GUJARAT GAS

GGL/SEC/733/2019

7th October, 2019

BSE Limited, Phiroze Jijibhoy Tower, Dalal Street, Mumbai	**National Stock Exchange of India Ltd.** Exchange Plaza, 5th Floor, Plot No. C/1, G Block, Bandra Kurla Complex, Bandra (East), Mumbai – 400 051

Dear Sir/ Madam,

Pursuant to SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we request you to take on record the below tabled ratings of Gujarat Gas Limited as per CARE Ratings:

Facilities	Amount (Rs Crores)	Ratings[1]	Rating Action
Long Term / Short Term Bank facility	2,000.00	CARE AA; Positive/ CARE Al+(Double A; Outlook: Positive/A One Plus)	Reaffirmed
Total Bank Facilities	2,000.00 (Rupees Two Thousand Crores only)		

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

Please find attached the press release dated October 07, 2019 for Credit Rating for Bank facilities of Gujarat Gas Ltd by CARE Ratings.

We request to take the above on record.

Thanking you,

For Gujarat Gas Limited

RASharma

Rajeshwari Sharma
Company Secretary

GUJARAT GAS LIMITED (A GSPC Group Company – Government of Gujarat Undertaking) (Formerly known as GSPC Distribution Networks Limited)
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Website : www.gujaratgas.com, www.gspcgroup.com CIN : L40200GJ2012SGC069118

Gujarat Gas Limited

October 07, 2019

Ratings

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

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings for the bank facilities of Gujarat Gas Ltd. (GGL) continue to derive strength from its leading position in the city gas distribution (CGD) business in India, well-established and significantly large scale of operations, established gas sourcing arrangements, moderately diversified customer segment mix, comfortable debt coverage indicators, healthy cash accruals along with strong liquidity and efficient working capital management. The ratings further continue to derive strength from its professional and experienced management and favorable industry outlook for the CGD business.

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) towards its growth plans, moderate leverage, susceptibility of demand for natural gas from its industrial customers based on price dynamics of competing fuels with its concomitant impact on its profitability and regulatory risk associated with CGD business.

GGL's ability to ensure sustained growth in demand from its industrial segment customers along with sustained improvement in operating profitability and its capital structure, timely execution of projects especially in the new GAs within envisaged cost and time parameters and generating envisaged returns therefrom; along with conduciveness of regulatory environment for CGD sector would be the key rating sensitivities.

Outlook: Positive

The positive outlook on the long term rating of GGL continues to reflect CARE's expectation of further growth in GGL's scale of operations along with improvement in its leverage and debt coverage indicators. The outlook may be revised to 'Stable' if GGL's leverage and debt coverage indicators do not improve as envisaged or if it encounters significant delays in implementation of its project in the new GAs.

Detailed description of the key rating drivers

Key Rating Strengths

Leading player in CGD business and its established presence: GGL is the leading player in the domestic CGD business and has a dominant market position 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 geographic areas (GAs) it operates in.

Established gas sourcing arrangement: 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 imported re-gasified liquefied natural gas (R-LNG) for its industrial and commercial segment requirements which is majorly sourced through Gujarat State Petroleum Corporation Ltd. (GSPC; rated CARE A; Stable/ CARE A1).

Moderately diversified customer mix: GGL's customer mix is moderately diversified with industrial segment contributing the largest volumes (~77%), while the balance is divided amongst domestic (~5%), commercial (~1%) and transportation (CNG; ~16%) customers during Q1FY20. The envisaged ramp-up of number of CNG stations by GGL during next two years is expected to aid further diversification in its sales mix along with some improvement in its operating profitability margin.

Comfortable debt coverage indicators; albeit moderate leverage: GGL's total operating income increased by 26% on y-o-y basis due to growth in its sales volume owing to higher demand from industrial customers along with significant increase (~20%) in sales realization, however the spread remained steady upon higher cost of gas sourced. This resulted into relatively stable operating profitability (PBILDT margin) during FY19. GGL's PBILDT interest coverage also improved

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during FY19 and Q1FY20. Total Debt/PBILDT improved from 2.47x in FY18 to 2.12x in FY19 and further to 1.12x (annualised) in end-Q1FY20.
However, GGL's capital structure, although improved marginally, continued to remain at a moderate level as indicated by an overall gearing of 1.03 times as on March 31, 2019 and 0.91 times as on June 30, 2019. GGL also collects security deposits from domestic PNG customers towards their gas connections, which is repayable only on surrender of the connection, which provides a steady long-term source of funding the capex for the CGD network.

Liquidity: Strong
GGL has a short operating cycle which results into very low requirement of fund based working capital limits. Further, it generated very healthy cash flow from operations of Rs.947 crore during FY19. Consequently, the utilization of its fund based working capital limits remained negligible. GGL also earned robust cash accruals of ~Rs.750 crore during FY19 which is expected to gradually increase during next few years whereas it has term loan installment repayment obligations in the range of ~Rs.125-240 crore per annum over the next 3 years apart from ~Rs.500 crore of annual capex plan which is envisaged to be primarily funded through its internal accruals. GGL's liquidity is also underpinned by its free cash and bank balance of ~Rs.267 crore as on March 31, 2019 which has further increased as on June 30, 2019 on account of healthy cash generation during Q1FY20.

Favorable demand outlook for CGD business: GGL is expected to benefit from the continued increase in natural gas demand (CNG and PNG) in Gujarat, as per CARE, which is amongst the highest natural gas consuming state in India. Also, 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. Further, there is an ongoing expansion of imported R-LNG handling capacity in India which is expected to result in availability of cheaper/environment-friendly fuel in the future. Upon availability of cheaper gas, majority of the industrial & commercial users are envisaged to shift to natural gas from alternate fuels due to ease in usage and favourable regulatory push since natural gas is a lower carbon-emission fuel. However, on the regulatory front, PNGRB has come up with a discussion/concept paper for allowing third party access to existing CGD players' infrastructure network for supply of natural gas after expiry of the marketing exclusivity period. If 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 sectors profitability. However, at the same time it also would offer opportunities for GGL to enter into other lucrative markets.

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 ~80% of its total gas sales volumes. 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. During FY19, the sales volume of gas to GGL's industrial customers increased only marginally by around 3% on a y-o-y basis. However, National Green Tribunal's (NGT) order in March 2019 for banning the use of coal gasifiers in Morbi region of Gujarat has led to migration of number of industrial customers from coal gasifiers to PNG. This has resulted in substantial growth of around 66% in the gas sales volume of GGL to the industrial segment during Q1FY20 to 7.1 mmscmd as compared to 4.3 mmscmd during Q4FY19. However, fluctuations in the natural gas prices & its impact on the industrial demand for gas and on GGL's profitability in this user-segment remain a key monitorable. 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 industrial-PNG sales in their overall revenue-mix.

Project risk associated with its medium-sized capex plans: Previously GGL had received authorizations from PNGRB for development of CGD network in the geographical areas of Amreli, Dahod, Panchmahal, Ahmedabad (excluding the area already authorized), Anand (excluding the area already authorized) and Dahej-Vagra Taluka (all in Gujarat) during H1FY17. Further, during September 2018, GGL was allotted license to develop CGD network in Geographic Area of Narmada (Rajpipla) district of Gujarat in the 9th round of CGD bidding by PNGRB. Subsequently, in the 10th round of CGD bidding by PNGRB, GGL received authorizations from PNGRB for development of CGD network in the geographical areas of 1. Sirsa, Fatehabad and Mansa (Punjab) Districts in Haryana and Punjab, 2. Ujjain (Except area already authorized) District, Dewas (Except area already authorized) District and Indore (Except area already authorized) District in Madhya Pradesh, 3. Jhabua, Banswara, Ratlam and Dungarpur Districts in Madhya Pradesh and Rajasthan, 4. Ferozepur, Faridkot and Sri Muktsar Sahib Districts in Punjab, 5. Hoshiarpur and Gurdaspur Districts in Punjab and 6. Jalore and Sirohi Districts in

Rajasthan. The 6 new GAs won by GGL in the 10th round are for setting-up CGD networks outside its core area of operations of Gujarat wherein hitherto unforeseen project implementation risks may be encountered. Also, 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 minimum work programme (MWP) in GAs allotted from 9th round onwards which elevates the project risk.
GGL has envisaged moderate sized capex of around Rs.500 crore p.a. during next 5 years 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.

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 Sector
Financial Ratios: Non-Financial Sector

About the company
GGL is India's largest city gas distribution company. It was formed by the amalgamation of GSPC Gas Company Ltd., Gujarat Gas Company Ltd., Gujarat Gas Financial Services Ltd. and Gujarat Gas Trading Company Ltd. with GSPC Distribution Networks Ltd. GGL is engaged in marketing and distribution of natural gas (piped and compressed) and currently supplies piped natural gas (PNG) to industrial, commercial, domestic customers and compressed natural gas (CNG) to transportation sector. GGL has 25 city gas distribution licenses spread across 41 districts and 6 states (Gujarat, Punjab, Rajasthan, Maharashtra, Madhya Pradesh, Haryana) and 1 Union Territory of Dadra and Nagar Haveli. GGL caters to more than 1.35 million domestic households, 3,500 industrial units, 12,300 commercial customers and 344 CNG stations through its wide spread operations with around 23,200 kilometers of natural gas pipeline network. GGL distributes approximately 9.5 mmscmd of natural gas as on 30-Jun-2019. GGL continues to be India's largest gas distribution company in terms of sales volume, geographical spread and customer base. As on June 30, 2019, the promoter and promoter group holding of GGL was 60.89%, out of which Gujarat State Petronet Limited (GSPL) held 54.17% stake in GGL, whereas the balance was held by public and other institutions/corporates.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	6,202	7,798
PBILDT	942	1,045
PAT	291	417
Overall gearing (times)	1.28	1.03
Interest coverage (times)	4.60	5.05

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

As per the published results for Q1FY20, GGL reported PAT of Rs.234 crore on a TOI of Rs.2,693 crore as against PAT of Rs.121 crore on a TOI of Rs.1,872 crore in Q1FY19.

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; Positive / 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (23-Nov-16)
2.	Fund-based/Non-fund-based-LT/ST	LT/ST	2000.00	CARE AA; Positive / CARE A1+	-	1)CARE AA; Positive / CARE A1+ (08-Oct-18)	1)CARE AA; Stable / CARE A1+ (04-Oct-17)	1)CARE AA; Stable / CARE A1+ (01-Dec-16)

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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