Indraprastha Gas Limited

September 07, 2020

Ratings

Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	600	CARE AAA; Stable (Triple A; Outlook : Stable)	Assigned
Total	600 (Rs. Six Hundred Crore Only)		
Long term Instruments-Bonds (Proposed)	400	CARE AAA; Stable (Triple A; Outlook : Stable)	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation in the ratings assigned to the long term facilities of Indraprastha Gas Limited (IGL) takes into account the company's strong financial risk profile marked by healthy profitability margins, strong solvency and liquidity position. The ratings continue to reflect the company's legacy of being the pioneer in city gas distribution (CGD) in the National Capital Region of Delhi (Delhi-NCR), enjoying an exclusive position in the business, besides the strong parentage of GAIL and Bharat Petroleum Corporation Limited (BPCL) as majority shareholders. The ratings also factor in the favourable demand outlook and growth prospects for the compressed natural gas (CNG) and piped natural gas (PNG) in the geography. The company has witnessed growth in both the segments and enjoys monopoly with regards to the network exclusivity under PNGRB Act, 2006. The ratings, however, remain exposed to the regulatory risks in the sector and IGL's aggressive expansion plans in coming years with respect to authorizations of new geographical areas (GAs) under the 9th and 10th bidding rounds. Furthermore, the company has an exposure to project execution risks with a large contingent liability, primarily in the form of performance bank guarantee for meeting the Minimum Work Programme (MWP).

Rating Sensitivity:

Positive factors: Not Applicable

Negative Factors:

- Increase in large debt funded capex or acquisition thereby leading overall gearing more than 0.5x.
- Any major adverse regulatory changes such as open access affecting its income below Rs.4000 crore and PBILDT below 15% on a sustained basis
- Deterioration in credit profile of its 2 main JV partners or their exit as key promoters

Detailed description of the key rating drivers

Strong parentage in hydrocarbon giants and the state government

Indraprastha Gas Limited (IGL) was established in December 1998 as a joint venture (JV) between GAIL (India) Ltd [CARE AAA; Stable/A1+], Bharat Petroleum Corporation Limited (BPCL)[CARE AAA, credit watch with developing implications/A1+] and Government of National Capital Territory of Delhi (GNCTD) to implement the city gas distribution project (CGD) in the NCT of Delhi. As of March 31, 2020, GAIL and BPCL held equity of 22.5% each while GNCTD owned 5% equity in the company. The company has been promoted by sector leaders such as GAIL, the largest natural gas transmission company in India and BPCL, one of the leading oil refining and marketing companies in India. The CGD project was started as a pilot project in 1997 by GAIL to establish the viability of the venture and to resolve related technical and safety issues. In 1999, these assets were transferred to IGL.

IGL derives technical and managerial strength from its promoters who have supported it during implementation phase and continue to support it in its operations. In addition, there exists significant operational synergy as GAIL supplies natural gas to IGL through its pipelines. The company has been able to draw upon the natural gas distribution skills of GAIL, the retail marketing skills of BPCL and the knowledge and project implementation skills of both GAIL and BPCL. IGL is being managed by a professional and experienced management team, having knowledgeable personnel with respect to various aspects of the gas industry in India.

Monopolistic position in authorized cities given the entry barriers

A first-mover advantage, market exclusivity and continuous infrastructure development and high level of entry barriers have augured well for IGL. As per the guidelines of the Petroleum and Natural Gas Regulatory Board (PNGRB), IGL has market exclusivity right of five years from the date of receiving authorization for existing two GAs till 8th round and of 8 years for the four GAs won in 9th and 10th round (which is extendable further up to two years based on physical performance), which will strengthen IGL's monopolistic position in its various GAs. Furthermore, it will also have network exclusivity as a city gas carrier for 25 years from the date of authorization.

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

Although the marketing exclusivity available to the company in Delhi/NCR has expired in Dec 2012 (upheld by Delhi High Court order dated 30-Sep-15), the company continues to retain network exclusivity as the 'city gas carrier in NCT of Delhi till Dec 23.

Gas sourcing tie-up in place
As part of its emphasis on augmenting the use of natural gas in the country, Ministry of Petroleum and Natural Gas (MoP&NG), Government of India has been extending Administered Price Mechanism (APM) gas to the maximum extent to the CGD players. In continuation with this agenda, MoP&NG had issued revised guidelines in August 2014 towards the allocation of APM gas. Domestic gas (APM, Panna-Mukta and Tapti (PMT), Non-APM) is being allocated by MoPNG to cater for the CNG (transport) and PNG (domestic) segments depending upon the size of the GAs i.e. up to 6000 SCMD and the same is being reviewed on half yearly basis, as per MoPNG guidelines. IGL has signed Gas Supply Agreements for domestic gas for Delhi, Gautam Budh Nagar, Ghaziabad, Rewari, Muzaffarnagar and Karnal as per the quantities allocated by MoPNG. CNG and PNG-Domestic together constitutes around 80% of the volumes sold of IGL. To cater for the gas requirement in industrial and commercial segment, IGL has existing arrangements under a long-term RLNG agreement with BPCL and GAIL Gas whose delivery point is at PLL Terminal at Dahej, Gujarat, and another long term RLNG signed with GAIL with delivery at our locations i.e. Delhi, Gautam Budh Nagar, Ghaziabad, Rewari and Gurugram. Accordingly, IGL also has entered into a Gas Transmission Agreement with GAIL for onward delivery of RLNG to required GAs. Apart from the mentioned RLNG arrangements, IGL also procures RLNG on a short-term basis from time to time, based on requirements, through competitive bidding.

Comfortable financial risk profile
Total Operating Income (TOI): IGL reported a TOI of Rs. 6,545 crore in FY20 as against Rs. 5,836 crore in FY19, thereby reporting TOI with the growth of 12.16% on account of increase in both, i.e. volumes from 2,155 MMSCM in FY19 to 2,357 MMSCM in FY20 (i.e. by ~9.35%) and average sales realisation from Rs.29.40/scm in FY19 to Rs. 30.26/scm in FY20 (i.e. by ~2.9%). The daily average gas sales have increased from 5.91 million metric standard cubic metres per day (MMSCMD) in FY19 to 6.44 MMSCMD in FY20 along with increase in Revenue/scm from Rs. 26.63 in FY19 to Rs. 27.27 in FY20.

Profitability: The PBILDT margin of IGL improved in FY20 to 24.35% from 22.97% in FY19 (i.e. by 138bps). The improvement in the margins was primarily driven by lower cost of gas procurement due to reduction in the APM price (from October 01, 2019), and RLNG prices. The fall in prices was partially passed on to the customers in H2FY20 thereby restricting the PBILDT improvement. IGL earned PBILDT/scm of Rs. 6.76 in FY20 as against Rs. 6.22 in FY19.

Solvency: IGL had debt of only Rs. 96.19 crore (finance lease) as on March 31, 2020, thus, overall gearing was 0.02x as on Mar 31, 2020 (PY: nil) mainly on account of treatment required as per IndAS in respect of leases. Further interest coverage ratio stood comfortable at 91.28x in FY20 (PY: 107.33x).

Q1FY21 Performance: The company has earned total income of Rs. 669.20 crore with PBILDT margins of 17.05% in Q1FY21 as against total revenue of Rs. 1,611.52 crore with 24.44% PBILDT margins in Q1FY21. The moderation is mainly on account of steep decline in demand due to country wide lockdown.

Robust and improving infrastructure base
During the past decade of operations, IGL has been able to roll out CNG and PNG distribution network across authorized GAs by installing infrastructure such as pipeline network, compressor stations and a marketing network. IGL had 555 CNG stations as on March 31, 2020 (500 as on March 31, 2019) with CNG compression capacity of 87.62 lakh kg/day (84.25 lakh kg/day as on Mar 31, 2019). For PNG infrastructure, the company has a steel pipeline network of 1,150 km and a medium density polyethylene (MDPE) pipeline network of 13,455 km as on March 31, 2020 (1,006 Km steel pipeline &12,023 Km of MDPE pipeline as on Mar 31, 2019).

Government impetus on promoting natural gas
The government has been actively promoting a shift towards cleaner sources, i.e., natural gas. With increasing impetus coming in the form of environmental concerns and various court directives, CGD Projects have become a priority segment of natural gas business. Also, there has been increase in the number of CNG operated vehicles on account of the pricing economics of natural gas compared with other conventional fuels. With the domestic gas consumption currently at a very nascent stage, it presents a significant opportunity for CGD companies. In October 2017, the Supreme Court imposed a ban on the use of furnace oil and pet coke in the NCR owing to high levels of pollution, which led to healthy growth in the PNG industrial volumes of the company in FY2019 and 9M FY2020. Additionally, to promote usage of clean fuel in the NCR, the Delhi government has been incentivizing commercial and industrial users to switch over to PNG. Furthermore, IGL is expected to benefit from the continued increase in natural gas demand (CNG and PNG) in the NCR on account of the increasing

number of CNG-operated vehicles in Delhi and the pricing economics of natural gas as compared with other conventional fuels.

Key Rating Weaknesses

Regulatory risks in the CGD business

Petroleum and Natural Gas Regulatory Board (PNGRB) set up in 2007 by the Government of India (GoI) is the regulating body of CGD business in India. Consequently, all the CGD players including IGL are subject to the regulations of PNGRB. IGL's operating margins, as for other CGD companies, remains vulnerable to the mix of APM gas allocation available and costlier imported gas. Therefore, any increase in the APM price might impact IGL's margins. Though CGD companies enjoy the flexibility to increase the price of CNG and pass the rise in cost of raw material to customers through marketing margins, in reality, such increases would be capped by the imperative to remain competitive in the market against other alternative fuels. Consequently, going forward, the extent to which IGL is able to pass on the incremental price to its customers and its consecutive impact on demand would be crucial. Nevertheless, the fall in APM price to $3.23/MMBTU from October 2019 and further to $2.39/MMBTU augurs well for the company. Further, the regulators are in process of formulating new guidelines for determination of the CGD network tariff and allowing third party access in authorised GA after completion of marketing exclusivity. However, the impact in this regard is uncertain as the regulations have not been finalized yet.

Significant future capex plans

IGL has received authorization by PNGRB to set up CGD in other geographies, in addition to Delhi-NCR. These include Karnal, Meerut (except areas already authorized), Muzaffarnagar, Shamali, Fatepur and Harmipur districts (Uttar Pradesh (U.P.)), Kanpur (except areas already authorized), Kaithal district (Haryana), Ajmer, Pali and Rajsamand districts (Rajasthan) in 8th, 9th and 10th rounds of bidding. For these projects, IGL is expected to incur a capex of around Rs. 1,300 crore each in FY21 and FY22 which is to be funded through internal accruals backed by over Rs. 1,000 crore GCA per annum and around Rs. 2,150 crore of free cash and bank balance as on March 31, 2020.

Liquidity: Strong:

The liquidity of IGL is strong marked by a comfortable current ratio of 1.37x as on March 31, 2020 (PY: 1.45x). Besides, the company has a negative working capital cycle. The company had free cash and bank balances of Rs. 2,167.70 crore as on March 31, 2020 invested in fixed deposits (March 31, 2019: Rs. 1,885.39 crore including current investments).

Analytical approach: Standalone; factoring promoter support in operations

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
Financial ratios – Non-Financial Sector
Rating Methodology – Infrastructure Sector Ratings

About the Company

Indraprastha Gas Limited (IGL) was established in December 1998 as a joint venture (JV) between GAIL (India) Ltd., Bharat Petroleum Corporation Limited (BPCL) and Government of National Capital Territory of Delhi (GNCTD) to implement the city gas distribution project (CGD) in the NCT of Delhi. As of March 31, 2020, GAIL and BPCL held equity of 22.5% each while GNCTD owned 5% equity in the company. IGL enjoys exclusive position in the business of supplying compressed natural gas (CNG) to the transport sector and piped natural gas (PNG) to domestic and commercial customers in Delhi, Noida, Greater Noida and Ghaziabad. Further, Delhi government has mandated the use of CNG. Over the years, the company has made two acquisitions in CGD business viz. 50% stake in Central UP Gas Limited (CUGL; rated CARE A1+) for Rs. 68 cr. and 50% stake in Maharashtra Natural Gas Limited (MNGL) for Rs. 190 cr. CUGL serves cities of Kanpur, Bareilly and Jhansi in Uttar Pradesh, while MNGL serves Pune and its nearby areas. IGL has expanded its area of operations in Rewari district, Gurugram, Karnal, and the sales volume in this area is expected to increase gradually with the rollout of increased infrastructure. Furthermore, the company won one GA in 9th round, namely, Meerut (except areas already authorized), Muzaffarnagar & Shamali Districts (U.P.) and three GAs in 10th round, namely, Kaithal District (Haryana), Ajmer, Pali & Rajsamand District (Rajasthan) and Kanpur (Except area already authorized) District, Fatehpur & Hamirpur Districts (U.P.)

Brief Financials (Rs. crore)	FY19 (A)	FY20 (Ab)
Total operating income	5,836	6,545
PBILDT	1,341	1,594
PAT	787	1,137
Overall gearing (times)	-	0.02
Interest coverage (times)	107.33	91.28

A: Audited, Ab: Abridged
All Figures rounded off to the nearest decimal points

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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based/Non-fund-based-Long Term	-	-	-	600.00	CARE AAA; Stable
Bonds	Proposed	Proposed	Proposed	400.00	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.	Bonds	LT	400.00	CARE AAA; Stable	1)CARE AAA; Stable (03-Apr-20)	-	1)CARE AAA; Stable (11-Feb-19)	1)CARE AAA; Stable (01-Feb-18)
2.	Fund-based/Non-fund-based-Long Term	LT	600.00	CARE AAA; Stable	-	-	-	-

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Bonds	Simple
2.	Fund-based/Non-fund-based-Long Term	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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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