Azadi Ka Amrit Mahotsav

GUJARAT GAS

GGL/SEC/1056/2022 | 28th September, 2022

BSE Limited, Phiroze 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

Respected Sir/ Madam,

In continuation of our earlier letter no. GGL/SEC/1053/2022 dated 22nd September, 2022, please find enclosed herewith the letter dated 28th September, 2022 of CARE Ratings Limited for the credit rating for bank facilities.

You are requested to take the above information on record.

Thanking You.

For Gujarat Gas Limited

Sandeep Dave

Digitally signed by Sandeep Dave
DN: c=IN, o=Personal,
2.5.4.20=6ad72d79236b5dc8cafbfb5c50c7369ea609d33877775d6da398fd27f41c3ebf, postalCode=382024,
st=Gujarat,
serialNumber=2e730495face7cec9ce0617656a1b6b9708e36bef5f715769debaeebc944de5a, cn=Sandeep Dave
Date: 2022.09.28 15:37:37 +05'30'

Sandeep Dave
Company Secretary

Encl: As above.

GUJARAT GAS LIMITED (A GSPC Group Company – Government of Gujarat Undertaking) (Formerly known as GSPC Distribution Networks Limited)
Corporate Office : 2, Shanti Sadan Society, Near Parimal Garden, Ellisbridge, Ahmedabad - 380 006, Gujarat, India.
Tel.: +91-79-26462980, 26460095 **Fax :** +91-79-26466249
Registered Office : Gujarat Gas CNG Station, Sector-5/C, Gandhinagar - 382 006, Gujarat, India. **Tel.:** +91-79-23264777, 23264999
Website : www.gujaratgas.com, www.gspcgroup.com **CIN :** L40200GJ2012SGC069118

No. CARE/ARO/GEN/2022-23/1157

Shri Nitesh Bhandari
Chief Financial Officer
Gujarat Gas Limited
2, Shanti Sadan Society,
Near Parimal Garden, Ellisbridge,
Ahmedabad
Gujarat 380006

September 28, 2022

Confidential

Dear Sir,

Credit rating for bank facilities

Please refer to our letter No. CARE/ARO/RL/2022-23/4251 dated September 21, 2022, on the above subject.

The press release for the ratings is attached at Annexure-1.

If you need any clarification, you are welcome to approach us in this regard.

Thanking you,

Yours faithfully,

Pranav Rao
Lead Analyst
pranav.rao@careedge.in

Janki Aswani
Assistant Director
janki.aswani@careedge.in

Encl.: As above

Annexure-1

Press Release

Gujarat Gas Limited

Ratings

Facilities/Instruments	Amount (₹ crore)	Ratings[1]	Rating Action
Long-term/Short-term bank facilities	3,000.00	CARE AA+; Positive/CARE A1+ (Double A Plus; Outlook: Positive/A One Plus)	Reaffirmed
Total bank facilities	**3,000.00 (₹ Three thousand crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed 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, established natural gas-sourcing arrangements and moderately diversified customer segment mix. The ratings also continue to factor in the sustained growth in its scale of operations along with 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.

GGL's long-term rating, however, continues to remain constrained on account of susceptibility of demand for natural gas on the basis of the price dynamics of competing fuels and its concomitant impact on GGL's profitability; especially amidst present high and volatile regassified liquified natural gas (RLNG) prices. The rating is also constrained by its medium-term capex plans for developing the CGD network in various geographical areas (GAs), including in the seven new GAs awarded to it in the 9th and 10th CGD bidding rounds conducted by the Petroleum and Natural Gas Regulatory Board (PNGRB) coupled with regulatory risk associated with the CGD business.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Significant growth in its scale of operations while earning gross spread per standard cubic meter (SCM) above ₹8 over a sustained period of time; along with favourable regulatory policy, which strengthens its long-term business profile.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Substantial decline in the profitability margins marked by gross spread per SCM of less than ₹7 on a sustained basis.
- Any large debt-funded capex or acquisitions leading to increase in the overall gearing to more than 0.50x on a sustained basis.
- Any regulatory development, which may have material adverse impact on the business and financial profile of the company.

Outlook: Positive

The positive outlook on the long-term rating of GGL reflects CARE Ratings Limited's (CARE Ratings') expectation of further growth in GGL's volumes along with maintenance of its profitability in terms of gross spread per SCM despite high and volatile RLNG prices. The outlook may be revised to 'Stable' if GGL is unable to grow its volumes and maintain its profitability or if it contracts any additional large debt leading to deterioration in its overall gearing.

Detailed description of the key rating drivers

Key rating 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 PNGRB has granted

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

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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.

Natural gas sourcing tie-up in place: In India, the Ministry of Petroleum and Natural Gas (MoPNG), Government of India (GoI), exercises control over the allocation of domestic natural gas produced in the country. As a part of its emphasis on augmenting the use of natural gas in the country, under the existing regulations, CGD companies are accorded the highest priority and are allotted domestic natural gas under the administered price mechanism (APM), price of which is declared by Petroleum Planning and Analysis Cell (PPAC)), to meet their requirement for supply to piped natural gas (PNG)-domestic and compressed natural gas (CNG) segments. However, considering the declining domestic natural gas production, continuation of the same allocation shall be key monitorable. The CGD companies have to rely on imported RLNG for meeting the requirement of PNG-Industrial and PNG-Commercial segments.
GGL procures APM gas for the PNG-Domestic and CNG segments from GAIL (India) Limited (GAIL; rated 'CARE AAA; Stable/CARE A1+') and through market for its requirement of PNG-Industrial and PNG-Commercial segments, which is majorly sourced as RLNG. The RLNG is sourced by GGL through a mix of both long-term and spot contracts, thereby making it vulnerable to the vagaries of the spot market, especially amidst present high and volatile RLNG prices.

Moderately diversified customer mix: During FY21 (refers to the period April 1 to March 31), out of the total sales volumes of GGL, the proportion of PNG-Industrial, Commercial, Domestic and CNG segments remained at around 78%, 1%, 7%, and 14%, respectively. However, the share of CNG segment increased to around 19% in FY22 and 25% in Q1FY23 as compared with around 14% in FY21, mainly due to ramp-up in operations in the new GAs awarded to GGL. 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.

Sustained improvement in the scale of operations coupled with higher profitability during FY22 and Q1FY23; albeit moderation in profitability: GGL achieved total sales volumes of 3,904 million metric standard cubic metre (MMSCM) during FY22 (FY21: 3,427 MMSCM) due to uptick in the demand for natural gas after unlocking of the economic activities post outbreak of COVID-19 pandemic. This coupled with higher average sales realisation led to increase in the total operating income (TOI) of GGL by around 67% to ₹16,457 crore in FY22 (FY21: ₹9,867 crore). However, its PBILDT margin and PAT margin reduced to 12.80% (FY21: 21.41%) and 7.81% (FY21: 12.87%), respectively, in FY22, mainly due to significant increase in the prices of natural gas, especially RLNG. The PBILDT margin and PAT margin further declined to 11.73% and 7.37%, respectively, in Q1FY23. However, due to regular price hikes, GGL has been able to maintain its absolute level of profitability and profitability in terms of gross spread per SCM.

Improvement in the capital structure along with comfortable debt coverage indicators: During FY22, GGL prepaid its existing term loans of around ₹327 crore in addition to its scheduled repayments. This coupled with non-availment of fresh debt for its capex and significant build-up of its net worth base led to improvement in its overall gearing. GGL's overall gearing stood 0.11x as at FY22-end (FY21: 0.22x). Along with improvement in the overall gearing, its debt coverage indicators have also improved. During FY22, the total debt/PBILDT and total debt to gross cash accruals (TDGCA) of GGL stood at 0.30x (FY21: 0.47x) and 0.37x (FY21: 0.61x), respectively. Also, its PBILDT interest coverage stood at 26.06x in FY22 (FY21: 15.78x).

Favourable demand outlook for the CGD business with government's focus on environmentally-cleaner fuels: In order to address the environmental concerns, the GoI has been actively promoting a shift towards 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 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 increasing number of CNG variant models by car manufacturers, which could support higher CNG demand; albeit this demand might be susceptible to technological disruptions, such as faster rollout of electric vehicles (EVs). Also, domestic natural gas consumption is at a very nascent stage and offers healthy opportunities for further growth. The GoI aims to increase the share of natural gas in India's energy mix from around 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, majority of the industrial and commercial users are envisaged to shift to natural gas from alternative fuels due to ease in usage and favourable regulatory push. In the long run, the CGD players are expected to thrive given GoI's impetus on

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gas-based economy, favourable regulatory regime, competitiveness of CNG over alternative fuels as well as emphasis on environmentally cleaner fuels.

Key rating 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 75% of its total natural gas sales volumes in FY22. 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.

Project risk associated with its medium-term capex plans: In the 9th and 10th CGD bidding rounds conducted by the PNGRB, GGL had received authorisations from the PNGRB for development of CGD network in seven GAs. Furthermore, GGL has acquired the authorisation for laying, building, operating or expanding CGD in the GAs of Amritsar district and Bhatinda district in Punjab from its parent, viz., Gujarat State Petronet Limited (GSPL; rated 'CARE AA+; Stable/CARE A1+'). The development of CGD networks in these nine new GAs may expose the company to project-implementation risks. There are inherent project risks associated with such projects due to unforeseen delay in regulatory approvals, etc., which could result in both time and cost overrun. The PNGRB has also specified penalties for any shortfall in the execution of the minimum work programme (MWP) in the GAs allotted from 9th CGD bidding round onwards, which elevates the project risk.
GGL has envisaged capex of around ₹1,200 crore each year over the next three years. This capex will be for development of CGD network in the newly awarded GAs and expansion of CGD network in its already authorised/operational areas. 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 as articulated by the management. Despite high amount of internal accruals committed for capex, the credit profile 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, set-up in 2007, by the GoI is the regulating body of CGD business in India. Consequently, all the CGD players, including GGL are subject to the regulations of the PNGRB. The PNGRB had granted exclusive marketing rights to the CGD players in the respective GAs post their formation for a stipulated time period. Many of the GAs have reached the end of the time frame for exemption from the purview of a common contract carrier. In November 2020, the PNGRB has formulated new guidelines for determining CGD network tariff and allowing third-party access to 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 through implementation of common contract carrier regulation after the expiry of the marketing exclusivity period and could lead to concomitant impact on the CGD sector's profitability. However, at the same time, it also would 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. Also, 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 of the raw material 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 debt repayment obligations and availability of free cash and cash equivalents of around ₹480 crore as on June 30, 2022. With an overall gearing of 0.11x as on March 31, 2022, 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 ₹3,600 crore over the next three years ending FY25 is proposed to be entirely funded from its internal accruals and available liquidity.

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Analytical approach: Standalone

Applicable criteria

Rating outlook and credit watch
Policy on default recognition
Policy on curing period
Short term instruments
Liquidity analysis of non-financial sector entities
Factoring linkages - parent sub-JV group
City gas distribution
Financial ratios - non-financial sector

About the company

GGL is India's largest CGD company, with 27 CGD licenses spread across 43 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 1.72 million domestic households, 13,673 commercial customers, 4,469 industrial units and 721 CNG stations as on June 30, 2022, providing strong revenue diversity. As on June 30, 2022, the promoter and promoter group holding in GGL was 60.89%.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
Total operating income	9,867	16,457	5,170
PBILDT	2,113	2,106	607
PAT	1,268	1,286	381
Overall gearing (times)	0.22	0.11	NA
Interest coverage (times)	15.78	26.06	44.70

A: Audited; UA: Unaudited; NA: Not 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 various instruments/facilities rated for this company: Annexure-4

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Annexure-1: Details of instruments/facilities

Name of the Instruments/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	-	-	-	-	3,000.00	CARE AA+; Positive / 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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1.	Fund-based/Non-fund-based-LT/ST	LT/ST*	3,000.00	CARE AA+; Positive / CARE A1+	1)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)	1)CARE AA; Positive / CARE A1+ (07-Oct-19)

*Long term/Short term

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

Not applicable

Annexure-4: Complexity level of various instruments/facilities rated for this company

Sr. No.	Name of the Instruments/Bank Facilities	Complexity Level
1.	Fund-based/Non-fund-based-LT/ST	Simple

Annexure-5: Bank/Lender details for this company

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

Note on 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.

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

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