Indraprastha Gas Limited
April 03, 2020

Ratings

Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Instruments	**400** **(Rupees Four Hundred crore only)**	**CARE AAA; Stable** **(Triple A; Outlook : Stable)**	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation in the rating assigned to the long term instruments of Indraprastha Gas Limited (IGL) takes into account 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 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 exclusivity under PNGRB Act, 2006.

The rating, however, remains exposed regulatory risk in the sector and aggressive expansion plans in coming years with respect to authorizations of new geographical areas (GAs) under the 9th and 10th bidding round. 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).

Rating Sensitivities

Positive Sensitivity: *Not Applicable*

Negative Sensitivity:

- Increase in large debt funded Capex or acquisition thereby leading overall gearing more than 0.5x.
- Encashment of material bank guarantees.
- Any major adverse regulatory changes affecting its credit profile
- Deterioration in credit profile of its 2 main JV partners or their exit as key promoters

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage and group support

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.

Monopolistic position in CNG in authorized cities given the entry barriers

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 5 years from the date of receiving authorization for existing three GAs till 8th round and of 8 years for the four GAs won in 9th and 10th round (which is furthermore extendable up to 2 years based on physical performance), which will lead to monopolistic position of IGL in its various Geographical Areas (GAs). Furthermore, it will also have Network exclusivity as 'city gas carrier' till next 25 years from the date of authorization.

Although the marketing exclusivity available to the company in Delhi/NCR has expired in Dec 2011, the company continues to retain network exclusivity as 'city gas carrier' in NCT of Delhi till Dec 23. Also, due to high level of entry barriers, no competitor has come up in Delhi/NCR till date.

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

Gas sourcing tie-up in place
MoP&NG, Government of India has emphasized on usage of natural gas in the country and thus been providing Administered Price Mechanism (APM) gas to the maximum extent to the CGD players. In continuation to this agenda, MoP&NG issued revised guideline in Aug, 2014 towards the allocation of APM gas. Domestic Gas (APM, PMT, Non-APM) is being allocated by MoPNG to cater the CNG (Transport) and PNG (Domestic) segment depending upon the size of 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 ~80% of the volumes sold of IGL.
To cater to gas requirement in Industrial and Commercial segment, IGL has existing arrangements under Long Term RLNG agreement with BPCL and GAIL Gas whose delivery point is at PLL Terminal at Dahej, Gujarat apart from Long Term RLNG signed with GAIL with delivery at our locations i.e. Delhi, Gautam Budh Nagar, Ghaziabad, Rewari & Gurugram. Accordingly, IGL also has Gas Transmission Agreement with GAIL for onward delivery of RLNG to required GAs. Apart from the mentioned RLNG arrangements, IGL also procures RLNG on short term basis based on requirements from time to time through competitive bidding.

Comfortable financial risk profile
Total Operating Income: The company has reported a TOI of Rs. 5,837.42 crore in FY19 as against Rs. 4,638.01 crore in FY18, thereby reporting a growth of 25.86% on account of increased volume sales. The daily average gas sales have increased from 5.18 million metric standard cubic metres per day (MMSCMD) in FY18 to 5.91 MMSCMD in FY19 which further increased to 6.51 MMSCMD in 9MFY20.
Profitability: The PBILDT margin of IGL declined in FY19 to 22.99% from 25.37% in FY18 (238bps) on account of increased cost of APM Gas. As CUGL derives more than 75% of its income from CNG segment, its margin got impacted with increase in APM gas price to $3.36/MMBTU in H2FY19 (H1FY18: $2.89/MMBTU) & to $3.06/MMBTU in H1 FY19 (H1FY18: $2.48/MMBTU).
Solvency: IGL had nil debt as on March 31, 2019, thus, overall gearing was nil as on Mar 31, 2019. Further interest coverage ratio stood comfortable at 107.47x in FY2019.
9MFY20 Performance: IGL achieved a growth of 17.32% in the total income in 9MFY20 vis-à-vis 9MFY19 on account of increase in volume sold primarily driven through CNG. The company has achieved a TOI of Rs. 5,579.41 crore in 9MFY20 as against Rs. 4,755.62 crore in 9MFY19. The company has reported PBILDT margins of 22.73% (9MFY19: 21.46%). The improvement in margin was on account of declining trend in APM gas price.

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 524 CNG stations as on December 31, 2019 (500 as on March 31, 2019) with CNG compression capacity of 86 lakh kg/day (84.25 lakh kg/day as on Mar 31, 2019). In term of PNG infrastructure, the company has steel pipeline network of 1107 km and Medium Density Polyethylene (MDPE) pipeline network of 12,884 km as on December 31, 2019 (1006 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. The domestic gas consumption being currently at a very nascent stage presents a huge opportunity for CGD companies.
In October 2017, the Honorable Supreme Court imposed a ban on the use of furnace oil and pet coke in the National Capital Region (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 national capital, the Delhi government has been incentivizing commercial and industrial users to switch over to PNG.
Further, 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.

Key Rating Weaknesses
Regulatory risk
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. Thus, all the CGD players including IGL are subject to the regulations of PNGRB. IGL's operating

margin, like other CGD companies, is vulnerable to the mix of APM gas allocation available and costlier imported gas used in its product mix. Thus any increase in APM price might impact IGL's margins. Though companies in the CGD space have the flexibility to increase the price of CNG and pass the rise in cost of raw material to customers through marketing margins, the increase will only be to remain competitive in the market against other alternative fuels. Thus 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 augurs well for the company.
Further, the regulators are in processing of formulating new guidelines of Concept Papers for the determination of the CGD network tariff for allowing third party access in authorised GA after completion of marketing exclusivity. However, impact in this regards is uncertain as the regulations are not finalized yet.

Future Capex plans
Along with Delhi NCR, IGL has also received authorization by PNGRB to set up CGD in Karnal, Meerut (Except areas already authorized), Muzaffarnagar & Shamali Districts (U.P.), Kaithal District (Haryana), Ajmer, Pali & Rajsamand District (Rajasthan) and Kanpur (Except area already authorized) District, Fatehpur & Hamirpur Districts (U.P.) in 8th, 9th and 10th round of bidding. Thus, IGL is expected to do a Capex of Rs. 1000 crore in FY20 and Rs. 1500 crore in FY21 which is to be funded through internal accruals backed by over Rs. 1000 crore GCA per annum.

Liquidity: Strong: The liquidity of IGL is strong marked by comfortable current ratio of 1.45x as on March 31, 2019 (PY: 1.50x). Further, the company has negative working capital cycle. The company has nil working capital utilisation for past 12 months ended Feb 2020. The company had free cash & bank balance including current investments of Rs. 2,198.70 crore as on Dec 31, 2019 lying in current account, fixed deposits with bank & Mutual funds (March 31, 2019: Rs. 1,885.39 crore; March 31, 2018: Rs. 1,443.25 crore).

Analytical approach: Standalone; factoring promoter support in operations

Applicable Criteria
CARE's criteria on assigning outlook and credit watch to credit ratings
CARE's policy on Default recognition
CARE's criteria on Short term Instruments
Financial Ratios-Non Financial sector
Rating Methodology: Consolidation and Factoring Linkages in Ratings
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 Feb 06, 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+,*** *revised from CARE A1*) for Rs. 68 cr. and 50% stake in Maharashtra Natural Gas Limited for Rs. 190 cr. CUGL serves cities of Kanpur, Bareilly & 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. Further, 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)	FY18 (A)	FY19 (A)
Total operating income	4,638	5,837
PBILDT	1,177	1,342
PAT	671	787
Overall gearing (times)	-	-
Interest coverage (times)	137.47	107.47

A: Audited
Fig. rounded off to nearest decimal place

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
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 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.	Bonds	LT	400.00	CARE AAA; Stable	-	1)CARE AAA; Stable (11-Feb-19)	1)CARE AAA; Stable (01-Feb-18)	1)CARE AAA (13-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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