

Indraprastha Gas Limited

February 11, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term instrument - Proposed NCDs	400.00 (Rs. Four Hundred crore only)	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed

Details of instruments in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the rating takes into account the strong financial risk profile marked by healthy profitability margins, strong solvency and liquidity position. The first mover advantage and exclusive position in the city gas distribution (CGD) business with strong parentage of GAIL and Bharat Petroleum Corporation Limited (BPCL), as majority shareholders, augurs well for the company. The rating also favorably factors in the favorable 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 provision and marketing exclusivity under PNGRB Act, 2006.

The rating, however, remains exposed to the aggressive expansion plans entailing an annual outlay of over Rs 700 crore in coming years and regulatory risks with respect to authorizations of geographical areas (GAs). Furthermore, the company has an exposure to project execution risks with large contingent liability mainly in form of performance bank guarantee for meeting the minimum work programme (MWP).

Going forward, IGL's ability to procure gas efficiently, meeting its commitments for MWP and aggressive debt funded capex would remain a key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage with GAIL India Limited and BPCL being the main shareholders

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 the 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.

Strong financial profile marked by healthy profitability margins, strong solvency and liquidity

During FY18, IGL has registered 11.27% growth in CNG volumes to 1,412 mmscm (PY: 1269 mmscm), while PNG volumes grew by 17.98% to 479 mmscm (PY: 406 mmscm) and thereby leading to an increase in operating income to Rs. 4638 cr (PY: Rs. 3,876 cr). However, PBILDT margins slightly declined to 25.37% (PY: 26.69%) and PAT% to 14.32% (PY: 14.73%) owing to increase in PNG volumes as a percentage to total sales.

Furthermore, during H1FY19 (refers to the period April 01 to September 30), the sales volume increased by around 13.17% to 1048 mmscm which resulted in an increase in the operating income to Rs 2708 crore (H1FY18: Rs.2149 crore).

Liquidity:

IGL's liquidity position remained comfortable during FY18 marked by a comfortable current ratio of 1.50x as on March 31, 2018 (PY: 1.38x). Furthermore, the company had large cash and bank balance of Rs.558.02 cr and current investments of Rs 889.57 crore as on March 31, 2018. Further, cash and bank balance of Rs. 651.63 cr and current investments of Rs 1096 crore as on September 30, 2018 provides cushion towards the liquidity position. On account of the healthy cash accruals and increasing net-worth, the company had zero debt on its books as on September 30, 2018.

Gas sourcing tie-up in place

Ministry of Petroleum and Natural Gas (MoPNG), Government of India, has revised the 'Guidelines for allocation/supply of domestic natural gas to CGD entities' and has allocated additional domestic gas to meet the requirement of CNG (transport) and PNG (domestic) segments which is supplied through GAIL, one of the promoters of IGL. Gas purchase

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

agreement with GAIL benefits IGL in receiving firm quantities and ensures priority supply in case of any stoppage/disruption in gas supply. To meet the growing demand of CNG and PNG domestic, commercial & industrial consumers, the company has been importing re-gasified liquefied natural gas (R-LNG) on term & spot basis through GAIL and BPCL.

Robust and improving infrastructure base

During the past decade of operations, IGL has been able to roll-out CNG and PNG distribution network across NCT by installing infrastructure such as pipeline network, compressor stations and a marketing network. IGL had 454 CNG stations as on September 30, 2018 with CNG compression capacity of 76.01 lakh kg/day. In terms of PNG infrastructure, the company has steel pipeline network of 974 km and Medium Density Polyethylene (MDPE) network of 11,239 km as on September 30, 2018.

Favorable demand outlook

IGL is expected to benefit from the continued increase in natural gas demand (CNG and PNG) in 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 fuel. IGL's CNG segment accounts for around 75% of the total gas volumes. CNG as a fuel remains cheaper compared with petrol and diesel. With Delhi being rated as one of the most polluted cities in the world, the usage of natural gas has been actively supported by government through measures such as mandatory use of CNG for public transport in Delhi. Going forward, the increasing number of CNG variant models by car manufacturers would also increase the number of CNG vehicles, and thus lead to higher CNG demand.

Key Rating Weaknesses

Aggressive capex plans and acquisitions

IGL has plans to consolidate its presence in Delhi and NCR by investing in infrastructure such as pipelines and CNG pumps. Furthermore, the company also plans to capture strategic business opportunities to mark its presence in other cities and strengthen its growth opportunities. In this endeavour the company has made two acquisitions in CGD sector viz. in FY14, 50% stake in Central UP Gas Limited, serving in the cities of Kanpur (Uttar Pradesh) and Bareilly (Uttar Pradesh), for consideration of Rs.69 crore and in FY15, 50% equity in Maharashtra Natural Gas Limited (MNGL), having operations in Pune, for a consideration of Rs.190 crore. These acquisitions has helped to drive the growth for the company. The acquisitions and further capex are expected to be undertaken in next CGD bidding rounds. However, given the current comfortable credit profile of the company, the impact of the debt funded capex is likely to be minimal.

Regulatory risk

The CGD business is regulated by PNGRB which was set up by government of India in 2007 as the regulating body of CGD business in India. For instance, in 2012, PNGRB determined much lower per unit network tariff and compression charge for the CGD network and made these applicable retrospectively from April 2008. The said order was dismissed by High Court as well as Supreme Court. Though, the company got positive outcome in the above case, any change in the regulations may have an adverse impact on the company profile.

Another issue of obtaining clearances from various government agencies viz. National Highways Authorities of India, municipal corporations etc. which requires time and effort. Accordingly, the Regulatory Board has envisaged a phased roll out plan for development of CGD networks in several parts of the country including the cities approved under SMART Cities program.

Industry scenario

Being the cleanest fuel, Natural gas has gained importance over traditional fuels like coal and petroleum. It can broadly be classified into domestic LNG and imported R-LNG. Major consumers of natural gas include CGD, fertilizers and other agro-based industries, power plants and domestic users. Owing to the shortage of natural gas, the allocation of domestic gas to various sectors has been restricted by GoI, with priority allocation to CGD. The award of new geographical areas is expected to gather pace and to boost natural gas demand further. Around ~11,900 kilometers of new gas transmission pipelines would also aid expansion of the CGD into newer areas. With the government's support on gas allocation, CGD companies with higher share of priority sector sales would be better placed to leverage this growth momentum.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology – Infrastructure Companies
Rating Methodology – Service Companies
Financial Ratios: Non-Financial Sector

About the Company

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 September 30, 2018, 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. Over the years, the company has made two acquisitions in CGD business viz. 50% stake in Central UP Gas Limited for Rs. 68 cr and 50% stake in Maharashtra Natural Gas Limited for Rs. 190 cr. CUGL serves cities of Kanpur and Bareilly, Unnao & Jhansi in Uttar Pradesh, while MNGL serves Pune and its nearby areas. IGL has expanded its area of operations in Rewari district, Gurgaon, and the sales volume in this area is expected to increase gradually with the rollout of increased infrastructure. Furthermore, the company has received authorization by PNGRB to set up CGD in Karnal Geographical Area (GA) in the 8th bidding round and the authorisation for Meerut, Shamli and Muzzaffarnagar GA in 9th bidding round.

Brief Financials (Rs. crore)	FY17(A)	FY18(A)
Total operating income	3876.84	4638.01
PBILDT	1034.75	1176.76
PAT	571.07	670.77
Overall gearing (times)	0.00	0.00
Interest coverage (times)	796.49	658.66

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

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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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
NCDs (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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	NCDs (Proposed)	LT	400.00	CARE AAA; Stable	-	1)CARE AAA; Stable (01-Feb-18)	1)CARE AAA (13-Oct-16)	1)CARE AAA (03-Dec-15)

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