August 05, 2022

Adani Total Gas Limited (erstwhile Adani Gas Limited): Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term: Fund-based limits – Term Loans	350.00	605.50	[ICRA]AA-(Stable); reaffirmed
Long term: Fund-based limits – Cash Credit	105.00	105.00	[ICRA]AA-(Stable); reaffirmed
Short term: Fund-based limits– BD/Short term loan	75.00	75.00	[ICRA]A1+; reaffirmed
Short term: Non-fund based limits – LC/BG	1,850.00	1,850.00	[ICRA]A1+; reaffirmed
Long Term/Short Term: Unallocated	421.00	165.50	[ICRA]AA-(Stable)/ [ICRA]A1+; reaffirmed
Total	**2,801.00**	**2,801.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation for Adani Total Gas Limited (ATGL) considers its promoters' strong profile with equal holding (37.4%) by Total Energies SE (Total; rated A1(Stable)/P1 by Moody's) through Total Holdings SAS and the Adani family. ICRA expects ATGL to have significant operational synergies with Total over the long-term. As Total is among the leading liquefied natural gas (LNG) players in the world, ATGL can benefit from a favourable long-term LNG sourcing tie-up for its operations. Moreover, with its strong promoter profile, ATGL has strong financial flexibility in raising capital to meet the capex funding requirements.

The ratings continue to factor in the healthy financial risk profile of ATGL, characterised by adequate return metrics and debt protection metrics because of the stable cash generation from its ongoing business. The ratings favourably factor in the strong contribution margins and the balanced revenue mix of ATGL among compressed natural gas (CNG) and piped natural gas (PNG) consumers, which together continue to lend stability to the revenue model.

The ratings also take into account the healthy competitive advantage of CNG and PNG (domestic) over liquid fuels as well as the expected jump in gas volumes, post operationalisation of the city gas distribution (CGD) network in the newly awarded GAs in the ninth, tenth and eleventh CGD bid rounds, which will drive the growth in scale, going forward.

The ratings, however, are constrained by the execution and funding risks associated with the large ongoing capex planned over the next seven to eight years for the operationalisation of the CGD network in the 29 newly awarded geographical areas (GA) to ATGL. ICRA notes the minimum work programme (MWP) associated with each of the GAs and achievement of the same will be critical to avoid any penalties.

The ratings also consider the large, planned equity commitment by ATGL towards its joint venture Indian Oil Adani Gas Private Limited's (IOAGPL) newly awarded 10 GAs and the corporate guarantees extended to IOAGPL for issuing performance bank guarantee (PBG) to the regulator for its CGD operations. Further, any significant upward revision in domestic gas prices or changes in gas allocation policy could impact the competitive advantage over liquid fuels/liquefied petroleum gas (LPG) and would be a rating sensitivity.

The Stable outlook reflects ICRA's expectation that given the favourable medium-term demand outlook and availability of low-cost domestic gas for CNG and PNG (domestic), the credit profile performance of ATGL should remain comfortable over the next few years.

Key rating drivers and their description

Credit strengths

Co-promoted by Adani Group and Total - The acquisition of a 37.4% stake in ATGL by Total was completed in April 2020 and Total is now a co-promoter of ATGL with equal representation on the company's board with the Adani Group. Total is among the leading LNG players in the world and ATGL should benefit from a favourable long-term LNG sourcing tie-up for its operations. Also, Total's strong credit profile (Moody's A1(Stable)/P1) coupled with the Adani Group's financial flexibility lends considerable support to ATGL in terms of its ability to raise capital to meet capex funding requirements.

Healthy sales mix renders stability to revenue model - ATGL has a healthy mix of CNG and PNG sales with the CNG segment accounting for 52% volumes and the PNG segment for 48% in FY2022. However, in FY2021, the CNG contribution moderated to 44% as mobility was reduced following the lockdown, impacting CNG demand. Gas sales volumes grew 35% YoY in FY2022 to 1.91 mmscmd, driven by increased volumes in both the segments due to the addition of CNG stations, new customers and strong economic recovery. Moreover, the volume growth is also attributable to the volume build-up from CNG operations in the GAs awarded in the recent CGD bid rounds. The Ahmedabad GA remained the major contributor for ATGL, forming 45% of the sales volume in FY2022.

Buoyant prospects for volume growth due to healthy competitive advantage over liquid fuels – ATGL's pricing strategy takes into account its own gas purchase cost, its margins and the need for its CNG and PNG to be competitive over alternative fuels. With rising domestic gas prices, ATGL has revised its CNG and PNG (domestic) prices upwards in the last few months; however, even with increased prices, CNG and PNG continue to be competitive against alternative fuels. On a relative basis, CNG remains more competitive against automobile fuels, viz. petrol and diesel, compared to the competitiveness of PNG (domestic) against LPG, which is pegged down by the existing subsidy on it.

Healthy financial profile – In FY2022, the operating income (OI) increased by ~79% in FY2022 to Rs. 3,037.8 crore on account of an increase in volumes coupled with the increase in sales price. However, the OPM moderated in FY2022 to 25.4% from 41.5% in FY2021 due to a significant increase in gas costs amid the geo-political issues. Given the high profitability and internal accruals, the company's net worth improved significantly, resulting in a comfortable gearing of 0.4 times as on March 31, 2022. The total debt/OPBDITA also remained healthy at 1.3 times in FY2022. However, going forward, with large committed capex plans, the debt levels are expected to increase, which would moderate the leverage and coverage metrices to a certain extent.

Credit challenges

Project execution and funding risks associated with GAs awarded in ninth and tenth CGD bid rounds – In the ninth, tenth and eleventh CGD bid rounds concluded in August 2018, March 2019, respectively, ATGL was awarded 15 new GAs by the Petroleum and Natural Gas Regulatory Board (PNGRB). The company expects the total capex requirement for these GAs to be tentatively in the range of Rs. 5,000-5,500 crore for the first five MWP years, to be funded by a mix of debt-equity. ICRA notes that ATGL has tied up debt funding for the initial five years. Though this capex presents a growth opportunity for ATGL, it also poses significant execution risk. Any significant delay or under-achievement of the MWP target in the respective GAs attracting major penalties and/or encashment of the performance guarantees submitted by ATGL towards the new GAs will be a key rating sensitivity.

Large equity commitments towards its JV, IOAGPL, for newly awarded GAs – Till the eighth CGD bid round, IOAGPL had received authorisation from PNGRB to implement a CGD network in nine GAs. ATGL had contributed Rs. 631.2 crore to the JV as equity as on March 31, 2022. Additionally, IOAGPL was awarded nine new GAs for CGD implementation by the PNGRB in the ninth round and one GA in the tenth round. The company expects the total capex requirement for these new GAs to be about Rs. 6,500 crore for the initial five years, to be funded by debt-equity mix of 65:35. ATGL would be required to contribute significant equity commensurate to its stake in IOAGPL as per the financial plan finalised for the timely achievement of the MWP milestones.

Indirect exposure to IOAGPL by way of corporate guarantee for its non-fund based facility – As on March 31, 2022, ATGL has extended a corporate guarantee of Rs. 3,534 crore for IOAGPL's guarantees, which have been submitted to the regulator as a performance guarantee to meet the MWP for the nine GAs that were awarded to IOAGPL. The progress on most of the GAs is on schedule, mitigating the risk of encashment. However, in case of delays, should the guarantee be encashed by PNGRB, the financial profile of ATGL could be adversely affected and this would be a key rating sensitivity. Additionally, for the GAs awarded in the ninth and tenth CGD bid rounds, IOAGPL has submitted a performance guarantee of Rs. 432 crore and timely achievement of the MWP milestones would be critical to avoid encashment.

Ability to tie up gas sources for PNG (industrial) requirement at competitive prices would be critical – Post the directive of the Government of India on the allocation of 100% domestic gas to the CNG and PNG (domestic) segments, ATGL has been receiving the same from GAIL Ltd. For its PNG (industrial) and PNG (commercial) gas requirement, the company has adequate gas tie-ups in place for the medium term. However, its ability to secure additional gas requirements at competitive prices in the long term would remain critical. In addition to its successful past track record, the presence of Total as a co-promoter of ATGL mitigates this risk to a large extent.

Liquidity position: Adequate

ATGL's liquidity position remains adequate with annual fund flow from operations of Rs. 572.1 crore in FY2022 and surplus cash and liquid investments of Rs. 389.4 crore as on March 31, 2022. The company also had a sanctioned fund-based working capital facility of Rs. 180.0 crore as on March 31, 2022, the average utilisation of which remained low over the past 12 months. Further, the repayment obligations are moderate in FY2023 at ~Rs. 105 crore and ~Rs. 132 crore in FY2024. However, the liquidity position remains affected by the sizeable capex plans as well as moderate-to-high scheduled repayments over the next five years.

Rating sensitivities

Positive factors – ICRA could upgrade the rating following stabilisation of operations in the new GAs with healthy ramping up of volumes

Negative factors – Negative pressure on the rating can arise if the net external debt/OPBDITA increases over 3.0 times on a sustained basis, or if any significant penalty is levied by the PNGRB for non-achievement of the MWP.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for City Gas Distribution Companies
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of ATGL.

About the company

Adani Total Gas Limited, incorporated in 2005, is in the CGD business, which involves marketing and distribution of natural gas (piped and compressed). At present, ATGL is one of the largest CGD player in India with presence in 33 GAs following receipt of authorisations to establish the CGD network in the 14 new GAs from the Eleventh round bid. ATGL has also entered into a 50:50 JV with Indian Oil Corporation Limited, with the JV, IOAGPL, engaged in the implementation of the CGD network in several other GAs across India. IOAGPL also has presence in 19 GAs across the country.

Initially, the CGD operations of ATGL were with Adani Energy Limited (AEL). However, in November 2009, AEL approached the High Court of Gujarat for the approval of demerger of its existing operations into two divisions, namely gas trading business and gas distribution business catering to the marketing of gas to the end customers. The High Court of Gujarat had approved the scheme of demerger of AEL's city gas distribution into Group company Adani Energy (U.P). Pvt Ltd [AEUL] by an order dated December 9, 2009. Accordingly, the existing company AEL (demerged company) retained the gas procurement division, while the gas distribution business (along with the related assets and liabilities) was transferred to a new company - Adani Energy (U.P) Private Limited [AEUL] {resulting company}. The name of the company was later changed to Adani Gas Private Limited in December 2009. Subsequently, the company was converted to a public limited company and consequently, its name was changed to Adani Gas Limited (AGL), which remained a wholly-owned subsidiary of AEL.

Key financial indicators (audited)

ATGL Standalone	FY2021	FY2022
Operating income	1,695.6	3,037.8
PAT	472.0	504.6
OPBDIT/OI	41.5%	25.4%
PAT/OI	27.8%	16.6%
Total outside liabilities/Tangible net worth (times)	0.7	0.8
Total debt/OPBDIT (times)	0.8	1.3
Interest coverage (times)	17.4	14.7

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY20221	Date & rating in FY2020	
					Aug 05, 2022	Nov 30, 2021 Dec 31, 2021	Sept 03, 2020	Dec 13, 2019	Oct 23, 2019
1	**Term Loans**	Long term	605.50	456.4	[ICRA] AA- (Stable)	[ICRA] AA- (Stable)	[ICRA] AA- (Stable)	[ICRA] A+%; Rating on watch with positive implications	[ICRA] A+%; Rating on watch with positive implications
2	**Fund Based Limits - CC**	Long-term	105.00		[ICRA] AA- (Stable)	[ICRA] AA- (Stable)	[ICRA] AA- (Stable)	[ICRA] A+%; Rating on watch with positive	[ICRA] A+%; Rating on watch with positive implications
3	**Non-Fund Based Limits – BG/LC**	Short Term	1850.00		[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+%; Rating on watch with positive implications	[ICRA] A1+%; Rating on watch with positive implications
4	**Fund Based Limits – BD/short term loan**	Short Term	75.00		[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+%; Rating on watch with positive implications	[ICRA] A1+%; Rating on watch with positive implications

5	**Unallocated**	Long Term/ Short Term	165.50		[ICRA] AA- (Stable)/[ICRA]A 1+	[ICRA] AA- (Stable)/[ICRA]A1+	[ICRA] AA- (Stable)/ [ICRA]A1+	[ICRA] A+%/ [ICRA]A1+%; Rating on watch with positive implications	[ICRA] A+%/ [ICRA]A1+%; Rating on watch with positive implications

&= Under Watch with Developing Implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term: Fund based limits – Term Loans	Simple
Long term: Fund based limits – Cash Credit	Simple
Short term: Fund-based limits– BD/Short term loan	Simple
Short term: Non-fund based limits – LC/BG	Very Simple
Long Term/Short Term: Unallocated	NA

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 analysing 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 are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2017	NA	FY2025	119.80	[ICRA]AA-(Stable)
NA	Term Loan	FY2017	NA	FY2025	71.40	[ICRA]AA-(Stable)
NA	Term Loan	FY2017	NA	FY2025	99.30	[ICRA]AA-(Stable)
NA	Term Loan	FY2022	NA	FY2025	315.00	[ICRA]AA-(Stable)
NA	Fund based – CC	NA	NA	NA	105.00	[ICRA]AA-(Stable)
NA	Non-fund based – BG/LC	NA	NA	NA	1850.00	[ICRA]A1+
NA	Fund based – BD/Short term loan	NA	NA	NA	75.00	[ICRA]A1+
NA	Long Term/Short Term Unallocated	NA	NA	NA	165.50	[ICRA]AA-(Stable)/ [ICRA]A1+

Source: Company

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

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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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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