Gujarat State Petronet Limited (Revise)

October 5, 2017

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	400.00 (reduced from Rs.879.95 crore)	**CARE AA+; Stable (Double A Plus; Outlook: Stable)**	**Reaffirmed**
Short Term Bank Facilities	100.00	**CARE A1+ (A One Plus)**	**Reaffirmed**
Long Term / Short Term Bank Facilities	2,800.00	**CARE AA+; Stable / CARE A1+ (Double A Plus; Outlook: Stable / A One Plus)**	**Reaffirmed**
Total Bank Facilities	**3,300.00 (Rupees Three Thousand Three Hundred Crore Only)**		

Details of instruments/facilities in Annexure-1;

Detailed Rationale & Key Rating Drivers

The ratings for the bank facilities of Gujarat State Petronet Ltd. (GSPL) continue to derive strength from its established position as one of the largest players in the gas transmission business in India together with its leadership position in Gujarat having strategic location with connection to all major natural gas supply sources; along-with GSPL's synergies with Gujarat State Petroleum Corporation (GSPC) group which has presence across the energy (gas) value chain. GSPL's open access operating model, favourable capital structure, healthy profitability and comfortable liquidity further acts as strong credit positives. The ratings also continue to factor in the increasing demand for natural gas from various consumer segments.

The long-term rating is, however, constrained due to moderate revenue visibility upon scheduled expiry of part of its Gas Transmission Agreements (GTAs) in the near to medium term [however, as per past experience, this is an ongoing process and over the years, the company has seen renewal of its contracts], project implementation and stabilization risks associated with the on-going capital expenditure programme especially the two very large sized projects being implemented through Joint Ventures (JVs) and its vulnerability to regulatory risk.

Ability of GSPL to renew the expiring GTAs, execution of ongoing projects (including those within its JVs) as per envisaged time and cost parameters and maintain its profitability margins & capital structure would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Presence of GSPC group across the natural gas value chain: GSPL is promoted by GSPC, which is engaged in oil and gas exploration and production as well as trading of gas. GSPC's allotted blocks are spread in India and it has an established presence in its gas trading business in Gujarat, which is the largest gas-consuming state in the country. GSPC along with its subsidiaries and associates operates across the natural gas value chain with presence in bulk gas trading, gas transmission and city gas distribution (CGD) through Gujarat Gas Ltd. (GGL; rated CARE AA; Stable / CARE A1+) and Sabarmati Gas Ltd. Accordingly, it provides significant synergies to the operations of GSPL for transportation of gas.

Strategic location in highest natural gas consuming state: GSPL commenced its operations with transmission of gas being provided by GSPC. Over a period of time, GSPL has however, invested significantly in developing its pipeline network which are now connected to major gas supply sources in Gujarat including designated collection points near the natural gas fields of Cairn Energy, GSPC and GSPC-Niko (all located in Hazira), re-gassified LNG from Shell's terminal at Hazira, Petronet LNG Ltd.'s terminal at Dahej along with the Panna-Mukta-Tapti gas fields. Further, Gujarat is the primary origination or entry point for both domestic natural gas produced in the Arabian Sea and imported LNG for Western and Northern India, owing to its strategic location and oceanic access to LNG exporting countries in the Middle East and Asia.

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

Furthermore, it is also the highest natural gas consuming state with around 40% of total domestic gas consumption. All these factors translate into steady utilization of GSPL's transmission lines.

Operating on an open access basis: GSPL is a pure transmission company operating on an open access basis and does not purchase or sell natural gas. Open access enables natural gas consumers to separately negotiate their natural gas supplies from a number of suppliers. In addition, operating on an open access basis allows GSPL to target both natural gas suppliers and users resulting in increased revenues from a broader customer base. Operating as a transmission only entity helps GSPL to minimize risks associated with fluctuations in natural gas prices. However, in H1FY17, GSPL won authorization for establishing and operating a CGD network development in Amritsar and Bhatinda in Punjab, due to which it would be marginally exposed to natural gas price fluctuations once it commences its operations in these regions.

Increasing demand for natural gas: In India, natural gas contributes around 6% of the overall energy mix where major consuming sectors include fertilizers, petrochemicals and sponge iron (as feedstock) along with power and CGD (as fuel). Power & fertilizer sector have always been the biggest contributor to India's total natural gas demand, but the contribution of natural gas in total installed power generating capacity is relatively low compared with other countries. To increase production to meet future demand and reduce the uncertainty for various stakeholders, new policy based on revenue sharing model has also been devised for the marginal fields along with providing pricing freedom for deep-water and ultra deep-water blocks. Further, there is clarity on pricing of gas under the administered pricing mechanism (APM) with revision every six months linked to international market prices. Further, infrastructure facilities for unloading, storage and re-gasification of LNG imported is also being improved by expansion at existing terminals and greenfield capacities being established at various locations across the country.

Gas Transmission Agreements (GTA) provide medium-term revenue visibility: GSPL enters into gas transmission agreements with its customers which typically provide for commercial terms such as quantity, quality, schedule, payment terms, security terms, events of default and remedies for the transportation arrangements, the tenure of which ranges from 1 year to 15 years. Majority of GTAs also provide for 'ship or pay' for a minimum off-take requirements generally covering around 90% of the customer's tariff commitment, which require customers to pay a fixed amount for the natural gas transmission capacity reserved by them regardless of the amount of natural gas actually transported. GSPL has various contracts on hand with reputed clients located in the region, which includes large industries and city gas distribution entities which use natural gas either as feedstock, fuel or supply it for further distribution. Total contracted value on hand as on August 28, 2017 was 38.34 MMSCMD which provides a medium term visibility to its revenue stream. Further, majority of GTAs which expired during FY17 have been largely renewed. However, decline in the price of gas in international market has led to growth in imports which is expected to be beneficial for GSPL in medium term.

Comfortable financial risk profile: GSPL's total income increased by 6% y-o-y in FY17, driven by increase in natural gas transportation volumes along with some increase in other operating income (primarily interest income). Total income, however, increased by 15% y-o-y in Q1FY18 on account of increase in gas transportation volumes. GSPL transported around 9,071 MMSCM of gas during FY17, a marginal increase of around 1% over the previous year. PBILDT margin remained stable as its major costs consist of depreciation and interest. GSPL's interest costs declined with reduction in outstanding debt due to prepayment and overall reduction in market rate of interest during FY17. Stable operating profitability and reduction in interest costs translated into marginally better PAT during FY17. GSPL's solvency position also improved driven by continued accretion to networth and reduction of outstanding debt. Further, as on March 31, 2017, GSPL had a free cash and bank balance of Rs.766 crore, underlining its strong liquidity.

Low level of competition because of regulatory business: GSPL, with its 2,454 KM long pipeline network as on June 30, 2017, is presently the second largest gas transmission pipeline network operator in the country (after GAIL). GAIL's market share is around 70% in gas transmission business, with primary focus towards serving Western and Northern India. In contrast, GSPL has an extensive network in Gujarat, covering 25 out of 33 districts in the state. GSPL follows leading strategy and develops pipeline network in newer markets after a thorough research and potential for gas demand from various segments of users. Furthermore, for laying any pipeline, GSPL and other players would have to undergo bidding process to obtain authorization from PNGRB which ensures no duplication of pipeline and low level of competition.

Key Rating Weaknesses

Substantially large sized capex and investment plans: GSPL has planned to undertake capex over the next five years for laying expansion of existing pipeline network, new spur lines, capacity augmentation and for establishing CGD network in Amritsar and Bhatinda. Further, in July 2011, PNGRB awarded GSPL led JVs to lay pipelines on three routes. viz. Bhatinda-Jammu-Srinagar (740 KM), Mehsana-Bhatinda (1,670 km) and Mallavaram-Bhilwara Pipeline (1,881 km). GSPL had formed two SPVs namely - GSPL (India) Gasnet Limited (GIGL) for implementation of the first two routes and GSPL (India) Transco Limited (GITL) for the third one. GSPL owns 52% stake in these projects, with the balance being held by Indian Oil Corporation Ltd. (IOCL; 26%), Bharat Petroleum Corporation Ltd. (BPCL; rated CARE AAA; Stable/CARE A1+; 11%) and Hindustan Petroleum Corporation Ltd. (HPCL; 11%). The total project cost for the two JVs is estimated at approx. Rs.13,000 crore which is envisaged to be funded in a debt to equity ratio of 70:30. Accordingly, GSPL is required to invest Rs.2,000 crore in these JVs over the next 4-5 years, including Rs.251 crore already invested till March 31, 2017. Execution of these projects within envisaged time and cost parameters and realising envisaged benefits therefrom would be very critical for GSPL.

Exposure to regulatory risk: GSPL's high pressure and low pressure pipeline network had been authorized by Petroleum and Natural Gas Regulatory Board (PNGRB). PNGRB had issued provisional tariff order for GSPL's high pressure and low pressure pipeline network. Subsequent to the order brought out by PNGRB, which was sought to be implemented on retrospective basis from November 2008, Appellate Tribunal for Electricity (APTEL) held that the date of applicability of transportation tariff determined by PBGRB should be from date of authorization. Further, APTEL in its order dated November 25, 2014 has directed PNGRB to reconsider the tariff proposal submitted by GSPL and incorporate various communication/representations made by GSPL in this connection from time to time. Hence, GSPL remains exposed to regulatory risk.

Analytical approach: Standalone with planned investments in JV entities and guaranteed debt

Majority of GSPL's income and cash flows are generated from its core gas transmission business. Hence, a standalone approach has been considered for analysis. However, the equity support envisaged to be provided by GSPL for their project implementation in its two JVs, primarily for construction of their gas transmission pipelines, along with other planned investments has been suitably factored in the analysis. Also, GSPL has provided corporate guarantee for certain non-fund based bank guarantee limits to its JV entities, which have also been considered in the analysis.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology: Factoring linkages in ratings
Rating Methodology – Infrastructure Companies
Financial Ratios: Non-Financial Sector

About the Company

Incorporated in December 1998, Gujarat State Petronet Limited (GSPL) is promoted by Gujarat State Petroleum Corporation Ltd. [GSPC; rated CARE BBB+; Stable/CARE A2], a Government of Gujarat (GoG) owned company, which is primarily engaged in oil and gas exploration and production (E&P) as well as gas trading business through transmission and distribution network of its subsidiaries including GSPL. GSPC held 37.66% equity stake in the company as on June 30, 2017. Further GSPC, by virtue of provisions in the Articles of Association of GSPL, has the right to appoint majority of Directors of GSPL and hence GSPL becomes a subsidiary of GSPC. Furthermore, it is a Government Company as per Section 2 (45) of the Companies Act, 2013. GSPL's primary business objective is to connect various supply sources and users of natural gas in Gujarat through its gas pipeline network. GSPL is the leader in natural gas transmission business in Gujarat and is the second largest player in India. It owned and operated around 2,454 KM of gas transmission pipeline in the state of Gujarat as on June 30, 2017. GSPL also sells electricity generated through its 52.50 MW wind mills.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	1,052	1,110
PBILDT	926	971
PAT	445	497
Overall gearing (times)	0.27	0.14
Interest coverage (times)	11.59	16.29

A – Audited; The above brief financials are as per CARE's criteria of calculating financial ratios

Further, during Q1FY18, GSPL reported a PAT of Rs.153 crore on a total operating income of Rs.313 crore, compared with a PAT of Rs.121 crore on a total operating income of Rs.273 crore during Q1FY17.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument/Bank Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	December 5, 2026	400.00	CARE AA+; Stable
Fund-based - ST-Term loan	-	-	-	100.00	CARE A1+
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	2,800.00	CARE AA+; Stable / CARE A1+

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	400.00	CARE AA+; Stable	-	1)CARE AA+ (18-Oct-16)	1)CARE AA+ (21-Oct-15)	1)CARE AA+ (30-Mar-15) 2)CARE AA+ (22-Sep-14)
2.	Fund-based - ST-Term loan	ST	100.00	CARE A1+	-	1)CARE A1+ (18-Oct-16)	1)CARE A1+ (21-Oct-15)	1)CARE A1+ (30-Mar-15) 2)CARE A1+ (22-Sep-14)
3.	Bonds	LT	-	Withdrawn	-	-	-	1)Withdrawn (16-Sep-14)
4.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	2,800.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+ / CARE A1+ (18-Oct-16)	1)CARE AA+ / CARE A1+ (21-Oct-15)	1)CARE AA+ / CARE A1+ (30-Mar-15)

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