Gujarat State Petronet Limited

October 09, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	887.05 (reduced from 1,169.96)	**CARE AA+; Stable (Double A Plus; Outlook: Stable)**	Reaffirmed
Short-term Bank Facilities	100.00	**CARE A1+ (A One Plus)**	Reaffirmed
Long/Short-term Bank Facilities	2,600.00 (reduced from 2,800.00)	**CARE AA+; Stable/ CARE A1+ (Double A Plus; Outlook: Stable/ A One Plus)**	Reaffirmed
Total Facilities	**3,587.05 (Rupees Three Thousand Five Hundred Eighty Seven Crore and Five Lakh Only)**		

Details of 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, 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 (natural gas) value chain. GSPL's open-access operating model and healthy profitability further acts as strong credit positives. The ratings also continue to factor in the increasing demand for natural gas from various consumer segments. The ratings of GSPL are further underpinned by its acquisition of majority stake in Gujarat Gas Limited (GGL; rated CARE AA; Positive/ CARE A1+), India's largest city gas distribution (CGD) company, which is expected to bring better synergies between the two companies; albeit this has led to some moderation in GSPL's debt coverage indicators as this acquisition is largely funded through debt [total acquisition cost of Rs.3,267 crore was funded through term loan of Rs.2,800 crore from Gujarat State Financial Services Ltd (GSFS) and balance through internal accruals]. However, as articulated by GSPL's management, CARE understands that there would be no further major debt funded acquisition by GSPL after the above-mentioned acquisition of GGL and that its Total Debt/ PBILDT would be under 3.50x in the foreseeable future.

The long-term rating of GSPL 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 its on-going capital expenditure programme especially the two very large sized projects being implemented through Joint Ventures (JVs), its vulnerability to regulatory risk and refinancing risk associated with loan availed from GSFS.

Ability of GSPL to renew the expiring GTAs, execution of ongoing projects (including those within its JVs) as per envisaged time and cost parameters while maintaining its profit margins & capital structure would be the key rating sensitivities. Furthermore, undertaking any additional major debt funded acquisition, non-adherence to maintaining a Total Debt/PBILDT of below 3.50x and its inability to refinance the term loan availed for stake acquisition in GGL in a timely manner as previously envisaged would be the key credit monitorables.

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 primarily engaged in trading of natural gas. GSPC 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 operate across the natural gas value chain with presence in bulk gas trading, gas transmission and city gas distribution (CGD) through GGL 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

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

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. 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 gas transmission company operating on an open access basis; and it 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, GSPL won authorization for establishing and operating a CGD network development in Amritsar and Bhatinda in FY16 and FY17 respectively in Punjab, due to which it would be marginally exposed to natural gas price fluctuations.

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 requirement generally covering around 90% of contracted volume, which require customers to pay transportation tariff regardless of the volume 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 volume on hand as on September 01, 2019 was 55.02 mmscmd which provides a medium term visibility to its revenue stream. Further, majority of GTAs which expired during FY19 have been largely renewed.

Low level of competition because of regulatory business: GSPL, with its 2,620 km long pipeline network as on March 31, 2019, 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 assessment of potential for gas demand from various user segments. 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.

Increasing demand for natural gas: In India, natural gas contributes around 6.50% of the overall energy mix where major consuming sectors include fertilizers, petrochemicals and sponge iron (as feedstock) along with power and CGD (as fuel). Natural gas consumption increased y-o-y by around 3% in FY19. Power & fertilizer sectors have always been the biggest contributor to India's total natural gas demand. Recently on award of various CGD Geographical Areas by Regulator across the country, CGD sector would be adding up transportation volumes in near future. Further, infrastructure facilities for unloading, storage and re-gasification of imported LNG is also being improved by expansion at existing terminals and greenfield capacities being established at various locations across the country.

Growth in TOI along with comfortable leverage: GSPL's total operating income increased by around 38% y-o-y in FY19 primarily driven by increase in transportation tariff during FY19 along with improved transmission volumes. It continued to operate at healthy PBILDT margin of around 83% in FY19. Further, its capital structure was comfortable with an overall gearing of 0.41x as on March 31, 2019.

Synergetic benefit from GSPL's investment in GGL; albeit moderation in debt coverage indicators and refinancing risk: GSPL's acquisition of additional 28.40% stake in GGL is envisaged to provide synergetic benefits to both the companies as they are part of the same value chain of natural gas business. CGD is one of the largest categories of industry segments catered to by GSPL which is envisaged to grow further in view of the increased thrust of the government and regulatory authorities to expand the CGD network across the country. According to the company management, GGL's business being complementary to GSPL, the acquisition of majority stake would facilitate better synchronization of its gas transmission network with GGL's network. Further, with Gujarat comprising nearly 1/3rd of the gas consumption market in India, this acquisition is expected to bring better synergies between the businesses of GSPL and GGL as CGD network provides last mile connectivity to the end users of natural gas. GGL is also one of the largest customers of GSPL with approximately 15% share in its total sales.
The total acquisition cost of around Rs.3,267 crore is funded through loan of Rs.2,800 crore from GSFS and the balance through internal accruals. The healthy level of free cash & bank balance earlier available with GSPL has moderated on account of this acquisition. The loan from GSFS was proposed to be prepaid/ repaid within 3 years through internal accruals to the extent possible and re-financing with a long term debt. During FY19 GSPL has repaid Rs.933 crore in line

with the repayment schedule. GSPL has availed an additional unsecured term loan from GSFS amounting to Rs.250 crore during FY19. Due to the predominantly debt funded stake purchase, GSPL's overall gearing ratio, Total Debt/ PBILDT and debt coverage indicators have relatively moderated compared to previous levels, although there is some improvement in the same as compared to FY18. But, GSPL's management has articulated to CARE that no further major debt-funded acquisition plans are in the pipeline and that the company shall endeavour to maintain a Total Debt/PBILDT within 3.50x for the foreseeable future.

Liquidity: Adequate
GSPL has adequate liquidity which is characterized by sufficient cushion in its accruals vis-à-vis debt repayment obligations. Comfort is derived from the fact that majority of GSPL's outstanding loan is from Gujarat State Financial Services Ltd (GSFS; the NBFC arm of the Government of Gujarat), which as articulated by the management can be refinanced/rolled over as and when required. This can be substantiated from the fact that GSPL already has additional sanction on hand from GSFS (amounting to Rs.1,000 crore) to be paid on long term basis which can be utilized on need-basis. With an overall gearing of 0.41 times as on March 31, 2019 GSPL also has sufficient gearing headroom to raise additional debt, if required. Further, the market value of GSPL's stake in GGL stood at ~Rs.6,553 crore as on Sept. 25, 2019), which imparts a great degree of flexibility to its liquidity. GSPL's liquidity is also underpinned by its moderate cash and bank balance of ~Rs.116 crore as on March 31, 2019.

Key Rating Weaknesses
Risk associated with its large-size capex and investment plans being implemented through its two JVs: GSPL has planned to undertake capex over the next five years towards expansion of existing pipeline network, laying new spur lines, capacity augmentation and for establishing CGD network in Amritsar and Bhatinda. Further, in July 2011, PNGRB had awarded the GSPL led JVs to lay pipelines on three routes. viz. Mehsana-Bhatinda (~1,670 km), Bhatinda-Jammu-Srinagar (~740 KM) and Mallavaram-Bhilwara Pipeline (~1,881 km). GSPL has 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 SPVs 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 was originally estimated at around Rs.13,000 crore to be funded in a debt to equity ratio of 70:30. Some of the segments out of the above projects are already awarded and some more are likely to be awarded in the near to medium term. Execution of these projects within envisaged time and cost parameters and realising envisaged benefits therefrom would be very critical for GSPL.
Apart from the above JV projects, GSPL is also expected to undertake own capex of around Rs.2,000-2,500 crore over the next 4-5 years.

Exposure to regulatory risk in tariff determination: GSPL's high pressure and low pressure pipeline network had been authorized by Petroleum and Natural Gas Regulatory Board (PNGRB), which has an established methodology to determine the tariff for the transportation of natural gas. The methodology provides for tariff review at five year intervals.
Previously, PNGRB had issued provisional tariff order for GSPL's high pressure and low pressure pipeline network. In September 2018, PNGRB has issued order for final initial unit natural gas pipeline tariff for GSPL's pipeline network, which has led to increase in the tariff for the transportation of natural gas by approx. 27%. In the event of any significant change in Government policy and the tariff, the revenues generated from the pipeline may be impacted. Hence, GSPL remains exposed to regulatory risk.

Analytical approach: Standalone along 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.
Apart from those mentioned above, GSPL is not expected to impart any extraordinary support to any of its group entities including its subsidiary; GGL. Any change in this stance would be a key rating sensitivity.

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology – Infrastructure Sector Ratings
Financial ratios – Non-Financial Sector

[Rating Methodology: Factoring Linkages in Ratings]

About the company

Incorporated in December 1998, GSPL is promoted by GSPC, a Government of Gujarat (GoG) owned company. GSPC held 37.64% equity stake in the company as on June 30, 2019. By virtue of provisions in the Articles of Association of GSPL, the right to appoint majority of its Directors vests with GSPC, hence GSPL is 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 owns and operates around 2,620 km of gas transmission pipeline in the state of Gujarat as on March 31, 2019. GSPL also sells electricity generated through its 52.50 MW wind mills.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	1,394	1,929
PBILDT	1,210	1,595
PAT	668	795
Overall gearing (times)	0.60	0.41
Total Debt/PBILDT	2.53	1.48
Interest coverage (times)	34.17	7.28

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

During Q1FY20, based on its unaudited published results, GSPL registered total operating income of Rs.520 crore with PAT of Rs.206 crore as against total operating income of Rs.397 crore with PAT of Rs.144 crore during Q1FY19.

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 Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - ST-Term loan	-	-	-	100.00	CARE A1+
Fund-based - LT-Term Loan	-	-	March 2027	887.05	CARE AA+; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	2600.00	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 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.	Fund-based - ST-Term loan	ST	100.00	CARE A1+	-	1)CARE A1+ (08-Oct-18)	1)CARE A1+ (28-Mar-18) 2)CARE A1+ (05-Oct-17)	1)CARE A1+ (18-Oct-16)
2.	Fund-based - LT-Term Loan	LT	887.05	CARE AA+; Stable	-	1)CARE AA+; Stable (08-Oct-18)	1)CARE AA+; Stable (28-Mar-18) 2)CARE AA+; Stable (05-Oct-17)	1)CARE AA+ (18-Oct-16)
3.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	2600.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (08-Oct-18)	1)CARE AA+; Stable / CARE A1+ (28-Mar-18) 2)CARE AA+; Stable / CARE A1+ (05-Oct-17)	1)CARE AA+ / CARE A1+ (18-Oct-16)

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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