

## GAIL (India) Limited

July 04, 2019

### Ratings

Facility	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long / Short term Bank facilities – Fund Based Limits	1,500.00	CARE AAA; Stable / CARE A1+ (CARE Triple A; Outlook: Stable / CARE A One Plus)	Reaffirmed
Long / Short term Bank facilities – Non Fund Based Limits	2950.00	CARE AAA; Stable / CARE A1+ (CARE Triple A; Outlook: Stable / CARE A One Plus)	Reaffirmed
<b>Total</b>	<b>4,450.00</b> <b>(Rupees Four thousand and four hundred and fifty crore only)</b>		
Long Term Bonds – Series 2015	500.00	CARE AAA; Stable (CARE Triple A; Outlook: Stable)	Reaffirmed

*Details of facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The reaffirmation in the ratings to bank facilities of GAIL (India) Limited continue to derive strength from majority ownership by the Government of India (GoI), the company's leadership position in the natural gas transmission and trading business led by favorable demand situation of natural gas in India along with its presence in the various business segments. The ratings also factor in the strong financial risk profile with favorable capital structure.

However, the ratings also factors in ssusceptibility to volatile Commodity prices associated with petrochemicals, LPG and other Liquid hydrocarbons

Going forward, GAIL's ability to source and distribute natural gas competitively and the ability to execute the ongoing cap-ex plans within the envisaged time and cost would remain the key rating sensitivities.

### Detailed Description of Key Rating Drivers

#### Key Rating Strengths

##### Majority Ownership by GoI

GoI owns 52.19% stake in the company as on March 31, 2019 while the balance is held by various institutions and general public.

##### Leadership position in natural gas transmission & trading business

GAIL is the market leader in the transmission of natural gas in the country with market share of around 70% in the natural gas volume. The company has a pipeline network of more than 11,000 km, requiring large investments leading to high entry barriers in this sector.

GAIL's combined revenue from the natural gas trading and transmission services (including LPG Transmission) contributed 77.27% of the total revenue for FY19.

##### LNG import tie-up in USA, Russia and Qatar

GAIL has agreed to import 3.5 MMTPA of LNG from Cheniere Energy's Sabine Pass liquefaction plant (USA) for a period of 20 years in December 2011. The company has also tied up with Cove Point terminal (USA) to liquefy gas for 2.3 MMTPA. Since both the contracts are based out in USA, the pricing for the contracts is linked to HH (Henry Hub which is a natural gas pipeline located in Louisiana that serves as the pricing point for the future contracts on New York Mercantile Exchange and benchmark for entire north American natural gas market).

Apart from USA, the company also import LNG from Gazprom, Russia for an agreement to supply LNG for 20 years of 2.5 MTPA.

##### Strong financial risk profile marked by increase scale of operation and healthy capital structure

During FY19, GAIL's total operating income increased by 39.38% on account of increased income from Transmission Services, Gas Trading, Petrochemical and LPG & other liquid hydrocarbon segment. The improvement in gas transmission revenue was on account of increase in the sales price on account of increase in tariff on its 4 pipelines

which became effective from April 01, 2018. Apart from increased tariff, increase in the crude oil prices in FY19 also contributed to higher revenue from these segments.

The company enjoys a comfortable capital structure with overall gearing of 0.05x as on March 31, 2019 (PY: 0.09x). Furthermore, on account of low gearing, large net-worth base and high liquid investment, GAIL has a comfortable long-term solvency position.

**Liquidity:** As on March 31, 2019; cash & cash equivalent balance of the company stood at Rs. 1,425.10 crore, thus, providing the company adequate liquidity. The company 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 borrowing from capital markets as compared with other competitors.

#### Presence in various business segments

GAIL has presence in various business operations, besides leadership position in transmission of natural gas and LPG. The company has established presence in various other business segments like city gas distribution, petrochemicals, liquid hydrocarbons, exploration & production and telecom. This diversified business segments helps in spreading operating risk of the company.

#### Key Rating Weakness

##### Susceptibility to volatile Commodity prices associated with petrochemicals, LPG and other Liquid hydrocarbons

Petrochemical and LPG and Liquid hydrocarbons are directly exposed to changes in the commodity prices. With the change in crude oil and petroleum prices, the realization from petrochemical will also vary.

#### Industry Outlook

India's natural gas market is characterised by a supply deficit, primarily due to low domestic production and inadequate transmission and distribution infrastructure. The domestic demand for natural gas far exceeds domestic supply, resulting in a deficit and increased reliance on LNG. The Indian gas market structure has gradually built up an optimum LNG portfolio mix with LNG indexed to Henry Hub and crude oil. This portfolio approach will help India obtain best bargains in any price scenarios and enhance security of supply. The Government of India (GoI) is focusing on increasing the share of natural gas in Indian Primary Energy mix from the present level.

**Analytical approach:** Consolidated

#### Applicable Criteria

- [CARE's Criteria on assigning Outlook to Credit Ratings](#)
- [CARE's Policy on Default Recognition](#)
- [CARE's criteria for Short Term Instruments](#)
- [Rating Methodology-Manufacturing Companies](#)
- [CARE's methodology for financial ratios \(Non-Financial sector\)](#)
- [CARE's methodology for Factoring Linkages in Ratings](#)

#### About the Company

GAIL (India) Ltd. (GAIL), India's principal gas transmission and Distribution Company, was set up by the Government of India (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 gas transmission and distribution to processing (for fractionating liquefied petroleum gas (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 gas pipeline infrastructure in India, GAIL has leveraged its position to extend its presence in power, liquefied natural gas (LNG) re-gasification, city gas distribution (CGD) and Exploration & Production (E&P) through various equity and joint venture participations.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	55309.07	77404.16
PBILDT	8591.74	10881.83
PAT	4647.09	6552.77
Overall gearing (times)	0.09	0.06
Interest coverage (times)	29.13	68.35

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

#### Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	1450.00	CARE AAA; Stable / CARE A1+
Fund-based - LT/ ST-EPC/PSC	-	-	-	-	1500.00	CARE AAA; Stable / CARE A1+
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	1500.00	CARE AAA; Stable / CARE A1+
Listed INR Bonds	INE129A07198	February 23, 2015	8.30%	February 23, 2022	125.00	CARE AAA; Stable
Listed INR Bonds	INE129A07206	February 23, 2015	8.30%	February 23, 2023	125.00	CARE AAA; Stable
Listed INR Bonds	INE129A07214	February 23, 2015	8.30%	February 23, 2024	125.00	CARE AAA; Stable
Listed INR Bonds	INE129A07222	February 23, 2015	8.30%	February 23, 2025	125.00	CARE AAA; Stable
<b>Listed INR Bonds</b>	<b>Total</b>				<b>500.00</b>	

#### Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Non-fund-based - LT/ ST-BG/LC	LT/ST	1450.00	CARE AAA; Stable / CARE A1+	-	1)CARE AAA; Stable / CARE A1+ (04-Jan-19)	1)CARE AAA; Stable / CARE A1+ (06-Oct-17)	1)CARE AAA / CARE A1+ (14-Oct-16)
2.	Bonds	LT	-	-	-	-	1)Withdrawn (23-Mar-18) 2)CARE AAA; Stable (06-Oct-17)	1)CARE AAA (14-Oct-16)
3.	Bonds	LT	500.00	CARE AAA; Stable	-	1)CARE AAA; Stable (04-Jan-19)	1)CARE AAA; Stable (23-Mar-18) 2)CARE AAA; Stable (06-Oct-17)	1)CARE AAA (14-Oct-16)
4.	Fund-based - LT/	LT/ST	1500.00	CARE	-	1)CARE AAA;	1)CARE AAA;	1)CARE

	ST-EPC/PSC			AAA; Stable / CARE A1+		Stable / CARE A1+ (04-Jan-19)	Stable / CARE A1+ (06-Oct-17)	AAA / CARE A1+ (14-Oct- 16)
5.	Non-fund-based - LT/ ST-BG/LC	LT/ST	1500.00	CARE AAA; Stable / CARE A1+	-	1)CARE AAA; Stable / CARE A1+ (04-Jan-19)	1)CARE AAA; Stable / CARE A1+ (06-Oct-17)	1)CARE AAA / CARE A1+ (14-Oct- 16)
6.	Bonds	LT	-	-	-	1)Withdrawn (04-Jan-19)	-	-

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### **About CARE Ratings:**

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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