Azadi Ka Amrit Mahotsav

GUJARAT GAS

GGL/SEC/1002/2022 7th April, 2022

BSE Limited Phrioz 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,

Please find attached the letter dated 7th April, 2022 of CARE Ratings Limited along with press release for the credit rating for bank facilities.

Kindly take it on record.

Thanking you,

For Gujarat Gas Limited

Sandeep Dave
Company Secretary

Rohan

Encl.: As above

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

No. CARE/ARO/GEN/2022-23/1017
Shri Nitesh Bhandari
Chief Financial Officer
Gujarat Gas Limited
2, Shanti Sadan Society,
Near Parimal Garden, Ellisbridge,
Ahmedabad
Gujarat - 380006

April 07, 2022

Confidential

Dear Sir,

Credit rating for bank facilities

Please refer to our Letter No. CARE/ARO/RL/2021-22/6073 dated March 31, 2022 on the above subject.

The press release for the ratings is attached at **Annexure-1**.

If you need any clarification, you are welcome to approach us in this regard.

Thanking you,

Yours faithfully,

Janki Aswani

Agnimitra Kar

Janki Jethanand Aswani
Assistant Director
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Assistant Director
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Encl.: As above

Annexure 1

Press Release

Gujarat Gas Limited

Ratings

Facilities / Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term / Short-term Bank Facilities	3,000.00 (Enhanced from 2,000.00)	**CARE AA+; Positive / CARE A1+ (Double A Plus; Outlook: Positive / A One Plus)**	**Reaffirmed**
Total Bank Facilities	**3,000.00 (Rs. Three thousand crore only)**		

Details of facilities / instruments in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Gujarat Gas Limited (GGL) 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 and moderately diversified customer segment mix. The ratings also continue to factor in sustained growth in its scale of operations along with improvement in its leverage and debt coverage indicators, 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.

GGL's long-term rating, however, continues to remain constrained on account of its medium-term capex plans for developing the CGD network in various geographical areas (GAs), including in the seven new GAs awarded to it in the 9th and 10th CGD bidding rounds conducted by the Petroleum and Natural Gas Regulatory Board (PNGRB) coupled with regulatory risk associated with the CGD business. The rating is also constrained by susceptibility of demand for natural gas basis the price dynamics of competing fuels and its concomitant impact on GGL's profitability.

Outlook: Positive

The positive outlook on the long-term rating of GGL reflects 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 contracts any additional large debt or if it encounters significant delays in implementation of its project in the new GAs leading to deterioration in its overall gearing.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action / upgrade:

- Significant growth in its scale of operations through greater revenue diversification with increase in share of piped natural Gas (PNG)-Domestic / Compressed Natural Gas (CNG) segments driven by early commercialization of the 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 on a sustained basis

Negative Factors - Factors that could lead to negative rating action / downgrade:

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

Detailed Description of the Key Rating Drivers

Key Rating Strengths

Leading player in the CGD business with its established business presence in its area of operations

GGL is the leading player in the CGD business in India and has a dominant market position particularly in Gujarat, the largest natural 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 PNGRB has granted marketing

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

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exclusivity and infrastructure exclusivity to GGL for various GAs it operates in, whereby other players are not allowed to operate within the said GAs till the end of the exclusivity period.

Established gas sourcing arrangements
GGL procures Administered Pricing Mechanism (APM) gas for PNG-Domestic and CNG segments from GAIL (India) Limited (GAIL; rated 'CARE AAA; Stable / CARE A1+') and through market for its PNG-Industrial and PNG-Commercial segments requirements which is majorly sourced as regassified liquefied natural gas (RLNG). The Ministry of Petroleum and Natural Gas (MoPNG), Government of India (GoI), under its guidelines has accorded highest priority for domestic natural gas allocation to PNG-Domestic and CNG customers from FY15 (refers to the period April 01 to March 31) onwards. Accordingly, GGL receives natural gas under the APM for meeting its requirements for these segments. However, continuation of the same allocation shall be critical going forward.

Moderately diversified customer mix
During FY21, out of the total sales volumes of GGL, the proportion of PNG-Industrial, Commercial, Domestic and CNG segments remained at around 78%, 1%, 7%, and 14%, respectively. The share of CNG segment declined to around 14% in FY21 as compared with around 16% in FY20, mainly due to outbreak of COVID-19 pandemic and subsequent nationwide lockdown in Q1FY21.
During FY20, the proportion of PNG-Industrial increased to around 77% as compared with around 68% in FY19 primarily on account of rise in the demand from the industrial customers on the back of stricter enforcement of pollution control norms by various authorities including the National Green Tribunal's (NGT's) order for banning the usage of coal gasifiers in the Morbi region (Gujarat) which led to increase in the industrial demand in that region.
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.

Sustained improvement in the scale of operations coupled with higher profitability during FY21; albeit moderation in profitability during 9MFY22
GGL achieved total sales volumes of 3,427 Million Metric Standard Cubic Meters (MMSCM) during FY21 (FY20: 3,454 MMSCM). The total operating income (TOI) of GGL marginally declined by around 4% to Rs.9,907 crore in FY21 (FY20: Rs.10,363 crore) mainly due to nationwide lockdown in Q1FY21 due to outbreak of COVID-19 pandemic. However, its PBILDT margin and PAT margin improved to 21.89% (FY20: 16.52%) and 12.87% (FY20: 11.51%), respectively, in FY21 mainly due to decline in the prices of natural gas, both domestic as well as imported as well as significant reduction in the finance cost pursuant to debt prepayments in FY21. Higher PBILDT margin coupled with decline in the finance cost led to significant improvement in gross cash accruals (GCA) of GGL to around Rs.1,621 crore (FY20: Rs.1,232 crore) in FY21.
During 9MFY22, GGL's total sales volumes stood at 3,014 MMSCM whereas its TOI increased to Rs.11,860 crore. However, due to increase in the natural gas prices, especially RLNG, the PBILDT margin and PAT margin declined to 12.24% and 7.09% during 9MFY22.

Improvement in capital structure along with comfortable debt coverage indicators
During FY21, GGL prepaid its existing term loans of around Rs.988 crore in addition to its scheduled repayments. This coupled with non-availment of fresh debt for its capex and significant build-up of its net-worth base led to improvement in its overall gearing to 0.22 times as at FY21-end (FY20: 0.63 times). Also, GGL has made additional prepayments of around Rs.327 crore during 9MFY22 which has led to further improvement in its overall gearing. Along with improvement in the overall gearing, its debt coverage indicators have also improved. During FY21, the total debt / PBILDT and total debt / GCA of GGL stood at 0.45 times (FY20: 1.20 times) and 0.60 times (FY20: 1.67 times), respectively. Also, its PBILDT interest coverage stood comfortable at 16.26 times (FY20: 8.36 times) during FY21.

Favorable demand outlook for the CGD business with government's focus on environmentally-cleaner fuels
In order to address the environmental concerns, the government has been actively promoting a shift towards cleaner energy sources, including natural gas. CGD projects have become an important segment in the natural gas business in India given the increasing impetus coming in the form of environmental concerns over certain polluting fuels and various court directives. Over the past many years, CGD volumes have been continuously rising on the back of improved pipeline infrastructure, better availability of natural gas, better price economics over alternative fuels, continuous rise in the number of CNG vehicles and its environment friendliness over other alternative fuels. GGL is expected to benefit from the continued increase in the natural gas demand (CNG and PNG) in Gujarat, which is amongst the highest natural gas-consuming states in India. Furthermore, there is increase in the number of CNG-operated vehicles on account of the favorable 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 natural gas consumption is at a very nascent stage and offers healthy opportunities for further growth. The GoI aims to increase the share of natural gas in India's energy mix

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from 6% at present to around 15% by 2030. Furthermore, there is an ongoing expansion of imported RLNG handling capacity in India which is expected to augment the availability of natural gas in the future. Upon availability of natural gas and associated network, majority of the industrial and commercial users are envisaged to shift to natural gas from alternative fuels due to ease in usage and favourable regulatory push. In the long run, CGD players are expected to thrive given GoI's impetus on gas-based economy, favourable regulatory regime, competitiveness of CNG over alternative fuels as well as emphasis on environmentally-cleaner fuels.

Key Rating Weaknesses

Demand from industrial and commercial customers which have close linkages with prevailing price of competing fuels

GGL's PNG-Industrial and PNG-Commercial customers account for around 79% of its total natural gas sales volumes in FY21. The demand from these segments is inherently prone to price and volume risks depending on the price of alternative fuels, as the industrial furnaces in some of the user segments are designed for easy switch between fuels within a short time period and without any major production disruption, to take advantage of lower price of competing fuel. However, the NGT order in March 2019 for banning the use of coal gasifiers in the Morbi region of Gujarat led to migration of number of industrial customers from coal gasifiers to PNG. This resulted in substantial growth in the natural 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. Furthermore, industrial natural gas sales volume is also susceptible to sharp economic / industrial downturns.

Project risk associated with its medium-term capex plans

In the 9th and 10th CGD bidding rounds conducted by the PNGRB, GGL had received authorizations from the PNGRB for development of CGD network in seven GAs in the states of Gujarat, Punjab, Haryana, Madhya Pradesh and Rajasthan. Furthermore, the PNGRB has given its 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, viz., Gujarat State Petronet Limited (GSPL; rated 'CARE AA+; Stable / CARE A1+') to GGL. The development of CGD networks in these nine new GAs (seven won by GGL in the 9th and 10th CGD bidding rounds and two GAs from GSPL) may expose the company to project-implementation risks. These inherent risks are due to unforeseen delay in regulatory approvals, etc., which could result in both time and cost overrun. The PNGRB has also specified penalties for any shortfall in the execution of the Minimum Work Programme (MWP) in the GAs allotted from 9th bidding round onwards which elevates the project risk.

GGL has envisaged capex of around Rs.2,800 crore over the next three years for development of CGD network in the newly-awarded GAs and expansion of CGD network in its already authorized / operational areas. As articulated by the management, the said capex plans of GGL are envisaged to be funded through internal accruals of the company without availing any additional debt and thus, its leverage is expected to improve going forward.

Regulatory risks in the CGD business

The PNGRB had granted exclusive marketing rights to the CGD players for a stipulated time period in the respective GAs. In November 2020, PNGRB has formulated new guidelines for determining CGD network tariff and allowing third-party access to the existing CGD players' infrastructure network for supply of natural gas after expiry of the marketing exclusivity period. 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 the existing GAs through implementation of common contract carrier regulation after the expiry of the marketing exclusivity period and could lead to concomitant impact on the CGD sector's profitability. However, at the same time, it also would offer opportunities to GGL to enter into other lucrative markets. Also, any unexpected change in the regulations regarding priority in allocation of natural gas for PNG-Domestic and CNG segments and/or pricing of end-product can adversely impact the CGD sector.

Liquidity: Strong

Liquidity of GGL is marked by strong cash accruals against its debt repayment obligations and availability of cash & cash equivalents of around Rs.630 crore as on June 30, 2021. With an overall gearing of 0.22 times as of March 31, 2021, GGL 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 limit requirement. Furthermore, its envisaged capex aggregating to around Rs.2,800 crore over the next three years ending FY24 is proposed to be entirely funded from its internal accruals and available liquidity.

Analytical Approach: Standalone

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Applicable Criteria
Criteria on Assigning 'Outlook' and 'Credit Watch' to Credit Ratings
CARE's Policy on Default Recognition
Liquidity Analysis of Non-Financial Sector Entities
Criteria for Short Term Instruments
Rating Methodology - Notching by Factoring Linkages in Ratings
Rating Methodology - City Gas Distribution Companies
Financial Ratios - Non-Financial Sector

About the Company
GGL is India's largest CGD company, with 27 CGD licenses spread across 43 districts in six states and one union territory across the states of Gujarat, Maharashtra, Rajasthan, Haryana, Punjab, Madhya Pradesh and Union Territory of Dadra and Nagar Haveli. GGL is engaged in distribution of natural gas (piped and compressed) and currently supplies PNG to industrial, commercial and domestic customers along with CNG to the transportation sector. GGL benefits from the economies of scale, diversified customer and sourcing bases, and extensive pipeline infrastructure. GGL had a customer base of over 1.65 million domestic households, 13,516 commercial customers, 4,300 industrial units and 653 CNG stations as on December 31, 2021, providing strong revenue diversity. The natural gas sales volume of GGL stood at 3,427 MMSCM and 3,014 MMSCM in FY21 and 9MFY22 respectively.

Brief Financials - GGL (Standalone) (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (UA)
Total Operating Income	10,363	9,907	11,860
PBILDT	1,712	2,169	1,452
PAT	1,193	1,276	841
Overall Gearing (times)	0.63	0.22	NA
Interest Coverage (times)	8.36	16.26	34.27

A: Audited; UA: Unaudited; NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Covenants of rated instruments / facilities: Detailed explanation of covenants of the rated instruments / facilities is given in Annexure-3

Complexity level of various instruments / facilities rated for this company: Annexure-4

Annexure-1: Details of instruments / facilities

Name of the Instrument / Bank Facilities	ISIN	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	-	-	-	-	3,000.00	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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based/Non-fund-based-LT/ST	LT/ST*	3,000.00	CARE AA+; Positive / CARE A1+	1)CARE AA+; Positive / CARE A1+ (14-Sep-21)	1)CARE AA+; Stable / CARE A1+ (14-Sep-20)	1)CARE AA; Positive / CARE A1+ (07-Oct-19)	1)CARE AA; Positive / CARE A1+ (08-Oct-18)

*Long-term / Short-term

Annexure-3: Detailed explanation of covenants of the rated instruments / facilities
Not Applicable

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Annexure-4: Complexity level of various instruments / facilities rated for this company

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

Annexure-5: Bank / Lender details for this company
To view the lender-wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: CARE Ratings Limited has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:
Established in 1993, CARE Ratings Limited is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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

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