April 04, 2025

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 parentage - 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, where it provides city gas distribution services. 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 due to concerns over 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 over the last 12-18 months by the adoption of electric buses for state transportation as well as the increased conversion of three wheelers to electric vehicles. The expansion in the new GAs – Unnao, Faizabad and Sultanpur - is likely to drive volume growth, going forward.

The company reported a healthy growth in profitability in FY2024 compared to FY2023, supported by softening of LNG prices compared to in FY2023. However, the margins moderated in FY2025 because of non-availability of sufficient low-cost gas and the company had to rely on high-cost RLNG to meet the demand. The domestic gas allocation for the CNG and PNG (domestic) sectors was not adequate, especially in H2 FY2025, leading to increased reliance on spot gas or RLNG during the fiscal, which in turn has put pressure on the profitability. Some portion of this gas was reallocated to the CGD sector later, helping restore the profitability in Q4 FY2025. Going forward, the profitability is likely to be better than FY2025. 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 capex plans worth ~Rs. 100 crore this fiscal for which equity infusion by the promoter entities remains a key monitorable. While Rs. 56-crore equity has already been infused in FY2024, more equity from the promoters is expected to fund the capex requirements in FY2026, especially towards increasing the PNG (d) connections. Any further delay in equity infusion might result in a deferment of the capex and can impact the minimum work programme (MWP) targets for the company.

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, as per the MWP targets. ICRA notes that GGL is behind 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 an encashment of the performance bank guarantee, or any other financial penalty, the impact of which remains to be seen. Moreover, a timely equity infusion from the promoters also remains a key monitorable.

The Stable outlook reflects ICRA's expectation that GGL will continue to benefit from its well-established market position, strong parentage and a favourable demand outlook, even as the credit metrics deteriorated in FY2025.

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 for CNG and PNG(d) consumption remains favourable, driven by the focused policy initiatives of 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 be 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). However, in GGL's Gas, there has been a healthy competition from EVs as a lot of state transport buses and three wheelers have converted to the electric mode, thereby putting pressure on GGL's volume growth.

Consumer mix tilted towards CNG, a relatively high-margin segment – Nearly 84% of GGL's sales were derived from the CNG segment in H1 FY2025, 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.

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. 811.8 crore in FY2024 against Rs. 804.1 crore in FY2023. Its CNG network comprised 91 CNG stations and 2,12,520 domestic PNG connections as on September 30, 2024, 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 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 capex and weakening profitability – In order to expand its network in the new GAs, the company will have to incur a capex of ~Rs. 100 crore in this fiscal. Its cash accruals are insufficient to meet these capex requirements. GGL has requested its promoters to infuse around Rs. 200-crore equity over the next two years, which will part fund the capex and keep the credit profile comfortable. The promoters have already infused Rs. 56 crore as equity during FY2024.

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 for setting up 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. 52.9 crore of cash and cash equivalents as on September 30, 2024.

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 the linkages with the promoters weaken or if there is any slippage from the MWP commitments, resulting in large penalties. Any adverse regulatory development impacting the revenue and profitability, or a sizeable debt-funded capex affecting the liquidity, will also weigh on the ratings.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies 9 Bold	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/Stanalone	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), compressed natural gas (CNG) and developing city gas distribution (CGD) infrastructure in the cities of Lucknow and Agra, both in Uttar Pradesh. It received the authorisation for setting up a CGD network in Agra in November 2009 and for Lucknow in February 2016. Further, in September 2018, GGL won authorisations for setting up the CGD infrastructure in the Unnao district and the Ayodhya and Sultanpur district in the 9th round of bidding conducted by PNGRB. As of H1 FY2025, the company has 91 CNG stations, around 2,12,520 domestic and 132 commercial and industrial PNG connections.

Key financial indicators (audited)

Company name (consolidated)	FY2023	FY2024
Operating income	787.8	804.1
PAT	17.5	43.5
OPBDIT/OI	11.1%	17.5%
PAT/OI	2.2%	5.4%
Total outside liabilities/Tangible net worth (times)	1.5	1.2
Total debt/OPBDIT (times)	5.8	3.3
Interest coverage (times)	4.0	3.9

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

Current (FY2026)				Chronology of rating history for the past 3 years					
				FY2025		FY2024		FY2023	
Instrument	Type	Amount rated (Rs. crore)	Apr 04, 2025	Date	Rating	Date	Rating	Date	Rating
Fund-based – Term loan	Long term	500.0	[ICRA]AA (Stable)	-	-	Mar-22-24	[ICRA]AA (Stable)	Jan-17-23	[ICRA]AA (Stable)
Non-fund based - Others	Short term	247.0	[ICRA]A1+	-	-	Mar-22-24	[ICRA]A1+	Jan-17-23	[ICRA]A1+
Unallocated	Long term/Short term	3.0	[ICRA]AA (Stable)/ [ICRA]A1+	-	-	Mar-22-24	[ICRA]AA (Stable)/ [ICRA]A1+	Jan-17-23	[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	500.00	[ICRA]AA (Stable)
NA	**Short term-Non-fund based - Others**	NA	NA	NA	247.00	[ICRA]A1+
NA	**Long term/Short term – Unallocated**	NA	NA	NA	3.00	[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

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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