Gujarat State Petronet Ltd.
GSPL Bhavan,
E-18, GIDC Electronics Estate, Nr. K-7 Circle,
Sector-26, Gandhinagar-382028.
Tel.: +91-79-23268500/600 Fax : +91-79-23268506
Website : www.gspcgroup.com

Ref: GSPL/S&L/2020-21
Date: 13th October, 2020

To
The Manager (Listing)
BSE Limited, Mumbai
Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai - 400 001.
Fax No. 022-22722037-22723121-
Company Code: 532702

To
The Manager (Listing)
The National Stock Exchange of India Ltd.
"Exchange Plaza", Bandra-Kurla Complex,
Bandra (E), Mumbai - 400 051,
Fax No. : 022-26598237/38
Company Code: GSPL

Dear Sirs,

Sub: Intimation of Rating Reaffrimation by CARE Ratings on borrowings of the GSPL

As required by the provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we hereby inform the Rating Reaffrimation by CARE Ratings on borrowings of the GSPL, as below:

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings**	**Rating Action**
Long-term Bank Facilities	712.47 (reduced from 887.05)	**CARE AA+; Stable (Double A Plus; Outlook: Stable)**	Reaffirmed
Short-term Bank Facilities	50.00 (reduced from 100.00)	**CARE A1+ (A One Plus)**	Reaffirmed
Long/Short-term Bank Facilities	100.00 (reduced from 2,600.00)	**CARE AA+; Stable/ CARE A1+ (Double A Plus; Outlook: Stable/ A One Plus)**	Reaffirmed
Total Facilities	**862.47 (Rupees Eight Hundred Sixty Two Crore and Forty Seven Lakh Only)**		

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GUJARAT STATE PETRONET LTD. GANDHINAGAR

The Press Release from CARE Ratings for the details is attached hereto as **Annexure-1**.

You are requested to take the above on your record.

Thanking you,

Yours faithfully,

For Gujarat State Petronet Limited,

RASharma

Rajeshwari Sharma
Company Secretary

Gujarat State Petronet Limited

October 07, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	712.47 (reduced from 887.05)	**CARE AA+; Stable (Double A Plus; Outlook: Stable)**	Reaffirmed
Short-term Bank Facilities	50.00 (reduced from 100.00)	**CARE A1+ (A One Plus)**	Reaffirmed
Long/Short-term Bank Facilities	100.00 (reduced from 2,600.00)	**CARE AA+; Stable/ CARE A1+ (Double A Plus; Outlook: Stable/ A One Plus)**	Reaffirmed
Total Facilities	**862.47 (Rupees Eight Hundred Sixty Two Crore and Forty Seven Lakh Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Gujarat State Petronet Ltd. (GSPL) continue to derive strength from its established position as one of the largest players in the gas transmission business in India together with its leadership position in Gujarat, strategic location with connection to all major natural gas supply sources; along-with GSPL's synergies with Gujarat State Petroleum Corporation (GSPC) group which has presence across the energy (natural gas) value chain. GSPL's open-access operating model, significant share in 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 majority stake in Gujarat Gas Limited (GGL; rated CARE AA+; Stable/ CARE A1+) leading to synergies and improvement in its debt coverage indicators due to scheduled retirement of debt taken for acquiring stake in GGL. CARE also notes that GSPL has not availed any moratorium on its debt as a Covid relief measure, in line with Reserve Bank of India (RBI) guidelines, for servicing of its bank facilities which underlines its strong liquidity profile.

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 past experience, this is an ongoing process and over the years the company has seen renewal of its contracts], project implementation and stabilization risks associated with its on-going capital expenditure programme especially the two very large sized projects being implemented through its Joint Ventures (JVs) whereby for one JV there is sponsor support undertaking and for the other JV, initial operational support is expected to be required, its vulnerability to regulatory risk and refinancing risk associated with loan availed from Gujarat State Financial Services Ltd. (GSFS).

Rating Sensitivities

Positive Factors

- Ability to significantly expand its geographical operations outside the state of Gujarat
- Growth in its scale of operations marked by total operating income (TOI) of more than Rs.5,000 crore along with earning PBILDT margin of more than 85% on a sustained basis and maintaining its comfortable capital structure

Negative Factors

- Decline in scale of operations marked by TOI of less than Rs.1700 crore
- Major debt funded capex and investments in JV leading to deterioration in its overall gearing to more than 0.60 times and Total Debt/PBILDT to beyond 2.50 times on a sustained basis
- Higher than expected financial support required by JV companies for their debt servicing and capex requirements; and its concomitant impact on GSPL

Detailed description of the key rating drivers

Key Rating Strengths

Presence of GSPC group across the natural gas value chain

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

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

Strategic location in highest natural gas consuming state

GSPL commenced its operations with transmission of gas being provided by GSPC. Over a period of time, GSPL has invested significantly in developing its pipeline network which is now connected to major gas supply sources in Gujarat including designated collection points near the natural gas fields of Hazira, re-gassified LNG from Shell's terminal at Hazira, Petronet LNG Ltd.'s terminal at Dahej, GSPC LNG's terminal at Mundra along with the Panna-Mukta-Tapti gas fields. Further, Gujarat is the primary origination or entry point for both domestic natural gas produced in the Arabian Sea and imported LNG for Western and Northern India, owing to its strategic location and oceanic access to LNG exporting countries in the Middle East and Asia. Furthermore, it is also the highest natural gas consuming state with around 40% of total domestic gas consumption in the country. All these factors translate into steady utilization of GSPL's transmission pipelines.

Operating on an open access basis

GSPL is a pure 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 transmission only entity helps GSPL to minimize risks associated with fluctuations in natural gas prices. GSPL had won the authorization for establishing and operating a CGD network development in Amritsar and Bhatinda in FY16 and FY17 respectively in Punjab, due to which it was marginally exposed to natural gas price fluctuations. However, Petroleum & Natural Gas Regulatory Board (PNGRB) has accepted the proposal made by GSPL to transfer the authorizations for developing CGD network in these Geographical Areas (GAs) to its subsidiary, Gujarat Gas Limited (GGL). Also, bank guarantees submitted by GSPL w.r.to these geographical areas to PNGRB have been received back.

Gas Transmission Agreements (GTA) provide medium-term revenue visibility

GSPL enters into 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 1 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 contracted volume, 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 entities which use natural gas either as feedstock, fuel or supply it for further distribution. Total contracted volume on hand as on August 01, 2020 was 50.75 mmscmd which provides a medium-term visibility to its revenue stream. Further, majority of GTAs which expired during FY20 were largely renewed.

Low level of competition because of regulated nature of business

GSPL, with its 2,685 km long pipeline network as on June 30, 2020, is presently the second largest gas transmission pipeline network operator in the country (after GAIL). GAIL's market share is around 70% in 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 pipeline network in newer markets after a thorough research and assessment of potential for gas demand from various user segments. Furthermore, for laying any pipeline, GSPL and other players would have to undergo bidding process to obtain exclusive authorization from PNGRB which ensures no duplication of pipeline and low level of competition.

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 & fertilizer sectors have always been the biggest contributor to India's total natural gas demand. Recently on award of various CGD Geographical Areas by regulator across the country, CGD sector would be adding up transportation volume in near future. Further, infrastructure facilities for unloading, storage and re-gasification of imported LNG is also being improved by expansion at existing terminals and green-field capacities being established at various locations across the country.

Growth in TOI along with comfortable leverage

GSPL's total operating income increased by around 26% y-o-y to ~Rs.2,424 crore in FY20 (PY: ~Rs.1,929 crore) on the back of improved transmission volumes and increased compression charges. GSPL transported 13,826 mmscm of gas during the year, an increase of ~10% over the previous year of 12,618 mmscm. PBILDT of GSPL improved marginally from Rs.1596 crore in FY19 to Rs.1630 crore in FY20. GSPL's capital structure improved during FY20 indicated by an overall gearing of 0.24x as on March 31, 2020 (0.41x as on March 31, 2019) on the back of healthy accretion to net-worth and rationalization of part of the debt availed for acquiring stake in GGL.

Synergetic benefit from GSPL's investment in GGL

GSPL's acquisition of additional 28.40% stake in GGL provided 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, the acquisition of majority stake has facilitated better synchronization of its gas transmission network with GGL's network. Further, with Gujarat comprising the highest gas consumption market in India, this acquisition is expected to bring better 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 16% share in its total sales during FY20.

The total acquisition cost of around Rs.3,267 crore was funded through loan of Rs.2,800 crore from GSFS which is being repaid by the company as scheduled leading to improvement in debt coverage indicators. Total Debt/ Gross Cash Accruals of the company has improved from 2.36 times during FY19 to 1.38 times in FY20whereas Total Debt/PBILDT has improved from 1.48 times during FY19 to 1.01 time during FY20.

Liquidity: Strong

Liquidity of GSPL is marked by strong accruals of Rs.1,193 crore during FY20 against total outstanding debt of Rs.1,641 crore as on March 31, 2020. Further, GSPL had free cash and bank balance of Rs.93 crore as on March 31, 2020. It has large repayment obligations of Rs.1,087 crore due in FY21 mainly because it had availed bridge finance during FY18 to acquire GGL's stake from GSPC which it has been retiring over the last two years along-with refinancing part of the debt from GSFS. However, the market value of GSPL's stake in GGL which stood at around Rs.11,056 crore (as on September 24, 2020) imparts a great degree of flexibility to its liquidity. Further, 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 which had risen to Rs.208 crore on March 31, 2019, due to GSPL's tariff revision during FY19, has improved to Rs.164 crore on March 31, 2020. Due to transfer of CGD network of GSPL in Amritsar & Bhatinda in Punjab to GGL, the large amount of bank guarantees submitted by GSPL have been returned which provides additional cushion. Also, GSPL did not avail any moratorium on its debt as a Covid relief measure, in line with Reserve Bank of India (RBI) guidelines, for servicing of its bank facilities which underlines its strong liquidity profile.

Key Rating Weaknesses

Risk associated with its own mid-sized capex plans and large-size projects being implemented through its two JVs

GSPL has planned to undertake capex over the next five years towards expansion of existing pipeline network, laying new spur lines and capacity augmentation. With the on-going transfer of two GAs to GGL, it would not be required to incur any further capex in CGD network which was envisaged earlier. GSPL's own capex is currently envisaged at around Rs.800 crore over the next 3 years; however, the same can increase further if PNGRB approves its other capex plans.

Further, in July 2011, PNGRB had awarded the GSPL led JVs to lay pipelines on three routes. viz. Mehsana-Bhatinda (~1,670 km), Bhatinda-Jammu-Srinagar (~740 KM) and Mallavaram-Bhilwara Pipeline (~1,881 km). GSPL has formed two SPVs namely - GSPL (India) Gasnet Limited (GIGL) for implementation of the first two routes and GSPL (India) Transco Limited (GITL) for the third one. GSPL owns 52% stake in these SPVs with the balance being held by Indian Oil Corporation Ltd. (IOCL; 26%), Bharat Petroleum Corporation Ltd. (BPCL; rated CARE AAA; Under credit watch with developing implications/CARE A1+; 11%) and Hindustan Petroleum Corporation Ltd. (HPCL; 11%). The total project cost for the two JVs was originally estimated at around Rs.13,000 crore to be funded in a debt to equity ratio of 70:30. Some of the segments out of the above projects are already awarded and some more are likely to be awarded in the near to medium term. With the completion of on-going phases of the projects in GIGL & GITL, aggregate project cost of ~Rs.6,800 crore is likely to be incurred; however, there is fair amount of uncertainty w.r.to balance scope of initially envisaged projects in these JVs. GSPL along with other JV partners are expected to infuse additional equity in coming years for balance project sections and other operational requirements of these JVs. Accordingly, timely completion of on-going phases of the projects in JVs, stance of PNGRB w.r.to 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 very critical for GSPL.

Exposure to regulatory risk in tariff determination

GSPL's high pressure and low pressure pipeline network had been authorized by Petroleum and Natural Gas Regulatory Board (PNGRB), which has an established methodology to determine the tariff for the transportation of natural gas. The methodology provides for tariff review at five-year intervals.

Previously, PNGRB had issued provisional tariff order for GSPL's high pressure and low pressure pipeline network. In September 2018, PNGRB issued order for natural gas pipeline tariff for GSPL's pipeline network, which has led to increase in the tariff for the transportation of natural gas by approx. 27%. 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 regulatory risk.

Analytical approach
Standalone; along with planned investments in its two JV entities and guaranteed debt
Majority of GSPL's income and cash flows are generated from its core 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 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 for certain non-fund based bank guarantee limits to its JV entities, which have also been considered in the analysis.
Apart from those mentioned above, GSPL is not expected to impart any extraordinary support to any of its group entities including its subsidiary/JV. Any change in this stance would be a key rating sensitivity.

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Liquidity Analysis of Non-financial sector
Rating Methodology: Consolidation and Factoring Linkages in Ratings
Rating Methodology – Infrastructure Companies
Financial ratios – Non-Financial Sector

About the company
Incorporated in December 1998, GSPL is promoted by GSPC, a Government of Gujarat (GoG) owned company. GSPC held 37.63% equity stake in the company as on June 30, 2020. 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 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 2,685 km of gas transmission pipeline in the state of Gujarat as on March 31, 2020. GSPL also sells electricity generated through its 52.50 MW windmills.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	1,929	2,424
PBILDT	1,596	1,630
PAT	795	1,109
Overall gearing (times)	0.41	0.24
Total Debt/PBILDT	1.48	1.01
Interest coverage (times)	7.28	9.90

A: Audited; The above brief financials are as per CARE's criteria for calculating financial ratios

As per its standalone Q1FY21 published results, GSPL reported a TOI of Rs.469 crore with PAT of Rs.199 crore as against a TOI of Rs.520 crore with PAT of Rs.206 crore during Q1FY20.

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 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 - ST-Term loan	-	-	-	50.00	CARE A1+
Fund-based - LT-Term Loan	-	-	Dec 2026	712.47	CARE AA+; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	100.00	CARE AA+; Stable / CARE A1+

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.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (09-Oct-19)	1)CARE AA+; Stable (08-Oct-18)	1)CARE AA+; Stable (28-Mar-18) 2)CARE AA+; Stable (05-Oct-17)
2.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	-	-	-	1)Withdrawn (09-Oct-19)	1)CARE AA+; Stable / CARE A1+ (08-Oct-18)	1)CARE AA+; Stable / CARE A1+ (28-Mar-18) 2)CARE AA+; Stable / CARE A1+ (05-Oct-17)
3.	Fund-based - ST-Term loan	ST	50.00	CARE A1+	-	1)CARE A1+ (09-Oct-19)	1)CARE A1+ (08-Oct-18)	1)CARE A1+ (28-Mar-18) 2)CARE A1+ (05-Oct-17)
4.	Fund-based - LT-Term Loan	LT	712.47	CARE AA+; Stable	-	1)CARE AA+; Stable (09-Oct-19)	1)CARE AA+; Stable (08-Oct-18)	1)CARE AA+; Stable (28-Mar-18) 2)CARE AA+; Stable (05-Oct-17)
5.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	100.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (09-Oct-19)	1)CARE AA+; Stable / CARE A1+ (08-Oct-18)	1)CARE AA+; Stable / CARE A1+ (28-Mar-18) 2)CARE AA+; Stable / CARE A1+ (05-Oct-17)

Annexure-3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based - ST-Term loan	Simple
3.	Non-fund-based - LT/ ST-Bank Guarantees	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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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**