150 YEARS OF CELEBRATING THE MAHATMA

GUJARAT GAS

GGL/SEC/2020/822 14th September, 2020

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.

Dear Sir/Madam,

Pursuant to SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and in continuation to our letter dated 10th September, 2020 bearing No GGL/SEC/2020/821, with regard to ratings of Gujarat Gas Limited reviewed by Rating Committee of Care Ratings, the press release for the ratings is attached at **Annexure – 1**.

You are requested to take the above on your records.

Thanking you,

For, Gujarat Gas Limited

Sandeep Dave
Company Secretary

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

Annexure-1

CARE Ratings
Professional Risk Opinion

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

September 14, 2020

Confidential

Dear Sir,

Credit rating for the bank facilities of Gujarat Gas Ltd.

Please refer to our Letter No. CARE/ARO/RL/2020-21/1723 dated September 10, 2020 on the above subject.

The press release for the ratings is attached at **Annexure – I**

If you have any further clarifications, you are welcome to approach us.

Thanking you,

Yours faithfully,

H. M. Shah

[Hardik Shah]
Associate Director
hardik.shah@careratings.com

Encl.: As above

Annexure - I
Press Release

Gujarat Gas Limited

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term / Short Term Bank Facilities	2,000.00	CARE AA+; Stable / CARE A1+ (Double A Plus; Outlook: Stable / A One Plus)	Revised from CARE AA; Positive / CARE A1+ (Double A; Outlook: Positive / A One Plus)
Total Facilities	2,000.00 (Rupees Two Thousand Crore Only)		

Details of facilities in Anneuxre-1

Detailed Rationale & Key Rating Drivers

The revision in the long term rating assigned to the bank facilities of Gujarat Gas Ltd. (GGL) factors sustained growth in its scale of operations along with improvement in its leverage and debt coverage indicators.

The ratings 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 gas sourcing arrangements, moderately diversified customer segment mix, 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. CARE also notes that GGL has not availed moratorium from term loan lenders and continues to service its debt obligations, which underlines its strong liquidity profile.

GGL's long-term rating, however, continues to remain constrained on account of its medium-sized capex plans for developing CGD network in various geographical areas (GAs; including in 7 new ones awarded in 9th and 10th bidding round conducted by PNGRB) towards its growth plans, susceptibility of demand for natural gas from its industrial customers based on price dynamics of competing fuels and economic slowdown along with its concomitant impact on its profitability and regulatory risk associated with CGD business.

Rating Sensitivities

Positive Factors

- Significant growth in its scale of operations through greater revenue diversification with increase in share of PNG-Domestic/CNG segment driven by early commercialization of newly won GAs while earning PBILDT margin above 20% over a sustained period of time; along with favourable regulatory policy which strengthens its long-term business profile
- Improvement in leverage marked by overall gearing of less than 0.20 times

Negative Factors

- Substantial and sustained decline in profitability margins marked by PBILDT margin of less than 12%
- Any unplanned large debt-funded capex or acquisitions leading to increase in the overall gearing to more than 0.90 times
- Any regulatory development which may have material adverse impact on the business and financial profile of the company

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

Detailed description of the key rating drivers

Key Rating Strengths

Leading player in CGD business with its established presence

GGL is the leading player in the CGD business and has a dominant market position particularly in Gujarat, the largest gas consuming state in the country, 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.

Established gas sourcing arrangements

GGL procures Administered Pricing Mechanism (APM) gas for domestic Piped Natural Gas (PNG) & Compressed Natural Gas (CNG) segment from GAIL (India) Ltd (GAIL; rated CARE AAA; Stable/ CARE A1+) and through market for its industrial and commercial segment requirements which is majorly sourced as RLNG. The Ministry of Petroleum & Natural Gas (MoPNG), Government of India, under its guidelines has accorded highest priority for gas allocation to PNG-Domestic & CNG customers from FY15 (refers to the period from April 1 to March 31) onwards. Accordingly, GGL receives natural gas under APM for meeting its requirements for these segments. However, considering the declining domestic gas production, continuation of the same allocation shall be critical going forward.

Moderately diversified customer mix

During the past two years FY18 and FY19, out of the total revenue of GGL, proportion of Industrial, Commercial, Domestic and CNG remained at ~68%, ~2%, ~8%, and ~21% respectively. However, during FY20, proportion of industrial revenue increased to ~77% on account of the National Green Tribunal's (NGT) order for banning the usage of coal gasifiers in the Morbi region (Gujarat) which led to increase in the industrial demand in that region whereas the proportion of commercial, domestic and CNG moderated marginally to ~1%, 6%, and ~16% respectively. However, during Q1FY21, with the outbreak of COVID-19 pandemic, the proportion of industrial sales in its total sales volume declined to ~69% whereas demand from the domestic PNG segment remained largely stable which led to increase in its proportion in sales volume mix to ~14%. Further, going forward, the envisaged ramp-up of number of CNG stations by GGL along with commercializing 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 margin.

Improvement in the scale of operations coupled with higher profitability during FY20; albeit moderation in demand during Q1FY21 on account of the unanticipated outbreak of COVID-19 pandemic

During FY20, GGL's total operating income (TOI) increased by ~33% y-o-y to ~Rs.10,363 crore backed by strong growth in its industrial sales volume which increased by ~63% majorly on account of the NGT's order for banning the usage of coal gasifiers in the Morbi region (Gujarat). Operating profitability improved during FY20 marked by PBILDT margin of 16.52% (FY19: 13.40%) with increase in the spread margin during FY20. Further, GGL opted to avail lower income tax rate which resulted in downward measurement of its tax expense ultimately leading to doubling of its PAT margin from 5.35% during FY19 to 11.51% during FY20.

However, during Q1FY21 (prov.), with the outbreak of COVID-19 pandemic followed by nation-wide lockdown, there was sudden decline in the gas sales volume which resulted in moderation in its TOI. During Q1FY21, its gas sales volume stood at 4.14 mmscmd (compared with 9.44 mmscmd during FY20). However, there has been robust recovery in sales volume post the commencement of unlock measures, gas sales volumes are almost fully recovered with aggregate sales volume reaching to a level of 9.50 mmscmd by end of July 2020.

Improvement in capital structure along with comfortable debt coverage indicators

With gradual repayment of its existing term debt, non-availment of fresh debt for its capex and significant build-up of its net-worth on the back of its improved profitability, GGL's overall gearing has improved to 0.63x as on March 31, 2020 as against 1.03x as on March 31, 2019. Its debt coverage indicators have also improved during FY20 marked by Total Debt/GCA and PBILDT Interest coverage of 1.66 years (FY19: 2.95 years) and 8.36 times (FY19: 5.05 times) respectively. Further, capital structure continued to remain stable as on June 30, 2020 with an overall gearing of 0.61x.

Liquidity: Strong

Liquidity of GGL is marked by strong cash accruals against its debt repayment obligations and availability of liquid investments to the tune of Rs.650 crore as on March 31, 2020. With an overall gearing of 0.63 times as of March 31, 2020, the issuer 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 requirement. Further, its capex aggregating to

32, Titanium, Prahaladnagar Corporate Road, Satellite, Ahmedabad - 380 015
Tel: +91-79-4026 5656 • Fax.: +91-79-4026 5657

around Rs.2000 crore over the next 3 years ending FY23 is proposed to be entirely funded from its envisaged internal accruals and available liquidity.

Favorable demand outlook for CGD business with government's focus on environmentally cleaner fuel
The government has been actively promoting a shift towards cleaner energy sources, i.e., natural gas. With increasing impetus coming in the form of environmental concerns over certain polluting fuels and various court directives, CGD projects have become a priority segment of natural gas business. GGL is expected to benefit from the continued increase in natural gas demand (CNG and PNG) in Gujarat, which is amongst the highest natural gas consuming state in India. Further, there is increase in the number of CNG operated vehicles on account of the pricing economics of natural gas compared with other conventional fuels. Going forward, the number of CNG vehicles is expected to increase 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 gas consumption is at a very nascent stage and offers healthy opportunities for further growth. Furthermore, there is an ongoing expansion of imported R-LNG handling capacity in India which is expected to augment the availability of the fuel in the future. Upon availability of gas and associated network, majority of the industrial & commercial users are envisaged to shift to natural gas from alternate fuels due to ease in usage and favorable regulatory push.

Key Rating Weaknesses
Demand from industrial and commercial customers has close linkages with prevailing price of competing fuels
GGL's industrial and commercial customers account for ~78% of its total gas sales volumes in FY20. Demand from these segments are inherently prone to price and volume risks depending on the price of alternate fuel like furnace oil, as the industrial furnaces in some of the user segments are designed for switch between fuels within a short time period and without any major production disruption, to take advantage of lower price of competing fuel. However, National Green Tribunal's (NGT) order in March 2019 for banning the use of coal gasifiers in Morbi region of Gujarat led to migration of number of industrial customers from coal gasifiers to PNG. This resulted in substantial growth in the gas sales volume of GGL to the industrial segment during FY20. 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. Further, industrial gas sales volume is also susceptible to sharp economic/industrial downturns.

Project risk associated with its medium-sized capex plans
In 10th CGD bidding round conducted by PNGRB, GGL had received authorizations from PNGRB for development of CGD network in 6 (six) geographical areas in the states of Punjab, Haryana, Madhya Pradesh and Rajasthan. Further, recently, PNGRB has given its conditional approval to transfer the authorization for laying, building, operating or expanding CGD in the GAs of Amritsar district and Bhatinda district in Punjab from its parent (Gujarat State Petronet Limited; rated CARE AA+; Stable/ CARE A1+) to GGL.
These 8 new GAs (6 won by GGL in the 10th round and 2 GAs from GSPL) are for setting-up CGD networks in the state of Punjab, Haryana, Madhya Pradesh and Rajasthan. 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. PNGRB has also specified penalties for any shortfall in the execution of MWP in GAs allotted from 9th bidding round onwards which elevates the project risk.
GGL has envisaged capex of ~Rs.2000 crore over the next 3 years up to FY23 for development of CGD network across both its existing as well as new areas. As GGL's management has articulated to primarily fund this capex through its internal accruals, its leverage is expected to gradually improve.

Regulatory risks in the CGD business
PNGRB is in the process of formulating 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. In this backdrop, it has come up with a discussion/concept paper. However, as of now, the said guidelines are at discussion stage and hence, the impact in this regard is uncertain as the regulations have not been finalized yet. 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 existing GAs through implementation of common contract carrier regulation after expiry of the marketing exclusivity period and could lead to concomitant impact on the CGD sector's profitability. Also, any unexpected change in regulations regarding priority in allocation of natural gas for PNG-Domestic and CNG customers and/or pricing of end-product can adversely impact the CGD sector.

Analytical approach: Standalone

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

About the Company
GGL is India's largest City Gas Distribution company, with 25 CGD licenses spread across 41 districts in 6 states and 1 Union territory across the states of Gujarat, Maharashtra, Rajasthan, Haryana, Punjab, Madhya Pradesh and Union Territory of Dadra & Nagar Haveli. The Company benefits from the economies of scale, diversified customer and sourcing bases, and extensive pipeline infrastructure. The Company has more than 24,000 kms. of gas pipeline network. It has more than 400 CNG stations and distributes close to 10 mmscmd (Q4FY20) of natural gas to over 14,50,000 households, approximately 2 lakh CNG vehicles (fuelled per day) and to more than 3700 industrial customers. As on June 30, 2020, the promoter and promoter group holding in GGL was 60.89%.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	7,798	10,363
PBILDT	1,045	1,712
PAT	417	1,193
Overall gearing (times)	1.03	0.63
Interest coverage (times)	5.05	8.36

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

As per the published results for Q1FY21, GGL reported TOI of Rs.1,122 crore with PAT of Rs.59 crore as against TOI of Rs.2,693 crore with PAT of Rs.234 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/Non-fund-based-LT/ST	-	-	-	2000.00	CARE AA+; Stable / CARE A1+

Annexure – 2: Rating History (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/Non-fund-based-LT/ST	LT/ST	2000.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA; Positive / CARE A1+ (07-Oct-19)	1)CARE AA; Positive / CARE A1+ (08-Oct-18)	1)CARE AA; Stable / CARE A1+ (04-Oct-17)

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based/Non-fund-based-LT/ST	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.*

Contact us

Media Contact
Mrudul Mishra
Contact no. - +91-22-6837 4424
Email ID - mradul.mishra@careratings.com

Analyst Contact
Hardik Shah
Contact no. +91-79-4026 5620
Email ID – Hardik.shah@careratings.com

Relationship Contact
Mr. Deepak Prajapati
Contact no. +91-79-4026 5656
Email ID - deepak.prajapati@careratings.com

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.

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