Mahanagar Gas Limited

June 06, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term debt programme	100.00	100.00	[ICRA]AAA (Stable); Reaffirmed
Long-term non-fund based limits	200.00	200.00	[ICRA]AAA (Stable); Reaffirmed
Short-term non-fund based limits	400.00	400.00	[ICRA]A1+; Reaffirmed
Total	**700.00**	**700.00**	

*Instrument details in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]AAA (pronounced ICRA triple A) and the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) outstanding on the long-term debt programme and the bank limits of Mahanagar Gas Limited (MGL) aggregating to Rs. 700.0 crore[1][2]. The outlook on the long-term rating is 'Stable'.

Rationale

The reaffirmation of ratings factors in the strong parentage of MGL, its current monopoly position in Greater Mumbai (Geographical Area (GA) - 1) and surrounding expansion areas (GA2) and its diversified customer profile. Despite the expiry of MGL's marketing exclusivity in both GA1 and GA2 some years back, ICRA expects the company to continue to enjoy a dominant market share because of its first-mover advantage, as evident from its established infrastructure network. In addition, there are significant entry barriers for third-party marketers arising mainly from concerns regarding availability of gas at competitive prices. MGL continues to enjoy physical exclusivity (25 years from the year 1995 for Greater Mumbai and from 2005 for expansion areas, which can be further extended for a block of 10 years) which is another positive for the company's operations. The ratings consider the favourable outlook for demand growth in both, CNG and PNG segments given the push by the government to promote the use of cleaner fuels and the cost advantage of CNG and PNG over alternate fuels. The ratings also take into account the strong financial profile of the company characterised by healthy profitability levels, negligible borrowings and strong liquidity profile characterised by sizeable cash balances and liquid investments (of Rs. 780 crore as on March 31, 2018).

The ratings also take into account the price advantage of gas over alternate fuels (especially in the CNG and domestic segments) and the consequent positive impact on demand. While the City Gas Distribution (CGD) sector enjoyed lower gas costs in FY2017 and majority of FY2018 due to a decline in global gas indices, the government-announced price for gas allocation increased in H2FY2018 and H1FY2019 (following the recovery in global gas prices) leading to higher gas costs for CGD players. However, the company has undertaken regular price revisions (three upward revisions in last twelve months) which has led to improvement in its contribution levels. The company may have to undertake further price increase to factor in the recent depreciation of rupee which has increased the company's input costs.

---

[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

ICRA notes that MGL has capex plans in Mumbai and the surrounding areas to expand its network. The company is also undertaking capex for setting up its network in Raigad (its third GA). The large scale of capex and the gestation period associated with build-up of sales volumes in Raigad may moderately impact the company's return indicators and coverage metrics. However, the company is expected to benefit from the location of Raigad district as it is in continuity to its existing GAs and has access to GAIL's pipeline network in the entire GA. MGL has, however, achieved limited 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 thus ramp-up of operations remains to be seen. ICRA also notes that MGL's participation in the recently concluded bidding round for new cities could result in higher bank guarantee liabilities. The company may look for inorganic growth and therefore any sizeable acquisition remains a key rating sensitivity.

Outlook: Stable

ICRA believes MGL will continue to benefit from its well-established market position and strong parentage. The outlook may be revised to 'Negative' in case of encashment of any sizeable portion of performance bank guarantee provided by MGL to the Petroleum and Natural Gas Regulatory Board (PNGRB) for adherence to the MWP in Raigad.

Key rating drivers

Credit strengths

Monopoly position in the gas distribution business in Greater Mumbai and expansion areas– At present, MGL enjoys a near-monopoly status and has a first-mover advantage in retail gas distribution in Greater Mumbai (GA1) and its expansion areas (GA2). The company has thus been able to take regular price hikes to factor in the increase in input costs thereby protecting its contribution levels[3] which increased to Rs. 12.08/scm in FY2018 from Rs. 10.66/scm in FY2017.

Strong parentage – MGL is jointly promoted by GAIL (India) Limited (GAIL) and BGAPH (a Royal Dutch Shell subsidiary), both of which have a deep understanding and interest in the domestic gas distribution business. While GAIL has a 32.5% shareholding in MGL, BGAPH's current stake in MGL is 24.0% (reduced from 32.5% by stake sale in April 2018).

Favourable outlook on demand growth in both, CNG and PNG segments – The outlook for the CGD sector remains favourable for existing cities, where incumbents are already operational, with domestic gas allocation in place for the CNG and PNG (domestic) segments, both of which should see 8-10% growth in volumes. While growth of CNG would be supported further by conversion of taxis to the CNG and its cost advantage over alternate fuels, the PNG (domestic) segment will continue to benefit from the cessation of LPG subsidy to high income consumers. The PNG (industrial and commercial) segment would, however, continue to face stiff competition from alternate liquid fuels.

Secure gas tie-up with GAIL – A favourable allocation policy has assured availability of gas from GAIL for CNG and PNG-domestic segments. In February 2014, the Government of India (GoI) announced allocation of 100% domestic gas towards the CNG and PNG (domestic) segments of CGD entities, up from the initial 80% proportional allocation. However, for its 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.

[3] Net average realisation less gas procurement costs

Healthy financial profile – The company has a healthy financial profile characterized by high profitability and return indicators. Also, MGL has a comfortable capital structure with negligible gearing levels, strong coverage metrics, and a sound liquidity position.

Credit weaknesses

Operations in the industrial and commercial segment exposed to changes in spread between PNG and alternate fuel prices – While the company receives 100% gas allocation to meet the gas demand in the CNG and PNG (domestic) segment, it relies largely on spot buying for the PNG (industrial and commercial) segments. Therefore, MGL's operations in these segments are exposed to the spread between the PNG rates and the prices of alternate fuels such as furnace oil, low sulphur heavy stock, bulk LPG, etc.

Ongoing expansion plans in Raigad running behind schedule – The company is currently setting up its network in its new GA (Raigad) and the same has witnessed significant delays on account of delays in land acquisition approvals as the concerned area lies in an eco-reserve. Also, given the longer gestation period for a build-up in the sales volumes, the expansion in the new GA could moderately impact MGL's return indicators.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

Corporate Credit Rating Methodology

Rating Methodology for City Gas Distribution Companies

About the company:

Mahanagar Gas Limited (MGL) is a joint venture between GAIL (India) Limited (GAIL) and BG Asia Pacific Holdings Pte Ltd (a Royal Dutch Shell Plc subsidiary). The company got listed in July 2016, after which both, GAIL and BG Asia Pacific Holdings Pte Limited's stake reduced to 32.5% each, with the remaining 35% stake being held by the public (of which 10% is with the government of Maharashtra). In April 2018, BG Asia Pacific Holdings (BGAPH) sold 8.5% stake in MGL, thereby reducing its total stake in the company to 24% from 32.5% while the pubic shareholding increased to 43.5%. MGL has, over the past 23 years, established a firm presence in the Greater Mumbai gas distribution business, where it is the monopoly player, with its growth being driven primarily by the CNG business, which presently contributes 70-75% of its revenues. The company also supplies piped natural gas (PNG) to industrial, commercial, and residential/ domestic segments. MGL has put in place large plans to augment its gas distribution network in the existing Mumbai region as well as to expand its network in the surrounding regions of Mumbai. The company currently operates in three Geographical Areas (GAs) – GA-1 which includes the Greater Mumbai region; GA-2 which includes expansion areas such as Mira-Bhayander, Thane-Vashi-Belapur (TVB), Kharghar-Panvel-Taloja (KPT), Kalyan-Dombivli-Ambernath and Ulhasnagar (KD& AB)); and GA-3 which is the Raigad district (won by the company in April 2015).

Key Financial Indicators - Audited

	FY2017	FY2018
Operating Income (Rs. crore)	2,034.0	2,233.0
PAT (Rs. crore)	393.4	477.9
OPBDIT/ OI (%)	31.7%	34.9%
RoCE (%)	40.2%	41.7%
Total Debt/ TNW (times)	0.0	0.0
Total Debt/ OPBDIT (times)	0.0	0.0
Interest coverage (times)	631.8	8,667.9

Status of non-cooperation with previous CRA: Not applicable

Any other information: A Member of the Board of Directors of ICRA Limited is also an Independent Director on Board of Directors of Mahanagar Gas Limited. This Director was not involved in any of the discussions and processes related to the rating of the instrument(s) mentioned herein.

Rating history for last three years:

		Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating (FY2019) June 2018	Date & Rating in FY2018 May 2017	Date & Rating in FY2017 April 2016	Date & Rating in FY2016 June 2015
1	Debt Programme	Long-Term	100.00	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
2	Non-Fund Based Limits	Long-Term	200.00	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-
3	Non-Fund Based Limits	Short-Term	400.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-Term Debt Programme	Yet to be placed	-	-	100.00	[ICRA]AAA (Stable)
NA	Long-Term Non-Fund Based Limits	-	-	-	200.00	[ICRA]AAA (Stable)
NA	Short-Term Non-Fund Based Limits	-	-	-	400.00	[ICRA]A1+

Source: Mahanagar Gas Limited

ANALYST CONTACTS

K. Ravichandran
+91 44 4596 4301
ravichandran@icraindia.com

Anoop Bhatia
+91 124 4545 315
anoopb@icraindia.com

Abhishek Dafria
+91 22 6169 3344
abhishek.dafria@icraindia.com

Anubha Rustagi
+91 22 6169 3341
anubha.rustagi@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 6606 9999

© Copyright, 2018 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents