GUJARAT GAS

GGL/SEC/598/2018

9th October, 2018

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 note the status of ratings by CARE on the banking facilities of Gujarat Gas Limited:

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

The press release is attached hereto as **Annexure-1.**

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)
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.: +91-79-23264222, 23264333
Website : www.gujaratgas.com, www.gspcgroup.com CIN : L40200GJ2012SGC069118

Gujarat Gas Limited

October 08, 2018

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)**	Revised from CARE AA; Stable/ CARE A1+ (Double A; Outlook: Stable/ A One Plus)
Total	**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 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 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 would be the key rating sensitivities.

Outlook: Positive

The outlook on the long term rating of GGL has been revised from 'Stable' to 'Positive' on CARE's expectation of 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.

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).

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 BBB+; Stable/ CARE A2).

Moderately diversified customer mix: GGL's customer mix is moderately diversified with industrial segment contributing the largest volumes (70% in Q1FY19), while the balance is divided amongst domestic (6%), commercial (2%) and transportation (CNG; 22%) customers.

Comfortable debt coverage indicators; albeit moderate leverage: GGL's total operating income increased by 21% on y-o-y basis due to growth in its sales volume owing to higher demand from industrial customers as well as increase in sales realization. Operating profitability (PBILDT margin) remained stable during FY18. Its PBILDT interest coverage improved during FY18 and Q1FY19. But, GGL's capital structure continued to remain at a moderate level as on March 31, 2018. However, with receipt of income tax refund of Rs.215 crore (including interest on this refund) during Q1FY19, there is improvement in its liquidity as well as reduction in its net debt figure as on June 30, 2018 compared to the position as on March 31, 2018. GGL also collects security deposits from domestic PNG customers towards their gas connections, which is

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

repayable only on surrender of the connection, which provides a steady long-term source of funding the capex for the CGD network.

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 increasing number of CNG variant models by car manufacturers would also increase the number of CNG vehicles and thus lead to higher CNG demand. Also, domestic gas consumption is at a very nascent stage and offers healthy opportunities for further growth. Also, 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.

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 ~70% 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. However, during FY18, the sales volume of gas to GGL's industrial customers increased by around 18% on a y-o-y basis; aided partly by economically competitive price of gas during the year. However, with expected increase in natural gas prices, its impact on industrial demand for gas and GGL's profitability in this user-segment remains a key monitorable.

Medium sized capex plans: GGL 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 has been allotted license to develop CGD network in Geographic Area of Narmada (Rajpipla) district of Gujarat in the 9th round of CGD bidding by PNGRB.

It has envisaged moderate sized capex of around Rs. 400-500 crore p.a. during next 5 years for development of CGD network in these new areas along-with routine expansion of CGD network in its already authorized/operational areas. As GGL's management has articulated to primarily fund this capex through its internal cash accruals, its leverage is expected to 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 Companies]

[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 a presence in 18 Geographical Areas (GAs) largely spread across Gujarat. GGL has a user base of around 1.28 million domestic households, more than 3,300 industrial units, over 12,000 commercial customers with 291 CNG stations as on June 30, 2018. The average daily sales volume of gas by GGL was 6.22 mmscmd (million metric standard cubic meter per day) in FY18.

In March 2018, GSPC sold its 28.40% stake in GGL to GSPL; thus GSPL holds 54.17% stake in GGL as on June 30, 2018 whereas the balance is with public and other institutions/corporates.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	5,113	6,202
PBILDT	783	942
PAT	177	291
Overall gearing (times)	1.46	1.28
Interest coverage (times)	3.59	4.60

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

As per the unaudited results for Q1FY19, GGL reported PAT of Rs.121 crore on a TOI of Rs.1,872 crore as against PAT of Rs.104 crore on a TOI of Rs.1,525 crore in Q1FY18.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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.*

Analyst Contact:
Name: Mr. Naresh M. Golani
Tel: 079-4026 5618
Mobile: +91-98251 39613
Email: naresh.golani@careratings.com

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

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (23-Nov-16)	1)CARE AA+ (SO) (26-Oct-15) 2)CARE AA+ (SO) (27-Jul-15)
2.	Fund-based/Non-fund-based-LT/ST	LT/ST	2000.00	CARE AA; Positive / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (04-Oct-17)	1)CARE AA; Stable / CARE A1+ (01-Dec-16)	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91-98407 54521
Tel: +91-80-4115 0445, 4165 4529
E-mail: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91-0172-490-4000 / 01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691