GUJARAT GAS

GGL/SEC/1395/2024 9th December 2024

| BSE Limited | National Stock Exchange of India Ltd. |
|---|---|
| Phrioz Jijibhoy Tower,<br>Dalal Street, Mumbai | Exchange Plaza, 5th Floor, Plot No. C/1,<br>G Block, Bandra Kurla Complex,<br>Bandra (East), Mumbai 400 051 |
| Company Code: BSE-539336 | 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 Rating Rationale dated 9th December, 2024 issued by CRISIL Ratings Limited, CRISIL Ratings has removed its ratings on the long-term bank facilities of Gujarat Gas Limited (GGL) from 'Rating Watch with Developing Implications' and has reaffirmed the ratings at 'CRISIL AAA' while assigning a 'Stable' outlook.

Kindly take it on record.

Thanking you,

**For Gujarat Gas Limited**

SANDEEP VISHNUPRASAD DAVE

Sandeep Dave
**Company Secretary**

**Encl.:** As above



**GUJARAT GAS LIMITED** (A GSPC Group Company- Government of Gujarat Undertaking)
Corporate Office: Corporate Office: Office No. 4 & 5, Ground Floor, IT Tower -2, Infocity, Gandhinagar – 382009 Gujarat
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

CRISIL Ratings

# Rating Rationale

December 09, 2024 | Mumbai

# Gujarat Gas Limited

*Rating removed from 'Watch Developing'; Rating Reaffirmed*

**Rating Action**

| | |
|---|---|
| **Total Bank Loan Facilities Rated** | **Rs.3350 Crore** |
| **Long Term Rating** | **CRISIL AAA/Stable (Removed from 'Rating Watch with Developing Implications'; Rating Reaffirmed)** |

*Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.*
*1 crore = 10 million*
*Refer to Annexure for Details of Instruments & Bank Facilities*

## Detailed Rationale

CRISIL Ratings has removed its rating on the long-term bank facilities of Gujarat Gas Limited (GGL) from 'Rating Watch with Developing Implications' and has reaffirmed the rating at **'CRISIL AAA'** while assigning a **'Stable'** outlook.

The ratings were placed on watch following the announcement of the scheme of amalgamation by the parent companies of Gujarat Gas Limited (GGL) – Gujarat State Petroleum Corporation (GSPC) & Gujarat State Petronet Limited (GSPL). As per the announcement, GSPC and GSPL are to be merged into GGL. However, the gas transmission business will subsequently be carved out and listed as a separate entity GSPL Transmission Limited (GTL) and will not be a part of GGL, post successful completion of the scheme of arrangement.

The ratings were placed on watch with developing implications as CRISIL Ratings was yet to fully assess GSPC's credit profile and the potential impact of its merger with GGL, as some of the critical information related to GSPC's business was awaited. CRISIL Ratings has now received the required information and clarifications and believes that in case of successful amalgamation of GSPC with GGL, the same is unlikely to have a material negative impact on the business and financial risk profileof GGL. Thereby, CRISIL Ratings has resolved its ratings watch and reaffirmed the ratings of GGL.

CRISIL Ratings notes that GSPC – mainly into natural gas trading business - is the country's second largest gas trading company. Owing to its scale, it has business moats such as long-term sourcing agreements with major natural gas suppliers and extensive access to the necessary infrastructure. Additionally, it is understood that significant gas volumes of GSPC is supplied to CGD business of GGL, which is likely to result in synergy gains for GGL, in case of successful merger of the two entities. Furthermore, GSPC has a healthy financial profile with annual operating earnings of more than Rs 1,000 crore, debt free balance-sheet since fiscal 2023 and strong cash & cash equivalents of ~Rs 2,000crore as on 30 September,2024. Further, CRISIL Ratings understands that GSPC and GGL does not have any material capex plans and hence balance-sheets are expected to remain debt free. Thus, the capital structure of GGL is unlikely to change materially in case of successful amalgamation of GSPCwith GGL.

That said, the scheme has been approved by the board of the respective companies & is awaiting requisite regulatory and other approvals and could take few quarters (Upto August 2025) for completion. CRISIL Ratings understands that there is a high likelihood of successful completion of the scheme of amalgamation given the potential synergy benefits and valuation gains for the shareholders. However, further developments on the merger process will be key monitorable. Till the completion of the merger process, all the three entities are likely to operate as per current arrangements, without any material impact on existing operations..

CRISIL Ratings' rating on the bank facilities of GGL continue to reflect strong financial risk profile, backed by healthy cash accruals and negligible reliance on external debt by GGL. The rating also derives comfort from the GGL's sizeable scale of operations as the largest city gas distribution (CGD) entity in India. These rating strengths are however partially offset by its exposure to volatility in re- gasified liquefied natural gas (R-LNG) and domestic natural gas prices, the project risk involved on timely and cost-efficiently setting up its CGD network in the newer geographical areas (GAs) awarded, and the exposure to regulatory risks.

Operating performance for GGL continues to remain healthy. For fiscal 2024, the volumes grew by 13% on-year to around 9 mmscmd, led by PNG-Industrial and CNG segments. However, revenue remained flattish on account of lower realizations, inline with the fall in gas prices. The profitability ofthe company remained healthy supported by high volumes and ability of the company to pass on theimpact of movement in input costs.

GGL is expected to incur an annual capital expenditure of around Rs. 1000-1200 crore over the medium term, to be largely funded through internal accruals. Supported by the healthy annual accruals earned, the company continues to remain net debt free since March 31, 2023.

**Analytical Approach**

CRISIL Ratings has combined the business and financial risk profiles of GGL and itssubsidiaries/associates to arrive at the ratings.

*Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.*

**Key Rating Drivers & Detailed Description**

**Strengths:**

- **Largest CGD player in India with diversified customer profile:** GGL's strong and established market position in the CGD industry in India is indicated by its industry- leading presence with 27 CGD licenses spread across 44 districts in 6 states and 1 union territory in Gujarat, Maharashtra, Rajasthan, Haryana, Punjab, Madhya Pradesh and Union Territory of Dadra & Nagar Haveli. The company's user base comprises more than 21.15 lakh domestic connections, 808 CNG stations and close to 4,396 industrial units as on March 31, 2024, providing strong revenue diversity. The recent favourable Supreme Court order also paves the way for GGL to develop one more GA, Ahmedabad Rural, won in the bidding round in 2016, thereby increasing the potential of its business.

- **Sustained healthy operating performance:** GGL is the largest CGD player in India in terms of gas sales volume and commands a sizeable market share of over 30%. The company has a healthy track record of being able to sustain its operating performance, despite volatility faced in the movement of RLNG prices.

  While GGL's customer base mix is skewed towards the price sensitive PNG-I segment, it has been able to grow its absolute profitability levels even in cycles with high gas prices. This is on account of the company's ability to pass on rise in input prices in CNG and piped natural gas - domestic (PNG- D) segments and balance its volumes in PNG-I segment to maximise its cash accrual.

  In fiscal 2024, GGL's gas sales volumes rose by 11.6% on-year to 9.3 mmscmd on account of healthy demand by segments, especially industry segment amidst softening of gas prices. On the other hand, EBITDA/scm dropped from Rs 7.99 in fiscal 2023 to Rs 5.6 in fiscal 2024- due to decline in gas prices and passing on the benefit to the consumers. As a result, its absolute EBITDA, though still healthy, dropped from Rs 2392 crores in fiscal 2023 to Rs 1919 crores in fiscal 2024. In H1 of fiscal 2025, its volumes grew by 6% on-year while its reported EBITDA stood at Rs 1,127 crores, which was 20% higher than H1 of fiscal 2024.

- **Strong financial risk profile:** The company enjoys strong financial risk profile backed by growth in accrual and negligible reliance on external debt. The increase in cash accrual helped fund its capex and prepayment of existing term liabilities. As on September 30, 2024, the company was debt free. Furthermore, return on capital employed (RoCE) continues to remain healthy at 20%, despite having a higher concentration towards the PNG-I segment.

**Weaknesses:**

- **Moderate risk in gas availability:** As per the government directives announced in 2014, CGD companies were to be given priority in terms of allocation of the cheaper domestic gas for CNG and domestic PNG sales. However, considering the pace at which the CGD industry is expected to grow its volumes, domestic administered pricing mechanism (APM) gas may not be sufficient to meet the entire requirements of CGD companies. As such, companies would increasingly have to resort to the costlier non-APM domestic gas or imported R-LNG to meet its supply requirement. Thus, GGL's ability to pass on the price hikes to its end consumers will be a key monitorable.

- **Exposure to competition from alternate sources:** After the end of the marketing exclusivity period for authorised GAs, the company remains exposed to competition that could set in from other CGD players, though limited to 20% open access.

  Approximately 63% of GGL's current volume mix accrues from the industrial or commercial segment, which is generally price sensitive to the pricing of alternate fuels. However, GGL has demonstrated a healthy track record of supplying gas in its authorised GAs, wherein it has been able to grow its customer base, despite competition from alternate fuels.

**Liquidity: Superior**

Liquidity is supported by healthy cash and bank balance of around Rs 916 crore as on March 31, 2024, compared to Rs 675 crore as on March 31, 2023, against nil outstanding debt as on March 31, 2024. GGL is expected to generate annual cash accrual excess of Rs 1,000-1,100 crore, which should be sufficient to support annual capex of Rs 1,000-1,200 crore, limiting any material reliance on external funding. Liquidity is further supported by unutilised working capital bank lines.

**Outlook: Stable**

CRISIL Ratings believes GGL will continue to maintain its market leading position in the industry with a robust operating performance, backed by healthy volume growth and stable realization levels.

**Rating sensitivity factors**

**Downward factors**

- Material dilution in the business risk profile or any significant delays in project execution having material impact on operating performance
- Large debt-funded capex or acquisitions, leading to net debt/EBITDA position exceeding 1 time on a sustained basis

**About the Company**

About the company GGL is India's largest CGD company by gas sales volume. It has 27 CGD licenses spread across 44 districts in 6 states and 1 union territory across Gujarat, Maharashtra, Rajasthan, Haryana, Punjab and Madhya Pradesh and Union Territory of Dadra & Nagar Haveli.

**About the Group**

GGL is India's largest CGD Company by gas sales volumes. It has 27 CGD licenses spread across 44 districts in 6 states and 1 Union territory across the states of Gujarat, Maharashtra, Rajasthan, Haryana, Punjab and Madhya Pradesh and Union Territory of Dadra & Nagar Haveli.

**Key Financial Indicators**

| Particulars | Unit | 2024 | 2023 |
|---|---|---|---|
| Revenue | Rs crore | 16,293 | 17,306 |
| Profit after tax (PAT) | Rs crore | 1,144 | 1,528 |
| PAT margin | % | 7.02 | 8.83 |
| Adjusted debt/adjusted net worth | Times | 0.00 | 0.02 |
| Interest Coverage | Times | 66.13 | 61.86 |

**Any other information:** Not Applicable

**Note on complexity levels of the rated instrument:**

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

**Annexure - Details of Instrument(s)**

| ISIN | Name Of Instrument | Date Of Allotment | Coupon Rate (%) | Maturity Date | Issue Size (Rs. Crore) | Complexity Levels | Rating Outstanding with Outlook |
|---|---|---|---|---|---|---|---|
| NA | Non-Fund Based Limit* | NA | NA | NA | 3050.00 | NA | CRISIL AAA/Stable |
| NA | Proposed Term Loan | NA | NA | NA | 300.00 | NA | CRISIL AAA/Stable |

**Interchangeable with fund based working capital limits*

**Annexure – List of entities consolidated**

| Names of Entities Consolidated | Extent of Consolidation | Rationale for Consolidation |
|---|---|---|
| Gujarat Gas Limited EmployeesWelfare Stock Option Trust | Full | 100% Sole beneficiary |
| Gujarat Info Petro limited | Equity method | Associate company |

**Annexure - Rating History for last 3 Years**

| | Current | | | 2024 (History) | | 2023 | | 2022 | | 2021 | | Start of 2021 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Instrument | Type | Outstanding Amount | Rating | Date | Rating | Date | Rating | Date | Rating | Date | Rating | Rating |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Fund Based Facilities** | LT | 300.0 | CRISIL AAA/Stable | 10-09-24 | CRISIL AAA/Watch Developing | 18-08-23 | CRISIL AAA/Stable | 27-12-22 | CRISIL AAA/Stable | 09-12-21 | CRISIL AA+/Positive | CRISIL AA+/Stable |
| | | | -- | | -- | 03-08-23 | CRISIL AAA/Stable | | -- | 30-09-21 | CRISIL AA+/Positive | -- |
| | | | -- | | -- | | -- | | -- | 04-03-21 | CRISIL AA+/Stable | -- |
| **Non-Fund Based Facilities** | LT | 3050.0 | CRISIL AAA/Stable | 10-09-24 | CRISIL AAA/Watch Developing | 18-08-23 | CRISIL AAA/Stable | 27-12-22 | CRISIL AAA/Stable | 09-12-21 | CRISIL AA+/Positive | CRISIL AA+/Stable |
| | | | -- | | -- | 03-08-23 | CRISIL AAA/Stable | | -- | 30-09-21 | CRISIL AA+/Positive | -- |
| | | | -- | | -- | | -- | | -- | 04-03-21 | CRISIL AA+/Stable | -- |

*All amounts are in Rs.Cr.*

### Annexure - Details of Bank Lenders & Facilities

| Facility | Amount (Rs.Crore) | Name of Lender | Rating |
|---|---|---|---|
| **Non-Fund Based Limit&** | **1000** | **HDFC Bank Limited** | **CRISIL AAA/Stable** |
| **Non-Fund Based Limit&** | **850** | **IDBI Bank Limited** | **CRISIL AAA/Stable** |
| **Non-Fund Based Limit&** | **1200** | **Kotak Mahindra Bank Limited** | **CRISIL AAA/Stable** |
| **Proposed Term Loan** | **300** | **Not Applicable** | **CRISIL AAA/Stable** |

*& - Interchangeable with fund based working capital limits*

## Criteria Details

| Links to related criteria |
|---|
| [CRISILs Approach to Financial Ratios] |
| [Rating criteria for manufaturing and service sector companies] |
| [CRISILs Bank Loan Ratings - process, scale and default recognition] |
| [CRISILs Criteria for Consolidation] |

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