

## Gujarat State Petroleum Corporation Limited

October 01, 2020

### Ratings

Facilities	Amount (Rs. crore)	Ratings <sup>[1]</sup>	Rating Action
Long Term Bank Facilities	-	-	Reaffirmed at 'CARE A; Stable' [Single A; Outlook: Stable] and 'Withdrawn'
Short Term Bank Facilities	-	-	Reaffirmed at 'CARE A1' [A One] and 'Withdrawn'
<b>Total</b>	-		

*Details of facilities in Annexure-1*

### Detailed Rationale and Key Rating Drivers

CARE has reaffirmed and simultaneously withdrawn the outstanding ratings of 'CARE A; Stable/CARE A1' (Single A; Outlook: Stable / A One) assigned to the bank facilities of Gujarat State Petroleum Corporation Limited (GSPC) with immediate effect. The above action has been taken at the request of GSPC along with No Dues Certificates (NDCs) and No Objection Certificates (NOCs) received from the lenders that have extended the facilities rated by CARE.

*The ratings of the bank facilities of GSPC continue to derive strength from its strong parentage of Govt. of Gujarat (GoG) which holds controlling stake in it and has track record of extending need-based support to the company, along with GSPC group's long and established track record with presence across various segments of the oil & gas value chain – mainly gas trading, gas transmission, city gas distribution and gas-based power generation, GSPC's ratings are further underpinned by its strong position in natural gas trading business, being the second largest player in this segment in India, gradual improvement in its capital base, adequate debt coverage indicators and high market value of GSPC's investments in Gujarat State Petronet Limited (GSPL; rated CARE AA+; Stable/ CARE A1+) which imparts a degree of financial flexibility to it.*

*The ratings of GSPC, however, continue to remain constrained on account of its weak capital structure (despite equity infusion of Rs.6,000 crore) on the back of substantial write offs in past years, inherent moderate profitability margins and price fluctuation risk associated with its gas trading business; and decline in portfolio of its hydrocarbon exploration properties which were previously envisaged to have good potential.*

### Detailed description of the key rating drivers

#### Key Rating Strengths

#### Strong parentage along with demonstrated support

GSPC is a state owned entity promoted by Government of Gujarat (GoG) wherein as on March 31, 2020 GoG held 92.26% equity stake; directly (20.83%) and indirectly through Gujarat State Investments Ltd. (GSIL: 69.85%) and Gujarat State Financial Services Ltd. (GSFSL: 1.58%). GoG has provided need-based financial support to GSPC in the past. As per GSPC's earlier debt rationalization plan, GoG via GSIL, a GoG PSU infused Rs.6,000 crore equity and took over GSPC's Non-Convertible Debentures (NCDs) of Rs.6000 crore along-with its debt servicing obligation w.e.f. April 01, 2018.

#### Strong presence of the GSPC group across the natural gas energy value chain

GSPC was primarily focused on the exploration, development & production of oil and natural gas as well as gas trading. Over the period of time, GSPC along with its subsidiaries and affiliates has evolved as an integrated energy company with presence across the gas business value chain spanning through gas trading, developing Liquefied Natural Gas (LNG) terminal, gas transmission, city gas distribution and gas-based power generation.

#### Favorable growth prospects for gas trading business along with its adequate debt coverage indicators

Gujarat is the highest gas consuming state of the country with almost 40% of total natural gas consumption of India. Further, gas availability is expected to improve with LNG handling capacity being enhanced and demand is expected to improve on the back of it being an environment-friendly fuel. Accordingly, GSPC is expected to remain well positioned as one of the major traders of natural gas in the country. On the back of good demand for gas, GSPC reported improved profitability marked by PBILDT margin of 10.94% during FY20 vis-à-vis 8.73% during FY19. Although, its Total Debt/GCA continued to remain at moderate level as per its provisional results for FY20, its PBILDT interest coverage improved from 1.80 times during FY19 to 2.69 times during FY20.

#### Financial flexibility derived from GSPC's investment in GSPL

GSPC derives a degree of financial flexibility by virtue of its equity investment in GSPL having a book value of Rs.2,633.65 crore as on March 31, 2020 with its market value recorded at ~Rs.3,661 crore as on same date.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

***Strong Joint Venture partners having established oil & gas business in India w.r.t. some of its residual E&P businesses; albeit its contribution in GSPC's revenue going forward is expected to be low***

Most of the Joint Venture partners of GSPC (especially in its onshore fields) have established oil & gas business which includes ONGC (rated CARE AAA; Stable/ CARE A1+), GAIL (India) Ltd (GAIL; rated CARE AAA; Stable/ CARE A1+), Hindustan Petroleum Corporation Limited (HPCL), Bharat Petroleum Corporation Limited (BPCL; rated CARE AAA; Under Credit Watch with Developing Implications and CARE A1+), Oil India Limited (OIL; rated CARE AAA; Stable/ CARE A1+), Indian Oil Corporation Limited (IOCL), etc. They have strong financial flexibility and play a major role in the energy business in India. The commitment of most of the JV partners is visible through reasonable execution of minimum work program in blocks where GSPC is not the operator. Further, with respect to KG-DDW block, after farming out its 80% PI to ONGC in the month of August 2017, GSPC still holds 10% PI surrendered by Geo Global. However, going forward, E&P activity is expected to contribute relatively low share in GSPC's overall revenue.

**Key Rating Weaknesses**

***Weak capital structure***

GSPC had announced commercial operations date (CoD) for Deen Dayal West (DDW) Block w. e. f. April 01, 2016. Subsequent to declaration of CoD, the CWIP of ~Rs. 23,000 crore was capitalized and interest expense of ~Rs.1,930 crore was charged to Profit & Loss Statement resulting in it reporting losses as there was minimal revenue from the investment in this block. Further, as per requirement of Ind AS, GSPC had tested the carried asset value of the block for impairment against the consideration to be received as per Farm-In/Farm-out agreement with ONGC which led to an impairment loss to the extent of Rs.14,923.54 crore in its P&L for FY17. The impairment loss was as an exceptional item which exceeded the net-worth of the company leading to a negative net-worth of Rs.4779 crore as on March 31, 2017. Upon delay in further debt rationalization, its finance cost in FY18 also exceeded its PBILDT leading to further losses of Rs.1565 crore in FY18 which further increased its negative net-worth to Rs.5,552 crore as on March 31, 2018. However, GSPC's net-worth turned to positive at Rs.676 crore as on March 31, 2019 after equity infusion of Rs.6,000 crore by GoG (via GSIL) in lieu of taking over of GSPC's NCDs amounting to Rs.6,000 crore during FY19. But, even after equity infusion by GSIL and transferring NCDs to GSIL amounting to Rs.6,000 crore in FY19 (Prov.), the overall gearing of GSPC remained very high at 10.07 times as on March 2019 reflecting its weak capital structure, which albeit improved to 5.84 times as on March 31, 2020 upon accretion of its profits to net-worth and reduction in debt levels during FY20.

***Inherent moderate profitability margins and price fluctuation risk related to its gas trading business***

Demand for gas is linked to its price & the price of alternate fuels in industries. With the rise in price of gas in past, GSPC had witnessed decline in demand for gas in the past. Despite improvement in industry dynamics post FY15, GSPC shall remain exposed to international demand-supply scenario for natural gas. Accordingly, ability of GSPC to manage risk associated with fluctuation in gas price and simultaneously improve its gas trading volume would be critical going forward.

***Risk associated with foreign exchange rate fluctuations***

The sale and purchase of gas by GSPC is denominated in USD and hence forex risk is largely mitigated in gas trading business. As on March 31, 2020, GSPC had kept its ECB exposure open whereby it is exposed to exchange rate fluctuations as the Indian Rupee has depreciated significantly since the avilment of these ECBs, however it may be noted that the company is covered against this through natural hedge to the extent of margin from gas trading business.

***Decline in portfolio of hydrocarbon exploration properties with substantial write offs***

GSPC had working interest in more than 60 blocks of which there were nearly 11 overseas blocks. However, with substantial write offs over the last five years ended FY19 (including ~Rs.320 crore of impairment losses on 12 E&P blocks which are planned to be sold and recognized as non-current asset held for sale as on March 31, 2019) and especially the Rs.15,145 crore write off related to DD Block in FY17, net-worth of GSPC had turned negative as on March 31, 2018. GSPC is now vested with 21 domestic blocks. GSPC has surrendered substantial number of blocks recently because of unviable exploration & development condition of the blocks. Now GSPC has no overseas block in its portfolio. Further, with respect to KG block, Jubilant Offshore Drilling Pvt. Ltd. (Jubilant) due to its financial distress has not contributed its contribution for the last three years. GSPC was carrying Geo Global Resources as per the Carried Interest Agreement between the parties. Accordingly, GSPC has invested nearly Rs.1,850 crore on behalf of its JV partners. However, in April 2017, GGR has surrendered its 10% PI in DDW block to GSPC. Thus, GSPC shall now hold 10% PI in KG Block. Previously, GSPC was envisaged to earn significant returns from its various oil & gas exploration businesses due to their hitherto good potential; however, the same did not fructify. Consequently, GSPC is now largely vested with gas trading business post sale/write-off of most of its exploration blocks.

**Analytical approach:** Standalone

**Applicable criteria**

[Policy on Withdrawal of ratings](#)

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

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

[Criteria for Short Term Instruments](#)

[Rating Methodology – Wholesale trading](#)

[Rating Methodology: Consolidation and Factoring Linkages in Ratings](#)

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

**About the Company:**

Incorporated in 1979 as Gujarat State Petrochemicals Corporation Ltd., the company's name was changed to its present form, Gujarat State Petroleum Corporation Ltd. (GSPC) in 1994, with a thrust to expand in energy sector. GSPC is a state-owned entity where Government of Gujarat (GoG) directly held 86.89% equity stake as on March 31, 2018. During FY19 GoG infused equity of Rs.6000 crore into GSPC via. Gujarat State Investment Ltd. (GSIL, a GoG PSU) to take over GSPC's Non-Convertible Debenture (NCDs) amounting to Rs.6,000 along-with its debt servicing obligation w.e.f. April 01, 2018. As a result, GoG's direct equity holding reduced to 22.25% and GSIL's equity holding has increased to 74.61% as on March 31, 2019. GSPC is primarily engaged in the business of gas trading after farming out its KG-DD block to ONGC in March 2017 (proceeds were received in August 2017). Now, it has minimal presence in oil and gas exploration and production business through its participating interest (PI) in 21 domestic blocks. GSPC's gas trading business is presently concentrated in Gujarat which is the largest gas-consuming state in the country.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (Prov.)
Total operating income	14,455	15,347
PBILDT	1,261	1,679
PAT	260	366
Overall gearing (times)	10.07	5.84
Interest coverage (times)	1.80	2.69

A: Audited; Prov.: Provisional

**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 - LT-Cash Credit	-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan	-	-	-	0.00	Withdrawn
Non-fund-based - ST-BG/LC	-	-	-	0.00	Withdrawn
Fund-based - LT-External Commercial Borrowings	-	-	-	0.00	Withdrawn
Non-fund-based - ST-BG/LC	-	-	-	0.00	Withdrawn

**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.	Fund-based - LT-Cash Credit	LT	-	-	-	1)CARE A; Stable (03-Jul-19)	1)CARE BBB+; Stable (14-Sep-18)	1)CARE BBB+; Stable (06-Oct-17)

								2)CARE BBB+; Stable (10-Jul-17)
2.	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE A; Stable (03-Jul-19)	1)CARE BBB+; Stable (14-Sep-18)	1)CARE BBB+; Stable (06-Oct-17) 2)CARE BBB+; Stable (10-Jul-17)
3.	Non-fund-based - ST-BG/LC	ST	-	-	-	1)CARE A1 (03-Jul-19)	1)CARE A2 (14-Sep-18)	1)CARE A2 (06-Oct-17) 2)CARE A2 (10-Jul-17)
4.	Fund-based - LT-External Commercial Borrowings	LT	-	-	-	1)CARE A; Stable (03-Jul-19)	1)CARE BBB+; Stable (14-Sep-18)	1)CARE BBB+; Stable (06-Oct-17) 2)CARE BBB+; Stable (10-Jul-17)
5.	Non-fund-based - ST-BG/LC	ST	-	-	-	1)CARE A1 (03-Jul-19)	1)CARE A2 (14-Sep-18)	1)CARE A2 (06-Oct-17) 2)CARE A2 (10-Jul-17)
6.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (03-Jul-19)	1)CARE BBB; Stable (14-Sep-18)	1)CARE BBB; Stable (06-Oct-17) 2)CARE BBB; Stable (10-Jul-17)
7.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (03-Jul-19)	1)CARE BBB+; Stable (14-Sep-18)	1)CARE BBB+; Stable (06-Oct-17) 2)CARE BBB+; Stable (10-Jul-17)
8.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (03-Jul-19)	1)CARE BBB+; Stable (14-Sep-18)	1)CARE BBB+; Stable (06-Oct-17) 2)CARE BBB+; Stable (10-Jul-17)
9.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (03-Jul-19)	1)CARE BBB; Stable (14-Sep-18)	1)CARE BBB; Stable (06-Oct-17) 2)CARE BBB; Stable (10-Jul-17)

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-External Commercial Borrowings	Simple
3.	Fund-based - LT-Term Loan	Simple
4.	Non-fund-based - ST-BG/LC	Simple

**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.

### Contact us

**Media Contact**

Name: Mradul Mishra

Contact Number: +91-22-6837 4424

Email ID – [mradul.mishra@careratings.com](mailto:mradul.mishra@careratings.com)

**Analyst Contact**

Name: Hardik Shah

Contact Number: +91-79-4026 5620

Email ID- [hardik.shah@careratings.com](mailto:hardik.shah@careratings.com)

**Business Development Contact**

Name: Deepak Prajapati

Contact no. +91-79-4026 5656

Email ID - [deepak.prajapati@careratings.com](mailto:deepak.prajapati@careratings.com)

**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.

#### Disclaimer

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades

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