

March 03, 2023

Adani Total Gas Limited (erstwhile Adani Gas Limited): Ratings reaffirmed and assigned for enhanced amount, outlook revised to Negative from Stable

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|--|--------------------------------------|-------------------------------------|---|
| Long term - Fund-based limits – Term loans | 605.50 | 954.90 | [ICRA]AA-(Negative); reaffirmed/assigned for enhanced amount; Outlook revised to Negative from Stable |
| Long term -Fund-based limits – Proposed term loans | - | 545.10 | [ICRA]AA-(Negative); assigned |
| Long term - Fund-based limits – Cash credit | 105.00 | 105.00 | [ICRA]AA-(Negative); reaffirmed; Outlook revised to Negative from Stable |
| Short term - Fund-based limits– BD/Short term loan | 75.00 | 50.00 | [ICRA]A1+; reaffirmed |
| Short term - Non-fund based limits – LC/BG | 1850.00 | 3750.00 | [ICRA]A1+; reaffirmed/assigned for enhanced amount |
| Long term/Short term – Unallocated limits | 165.50 | 95.00 | [ICRA]AA-(Negative)/[ICRA]A1+; reaffirmed; Outlook revised to Negative from Stable |
| Total | 2801.00 | 5500.00 | |

*Instrument details are provided in Annexure-I

Rationale

The outlook for Adani Total Gas Limited (ATGL/the company) has been revised to Negative on account of the deterioration in the Adani Group's financial flexibility, following a sharp decline in share prices and an increase in the yield of international bonds raised by the Adani group entities. This followed a report published by US-based short seller. ICRA notes that while ATGL has staggered some of the capex plans over the next two years considering progress achieved in projects awarded in ninth and tenth rounds. Further, ATGL has funding tie-ups to meet the capex requirements in the near term, it has large capex requirements over the longer term which need significant debt funding. Hence, the Adani Group's reduced financial flexibility can impact ATGL's ability to raise funds from the domestic and international markets and result in higher cost of capital. ICRA will be monitoring the Adani Group's ability to raise funds from the domestic/global market as equity/debt at competitive rates. Further, ICRA also sees an increased risk of regulatory/legal scrutiny on the Adani Group entities and its impact on the credit quality of ATGL will be monitored. While, the presence of TotalEnergies SE (Total; rated A1(Stable)/P-1 by Moody's) as a co-promoter in ATGL, mitigates the risk to some extent, ICRA notes that any review of investment in ATGL by Total, in the backdrop of current developments leading to any weakening of linkage remains a sensitivity factor and the developments will be monitored.

The ratings continue to factor in ATGL's healthy financial risk profile, characterised by adequate return and debt protection metrics because of the robust cash generation from its ongoing business. The company continued to witness a healthy growth in volumes in the current fiscal, backed by increased demand from legacy GAs¹ as well as revenue addition from the new GAs. The higher volumes and elevated gas prices have resulted in healthy revenue growth. While the contribution margin had moderated in FY2022, there has been some recovery in the current fiscal and the operating profits continued to grow due to the improved volumes.

¹ Ahmedabad, Faridabad, Vadodara and Khurja

The company generally had a balanced mix of compressed natural gas (CNG) and piped natural gas (PNG) consumers, with the latter mainly catering to the industrial and commercial segment. However, in the current fiscal, there has been some moderation in demand from the industrial/commercial segment due to higher gas prices. However, the CNG and PNG (domestic) segment continues to witness healthy demand due to its advantage over competing fuels, aided by the favourable allocation of domestic gas for these sectors. However, any significant upward revision in domestic gas prices or changes in the gas allocation policy could impact the competitive advantage over liquid fuels/liquefied petroleum gas (LPG) and would be a rating sensitivity. ICRA also notes that the long-term demand prospects remain favourable and the company will benefit from the operationalisation of the city gas distribution (CGD) network in the newly awarded GAs in the ninth, tenth and eleventh CGD bid rounds, which will drive the growth in scale, going forward.

The ratings also draw comfort from the parentage, with equal holding (37.4%) by TotalEnergies SE (Total; rated A1(Stable)/P-1 by Moody's) through Total Holdings SAS and the Adani family. ICRA expects ATGL to have significant operational synergies with Total over the long term. As Total is among the leading liquefied natural gas (LNG) players in the world, ATGL can benefit from a favourable long-term LNG sourcing tie-up for its operations. Any change in Total's linkages with ATGL will be a key monitorable.

The ratings, however, are constrained by the execution and funding risks associated with the large ongoing capex planned over the next seven to eight years for the operationalisation of the CGD network in the 29 newly awarded geographical areas (GA) to ATGL. ICRA notes the minimum work programme (MWP) associated with each of the GAs and the achievement of the same will be critical to avoid any penalties. The ratings also consider the large, planned equity commitment by ATGL towards its joint venture Indian Oil Adani Gas Private Limited's (IOAGPL) newly awarded 10 GAs and the corporate guarantees extended to IOAGPL for issuing the performance bank guarantee (PBG) to the regulator for its CGD operations.

Key rating drivers and their description

Credit strengths

Co-promoted by Adani Group and Total - Total completed the acquisition of a 37.4% stake in ATGL in April 2020 and is now a co-promoter with equal representation on the company's board with the Adani Group. Total is among the leading LNG players in the world and has a strong credit profile {Moody's A1(Stable)/P1} and ATGL should benefit from a favourable long-term LNG sourcing tie-up for its operations. Any change in Total's linkages with ATGL will be a key monitorable.

Favourable long-term demand prospects, backed by competitive advantage of CNG and PNG (domestic) segment - ATGL has a healthy mix of CNG and PNG sales with the CNG segment accounting for 52% volumes and the PNG segment for 48% in FY2022. In 9M FY2023, the CNG mix, as a percentage of the total mix, rose to 60% mainly due to the increase in CNG volumes, while there was lower offtake in the PNG (industrial) segment as higher gas cost pushed up PNG prices. Gas sales volumes grew 35% YoY to 1.91 mmscmd in FY2022 from 1.41 mmscmd in FY2021, driven by increased volumes in both the segments due to the addition of CNG stations, new customers and strong economic recovery. Moreover, the volume growth is also attributable to the volume build-up from CNG operations in the GAs awarded in the recent CGD bid rounds. The Ahmedabad GA remained the major contributor for ATGL, forming 45% of the sales volume in FY2022.

ATGL's pricing strategy takes into account its own gas purchase cost, its margins and the need for its CNG and PNG to be competitive over alternative fuels. With rising domestic gas prices, ATGL has revised its CNG and PNG (domestic) prices upwards in the last few months; however, even with increased prices, CNG and PNG continue to be competitive against alternative fuels and benefit from the favourable allocation of domestic gas for these segments. However, any significant upward revision in domestic gas prices or changes in the gas allocation policy could impact the competitive advantage over liquid fuels/liquefied petroleum gas (LPG) and would be a rating sensitivity.

Healthy financial profile – In FY2022, the operating income (OI) rose by ~79% to Rs. 3,037.8 crore on account of an increase in volumes and sales price. During 9M FY2023, the OI stood at ~Rs. 3,263.4 crore. However, the OPM moderated in FY2022 to 25.4% from 41.5% in FY2021 due to a significant increase in gas costs amid the geo-political issues. Given the high profitability and internal accruals, the company's net worth improved significantly, resulting in a comfortable gearing of 0.41 times as on

March 31, 2022 and 0.43 times as on September 30, 2022. The total debt/OPBDITA remained at 1.3 times as on March 31, 2022 and September 30, 2022. However, going forward, with large, committed capex plans, the debt levels are expected to increase, which would moderate the leverage and coverage metrics to a certain extent.

Credit challenges

Project execution and funding risks associated with GAs awarded in ninth, tenth and eleventh CGD bid rounds – In the ninth, tenth and eleventh CGD bid rounds concluded in August 2018, March 2019 and September 2021 respectively, ATGL was awarded 29 new GAs by the Petroleum and Natural Gas Regulatory Board (PNGRB). The company has large capex requirements of ~Rs. 19,000-20,000 crore for these GAs to be incurred over a 8-10 year period of which around Rs. 9,500-10,500 crore will be incurred over the next five years starting FY2024. ICRA, however, notes that the company has staggered its capex plans for FY2024 and FY2025, which is expected to be around ~Rs. 1,800-1,900 crore. Though this capex presents a growth opportunity for ATGL, it also poses significant execution risk, although the company's execution track record and progress achieved in several GAs of the ninth and tenth rounds mitigates the impact to some extent. Any significant delay or under-achievement of the MWP target in the respective GAs attracting major penalties and/or encashment of the performance guarantees submitted by ATGL towards the new GAs will be a key rating sensitivity.

ICRA also takes note of the financing risk, as a major portion of the debt funding for the capex (including for eleventh round) is yet to be tied up, although the company has debt funding in place for the initial five-year capex for GAs allocated under the ninth and tenth rounds, with undrawn limits available to take care of the capex plans in the near term. With concerns over deterioration in the Adani Group's financial flexibility in the wake of the recent developments, the ability of the company to tie up funding at competitive rates remains a key monitorable.

Large equity commitments towards its JV, IOAGPL– Till the eighth CGD bid round, IOAGPL had received authorisation from PNGRB to implement a CGD network in nine GAs. ATGL had contributed Rs. 631.2 crore to the JV as equity as on March 31, 2022. Additionally, IOAGPL was awarded nine new GAs for CGD implementation by the PNGRB in the ninth round and one GA in the tenth round. The company expects the total capex requirement for these new GAs to be about Rs. 6,500 crore for the initial five years, to be funded in debt-equity mix of 65:35. ATGL would be required to contribute significant equity commensurate to its stake in IOAGPL as per the financial plan finalised for the timely achievement of the MWP milestones.

Indirect exposure to IOAGPL by way of corporate guarantee for its non-fund based facility – As on March 31, 2022, ATGL has extended a corporate guarantee of Rs. 3,534 crore for IOAGPL's guarantees, which have been submitted to the regulator as performance guarantee to meet the MWP for the 10 GAs that were awarded to IOAGPL. The progress in most of the GAs, except for domestic connections, is on schedule, mitigating the risk of encashment. However, in case of delays, should the guarantee be encashed by PNGRB, ATGL's financial profile could be adversely affected and this would be a key rating sensitivity. Additionally, for the GAs awarded in the ninth and tenth CGD bid rounds, IOAGPL has submitted a performance guarantee of Rs. 432 crore and timely achievement of the MWP milestones would be critical to avoid encashment.

Ability to tie up gas sources for PNG (industrial) requirement at competitive prices would be critical – ATGL gets domestic gas for the CNG and PNG (d) segment, as per the Government of India's allocation policy. For its PNG (industrial) and PNG (commercial) gas requirement, the company has adequate gas tie-ups in place for the medium term. However, its ability to secure additional gas requirements at competitive prices in the long term would remain critical. In addition to its successful past track record, the presence of Total as a co-promoter mitigates this risk to a large extent.

Environmental and Social Risks

ATGL remains exposed to tightening regulations on environment and safety. However, ATGL has an environmental management system in place and has obtained accreditation for ISO 14001:2015 certification by meeting specific requirements for the environmental management system. ICRA also notes that natural gas has relatively low carbon footprint compared to other hydrocarbon fuels and hence has lower carbon transition risk. This, coupled with the stated policy of the Government of India to increase share of natural gas in the fuel mix, mitigates the risk further. While a shift towards electric vehicles and other renewable energy sources by consumers could pose a demand risk, such changes in consumer behaviour in emerging markets

like India are expected to be moderately paced. Hence, the structural shift towards higher use of natural gas should be favourable for the credit profile of the company in the long term.

Liquidity position: Adequate

ATGL's liquidity position remains adequate with annual cash flow from operations (CFO) of ~Rs. 465 crore in H1 FY2023 (~Rs. 735 crore during FY2022) and expected CFO in the range of Rs. 800- 900 crore in FY2023 and FY2024. Its repayment obligations are ~Rs. 185 crore in FY2023 and ~Rs. 472 crore in FY2024. A capex of ~Rs. 1,050 crore and ~Rs. 610 crore is expected in FY2023 and FY2024, respectively. The liquidity is further supported by unencumbered cash balances of Rs. 71.2 crore as on March 31, 2022 and Rs. 64.1 crore (fixed deposits balances of Rs. 318.9 crore against which there is a FDOD facility) as on September 30, 2022. The company also had a sanctioned fund-based working capital facility, the average utilisation of which remained low over the past 12 months. Further, the company has sanctioned limits in place for capex in the near term, which are not fully drawn-down.

Rating sensitivities

Positive factors – Given the Negative outlook, ATGL's ratings are unlikely to be revised upwards in the near term. ICRA, however, could revise the outlook to Stable, if there is an improvement in its assessment of the financial flexibility of the Adani Group, demonstrated in its ability to raise funds in the domestic/global market as equity/debt at competitive rates.

Negative factors – The ratings could be revised downwards if the financial flexibility of the Adani Group deteriorates on a sustained basis, impacting its ability to raise funds at competitive rates and increasing the cost of funding, or if there are any adverse regulatory actions. Pressure on the rating can arise if the net external debt/OPBDITA increases over 3.0 times on a sustained basis, or if any significant penalty is levied by the PNGRB for non-achievement of the MWP, weakening the liquidity profile. Further, any weakening of linkages with Total group could also be a negative sensitivity factor.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|---|
| Applicable rating methodologies | Corporate Credit Rating Methodology Rating Methodology for City Gas Distribution Companies |
| Parent/Group support | Not Applicable |
| Consolidation/Standalone | For arriving at the ratings, ICRA has considered the standalone financials of ATGL |

About the company

Adani Total Gas Limited, incorporated in 2005, is in the CGD business, which involves the marketing and distribution of natural gas (piped and compressed). At present, ATGL is one of the largest CGD players in India with presence in 33 GAs following receipt of authorisations to establish the CGD network in 14 new GAs in the eleventh-round bid. ATGL has also entered into a 50:50 JV with Indian Oil Corporation Limited, with the JV, IOAGPL, engaged in the implementation of the CGD network in several other GAs across India. IOAGPL is present in 19 GAs across the country.

Key financial indicators (audited)

| Standalone | FY2021 | FY2022 | 9M FY2023 |
|---|---------|---------|-----------|
| Operating income | 1,695.6 | 3,037.8 | 3,263.4 |
| PAT | 472.0 | 504.7 | 425.3 |
| OPBDIT/OI | 41.5% | 25.4% | 20.7% |
| PAT/OI | 27.8% | 16.6% | 13.0% |
| Total outside liabilities/Tangible net worth (times) | 0.65 | 0.82 | - |
| Total debt/OPBDIT (times) | 0.70 | 1.29 | 1.22 |
| Interest coverage (times) | 17.40 | 14.66 | 14.57 |

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 | Type | Current rating (FY2023) | | Chronology of rating history for the past 3 years | | | | | | | | |
|------------|--|--------------------------|---|---|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------|--------------------------|
| | | Amount rated (Rs. crore) | Amount outstanding as on Dec 31, 2022 (Rs. crore) | Date & rating in FY2023 | | | Date & rating in FY2022 | | Date & rating in FY2021 | Date & rating in FY2020 | | |
| | | | | Mar 03, 2023 | Feb 01, 2023 | Aug 05, 2022 | Dec 31, 2021 | Nov 30, 2021 | Sep 03, 2020 | Dec 13, 2019 | Oct 23, 2019 | |
| 1 | Term loans | 954.90 | 954.90 | [ICRA]AA-(Negative) | [ICRA]AA-(Stable) | [ICRA]AA-(Stable) | [ICRA]AA-(Stable) | [ICRA]AA-(Stable) | [ICRA]AA-(Stable) | [ICRA]AA-(Stable) | [ICRA]A+% | [ICRA]A+% |
| 2 | Proposed term loans | 545.10 | 545.10 | [ICRA]AA-(Negative) | - | - | - | - | - | - | | |
| 3 | Fund-based limits - Cash credit | 105.00 | -- | [ICRA]AA-(Negative) | [ICRA]AA-(Stable) | [ICRA]AA-(Stable) | [ICRA]AA-(Stable) | [ICRA]AA-(Stable) | [ICRA]AA-(Stable) | [ICRA]AA-(Stable) | [ICRA]A+% | [ICRA]A+% |
| 4 | Fund-based limits - BD/Short-term loan | 50.00 | -- | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+% | [ICRA]A1+% |
| 5 | Non-fund based limits - LC/BG | 3750.00 | -- | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+% | [ICRA]A1+% |
| 6 | Unallocated limits | 95.00 | -- | [ICRA]AA-(Negative)/ [ICRA]A1+ | [ICRA]AA-(Stable)/ [ICRA]A1+ | [ICRA]AA-(Stable)/ [ICRA]A1+ | [ICRA]AA-(Stable)/ [ICRA]A1+ | [ICRA]AA-(Stable)/ [ICRA]A1+ | [ICRA]AA-(Stable)/ [ICRA]A1+ | [ICRA]AA-(Stable)/ [ICRA]A1+ | [ICRA]A+%/ /[ICRA]A1+% | [ICRA]A+%/ [ICRA]A1+% |

Note: %; Rating watch with positive implications

Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|--|----------------------|
| Long term - Fund-based limits – Term loans | Simple |
| Long term -Fund-based limits – Proposed term loans | Simple |
| Long term -Fund-based limits – Cash credit | Simple |
| Short term - Fund-based limits– BD/Short term loan | Simple |
| Short term - Non-fund based limits – LC/BG | Very Simple |
| Long term/Short term – Unallocated limits | NA |

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 | Term loan | FY2017 | NA | FY2025 | 119.80 | [ICRA]AA-(Negative) |
| NA | Term loan | FY2017 | NA | FY2025 | 71.40 | [ICRA]AA-(Negative) |
| NA | Term loan | FY2017 | NA | FY2025 | 99.30 | [ICRA]AA-(Negative) |
| NA | Term loan | FY2017 | NA | FY2025 | 315.00 | [ICRA]AA-(Negative) |
| NA | Term loan | NA | NA | NA | 349.40 | [ICRA]AA-(Negative) |
| NA | Proposed term loans | NA | NA | NA | 545.10 | [ICRA]AA-(Negative) |
| NA | Fund-based limits – Cash credit | NA | NA | NA | 105.00 | [ICRA]AA-(Negative) |
| NA | Fund-based limits–BD/Short term loan | NA | NA | NA | 50.00 | [ICRA]A1+ |
| NA | Non-fund based limits – LC/BG | NA | NA | NA | 3750.00 | [ICRA]A1+ |
| NA | Unallocated limits | NA | NA | NA | 95.00 | [ICRA]AA-(Negative)/ [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

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545 304
sabyasachi@icraindia.com

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

Sai Krishna
+91 44 4596 4300
sai.krishna@icraindia.com

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

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@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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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.

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



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