February 12, 2024

Adani Total Gas Limited (erstwhile Adani Gas Limited): Ratings reaffirmed; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund-based limits – Term loans	954.90	1500.00	[ICRA]AA- (Stable); Reaffirmed and outlook revised to Stable from Negative
Long term - Fund-based limits – Proposed term loans	545.10	0.00	-
Long term - Fund-based limits – Cash credit	105.00	30.00	[ICRA]AA- (Stable); Reaffirmed and outlook revised to Stable from Negative
Short term - Fund-based limits– BD/Short-term loan	50.00	50.00	[ICRA]A1+; Reaffirmed
Short term - Non-fund based limits – LC/BG	3,750.00	3,850.00	[ICRA]A1+; Reaffirmed
Long term/Short term - Unallocated	95.00	70.00	[ICRA]AA- (Stable)/[ICRA]A1+; Reaffirmed and outlook revised to Stable from Negative
Total	**5,500.00**	**5,500.00**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in the outlook on the long-term rating to Stable from Negative factors in the completion of most of the regulatory investigations into the Adani Group. The investigations pertaining to most of the issues have been completed with only two matters pending that are expected to be completed over the next three months. The outcome of the final investigations will remain a key monitorable, going forward, and any material adverse impact on the Group or its entities will be a key rating sensitivity. Additionally, the outlook revision factors in the significant improvement in the financial flexibility of the Group, demonstrated in the improvement in the secondary market bond yields and equity share prices of the Adani Group entities.

The ratings continue to factor in ATGL's healthy financial risk profile, characterised by adequate return and debt protection metrics on the back of the robust cash generation from its ongoing business. The company continued to witness a healthy growth in volumes in FY2023 and 9M FY2024, backed by increased demand from legacy GAs[1] as well as revenue addition from the new GAs. The company's contribution margin and operating profits have continued to improve, driven by growing volumes and a favourable gas allocation policy for the city gas distribution (CGD) sector. With the revision in the APM gas pricing methodology announced by the GoI in April 2023, APM prices have come down to $6.5/mmbtu which along with the availability of HPHT gas has stabilised the contribution margin on the sale of CNG and PNG(d) and will support healthy cash generation. 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 fuels.

The company generally had a balanced mix of compressed natural gas (CNG) and piped natural gas (PNG) consumers, with the latter mainly comprising the industrial and commercial segment. In FY2023, there has been some moderation in demand from the industrial/commercial segment due to higher gas prices. In 9M FY2024, the segment witnessed marginal decline on account of lesser offtake by industrial consumers owing to lower alternative fuel prices even as PNG(I) prices moderated in line with

[1] Ahmedabad, Faridabad, Vadodara and Khurja

the moderation in LNG prices. However, the CNG and PNG (domestic) segments continue to witness healthy demand due to their advantage over competing fuels, aided by the favourable allocation of domestic gas for these segments. Any significant upward revision in domestic gas prices or changes in the gas allocation policy could impact the competitive advantage over liquid fuels/liquefied petroleum gas (LPG) and would be a rating sensitivity. ICRA also notes that the long-term demand prospects remain favourable and the company will benefit from the 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.

The ratings also draw comfort from the parentage, with equal holding (37.4%) by TotalEnergies SE (Total; rated A1(Stable)/P-1 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. Any change in Total's linkages with ATGL will be a key monitorable.

The ratings 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 that the minimum work programme (MWP) for each GA and its achievement will be critical to avoid any penalties. The ratings also consider the large equity commitments by ATGL towards its joint venture - Indian Oil Adani Gas Private Limited (IOAGPL) – along with the newly awarded 10 GAs and the corporate guarantees extended to IOAGPL for issuing the performance bank guarantee (PBG) to the regulator for its CGD operations.

Key rating drivers and their description

Credit strengths

Strong promoter profile – ATGL is promoted by the Adani family and TotalEnergies SE. While the Adani Group has strong experience in executing large scale projects, Total is among the leading LNG players in the world and has a strong credit profile {Moody's A1(Stable)/P1} and ATGL should benefit from a favourable long-term LNG sourcing tie-up for its operations. Any change in Total's linkages with ATGL will be a key monitorable.

Favourable long-term demand prospects, backed by competitive advantage of CNG and PNG (domestic) segments - ATGL has a healthy mix of CNG and PNG sales with the CNG segment accounting for ~61% volumes and the PNG segment for 39% in FY2023. In 9M FY2024, the CNG mix, as a percentage of the total mix, rose to ~64% mainly due to the increase in CNG volumes, while there was lower offtake in the PNG (industrial) segment. Gas sales volumes grew 8% YoY to 2.06 mmscmd in FY2023 from 1.91 mmscmd in FY2022, 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 43% of the sales volume in FY2023.

The CNG and PNG (domestic) segments continue to witness healthy demand due to their advantage over competing fuels, aided by the favourable allocation of domestic gas for these sectors. However, since FY2023, with growing demand, the APM gas allocation is falling short of meeting the industry's entire demand for these segments. As a result, the industry is looking to meet the shortfall through LNG/HPHT gas. Moreover, any significant upward revision in domestic gas prices or changes in the gas allocation policy could impact the competitive advantage over liquid fuels/liquefied petroleum gas (LPG) and would be a rating sensitivity. ICRA also notes that the long-term demand prospects remain favourable, and the company will benefit from the 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.

Healthy financial profile – In FY2023, the operating income (OI) rose by ~44% to Rs. 4,378.0 crore on account of an increase in volumes and sales price. During 9M FY2024, the OI stood at ~Rs. 3,305.8 crore. However, the OPM moderated in FY2023 to 19.9% from 25.4% in FY2022 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 0.48 times as on March 31, 2023, and 0.42 times as on September 30, 2023. The total debt/OPBDITA remained at 1.63 times as on March 31, 2023, and 1.28 times as on September 30, 2023. 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. However, ICRA takes note that the CGD GAs are long gestation projects, funded using long tenor loans and thus the leveraging can remain high in the initial phase of commissioning of the GAs.

Credit challenges

Project execution and funding risks associated with GAs awarded in ninth, tenth and eleventh CGD bid rounds – In the ninth, tenth and eleventh CGD bid rounds concluded in August 2018, March 2019 and September 2021, respectively, ATGL was awarded 29 new GAs by the Petroleum and Natural Gas Regulatory Board (PNGRB). The company has large capex requirements of around Rs. 9,500-10,500 crore to be incurred over the next five years, starting FY2024 for these Gas. However, the cumulative capex over the course of FY2024 and FY2025 would be in the range of Rs. 1,800-1,900 crore. While this capex presents a growth opportunity for ATGL, it also poses significant execution risk, although the company's execution track record and the progress achieved in several GAs of the ninth and tenth rounds mitigate the impact to some extent.

Any significant delay or under-achievement of the MWP target in the GAs attracting major penalties and/or encashment of the performance guarantees submitted by ATGL towards the new GAs will be a key rating sensitivity. ICRA also takes note of the financing risk, as a major portion of the debt funding for the capex (including for eleventh round) is yet to be tied up, although the company has debt funding in place for the initial five-year capex for the GAs allocated under the ninth and tenth rounds, with undrawn limits available to take care of the capex plans in the near term. Further, the ability of the company to tie up funding at competitive rates remains a key monitorable.

Ability to tie up gas sources for PNG (industrial) requirement at competitive prices would be critical – ATGL gets domestic gas for the CNG and PNG (d) segments, as per the Government of India's allocation policy. 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 mitigates this risk to a large extent.

Large equity commitments towards its JV, IOAGPL– Till the eighth CGD bid round, IOAGPL had received authorisation from PNGRB to implement CGD network in nine GAs. ATGL had contributed Rs. 682.7 crore to the JV as equity as on March 31, 2023. 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 in debt-equity mix of 65:35. ATGL would be required to contribute equity commensurate to its stake in IOAGPL, as per the financial plan finalised for the timely achievement of the MWP milestones.

Environmental and Social Risks

Environmental considerations - ATGL is promoting the use of natural gas, which reduces CO_2 emissions and is a cleaner fuel, and hence, is favourable with regard to environmental concerns. Moreover, for its PNG segment, it offers attractive terms to new customers to switch to natural gas, thereby promoting the use of cleaner fuel. Moreover, wherever possible, ATGL has taken initiatives to conserve natural resources such as water, paper and electricity. It has launched complete online billing for its domestic CNG business to reduce paper consumption. It has also promoted the use of solar energy at its various locations and reduced freshwater withdrawal.

Social considerations – The worldwide trend towards a shift to less carbon-intensive sources of energy could structurally increase the demand for natural gas. However, for emerging markets like India, such change in consumer behaviour or any other driver of change is expected to be moderately paced. Therefore, ATGL would benefit from the structural shift in the longer term, which would support its credit profile as well.

Liquidity position: Adequate

ATGL's liquidity position remains adequate with annual cash flow from operations (CFO) of ~Rs. 475 crore in H1 FY2024 (~Rs. 465 crore in H1 FY2023 and ~Rs. 846 crore in FY2023) and expected CFO in the range of Rs. 900-1100 crore in FY2024 and FY2024. Its repayment obligations are ~Rs. 382 (Rs 59 crore during H2 FY2024) crore in FY2024 and ~Rs. 256 crore in FY2025. A capex of ~Rs. 866 crore and ~Rs. 1171 crore is expected in FY2024 and FY2025, respectively. The liquidity is further supported by unencumbered cash balances of Rs. 8.7 crore as on March 31,2023 and Rs. 21.1 crore as on September 30, 2023 (fixed deposit balances of Rs. 304.3 crore against which there is an FDOD facility). The company also has a sanctioned fund-based working capital facility, the average utilisation of which remained low over the past 12 months. Further, the company has sanctioned limits in place for capex in the near term, which are not fully drawn down.

Rating sensitivities

Positive factors – ICRA could revise the outlook or upgrade the rating if the company continues its healthy volume trajectory in its key GAs without impairing the profitability.

Negative factors – The ratings could be revised downwards if any adverse regulatory action materially weakens the financial flexibility of the Adani Group/company to raise funds at competitive rates and increases the cost of funding. Pressure on the ratings can arise if the gross external debt/OPBDITA increases over 3.5 times on a sustained basis, or if the PNGRB levies a significant penalty for non-achievement of the MWP, weakening the liquidity profile. Further, any weakening of the linkages with the Total Group could be a negative sensitivity factor.

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 the marketing and distribution of natural gas (piped and compressed). At present, ATGL is one of the largest CGD players in India with presence in 33 GAs, including the 14 GAs won under 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 is present in 19 GAs across the country.

Key financial indicators (audited)

Standalone	FY2022	FY2023	9M FY2024*
Operating income	3,037.8	4,378.0	3,305.8
PAT	504.7	529.8	487.8
OPBDIT/OI	25.4%	19.9%	24.7%
PAT/OI	16.6%	12.1%	14.8%
Total outside liabilities/Tangible net worth (times)	0.82	0.92	-
Total debt/OPBDIT (times)	1.34	1.63	-
Interest coverage (times)	14.66	11.08	9.90

*Source: Company, ICRA Research; *Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. core; 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 (FY2024)				Chronology of rating history for the past 3 years					
		Type	Amount rated (Rs. crore)	Amount outstanding as on Sep 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023			Date & rating in FY2022		Date & rating in FY2021
					Feb 12, 2024	Mar 03, 2023	Feb 01, 2023	Aug 05, 2022	Dec 31, 2021	Nov 30, 2021	Sep 03, 2020
1	Term loans	Long term	1500.00	1353.9	[ICRA]AA- (Stable)	[ICRA]AA- (Negative)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2	Proposed term loans	Long term	-	-	-	[ICRA]AA- (Negative)	-	-	-	-	-
3	Fund-based limits - Cash credit	Long term	30.00	--	[ICRA]AA- (Stable)	[ICRA]AA- (Negative)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
4	Fund-based limits - BD/Short-term loan	Short term	50.00	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Non-fund based limits - LC/BG	Short term	3850.00	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
6	Unallocated limits	Long term/Short term	70.00	--	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Negative)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+

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 limits	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: Click Here

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	67.7	[ICRA]AA-(Stable)
NA	**Term loan**	FY2017	NA	FY2026	42.7	[ICRA]AA-(Stable)
NA	**Term loan**	FY2017	NA	FY2026	27.9	[ICRA]AA-(Stable)
NA	**Term loan**	FY2020	NA	FY2029	189.1	[ICRA]AA-(Stable)
NA	**Term loan**	FY2024	NA	FY2027	500.0	[ICRA]AA-(Stable)
NA	**Term loan**	FY2024	NA	FY2029	400.0	[ICRA]AA-(Stable)
NA	**Term loan (Proposed)**	NA	NA	NA	272.6	[ICRA]AA-(Stable)
NA	**Fund-based limits – Cash credit**	NA	NA	NA	30.00	[ICRA]AA-(Stable)
NA	**Fund-based limits– BD/Short term loan**	NA	NA	NA	50.00	[ICRA]A1+
NA	**Non-fund based limits – LC/BG**	NA	NA	NA	3850.00	[ICRA]A1+
NA	**Unallocated limits**	NA	NA	NA	70.00	[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:

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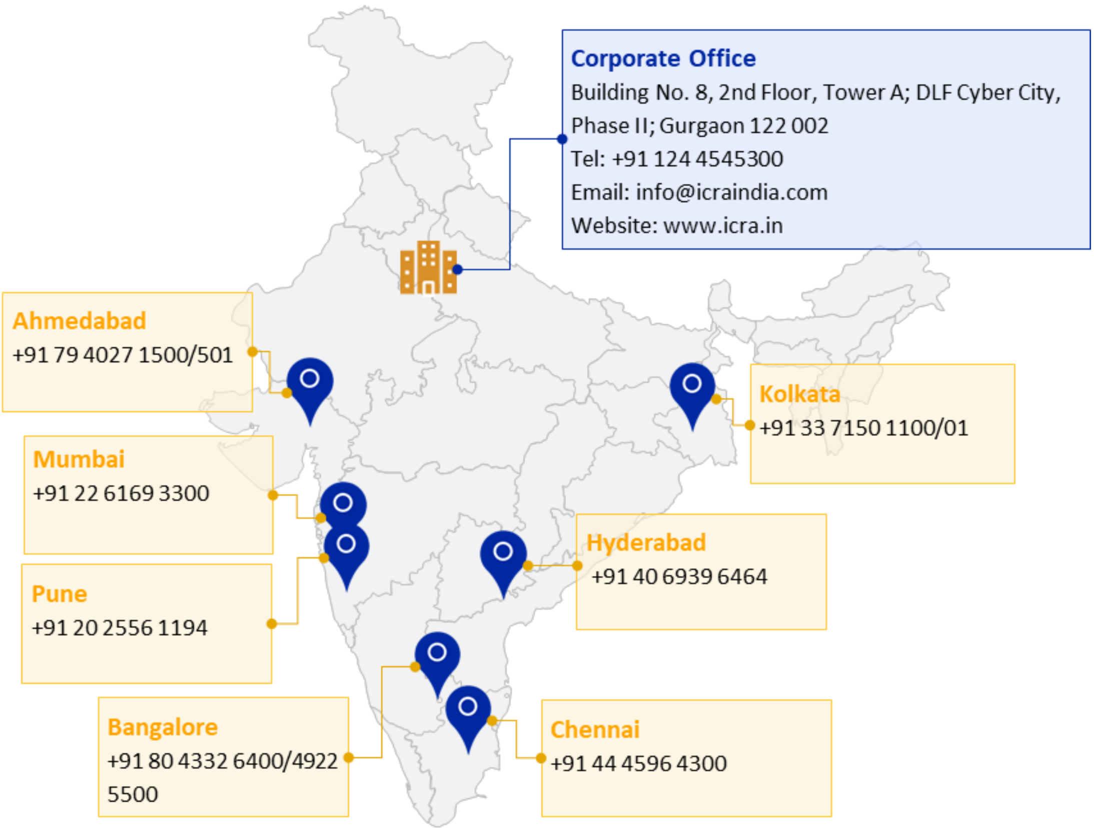

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