

GAIL (India) Limited

October 28, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Ratings ¹	Rating Action
Long-term bank facilities	2,000.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Long-term/Short-term bank facilities	3,950.00 (Enhanced from 2,450.00)	CARE AAA; Stable/CARE A1+ (Triple A; Outlook: Stable/A One Plus)	Reaffirmed
Total bank facilities	5,950.00 (₹ Five thousand nine hundred fifty crore only)		

Details of facilities/instruments in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of GAIL (India) Limited (GAIL) continue to derive strength from its majority ownership by the Government of India (GoI) and experienced management team, its leadership position in natural gas transmission and distribution segment in India and the pivotal role it plays in meeting GoI's target of increased share of natural gas in India's energy mix in the long-term.

The ratings continue to factor-in the tie-ups of natural gas through domestic and overseas sources on long-term, medium-term as well as short-term basis and diversified revenue stream. The ratings continue to derive comfort from the regulated nature of natural gas transmission business, where GAIL receives pre-defined return thus ensuring stable profitability. The ratings also factor-in GAIL's strong financial risk profile characterised by comfortable leverage and coverage metrics.

The ratings, however, remain susceptible to the volatility associated with the prices of petrochemicals, liquefied petroleum gas (LPG) and other liquid hydrocarbons, besides the risk associated with unhedged liquefied natural gas (LNG).

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade: Not applicable

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

- Reduction in the shareholding of GoI below 51%.
- Higher-than-expected debt-funded capital expenditure plans leading to pressure on the capital structure, thereby increasing the overall gearing above 1x.

Detailed description of the key rating drivers

Key rating strengths

Majority ownership by GoI and experienced management team: GoI held 51.52% stake in GAIL as on June 30, 2022, while the balance stake is held by various institutions and general public. As a Maharatna among central public sector undertakings (CPSUs), GAIL enjoys financial and functional autonomy. The company is being managed by professional and experienced management team having a relevant experience in the pipeline transportation and downstream processing of natural gas.

Leadership position in natural gas transmission business: GAIL is the market leader in the transmission of natural gas in the country with around 14,385 km of pipeline network (i.e., around 70% of the country's pipeline) as on March 31, 2022, with natural gas handling capacity of 206 million metric standard cubic meter per day (MMSCMD). Furthermore, pipelines of around 6,277 km are under-construction out of the total approved pipelines of around 17,000 km being laid in India. Besides, the company earns stable cash flows from its natural gas transmission business, though it accounted for only around 5% of its total revenues in FY22 (refers to the period April 1 to March 31). However, the profit before interest and tax (PBIT) margin during FY22 for the segment stood at 60% against 62% during FY21. The PBIT margin for the segment reduced to 48% in Q1FY23 on account of increase in the natural gas prices. GAIL gets around 12% internal rate of return (IRR) for its natural gas transmission business. GAIL's integrated pipeline network of Hazira-Vijaipur-Jagdishpur, Dahej-Vijaipur and Vijaipur-Dadri accounts for over 65% of its natural gas transmission volumes.

Adequate gas tie-ups: Over the years, GAIL has developed adequate tie-ups for the supply of natural gas both domestically and internationally. During FY22, GAIL sourced around 43% of its total natural gas requirement through domestic sources which includes Oil and Natural Gas Corporation Limited (ONGC), Panna-Mukta and Tapti, Ravva, Ravva Satellite, etc. The remaining natural gas requirement is sourced through imported regasified liquified natural gas (RLNG), which includes long-term, mid-term and spot contracts. GAIL has multiple long-term LNG contracts of around 14 million tonnes per annum (MTPA). GAIL has long-term contract to buy 5.8 MTPA of LNG from the U.S. and up to 2.5 MTPA of LNG annually on a delivered basis from Gazprom Marketing & Trading Singapore Pte Limited (GMTS), subsidiary of Russia's Gazprom, while another 5 MTPA from

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

RasGas Qatar. However, GMTS has stopped supplying LNG to GAIL since June 2022. Though cargo supply disruptions started in May 2022, GAIL had received one cargo in June 2022. The matter is under discussion between both GAIL and GMTS and also at government level. As articulated by the management, in the absence of supplies from GMTS, GAIL is supplying RLNG to its customers equivalent to ship-or-pay quantity, wherever possible, and has reduced its own requirement for its petrochemical plant in Pata and LPG business. GAIL is also advancing the supply of cargoes (which are expected to be received in the next year) through swaps. Furthermore, GAIL is also exploring alternative sources, including spot purchases, in case the demand for natural gas rises further. Going forward, capacity utilisation of GAIL is not only dependent upon the company's ability to market the available natural gas but also on securing the additional natural gas supply for its increasing pipeline infrastructure.

Revenue risk mitigated by a regulated nature of natural gas transmission business and a diversified revenue stream: Besides having a dominant position in the transmission of natural gas and LPG, GAIL has a diversified revenue stream with an established presence in various other business segments like city gas distribution (CGD), petrochemicals, liquid hydrocarbons, exploration and production (E&P) and telecom. During FY22, natural gas marketing, transmission, petrochemicals and CGD contributed around 76%, 5%, 7% and 6% to the total revenues of GAIL, respectively (FY21: 70%, 8%, 9% and 6%, respectively), whereas during Q1FY23, the share of these segments was around 84%, 3%, 3% and 6%, respectively. In the transmission segment, GAIL receives regulated return on capital employed (RoCE) of 12%, which is determined by the Petroleum and Natural Gas Regulatory Board (PNGRB) leading to stable cash flows and healthy profitability.

Strong financial profile marked by increase scale of operation and healthy capital structure: During FY22, GAIL's total operating income (TOI) increased to ₹93,175 crore (FY21: ₹57,734 crore), mainly on account of increase in the sales volumes in the natural gas marketing and natural gas transmission segments coupled with increase in the sales realisation in almost all segments due to increase in the prices of natural gas. In Q1FY23 GAIL's TOI stood at ₹37,897 crore. The PBILDT margin and profit after tax (PAT) margin of the company improved to 16.96% (FY21: 13.20%) and 13.45% (FY21: 10.64%), respectively. However, the same reduced to 12.00% and 8.58%, respectively, in Q1FY23. The company enjoys a comfortable capital structure with adjusted overall gearing of 0.17x as on March 31, 2022 (FY21: 0.19x). The interest coverage ratio stood comfortable at 78.06x in FY22 and 78.52x in Q1FY23 (FY21: 42.50x). Also, the debt coverage indicators, including total debt to gross cash accruals (TD/GCA) and total debt/PBILDT stood comfortable at 0.63x (FY21: 0.95x) and 0.61x (FY21: 1.03x), respectively.

Key rating weaknesses

Risk related to un-hedged US LNG contract: GAIL has long-term contracts to buy 5.8 MTPA of LNG from the US out of its total 14 MTPA long-term contracts. GAIL's US LNG price is linked with Henry Hub (HH) natural gas prices, while the sale price is linked with various indices, including three-month Brent crude oil prices. In order to mitigate the fluctuations in the prices, the company undertakes commodity hedging. Furthermore, GAIL procures natural gas from the US through destination swaps leading to reduction in the shipping cost for the natural gas imported to India from the US.

Susceptibility to volatile commodity prices associated with petrochemicals, LPG and other liquid hydrocarbons: Petrochemicals, LPG and liquid hydrocarbons are directly exposed to the changes in the commodity prices. With the change in crude oil and petroleum prices, the realisations from petrochemicals also vary. GAIL's revenue from the petrochemicals sector, LPG and other liquid hydrocarbons improved on account of the increase in the average sales realisation by around ₹27,100/MT and ₹19,500/MT, respectively, in FY22. The average sales realisation further improved by ₹25,300/MT and ₹17,700/MT, respectively, in Q1FY23. Furthermore, due to higher sales realisation, GAIL posted profit at PBIT level in the petrochemicals, LPG and other liquid hydrocarbons division at ₹1,245 crore and ₹2,900 crore, respectively, in FY22 as against PBIT of ₹1,065 crore and ₹1,303 crore, respectively, in FY21. The PBIT in Q1FY23 stood at ₹35 crore and ₹635 crore for petrochemicals, LPG and other liquid hydrocarbons division, respectively.

Liquidity: Strong

The liquidity position of GAIL remained strong as on March 31, 2022, with free cash and bank balance and investments of ₹2,522 crore. The company's operating cycle remained comfortable at 18 days in FY22 as against 25 days in FY21. GAIL is also undertaking major expansion projects while maintaining high cash reserves. Being a renowned player in the gas utility industry, GAIL also enjoys low cost of borrowings from capital markets as compared with its competitors. Furthermore, GAIL (on a standalone basis) had fund-based working capital limits of ₹2,825 crore as on March 31, 2022, which remained largely unutilised during trailing 12-month period.

Analytical approach

The consolidated financials of GAIL along with notching-up based on linkages with GoI. The list of entities getting consolidated in the FY22 financials of GAIL is placed at Annexure-6.

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](#)
[Consolidation](#)
[Factoring Linkages Government Support](#)
[Manufacturing Companies](#)
[Infrastructure Sector Ratings \(ISR\)](#)
[Financial Ratios – Non-Financial Sector](#)

About the company

GAIL, India's principal natural gas transmission and distribution company, was set up by the GoI in August 1984 to create natural gas transportation and distribution infrastructure for development of the natural gas sector across the country. The company's activities range from natural gas transmission and distribution to processing (for fractionating LPG, propane, special boiling point [SBP] solvent and pentane), transmission of LPG, production and marketing of petrochemicals like high-density polyethylene (HDPE) and linear low-density polyethylene (LLDPE) and leasing bandwidth in telecommunications. Being the owner of largest natural gas pipeline infrastructure in India, GAIL has leveraged its position to extend its presence in power, LNG regasification, CGD and E&P through various equity and joint venture participations.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
Total operating income	57,734	93,175	37,897
PBILDT	7,619	15,805	4,547
PAT	6,143	12,530	3,251
Overall gearing (times)	0.15	0.15	NA
Interest coverage (times)	42.50	78.06	78.52

A: Audited; UA: Unaudited; NA: Not Available; The above 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 Instrument/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	-	-	-	March 31, 2033	2,000.00	CARE AAA; Stable
Fund-based - LT/ ST-Working capital demand loan	-	-	-	-	2,200.00	CARE AAA; Stable / CARE A1+
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	1,500.00	CARE AAA; Stable / CARE A1+
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	250.00	CARE AAA; 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.	Non-fund-based - LT/ ST-BG/LC	LT/ST*	250.00	CARE AAA; Stable / CARE A1+	1)CARE AAA; Stable / CARE A1+ (06-Jul-22) 2)CARE AAA; Stable / CARE A1+ (05-May-22)	1)CARE AAA; Stable / CARE A1+ (06-Jul-21)	1)CARE AAA; Stable / CARE A1+ (07-Jul-20)	1)CARE AAA; Stable / CARE A1+ (04-Jul-19)
2.	Bonds	LT	-	-	1)Withdrawn (05-May-22)	1)CARE AAA; Stable (06-Jul-21)	1)CARE AAA; Stable (07-Jul-20)	1)CARE AAA; Stable (04-Jul-19)
3.	Fund-based - LT/ ST- Working capital demand loan	LT/ST*	2,200.00	CARE AAA; Stable / CARE A1+	1)CARE AAA; Stable / CARE A1+ (06-Jul-22) 2)CARE AAA; Stable / CARE A1+ (05-May-22)	1)CARE AAA; Stable / CARE A1+ (06-Jul-21)	1)CARE AAA; Stable / CARE A1+ (07-Jul-20)	1)CARE AAA; Stable / CARE A1+ (04-Jul-19)
4.	Non-fund-based - LT/ ST-BG/LC	LT/ST*	1,500.00	CARE AAA; Stable / CARE A1+	1)CARE AAA; Stable / CARE A1+ (06-Jul-22) 2)CARE AAA; Stable / CARE A1+ (05-May-22)	1)CARE AAA; Stable / CARE A1+ (06-Jul-21)	1)CARE AAA; Stable / CARE A1+ (07-Jul-20)	1)CARE AAA; Stable / CARE A1+ (04-Jul-19)
5.	Fund-based - LT-Term loan	LT	2,000.00	CARE AAA; Stable	1)CARE AAA; Stable (06-Jul-22) 2)CARE AAA; Stable (05-May-22)	-	-	-

*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.	Fund-based - LT/ ST-Working capital demand loan	Simple
3.	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure-5: Bank/Lender details for this companyTo view the lender-wise details of bank facilities please [click here](#)

Annexure-6: List of entities getting consolidated into GAIL

Name of the Entity	Subsidiary / Associate / Joint Venture	% Shareholding by GAIL as on March 31, 2022
GAIL Gas Limited	Subsidiary	100.00%
GAIL Global (USA) Inc.	Subsidiary	100.00%
GAIL Global Singapore Pte Limited	Subsidiary	100.00%
Tripura Natural Gas Company Limited	Subsidiary	48.98%
Bengal Gas Company Limited	Subsidiary	77.20%
Konkan LNG Limited	Subsidiary	90.83%
Aavantika Gas Limited	Joint venture	49.99%
Bhagyanagar Gas Limited	Joint venture	48.73%
Maharashtra Natural Gas Limited	Joint venture	22.50%
Central U.P. Gas Limited	Joint venture	25.00%
Green Gas Limited	Joint venture	49.97%
Indradhanush Gas Grid Limited	Joint venture	20.00%
Talcher Fertilizers Limited	Joint venture	33.33%
Vadodara Gas Limited	Joint venture	50.00%
TAPI Pipelines Company Limited	Joint venture	5.00%
Mahanagar Gas Limited	Associate	32.50%
Indraprastha Gas Limited	Associate	22.50%
Petronet LNG Limited	Associate	12.50%
Brahmaputra Cracker and Polymer Limited	Associate	70.00%
ONGC Petro Additions Limited	Associate	49.21%
Ramagundam Fertilizers and Chemicals Limited	Associate	14.72%
Fayum Gas Limited	Associate	19.00%
China Gas Holdings Limited	Associate	2.71%
ONGC Tripura Power Company Limited	Associate	26.00%
Bharat Energy Office LLC	Associate	20.00%

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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