October 17, 2019

Indraprastha Gas Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term/Short Term Limits- Fund Based/Non-Fund Based Allocated	3,077.36	3327.00	[ICRA]AAA (Stable) / [ICRA]A1+ reaffirmed
Long Term/Short Term Limits-Unallocated	922.64	673.00	[ICRA]AAA (Stable) / [ICRA]A1+ reaffirmed
Total	**4,000.00**	**4,000.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings reaffirmation factors in the company's favourable business risk profile arising from its current exclusive position in the city gas distribution (CGD) business in Delhi (or National Capital Territory, NCT) and infrastructure exclusivity (up to December 2023) for its NCT operations. The ratings also draw comfort from the favourable demand outlook and growth prospects for the Compressed Natural Gas (CNG) and Piped Natural Gas (PNG) segments and the company's secure gas tie-up with GAIL for a large portion of its current operations. The ratings also reflect the company's strong financial risk profile with robust profitability and cash generation from operations and its strong return and credit metrics. Further, the ratings favourably consider IGL's strong parentage, with GAIL and BPCL being the main shareholders.

Over FY2019, IGL's sales volume increased by 14% to 5.91 MMSMD from 5.18 MMSCMD in FY2018 driven by 13.4% growth in CNG volumes and 15.3% growth in PNG volumes. The demand growth of CNG was healthy due to—i) the conversion of private cars at the rate of 3,000/month and increased sales of CNG variants cars; ii) conversion of Large Commercial Vehicles (LCVs) and sale of CNG-based LCVs owing to imposition of Green Tax for entry into Delhi; and iii) gradual conversion of cabs running under All India Permit as and when their existing permit expires.

In October 2017, the Supreme Court imposed a ban on the use of furnace oil and pet coke in the National Capital Region (NCR) owing to high levels of pollution, which led to healthy growth in the PNG Industrial volumes of the company in FY2019 and Q1 FY2020. Additionally, to promote usage of clean fuel in the national capital, the Delhi government has been incentivising commercial and industrial users to switch over to PNG. The aforementioned regulatory thrust, besides expansion of network, is expected to drive the growth in the company's industrial and commercial volumes.

The company also won the authorisation for Kaithal (Haryana), Ajmer, Pali & Rajsamand (Rajasthan) and Kanpur (rest), Fatehpur and Hamirpur (Uttar Pradesh) in the 10th round of bidding conducted by Petroleum & Natural Gas Regulatory Board (PNGRB) besides which the regulator has also authorized the company for Hapur (Uttar Pradesh) in FY2019. ICRA believes that the minimum work programme and capex requirements for these GAs are moderate and given the vast experience of the company in executing CGD projects and its healthy cash accruals and available liquid investments, it should be comfortably placed in meeting its commitments. Nevertheless, ICRA has also taken note of the company's interest in bidding for additional cities in further rounds of competitive bidding for CGD networks. If IGL were to be a successful bidder for any of the new cities put up for bidding by the regulator, ICRA will evaluate the impact of the same on the credit risk profile of the company.

ICRA notes that IGL has aggressive expansion plans entailing an outlay of approximately Rs. 1000-1100 crore annually over FY2020-FY2022. While the large scale of the capex and the gestation period associated with build-up of sales volumes are expected to have some moderating impact on the company's return and credit metrics from current levels considering the company's ambitious plans to increase the penetration of the PNG (domestic) segment, which is a lower margin segment, nevertheless on an absolute basis, these metrics are expected to continue being robust. The company is also looking at various prospects. However, pending finalisation of any acquisitions, ICRA has not factored in the business and financial impact of such acquisitions on IGL and will assess it as and when a decision in this regard is finalised.

In August 2017, the state government of Haryana (GoH) gave permission to IGL to operate in Gurugram in the area bound by Sohna Road and NH-8, which was challenged by the incumbent S K Bentex Group in the Supreme Court. However, The Supreme Court has directed the company to evaluate the possibility of taking over the CGD operation of the S K Bentex group for which the valuation is under process. Nevertheless, the company expects to achieve volumes of 0.4 mmscmd over the next five years in Gurugram from 10-12 CNG stations and 10,000 households. The company plans to incur an annual capex of Rs 50-60 crore over the next three years on Gurugram.

IGL's CGD operations in Delhi, Noida, Greater Noida and Ghaziabad have been authorised by the Central Government. The Government has authorised IGL for Faridabad and Gurugram as well. IGL is contesting for the entire Faridabad and Gurugram regions. The matter remains sub-judice at present.
The marketing exclusivity available to IGL in the NCT region expired in December 2011. ICRA, however, expects that the company will continue to enjoy a dominant market share because of its first mover advantage and significant entry barriers for third party marketers.

Key rating drivers and their description

Credit strengths

- **Current exclusive position in the Delhi city gas distribution and infrastructure business -** IGL is the exclusive distributor of CNG and PNG in the NCT. By the provisions of the PNGRB Act, the company enjoys infrastructure exclusivity in the NCT for a 25-year period, i.e., till December 2023.

- **Sustained growth in sales volume in the CNG segment:** The company has exhibited sustained volume growth over the years in the CNG segment driven by Court mandated conversion with respect to commercial vehicle fleet, favourable cost economics vis-a-vis alternate fuels and expansion to new areas.

- **Favourable outlook on demand growth in the CNG and PNG segments driven by the price differential between gas and liquid fuels, regulatory push and expansion of infrastructure respectively:** ICRA expects significant growth in CNG demand over the near to medium term given the growing vehicle population in the NCT and NCR. The current low levels of CNG penetration; continued regulatory push driving commercial vehicle segment demand and favourable economics driving voluntary demand from private vehicle segment are positive factors too. Going forward, the company would continue to incur capex to expand its PNG network and coverage. Moreover, demand is expected to show healthy growth, given the favourable demand drivers. The same include the expected continuance of the power deficit situation, requirements of high quality heat and power and other benefits of using gas instead of liquid fuels. Low maintenance, low investment in storage, and favourable economics of conversion are all factors that will stimulate and sustain the demand for gas.

- **Secure gas tie-up from GAIL:** GAIL one of the promoters of IGL, for a large part of existing operations; additionally the GoI mandated provision of domestic gas for the CNG and PNG (domestic) segments ensures availability of gas for current consumption and future growth in these segments especially considering the large proportion of CNG in the overall sales mix of the company and its ambitious plans to increase penetration. The company has secure gas tie-ups in place for a bulk of its volumes. In addition, consumption of CNG and PNG (domestic) segments is required to be serviced from domestic gas and accordingly any growth in these segments leads to increased allocation of domestic gas.

- **Robust financial risk profile characterised by healthy profitability and cash generation from operations along with strong return and credit metrics -** Over FY2019, IGL's Operating Income increased from Rs. 4,535.5 crore in FY2018 to Rs. 5,764.8 crore owing to increase in volumes and realisations. The non-operating income was higher in FY2019 vis-à-vis FY2018 owing to higher interest income from cash, dividend income from associates viz Maharashtra Natural Gas Limited (MNGL) and Central UP Gas Limited(CUGL) and income from mutual fund investments. Operating profits of the company improved to 1,259.0 crore in FY2019 from Rs 1126.10 crore in FY2018 owing to higher volumes and realisation. In line with higher operating profit and higher other income, the net profit increased from Rs 670.8 core in FY2018 to Rs 786.7 crore in FY2019. RoCE remained strong at 33.2% in FY2019. As at March 31, 2019, IGL was debt free. The Company's debt protection metrics were strong with Interest Coverage of 614 times in FY2019. IGL's cash and liquid investments were Rs. 1,893.3 crore as at FY2019 end which is indicative of its superior liquidity position.

  IGL's operating income increased by 22.4% from Rs 1,287.6 crore in Q1 FY2019 to Rs 1,576.1 crore in Q1 FY2020 owing to higher volumes and higher realisations. Following higher income, the operating profits increased by 21.5% from Rs 295.2 crore in Q1 FY2019 to Rs 358.4 crore in Q1 FY2020. In line with higher operating profit, the net profit increased by 24.1% YoY from Rs 175.9 crore in Q1 FY2019 to Rs 218.4 crore in Q1FY2020.

- **Strong parentage, with both promoters (GAIL & BPCL) having a deep understanding and interest in the domestic gas business:** IGL is promoted by GAIL and BPCL each holding about 22.5% in the paid-up equity capital of the company. Both GAIL and BPCL are dominant companies with deep understanding experience and expertise in the sector.

- **Protection afforded by the regulations under the PNGRB Act** Under the PNGRB Act, 2006, new entrants/incumbents will enjoy monopoly with regards to network provision for 25 years and marketing exclusivity for five years, both from the date of authorisation and allow (network and compression) charges to be levied to enable the incumbent to earn 21% (pre-tax) RoCE.

- **Upside potential from ongoing capex programme for expansion of geographical reach and network:** IGL has aggressive expansion plans entailing an outlay of approximately Rs. 1,000-1,100 crore annually over FY2020-FY2022 to be incurred over GAs in the NCR (Delhi, Ghaziabad, Noida and Greater Noida) as well as new GAs of Kaithal (Haryana), Ajmer, Pali & Rajsamand (Rajasthan) and Kanpur (rest), Fatehpur and Hamirpur (Uttar Pradesh), Rewari, Hapur and Karnal. The company's overall sales volumes are expected to grow driven by the favourable economics of conversion and expanded infrastructure.

Credit challenges

- **Regulatory risks with respect to authorisations in the NCR -** IGL's CGD operations in Delhi, Noida, Greater Noida and Ghaziabad have been authorised by the Central Government. The Central Government has authorised IGL for

Faridabad and Gurugram as well. IGL is contesting for the entire Faridabad and Gurugram regions.. The matter remains sub-judice at present.

- **Exposure to project execution risks associated with setting up of city gas distribution project in a new geography as well as large contingent liability:** The award of new Geographical Area (GA), such as Kaithal (Haryana), Ajmer, Pali & Rajsamand (Rajasthan) and Kanpur (rest), Fatehpur and Hamirpur (Uttar Pradesh) along with others GAs such as Rewari, Hapur and Karnal, to the company exposes it to execution risks associated with setting up of city gas distribution projects in a new geography. Moreover, the large contingent liability in the form of Bank Guarantee for meeting the minimum work programme and service standards are other risks. However, ICRA believes that the minimum work programme and capex requirements are moderate and given the vast experience of the company in executing CGD projects and its healthy cash accruals, it should be comfortably placed in meeting its commitments.

- **Expected moderation in profitability margins and returns indicators owing to increasing proportion of revenues from the PNG (domestic) segment, aggressive capex outlay and gestation period associated with build-up of sales volume:** The high capex outlay, aggressive increase in PNG (domestic) volumes as mandated by the GoI and gradual build-up of sales volume in new GAs may result in some moderation in the company's return indicators over the medium term; although over the long-term, returns from the investments made are expected to be robust.

- **Increase in competitive risks from third party marketers in the NCT following expiry of marketing exclusivity; significant entry barriers, however, still exist due to IGL's first mover advantage** - With expiry of marketing exclusivity in the NCT from December 2011, the company is now exposed to competition from third party marketers. However, for any third party marketer wanting to utilise IGL's infrastructure for CNG/PNG sales, there will be issues associated with ability to get gas supplies at competitive rates; operational issues related to retail management set-up/expertise (billing, collection and metering along with after-sales/repair related services) and unattractiveness of returns in case of low sales volume.

Liquidity position: Superior

Liquidity profile of the company is superior with healthy cash accruals, large cash and liquid investments, nil debt and negative net working capital intensity Though the capex plans of the company are expected to be upscaled going forward with addition of a number of new GAs nevertheless the healthy cash accruals and large cash and liquid investments are expected to maintain the liquidity comfortable.

Rating sensitivities

Positive triggers – Not Applicable

Negative triggers – Negative pressure on the ratings may arise in case of large debt funded capex or acquisition or encashment of material bank guarantees. Specific credit metrics that could lead to a downgrade would be Net Debt/OPBDITA exceeding 1.2 times

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating methodologies for City Gas Distribution companies
Parent/Group Support	NA
Consolidation/Standalone	The rating is based on standalone financial statements of the rated entity.

About the company

IGL was set up in 1998 by GAIL, BPCL, the Government of Delhi and a few institutional investors, following a Supreme Court directive to GAIL to set up CNG infrastructure in the National Capital Territory. The company came out with an Initial Public Offering (IPO) in FY2004 as an 'offer for sale', wherein the institutional investors sold off their stake resulting in a change in shareholding structure. Currently, GAIL, BPCL and the Delhi government hold 22.5%, 22.5% and 5%, respectively, in the paid up equity capital of the company, with the rest held by other investors. IGL is the exclusive distributor of CNG and PNG in the NCT with CNG constituting 74% of the company's total sales volume in FY2019. Going forward, IGL has sizeable expansion plans both for augmenting its network in the NCT as well as expanding its presence to contiguous areas such as the NCR (Noida, Greater Noida, Ghaziabad and Gurugram) as well as other GAs such as Rewari, Karnal, Kaithal, Ajmer, Pali and Rajsamand districts (Rajasthan), Kanpur (Rest), Fatehpur & Hamirpur Districts (UP), Hapur (UP) and Meerut, Shamli and Muzaffarnagar (UP). In CY2013 the company acquired 50% equity stake in Central UP Gas Limited (CUGL) for a total consideration of Rs. 69 crore. The acquired entity CUGL is the authorised CGD operator at Bareilly, Jhansi, Unnao and Kanpur in Uttar Pradesh. In CY2014, the company acquired 50% equity stake in Maharashtra Natural Gas Limited (MNGL) for a total consideration of Rs. 190 crore. MNGL is the authorised CGD operator for Pune, including Pimpri-Chinchwad and adjoining contiguous areas of Hinjewadi, Chakan and Talegaon in Maharashtra.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	4,535.4	5,764.8
PAT (Rs. crore)	670.7	786.6
OPBDIT/OI (%)	24.8%	21.8%
RoCE (%)	33.9%	33.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.4
Total Debt/OPBDIT (times)	-	-
Interest Coverage (times)	666.3	614.1
DSCR	525.6	496.4

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018	FY2017
					17-Oct-2019	12-Oct-2018	22-Sept-2017	06-Sept-2016
1	Long Term Limits-Unallocated	Long Term	Nil	-	-	-	-	[ICRA]AAA (Stable)
2	Long Term/Short Term Limits-Fund Based/Non Fund Based	Long Term/Short Term	Rs. 3,327.0 crore	-	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+
3	Long Term/Short Term Limits-Unallocated	Long Term/Short Term	Rs 673.0 crore	-	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+

Amount in Rs. crore

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Long Term/Short Term Limits- Fund Based/Non-Fund Based	-	-	-	Rs. 3,327.0 crore)	[ICRA]AAA (Stable)/ [ICRA]A1+
-	Long Term/Short Term Limits- Unallocated	-	-	-	Rs 673.0 crore	[ICRA]AAA (Stable)/ [ICRA]A1+

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA
NA	NA	NA

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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.

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