

July 30, 2024

Sabarmati Gas Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based - Cash Credit	19.00	19.00	[ICRA]AA(Stable); reaffirmed
Long Term - Non Fund Based - Others	361.00	361.00	[ICRA]AA(Stable); reaffirmed
Total	380.00	380.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation for Sabarmati Gas Limited (SGL) considers the operational benefits derived from its strong parentage, with Bharat Petroleum Corporation Limited (BPCL) and Gujarat State Petroleum Corporation (GSPC) as the main promoters. The rating continues to draw comfort from SGL's strong financial risk profile, characterised by healthy cash generation, nil debt levels and robust liquidity. The increasing contribution of compressed natural gas (CNG) in the total sales volumes also provides comfort, which will aid the profitability going forward with the piped natural gas-industrial segment (PNG-I) facing headwinds.

The long-term favourable demand prospects for the city gas distribution (CGD) business in India and SGL's strong market position in its operational areas are expected to keep its financial risk profile healthy. The increased contribution from the higher-margin CNG sales significantly improved SGL's cash generation for the FY2021-FY2024 period. The PNG(I) segment continues to face competitive pressures from the use of alternate fuels in SGL's territory, and the sales volumes are expected to witness muted growth going forward. However, the positive demand trend for CNG and piped natural gas-domestic segment (PNG-d) is expected to support cash generation going forward.

Although SGL's marketing exclusivity expired in most districts in October 2014, ICRA expects the company to continue to have a dominant market share in the near term because of its first-mover advantage and established network. In addition, significant entry barriers exist for third-party marketers due to (i) issues with securing gas at competitive prices and (ii) regulated returns (at 21% pre-tax RoCE) to be paid by third parties to SGL through network tariffs and compression charges because of the physical exclusivity in place (25 years starting from 2009). The rating also factors in SGL's long-term take-or-pay contracts for re-gasified liquefied natural gas (R-LNG) sourcing, which cover its entire piped natural gas (PNG) requirement for the industrial and commercial segments, assuring an uninterrupted supply. Although some of the contracts are nearing expiry, the company expects to renew them upon expiration.

The rating, however, remains constrained by SGL's limited growth prospects, as it is authorised in only five districts and has not received any authorisations in subsequent bidding rounds for CGD authorisations. Additionally, the rating is constrained by the volatility in natural gas prices, which can impact SGL's competitive advantage over competing fuels. Despite this, the increasing share of CNG and PNG(d) is expected to keep the impact on contribution levels per unit moderate, as the price pass-through in this segment remains relatively comfortable.

The Stable outlook reflects ICRA's expectations that given the favourable demand outlook for CNG and PNG(d) the company's cash flow from operations is expected to remain healthy and adequate to fund the shareholder payouts and capex requirements. Therefore, the overall credit profile will remain stable, characterised by nil debt and sizeable free cash balances.

Key rating drivers and their description

Credit strengths

Operational benefits of strong parentage - BPCL holds a 49.94% stake in SGL, while GSPC (22.47%) and Gujarat State Petronet Limited (GSPL, 27.47%) together form a consortium holding ~49.94% stake. The parent companies are dominant players in the oil and gas sector, with extensive understanding and interest in the domestic gas business. SGL initially benefited from its parentage by securing natural gas supply contracts and receiving managerial guidance.

Diversified business portfolio with rising CNG contribution - Over the last few years, the company's sales mix has transformed, with CNG now contributing a major share of the revenue. The contribution of PNG (industrial) in the overall sales mix has reduced to 34% in FY2024 (against 60-70% a decade ago). Conversely, CNG's contribution has grown steadily, accounting for 61% of the total sales volume in FY2024 (against 25-30% a decade ago). SGL's sales volume witnessed a 13.4% YoY growth, rising to 1.22 mmscmd from 1.07 mmscmd in FY2023, supported by healthy volume growth across all segments. Going forward CNG sales are expected to remain the main driver of volume growth amid increasing registrations of CNG vehicles in the GA as well as development of new product offerings of CNG vehicles e.g. CNG bike launched in July 2024.

Long-term tie-up for gas sourcing ensures uninterrupted supply - SGL has largely secured its R-LNG requirement by entering into long-term contracts with BPCL and GSPC. These long-term take-or-pay contracts cover its entire PNG requirement for the industrial and commercial segments, assuring uninterrupted supply. For the CNG and PNG(d) segments, SGL receives domestic APM gas. Any shortfall in the gas allocation is met through gas available under term LNG contracts, spot LNG/High-Pressure High Temperature (HPHT) gas purchased through the Indian Gas Exchange (IGX).

Healthy financial risk profile - SGL continues to register healthy profitability, benefitting from increased contribution margins owing to the higher share of the higher-margin CNG and PNG (d) in the overall sales mix. Although the operating profit moderated in FY2024 due to slight declines in contribution margins, driven by lower profitability from the sale of PNG(l) and higher overheads, it remains healthy. Going forward, the rise in CNG sales, along with a stable natural gas pricing environment, should support operating profits. Further, healthy cash accruals and no outstanding external debt obligations as on March 31, 2024, bolster the credit profile. The financial risk profile is expected to improve further, with stable contribution margins, no debt repayments and limited capex plans.

Credit challenges

Operations exposed to changes in spread between CNG/PNG and alternative fuel prices - For the PNG (industrial) segment, consumer preference for the fuel depends on the available spread between natural gas and alternative fuels. Hence, a narrowing price differential with alternative fuels could impact the overall demand growth. While CNG remains highly competitive compared to petrol and diesel, the competitiveness of PNG (industrial) remains contingent on the movement of R-LNG price.

Competitive risks from third-party marketers following expiry of marketing exclusivity - After the expiry of marketing exclusivity in SGL's key geographical areas in October 2014, the company remains exposed to competition from third-party marketers. However, ICRA notes that significant entry barriers exist for these marketers. These include the payment of network tariffs and compression charges on regulated assets to SGL during the physical exclusivity period (25 years starting from 2009), which accounts for a sizeable portion of the overall margin. Also, there are challenges in securing gas supplies at competitive rates, operational issues related to setting up and managing retail operations (billing, collection and metering along with after-sales/ repair-related services), and unattractive returns in case of low sales volumes.

Moderate growth prospects with no new GAs awarded - SGL has been awarded five GAs (with one additional district carved out of Sabarkantha) that have been operational for more than five years. The company has not been awarded any new GAs in recent CGD bid rounds. As a result, the company's growth will remain dependent on the infrastructure expansion in the current

districts itself. Thus, the company is focusing on expanding the steel inch pipeline network in its existing GAs and is in the process of awarding franchise for setting up Dealer Owned Dealer Operated (DODO) CNG stations.

Liquidity position: Strong

SGL's liquidity position is expected to remain strong, given the healthy cash generation, low working capital intensity of operations, no debt repayments and limited capex programmes, which are to be funded using internal accruals. The company had liquid cash and investments of Rs. 860.4 crore as on March 31, 2024.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if SGL demonstrates a significant increase in gas sales volume while maintaining healthy gross contributions along with healthy liquidity on a sustained basis.

Negative factors – Pressure on the rating can arise from a significant drop in gross contribution or/and gas sales volumes. Any unfavourable change in the domestic gas allocation policy will also exert pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology City Gas Distribution
Parent/Group support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financial profile of the company

About the company

SGL was incorporated on June 6, 2006, by BPCL in conjunction with GSPC/GSPL to operate the CGD business in the five northern Gujarat districts of Gandhinagar, Aravalli, Mehsana, Sabarkantha and Patan. Before the formation of the joint venture (JV), BPCL independently carried on the CGD business in these districts. Following the JV formation, BPCL ceased its own CGD operations in these districts and transferred the assets to SGL. BPCL and the GSPC-GSPL conglomerate each hold a 49.94% stake, while the remaining 0.12% stake is held by 12 individual shareholders. SGL retails CNG and PNG across various sectors, including industrial, domestic, commercial and transportation.

Key financial indicators (audited)

SGL Standalone	FY2022	FY2023	FY2024
Operating income	1,791.4	2,214.7	2,133.5
PAT	347.4	322.0	303.0
OPBDIT/OI	27.8%	20.3%	19.1%
PAT/OI	19.4%	14.5%	14.2%
Total outside liabilities/Tangible net worth (times)	0.3	0.4	0.3
Total debt/OPBDIT (times)	0.01	0.01	0.01
Interest coverage (times)	614.4	200.4	131.3

Source: Company, ICRA Research; * Provisional numbers; 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	Type	Current rating (FY2025)		Chronology of Rating History for the past 3 years			
		Amount Rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	
			July 30, 2024	May 19, 2023	-	Mar 10, 2022	Feb 14, 2022
1 Term Loan	Long Term	-	-	-	-	-	[ICRA] AA- (Stable)
2 Long Term Fund Based - CC	Long Term	19.00	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-	[ICRA] AA- (Stable)	[ICRA] AA- (Stable)
3 Long Term Non-fund Based	Long Term	361.00	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
4 Unallocated limits	Long Term/ Short Term	-	-	[ICRA]A1+ Reaffirmed & Withdrawn	-	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term Fund Based - CC	Simple
Long Term Non-Fund Based	Very 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 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 - CC	NA	NA	NA	19.00	[ICRA]AA (Stable)
NA	Long Term Non-Fund Based	NA	NA	NA	361.00	[ICRA]AA (Stable)

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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