

GAIL India Limited

July 07, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	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
Total	4,450.00 (Rupees Four thousand and four hundred and fifty crore only)		
Long term Bonds – Series 2015	500.00 (Rupees Five hundred crore only)	CARE AAA; Stable (CARE Triple A; Outlook: Stable)	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to bank facilities of GAIL (India) Limited (GAIL) continue to derive strength from the majority ownership by the Government of India (GoI), its leadership position in the natural gas transmission segment, diversified revenue stream and a favourable demand situation of natural gas in India. The ratings also factor in the company's strong financial risk profile with a favourable capital structure.

The ratings, however, remain susceptible to volatility associated with prices of petrochemicals, LPG and other liquid hydrocarbons, besides the risk associated with un-hedged LNG.

Key rating sensitivity

Positive: Not applicable

Negative

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

Detailed Description of Key Rating Drivers

Key Rating Strengths

Majority ownership by GoI and experienced management team:

GoI owns 51.76% stake in the company as on March 31, 2020 while the balance is held by various institutions and general public. The company is being managed by professional and experienced management team having a relevant experience in the industry.

Leadership position in natural gas transmission business

GAIL is the market leader in the transmission of natural gas in the country with over 12,400 Km of pipeline network, out of total pipeline network in India of ~17,500 Km (i.e. 70.86% of country's pipeline) as on March 31, 2020 with the a natural gas handling capacity of 253 MMSCMD. Further, pipeline of around 6,700 Km is under construction & approved by GAIL out of total under construction & approved pipe line being laid in India of around 17000 km.

Further, company earns stable cash flows from transmission business, though it accounts only around 7% of total revenue in FY20. However, the PBIT margin during FY20 for the segment stood at high of 58% against 55% during FY19. GAIL gets around 12% internal rate of return (IRR) for its transmission business on back of regular tariff hikes for its pipelines. GAIL's integrated pipeline network of HVJ, Dahej-Vijaipur (DVPL) and Vijaipur-Dadri (GREP) accounts for over 65 per cent of the its's gas transmission volume.

LNG import tie-up in USA, Russia and Qatar

Over the years, GAIL has developed adequate tie ups for supply of natural gas both domestically and internationally. The company sourced around 50% of its total gas requirement through domestic sources which include ONGC (APM & Non APM), PMT at APM & PSC prices, Ravva, Ravva satellite, etc.

The remaining ~50% gas requirement is sourced through imported gas - RLNG (Long-term RLNG, Mid Term RLNG and Spot). GAIL has long term LNG contract of around 14 MMTPA from USA, Russia and Qatar. GAIL has long term contract to buy 5.8

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

million tonnes per annum (mtpa) of LNG from the U.S. and up to 2.5 mtpa of LNG annually on a delivered basis from Russia's Gazprom while another 5 mtpa from RasGas Qatar.

Going forward, capacity utilisation of the company is not only dependent on the company's ability to market the available gas but securing the additional gas supply for its increasing pipeline infrastructure would also be important

Diversified Revenue Stream

GAIL has presence in different products, 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.

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

During FY20, GAIL's operating income moderated marginally by 1.92% to Rs. 76,201.45 from Rs. 77,796.70 crore in FY19 mainly on account of dip in income from petrochemicals (on account of dip in sales realisations) and LPG and other liquid hydrocarbon (both on account of dip in sales realisations and sales volume) segment. The company's PBILDT margin improved by 193 bps to 16.8% as against 14.87% in FY19 mainly on account of reduced operating expenditure specifically employee cost and gas cost. The PAT margins of GAIL improved significantly by 405 bps to 12.47% in FY20 as against 8.42% during FY19 on account of adoption of lower tax rates pursuant to Section 115BAA of Income Tax Act, 1961. The company enjoys a comfortable capital structure with an overall gearing of 0.14x as on March 31, 2020 (PY: 0.05x) and adjusted overall gearing of 0.16x on March 31, 2020 (PY: 0.12x). Also, the debt coverage indicators including total debt to GCA and interest coverage ratio stood comfortable for the company for FY20 at 0.69x (PY: 0.24x) and 41.49x (PY: 72.65x) respectively.

Key Rating Weakness

Risk related to un-hedged US LNG contract

GAIL has long term contracts to buy 5.8 million tonnes per annum (MTPA) of LNG from the U.S. out of its total 14 MTPA long term contract. GAIL's US LNG price is linked with Henry Hub (HH) price while the sale price is linked to three-month Brent prices. In order to mitigate the fluctuations in the HH based LNG prices and crude oil prices, the company procures gas from USA through destination swaps and commodity hedging leading to reduction in shipping cost for the gas imported to India from USA. Furthermore, GAIL had sold/hedged most of its US LNG purchases under the long-term deals but up to 30% remains an open position and thus is exposed to market demands.

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

Petrochemicals, LPG and liquid hydrocarbons are directly exposed to changes in the commodity prices. With the change in crude oil and petroleum prices, the realizations from petrochemical will also vary. GAIL had lower revenue in petrochemical sector and liquid hydrocarbons in FY20 on account of dip in average sales realisation by around Rs. 17600/MT and Rs. 4753/MT respectively. Further, due to lower sales realisation GAIL had losses at PBIT level in petrochemical sector of Rs. 245.5 crore as against profit of Rs. 384.9 crore in FY19.

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. Domestic production of natural gas (gross) has fallen at a CAGR of 0.8% during FY16-20. Net production was 32.7 BCM during FY16 whereas it has declined to 31.2 BCM during FY20. The reason for the decline in production of natural gas over the years is due to the natural decline in output from the ageing fields coupled with lower than expected natural gas production from the Krishna Godavari Basin as well. Production of natural gas has fallen by 5.1% during FY20 compared with the 0.7% fall during FY19.

Natural gas consumption has increased by 5.2% during FY20 compared with the 2.7% growth rate achieved during FY19. The government has been encouraging the use of natural gas given its clean burning activities and aims to convert India into a "Gas Based Economy" by 2030. Besides, as of now, India uses only ~6.2% of its energy requirement through gas and government wants to improve it to around 15% by 2030.

Liquidity (Strong): Liquidity position of GAIL remained strong a total cash and bank balance of Rs. 1250.17 crore as on March 31, 2020 as against Rs. 1426.04 crore as on March 31, 2019. Its operating cycle remained comfortable at 22 days in FY20 as against 14 days in FY19. 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. Further, GAIL (standalone) had unutilized short term credit line of Rs.4,500 crore as on May 31, 2020.

Analytical approach: Consolidated along with factoring linkages with Government of India.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology - Consolidation and factoring linkages in rating](#)

[Rating Methodology - Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

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)	FY19 (A)	FY20 (A)
Total operating income	77,797	76,301
PBILDT	11,566	12,818
PAT	6,553	9,515
Overall gearing (times)	0.05	0.14
Interest coverage (times)	72.65	41.49

A: Audited

Figures are rounded off to nearest decimal place.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for 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	23-02-2015	8.30%	23-02-2022	125.00	CARE AAA; Stable
Listed INR Bonds	INE129A07206	23-02-2015	8.30%	23-02-2023	125.00	CARE AAA; Stable
Listed INR Bonds	INE129A07214	23-02-2015	8.30%	23-02-2024	125.00	CARE AAA; Stable
Listed INR Bonds	INE129A07222	23-02-2015	8.30%	23-02-2025	125.00	CARE AAA; Stable

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Non-fund-based - LT/ ST-BG/LC	LT/ST	1450.00	CARE AAA; Stable / CARE A1+	-	1)CARE AAA; Stable / CARE A1+ (04-Jul-19)	1)CARE AAA; Stable / CARE A1+ (04-Jan-19)	1)CARE AAA; Stable / CARE A1+ (06-Oct-17)
2.	Bonds	LT	-	-	-	-	-	1)Withdrawn (23-Mar-18) 2)CARE AAA; Stable (06-Oct-17)
3.	Bonds	LT	500.00	CARE AAA; Stable	-	1)CARE AAA; Stable (04-Jul-19)	1)CARE AAA; Stable (04-Jan-19)	1)CARE AAA; Stable (23-Mar-18) 2)CARE AAA; Stable (06-Oct-17)
4.	Fund-based - LT/ ST-EPC/PSC	LT/ST	1500.00	CARE AAA; Stable / CARE A1+	-	1)CARE AAA; Stable / CARE A1+ (04-Jul-19)	1)CARE AAA; Stable / CARE A1+ (04-Jan-19)	1)CARE AAA; Stable / CARE A1+ (06-Oct-17)
5.	Non-fund-based - LT/ ST-BG/LC	LT/ST	1500.00	CARE AAA; Stable / CARE A1+	-	1)CARE AAA; Stable / CARE A1+ (04-Jul-19)	1)CARE AAA; Stable / CARE A1+ (04-Jan-19)	1)CARE AAA; Stable / CARE A1+ (06-Oct-17)
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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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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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