Gujarat State Petronet Ltd.

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Tel: +91-79-23268500/600
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Azadi Ka Amrit Mahotsav

Ref: GSPL/S&L/2023-24
Date: 4th October, 2023

To
The Manager (Listing)
BSE Limited, Mumbai
Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai - 400 001
Company Code: 532702

To
The Manager (Listing)
The National Stock Exchange of India Ltd.
"Exchange Plaza", Bandra-Kurla Complex,
Bandra (E), Mumbai - 400 051
Company Code: GSPL

Dear Sir/Madam,

Sub: Disclosure under Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 - Credit Rating Press Release

In continuation of letter dated 27th September, 2023, with regard to Credit Rating for Bank Facilities issued by CARE Ratings Limited, please find enclosed herewith the Press Release providing rationale for the Ratings issued by CARE Ratings Limited on 4th October, 2023.

You are requested to take the above on your record.

Thanking you.

Yours faithfully,

For Gujarat State Petronet Limited,

Digitally signed by Rajeshwari Alok Sharma
Date: 2023-10-04 18:54+05:30

Rajeshwari Sharma
Company Secretary

Encl: As above

Gujarat State Petronet Limited

October 04, 2023

Facilities/Instruments	Amount (₹ crore)	Ratings[1]	Rating Action
Long-term bank facilities	500.00	CARE AA+; Stable	Reaffirmed
Long-term / Short-term bank facilities	300.00	CARE AA+; Stable / CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Gujarat State Petronet Limited (GSPL) continue to derive strength from its established position as one of the largest players in the natural gas transmission business in India together with its leadership position in Gujarat and strategic location with connection to all major natural gas supply sources. The ratings also derive strength from GSPL's synergies with Gujarat State Petroleum Corporation Limited (GSPC) Group, which has presence across the energy (natural gas) value chain. GSPL's open-access operating model, significant share in the natural gas transmission business along with increasing demand for natural gas from various consumer segments, and its strong financial profile further underpin its ratings. The ratings also positively factor GSPL's strong liquidity profile, its majority stake in Gujarat Gas Limited (GGL; rated 'CARE AAA; Stable/CARE A1+') leading to synergies in operations and improved leverage and its debt coverage indicators due to pre-repayment of entire term debt.

The long-term rating of GSPL is, however, constrained due to its moderate revenue visibility upon scheduled expiry of part of its Gas Transmission Agreements (GTAs) in the near to medium-term (however, as per the past experience, this is an ongoing process and over the years the company has seen renewal of its contracts) and its vulnerability to the regulatory risk. The long-term rating is also constrained due to project implementation and marketing risks associated with its on-going capital expenditure programme, especially the two very large-sized projects being implemented through its joint ventures (JVs).

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Lower-than-expected financial support required by JVs for their debt servicing and capex requirements.

Negative factors

- Decline in the scale of operations marked by total operating income (TOI) of less than ₹1,700 crore.
- Major debt-funded capex and investments in JVs leading to deterioration in its overall gearing to more than 0.60x and total debt/profit before interest, lease rentals, depreciation and taxation (PBILDT) to beyond 2.50x on a sustained basis.
- Higher-than-expected financial support required by JVs for their debt servicing and capex requirements; and its concomitant impact on GSPL.

Analytical approach: Standalone; along with planned investments in its two JVs.

Majority of GSPL's income and cash flows are generated from its core natural gas transmission business. Hence, a standalone approach has been considered for analysis. However, the equity support envisaged to be provided by GSPL for the project implementation in its two JVs, primarily for construction of their natural gas transmission pipelines, along with other planned investments has been suitably factored in the analysis. This apart, the operational support envisaged to be provided by GSPL to its JVs in their initial phase of operations is also factored in GSPL's credit assessment. Also, GSPL has provided corporate guarantee (CG) for non-fund-based bank guarantee (BG) limits of GSPL India Transco Limited (GITL; rated 'CARE A; Stable/CARE A1'), which have also been considered in the analysis.

Outlook: Stable

The stable outlook on long-term rating reflects expectation that GSPL will continue to benefit from its leadership position in the natural gas transmission business in Gujarat. CARE Ratings Limited (CARE Ratings) also expects GSPL to maintain healthy operational and financial risk profile and a healthy capital structure in the medium-term.

Detailed description of the key rating drivers

Key strengths

Strategic location in the highest natural gas-consuming state viz., Gujarat

GSPL commenced its operations with transmission of natural gas being provided by GSPC. Over a period of time, GSPL has invested significantly in developing its natural gas pipeline network, which is now connected to major natural gas supply sources in Gujarat, including designated collection points near the various natural gas fields in Hazira, regassified liquified natural gas (RLNG) from Shell's terminal at Hazira, Petronet LNG Limited's terminal at Dahej, GSPC LNG Limited's (GLL) terminal at Mundra along with Swan LNG floating storage regasification unit (FSRU) (Phase-1) and Chhara LNG terminal. Furthermore, Gujarat is the primary origination or the entry point for both domestic natural gas produced in the Arabian Sea and imported RLNG for western and northern India, owing to its strategic location and oceanic access to liquified natural gas (LNG) exporting

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

countries in the Middle East and Asia. Furthermore, it is also the highest natural gas-consuming state, with around 40% of total domestic natural gas consumption in the country. All these factors translate into steady utilisation of GSPL's natural gas transmission pipelines.

Operating on an open access basis
GSPL is a pure natural 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 several suppliers. In addition, operating on an open access basis allows GSPL to target both natural gas suppliers and consumers resulting in increased revenues from a broader customer base. Operating as a natural gas transmission only entity helps GSPL to minimise risks associated with fluctuations in natural gas prices.

GTAs provide medium-term revenue visibility
GSPL enters into natural 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 one month to even more than 15 years. Majority of GTAs also provide for 'ship or pay' for a minimum off-take requirement generally covering around 90% of the contracted volumes, which require customers to pay transportation tariff regardless of the actual volume of natural gas transported.
GSPL has various contracts on hand with reputed clients located in the region, which includes large industries and city gas distribution (CGD) entities which use natural gas either as feedstock, fuel or supply it for further distribution. GSPL's total contracted volumes on hand as on September 01, 2023, were 40.28 million metric standard cubic metre per day (MMSCMD) which provides a medium-term visibility to its revenue stream. Furthermore, majority of GTAs which expired during FY23 were largely renewed.

Low level of competition because of regulated nature of business
GSPL, with its around 2,704-km long natural gas pipeline network as on June 30, 2023, is presently the second-largest natural gas transmission network operator in the country after GAIL (India) Limited (GAIL; rated 'CARE AAA; Stable/CARE A1+'). GAIL's market share is around 70% in the natural 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 natural gas pipeline network in newer markets after a thorough research and assessment of potential for gas demand from various user segments. Furthermore, for laying any natural gas pipeline, GSPL and other players would have to undergo bidding process to obtain exclusive authorisation from the Petroleum and Natural Gas Regulatory Board (PNGRB), which ensures no duplication of the pipeline and low level of competition.

Cost-plus nature of tariff leading to assured returns
GSPL's high-pressure and low-pressure pipeline network had been authorised by the PNGRB, which has an established methodology to determine the tariff for the transportation of natural gas. As per the PNGRB regulations, a 'cost-plus' approach for determining the tariff is followed which allows the natural gas transmission entities to earn an annual return of 12% (post-tax) on their capital employed. The methodology provides for tariff review at five-year intervals. 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 the regulatory risk.
The PNGRB has recently released the tariff order for the low pressure network of GSPL. The revised tariff is ₹4.07 per million metric British thermal units (MMBTU) as compared with the previous tariff of ₹4.08/MMBTU. CARE Ratings makes a note that as far as tariff order of high pressure network is concerned, GSPL has submitted all the necessary documents and are under review of the PNGRB.

Increasing demand for natural gas
In India, natural gas contributes around 6.70% of the overall energy mix where major consuming sectors include fertilizers, petrochemicals and sponge iron (as feedstock) along with power and CGD (as fuel). Power and fertilizer sectors have always been the biggest contributors to India's total natural gas demand. Recently, with the award of various CGD geographical areas (GAs) by the PNGRB across the country, CGD sector would be adding up natural gas transportation volume in the near future. Furthermore, infrastructure facilities for unloading, storage and re-gasification of imported LNG are also being improved by expansion at existing terminals and green-field capacities being established at various locations across the country.

Strong financial profile marked by healthy profitability and comfortable leverage
The TOI of GSPL declined by around 13% to ₹1,762 crore in FY23 (FY22: ₹2,020 crore) mainly due to decline in natural gas transmission volumes to 9,253 MMSCM in FY23 (FY22: 12,369 MMSCM) mainly due to high natural gas prices. However, its profitability margin remained healthy in FY23 with PBILDT margin and profit after tax (PAT) margin of 71.46% and 53.64% in FY23, respectively (FY22: 69.32% and 48.47%, respectively).
During FY23, GSPL has repaid its entire outstanding term loan. Also, GSPL has sanctioned fund-based working capital limits of ₹25 crore which remain unutilised. Hence, there is no funded debt on the books of GSPL. During FY23, the total debt / PBILDT and total debt / GCA of GSPL stood at 0.01x (FY22: 0.07x) and 0.01x (FY22: 0.08x), respectively. Also, its PBILDT interest coverage during FY23 stood at 268.98x (FY22: 44.73x).

Synergetic benefit from GSPL's investment in GGL

GSPL holds 54.17% stake in GGL, which provides 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, holding of majority stake in GGL facilitates better synchronisation of its natural gas transmission network with GGL's network. Furthermore, with Gujarat being the highest natural gas consumption market in India, there are 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 24% share in its total sales during FY23.

Synergies with parent, i.e., GSPC Group, which has presence across the natural gas value chain and other group companies

GSPL is promoted by GSPC, which is primarily engaged in trading of natural gas. GSPC has an established presence in the natural gas trading business in Gujarat, which is the largest natural gas consuming state in the country. GSPC along with its subsidiaries and associates operates across the natural gas value chain with presence in bulk natural gas trading, natural gas transmission, CGD through GGL and Sabarmati Gas Limited (SGL) and power generation. Accordingly, it provides significant synergies to the operations of GSPL for transportation of natural gas.

Key weaknesses

Risk associated with its own mid-sized capex plans

GSPL has planned to undertake capex over the next five years towards expansion of its existing natural gas pipeline network, laying new spur lines and capacity augmentation. GSPL has sought approval of the regulator, viz., the PNGRB and thus, significant amount of capex plans would be undertaken upon approval of the PNGRB. The said capex plans of GSPL are envisaged to be funded largely through internal accruals and free cash balance available with the company as articulated by the management.

Large-size projects being implemented through its two JVs

GSPL is implementing two cross-country pipeline projects. GSPL has formed two JVs, namely - GITL and GSPL India Gasnet Limited (GIGL; rated 'CARE A-; Stable') for these projects. GSPL owns 52% stake in these JVs with the balance stake being held by Indian Oil Corporation Limited (IOCL), Bharat Petroleum Corporation Limited (BPCL; rated 'CARE AAA; Stable/CARE A1+') and Hindustan Petroleum Corporation Limited (HPCL). The share of other JV partners in GIGL and GITL is IOCL (26%), BPCL (11%) and HPCL (11%).

The total project cost of GITL and GIGL was originally estimated at around ₹7,255 crore and ₹6,391 crore, respectively, to be funded in a debt-to-equity ratio of 70:30. In the case of GITL, part of the project has been completed for which around ₹1,100 crore has been infused through a mix of debt and equity, while there is fair amount of uncertainty with respect to the balance scope of its project. Also, CARE Ratings notes that the initial operational support of the promoters which was expected has tapered down gradually because of incremental accruals in GITL.

For another JV, viz., GIGL, the project scope has been revised twice as compared with the original scope and the revised scope ha been reduced to 1,693.50 kms vis-à-vis the original length of 2,012 kms. Out of revised pipeline length of 1,693.50 kms, construction of 1,338.50 kms (around 79%) is already completed. Owing to delay in the project implementation there has been significant time and cost overrun. The project cost of GIGL has been revised from ₹6,391 crore to ₹7,384 crore which has been funded in a debt equity mix of 61:39. As per the sponsor support undertaking any further cost overrun in GIGL would be funded entirely through equity from the sponsors. Also, the original scheduled commercial operations date (SCOD) of the entire project and repayment commencement date was September 30, 2020 and December 31, 2020, respectively, which has been extended twice by the lenders with a total extension of four years i.e., till September 30, 2024 and December 31, 2024, respectively.

GIGL continues to have undertakings from its sponsors to maintain DSCR of at least unity during its operational phase. The extent of any further cost overrun in the project and the extent of shortfall requirement, if any, would be key credit monitorable for GSPL which owns 52% of the equity in GIGL. GSPL, along with other JV partners, is expected to infuse additional equity in the coming years for balance project sections and other operational requirements of these JVs. Accordingly, timely completion of the on-going phases of the projects in JVs, stance of the PNGRB with respect to the balance scope of initially estimated projects which have not yet been taken up by the JVs, effective utilisation of those infrastructure and realisation of envisaged returns from the investments would be important for GSPL.

Liquidity: Strong

The liquidity of GSPL is strong marked by expected cash accruals of more than ₹1,200 crore during FY24 against nil outstanding funded debt as on March 31, 2023. Furthermore, GSPL had free cash and bank balance of around ₹768 crore and ₹872 crore as on March 31, 2023 and June 30, 2023, respectively. Also, the market value of GSPL's stake in GGL which stood at around ₹16,396 crore (as on September 22, 2023) imparts a great degree of flexibility to its liquidity. Furthermore, comfort can be drawn from significant financial flexibility it has with its very low leverage and good revenue visibility. Also, the debtors' level of GSPL stood at ₹144 crore on March 31, 2023 as against ₹130 crore as on March 31, 2022. GSPL has sanctioned fund-based working capital limits of ₹25 crore and non-fund-based working capital limits of ₹170 crore. Out of the same, utilisation of fund-based working capital limits was nil from July 2022 to June 2023, whereas the average utilisation of non-fund-based limits was around 16.96% from July 2022 to June 2023.

Environment, social, and governance (ESG) risks

Environmental: CARE Ratings takes note of the fact that GSPL is in the business of transmission of natural gas which is a relatively cleaner source of energy, i.e., it has lower carbon emissions vis-à-vis other fossil fuels. Also, there is strong impetus of the Government of India (GoI) to increase the share of natural gas in India's primary energy mix. This mitigates the environmental risk to some extent.
Social: GSPL has a comprehensive Quality, Health, Safety and Environment (QHSE) policy. GSPL Plans, designs, constructs, operates and maintains natural gas pipeline and related infrastructure in compliance with the latest codes, standards and statutory requirements in a way that minimizes risks and hazards. GSPL is also willing to support local vendors, vulnerable & marginalised groups and other supply chain partners. Moreover, GSPL places a strong emphasis on inclusiveness, diversity, employee and worker health and wellbeing, as well as on-going learning and development.
Governance: From a governance point of view, the Board of GSPL is diversified with six out of 11 directors as independent directors. The Board of GSPL also includes three women directors. Furthermore, the quality of financial reporting and disclosures are adequate.

Applicable criteria

Rating Outlook and Rating Watch
Policy on Default Recognition
Policy On Curing Period
Liquidity Analysis of Non-Financial Sector Entities
Short Term Instruments
Factoring Linkages Parent Sub JV Group
Infrastructure Sector Ratings
Financial Ratios – Non-Financial Sector
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Energy	Oil, Gas & Consumable Fuels	Gas	Gas Transmission/Marketing

Incorporated in December 1998, GSPL is promoted by GSPC, a Government of Gujarat (GoG)-owned company, which is primarily engaged in oil & gas exploration and production (E&P) as well as natural gas trading business through transmission and distribution network of its subsidiaries including GSPL. GSPC held 37.63% equity stake in the company as on June 30, 2023. 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 natural 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 2,704 kms of natural gas transmission pipeline in the state of Gujarat as on June 30, 2023. GSPL also sells electricity generated through its 52.50-MW windmills.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	2,020	1,762	441
PBILDT	1,400	1,259	336
PAT	979	945	229
Overall gearing (times)	0.01	0.00	NA
Interest coverage (times)	44.73	268.98	327.84

A: Audited; UA: Unaudited; NA: Not available; The above brief financials have been adjusted as per CARE Ratings' criteria
Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments/facilities rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument/Bank Facilities	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term loan	-	-	-	**	500.00	CARE AA+; Stable
Non-fund-based - LT/ ST-Bank guarantee	-	-	-	-	300.00	CARE AA+; Stable / CARE A1+

**Proposed

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1.	Fund-based - ST-Term loan	ST	-	-	-	-	1)Withdrawn (06-Oct-21)	1)CARE A1+ (07-Oct-20)
2.	Fund-based - LT-Term loan	LT	500.00	CARE AA+; Stable	-	1)CARE AA+; Stable (27-Sep-22)	1)CARE AA+; Stable (06-Oct-21)	1)CARE AA+; Stable (07-Oct-20)
3.	Non-fund-based - LT/ ST-Bank guarantee	LT/ST*	300.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (27-Sep-22)	1)CARE AA+; Stable / CARE A1+ (06-Oct-21)	1)CARE AA+; Stable / CARE A1+ (07-Oct-20)

*Long-term/Short-term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities

Not applicable

Annexure-4: Complexity level of the various instruments/facilities rated

Sr. No.	Name of the Instrument/Bank Facilities	Complexity Level
1.	Fund-based - LT-Term loan	Simple
2.	Non-fund-based - LT/ ST-Bank guarantee	Simple

Annexure-5: Lender details

To view the lender-wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in