India Gas Solutions Private Limited

June 28, 2022

Ratings

Facilities	Amount (₹ crore)	Ratings[1]	Rating Action
Long-term/ Short-term bank facilities	1,000.00 (enhanced from 431.00)	**CARE AAA; Stable/ CARE A1+ (Triple A; Outlook: Stable/ A One Plus)**	Reaffirmed
Total	**1,000.00 (₹ One thousand crore only)**		

Details of facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of India Gas Solutions Private Limited (IGSPL) derive significant strength from its strategic importance in the overall gas value chain to its promoters as well as the operational synergies it derives from both the promoters viz, Reliance Industries Limited (RIL) and BP International Limited (BPIL; wholly-owned subsidiary of BP Plc.), each having 50% equity shareholding in IGSPL with both being marquee players in the oil and gas industry. The ratings are further underpinned by the Letter of Awareness (LoA) issued by both the promoters to the lenders of IGSPL undertaking to maintain their respective 50% equity stake in the company, thereby underlining the strategic importance of IGSPL for both the joint venture (JV) partners.

Furthermore, the ratings take into consideration the medium-term gas sourcing contracts with attractive pricing mechanism, back-to-back sales arrangement for majority (around 70%) of its gas procurement volume with a customer having strong credit risk profile providing good revenue visibility, mirror nature of its gas sourcing and sales contracts largely eliminating the risks related to receipt of lower-than-contracted gas volume and gas pricing risks. CARE Ratings Limited (CARE Ratings) believes that the strong risk management policies articulated by the company are expected to be adhered to on a continuous basis. The ratings are further supported by the ramp-up in its scale of operations in FY22 (refers to the period April 1 to March 31) with healthy profitability, favourable capital structure and good debt coverage indicators of IGSPL coupled with favourable demand outlook for natural gas in India.

The above rating strengths largely offset its short track record of operations, inherent moderate profitability margins associated with the trading nature of its business and risks related to the receipt of lower-than-contracted volume of gas as well as volatility associated with the market price of gas.

Rating sensitivities

Positive factors – Not applicable

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

- Change in strategic importance of IGSPL for its JV partners or significant deterioration in the credit profile of its JV partners.
- Significantly lower-than-committed receipt of gas volume under its gas sourcing agreements thereby impacting its operations on a sustained basis.
- At least 70% of its gas volume procured is not tied-up through sales contracts with customers who have a strong credit risk profile (having external credit rating in AAA/AA rating category) / with those who provide bank guarantee or letter of credit as a payment security mechanism / who make payment in advance
- Significant decline in its scale of operations on a sustained basis
- Moderation in profitability margins leading to an adverse impact on its debt coverage indictors

Detailed description of the key rating drivers

Key rating strengths

Strong credit profile of IGSPL's JV partners who also have vast experience in the oil and gas sector: IGSPL is a JV between two renowned groups in the oil and gas sector, ie, Reliance (led by Mukesh Ambani) through Reliance Industries Limited (RIL, rated 'CARE AAA; Stable/CARE A1+') and BP Plc (BP) through BPIL. RIL and BPIL each hold 50% equity stake in the company as on March 31, 2022 and have also undertaken to IGSPL's lenders by issuing a Letter of Awareness (LoA) to continue to hold their 50% equity stake in the company as long as any amount under the sanctioned bank facilities remain outstanding. RIL is India's largest private sector company, with diverse interests, including petrochemicals, oil refining, upstream oil and gas exploration and its production. RIL has strong competitiveness in the global oil refining and petrochemicals business, arising from its integrated business model. BP, the parent company of BPIL, is a global energy giant with over 100 years of experience across the oil and gas value chain and is one of the largest international energy companies with vertically integrated operations, including exploration and production, refining, distribution and marketing, power generation and trading. As per the audited results for CY21 (refers to the period January 1 to December 31), BP reported a PBILDT of US$ 32,887 million on a Total income of US$ 164,195 million with overall gearing of 0.77x, interest coverage of around 12x and total debt/PBILDT of around 2.12x. It also had cash and cash equivalents of US$ 30,681 million as on December 31, 2021.

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

Strategic importance of IGSPL for its promoters: Both RIL and BP in partnership are already engaged in the oil and gas exploration and production business in India and abroad. Also, both have partnered for retail distribution of petrol, diesel and gas in India. In order to further expand their presence in the gas value chain, both have come together and formed IGSPL as a JV to strengthen their presence in the wholesale gas trading business in India looking at very good prospects in this business. IGSPL derives operational synergies from both its promoter groups. Accordingly, IGSPL is expected to be strategically important for its promoters in the long-term which is also strongly articulated by both the JV partners. Moreover, issuance of LoA by both the JV partners to IGSPL's lenders towards maintaining their respective 50% shareholding in this JV further underlines the strategic importance of IGSPL for both.
Also, the company is jointly managed by both the promoter groups. The board of directors of IGSPL comprises three directors each from the RIL group and the BP group. Senior members who represent RIL on its board include Mr Prabhat Singh (ex-MD and CEO of Petronet LNG Limited), Mr Sanjay Barman Roy and Mr Amit Mehta, while senior personnel who represent BP on its board include Mr Sashi Mukundan, Mr Anthony Francis Palmer and Ms Federica Berra. The management team of IGSPL is equally represented by both its promoters, with the CFO being from RIL.

Strong gas sourcing arrangement at attractive pricing: During February 2021 to May 2021, IGSPL participated in auctions conducted for deep-water, high-pressure, high-temperature R-Cluster and satellite gas fields located in the KG-D6 basin as well as for the coal bed methane (CBM) gas. In these competitively-bid auctions, IGSPL won an allocation of 1.35 Million Metric Standard Cubic Meter Per Day (MMSCMD) volume of natural gas from the KG-D6 basin for a period of 5 years and 0.63 MMSCMD volume of CBM gas for a period of 1 year (which expired recently in March 2022). The natural gas sourcing price to be paid by IGSPL is calculated at the lower of the ceiling rate fixed on a half-yearly basis by the Petroleum Planning & Analysis Cell (PPAC) of the Government of India or the Japan Korea Marker (JKM)-linked index rate. This pricing mechanism for natural gas sourcing is very attractive for IGSPL, as the ceiling rate fixed by the PPAC (determined based on natural gas prices prevailing in some of the major gas surplus regions of the world) has generally remained lower than the JKM index. Furthermore, it tries to substantially eliminate the risk associated with the high volatility in spot gas rates through appropriate risk management practices.

Medium-term gas sales contracts with strong counterparties providing good revenue visibility: Out of its 1.35 MMSCMD of natural gas allocation, IGSPL has tied-up 1 MMSCMD of natural gas with a single customer having a strong credit profile (external credit rating of AAA) for a tenor of 3 years. The back-to-back sales contract with the single customer for nearly 70% of its existing gas procurement volume is at a fixed margin over its sourcing cost thereby eliminating the price or volume risk to a large extent. The balance gas volume (around 30%) is being sold to a wide range of customers across city gas distributors (CGD), glass manufacturers, chemical industries, heavy industries, Indian Gas Exchange, etc., for a varying tenor from 1 day to 1 year. The tie-up of large portion of its total gas trading volume with a strong counter-party results in very good revenue visibility, whereas short-term contracts with wide range of customers offer profit maximisation opportunities to the company.

Strong risk management practices: Looking at the inherent risks involved arising from the probable lower-than-contracted volume of gas sourcing and high volatility associated with gas prices, IGSPL has put in place strong risk management practices to mitigate the same. The terms of IGSPL's gas sale contracts largely mirror the terms of its gas sourcing contracts w.r.to both gas volume and gas prices. In case gas supply to IGSPL is lower by more than 20% of its contracted procurement volume, IGSPL is eligible to receive maximum liquidated damages to the extent of value of gas to be sourced and supplied for a period of 21 to 30 days. IGSPL has also mirrored the same in its gas sales contracts as a prudent risk management practice whereby its obligation to pay liquidated damages to its customers is similarly restricted for a period of 21 to 30 days. The payment cycle for both gas sourcing and gas sales is 15 days. Entire sale of IGSPL is either based on advance payment or backed by Standby Letter of Credit for 1 to 2 months, except its sale to one customer with strong credit profile, to mitigate the credit risk of its customers. IGSPL is expected to continue to follow such strong risk management practices to mitigate price and volume risks associated with its gas trading business even going forward as articulated by its management.

Healthy profitability, comfortable capital structure and debt coverage indicators: On the back of elevated gas prices in the market, IGSPL reported healthy profitability margins marked by PBILDT margin of 17.95% during FY22, and the same is likely to remain healthy in FY23 as well looking at the elevated gas prices. IGSPL had no outstanding fund-based debt as on March 31, 2022, as it mainly utilises non-fund-based limits (LC/BG) to be provided for gas sourcing as well as for gas transmission charges. The capital structure is likely to remain comfortable as the company does not require any significant capex entailing no requirement of fund-based debt. Moreover, the management intends to follow an asset-light business model in the near-to-medium term thereby ensuring a comfortable capital structure. Also, its interest coverage stood comfortable at 204.74x in FY22.

Favourable demand outlook for natural gas with government's focus on environmentally cleaner fuels: Owing to increasing urbanisation, growing energy requirement and quest for cleaner and more environment-friendly energy sources, the demand for natural gas is expected to improve significantly in the coming years. The necessary impetus towards infrastructure creation, which includes, gas transmission pipeline, LNG import terminals and CGD networks are expected to create the necessary foundation for increasing domestic gas consumption. The usage of natural gas as feedstock in petrochemical and fertilizer sectors, usage of CNG in vehicles, piped natural gas distribution, usage in industries as an alternative to fossil fuels like coal would be primary catalysts for growth in the demand for natural gas. During FY22, out of the total natural gas consumption of 178 MMSCMD in India, nearly 49% was imported (P.Y. 54%) due to inadequate domestic production. Accordingly, government has set ambitious targets to raise domestic gas production to further reduce reliance on the imports. Some offshore deep-water developments in the KG Basin supports near-term growth in domestic gas production. Going ahead, cumulatively amongst R-Cluster, Satellite and MJ fields of RIL-BP and KG-98/2 field of ONGC, around 43 MMSCMD of incremental domestic gas production is expected to be available in the next two to three years period, out of which production of around 18 MMSCMD has already commenced by end-

FY22. This will benefit IGSPL as it will enable the company to procure incremental volumes through auctions and sell the same as the demand for gas is expected to be favourable in the near-to-medium term.

Liquidity: Strong
IGSPL has strong liquidity profile marked by available cash and cash equivalents along with liquid investments of ₹230.73 crore as on March 31, 2022 and it does not have any term debt repayment obligations in the near to medium term. The company also has unutilised fund-based limits to the tune of ₹53 crore, providing a liquidity cushion. Furthermore, by virtue of the Reliance group being one of the JV partners, IGSPL enjoys superior financial flexibility.

Key rating weaknesses
Inherent risks associated with receipt of lower-than-allocated gas sourcing volumes: IGSPL has been allocated gas from two fields of KG-D6 basin, whereby the fields are exposed to the inherent risks of lower-than-expected volume of production. In addition to this, there could be faster-than-anticipated depletion of reserves going forward which could ultimately result in lower-than-committed supply of the allocated gas volumes to IGSPL leading to lower-than-expected scale of its operations. However, the fields from where IGSPL has been allocated gas, have recently commenced production and accordingly chances of decline in production volume in the near term are low. During FY22, IGSPL received marginally higher than its allocated gas volume. Furthermore, IGSPL has tried to mitigate such risk of short supply of gas by incorporating prudent risk management clauses in its gas sales contracts.

Risks associated with high volatility in gas prices: The prices of gas have exhibited significant volatility in the past. Out of IGSPL's present total gas trading volume of 1.35 MMSCMD, it has locked in its sales price for 1 MMSCMD by linking it to its sourcing prices. However, it is exposed to the volatility in prices of gas for the balance gas trading volume of 0.35 MMSCMD, whereby its sales contracts do not necessarily mirror the pricing of its gas sourcing contracts. Any unprecedented decline in the prices of gas in the spot market could result in moderation in profitability of the company.

Short track record of operations with inherent moderate profitability margins associated with trading nature of its operations: IGSPL started its gas trading operations from February 2021 and completed its first full year of operations in FY22. During FY22, IGSPL had total allocation for 1.98 MMSCMD of gas/CBM, out of which 0.63 MMSCMD of CBM allocation could not be renewed in March 2022, and accordingly, it has currently gas trading volume of 1.35 MMSCMD for FY23, which is expected to result in the moderate scale of its operations till it significantly expands its gas sourcing and trading volumes. The PBILDT margin of the company stood healthy at 17.95% during FY22 on the back of elevated gas prices, whereas the profitability margins in the trading nature of business are generally on the lower side.

Analytical approach: Standalone. Furthermore, the ratings also factor its strong parentage of Reliance Industries Limited (RIL) and BP International Limited (BPIL, wholly-owned subsidiary of BP Plc) who have vast experience in the oil and gas sector. Furthermore, there are strong operational linkages of IGSPL with its sponsors with it being formed with an object to forward integrate the operations of its sponsors into gas trading and IGSPL being a strategically important venture for both the JV partners. In addition to this, both RIL and BPIL have undertaken to hold their minimum equity shareholding of 50% in IGSPL for so long as any amount under the rated bank facilities remains outstanding reflecting their long-term commitment to the gas trading business under IGSPL.

Applicable criteria:
Criteria on assigning 'outlook' and 'credit watch' to credit ratings
CARE's policy on default recognition
Criteria for short-term instruments
Liquidity analysis of non-financial sector
Rating methodology- Wholesale trading
Rating methodology- Notching by factoring linkages in ratings
Financial ratios – Non-financial sector

About the company
IGSPL was incorporated as a 50: 50 JV between RIL and BPIL in November 2011. Initially, the company used to provide services to various third parties for administration of gas sales and purchase agreements. However, this activity was suspended from April 2019, and later the company has commenced gas trading operations towards the end of FY21.
During February 2021 to May 2021, IGSPL participated in the various auctions conducted by upstream oil and gas companies and won allocation for 1.35 MMSCMD volume of natural gas for a period of five years and allocation for 0.63 MMSCMD volume of CBM gas for a period of one year (which expired in March 2022). It has entered into back-to-back gas sales agreements for sale of majority of this natural gas with certain mark-up over its gas sourcing cost.

Brief Financials of IGSPL (₹ crore)	FY21 (A)	FY22 (A)
Total operating income	14.83	1577.20
PBILDT	-9.02	283.04
PAT	-9.16	219.59
Overall gearing (times)	0.00	0.00
Interest coverage (times)	NM	204.74

A: Audited; NM- Not meaningful; classified as per CARE Ratings' standards

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 instruments: Please refer Annexure-3

Complexity level of various instruments rated for this company: Please refer Annexure-4

Annexure-1: Details of facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Non-fund-based - LT/ ST-BG/LC	-	-	-	1.00	CARE AAA; Stable / CARE A1+
Non-fund-based - LT/ ST-BG/LC	-	-	-	999.00	CARE AAA; Stable / CARE A1+

Annexure-2: Rating history (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	Non-fund-based - LT/ ST-BG/LC	LT/ST*	1.00	CARE AAA; Stable / CARE A1+	-	1)CARE AAA; Stable / CARE A1+ (26-Oct-21)	-	-
2	Non-fund-based - LT/ ST-BG/LC	LT/ST*	999.00	CARE AAA; Stable / CARE A1+	-	1)CARE AAA; Stable / CARE A1+ (26-Oct-21)	-	-

*Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated facilities: NA

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

Sr. No.	Name of Instrument	Complexity Level
1	Non-fund-based - LT/ ST-BG/LC	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 instrument: CARE Ratings Ltd. 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 CARE Ratings Limited:
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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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