



**GGL/SEC/1350/2024**

**10<sup>th</sup> September, 2024**

<b>BSE Limited</b> Phrioz Jjibhoy Tower, Dalal Street, Mumbai  Company Code: BSE-539336	<b>National Stock Exchange of India Ltd.</b> Exchange Plaza, 5th Floor, Plot No. C/1, G Block, Bandra Kurla Complex, Bandra (East), Mumbai 400 051  Company Code: NSE-GUJGASLTD
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**Sub: Disclosure under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.**

**Dear Sir/ Madam,**

Please find attached the Rating Rationale dated 10<sup>th</sup> September, 2024 issued by CRISIL Ratings Limited, the Long-term Rating for Bank Facilities of Gujarat Gas Limited (GGL) has been placed to “CRISIL AAA/Watch Developing (Placed on 'Rating Watch with Developing Implications)’”.

Kindly take it on record.

Thanking you,

**For Gujarat Gas Limited**

**Sandeep Dave  
Company Secretary**

**Encl.: As above**

## Rating Rationale

September 10, 2024 | Mumbai

### Gujarat Gas Limited

Rating placed on 'Watch Developing'

#### Rating Action

<b>Total Bank Loan Facilities Rated</b>	<b>Rs.3350 Crore</b>
<b>Long Term Rating</b>	<b>CRISIL AAA/Watch Developing (Placed on 'Rating Watch with Developing Implications')</b>

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

#### Detailed rationale

CRISIL Ratings has placed its rating on the long-term bank facilities of Gujarat Gas Limited (GGL) on '**Rating Watch with Developing Implications**'.

The rating action follows the recent announcement by the company on the scheme of amalgamation announced by the parent companies of GGL – Gujarat State Petroleum Corporation (GSPC) and Gujarat State Petronet Limited (GSPL). As per the announcement, GSPC and GSPL are to be merged into GGL. However, the gas transmission business will subsequently be carved out and listed as a separate entity, GSPL Transmission Limited (GTL), which will not be a part of GGL, post successful completion of the scheme of arrangement. The scheme has been approved by the board of the respective companies and is awaiting requisite regulatory and other approvals and could take 3-4 quarters for completion.

CRISIL Ratings notes that GSPC, which undertakes natural gas trading business, is the country's second largest gas trading company and has healthy financial profile with nil debt since fiscal 2023. However, CRISIL Ratings is yet to fully assess its credit profile and the potential impact of its merger with GGL, as some of the critical information related to GSPC's business is awaited. Timely receipt of the required information as well clarity on other important business and financial parameters will be important for resolution of the rating watch.

Furthermore, CRISIL Ratings understands that there is a high likelihood of successful completion of the scheme of amalgamation given the potential synergy benefits and valuation gains for the shareholders. However, further developments on the merger process will be monitorable. Till the completion of the merger process, all the three entities are likely to operate as per current arrangements, without any material impact on existing operations.

The rating by CRISIL Ratings on the bank facilities of GGL continues to reflect strong financial risk profile, backed by healthy cash accrual and negligible reliance on external debt. The rating also derives comfort from the company's sizeable scale of operations as the largest city gas distribution (CGD) entity in India. These rating strengths are however partially offset by its exposure to volatility in re-gasified liquefied natural gas (R-LNG) and domestic natural gas prices, risk related to setting up CGD networks in the newer geographical areas (GAs) in a timely and cost-efficient manner and exposure to regulatory risks.

Operating performance of GGL continues to remain healthy. For fiscal 2024, the volume grew 12% on-year to around 9.35 million metric standard cubic metres per day (mmscmd), led by PNG-industrial and CNG segments. However, revenue remained flat on account of lower realisations, in-line with the fall in gas prices. The profitability remained healthy, supported by high volume and ability of the company to pass on fluctuations in input costs.

GGL is expected to incur annual capital expenditure (capex) of Rs 1,000-1,200 crore over the medium term, to be largely funded through internal accrual. The company continues to remain net debt free since March 31, 2023, supported by healthy annual accrual.

#### Analytical approach

CRISIL Ratings has combined the business and financial risk profiles of GGL and its subsidiaries and associates to arrive at the ratings.

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

#### Key rating drivers and detailed description

##### Strengths:

- **Largest CGD player in India with diversified customer profile:** GGL's strong and established market position in the CGD industry in India is indicated by its industry-leading presence with 27 CGD licenses spread across 44 districts in 6 states and 1 union territory in Gujarat, Maharashtra, Rajasthan, Haryana, Punjab, Madhya Pradesh and Union Territory

of Dadra & Nagar Haveli. The company's user base comprises more than 21.15 lakh domestic connections, 808 CNG stations and close to 4,396 industrial units as on March 31, 2024, providing strong revenue diversity. The recent favourable Supreme Court order also paves the way for GGL to develop one more GA, Ahmedabad Rural, won in the bidding round in 2016, thereby increasing the potential of its business.

- **Sustained healthy operating performance:** GGL is the largest CGD player in India in terms of gas sales volume and commands a sizeable market share of over 30%. The company has a healthy track record of being able to sustain its operating performance, despite volatility faced in the movement of RLNG prices.

While GGL's customer base mix is skewed towards the price sensitive PNG-I segment, it has been able to grow its absolute profitability levels even in cycles with high gas prices. This is on account of the company's ability to pass on rise in input prices in CNG and piped natural gas - domestic (PNG-D) segments and balance its volumes in PNG-I segment to maximise its cash accrual.

- **Strong financial risk profile:** The company enjoys strong financial risk profile backed by growth in accrual and negligible reliance on external debt. The increase in cash accrual helped fund its capex and prepayment of existing term liabilities. As on March 31, 2024, the company was debt free. Furthermore, return on capital employed (RoCE) continues to remain healthy at 20%, despite having a higher concentration towards the PNG-I segment.

#### **Weaknesses:**

- **Moderate risk in gas availability:** As per the government directives announced in 2014, CGD companies were to be given priority in terms of allocation of the cheaper domestic gas for CNG and domestic PNG sales. However, considering the pace at which the CGD industry is expected to grow its volumes, domestic administered pricing mechanism (APM) gas may not be sufficient to meet the entire requirements of CGD companies. As such, companies would increasingly have to resort to the costlier non-APM domestic gas or imported R-LNG to meet its supply requirement. Thus, GGL's ability to pass on the price hikes to its end consumers will be a key monitorable.
- **Exposure to competition from alternate sources:** After the end of the marketing exclusivity period for authorised GAs, the company remains exposed to competition that could set in from other CGD players, though limited to 20% open access. Approximately 63% of GGL's current volume mix accrues from the industrial or commercial segment, which is generally price sensitive to the pricing of alternate fuels. However, GGL has demonstrated a healthy track record of supplying gas in its authorised GAs, wherein it has been able to grow its customer base, despite competition from alternate fuels.

#### **Liquidity: Superior**

Liquidity is supported by healthy cash and bank balance of around Rs 916 crore as on March 31, 2024, compared to Rs 675 crore as on March 31, 2023, against nil outstanding debt as on March 31, 2024. GGL is expected to generate annual cash accrual excess of Rs 1,000-1,100 crore, which should be sufficient to support annual capex of Rs 1,000-1,200 crore, limiting any material reliance on external funding. Liquidity is further supported by unutilised working capital bank lines.

#### **Rating sensitivity factors**

##### **Downward factors**

- Material dilution in the business risk profile or any significant delays in project execution having material impact on operating performance
- Large debt-funded capex or acquisitions, leading to net debt to earnings before interest, tax, depreciation and amortisation (EBITDA) position exceeding 1 time on sustained basis.

#### **About the company**

GGL is India's largest CGD company by gas sales volume. It has 27 CGD licenses spread across 44 districts in 6 states and 1 union territory across Gujarat, Maharashtra, Rajasthan, Haryana, Punjab and Madhya Pradesh and Union Territory of Dadra & Nagar Haveli.

#### **Key financial indicators**

Particulars	Unit	2024	2023
Revenue	Rs crore	16,293	17,306
Profit after tax (PAT)	Rs crore	1,144	1,528
PAT margin	%	7.02	8.83
Adjusted debt/adjusted networkth	Times	0.00	0.02
Interest Coverage	Times	66.13	61.86

**Any other information:** Not Applicable

#### **Note on complexity levels of the rated instrument:**

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit [www.crisilratings.com](http://www.crisilratings.com). Users may also call the Customer Service Helpdesk with queries on specific instruments.

#### Annexure - Details of Instrument(s)

ISIN	Name Of Instrument	Date Of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs. Crore)	Complexity Levels	Rating Outstanding with Outlook
NA	Proposed Term Loan	NA	NA	NA	300.00	NA	CRISIL AAA/Watch Developing
NA	Non-Fund Based Limit*	NA	NA	NA	1200.00	NA	CRISIL AAA/Watch Developing
NA	Non-Fund Based Limit*	NA	NA	NA	1000.00	NA	CRISIL AAA/Watch Developing
NA	Non-Fund Based Limit*	NA	NA	NA	850.00	NA	CRISIL AAA/Watch Developing

\*Interchangeable with fund based working capital limits

#### Annexure - List of entities consolidated

Names of entities consolidated	Extent of consolidation	Rationale for consolidation
Gujarat Gas Limited Employees Welfare Stock Option Trust	Full	100% Sole beneficiary
Gujarat Info Petro limited	Equity method	Associate company

#### Annexure - Rating History for last 3 Years

Instrument	Type	Current		2024 (History)		2023		2022		2021		Start of 2021
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	300.0	CRISIL AAA/Watch Developing		--	18-08-23	CRISIL AAA/Stable	27-12-22	CRISIL AAA/Stable	09-12-21	CRISIL AA+/Positive	CRISIL AA+/Stable
					--	03-08-23	CRISIL AAA/Stable		--	30-09-21	CRISIL AA+/Positive	--
					--		--		--	04-03-21	CRISIL AA+/Stable	--
Non-Fund Based Facilities	LT	3050.0	CRISIL AAA/Watch Developing		--	18-08-23	CRISIL AAA/Stable	27-12-22	CRISIL AAA/Stable	09-12-21	CRISIL AA+/Positive	CRISIL AA+/Stable
					--	03-08-23	CRISIL AAA/Stable		--	30-09-21	CRISIL AA+/Positive	--
					--		--		--	04-03-21	CRISIL AA+/Stable	--

All amounts are in Rs.Cr.

#### Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Non-Fund Based Limit&	1000	HDFC Bank Limited	CRISIL AAA/Watch Developing
Non-Fund Based Limit&	850	IDBI Bank Limited	CRISIL AAA/Watch Developing
Non-Fund Based Limit&	1200	Kotak Mahindra Bank Limited	CRISIL AAA/Watch Developing
Proposed Term Loan	300	Not Applicable	CRISIL AAA/Watch Developing

& - Interchangeable with fund based working capital limits

#### Criteria Details

Links to related criteria
<a href="#">CRISILs Approach to Financial Ratios</a>
<a href="#">Rating criteria for manufacturing and service sector companies</a>
<a href="#">CRISILs Bank Loan Ratings - process, scale and default recognition</a>
<a href="#">CRISILs Criteria for Consolidation</a>

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