September 24, 2021

Assam Gas Company Ltd.: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	-	[ICRA]A+ (Stable) reaffirmed

**Instrument details are provided in Annexure-1*

Rationale

The rating factors in the long and established track record of the company in the natural gas transmission business, near monopoly in the natural gas transmission in the state of Assam, favourable outlook for natural gas consumption in the state of Assam, healthy financial risk profile characterised by stable cash accruals, nil debt and large cash balances and large share of transmission revenue from dedicated pipelines, which are outside the regulatory control. Assam Gas Company Ltd. (AGCL) has been in operations since 1967 when it setup its first pipeline in the state of Assam and has commissioned nearly 6 mmscmd of natural gas pipeline (both dedicated and common carrier pipelines) from 1986 to 2004. The company is the sole transporter of natural gas in the state of Assam. Nonetheless, the gas consumption in the state of Assam remains limited due to low availability of natural gas in the region. With the construction of the Barauni-Guwahati pipeline and the Indradhanush Gas Grid Limited (IGGL) underway, the availability of natural gas in the North-Eastern region is expected to improve substantially post commissioning of these pipelines. As a result, the pent-up demand for natural gas is also expected to be met. Several customers of AGCL are debottlenecking current capacities and few are setting up new capacities as well which augurs well for AGCL in terms of higher transportation of the natural gas through AGCL's network resulting in higher revenues. Additionally, AGCL is also planning to increase its reach to various tea estates which are currently using coal as a medium for heating tea leaves, which should provide support to gas consumption for the company. AGCL also derives a major share of revenues from its dedicated pipelines wherein the transmission tariff is mutually agreed upon between the consumer and the transporter of natural gas with an annual increment in place, thus providing a level of certainty of revenues in the near to medium term. AGCL's financial risk profile has remained healthy characterised by stable cash accruals from operations, large cash balances and marginal debt taken by DNP Limited, AGCL's subsidiary, in FY2021. As a result, the capitalisation and coverage indicators have remained healthy as reflected by interest coverage ratio of 18.2x (consolidated) at the for FY2021 albeit lower than 52.5x reported in FY2020. The financial leverage (Total Debt/OPBDITA) was 0.1x at the end of FY2021 as against nil at the end of FY2020. AGCL on a standalone basis was debt free at the end of FY2021, albeit the company has started drawing term loans for ongoing capex in H1 FY2022. Going forward as well the financial risk profile of the entity is expected to remain healthy despite the company planning significant capex over the next 3-4 years, driven by the stable cash accruals and current cash balances which should result in limited reliance on the debt going forward.

The rating is however constrained by the ageing pipeline infrastructure of the company, regulatory risk for the common carrier pipelines, relatively weak credit quality of its bulk customers, whose offtake has also been declining due to their ageing plants, customer concentration risk for the subsidiary DNP Limited, and project risks associated with its expansion plans. AGCL's infrastructure was setup from 1986 to 2004 and has seen an increase in the economic life twice by PNGRB during tariff revisions. The infrastructure may require significant investments for modernisation. Natural gas availability remains an issue in the North-Eastern region as the state has not been connected to the National gas grid and production from gas fields in the North-Eastern states has remained limited. However, with the expected commissioning of the Barauni-Guwahati pipeline (set by GAIL; to be completed by December 2021) and IGGL network (expected to be commissioned by end of FY2023) coupled with development of new fields by E&P companies, gas availability will improve in the region. On the regulatory front, AGCL's common carrier pipelines remain exposed to the regulatory risk for tariff revision by PNGRB. The recent downward revision in the tariff by PNGRB in its June 2019 order has impacted the profitability of the company from FY2020 onwards. Several consumers of AGCL have old and ageing plants wherein the gas offtake has been much below the optimum level. As a result, AGCL's transportation infrastructure has remained under-utilised. With few plants focusing on modernisation and also expansion of capacities, the utilisation of pipeline infrastructure is expected to improve post completion of the capex plans of the consumers. DNP Limited transports natural gas to Numaligarh Refinery Limited (NRL) through a dedicated pipeline and thus relies only on NRL for its revenues. This exposes the company to customer concentration risk, though the superior credit quality of the off taker remains a key mitigant to the risk.

ICRA also takes note of the fact that, AGCL had been reported under the defaulters list by one of the bankers due to a commercial dispute, as stated by the management. While the issue is expected to be resolved in the near term, the maximum liability that AGCL may have to incur on this account is limited to around Rs. 2.5 crores which is not material given the current liquidity at hand with the company.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's opinion that AGCL will continue to maintain its healthy financial risk profile given the stable cash accruals and current large cash balances despite the planned capital expenditure of ~Rs. 700-900 crore over the next 3-5 years.

Key rating drivers and their description

Credit strengths

Long and established track record in the natural gas transmission and CGD network of the company; monopoly in natural gas transmission in Upper Assam- AGCL has been constructing and operating natural gas transmission pipelines in the state of Assam since 1967. The current pipeline network in the state of Assam has been built between 1986 to 2004 and AGCL has been the sole transporter of natural gas in the Upper Assam part of the state, barring its subsidiary DNP. Nonetheless, competition will emerge over the long term with the commissioning of IGGL and Ganga-Brahmaputra pipeline projects in the State.

Access to domestic gas for supply to commercial and industrial users of Piped Natural Gas i.e. PNG (C) and PNG (I) to keep supplies competitive against liquid fuel in CGD networks- AGCL supplies domestic gas to its PNG (C) and PNG (I) users as well while the demand for the same is met through imported R-LNG across rest of India. As a result of the availability of domestic gas, the PNG supplies will remain competitive against liquid fuels.

Healthy financial risk profile characterized by large cash balances, marginal debt levels and stable cash accruals- AGCL's financial risk profile remains healthy characterised by stable cash accruals, large cash balances and marginal debt levels at consolidated levels. The company has not undertaken any major capex plans in the last few years and the dividend outflow has remained limited. With stable cash accruals of ~Rs. 100 crore per annum, the cash levels have increased to about Rs. 521.0 crore (consolidated) by the end of FY2021. While the company is undertaking a sizeable capex, which will be debt-funded to some extent, the credit profile will continue to remain healthy.

Large share of revenue from dedicated pipelines with annual increment in transmission tariff ensuring healthy cash accruals- AGCL's pipeline network is a mix of dedicated pipelines and common carrier pipelines. AGCL derives a major share of revenue from the dedicated pipelines wherein the transport of gas and consumer of gas negotiate the transmission tariff and the contracts have defined annual increments for the tariff in the contracts unlike common carrier pipelines wherein PNGRB determines the transmission tariff.

Upcoming capacity expansions and debottlenecking of capacities by several existing consumers to aid increased natural gas offtake- Several of the AGCL's consumers are undertaking de-bottlenecking and capacity expansions at their existing facilities. As a result, the gas offtake is expected to rise going forward which should result in higher gas transportation income for AGCL.

Credit challenges

Ageing infrastructure with manual and semi-automatic systems and declining offtake by various bulk consumers given ageing plants- AGCL's infrastructure was setup from 1986 to 2004 and has seen an increase in the economic life twice by PNGRB during tariff revisions. The infrastructure may require significant investments for modernisation. Additionally, several gas consumers utilising AGCL's network e.g. Brahmaputra Valley Fertilizer Corporation Limited (BVFCL), Lakwa Thermal Power Station and Namrup Thermal Power Station have become old and draw gas lower than what would be required at rated capacity. This has led to lower utilisation of the transmission capacity of AGCL. Additionally, the share of transmission revenues from these players remains significant which poses risk to AGCL's profitability going forward. BVFCL's lower offtake in FY2021 driven by an accident in the plant impacted the profitability albeit a minimum level of revenue is assured from BVFCL which partly mitigates the lower offtake risk.

Limited availability of natural gas in the North-Eastern states currently; though gas supplies expected to improve in future- Natural gas availability remains an issue in the North-Eastern region as the state has not been connected to the National gas grid and production from gas fields in the North-Eastern states has remained limited. However, with the expected commissioning of the Barauni-Guwahati pipeline and IGGL network coupled with development of new fields by E&P companies will lead to imporved natural gas availability in the region

Regulatory risk associated with AGCL's pipeline business, with sharp cuts in tariff made for its common carrier pipelines in recent orders- AGCL's common carrier pipelines remain exposed to the regulatory risk for tariff revision by PNGRB. The recent downward revision in the tariff by PNGRB in its June 2019 order will impact the profitability of the company going forward

Customer concentration risk for DNP Limited (AGCL's subsidiary); superior credit quality of offtake a key mitigant: DNP Limited (AGCL's subsidiary with 51% stake) transports natural gas to Numaligarh Refinery Limited (NRL) through a dedicated pipeline and thus relies only on NRL for its revenues. This exposes the company to customer concentration risk, though the superior credit quality of the off-taker remains a key mitigant to the risk. Moreover, any downward revision in tariff for this pipeline will impact its cash accruals. Additionally, IGGL will be laying a pipeline from Guwahati to Numaligarh and thus will emerge as a key competitor for DNP Limited wherein the volume offtake or incremental volumes could get diverted to IGGL as the entity will be connected to the National gas grid thus having access to plenty of gas supplies.

Project risks associated with its large capex plans- AGCL is planning to undertake several projects in the near to medium term for setting up pipelines, expansion of the CGD network in Upper Assam region and investment in the JVs engaged in petrochemical production and setting up of auto fuel and CNG fuel station network. The cumulative capex plan stands at around Rs. 700-900 crore over the course of next 3 to 5 years. The projects will be funded using a mix of internal accruals and long tenor debt. The company will be exposed to project execution risks given the large scale of these projects vis-a-vis projects executed by the company in the recent past. The timely completion of these projects without major cost over runs will remain a key determinant of returns from these projects and will also remain a key rating sensitivity.

Liquidity position: Strong

AGCL's liquidity is expected to remain strong given the stable nature of cash accruals, no debt repayments in the near term and large cash balances which are more than adequate to meet the margin funding for the upcoming capex plans. AGCL has tied up term debt for one of the ongoing pipeline capex at highly competitive rates and long tenor of repayment.

Rating sensitivities

Positive factors – Rating may be upgraded in a scenario of lower-than-expected debt being availed for the capex program and/or significantly higher than expected cash generation on a sustained basis

Negative factors – Material decline in scale of operations, higher than expected debt levels availed for the capex program and investments and/or significant payouts to promoters in the form of dividend and/or any other form will lead to negative pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology]()
Parent/Group Support	NA
Consolidation/Standalone	The rating is based on the consolidated financials of the company

About the company

Assam Gas Company Limited (AGCL) is a Government of Assam entity with the government holding 100% equity in the company. AGCL was incorporated in 1962 and started its transmission business in 1967. The company is engaged in transmission and trading of natural gas in the state of Assam with a transmission pipeline capacity of 5.5 mmscmd (including dedicated and common carrier pipeline) with a length of ~206 KM. The company has a network of trunk pipelines and distribution pipelines serving more than 400+ tea estates, 31,000 domestic piped natural gas consumers, more than 1000 commercial and industrial consumers and bulk consumers. Some of the major bulk consumers include Assam Petro Chemicals Limited (APCL, [ICRA]BBB+(Stable)), Assam Gas Based Power Plant (AGPP of North-Eastern Electric Power Corporation, NEEPCO), Brahmaputra Valley Fertiliser Corporation Limited (BVFCL), Namrup Thermal Power Station (NTPS) and Lakwa Thermal Power Station (LTPS).

Key financial indicators (audited)

AGCL Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	367.9	320.9
PAT (Rs. crore)	107.9	96.8
OPBDIT/OI (%)	32.0%	36.6%
PAT/OI (%)	29.0%	30.2%
Total Outside Liabilities/Tangible Net Worth (times)	0.2	0.2
Total Debt/OPBDIT (times)	0.0	0.1
Interest Coverage (times)	52.5	18.2

Note: ICRA estimates; 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 (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					September 24, 2021	June 19, 2020	-	-
1	Issuer Rating	Long Term	-	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)		

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer Rating	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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Issuer Rating	NA	NA	NA	NA	[ICRA]A+ (Stable)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	AGCL Ownership	Consolidation Approach
Assam Gas Company Ltd.	100.00% (rated entity)	Full Consolidation
DNP Limited	51.00%	Full Consolidation

Source: *AGCL Annual Report FY2021*

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