March 22, 2024

Green 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 – Term loan	500.00	500.00	[ICRA]AA (Stable); reaffirmed
Short term – Non-fund based - Others	247.00	247.00	[ICRA]A1+; reaffirmed
Long term/Short term – Unallocated	3.00	3.00	[ICRA]AA (Stable)/[ICRA]A1+; reaffirmed
Total	**750.00**	**750.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation continues to take into account Green Gas Limited's (GGL) strong parents - Indian Oil Corporation Limited (IOCL, rated [ICRA]AAA(Stable)/[ICRA]A1+) and GAIL (India) Limited (GAIL, rated [ICRA]AAA(Stable)/[ICRA]A1+) – that have a demonstrated track record of providing managerial, operational and financial support to the company. The ratings consider GGL's established market position in the existing geographical areas (GAs) of Lucknow and Agra. It has infrastructure exclusivity in Lucknow till 2041 and till 2034 in Agra and has marketing exclusivity in the new GAs of Unnao, Faizabad and Sultanpur till 2026. In addition, there are significant entry barriers for third-party marketers or new entrants, arising mainly from concerns regarding gas availability at competitive prices.

The ratings consider the favourable outlook for demand growth in both compressed natural gas (CNG) and piped natural gas (PNG), given the push by the Government of India (GoI) to promote the use of cleaner fuels and the cost advantage of CNG and PNG over alternative fuels, although the volume growth has been impacted in the current fiscal by the adoption of electric buses for state transportation in one of the GAs. The expansion in the new GAs – Unnao, Faizabad and Sultanpur - is likely to drive volume growth, going forward.

Natural gas prices witnessed a sharp increase in the previous fiscal, which led to a moderation in GGL's margins. Further, the domestic gas allocation for the CNG and PNG (domestic) sectors was not adequate, leading to increased reliance on spot gas or RLNG in the previous fiscal. However, the impact was partly mitigated by the long-term tie-ups for sourcing gas (for part of the requirements) and the regular price revisions undertaken in various business segments. As of now, the entire gas for PNG (d) is being met by domestic gas under the administered price mechanism (APM), while some portion of the CNG requirements is also being met through APM and the balance by non-APM and RLNG. 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 fuel prices.

GGL has significant capex plans worth ~Rs. 200 crore in the next fiscal for which equity infusion by the promoter entities remains a key monitorable. While Rs. 56-crore equity has already been infused, more equity from promoters is expected to fund the capex requirements. Any further delay in equity infusion might result in deferment of capex and can impact the minimum work programme (MWP) targets for the company. The profitability margins, after declining sharply in the previous fiscal, are expected to improve in the current fiscal with moderation in gas prices.

The ratings, however, are constrained by the susceptibility of the company's performance to the regulatory framework for CGD entities and shortfall in achieving the target for PNG (d) connections in Lucknow. ICRA notes that GGL is behind the project milestones as defined in its authorisation for the existing GAs, especially Lucknow, and any adverse action by the Petroleum and Natural Gas Regulatory Board (PNGRB) may result in encashment of the performance bank guarantee, which though is relatively small (~Rs. 3 crore). Moreover, timely equity infusion also remains a key monitorable.

The Stable outlook reflects ICRA's expectation that GGL will be able to improve its sales volumes steadily and will continue to benefit from its well-established market position, strong parentage and favourable demand outlook, even as the credit metrics deteriorated to some extent in FY2023.

Key rating drivers and their description

Credit strengths

Strong parentage with IOCL and GAIL being dominant players in domestic gas business – GGL is a joint venture (JV) of GAIL and IOCL, with each owning a 49.97% stake. The parent companies are dominant players in the oil and gas sector and have extensive experience and understanding of this sector. At present, all the board members of GGL are from the parent companies. Moreover, the promoter entities have infused some equity and are in the process of infusing further equity to fund the company's capex requirements. Any significant dilution in ownership by GAIL or IOCL could be a key rating sensitivity.

Favourable outlook for CNG – The outlook on CNG consumption is healthy due to the cost advantage over petrol and diesel. Additionally, the GoI has been pushing for higher usage of clean fuel like CNG in vehicles and PNG (d) for domestic cooking by allocating gas at lower cost for these segments. This bodes well for CGD companies as it ensures the availability of natural gas to meet the demand of these segments and makes CNG and PNG competitive against alternative fuels.

Consumer mix tilted towards CNG, a relatively high-margin segment – Nearly 84% of GGL's sales were derived from the CNG segment in H1 FY2024, which has relatively high profitability vis-à-vis the PNG segment. The company has secured gas tie-ups with GAIL and IOCL to meet its entire gas requirement. As most of the sales are derived from CNG, domestic gas allocation for majority of the requirements results in assured gas supply at low prices. The operating margins (on operating income net of excise duty) improved to 19.7% in H1 FY2024 from 11.1% in the previous fiscal. There were profitability challenges in the previous fiscal due to heightened gas prices, which peaked and subsequently corrected.

Regulations under PNGRB Act ensure monopoly of incumbents – After the expiry of the marketing exclusivity period of five years, the PNGRB regulations ensure a normative pre-tax RoCE of 21% for the incumbents through adequate network tariff and compression charges on the regulated assets owing to the physical exclusivity of 25 years in place (2041 for Lucknow and 2034 for Agra). Thus, these regulations enable fixed returns post expiry of the exclusivity period. Additionally, third-party entrants face entry barriers like investment in CNG stations, tying up of firm gas supplies, gas availability at competitive prices, etc.

Credit challenges

Modest scale of operations – The company has a moderate scale of operations vis-à-vis some other large CGD companies as the network penetration has been lower in the cities. GGL reported an OI of Rs. 864.8 crore in FY2023 against Rs. 469 crore in FY2022. Its CNG network comprised 81 CNG stations and 1,82,518 domestic PNG connections as on September 30, 2023, indicating a healthy expansion in network. The benefits from the recent network expansion are likely to accrue over the medium term, which may help GGL to expand its volume and revenue base. Going forward, the company's sales volume may also grow, following the significant network expansion plans in the existing and new GAs.

Moderation in credit metrics amid heavy capex and weakening profitability – In order to expand its network in the new GAs, the company will have to incur a sizeable capex of ~Rs. 200 crore in the next fiscal. The company's cash accruals are insufficient to meet the capex requirements. The company has requested its promoters to infuse around Rs. 456-crore equity over the next two years, which will part fund the capex and keep the credit profile comfortable.

Highly regulated nature of the CGD sector – The CGD entities are regulated by the PNGRB. For Lucknow and Agra, the regulator has defined the targets for PNG (d) connections, compression capacity and steel/PE pipeline network to be laid during the first five years of operation. If the company fails to meet these targets, its performance guarantees can be encashed by the PNGRB. There are regulations relating to the setting up of network tariff and compression charges, which result in weak pricing power of the CGD entities. The highly regulated nature of the sector exposes GGL to regulatory risks and any unfavourable change in these regulations may negatively impact its credit profile.

Liquidity position: Adequate

GGL's liquidity profile is expected to remain adequate, backed by its cash accruals and expected equity infusion from the promoters amid sizeable capex plans. Moreover, it had around Rs. 145 crore of cash and cash equivalents as on September 30, 2023.

Rating sensitivities

Positive factors – An upgrade is unlikely in the near to medium term. However, any significant growth in the scale of business, healthy profitability and debt protection metrics could lead to an upgrade.

Negative factors – The ratings may be downgraded if there is a weakening of linkages with the promoters or any slippage from MWP commitments, leading to large penalties. Any adverse regulatory development impacting the revenue and profitability, or sizeable debt-funded capex affecting the liquidity, will also weigh on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology City Gas Distribution companies
Parent/Group support	Parent/Group Company: Indian Oil Corporation Limited and GAIL (India) Limited. The ratings are based on implicit support from the parent companies
Consolidation/Standalone	The ratings are based on the standalone financial statements of the rated entity

About the company

Green Gas Limited (GGL) was set up as a JV by Indian Oil Corporation Limited (IOCL) and GAIL (India) Limited (GAIL) in 2005. The company is the exclusive distributor of piped natural gas (PNG) and compressed natural gas (CNG) and is also developing the city gas distribution (CGD) infrastructure in Lucknow and Agra, both in Uttar Pradesh. It received the authorisation for setting up the CGD network in Agra in November 2009 and for Lucknow in February 2016. Further, in September 2018, GGL won the authorisation for setting up the CGD infrastructure in the Unnao and Ayodhya and Sultanpur districts in the 9th round of bidding conducted by the PNGRB. As of September 2023-end, the company had 81 CNG stations, around 1,82,518 domestic and 144 commercial and industrial PNG connections.

Key financial indicators (audited)

GGL Standalone	FY2022	FY2023
Operating income	468.6	787.8
PAT	62.6	17.5
OPBDIT/OI	24.9%	11.1%
PAT/OI	13.4%	2.2%
Total outside liabilities/Tangible net worth (times)	1.02	1.46
Total debt/OPBDIT (times)	2.8	5.8
Interest coverage (times)	49.9	4.0

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

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 Sept 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Mar 22, 2024	Jan 17, 2023	Dec 31, 2021	Sep 11, 2020
1	**Long term fund-based – Term loan**	Long term	500.0	468.75	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**	-
2	**Proposed term loans**	Long term	-	-	-	-	-	**[ICRA]AA (Stable)**
3	**Short term - Non fund based - Others**	Short Term	247.0	-	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**
4	**Long term/Short term – Unallocated**	Long Term/Short Term	3.0	-	**[ICRA]AA (Stable)/[ICRA]A1+**	**[ICRA]AA (Stable)/[ICRA]A1+**	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term fund-based – Term loan	Simple
Short term - Non fund based - Others	Very Simple
Long term/Short term – Unallocated	Not applicable

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	**Long term fund-based – Term loan**	April 2021	Repo +220 bps	March, 2031	500.0	[ICRA]AA (Stable)
NA	**Short term- Non fund based - Others**	NA	NA	NA	247.0	[ICRA]A1+
NA	**Long term/Short term – Unallocated**	NA	NA	NA	3.0	[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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