GUJARAT GAS

GGL/SEC/1164/2023 **25th August, 2023**

BSE Limited Phrioz Jijibhoy Tower, Dalal Street, Mumbai Company Code: BSE-GUJGAS	**National Stock Exchange of India Ltd.** Exchange Plaza, 5th Floor, Plot No. C/1, G Block, Bandra Kurla Complex, Bandra (East), Mumbai 400 051 Company Code: NSE-GUJGASLTD

Sub: Disclosure under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Dear Sir/ Madam,

In continuation to intimation letter dated 18th August, 2023 bearing number GGL/SEC/1158/2023**,** Please find attached Press Release issued by CARE Ratings Limited.

Kindly take it on record.

Thanking you,

For Gujarat Gas Limited

Sandee
p Dave

Digitally signed by Sandeep Dave
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Sandeep Dave
Company Secretary

Encl.: As above

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Gujarat Gas Limited

August 23, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	4,000.00 (Enhanced from 3,000.00)	CARE AAA; 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 Gas Limited (GGL) continue to derive strength from GGL's leading position in the city gas distribution (CGD) business in India, its well-established and significantly large scale of operations, natural gas-sourcing arrangements in place and moderately diversified customer segment mix. The ratings also continue to draw comfort from improved financial risk profile of the company characterised by healthy profitability, cash accruals and prepayment of the entire term debt during FY23 (refers to the period April 01 to March 31). The improved performance was despite the reduction in the industrial sales volumes amidst volatile regassified liquefied natural gas (RLNG) prices. The ratings also continue to factor in the improvement in its leverage and debt coverage indicators, healthy cash accruals along with its strong liquidity and efficient working capital management. The ratings further continue to derive strength from its professional and experienced management along with favourable outlook for the CGD business, being an environmentally-cleaner fuel.

The ratings, however, continue to remain exposed to susceptibility of demand for natural gas on the basis of the price dynamics of competing fuels and its concomitant impact on GGL's profitability and risk related to domestic natural gas availability and RLNG prices. The ratings are also constrained by its medium-term capex plans for developing the CGD network in various geographical areas (GAs) coupled with regulatory risk associated with the CGD business.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

Not applicable

Negative factors

- Substantial decline in the operating profitability margins on a sustained basis.
- Any large debt-funded capex or acquisitions leading to increase in the total debt/PBIDLT of 1x on a sustained basis.
- Any regulatory development, which may have material adverse impact on the business and financial profile of the company.
- Significant delay in achievement of minimum work programme (MWP) targets leading to imposition of material penalties on GGL.

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects CARE Ratings Limited's (CARE Ratings') expectation that GGL's ability to maintain its strong market position in its areas of operational, steady operational performance and cash flows with comfortable debt coverage indicators.

Detailed description of the key rating drivers:

Key strengths

Leading player in the CGD business with its established business presence in its area of operations:

GGL is the leading player in the CGD business in India and has a dominant market position, particularly in Gujarat, which is the largest natural gas-consuming state in the country. This is on account of its first-mover advantage in major areas, continuous infrastructure development and high level of entry barriers, primarily in the form of capex requirement as well as regulated near-monopoly marketing and infrastructure exclusivity for a given period of time. The Petroleum and Natural Gas Regulatory Board (PNGRB) has granted marketing exclusivity and infrastructure exclusivity to GGL for various GAs it operates in, whereby other players are not allowed to operate within the said GAs till the end of the exclusivity period.

Moderately diversified customer mix:

The customer mix of GGL is skewed towards piped natural gas (PNG). During FY22, out of the total sales volumes of GGL, the proportion of PNG-Industrial, Commercial, Domestic and CNG segments stood at around 74%, 1%, 6%, and 19%, respectively. However, the share of CNG segment increased to around 29% and 28% in FY23 and Q1FY24 respectively mainly due to reduction in the PNG-Industrial volumes and also increase in the number of CNG. Going forward, the envisaged ramp-up of number of CNG stations by GGL along with commercialising of the new GAs outside the state of Gujarat is expected to aid further diversification in its sales mix along with some improvement in its operating profitability.

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

Robust operating performance:
GGL is the largest CGD player in the country in terms of total sales volumes. GGL has been able to demonstrate strong operating performance in terms of growth in the CGD infrastructure and sales volumes. The number of CNG stations of GGL increased to 808 as on March 31, 2023 and 810 as on June 30, 2023 (FY22: 711), whereas the number of PNG customers increased to 1.90 million and 1.95 million respectively (FY22: 1.72 million). However, GGL achieved total sales volumes of 3,056 million metric standard cubic metre per day (MMSCM) during FY23 and 840 MMSCM during Q1FY24 (FY22: 3,904 MMSCM) due to decline in the industrial demand on the back of high natural gas prices. Nevertheless, GGL's sales volumes in the high profit margin CNG segment increased to 886 MMSCM in FY23 and 238 MMSCM in Q1FY24 (FY22: 726 MMSCM).

Improvement in the overall financial risk profile during FY23:
GGL reported total operating income (TOI) of ₹16,761 crore in FY23 (FY22: ₹16,457 crore). GGL has demonstrated strong performance in terms of better EBITDA margin and profit after tax (PAT) margin in FY23. Its PBILDT margin and PAT margin improved to 14.46% (FY22: 12.80%) and 9.10% (FY22: 7.81%), respectively, in FY23, mainly due to increase in the compressed natural gas (CNG) sales volumes. Also, due to regular price hikes, GGL has been able to improve its absolute level of profitability and profitability in terms of gross spread per standard cubic meter (SCM). The TOI of GGL stood at ₹3,782 crore whereas its PBILDT margin and PAT margin declined to 10.26% and 5.69% respectively in Q1FY24 mainly due to mainly due to decline in the average sales realisation from the PNG-Industrial segment.
During FY23, GGL has fully prepaid its outstanding term loan. Also, GGL does not utilise its fund-based working capital limits. GGL's overall gearing stood 0.02x as at FY23-end (FY22: 0.11x). Along with improvement in the overall gearing, its debt coverage indicators have also improved. During FY23, the total debt/PBILDT and total debt to gross cash accruals (TDGCA) of GGL stood at 0.06x (FY22: 0.30x) and 0.08x (FY22: 0.37x), respectively. Also, its PBILDT interest coverage stood at 37.17x in FY23 and 52.57x in Q1FY24 (FY22: 26.06x).

Stable industry outlook:
In order to address the environmental concerns, the Government of India (GoI) has been actively promoting a shift toward cleaner energy sources, including natural gas. CGD projects have become an important segment in the natural gas business in India, given the increasing impetus coming in the form of environmental concerns over certain polluting fuels and various court directives. Over the past many years, CGD volumes have been continuously rising on the back of improved pipeline infrastructure, better availability of natural gas through imports, continuous rise in the number of CNG-operated vehicles due to better pricing economics of natural gas compared with other conventional fuels and its environment friendliness over other alternative fuels. GGL is expected to benefit from the continued increase in the natural gas demand (CNG and PNG) in Gujarat, which is amongst the highest natural gas-consuming states in India. Going forward, the number of CNG vehicles is expected to increase, coupled with an increasing number of CNG variant models by car manufacturers, which can support higher CNG demand, albeit this demand may be susceptible to technological disruptions such as the faster rollout of electric vehicles (EVs). Also, domestic natural gas consumption is at a nascent stage and offers healthy opportunities for further growth. The GoI aims to increase the share of natural gas in India's primary energy mix from 6% at present to around 15% by 2030. Furthermore, there is an ongoing expansion of imported RLNG handling capacity in India, which is expected to augment the availability of natural gas in the future. Upon availability of natural gas and associated network, the majority of the industrial and commercial users are envisaged to shift to natural gas from alternative fuels, due to the ease in usage and the favourable regulatory push. In the long run, CGD players are expected to thrive, given the GoI's impetus on a gas-based economy, the favourable regulatory regime, the competitiveness of natural gas over alternative fuels, as well as the emphasis on environmentally-cleaner fuels.

Key weaknesses

Demand from industrial and commercial customers which have close linkages with prevailing price of competing fuels; along with exposure to volatility in RLNG prices:
GGL's PNG-Industrial and PNG-Commercial customers account for around 63% and 65% of its total natural gas sales volumes in FY23 and Q1FY24 respectively. The demand from these segments is inherently prone to price and volume risks depending on the price of alternative fuels, like furnace oil, as the industrial furnaces in some of the user segments are designed for easy switch between fuels within a short time period and without any major production disruption, to take advantage of lower price of competing fuel. However, the National Green Tribunal (NGT) order in March 2019 for banning the use of coal gasifiers in the Morbi region of Gujarat led to migration of number of industrial customers from coal gasifiers to PNG. This has resulted in substantial growth in the natural gas sales volume of GGL to the industrial segment. Continued favourable regulatory environment towards stringent compliance with laid-down pollution control norms would be crucial for the CGD sector; more so for players with larger share of PNG-Industrial sales in their overall revenue mix. Furthermore, industrial natural gas sales volumes are also susceptible to sharp economic / industrial downturns and volatility in RLNG prices.

Risk related to domestic natural gas availability and RLNG prices:
Under the existing Ministry of Petroleum and Natural Gas (MoPNG) regulations for natural gas allocation, CGD companies are accorded the highest priority and are allotted domestic natural gas under the administered price mechanism (APM) to meet their requirement for supply to piped natural gas (PNG)-Domestic and CNG segments, whereas they have to rely on imported RLNG for meeting the requirement of PNG-Industrial and PNG-Commercial segments and shortfall in CNG and PNG-Domestic supplies. Currently, this domestic allocation is relatively cheaper compared with alternative natural gas sources such as RLNG.

At present, most of the CNG and PNG-Domestic demand is met through the APM gas. However, considering the expected growth in the CGD industry post award of GAs in the recent rounds of CGD biddings, APM gas may not be sufficient to meet the entire requirement and dependence on costlier alternative sources is likely to increase in order to meet the demand. The ability of GGL in passing on the impact of rising natural gas cost to its consumers and also maintaining its profitability would be a key monitorable. In terms of balance natural gas requirement, which is sourced as RLNG, GGL has a mix of both long-term and spot contracts, thereby making it vulnerable to the vagaries of the spot market, especially amidst present volatile RLNG prices.

Project risk associated with its medium-term capex plans:
GGL has envisaged capex of in the range of ₹1,000-1,200 crore each year over the next three years. The said capex plans of GGL are envisaged to be funded through internal accruals and available liquidity with the company without availing any additional debt. If internal accruals are not adequate to meet the capex requirement, then GGL will be availing short-term loan / bridge loan to fund the capex as articulated by the management. Despite high amount of internal accruals committed for capex, the credit profile of GGL is expected to remain comfortable on account of robust cash accruals resulting into comfortable debt coverage indicators.

Regulatory risks in the CGD business:
The PNGRB had granted exclusive marketing rights to the CGD players in the respective GAs for a stipulated time period. The marketing exclusivity period has ended in many of the GAs. Earlier, the PNGRB has formulated guidelines for determining CGD network tariff and allowing third-party access to the existing CGD players' infrastructure network for supply of natural gas after expiry of the marketing exclusivity period. As and when such regulatory changes are implemented and the form in which they are implemented would be a key monitorable for the CGD sector going forward as this could result in possible entry of competitors in the existing GAs and could lead to concomitant impact on the CGD sector's profitability. However, at the same time, it would also offer opportunities to GGL to enter into other lucrative markets.
PNG-Domestic and CNG segments contribute heavily to the profitability of CGD companies, including GGL. GGL's operating margins, like other CGD companies, are vulnerable to the mix of APM gas and costlier imported RLNG used in its product mix. Any unexpected change in the regulations regarding priority in allocation of APM gas for PNG-Domestic and CNG segments and/or its pricing can adversely impact the profitability margins of the CGD companies, including GGL. While CGD entities have the pricing power, and thus, the flexibility to increase the price of natural gas sold in order to pass the increase in the cost to the customers, the increase will only be limited to the extent that natural gas remains competitive in the market against other alternative fuels. Going forward, the extent to which GGL is able to pass on the incremental price to its customers and its consequent impact on the demand would be crucial.

Liquidity: Strong

The liquidity of GGL is marked by strong cash accruals against its nil debt and availability of free cash and cash equivalents of around ₹675 crore as on March 31, 2023. With an overall gearing of 0.02x as on March 31, 2023, GGL has sufficient gearing headroom, to raise additional debt for its capex, if required. GGL has a very short operating cycle, which results into low fund-based working capital limit requirement. Furthermore, its envisaged capex aggregating to around ₹3,000-3,600 crore over the next three years ending FY26 is proposed to be primarily funded from its internal accruals and available liquidity and in case required through short-term / bridge loan.

Environment, social, and governance (ESG) risks

Environmental: CARE Ratings takes note of the fact that natural gas 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 GoI to increase share of natural gas in India's primary energy mix. This mitigates the environmental risk to some extent. GGL is taking initiatives such as setting-up of compressed biogas (CBG) plants, blending hydrogen with natural gas, planning for installation of EV charging stations, etc. Also, GGL has played a pivotal role in shifting Morbi ceramic industry gasifiers from coal to PNG, which has led to significant improvement in air quality index of Morbi.
Social: GGL is focused on safety aspects especially at all its GAs with implementation of Health, Safety & Environment (HSE) management system relevant to project requirement, trainings, visits and meetings by the management team members focusing on safety requirements. GGL delivered pipe laying projects and CNG projects safely at its GAs of Madhya Pradesh and Rajasthan with zero recordable injury cases.
Governance: From a governance point of view, the Board of GGL is diversified with four out of eight directors as independent directors. Also, 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
City Gas Distribution
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	LPG/CNG/PNG/LNG Supplier

GGL is India's largest CGD company, with 27 CGD licenses spread across 44 districts in six states and one union territory across the states of Gujarat, Maharashtra, Rajasthan, Haryana, Punjab, Madhya Pradesh and Union Territory of Dadra and Nagar Haveli. Out of the same, seven GAs have been awarded to the company in the 9th & 10th CGD bidding rounds. GGL is engaged in the marketing and distribution of natural gas (piped and compressed) and currently supplies PNG to industrial, commercial and domestic customers along with CNG to the transportation sector. GGL benefits from the economies of scale, diversified customer and sourcing bases, and extensive pipeline infrastructure. GGL has a customer base of over 1.93 million domestic households, 14,522 commercial customers, 4,335 industrial units and 810 CNG stations as on June 30, 2023, providing strong revenue diversity. As on June 30, 2023, the promoter and promoter group holding in GGL was 60.89%.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	16,457	16,761	3,782
PBILDT	2,106	2,424	388
PAT	1,286	1,525	215
Overall gearing (times)	0.11	0.02	NA
Interest coverage (times)	26.06	37.17	52.57

A: Audited; UA: Unaudited; The above 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 the 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/Non-fund-based-LT/ST	-	-	-	-	4,000.00	CARE AAA; Stable / CARE A1+

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/Non-fund-based-LT/ST	LT/ST*	4,000.00	CARE AAA; Stable / CARE A1+	1)CARE AAA; Stable / CARE A1+ (04-Jul-23)	1)CARE AA+; Positive / CARE A1+ (27-Sep-22) 2)CARE AA+; Positive / CARE A1+ (06-Apr-22)	1)CARE AA+; Positive / CARE A1+ (14-Sep-21)	1)CARE AA+; Stable / CARE A1+ (14-Sep-20)

*Long-term/Short-term.

Annexure-3: Detailed explanation of the 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/Non-fund-based-LT/ST	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.

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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.

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