January 28, 2022

GAIL (India) Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term/Short Term fund based-non-fund based	3900.0	4,500.0	[ICRA]AAA(Stable)/[ICRA]A1+; reaffirmed
Long Term/Short Term fund based-non-fund based - unallocated	1,100.0	500.0	[ICRA]AAA(Stable)/[ICRA]A1+; reaffirmed
Term Loans	2,000.0	2,000.0	[ICRA]AAA(Stable); reaffirmed
Short term fund based#	750.0	0.0	-
Long term/Short Term- Fund Based/Non-Fund based#	0.00	3,000.00	[ICRA]AAA(Stable)/[ICRA]A1+; reaffirmed
Long Term/short Term Bank lines-unallocated#	3,250.0	1,000.0	[ICRA]AAA(Stable)/[ICRA]A1+; reaffirmed
Commercial paper#	4,000.0	4,000.0	[ICRA]A1+; reaffirmed
Total	**11,000.0**	**11,000.0**	

**Instrument details are provided in Annexure-1; # The total amount outstanding against the rated bank lines and the commercial paper program is fully interchangeable and will not exceed Rs. 4000 crore. For amount allocated to the short-term limits rating of [ICRA]A1+ will be applicable while for limits rated on long term scale the rating of [ICRA]AAA (Stable) will be applicable. For limits rated on both long term/short term scale the rating of [ICRA]AAA(Stable)/[ICRA]A1+ will be applicable*

Rationale

The ratings reflect GAIL's leadership position in the natural gas transmission segment resulting in stable cash accruals, sizeable portfolio of gas marketing, favourable demand prospects for natural gas in India, and downstream integration into petrochemicals and liquefied petroleum gas (LPG). ICRA also notes that GAIL's gas transmission volumes are likely to increase wth the commissioning of some of the fertiliser plants as well as expansion in city gas distribution networks along its gas pipelines. The ratings also take into account GAIL's strong financial position and strength derived from the significant sovereign ownership. In addition, the ratings factor in the concerns related to regulatory uncertainty on natural gas pipeline tariffs, dependence of the marketing margins on international indices of crude and gas, and gas availability for some of the new pipeline projects along with the risks arising from its large contingent liabilities. The ratings also factor in the commodity price risks for petrochemical and LPG segments.

In H1 FY2022, GAIL has posted healthy profitability with improvement visible across all segments amid robust growth in natural gas transmission volumes, higher marketing spreads on US LNG sales, strong polymer margins and healthy gross margin on sale of Liquified Petroleum Gas (LPG) amid elevated international prices. Going forward, GAIL's profitability is expected to grow with the growth in the transmission volumes with commissioning of various anchor customers across the Urja Ganga pipeline and commissioning of various other pipelines currently under implementation as well. ICRA also notes that the company is undertaking capex towards expansion of its pipeline network as well as petrochemicals capacity, which is likely to result in increase in debt levels, although the coverage and leverage metrics will remain strong.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company will continue to benefit from its leadership position in the natural gas transmission segment and its strategic importance to GoI.

Key rating drivers and their description

Credit strengths

Leadership in natural gas transmission, the sector is characterised by high entry barriers: GAIL enjoys a dominant position in the natural gas transmission business with a market share of ~70%, catered to by its large pipeline network covering ~13,340 km. The setting up of pipelines requires large investments and navigating a complex regulatory framework. As a result, the entry barriers to the natural gas transmission business remain high.

Regulated returns in pipelines leading to stable cash generation: Dominant market share in transmission segment, along with regulated returns on the capital employed, resulted in healthy profitability and stable cash generation for GAIL. The Return on Capital Employed (RoCE) for the gas transmission division moderated from 26% in FY2011 to around 9% in FY2016 due to lower than anticipated tariffs approved by PNGRB. However, PNGRB has revised transmission tariffs for several pipelines in the last couple of years providing an uplift to the return indicators for the transmission segment which is expected to support cash generation going forward as well.

Favourable demand growth for natural gas in India: GoI's focus on increasing the share of natural gas in the overall energy mix of the country to 15.0% from 6.5% currently has resulted in the government taking several steps to increase natural gas consumption. As domestic gas production has been on a downtrend since FY2013 with marginal growth witnessed in FY2019, the reliance on imported LNG has been on the rise. Additionally, the increase in R-LNG consumption can be attributed to the mainly to the implementation of gas pooling mechanism in the fertiliser sector which has increased the ability of the sector to uptake LNG. Going forward the demand for natural gas is expected to remain healthy driven by the City Gas Distribution (CGD) and the fertiliser sector.

Downstream integration benefits arising from presence in Petrochemicals and LPG: In order to diversify its revenue streams and utilise its ability to source natural gas efficiently, GAIL has also diversified into downstream sectors i.e. manufacturing of petrochemicals and liquified petroleum gas (LPG). The LPG segment has been aiding profitability of GAIL and maintaining healthy segmental contribution. The Petrochemical segment's profitability has fluctuated over the years owing to the volatility in polymer realisations and raw material prices. Going forward with the commissioning of the poly-propylene projects by GAIL, the downstream integration will further improve.

Strong financial risk profile arising from healthy capital structure, high profitability and comfortable debt protection metrics: GAIL's financial risk profile is characterised by healthy profitability and strong cash accruals resulting in comfortable debt metrics and capital structure. In H1 FY2022, GAIL has posted healthy profitability with improvement visible across all segments amid robust growth in natural gas transmission volumes, higher marketing spreads on US LNG sales, strong polymer margins and healthy gross margin on sale of Liquified Petroleum Gas (LPG) amid elevated international prices. The financial leverage was 0.5x at the end of H1 FY2022 vis-à-vis 0.9x at the end of FY2021 with the improvement in profitability.

Exceptional financial flexibility arising from sovereign ownership, market leadership position and robust cash accruals: GAIL enjoys exceptional financial flexibility given the stable cash accruals, large sovereign ownership, strategic importance to GoI and long relationship with the investors and capital markets. As a result, the company can access the capital markets at short notice to raise funds and also finds favour with the lending community for raising loans at attractive rates.

Credit challenges

Risks related to HH based LNG tied up in the US in scenario of low crude oil prices: In December 2011, GAIL signed an agreement to import 3.5 MMTPA of LNG from Cheniere Energy's Sabine pass liquefaction plant in the US for a period of 20 years. Besides, GAIL has another 2.3 MMTPA contract to liquefy gas at Cove Point terminal in the US. The pricing formula for these contracts is linked to the HH index (the benchmark natural gas price in the US), which in the past had remained significantly cheaper than the oil indexing contracts for importing countries. In recent years HH prices have remained rangebound between $2.5-3.5/mmbtu. As a result of the pricing formula, HH-based LNG is costlier which puts it in a significantly uncompetitive position as compared to spot LNG and other crude oil price linked LNG contracts in a scenario of low Brent crude prices. In a sustained low crude oil price scenario, GAIL may face profitability pressure on the marketing HH linked LNG although currently the sale of US LNG remains profitable for the company.

Lower than anticipated tariffs approved by PNGRB leading to the pressure on return indicators of the transmission segment; besides low returns from the new projects to impact overall return indicators: The tariffs approved by the PNGRB have been lower than the provisional tariffs proposed by GAIL. However, the recent significant upscaling of tariffs for several pipelines indicates a more benign regulatory regime which should lead to higher tariffs for the remaining pipelines. The new pipeline projects being undertaken have been allocated on the basis of competitive bidding due to which the returns on the new projects are expected to be lower resulting in overall lower returns from the transmission segment.

Commodity price risks associated with petrochemicals, LPG and liquid hydrocarbons (LHC) businesses, especially in a scenario of significantly lower crude oil and petroleum product prices: Petrochemical, LPG and LHC segment are exposed to the commodity price risk as sustained low crude oil prices result in low realisations for petroleum products. The petrochemical segment although currently able to garner the benefit of healthy tolling margins has witnessed significant volatility in the past.

Liquidity position: Strong

The liquidity of GAIL is strong given the healthy cash accruals, unutilised fund-based limits and the ability to access capital markets at highly competitive rates for raising capital. With internal cash generation expected to be more than adequate to meet the near-term debt repayments and margin funding for the capex program, the liquidity position of the company is expected to remain strong.

Rating sensitivities

Positive factors – NA

Negative factors – Downward pressure on GAIL's ratings could arise in the event of i) weakening in linkage with the GoI ii) materially large debt funded capex/acquisition resulting in the deterioration in the credit profile iii) material negative impact on profitability owing to the losses on sale of US-LNG.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	**Parent: Government of India** The ratings factor in the parentage from GoI and strategic importance of GAIL for GoI given the company helps meet the energy needs of the country and has the largest pipeline network in the country.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of GAIL (India) Limited. The scale of operations of the consolidated entity are not materially different from the scale of operations of the standalone entity. As a result, the standalone credit profile remains the primary rating driver.

About the company

Incorporated in 1984, GAIL (India) Limited (GAIL) has over the years evolved as an integrated natural gas company, with a presence in transmission, gas processing, and downstream petrochemicals (which use natural gas as a primary input). Apart from these businesses, GAIL also has interests in the Liquefied Natural Gas (LNG) business through Petronet LNG Ltd. (PLL), Konkan LNG Limited (KLL), and in city gas distribution projects both in India Mahanagar Gas Ltd. (MGL), and Indraprastha Gas Ltd. (IGL)] and overseas (Natgas and Fayum Gas in Egypt). Among these projects, GAIL's most significant interest lies in the PLL and KLL. In PLL, GAIL apart from being an equity investor and the major transmitter of gas, has also undertaken to market 60% of the R-LNG through a 25-year take or- pay contract from Dahej terminal and 30% of the volumes from the Kochi terminal of PLL. GAIL now controls the Dabhol LNG terminal through Konkan LNG Limited (KLL), post demerger of Ratnagiri Gas & Power Private Limited's (RGPPL) assets and liabilities related to the LNG terminal to KLL which was approved in February 2018. GAIL also has stakes in exploration and production of hydrocarbons. GAIL has wholly owned subsidiaries in Singapore and the US for expanding its presence outside India in the segments of LNG, petrochemical trading and shale gas assets.

Key financial indicators (audited; H1 FY2022 unaudited)

GAIL Consolidated	FY2020	FY2021	H1 FY2022
Operating Income (Rs. crore)	72,508.4	57,371.9	39,329.5
PAT (Rs. crore)	7,268.0	4,428.2	4,117.8
OPBDIT/OI (%)	12.2%	12.9%	15.9%
PAT/OI (%)	10.0%	7.7%	10.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	0.5	0.5
Total Debt/OPBDIT (times)	0.8	1.0	0.6
Interest Coverage (times)	28.6	41.4	63.3

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 of Dec 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020				Date & Rating in FY2019
					28-Jan-22	26-Mar-21	1-Apr-20	20-Feb-20	7-Feb-20	23-Jan-20	30-Apr-19	17-Dec-18
1	Long Term/Short Term fund based-non-fund based	Long Term/Short Term	4,500.00	-	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	-	-	-	[ICRA]AAA (Stable)/ [ICRA] A1+; Withdrawn	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+
2	Long Term/Short Term fund based-non-fund based - unallocated	Long Term/Short Term	500.00	-	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	-	[ICRA]AAA (Stable)/ [ICRA]A1+	-	-	-
3	Term Loans	Long Term	2,000.00	2000.0	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-	-	-
4	Short Term Fund Based#	Short Term	0	-	-	[ICRA]A1+	-	-	-	-	-	-
5	Long Term/Short Term Bank Lines#	Long Term/Short Term	3,000		[ICRA]AAA (Stable)/ [ICRA]A1+	-	-	-	-	-	-	-
6	Long Term/Short Term Bank Lines-unallocated#	Long Term/Short Term	1,000.00	-	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	-	-	-	-	-	-
7	Commercial Paper#	Short Term	4,000.00	-	[ICRA]A1+	[ICRA]A1+	-	-	-	-	-	-

 # The total amount outstanding against the rated bank lines and the commercial paper program is fully interchangeable and will not exceed Rs. 4000 crore. For amount allocated to the short-term limits rating of [ICRA]A1+ will be applicable while for limits rated on long term scale the rating of [ICRA]AAA (Stable) will be applicable. For limits rated on both long term/short term scale the rating of [ICRA]AAA(Stable)/[ICRA]A1+ will be applicable

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term/Short Term fund based-non-fund based	Simple
Long Term/Short Term fund based-non-fund based -unallocated	Simple
Term Loans	Simple
Long Term/Short Term Bank Lines	Simple
Long Term/Short Term Bank Lines-unallocated	Simple
Commercial Paper	Simple

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
-	Term Loan	24-Feb-20		31-Mar-33	2000	[ICRA]AAA (Stable)
-	Long term/Short Term- Fund Based/Non-Fund based	-	-	-	4500	[ICRA]AAA (Stable)/[ICRA]A1+
-	Long Term/Short Term-Unallocated	-	-	-	500	[ICRA]AAA (Stable)/[ICRA]A1+
-	Long term/Short Term- Fund Based/Non-Fund based#	-	-	-	3000	[ICRA]AAA (Stable)/[ICRA]A1+
-	Long Term/Short Term-Unallocated #	-	-	-	1000	[ICRA]AAA (Stable)/[ICRA]A1+
Unplaced	Commercial Paper#	-	-	-	4000	[ICRA]A1+

Source: *Company; # The total amount outstanding against the rated bank lines and the commercial paper program is fully interchangeable and will not exceed Rs. 4000 crore. For amount allocated to the short-term limits rating of [ICRA]A1+ will be applicable while for limits rated on long term scale the rating of [ICRA]AAA (Stable) will be applicable. For limits rated on both long term/short term scale the rating of [ICRA]AAA(Stable)/[ICRA]A1+ will be applicable*

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

Annexure-2: List of entities considered for consolidated analysis

Company Name	GAIL's ownership	Consolidation Approach
GAIL Gas Limited	100.00%	Full consolidation
GAIL Global (USA) Inc.	100.00%	Full consolidation
GAIL Global Singapore Pte. Ltd.	100.00%	Full consolidation
Tripura Natural Gas Limited	48.98%	Equity Method
Bengal Gas Company Limited	50.00%	Equity Method
Konkan LNG Limited	69.06%	Full consolidation
Avantika Gas Limited	49.99%	Equity Method
Bhagyanagar Gas Limited	48.73%	Equity Method
Maharashtra Natural Gas Limited	22.50%	Equity Method
Central UP Gas Ltd.	25.00%	Equity Method
Green Gas Ltd.	49.97%	Equity Method
Indradhanush Gas Grid Ltd	20.00%	Equity Method
Talcher Fertilizers Limited	33.33%	Equity Method
Vadodara Gas Limited	50.00%	Equity Method
Tapi Pipelines Company Ltd	5.00%	Equity Method
Mahanagar Gas Limited	32.50%	Equity Method
Indraprastha Gas Limited	22.50%	Equity Method
Petronet LNG Ltd.	12.50%	Equity Method
Brahmaputra Crackers and Polymers Ltd.	70.00%	Full consolidation
ONGC Petro Additions Ltd.	49.21%	Equity Method

Ramagundam Fertilizers and Chemicals Limited	14.46%	Equity Method
Fayum Gas	19.00%	Equity Method
China Gas Holdings Ltd.	2.87%	Equity Method

Source: *GAIL*

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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.

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.

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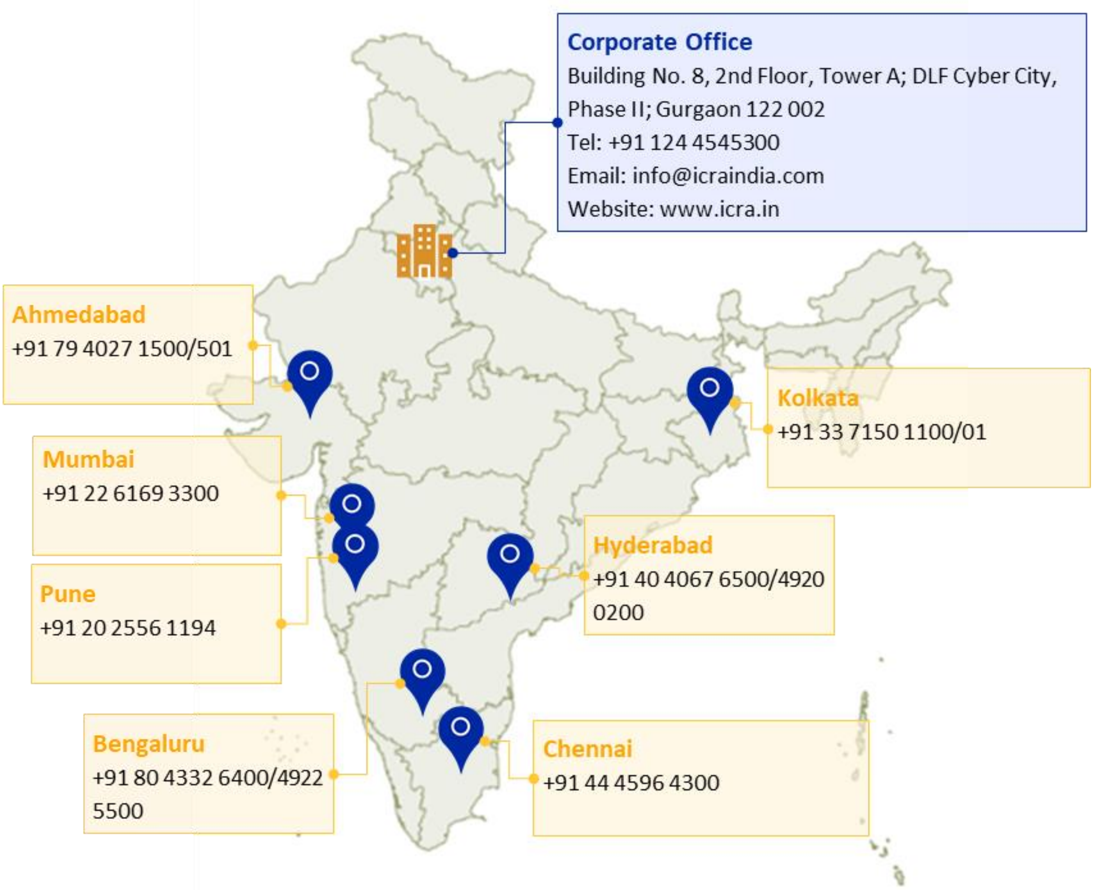

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