October 03, 2024

Mahanagar Gas Limited: Ratings reaffirmed and rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term non-fund based limits	465.00	540.00	[ICRA]AAA (Stable); reaffirmed/assigned for enhanced amount
Long-term fund-based limits	80.00	80.00	[ICRA]AAA (Stable); reaffirmed
Short-term non-fund based limits	910.00	908.75	[ICRA]A1+; reaffirmed
Short-term non-fund based limits (Sublimit)	(80.00)	(80.00)	[ICRA]A1+; reaffirmed
Short-term fund-based limits	12.50	16.70	[ICRA]A1+; reaffirmed/assigned for enhanced amount
Short-term fund-based limits (Sublimit)	(2.00)	(1.00)	[ICRA]A1+; reaffirmed
Long-term/Short-term - Unallocated limits	32.50	79.55	[ICRA]AAA (Stable)/ [ICRA]A1+; reaffirmed/assigned for enhanced amount
Total	**1,500.00**	**1,625.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings factor in the strong parentage of Mahanagar Gas Limited (MGL), its current exclusive position in the Greater Mumbai region (geographical area 1, or GA1), the surrounding expansion areas (GA2) and Raigad (GA3), as well as its diversified customer base and robust credit profile. Despite the expiry of MGL's marketing exclusivity in both GA1 and GA2 a few years ago and the infrastructure exclusivity in May 2020 for GA1, ICRA expects the company to continue to enjoy a dominant market share because of its first-mover advantage, evident from its established infrastructure network. MGL continues to enjoy network/infrastructure exclusivity in all its GAs. There are significant entry barriers for third-party marketers or new entrants because of concerns regarding gas availability at competitive prices and lack of clarity on open-access for CGD networks in the country.

MGL benefits from its strong parent, GAIL India Limited (GAIL, rated [ICRA]AAA (Stable)/[ICRA]A1+), in terms of technical/management support and operational synergy through its tie-up for sourcing natural gas to meet a sizeable part of its requirements. The ratings consider the favourable outlook for demand growth in both compressed natural gas (CNG) and piped natural gas (PNG) categories, 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. The ratings also consider the company's strong financial profile, characterised by healthy profitability levels, zero debt and strong liquidity, with sizeable, unencumbered cash balances and liquid investments.

The company reported a healthy growth in profitability in FY2024 compared to FY2023, supported by a volume growth of ~5%. Further, the company's margins have improved, backed by the implementation of the Kirit Parikh committee's recommendations which brought the APM prices down, the preferential allocation of high pressure-high temperature (HPHT) gas (along with downward revision of HPHT gas price) which reduced the dependence on imported LNG for the CNG and PNG (d) segments and the softening of LNG prices which helped lower the input gas costs for the operations. At present, MGL derives a major share of its revenue from the sales in the CNG (~72%) and PNG (d) segments (~14%). 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.

ICRA notes that MGL is undertaking capex to expand its network in Raigad (GA3) as well as the existing GAs. While the progress in Raigad was slower than expected compared to the minimum work programme (MWP) submitted to the GoI due to delays in receiving the necessary approvals and the impact of the pandemic, the company had achieved its target of setting up domestic connections and laying inch km of steel pipeline in January 2022 itself. However, any potential partial encashment of the bank guarantee submitted by MGL to PNGRB for Raigad for the past delays will remain a key monitorable.

ICRA also notes that MGL had completed the acquisition of a 100% stake in Unison Enviro Private Limited {UEPL; rated [ICRA]AA+ (Stable)} for ~Rs. 562 crore in February 2024. The acquisition will enable MGL to expand to newer geographical areas in Maharashtra (Ratnagiri, Latur & Osmanabad) and Karnataka (Chitradurga & Davanagere). ICRA will continue to monitor the developments and their impact on the credit profile, going forward.

MGL has expansion plans entailing an outlay of ~Rs. 1,000 crore per annum over the next few years. The company will be funding its capex through internal accruals, given the robust cash generation. Nevertheless, the company will remain exposed to the project execution risks and the long gestation period for the build-up of sales volumes.

The Stable outlook reflects ICRA's expectation that the credit profile will remain robust, aided by continued healthy demand for CNG and PNG in the GAs of MGL, thereby aiding steady cash accruals.

Key rating drivers and their description

Credit strengths

Exclusive position in gas distribution business in Greater Mumbai and expansion areas - At present, MGL has an exclusive position and first-mover advantage in retail gas distribution in Greater Mumbai (GA1), its expansion areas (GA2) and Raigad (GA3). By the provisions of the PNGRB Act, the company has infrastructure exclusivity in GA3 for a 25-year period, i.e., till 2040. The company has, thus, been able to take regular price hikes to factor in any increase in input costs, thereby protecting its operating profits.

Benefits of strong parentage - MGL is promoted by GAIL (India) Limited (GAIL, [ICRA]AAA (Stable)/[ICRA]A1+), which has a deep understanding and interest in the domestic gas distribution business. GAIL's Chairman is the Chairman of MGL too. GAIL has a 32.5% shareholding in MGL. Further, a favourable allocation policy assures gas availability from GAIL for the CNG and PNG (domestic) segments.

Favourable outlook on demand growth – The outlook for CNG and PNG(d) consumption remains favourable, driven by the focused policy initiatives by the GoI aiding APM gas allocation, implementation of the Kirit Parikh Committee's recommendations for pricing of APM gas and the priority in HPHT gas bidding for the CGD sector. All these measures have supported gas availability at reasonable costs, making it competitive against alternative fuels. CNG demand continues to remain healthy, supported by growing vehicle registrations in the passenger vehicle as well as commercial vehicle segments, which in turn is driven by its cost advantage over alternative fuels. The PNG (domestic) segment will continue to benefit from the discontinuation of the LPG subsidy by the Government. The PNG (industrial and commercial) segment would, however, continue to face intense competition from alternative liquid fuels although the focus on reducing pollution may increase the demand for PNG(I).

Strong financial profile, comfortable capital structure and healthy liquidity – MGL's financial risk profile remains robust, marked by its sizeable scale of operations, strong cash accruals, a comfortable liquidity profile and capital structure with healthy debt protection metrics and high profitability and return indicators. MGL's cash flows are supported by healthy demand growth in the CNG and the PNG segments which along with a stable gas pricing regime has resulted in healthy EBITDA per scm for the company. The company is expected to generate retained cash flows of Rs. 1,200-1,300 crore per annum, going forward, which will enable the company to remain debt-free despite undertaking sizeable capex. The liquidity profile of the company remains superior, given the nearly Rs. 1,347 crore of free cash at the end of FY2024 and nil debt on the books of the company, both standalone and consolidated.

Credit challenges

Operations exposed to changes in spread between CNG/PNG and alternative fuel prices - MGL relies primarily on term contracts for the PNG (industrial and commercial) categories and shortfall, if any, is met through spot procurement. Therefore, MGL's operations in these price-sensitive segments are exposed to the spread between the PNG rates and the prices of alternative fuels (such as furnace oil, low sulphur heavy stock, bulk LPG, etc.). MGL is allocated gas at administrative price mechanism (APM) rates based on the policy for CNG and PNG-domestic categories, which mitigates the impact of price volatility for these segments. However, in the recent period, the allocation of domestic gas has been lower than the requirement, resulting in increased procurement from the spot market. Further, while the policy was modified in FY2023 to ensure better availability and increased allocation for the sector, APM gas price for the nomination fields, as per the new policy, will remain at the ceiling level of $6.5/mmbtu in the near to medium term on expectation of elevated crude oil prices. With the APM and HPHT gas meeting the requirement for the CNG and PNG(d) segments, the overall margins are expected to be stable for MGL.

Expiry of marketing and physical exclusivity in key GAs – MGL's marketing exclusivity for GA1 and GA2 expired during 2012-2014, exposing the company to the threat of new entrants. However, it continues to benefit from the first-mover advantage and the steady development of its CGD infrastructure in these areas. While the physical exclusivity period had also expired for GA1 in May 2020, PNGRB reinstated the infrastructure exclusivity via an order in May 2024 till further instructions. However, any third-party marketer looking to utilise MGL's infrastructure for CNG/PNG sales will face issues such as ability to secure gas supplies at competitive rates, operational challenges related to retail management set-up/expertise (billing, collection and metering along with after-sales/repair related services) and unattractive returns in case of lower sales volume.

Environmental and Social Risks

Environmental considerations - MGL is promoting the use of natural gas, which reduces CO2 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. Also, wherever possible, MGL has taken initiatives to conserve natural resources such as water, paper and electricity. Such initiatives include the implementation of IoT-based HVAC automation System at MGL-owned offices to reduce energy usage, integration of HVAC with solar module for efficient use of energy and procurement of green power to mitigate Scope 2 emission partially. Further, MGL has taken significant strides towards sustainable water management through the implementation of two sewage treatment plants (STPs) at CGS Savroli and CGS Taloja.

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 a change in consumer behaviour, or any other driver of change is expected to be moderately paced. Therefore, MGL would benefit from the structural shift in the longer term, which would support its credit profile as well.

Liquidity position: Superior

MGL has a healthy liquidity profile with sizeable, unencumbered cash and cash equivalents of ~Rs. 1,347.4 crore as on March 31, 2024. Further, MGL has been generating healthy cash accruals, which increased to ~Rs. 1,220 crore in FY2024 from Rs. 730 crore in FY2023 and has no long-term debt repayment obligations at present. Going forward, with the retained cash flows expected to remain in the range of Rs. 1,200-1,300 crore on a standalone basis, the company should be able to fund the capex at a consolidated level. The company's liquidity profile should remain adequate despite its expansion plans, given the healthy profitability of its operations and high liquid investments.

Rating sensitivities

Positive factors – NA.

Negative factors– Pressure on the ratings may arise from any large debt-funded acquisition or any adverse regulatory developments impacting the revenues and profitability on a sustained basis. Any significant decline in profitability due to increased competition from new entrants may also weigh on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the City Gas Distribution companies
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financials of Mahanagar Gas Limited

About the company

Mahanagar Gas Limited (MGL) was incorporated in 1995 as a joint venture between GAIL (India) Limited (GAIL) and BG Asia Pacific Holdings Pte Limited (BGAPH) - a Royal Dutch Shell Plc subsidiary. Subsequently, the company was listed in June 2016, after which both GAIL and BGAPH's stake reduced to 32.5% each, with the remaining 35% stake being held by the public (of which 10% is with the state government of Maharashtra). Further, in August 2019, BGAPH sold its entire stake in the company. At present, GAIL is the only promoter in the company.

Over the past two decades, MGL has established a firm presence in the Greater Mumbai gas distribution business, where it is the dominant player. Its growth is primarily driven by the CNG business, which contributes to 70-75% of its revenues at present. The company also supplies piped natural gas (PNG) to the industrial, commercial, and residential segments. The company sources most of its gas requirements from GAIL, while a small part is bought from the spot market. MGL has put in place large plans to augment its gas distribution network in the existing Mumbai region and expand its network in the surrounding regions of Mumbai. The company currently operates in three geographical areas (GAs) — GA1, which includes the Greater Mumbai region; GA2, which includes expansion areas, such as Mira-Bhayander, Thane-Vashi-Belapur (TVB), Kharghar-Panvel-Taloja (KPT), Kalyan-Dombivli-Ambernath and Ulhasnagar (KD& AB); and GA3, which is the Raigad district (won by the company in 2015).

Key financial indicators (audited)

Consolidated	FY2023	FY2024	Q1FY2025*
Operating income	6,299.3	6,290.1	1665.8
PAT	790.0	1,276.4	288.8
OPBDIT/OI	18.9%	29.5%	26.2%
PAT/OI	12.5%	20.3%	17.3%
Total outside liabilities/Tangible net worth (times)	0.5	0.4	
Total debt/OPBDIT (times)	-	-	-
Interest coverage (times)	126.7	139.4	136.5

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs Crore)	3-Oct-2024	Date	Rating	Date	Rating	Date	Rating
Short term-others-non fund based	Short term	908.75	[ICRA]A1+	01-SEP-2023	[ICRA]A1+	23-SEP-2022	[ICRA]A1+	30-SEP-2021	[ICRA]A1+
			-	-	-	14-MAR-2023	[ICRA]A1+	04-MAR-2022	[ICRA]A1+
Short term-others-fund based	Short term	16.70	[ICRA]A1+	01-SEP-2023	[ICRA]A1+	23-SEP-2022	[ICRA]A1+	04-MAR-2022	[ICRA]A1+
			-	-	-	14-MAR-2023	[ICRA]A1+	-	-
Long term / short term-unallocated-unallocated	Long term/ Short term	79.55	[ICRA]AAA (Stable)/ [ICRA]A1+	01-SEP-2023	[ICRA]AAA (Stable)/ [ICRA]A1+	23-SEP-2022	[ICRA]AAA (Stable)/ [ICRA]A1+	04-MAR-2022	[ICRA]AAA (Stable)/ [ICRA]A1+
			-	-	-	14-MAR-2023	[ICRA]AAA (Stable)/ [ICRA]A1+	-	-
Long term-others-non fund based	Long term	540.00	[ICRA]AAA (Stable)	01-SEP-2023	[ICRA]AAA (Stable)	23-SEP-2022	[ICRA]AAA (Stable)	30-SEP-2021	[ICRA]AAA (Stable)
			-	-	-	14-MAR-2023	[ICRA]AAA (Stable)	04-MAR-2022	[ICRA]AAA (Stable)
Short term-others-interchangeable	Short term	(80.00)	[ICRA]A1+	01-SEP-2023	[ICRA]A1+	23-SEP-2022	[ICRA]A1+	04-MAR-2022	[ICRA]A1+
			-	-	-	14-MAR-2023	[ICRA]A1+	-	-
Long term-others-fund based	Long term	80.00	[ICRA]AAA (Stable)	01-SEP-2023	[ICRA]AAA (Stable)	23-SEP-2022	[ICRA]AAA (Stable)	04-MAR-2022	[ICRA]AAA (Stable)
			-	-	-	14-MAR-2023	[ICRA]AAA (Stable)	-	-
Short term-others-interchangeable	Short term	(1.00)	[ICRA]A1+	01-SEP-2023	[ICRA]A1+	23-SEP-2022	[ICRA]A1+	04-MAR-2022	[ICRA]A1+
			-	-	-	14-MAR-2023	[ICRA]A1+	-	-
Debt programme	Long term	-						30-SEP-2021	[ICRA]AAA (Stable)
								04-MAR-2022	[ICRA]AAA (Stable); reaffirmed

	Current (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs Crore)	3-Oct-2024	Date	Rating	Date	Rating	Date	Rating
									and withdrawn

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term non-fund based limits	Very Simple
Long-term fund-based limits	Simple
Short-term non-fund based limits	Very Simple
Short-term non-fund based limits (Sublimit)	Very Simple
Short-term fund-based limits	Simple
Short-term fund-based limits (Sublimit)	Simple
Long-term/Short-term - Unallocated limits	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 non-fund based limits**	NA	NA	NA	540.00	[ICRA]AAA (Stable)
NA	**Long-term fund-based limits**	NA	NA	NA	80.00	[ICRA]AAA (Stable)
NA	**Short-term non-fund based limits**	NA	NA	NA	908.75	[ICRA]A1+
NA	**Short-term non-fund based limits (Sublimit)**	NA	NA	NA	(80.00)	[ICRA]A1+
NA	**Short-term fund-based limits**	NA	NA	NA	16.70	[ICRA]A1+
NA	**Short-term fund-based limits (Sublimit)**	NA	NA	NA	(1.00)	[ICRA]A1+
NA	**Long-term/Short-term unallocated limits**	NA	NA	NA	79.55	[ICRA]AAA (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

Company Name	Ownership	Consolidation Approach
Mahanagar Gas Limited	100.00% (rated entity)	Full Consolidation
Unison Enviro Private Limited	100.0%	Full Consolidation
Mahanagar LNG Private Limited	51.0%	Full Consolidation

Source: MGL annual report

ANALYST CONTACTS

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Prashant Vasisht
+91 124 4545 322
Prashant.vasisht@icraindia.com

Varun Gogia
+91 98711 56542
varun.gogia1@icraindia.com

Kushal Shah
+91 79 4027 1527
kushal.shah@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches