



## Mahanagar Gas Limited

Instrument	Amount	Rating Action
Long-term Debt Programme	Rs. 100 crores (enhanced from Rs. 90 crores)	[ICRA]AAA (Stable) (reaffirmed)
Short-term non-fund based limits	Rs. 600 crores	[ICRA]A1+ (assigned)

ICRA has reaffirmed the [ICRA]AAA (pronounced ICRA triple A) rating assigned to the Rs. 100 crore\* (enhanced from Rs. 90 crore) long-term debt programme of Mahanagar Gas Limited (MGL)<sup>†</sup>. ICRA has also assigned [ICRA]A1+ (pronounced ICRA A one plus) rating to the Rs. 600 crore short-term non-fund based bank limits of Mahanagar Gas Limited (MGL). The outlook on the long-term rating is 'Stable'.

The rating favourably reflects the strong parentage and ownership pattern of Mahanagar Gas Limited (MGL); its current monopoly position in the Greater Mumbai and surrounding expansion areas; its diversified customer profile; strong financial risk profile and high financial flexibility. Despite expiration of its marketing exclusivity for both GA1 (Geographical Area) and GA2, ICRA expects the company to continue to enjoy a dominant market share because of its first mover advantage as evident from its established network. In addition, there are significant entry barriers for third party marketers arising mainly from issues in gas availability at competitive prices. MGL would also continue to earn regulated returns (14% post-tax RoCE) through network tariffs and compression charges on regulated assets due to physical exclusivity in place (25 years from the year 1995 for Greater Mumbai and from 2005 for expansion areas thereby).

Further, MGL's gas-tie up has been boosted by the change in the domestic gas allocation policy wherein the GoI announced allocation of 100% domestic gas towards the CNG and PNG (domestic) segments of CGD entities. Further, recently, the MoPNG has issued another guideline as per which GAIL has been directed to supply an additional 10% to meet incremental demand during the review period of the CNG and PNG (domestic) segments. The move by GoI ensures availability of domestic gas for the current consumption and future growth in these segments. As the prices of domestic gas are much lower than that of imported RLNG, provision of the same for the entire consumption of these segments allows the CGD companies to lower prices thereby making the economics of switching to gas more attractive for the end consumers which in turn is expected to drive growth in consumption. Besides, the GoI has directed CGD entities to aggressively increase the number of new PNG (d) connections. Accordingly considering the large proportion of CNG in the overall sales mix of the company and its plan to increase penetration of the PNG (domestic) segment the provision of domestic gas provides impetus for future growth in volumes.

The domestic gas prices were increased to US\$ 5.6/ MMBTU w.e.f Nov 1, 2014 which resulted in an increase in gas sourcing costs for MGL and the same was passed on to the consumers by increasing CNG prices by Rs. 4.50/ kg. With this hike, the overall cost competitiveness of CNG reduced as compared to the liquid fuels – MS and HSD, but the time taken to break even still remain attractive for vehicle owners to convert to CNG considering the prevailing prices of these liquid fuels. However, with increase in the gas prices PNG- domestic segment lost its competitiveness against domestic LPG which continues to draw subsidy. Nevertheless, the domestic gas price has decreased from US\$ 5.6/mmbtu to US\$ ~5.18/mmbtu (NCV Basis) for H1 FY 16 which benefits MGL and improve CNG's cost competitiveness to some extent.

ICRA also notes that MGL has aggressive capital expenditure plans in Mumbai and the surrounding areas. It has successfully bid under the fourth round of bidding, for Raigad district for setting up the CGD network. The large scale of the capex (~Rs 1000 Cr over 25 years) and the gestation period associated with build-up of sales volumes is expected to have some moderating impact on the company's return and credit metrics from current levels as initial development and stabilization would

\* 100 lakh = 1 crore = 10 million

† For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications.



take time. However, the company benefits from location of Raigad district as it is in continuity to its existing GAs. Further, the company can get higher number of tap-off points from its promoter, GAIL which has the pipeline network in the entire GA. In terms of project metrics, though the profitability would be lower than the existing areas, the project IRR is expected to be moderate. Overall, in ICRA's view, the company's strong capital structure is expected to keep its financial risk metrics comfortable over the long term despite large capital expenditure plans. ICRA also notes that MGL, as part of its expansion strategy, might participate in future bidding rounds of PNGRB to enter other cities. If MGL were to be successful in bidding for any of the new cities, ICRA shall evaluate the impact of the same on its credit risk profile.

The company's operations also remain exposed to event based regulatory risks with respect to the determination of its network tariffs and compression charges, also given that The Petroleum and Natural Gas Regulatory Board (PNGRB) has been in dispute with Indraprastha Gas Limited (IGL) since April 2012 and the matter is sub judice with the Supreme Court. Though the regulatory risk has eased in the last 1-2 years, any adverse developments in this regard, which will have negative implications for the other players in the CGD industry, will be a key rating sensitivity

### **Company Profile**

Promoted by GAIL, BG Asia Pacific Holdings Pte Ltd (BGAPH) and the Government of Maharashtra (GoM), Mahanagar Gas Limited (MGL) is the sole distributor of natural gas in Greater Mumbai, Navi Mumbai and its adjacent areas. GAIL and BGAPH have an equity stake of 49.75% each in MGL, with 0.50% held by GoM. The company supplies gas to the industrial, residential, commercial and compressed natural gas (CNG) segments. MGL has large plans to augment its gas distribution network in the existing Mumbai region and also expand its network in the surrounding regions such as Mira-Bhayander, Thane-Vashi-Belapur (TVB), Kharghar-Panvel-Taloja (KPT) Kalyan-Dombivali-Ambernath & Ulhasnagar (KD& AB). The company has also recently successfully bid for setting up the CGD network in the Raigad district. The average sales of MGL in FY 2015 were ~2.40 mmscmd and were spread across CNG and PNG segments. The company procures natural gas mainly from GAIL (APM, non-APM and R-LNG).

### **Recent Results**

MGL reported net profits of Rs. 297.25 crore on an operating income of Rs. 1885.15 crore in 2013-14 as against net profits of Rs. 298.51 crore on an operating income of Rs. 1514.38 crore in 2012-13. During 9m 2014-15, it reported net profits of Rs. 215.09 crore on an operating income of Rs. 1558.24 crore.

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