Indraprastha Gas Limited

September 30, 2021

Ratings

Facilities / Instruments	Amount (Rs. Crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	600.00	**CARE AAA; Stable (Triple A; Outlook: Stable)**	**Reaffirmed**
Total Bank Facilities	**600.00 (Rs. Six hundred crore only)**		
Long-term Instruments (Proposed Bonds)	400.00	**CARE AAA; Stable (Triple A; Outlook: Stable)**	**Reaffirmed**
Total Long-term Instruments	**400.00 (Rs. Four hundred crore only)**		

Details of instruments / facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the long-term bank facilities of Indraprastha Gas Limited (IGL) continue to take into account IGL's strong financial risk profile marked by healthy profitability margins, strong solvency and liquidity position. The ratings continue to reflect IGL's leadership position in city gas distribution (CGD) in the National Capital Region of Delhi (NCT of Delhi), with network / infrastructure exclusivity in the business, besides the strong parentage of GAIL India Limited (GAIL; rated 'CARE AAA; Stable / CARE A1+'), Bharat Petroleum Corporation Limited (BPCL; rated 'CARE AAA; Under Credit Watch with Developing Implications / CARE A1+') as majority shareholders. The ratings also factor in the favourable demand outlook and growth prospects for the compressed natural gas (CNG) and piped natural gas (PNG), being an environmentally cleaner fuel and adequate gas sourcing tie-ups. IGL has witnessed growth in both these segments and has infrastructure exclusivity of 25 years as prescribed under the Petroleum and Natural Gas Regulatory Board (PNGRB) Act, 2006.

The ratings, however, remain exposed to the regulatory risks in the CGD sector and IGL's relatively aggressive expansion plans in the coming years with respect to authorizations of the new geographical areas (GAs) under the 9th and 10th CGD bidding rounds, though the same is expected to be entirely funded through internal accruals. Furthermore, IGL is exposed to project execution risks with large contingent liabilities, primarily in the form of performance bank guarantees (PBGs) extended to the PNGRB for meeting the Minimum Work Programme (MWP) for its awarded GAs.

Rating Sensitivities

Positive Factors: Not Applicable

Negative Factors

- Increase in large debt-funded capex or acquisition thereby leading to overall gearing of more than 0.50 times
- Any major adverse regulatory changes such as open access affecting its income below Rs.4,000 crore and PBILDT below 15% on a sustained basis
- Deterioration in credit profile of its two main joint venture (JV) partners or their exit as key promoters

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage

IGL was established in December 1998 as a JV between GAIL, BPCL and Government of National Capital Territory of Delhi (GNCTD) to implement CGD project in the NCT of Delhi. As of June 30, 2021, GAIL and BPCL held equity of 22.50% each while GNCTD owned 5% equity in IGL. 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. In the year 1999, these assets were transferred to IGL. 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 exists significant operational synergies as GAIL supplies natural gas to IGL through its pipelines. IGL has been able to draw upon the natural gas distribution skills of GAIL, 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.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Infrastructure exclusivity in the authorized GAs and entry barriers
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, market exclusivity, 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 it operates in 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 got marketing exclusivity of five years from the date of receiving authorization for its existing two GAs till 8th CGD bidding round and of marketing exclusivity of eight years for the four GAs won in 9th and 10th CGD bidding round (which is extendable further up to two years based on actual physical performance), which will strengthen IGL's monopolistic position in its various GAs. Furthermore, it will also have infrastructure exclusivity as a city gas carrier for 25 years from the date of receiving authorization. Although the marketing exclusivity available to IGL in Delhi NCT has expired in December 2012 (upheld by the Delhi High Court order vide dated September 30, 2015), the company continues to retain network exclusivity as the city gas carrier in NCT of Delhi till December 2023.

Adequate gas sourcing tie-ups
As a part of its emphasis on augmenting the use of natural gas in the country, the Ministry of Petroleum and Natural Gas (MoPNG), Government of India (GoI) has been extending domestic natural gas to the maximum extent to the CGD players under the Administered Pricing Mechanism (APM). As per the existing regulations of the MoPNG on domestic natural gas allocation, CGD companies are allotted domestic natural gas under the APM to meet their requirement for supply to PNG-Domestic and CNG segments thereby giving assurance of availability of natural gas to the CGD players in the country, whereas they have to rely on imported re-gassified liquefied natural gas (RLNG) for meeting the requirement of PNG-Industrial and PNG-Commercial segments. IGL has signed Gas Supply Agreements for domestic natural gas for Delhi, Gautam Budh Nagar, Ghaziabad, Rewari, Muzaffarnagar and Karnal as per the quantities allocated by the MoPNG.
CNG and PNG-Domestic together constitutes around 80% of the volumes sold of IGL. Both these segments contribute heavily to the profitability of CGD companies and accordingly any adverse regulatory changes on this front can affect the profitability of CGD companies directly. Therefore, continuation of the same allocation shall be critical going forward. To cater to the natural gas requirement in the PNG-Industrial and PNG-Commercial segments, IGL has existing arrangements under a long-term RLNG agreement with BPCL and GAIL whose delivery point is at Petronet LNG Limited Terminal at Dahej in Gujarat, and another long-term RLNG agreement signed with GAIL for delivery at IGL's locations i.e., Delhi, Gautam Budh Nagar, Ghaziabad, Rewari and Gurugram. IGL also has entered into a Gas Transmission Agreement with GAIL for onward delivery of RLNG to the required GAs. Apart from the above-mentioned RLNG arrangements, IGL also procures RLNG on a short-term basis from time to time, based on requirements, through competitive bidding.

Strong financial risk profile
IGL achieved total sales volumes of 1,944 Million Metric Standard Cubic Meters (MMSCM) during FY21 (refers to the period April 1 to March 31; FY20: 2,357 MMSCM), mainly on account of nationwide lockdown in Q1FY21 due to outbreak of COVID-19 pandemic. This coupled with lower average sales realization led to decline in the total operating income (TOI) of IGL by around 23% to Rs.5,068 crore in FY21 (FY20: Rs.6,545 crore). The average sales realization of IGL declined by Rs.30.25/SCM in FY20 to Rs.27.82/SCM in FY21. However, its PBILDT margin and PAT margin improved to 32.00% (FY20: 24.39%) and 19.84% (FY20: 17.36%), respectively, in FY21 mainly due to decline in the prices of natural gas, both domestic as well as imported in FY21.
IGL has not availed any debt. Hence, its overall gearing stood 0.02 times as at FY21 end (FY20: 0.02 times) due to inclusion of finance lease as a part of total debt. During FY21, the total debt / PBILDT and total debt / GCA of IGL stood at 0.07 times (FY20: 0.06 times) and 0.09 times (FY20: 0.07 times), respectively. Also, its PBILDT interest coverage stood comfortable at 76.31 times during FY21 (FY20: 78.59 times).

Robust and expanding infrastructure base
During the past decade of operations, IGL has been able to roll-out CNG and PNG distribution network across authorized GAs by installing infrastructure such as pipeline network, compressor stations and a marketing network. IGL had 612 CNG stations as on FY21 end (FY20: 555) with CNG compression capacity of 88.00 lakh kg/day (FY20: 87.62 lakh kg/day). For PNG infrastructure, the company has a steel pipeline network of 1,265 km and a medium density polyethylene (MDPE) pipeline network of 15,262 km as on FY21 end (FY20: 1,150 km and 13,455 km, respectively).

Government impetus on promoting natural gas
In order to address the environmental concerns, the GoI has been actively promoting a shift towards 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 various court directives. Over the past many years, CGD volumes have been continuously rising on the back of improved pipeline infrastructure, better availability of natural gas, continuous rise in the number of CNG-operated vehicles on the back of

better-pricing economics of natural gas compared with other conventional fuels and its environment friendliness over other alternative fuels. IGL is expected to benefit from the continued increase in the natural gas demand (CNG and PNG) in NCT of Delhi. In October 2017, the Hon'ble Supreme Court of India imposed a ban on the use of furnace oil and pet coke in the NCT of Delhi owing to high levels of pollution, which led to healthy growth in the PNG industrial volumes of IGL. Additionally, to promote usage of clean fuel in the NCT of Delhi, the Delhi government has been incentivizing commercial and industrial users to switch over to PNG. With Delhi being rated as one of the most polluted cities in the world, the usage of natural gas has been actively supported by government through measures such as mandatory use of CNG for public transport in Delhi and conversion of cabs to CNG. Going forward, the number of CNG vehicles is expected to increase which could support higher CNG demand; albeit this demand might be susceptible to technological disruptions such as faster rollout of electric vehicles (EVs). Also, domestic natural gas consumption is at a very nascent stage and offers healthy opportunities for further growth. The GoI aims to increase the share of natural gas in India's energy mix from 6% at present to around 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, majority of the industrial and commercial users are envisaged to shift to natural gas from alternative fuels due to ease in usage and favourable regulatory push. In the long run, CGD players are expected to thrive given GoI's impetus on gas-based economy, favourable regulatory regime, competitiveness of CNG over alternative fuels as well as emphasis on environmentally cleaner fuels.

Key Rating Weaknesses

Regulatory risks in the CGD business

The PNGRB, set-up in 2007, by the GoI is the regulating body of CGD business in India. Consequently, all the CGD players, including IGL are subject to the regulations of the PNGRB. The PNGRB had granted exclusive marketing rights to the CGD players for a stipulated time period in the respective GAs. In November 2020, the PNGRB has formulated new guidelines for determining CGD network tariff and allowing third-party access to existing CGD players' infrastructure network for supply of natural gas after expiry of the marketing exclusivity period. As and when such regulatory changes are implemented and the form in which they are implemented would be a key monitorable for the CGD sector going forward as this could result in possible entry of competitors in the existing GAs through implementation of common contract carrier regulation after the expiry of the marketing exclusivity period and could lead to concomitant impact on the CGD sector's profitability. However, at the same time, it also would offer opportunities to IGL to enter into other lucrative markets. Also, any unexpected change in the regulations regarding priority in allocation of natural gas for PNG-Domestic and CNG segments and/or pricing of end-product can adversely impact the CGD sector.

Significant capex plans though expected to be entirely funded through accruals

IGL has received authorization by the PNGRB to set-up CGD networks in other geographies, in addition to Delhi-NCR. These include Karnal district in Haryana, Meerut (except areas already authorized), Muzaffarnagar and Shamali districts in Uttar Pradesh, Kaithal district in Haryana, Ajmer, Pali and Rajsamand districts in Rajasthan and Kanpur (except areas already authorized), Fatehpur and Hamirpur districts in Uttar Pradesh in the 8th, 9th and 10th CGD bidding rounds. There are inherent project risks associated with such projects due to unforeseen delay in regulatory approvals, etc. which could result in both time and cost overrun. The PNGRB has also specified penalties for any shortfall in the execution of the MWP in the GAs allotted from 9th bidding round onwards which elevates the project risk.

IGL has envisaged annual capex of around Rs.1,500 crore over next few years. This capex will be for development of CGD network in the newly awarded GAs, expansion of CGD network in its already authorized / operational areas along with setting-up of CNG stations. The said capex plans of IGL are envisaged to be funded through internal accruals and available liquidity with the company without availing any debt as articulated by the management. Despite high amount of internal accruals committed for capex, the credit profile IGL is expected to remain comfortable on account of robust cash accruals.

Liquidity: Strong

The liquidity of IGL is strong marked by comfortable current ratio of 1.30x as on March 31, 2021 (FY20: 1.37x). Furthermore, the company has a negative operating cycle. IGL had free cash & cash equivalents of around Rs.2,688 crore as on March 31, 2021 and around Rs.2,818 crore as on June 30, 2021. With an overall gearing of 0.02 times as of March 31, 2021, IGL has sufficient gearing headroom, to raise debt for its capex (if required).

Analytical Approach: Standalone; factoring promoter support in operations.

Applicable Criteria

Criteria on Assigning 'Outlook' and 'Credit Watch' to Credit Ratings

CARE's Policy on Default Recognition

Liquidity Analysis of Non-Financial Sector Entities

Rating Methodology: Notching by Factoring Linkages in Ratings

Rating Methodology: City Gas Distribution Companies

Financial Ratios: Non-Financial Sector

About the Company

IGL was established in December 1998 as a JV between GAIL, BPCL and GNCTD to implement CGD project in the NCT of Delhi. As of June 30, 2021, GAIL and BPCL held equity of 22.50% each while GNCTD owned 5% equity in the company.

IGL enjoys exclusive position in the business of supplying CNG to the transport sector and PNG to 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) 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 and the sales volume in these areas is expected to increase gradually with the rollout of increased infrastructure. Furthermore, the company won one GA in the 9th CGD bidding round, namely, Meerut (except areas already authorized), Muzaffarnagar and Shamali districts in Uttar Pradesh and three GAs in the 10th CGD bidding round, namely, Kaithal district in Haryana, Ajmer, Pali and Rajsamand districts in Rajasthan and Kanpur (except areas already authorized) district, Fatehpur and Hamirpur districts in Uttar Pradesh.

Brief Financials - IGL (Standalone) (Rs. Crore)	FY20 (A)	FY21 (A)
Total Operating Income	6,545	5,068
PBILDT	1,596	1,622
PAT	1,137	1,006
Overall Gearing (times)	0.02	0.02
Interest Coverage (times)	78.59	76.31

A: Audited

During Q1FY22, as per the standalone unaudited financial results, IGL has reported PAT of Rs.244 crore on TOI of Rs.1,287 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Complexity level of various instruments rated for this company: Annexure-3

Annexure-1: Details of Facilities / Instruments

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Rating assigned along with Rating Outlook
Fund-based/Non-fund-based-Long Term	-	-	-	-	600.00	CARE AAA; Stable
Bonds	-	-	-	**	400.00	CARE AAA; Stable

**Not applicable as the bonds are yet to be placed

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument	Current Ratings			Rating History			
		Type	Amount Outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Bonds	LT*	400.00	CARE AAA; Stable	-	1)CARE AAA; Stable (07-Sep-20) 2)CARE AAA; Stable (03-Apr-20)	-	1)CARE AAA; Stable (11-Feb-19)
2.	Fund-based/Non-fund-based-Long Term	LT*	600.00	CARE AAA; Stable	-	1)CARE AAA; Stable (07-Sep-20)	-	-

*Long Term

Annexure-3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Bonds	Simple
2.	Fund-based/Non-fund-based-Long Term	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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