March 04, 2022

Mahanagar Gas Limited: Ratings reaffirmed and assigned for enhanced amount; rating reaffirmed and withdrawn for long-term debt programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term debt programme	100.00	-	[ICRA]AAA (Stable); reaffirmed and withdrawn
Long-term Non-Fund based limits	200.00	254.00	[ICRA]AAA (Stable); reaffirmed/assigned
Long-term Fund-based limits	-	80.00	[ICRA]AAA (Stable); assigned
Short-term Non-Fund based limits	400.00	410.00	[ICRA]A1+; reaffirmed/assigned
Short-term Non-Fund based limits (Sublimit)	-	(160.00)	[ICRA]A1+; assigned
Short-term Fund-based limits	-	12.50	[ICRA]A1+; assigned
Short-term fund-based limits (Sublimit)	-	(2.00)	[ICRA]A1+; assigned
Long-term/Short-term - unallocated limits	-	43.50	[ICRA]AAA (Stable)/[ICRA]A1+; assigned
Total	**700.00**	**800.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation factors in the strong parentage of Mahanagar Gas Limited (MGL); its dominant position in the Greater Mumbai (Geographical Area 1, or GA1), surrounding expansion areas (GA2) and Raigad (GA3), as well as its diversified customer profile. Despite the expiry of MGL's marketing exclusivity in both GA1 and GA2 a few years ago and infrastructure exclusivity in May 2020 for GA1, ICRA expects it to continue to enjoy a dominant market share because of its first-mover advantage, as evident from its established infrastructure network. Apart from GA1, MGL continues to enjoy network/infrastructure exclusivity in all its GAs. In addition, there are significant entry barriers for third-party marketers or new entrants, arising mainly from concerns regarding gas availability at competitive prices. MGL benefits from its strong parentage (GAIL India Limited) in terms of technical/management support and operational synergy through its tie-up for sourcing natural gas for meeting a sizeable part of its requirements. The ratings consider the favourable outlook for demand growth in both compressed natural gas (CNG) and piped natural gas (PNG) categories, given the push by the Government of India (GoI) to promote the use of cleaner fuels and the cost advantage of CNG and PNG over alternative fuels. The ratings also consider the company's strong financial profile characterised by healthy profitability levels, zero debt and strong liquidity profile, with sizeable unencumbered cash balances and liquid investments.

In 9M FY2022, higher sales volume on the back of a better-than-expected ramp up in the CNG segment helped MGL report an operating income (OI) of Rs. 2,473.4 crore against Rs. 1,434.9 crore in 9M FY2021. Regasified liquified natural gas (RLNG) prices have firmed up in recent quarters and domestic gas prices has also witnessed a sharp increase, leading to some moderation in the margins. However, the impact is partly mitigated by long-term tie-ups for sourcing gas and the price revisions in various business segments, as witnessed in the past when it undertook regular price revisions to maintain its margins. Nonetheless, the company's ability to hike prices and the long-term demand prospects remain exposed to the changes in the spread between CNG/PNG and alternative fuel prices.

ICRA notes that MGL is undertaking capex to expand its network in Raigad (GA3) as well as the existing GAs. MGL has achieved slower-than-expected progress on its infrastructure plans in Raigad compared to the minimum work programme (MWP) submitted to the GoI due to delays in receiving necessary approvals and the impact of the pandemic. As of January 2022, the company has achieved its target for setting up domestic connections and laying inch km of steel pipeline, however, any potential partial encashment of the bank guarantee submitted by MGL to PNGRB for Raigad for the past delays remains a key rating sensitivity.

ICRA also notes the company's interest in bidding for additional cities in further rounds of competitive bidding for CGD networks. MGL has aggressive expansion plans entailing an outlay of ~Rs. 600-800 crore per annum over the next few years. While the large scale of the capex and the gestation period associated with the build-up of sales volumes are expected to moderate the company's return and credit metrics, the same is expected to remain robust on an absolute basis.

The Stable outlook reflects ICRA's expectation that MGL will continue to benefit from its well-established market position, strong parentage and favourable demand outlook.

ICRA has withdrawn the ratings assigned to the long-term debt programme of Mahanagar Gas Limited (MGL) at the request of the company, and in accordance with ICRA's policy on withdrawal of credit ratings as the debt was not placed.

Key rating drivers and their description

Credit strengths

Dominant position in gas distribution business in Greater Mumbai and expansion areas - At present, MGL enjoys a dominant position and first-mover advantage in retail gas distribution in Greater Mumbai (GA1), its expansion areas (GA2) and Raigad (GA3). By the provisions of the PNGRB Act, the company enjoys infrastructure exclusivity in GA3 for a 25-year period, i.e., till 2040. The company has, thus, been able to take the regular price hikes to factor in any increase in input costs, thereby protecting its operating profits.

Strong parentage, with deep understanding and interest in domestic gas business - MGL is promoted by GAIL (India) Limited (GAIL, [ICRA]AAA (Stable)/[ICRA]A1+), which has a deep understanding and interest in the domestic gas distribution business. GAIL's Chairman is at present the Chairman of MGL too. GAIL has a 32.5% shareholding in MGL. Further, a favourable allocation policy assures gas availability from GAIL for the CNG and PNG (domestic) segments. In February 2014, the GoI announced an allocation of 100% domestic gas towards CNG and PNG (domestic) segments of CGD entities, up from the initial 80% allocation. However, for the PNG (industrial and commercial) segments, where there is growth potential in the expansion areas, MGL's ability to meet additional gas requirements at competitive prices would remain critical.

Favourable outlook on demand growth in CNG and PNG segments – Despite some moderation in demand due to the adverse impact of the pandemic, the medium to long-term outlook for the CGD sector remains favourable for existing cities, where the incumbents are already operational and for which a domestic gas allocation is in place for the CNG and PNG (domestic) segments. While the growth of the CNG segment would be supported further by conversion of auto-rickshaws and taxis to CNG and its cost advantage over alternative fuels, the PNG (domestic) segment will continue to benefit from the cessation of LPG subsidy by the government. The PNG (industrial and commercial) segment would, however, continue to face intense competition from alternative liquid fuels.

Strong financial profile, comfortable capital structure and healthy liquidity – MGL's financial risk profile remains robust, marked by its sizeable scale of operations, strong cash accruals, a comfortable liquidity profile and capital structure with healthy debt protection metrics and high profitability and return indicators. In 9M FY2022, higher sales volume on the back of a better-than-expected ramp-up in the CNG segment helped MGL report a strong operating income (OI) of Rs. 2,473.4 crore against Rs. 1,434.9 crore in 9M FY2021. However, it recorded some moderation in the operating margin in 9M FY2022 compared with 9M FY2021 on account of the steep increase in gas costs (input cost) in recent quarter and lower allocation of APM gas towards the CNG and domestic segments compared to the demand growth, due to which there was higher spot purchase of gas.

Credit challenges

Operations exposed to changes in spread between CNG/PNG and alternative fuel prices - MGL relies primarily on spot buying for the PNG (industrial and commercial) categories. Therefore, MGL's operations in these price-sensitive segments are exposed to the spread between the PNG rates and the prices of alternative fuels (such as furnace oil, low sulphur heavy stock, bulk LPG, etc). While MGL receives 100% allocation of gas at administrative price mechanism (APM) prices for the CNG and PNG (domestic) categories, the volume growth in these categories could be impacted by any sharp change in the spread between APM gas and alternative fuel prices.

Expiry of marketing exclusivity along with physical exclusivity in key GAs – MGL's marketing exclusivity for GA1 and GA2 expired during 2012-2014, while its physical exclusivity for GA1 expired in May 2020, exposing the company to the threat from new entrants. However, it continues to benefit from the first-mover advantage and the steady development of its CGD infrastructure in these areas. Moreover, any third-party marketer looking to utilise MGL's infrastructure for CNG/PNG sales will face issues such as ability to secure gas supplies at competitive rates, operational challenges related to retail management set-up/expertise (billing, collection and metering along with after-sales/repair related services) and unattractive returns in case of low sales volume.

Slow progress in ongoing expansion in Raigad - MGL continues to make progress in Raigad, albeit at a gradual pace, due to delays in getting approvals and the impact of Covid-19. As of January 2022, the company has achieved its target for setting up domestic connections and laying inch km of steel pipeline, however, any potential partial encashment of the bank guarantee submitted by MGL to PNGRB for Raigad for the past delays remains a key rating sensitivity.

Liquidity position: Superior

MGL has a healthy liquidity profile with sizeable unencumbered cash and cash equivalents of ~Rs. 1,486 crore as on March 31, 2021 and ~Rs. 1,771 crore as on September 31, 2021. Further, MGL has been generating healthy cash accruals, which increased to ~ Rs. 438 crore in FY2021, and has no long-term debt repayment obligations at present. The company's liquidity profile should remain healthy despite its expansion plans, given the healthy profitability of its operations and high liquid investments.

Rating sensitivities

Positive factors – NA

Negative factors – Negative pressure on the ratings may arise because of any large debt-funded acquisition or slippage from MWP commitments, leading to large penalties. or any adverse regulatory developments impacting the revenues and profitability on a sustained basis or any significant decline in profitability emanating from increased competition from new entrants on open access basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA Policy on Withdrawal of Credit Ratings Corporate Credit Rating Methodology Rating Methodology for Entities in the City Gas Distribution companies
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company.

About the company

Mahanagar Gas Limited (MGL) was incorporated in 1995 as a joint venture between GAIL (India) Limited (GAIL) and BG Asia Pacific Holdings Pte Limited (BGAPH) - a Royal Dutch Shell Plc subsidiary. Subsequently, the company was listed in June 2016, after which both GAIL and BGAPH's stake reduced to 32.5% each, with the remaining 35% stake held by the public (of which 10% is with the state government of Maharashtra). Further, in August 2019, BGAPH sold its entire stake in the company. At present, GAIL is the only promoter in the company.

Over the past two decades, MGL has established a firm presence in the Greater Mumbai gas distribution business, where it is the dominant player, with its growth primarily driven by the CNG business, which contributes 70-75% of its revenues at present. The company also supplies piped natural gas (PNG) to industrial, commercial, and residential segments. The company sources most of its gas requirements from GAIL, while a small part is bought from the spot market. MGL has put in place large plans to augment its gas distribution network in the existing Mumbai region and expand its network in the surrounding regions of Mumbai. The company currently operates in three geographical areas (GAs) — GA1, which includes the Greater Mumbai region; GA2, which includes expansion areas, such as Mira-Bhayander, Thane-Vashi-Belapur (TVB), Kharghar-Panvel-Taloja (KPT), Kalyan-Dombivli-Ambernath and Ulhasnagar (KD& AB); and GA3, which is the Raigad district (won by the company in 2015).

Key financial indicators (audited)

MGL Standalone	FY2020	FY2021
Operating Income (Rs. crore)	2,972.1	2,152.5
PAT (Rs. crore)	793.5	619.6
OPBDIT/OI (%)	35.4%	43.4%
PAT/OI (%)	26.7%	28.8%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.4
Total Debt/OPBDIT (times)	-	-
Interest Coverage (times)	161.3	129.8

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on December 31, 2021 (Rs. crore)	Date & Rating on		Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY20119
					March 04, 2022	Sep 30, 2021	Sep 21, 2020	June 06, 2019	June 06, 2018
1	Debt Programme	Long-term	100.00	-	[ICRA]AAA (Stable); reaffirmed and withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
2	Non-fund-based bank facilities	Long-term	254.00	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable
3	Non-fund-based bank facilities	Short-term	410.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Long-term Fund-based Limits	Long-term	80.00	-	[ICRA]AAA (Stable)	-	-	-	-
5	Short-term Non-Fund based Limits (Sublimit)	Short-term	(160.00)	-	[ICRA]A1+	-	-	-	-
6	Short-term Non-Fund based Limits	Short-term	12.50	-	[ICRA]A1+	-	-	-	-
7	Short-term Fund based Limits (Sublimit)	Short-term	(2.00)	-	[ICRA]A1+	-	-	-	-
8	Long-term/Short-term - Unallocated limits	Long-term / Short-term	43.50	-	[ICRA]AAA (Stable) / [ICRA]A1+	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-fund-based bank facilities	Very Simple
Non-fund-based bank facilities	Very Simple
Long-term Fund-based Limits	Simple
Short-term Non-Fund based Limits (Sublimit)	Very Simple
Short-term Non-Fund based Limits	Simple
Short-term Fund based Limits (Sublimit)	Simple
Long-term/Short-term - Unallocated limits	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Long-Term Debt Programme*	NA	NA	NA	100.00	[ICRA]AAA (Stable); reaffirmed and withdrawn
NA	Long-term Non-Fund-based Limits	NA	NA	NA	254.00	[ICRA]AAA (Stable)
NA	Long-term Fund-based Limits	NA	NA	NA	80.00	[ICRA]AAA (Stable)
NA	Short-term Non-Fund based Limits	NA	NA	NA	410.00	[ICRA]A1+
NA	Short-term Non-Fund based Limits (Sublimit)	NA	NA	NA	(160.00)	[ICRA]A1+
NA	Short-term Fund-based Limits	NA	NA	NA	12.50	[ICRA]A1+
NA	Short-term Fund-based Limits (Sublimit)	NA	NA	NA	(2.00)	[ICRA]A1+
NA	Long-term/Short-term - Unallocated limits	NA	NA	NA	43.50	[ICRA]AAA (Stable)/ [ICRA]A1+

** Proposed NCD programme;* ***Source:*** *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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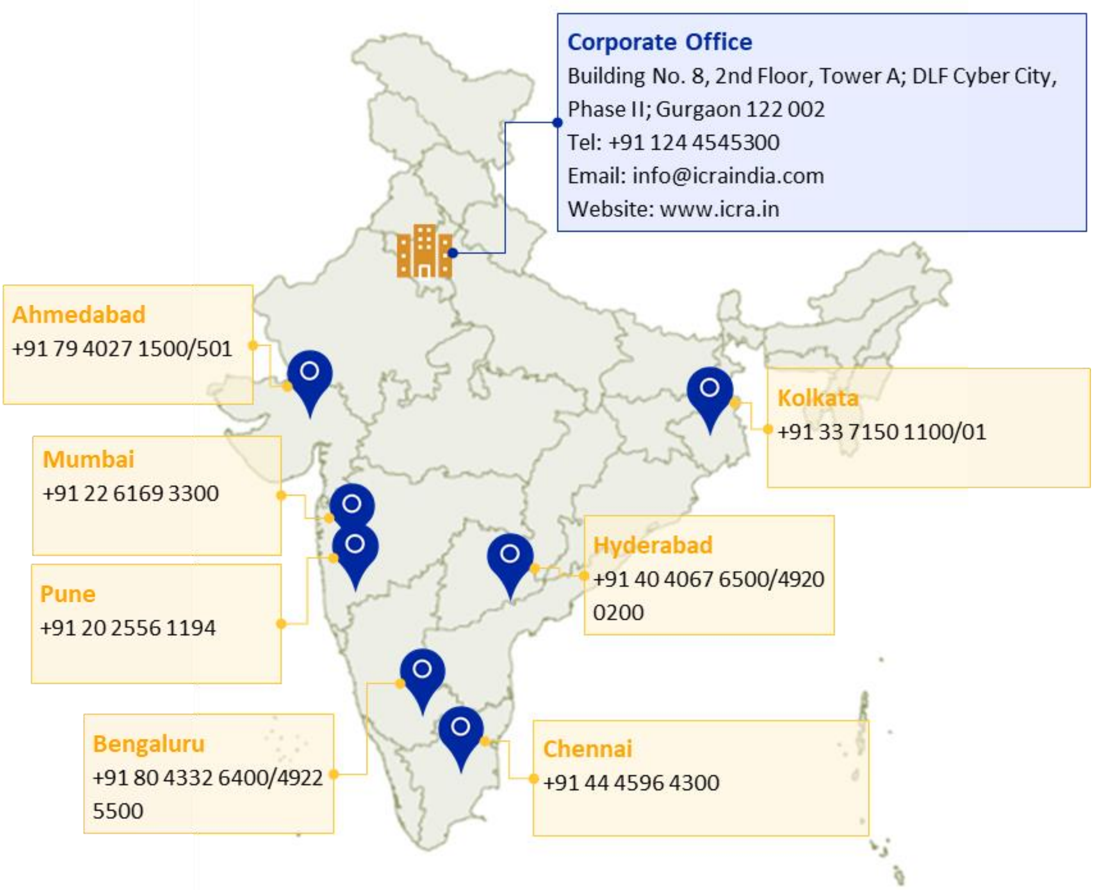

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