu-Srinagar (434 kms – now revised to 260 kms) and Mallavaram-Bhilwara Pipeline (1,881 kms). GSPL has formed two JVs, namely – GSPL India Gasnet Limited (GIGL; rated 'CARE A-; Stable') for implementation of the first two routes and GSPL India Transco Limited (GITL; rated 'CARE A-; Stable') for the third one. GSPL owns 52% stake in these JVs with the balance being held by Indian Oil Corporation Limited (IOCL), Bharat Petroleum Corporation Limited (BPCL: rated 'CARE AAA; Stable/CARE A1+') and Hindustan Petroleum Corporation Limited (HPCL). The share of JV partners in GIGL and GITL is GSPL (52%), IOCL (26%), BPCL (11%) and HPCL (11%). The total project cost of GITL and GIGL was originally estimated at around ₹7,255 crore and ₹6,391 crore, respectively, to be funded in a debt-to-equity ratio of 70:30. In case of GITL, part of the project has been completed for which around ₹1,100 crore has been infused through a mix of debt and equity, there is fair amount of uncertainty with respect to balance scope of its project. Also, initial operational support of the promoters is expected, which would be tapered down gradually because of incremental accruals in GITL.

For another JV, viz., GIGL, the company is in the process of completing implementation of phase-II of the project. Owing to delay in implementation of project due to COVID-19 pandemic and other issues, there has been significant time and cost overrun in the implementation of the project. The project cost of GIGL has been revised from ₹6,391 crore to ₹7,392 crore. The cost overrun has been financed with debt equity mix of 61:39. As per the present sponsor support undertaking any further cost overrun in GIGL, i.e., over and above ₹7,392 crore, would now be funded entirely through equity from the sponsors. GIGL has also availed re-schedulement of debt by two years, which has been sanctioned by all the lenders. GIGL is also in the process of re-scheduling its debt by further two more years. Lenders' approval on further re-schedulement is yet to be received. GIGL continues to have undertakings from sponsors to maintain DSCR of at least unity during GIGL's operational phase. The extent of any further cost overrun in the project and the extent of shortfall requirement, if any, would be key credit monitorable for GSPL which owns 52% of the equity in GIGL. GSPL, along with other JV partners, is expected to infuse additional equity in the coming years for balance project sections and other operational requirements of these JVs. Accordingly, timely completion of the on-going phases of the projects in JVs, stance of the PNGRB with respect to balance scope of initially estimated projects which have not yet been taken up by the JVs, effective utilisation of those infrastructure and realisation of envisaged returns from the investments would be important for GSPL.

Exposure to regulatory risk in tariff determination: GSPL's high pressure and low-pressure pipeline network had been authorised by the PNGRB, which has an established methodology to determine the tariff for the transportation of natural gas. As per the PNGRB regulations, a 'cost-plus' approach for determining the tariff is followed which allows the natural gas transmission entities to earn an annual return of 12% (post-tax) on their capital employed. The methodology provides for tariff review at five-year intervals. In the event of any significant change in government policy and the tariff, the revenues generated from the pipeline may be impacted. Hence, GSPL remains exposed to the regulatory risk.

Liquidity: Strong

The liquidity of GSPL is strong marked by expected cash accruals of more than ₹1,000 crore during FY23 against total outstanding debt of ₹95 crore as on March 31, 2022. Furthermore, GSPL had free cash and bank balance of around ₹228 crore as on June 30, 2022. Also, the market value of GSPL's stake in GGL, which stood at around ₹18,174 crore (as on September 07, 2022) imparts a great degree of flexibility to its liquidity. Furthermore, comfort can be drawn from significant financial flexibility it has with its very low leverage and good revenue visibility. Also, the debtors' level of GSPL has improved to ₹130 crore on March 31, 2022, as against ₹160 crore as on March 31, 2021. GSPL has sanctioned fund-based working capital limits of ₹25 crore (reduced from ₹200 crore) and non-fund-based working capital limits of ₹210 crore (reduced from ₹650 crore). Out of the same, the average utilisation fund-based working capital limits was around 56% from July 2021 to June 2022, whereas the average utilisation of non-fund-based limits was around 6% from July 2021 to June 2022.

Analytical approach

Standalone; along with planned investments in its two JVs and guaranteed debt.

Majority of GSPL's income and cash flows are generated from its core natural gas transmission business. Hence, a standalone approach has been considered for analysis. However, the equity support envisaged to be provided by GSPL for the project implementation in its two JVs, primarily for construction of their natural gas transmission pipelines, along with other planned investments has been suitably factored in the analysis. This apart, the operational support envisaged to be provided by GSPL to its JVs in their initial phase of operations is also factored in GSPL's credit assessment. Also, GSPL has provided corporate guarantee (CG) for certain non-fund-based BG limits to its JVs, which have also been considered in the analysis.

Applicable criteria

Rating outlook and credit watch
Policy on default recognition
Policy on curing period
Short term instruments
Liquidity analysis of non-financial sector entities
Factoring linkages - parent sub-JV group
Infrastructure sector ratings
Financial ratios - non-financial sector

About the company

Incorporated in December 1998, GSPL is promoted by GSPC, a Government of Gujarat (GoG)-owned company, which is primarily engaged in oil & gas exploration and production (E&P) as well as natural gas trading business through transmission and distribution network of its subsidiaries including GSPL. GSPC held 37.63% equity stake in the company as on June 30, 2022. By virtue of provisions in the Articles of Association of GSPL, the right to appoint majority of its directors vests with GSPC. Hence, GSPL is a subsidiary of GSPC. Furthermore, it is a government company as per Section 2 (45) of the Companies Act, 2013. GSPL's primary business objective is to connect various supply sources and users of natural gas in Gujarat through its natural gas pipeline network. GSPL is the leader in natural gas transmission business in Gujarat and is the second-largest player in India. It owns and operates around 2,715 kms of natural gas transmission pipeline in the state of Gujarat as on March 31, 2022. GSPL also sells electricity generated through its 52.50-MW windmills.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
Total operating income	2,079	2,020	482
PBILDT	1,488	1,400	360
PAT	931	979	235
Overall gearing (times)	0.14	0.01	NA
Interest coverage (times)	16.02	44.73	249.17

A: Audited; UA: Unaudited; NA: Not available; The above brief financials have been adjusted as per CARE Ratings' criteria

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 covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments/facilities rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instruments/Bank Facilities	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term loan	-	-	-	October 31, 2026	500.00	CARE AA+; Stable
Non-fund-based - LT/ ST-Bank guarantee	-	-	-	-	300.00	CARE AA+; Stable / CARE A1+

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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1.	Fund-based - LT-Term loan	LT	-	-	-	-	-	1)Withdrawn (09-Oct-19)
2.	Non-fund-based - LT/ ST-Bank guarantee	LT/ST*	-	-	-	-	-	1)Withdrawn (09-Oct-19)
3.	Fund-based - ST-Term loan	ST	-	-	-	1)Withdrawn (06-Oct-21)	1)CARE A1+ (07-Oct-20)	1)CARE A1+ (09-Oct-19)
4.	Fund-based - LT-Term loan	LT	500.00	CARE AA+; Stable	-	1)CARE AA+; Stable (06-Oct-21)	1)CARE AA+; Stable (07-Oct-20)	1)CARE AA+; Stable (09-Oct-19)
5.	Non-fund-based - LT/ ST-Bank guarantee	LT/ST*	300.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (06-Oct-21)	1)CARE AA+; Stable / CARE A1+ (07-Oct-20)	1)CARE AA+; Stable / CARE A1+ (09-Oct-19)

*Long term/Short term

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of various instruments/facilities rated for this company

Sr. No.	Name of the Instrument/Bank Facilities	Complexity Level
1.	Fund-based - LT-Term loan	Simple
2.	Non-fund-based - LT/ ST-Bank guarantee	Simple

Annexure-5: Bank/Lender details for this company

To view the lender-wise details of bank facilities please click here

Note on 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 for any clarifications.

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About us:
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