



**GUJARAT GAS**

**GGL/SEC/1337/2024**

**27<sup>th</sup> August, 2024**

<b>BSE Limited</b> Phrioz Jijibhoy Tower, Dalal Street, Mumbai  Company Code: BSE-GUJGAS	<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 Press Release issued by India Ratings and Research Pvt. Limited on 27<sup>th</sup> August, 2024. The Long-term/Short-term Rating for Bank facilities of Gujarat Gas Limited (GGL) has been affirmed at IND AAA/Stable / IND A1+.

Kindly take it on record.

Thanking you,

**For Gujarat Gas Limited**

Sandeep Dave  
**Company Secretary**

**Encl.: As above**

## India Ratings Affirms Gujarat Gas' Bank Facilities at 'IND AAA'/Stable; Withdraws CP Rating

Aug 27, 2024 | Gas Transmission/Marketing

India Ratings and Research (Ind-Ra) has taken the following rating actions on Gujarat Gas Limited's (GGL) debt instruments:

### Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating assigned along with Outlook/ Watch	Rating Action
Bank loan*	-	-	-	INR47,000	IND AAA/Stable/IND A1+	Affirmed
Commercial paper^	-	-	7-365 days	INR350	WD	Withdrawn

\*Interchangeable with working capital limits

^WD – Rating withdrawn; Ind-Ra has withdrawn the rating because the issuer is no longer proceeding with the instrument as envisaged.

### Analytical Approach

Ind-Ra continues to take a standalone view of GGL while arriving at the ratings. This is because the agency does not expect GGL to extend/receive any financial support to/from its 54.17% parent, Gujarat State Petronet Limited (GSPL). Ind-Ra has not factored into the ratings any linkages between GGL and GSPL, apart from GSPL being the promoter shareholder in GGL. In case GGL steps in to support GSPL in any tangible form, Ind-Ra will re-evaluate its rating approach.

### Detailed Rationale of the Rating Action

The ratings reflect GGL's strong operational and financial risk profile, backed by its healthy EBITDA generation along with net cash position. The ratings also reflect GGL's ability to fund planned capex from its internal accruals. Ind-Ra also derives comfort from the company's sizeable scale of operations, as it is the largest city gas distribution (CGD) entity in India. Also, Ind-Ra expects GGL to benefit from a likely increase in CNG volumes, as the management continues to focus on CNG volume growth. Although GGL has tied-up contracts for 60%-70% of its requirements for industrial customers in terms of re-gasified liquefied natural gas (RLNG), its margins remain prone to fluctuations in the international prices for additional volumes to industrial consumers.

### List of Key Rating Drivers

#### Strengths

- Resilient business model
- CNG volumes to see robust growth
- Continued strong metrics

#### Weaknesses

- High dependency on regulatory landscape, though supportive of CGD
- Industrial volumes to remain dependent on competition to alternative fuels
- Gas sourcing to become key determinant of success

### Detailed Description of Key Rating Drivers

**Resilient Business Model:** Ind-Ra expects GGL's business profile to continue to improve over the short-to-medium term, as volumes in new geographical areas (GAs), especially for compressed natural gas (CNG) and domestic-piped natural gas (D-PNG), keep rising which is stickier than industrial/commercial PNG volumes. The total proportion of CNG and D-PNG segments in the overall volumes remained at 37% during FY24 (FY23: 37%; FY22: 25%; FY21: 21%). The company expects to increase the volumes from the GAs being developed in Rajasthan, Madhya Pradesh, Haryana, and Punjab. GGL further expects new volumes to be majorly from CNG and D-PNG segments. GGL's business profile has seen a continuous improvement post the March 2019 National Green Tribunal order banning the use of coal gasifiers in the Morbi industrial cluster. Morbi drives majority of industrial volumes for GGL. The falling prices of spot RLNG in FY24 led to the increase in the volumes from industrial customers that had declined during FY23 on account of high RLNG prices which rendered propane as a cheaper option for them. GGL's industrial-PNG volumes grew 25% QoQ during 1QFY25 to 7.25mmscmd (4QFY24: 5.8mmscmd; 3QFY24: 5.53mmscmd). However, GGL management expects the volumes to decrease in the upcoming quarters as the international demand for natural gas surges in winters, along with geopolitical issues, leading to a price increase of spot RLNG. The volumes of industrial-PNG will also remain dependent on the price competitiveness between industrial-PNG and propane on an ongoing basis. Ind-Ra believes that the volumes would be driven by i) GGL's ability to retain and regain industrial customers now that propane vs natural gas prices are at competitive levels and ii) growth in CNG volumes.

GGL was awarded 11 GAs between FY15-FY17, one GA in the ninth CGD round and six GAs in the 10th distribution round during FY19. All the GAs awarded to GGL are operational. Ind-Ra believes GGL could add 1 to 1.5mmscmd to the sales volumes over the next two to three years and improve its segment mix. Additionally, the latest six GAs awarded are spread across Haryana, Punjab, Madhya Pradesh and Rajasthan; this will augment its presence in the north and west of India and enable diversification of its portfolio (in addition to Ahmedabad rural GA). Ind-Ra opines GGL's balance sheet would remain comfortable, even if there were to be a volume decline in the Morbi region, because the impact could be partially offset by a healthy volume ramp-up from the other GAs. Moreover, as more GAs become connected, the intercity movement and use of CNG are likely to see a faster uptick, supporting volume growth.

**CNG Volumes to See Robust Growth:** GGL sold a volume of 2.98mmscmd in the CNG segment during 1QFY25 (FY24: 2.72mmscmd; FY23: 2.42mmscmd, FY22: 1.99mmscmd). It operated 811 CNG station as of 1QFY25. The company expects to establish 22 new CNG stations in FY25. Also, GGL has introduced the Fully Dealer Owned and Dealer Operated scheme which will increase the CNG volumes significantly without adding on the capex burden. Management expects the scheme to add 1mmscmd volume in CNG segment over a period of two to three years.

**Continued Strong Credit Metrics:** Ind-Ra expects the credit metrics to remain strong over the medium term, led by strong cash flow generation of over INR15 billion-20 billion, sufficient to take care of the capex requirements of the company. As a result, Ind-Ra does not expect debt to be undertaken for the planned capex within the CGD space. Despite undertaking a total capex of INR8.3 billion during FY24 (FY23: INR10.9 billion; FY22: INR13.7 billion), GGL's credit metrics had improved because the entire external debt had been repaid by FY23 (gross debt: FY24: nil, FY23: nil; FY22: INR4.8 billion; FY21: INR9 billion; FY15: INR32.5 billion). GGL had pre-paid INR3.3 billion in FY22 and INR4.8 billion during FY23. As a result, the gross interest coverage (EBITDA/gross interest expense) had been improving on a yoy basis (FY24: 64.0x; FY23: 59.3x; FY22: 36.5x). Also, GGL's net leverage (net debt/EBITDA) continued to be negative in FY24 (FY23: negative; FY22: 0.2x; FY21: 0.3x). However, if the company were to take on additional debt for

unplanned capex/acquisitions/business diversifications, there could be an impact on the credit metrics, and this will remain a key monitorable.

**High Dependency on Regulatory Landscape, though Supportive of CGD:** The CGD entities benefit from a favourable business profile due to the market exclusivity for five-to-eight years and infrastructure exclusivity for 25 years in their respective GAs. They also receive regulatory support in the form of allocation of cheaper domestic natural gas to CNG and household-PNG connections, enabling them to earn a healthy return on invested capital, thus ensuring adequate availability of funds for growth. Post the implementation of the Kirit Parekh Committee, the domestic natural gas prices have also reduced to USD6.5/mmbtu, lower than the spot or RLNG rate, ensuring CGD developers earn sufficient returns. Furthermore, the government's focus on greener fuels in both industrial and automotive segments has been increasing, aiding the faster adoption of PNG/CNG. However, any adverse development with respect to the pricing freedom and/or gas allocation could lead to a complete reassessment of the sector by Ind-Ra.

**Industrial Volumes to Remain Dependent on Competition to Alternative Fuels:** Ind-Ra expects GGL's industrial volumes to continue to be underpinned by the pricing of alternative sources. For increasing the volume share in Industrial-PNG, the company could offer higher discounts for volume share in the industrial segment which could further lower the blended margins. For incremental volumes catered to in FY24 on the industrial side, the company had relied on spot RLNG as spot market prices had dropped below the prices of long-term sourcing contracts. For the incremental volumes in I-PNG, GGL may have to continue to rely on short-term contracts or spot contracts for gas sourcing which could keep margins prone to international prices.

**Gas Sourcing to Become Key Determinant of Success:** CGD entities benefit from domestic gas allocation for CNG and D-PNG segments, while industrial/commercial PNG are serviced from RLNG/ gas from indigenous sources. Given the shortfall in domestic gas production, the incremental demand for CNG and D-PNG segments is also likely to be met through HPHT (high pressure high temperature) gas/RLNG from long-term contracts and spot market. The CNG and D-PNG segments are being supplied by GGL with an APM (administered price mechanism) gas shortfall of 25%-30%. A higher proportion of RLNG for CNG and D-PNG, and greater sales to industrial PNG segments would necessitate the tying up of long-term RLNG at competitive rates. In FY24, GGL sourced 30% of the volume sold from APM gas, 28% from long term RLNG, and 42% from short-term sources at favourable pricing. However, GGL's ability to tie up long-term HPHT/RLNG would be a key determinant of its ability to serve customers at a competitive price.

## Liquidity

**Adequate:** Ind-Ra expects the liquidity to remain adequate over the medium term, backed by the low working capital requirements of the sector, the availability of banking lines and sufficient cash flow generation. GGL's cash and cash equivalents stood at INR9.2 billion at FYE24 (FYE23: INR6.7 billion; FYE22: INR0.19 billion). Also, the company continued to report positive cash flow from operations in FY24 at INR16.3 billion (FYE23: INR23.8 billion; FYE22: INR16.6 billion), led by the higher operating metrics and a short working capital cycle of 7 days (6 days; 11 days), which is an inherent characteristic of the industry. Furthermore, the company has nil repayments during FY25 and FY26.

Ind-Ra expects the cash flow from operations to remain sufficient to fund a major portion of the cash outflows in the form of capex (FY24: INR8.3 billion; FY23: INR10.9 billion; FY22: INR13.7 billion) and dividend payments (INR4.58 billion; INR1.38 billion; INR1.38 billion) over the near-to-medium term, thereby limiting the need for incremental debt. GGL has made an investment of INR1,000 million in GSPC LNG Ltd, increasing the total equity investment size of GGL to INR1,350 million at FYE24 (FYE23: INR303.8 million). Ind-Ra will continue to monitor GGL's investments and their impact on its credit profile. The company has a planned capex of nearly INR10 billion to be incurred each year FY25-FY28 on the expansion of the infrastructure, which Ind-Ra expects to be funded from internal cash flows. The company has sufficient fund-based working capital limits, which remained negligibly utilised for the 12 months ended July 2024. The use is likely to remain low in the rest of FY25 as well. The unutilised lines, coupled with access to capital markets and other prudent sources of funding provide sufficient cushion for any liquidity mismatches in the near term.

## Rating Sensitivities

**Positive:** Not applicable

**Negative:** A substantial fall in the operating margin and/or lower-than-Ind-Ra-expected volumes on a sustained basis and/or lower-than-expected margin in the non-industrial segment and/or any unexpected debt-led capex, leading to the net leverage of exceeding 1.5x, will be negative for the ratings. Any adverse regulatory development could also lead to a negative rating action.

## ESG Issues

**ESG Factors Minimally Relevant to Rating:** Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on GGL, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

## About the Company

GGL is India's largest CGD company, with 27 CGD licenses spread across 44 districts in six states (Gujarat, Maharashtra, Rajasthan, Haryana, Punjab and Madhya Pradesh) and one union territory (Dadra & Nagar Haveli).

## Key Financials Indicators

Particulars	1QFY25	FY24	FY23
Revenue (INR billion)	44.5	156.9	167.6
EBITDA (INR billion)	5.3	18.7	23.9
EBITDA margin (%)	12.03	11.96	14.3
Gross debt (INR billion)	Nil	Nil	Nil
Gross interest coverage (x)	72.57	64.02	59.3
Net leverage (x)	Negative	Negative	Negative
Source: Ind-Ra, GGL			

## Status of Non-Cooperation with previous rating agency

Not applicable

## Rating History

Instrument Type	Rating Type	Rated Limits (million)	Current Ratings/Outlook	Historical Ratings/Outlook				
				20 October 2023	28 August 2023	26 April 2023	27 April 2022	28 April 2021
Issuer rating	Long-term	-	-	WD	IND AAA/Stable	IND AAA/Stable	IND AA+/Positive	IND AA+/Positive
Bank loan	Long-term/Short-term	INR47,000	IND AAA/Stable/IND A1+	-	IND AAA/Stable/IND A1+	IND AAA/Stable/IND A1+	IND AA+/Positive/IND A1+	IND AA+/Positive/IND A1+

Commercial paper	Short-term	INR350	WD	-	IND A1+	IND A1+	IND A1+	IND A1+
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## Bank wise Facilities Details

Click here to see the details

## Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Bank loan	Low
Commercial paper	Low

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

## Contact

### Primary Analyst

Raghav Gupta

Management Trainee

India Ratings and Research Pvt Ltd

DLF Epitome, Level 16, Building No. 5, Tower B DLF Cyber City, Gurugram Haryana - 122002

For queries, please contact: [infogrp@indiaratings.co.in](mailto:infogrp@indiaratings.co.in)

### Secondary Analyst

Rushabh Shah

Senior Analyst

+91 22 40001775

### Media Relation

Ameya Bodkhe

Marketing Manager

+91 22 40356121

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## APPLICABLE CRITERIA

### Evaluating Corporate Governance

### Short-Term Ratings Criteria for Non-Financial Corporates

### Corporate Rating Methodology

### The Rating Process

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