

October 3, 2024<sup>(Revised)</sup>

**Unison Enviro Private Limited: Long-term rating upgraded; [ICRA]AA- (CE) rating removed from rating watch with developing implications and withdrawn and [ICRA]AA+ (Stable) rating assigned; short-term rating upgraded to [ICRA]A1+; Stable outlook assigned**

**Summary of rating action**

| <b>Instrument*</b>                          | <b>Previous Rated Amount<br/>(Rs. crore)</b> | <b>Current Rated Amount<br/>(Rs. crore)</b> | <b>Rating Action</b>   |
|---|--|---|--|
| <b>Long term - Fund based – Term loan</b>   | 543.00                                       | 543.00                                      | [ICRA]AA+ (Stable) assigned; [ICRA] AA- (CE) rating withdrawn; rating removed from rating watch with developing implication                              |
| <b>Long term – Non-fund based facility</b>  | 1.60   | 1.60  | [ICRA]AA+ (Stable); upgraded from [ICRA] BBB+ (Rating watch with developing implications); rating removed from rating watch with developing implications |
| <b>Short term - Non-fund based facility</b> | 21.40  | 21.40                                       | [ICRA]A1+; upgraded from [ICRA] A2 (Rating watch with developing implications); rating removed from rating watch with developing implications            |
| <b>Total</b>                                | <b>566.00</b>                                | <b>566.00</b>                               |  |

\*Instrument details are provided in Annexure-1

**Rationale**

ICRA has removed the rating of [ICRA]AA- (CE) from rating watch with developing implications and withdrawn the [ICRA]AA- (CE) rating assigned to the term loan of Unison Enviro Private Limited (UEPL) and has simultaneously assigned a fresh rating of [ICRA] AA+ (Stable). ICRA has removed the rating of [ICRA]BBB+ from rating watch with developing implications and has upgraded the rating to [ICRA]AA+ (Stable). ICRA has also removed the rating of [ICRA]A2 from rating watch with developing implications and upgraded the rating to [ICRA]A1+. The rating action follows the completion of the acquisition of UEPL by Mahanagar Gas Limited (MGL, rated [ICRA] AAA (Stable)/[ICRA]A1+) from the erstwhile promoters of UEPL - Ashoka Buildcon Limited (ABL; rated [ICRA]A1+) and North Haven India Infrastructure Fund (NHIF).

The ratings factor in the strong parentage of UEPL as the parent Mahanagar Gas Limited (MGL/the parent, rated [ICRA]AAA (Stable)/[ICRA]A1+) is a leading CGD player with a strong credit profile. ICRA expects UEPL to benefit from the managerial, operational and financial support from MGL. Post the acquisition by MGL, UEPL’s entire board comprises exclusively of MGL’s representatives and the key managerial personnel have also been deputed by MGL. Additionally, MGL has provided unsecured loans to UEPL for repaying the term debt on its books and plans to fund the capex requirements of UEPL going forward by providing additional unsecured loans.

The ratings also consider the authorisation of the Petroleum and Natural Gas Regulatory Board (PNGRB) to UEPL to implement city gas distribution (CGD) network in the geographical areas (GA) of Ratnagiri, Latur and Osmanabad in Maharashtra, and Chitradurga and Davangere in Karnataka. UEPL has marketing exclusivity till CY2028 for Latur and Osmanabad, as well as for Chitradurga and Davangere. For Ratnagiri GA, the marketing exclusivity expired in CY2023; however, UEPL continues to enjoy a dominant market share because of its first-mover advantage due to its established infrastructure network and the significant

entry barriers for third-party marketers. Further, the company will continue to enjoy infrastructure exclusivity in all the three GAs for a 25-year period (till CY2041 for Ratnagiri GA and CY2043 for the other two GAs). The presence in multiple regions provides geographical diversity to UEPL. The company has adequate gas tie-ups with GAIL (India) Limited {rated [ICRA]AAA (Stable)} to meet its gas consumption requirements.

UEPL remains exposed to execution risks associated with the setting up of the CGD projects; however, a satisfactory project progress as per the minimum work programme (MWP) and sufficient time for completing the balance target mitigates the risk to an extent. MGL's operational expertise in setting up CGD infrastructure also mitigates the execution risk to an extent. The company remains exposed to regulatory risks, given the company's inability to meet the MWP for the Ratnagiri GA in a timely manner. The profitability of UEPL will remain exposed to market risks as CNG sales need to remain competitive against auto fuels like petrol and diesel. The same will be a function of sourcing of competitively priced gas and the trend in conversion of vehicles to CNG as a fuel in UEPL's GAs.

## Key rating drivers and their description

### Credit strengths

**Strong parentage of Mahanagar Gas Ltd and the accompanied managerial, operational and financial support** – The ratings factor in the strong parentage of UEPL by virtue of being a wholly-owned subsidiary of MGL. The parent is a leading player in the CGD sector having strong operational expertise and a robust credit profile. After the acquisition by MGL, UEPL's entire board comprises exclusively of MGL's representatives, and the key managerial personnel have also been deputed by MGL. UEPL is of significant strategic importance to MGL as it will enable the latter to expand its network through the newly acquired GAs under UEPL.

**Exclusive position in gas distribution business in allocated GAs Ratnagiri, Latur & Osmanabad, Chitradurga & Davangere regions**– UEPL has been authorised by the PNGRB to implement the CGD network in the GAs of Ratnagiri, Latur and Osmanabad in Maharashtra, along with Chitradurga and Davangere in Karnataka. UEPL has marketing exclusivity till CY2028 for Latur and Osmanabad as well as for Chitradurga and Davangere. For the Ratnagiri GA, the marketing exclusivity expired in CY2023; however, UEPL continues to enjoy a dominant market share because of its first-mover advantage. Further, it will continue to enjoy infrastructure exclusivity in all the three GAs for a 25-year period (till CY2041 for Ratnagiri GA and CY2043 for the other two GAs).

**Gas tie-up with GAIL (India) Ltd** – The company has secured gas tie-ups with GAIL (India) Limited and IOCL for its gas sourcing needs. The company is able to meet its gas requirements for the CNG segment through a mix of the administered price mechanism (APM) gas and LNG/RLNG using its long-term contract with GAIL. While the company's gas requirements remain low at present, the contract volumes are adequate to cover the healthy ramp-up in volumes expected, going forward.

### Credit challenges

**Exposure to project execution risks associated with CGD project** – The company remains exposed to pending execution risks associated with CGD projects. ICRA notes that UEPL's external debt has been reduced to nil through unsecured loans from MGL. Mahanagar Gas plans to fund UEPL's capex requirements by providing additional unsecured loans, going forward, as well. The funding arrangements, along with the operational expertise of MGL, mitigate the execution risk to an extent.

**Exposure to market risk** – UEPL's ability to ramp up CNG conversions for transportation-related gas demand will remain critical from a credit perspective, given the longer gestation period for CGD projects and CNG contributing more than 90% to the overall demand mix for all the three GAs.

**Regulatory risks associated with CGD projects** – UEPL remains exposed to regulatory risks associated with meeting the minimum work programme and service standards. ICRA notes that there have been initial delays in meeting the MWP targets. Some of these delays are attributable to difficult terrain in the Ratnagiri GA to implement the steel pipelines. Nonetheless,

there has been a substantial increase in the pace of capex execution after the acquisition of MGL due to operational expertise. Compliance with the MWP targets set by the regulator will be a key monitorable.

### Liquidity position of UEPL: Adequate

UEPL's liquidity position is expected to remain adequate in the near to medium term as external debt has been reduced to nil through unsecured loans from MGL. The free cash balance of Rs. 27.55 crore as on March 31, 2024, along with expected cash accruals in FY2025, is expected to be adequate, given the support from MGL to execute the capex for setting up the CGD infrastructure.

### Rating sensitivities

**Positive factors** - UEPL's rating may be upgraded if a material ramp up in the sales volumes results in healthy cash generation while the company maintains low leverage and comfortable coverage indicators on a sustained basis.

**Negative factors:** The ratings may be revised downwards in a scenario of weakening of the credit profile of MGL and/or weakening of the linkages of UEPL with MGL. The rating may also be downgraded in a scenario of a significant decline in cash generation going forward resulting in the weakening of the overall credit and liquidity profile of the company. Any higher-than-expected debt funded capex resulting in the moderation in the credit profile of UEPL may also result in a rating downgrade.

### Analytical approach

| Analytical Approach             | Comments   |
|---------------------------------|--|
| Applicable Rating Methodologies | <a href="#">Corporate Credit Rating Methodology</a><br><a href="#">Rating methodology for City Gas Distribution companies</a><br><a href="#">ICRA policy on withdrawal of credit ratings</a> |
| Parent/Group Support            | Parent/Group Company: Mahanagar Gas Limited (MGL)<br>The ratings take into account the parentage of MGL and the company remains strategically important to MGL                               |
| Consolidation/Standalone        | Standalone   |

### About the company

Unison Enviro Private Limited (UEPL) has been authorised by the Petroleum and Natural Gas Regulatory Board (PNGRB) to implement city gas distribution (CGD) network in the geographical areas (GAs) of Ratnagiri, Latur & Osmanabad in Maharashtra, and Chitradurga & Davangere in Karnataka.

The authorisation to implement the CGD network in the Ratnagiri GA was granted by the PNGRB under the sixth round of CGD bidding in August 2016. The authorisation for the Latur & Osmanabad and Chitradurga & Davangere GAs was granted in September 2018 under the ninth round of CGD bidding. As per the authorisation, the company will have five years of marketing exclusivity and 25 years of network exclusivity for the Ratnagiri GA, eight years of marketing exclusivity and 25 years of network exclusivity for the Latur & Osmanabad and Chitradurga & Davangere GAs. As per the authorisation, the company is required to implement the projects while achieving the minimum work programme (MWP) targets set by the PNGRB for all the GAs. The MWP target specifies the minimum number of domestic households to be connected and the pipeline infrastructure to be laid in the first 5-year period (Ratnagiri GA)/8-year period (Latur & Osmanabad and Chitradurga & Davangere) from the date of authorisation (MWP period).

On March 03, 2023, Mahanagar Gas Limited (MGL) signed a share purchase agreement (SPA) with the erstwhile promoters of UEPL – Ashoka Buildcon Limited and its co-shareholder, North Haven India Infrastructure Fund (NHIIF; managed by Morgan

Stanley India Infrastructure fund) – to purchase 100% stake in UEPL. The acquisition was completed in February 2024 wherein the entire shareholding was transferred to MGL.

### Key financial indicators (audited)

| UEPL - Standalone                                    | FY2023 | FY2024 |
|--|--------|--------|
| Operating income (Rs. crore)                         | 179.7  | 243.9  |
| PAT (Rs. crore)                                      | -15.6  | 6.9    |
| OPBDIT/OI (%)  | 14.1%  | 18.0%  |
| PAT/OI (%)   | -8.7%  | 2.8%   |
| Total outside liabilities/Tangible net worth (times) | 2.9    | 3.1    |
| Total debt/OPBDIT (times)                            | 7.1    | 4.6    |
| Interest coverage (times)                            | 2.1    | 2.5    |

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 (FY2025) |                         |                    | Chronology of rating history for the past 3 years |  |           |  |           |                        |
|-------------------------|------------------|-------------------------|--------------------|---|--|-----------|--|-----------|------------------------|
|                         | Type             | Amount rated (Rs crore) | October 3, 2024    | FY2024  |  | FY2023    |  | FY2022    |                        |
|                         |                  |                         |                    | Date  | Rating   | Date      | Rating   | Date      | Rating                 |
| Term loans              | Long term        | 543.00                  | [ICRA]AA+ (Stable) | 10-Nov-23   | [ICRA]AA-(CE); rating watch with developing implications | 13-Mar-23 | [ICRA]AA-(CE); Rating watch with developing implications | 18-Jan-22 | [ICRA]A+ (CE) (Stable) |
|                         |                  |                         |                    |   |  | 30-Dec-22 | [ICRA]AA-(CE) (Stable)                                   | 03-Sep-21 |                        |
| Non-fund based facility | Long term        | 1.60                    | [ICRA]AA+ (Stable) | 10-Nov-23   | [ICRA]BBB+; rating watch with developing implications    | -         | -  | -         | -                      |
| Non-fund based facility | Short term       | 21.40                   | [ICRA]A1+          | 10-Nov-23   | [ICRA]A2; rating watch with developing implications      | -         | -  | -         | -                      |

### Complexity level of the rated instrument

| Instrument                           | Complexity Indicator |
|--------------------------------------|----------------------|
| Long term - Fund based – Term loan   | Simple               |
| Long term - Non-fund based facility  | Very simple          |
| Short term - Non-fund based facility | 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 No. | Instrument Name         | Date of Issuance / Sanction | Coupon Rate          | Maturity Date | Amount Rated (RS Crore) | Current Rating and Outlook |
|----------|-------------------------|-----------------------------|----------------------|---------------|-------------------------|----------------------------|
| NA       | Term loan               | FY2021                      | 1-year<br>MCLR+1.45% | FY2035        | 543.00                  | [ICRA]AA+ (Stable)         |
| NA       | Non-fund based facility | NA                          | NA                   | NA            | 1.60                    | [ICRA]AA+ (Stable)         |
| NA       | Non-fund based facility | NA                          | NA                   | NA            | 21.40                   | [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

#### Corrigendum

Document dated October 3, 2024, has been revised with changes as below:  
ICRA policy for withdrawal of credit ratings included in analytical approach.

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