June 28, 2024

GAIL (India) Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term/Short term fund-based non-fund based	2,800.00	2,800.00	[ICRA]AAA (Stable)/[ICRA]A1+; reaffirmed
Term loans	3,000.00	3,000.00	[ICRA]AAA (Stable); reaffirmed
Long term/Short term - Unallocated	1,200.00	1,200.00	[ICRA]AAA (Stable)/[ICRA]A1+; reaffirmed
Long term/Short term bank lines – Unallocated#	4,000.00	4,000.00	[ICRA]AAA (Stable)/[ICRA]A1+; reaffirmed
Commercial paper#	4,000.00	4,000.00	[ICRA]A1+; reaffirmed
Total	**11,000.00**	**11,000.00**	

**Instrument details are provided in Annexure-I; # The total amount outstanding against the rated bank lines and the commercial paper programme is fully interchangeable and will not exceed Rs. 4,000 crore. For the amount allocated to the short-term limits, a rating of [ICRA]A1+ will be applicable. For the limits rated on the long-term scale, a rating of [ICRA]AAA (Stable) will be applicable. For limits rated on both the long term/short term scale, a rating of [ICRA]AAA(Stable)/[ICRA]A1+ will be applicable*

Rationale

The ratings reflect GAIL's leadership position in the natural gas transmission segment, resulting in stable cash accruals and a sizeable portfolio of gas marketing. Favourable demand prospects for natural gas in India and GAIL's downstream integration into petrochemicals and liquefied petroleum gas (LPG) also support the rating action. ICRA notes that GAIL's gas transmission volumes are likely to increase with the commissioning of the fertiliser plants and the expansion of the city gas distribution network along its pipelines. The transmission volumes are further supported by the completion of a few pipelines and the commencement of commercial operations by some LNG terminals. The ratings take into account GAIL's strong financial position and the strength derived from the significant sovereign ownership.

The ratings factor in the concerns related to regulatory uncertainty over natural gas pipeline tariffs, although implementation of the unified tariff regime moderates this to some extent. The ratings also consider the dependence of the marketing margins on international indices of crude and gas, as well as gas availability for some new pipeline projects, along with the risks arising from its large contingent liabilities. The ratings also factor in the commodity price risks for the petrochemical and LPG segments.

In FY2024, the profitability was improved owing to higher capacity utilisation, along with higher tariffs and volumes in gas transmission and marketing segments. Going forward, GAIL's profitability is expected to remain healthy with increased transmission volumes and robust marketing margins. ICRA notes that the company is undertaking sizeable capex to expand its pipeline network and petrochemical capacity, which is likely to increase the debt levels. However, the coverage and leverage metrics will remain comfortable.

The Stable outlook on the long-term rating reflects ICRA's opinion that GAIL will continue to benefit from its leadership position in the natural gas transmission segment and its strategic importance to the Government of India (GoI). Moreover, the company is expected to continue generating healthy cash flows going forward.

Key rating drivers and their description

Credit strengths

Leadership in natural gas transmission; high entry barriers in sector - GAIL enjoys a dominant position in the natural gas transmission business with a market share of ~70%, catered to by its large pipeline network covering ~16,243 kilometres (km). The setting up of pipelines requires large investments and navigating a complex regulatory framework. As a result, the entry barriers in the natural gas transmission business remain high.

Regulated returns in pipelines ensure stable cash generation – GAIL's dominant market share in the transmission segment, along with regulated returns on the capital employed (RoCE) resulted in healthy profitability and stable cash generation. The RoCE for the gas transmission division moderated due to lower-than-anticipated tariffs approved by the Petroleum and Natural Gas Regulatory Board (PNGRB).

Favourable demand growth for natural gas in India - The GoI's focus on increasing the share of natural gas in the overall energy mix of the country to 15.0% from 6.5% at present has resulted in the Government taking several steps to increase natural gas consumption. As domestic gas production has been on a downtrend since FY2013, with marginal growth witnessed in FY2019, the reliance on imported LNG is rising. Additionally, the increase in regasified LNG (R-LNG) consumption can be attributed mainly to the implementation of the gas pooling mechanism in the fertiliser sector, which has increased the sector's ability to uptake LNG. Going forward, the demand for natural gas is expected to remain healthy, driven by the city gas distribution (CGD) and the fertiliser sectors.

Downstream integration benefits from presence in petrochemicals and LPG - GAIL has diversified into downstream sectors such as manufacturing of petrochemicals and LPG to diversify its revenue streams and utilise its ability to source natural gas efficiently. The LPG segment has been aiding profitability and maintaining healthy segmental contribution. The petrochemical segment's profitability has fluctuated over the years due to the volatility in polymer realisations and raw material prices. Going forward, with the commissioning of the polypropylene projects by GAIL, the downstream integration will further improve.

Strong financial risk profile - GAIL's financial risk profile is characterised by healthy profitability and strong cash accruals, resulting in comfortable debt metrics and capital structure. In FY2024, GAIL's profitability improved owing to higher capacity utilisation, along with higher tariffs and volumes in gas transmission and marketing segments. Further, GAIL's profitability is expected to remain healthy with the growth in transmission volumes and improved capacity utilisation in the petrochemical segment.

Exceptional financial flexibility from sovereign ownership, market leadership position and robust cash accruals - GAIL enjoys exceptional financial flexibility, given the stable cash accruals, large sovereign ownership, strategic importance to the GoI and established relationship with the investors and capital markets. As a result, the company can access the capital markets at short notice to secure funds and garner favour with the lending community to avail loans at attractive rates.

Credit challenges

Risks related to HH-based LNG tied up in US - In December 2011, GAIL signed an agreement to import 3.5 million metric tonnes per annum (MMTPA) of LNG from Cheniere Energy's Sabine Pass LNG plant in the US for a period of 20 years. Besides, GAIL has another 2.3-MMTPA contract to liquefy gas at the Cove Point terminal in the US. The pricing formula for these contracts is linked to the HH index (the benchmark natural gas price in the US), exposing the marketing margins to fluctuations in pricing. In a sustained low crude oil price scenario, GAIL may encounter profitability pressure on the marketing of HH-linked LNG. However, the sale of US LNG remains profitable for the company at present, and GAIL has a demonstrated track record of overcoming such challenges in the past.

Commodity price risks associated with petrochemicals, LPG and liquid hydrocarbon (LHC) businesses —The petrochemical, LPG and LHC segments are exposed to commodity price risk as sustained low crude oil prices result in low realisations for petroleum products. The petrochemical segment witnessed improvement in FY2024 after muted production in FY2023 owing to lower capacity utilisation following the pressure on gas availability. The gas availability has improved, although the spreads for petrochemicals are likely to face headwinds, exerting pressure on the segment's profitability.

Environmental and Social risks

ICRA notes that natural gas is a relatively cleaner source of energy and has relatively lower carbon emissions. GAIL has a Net Zero target for 2040, which will be achieved in three stages.

In May 2024, GAIL commissioned a 10 MW hydrogen plant based on PEM electrolyser technology at its Vijaipur location for the internal consumption. For renewable power generation, GAIL has a 135 MW portfolio, including 118 MW of wind and 17 MW of solar power. The company is setting up plants in Vijaipur and Pata, with additional projects of 170 MW in Maharashtra and 100 MW in Uttar Pradesh in the discussion/planning stage.

However, GAIL remains exposed to the longer-term risk of the ongoing shift towards a future less dependent on fossil fuels. This risk will likely play out in the distant future, as India remains heavily dependent on oil and gas imports. GAIL's ability to adapt its business model, including diversification into new segments, will be a key rating driver from a long-term credit perspective.

Liquidity position: Strong

GAIL's liquidity position is strong, given the healthy cash accruals, unutilised fund-based limits and the ability to access capital markets at highly competitive rates for capital requirements. With the internal cash generation expected to be more than adequate to meet the near-term debt repayments and margin funding for the capex programme, the liquidity position of the company is expected to remain robust. Moreover, it holds a 2.45% stake in Oil & Natural Gas Corporation Limited, the market value of which is ~Rs. 8,300 crore as on June 24, 2024.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Pressure on GAIL's ratings could arise if the linkage with the GoI weakens or if there is a materially large debt-funded capex/acquisition, resulting in a deterioration of the credit profile. Losses on the sale of US-LNG, having a negative impact on profitability, may also cause a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	**Parent: Government of India** The ratings factor in the parentage of the GoI and its strategic importance to the parent, given that the company helps meet the energy needs of the country and has the largest pipeline network in the country
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of GAIL (India) Limited. The scale of operations of the consolidated entity is not materially different from the scale of operations of the standalone entity. As a result, the standalone credit profile remains the primary rating driver.

About the company

GAIL (India) Limited (GAIL), incorporated in 1984, has evolved as an integrated natural gas company, with a presence in transmission, gas processing, and downstream petrochemicals (which use natural gas as a primary input). Apart from these businesses, GAIL has interests in the liquefied natural gas (LNG) business through Petronet LNG Ltd. (PLL) and Konkan LNG Limited (KLL). It is also present in city gas distribution projects, both in India through Mahanagar Gas Ltd. (MGL) and Indraprastha Gas Ltd. (IGL) and overseas (Natgas and Fayum Gas in Egypt). Among these projects, GAIL's most significant interest lies in PLL and KLL. In PLL, apart from being an equity investor and a major transmitter of gas, GAIL has undertaken to market 60% of the R-LNG through a 25-year take-or-pay contract from the Dahej terminal and 30% of the volumes from the Kochi terminal of PLL. GAIL now controls the Dabhol LNG terminal through Konkan LNG Limited (KLL), post the demerger of Ratnagiri Gas & Power Private Limited's (RGPPL) assets and liabilities related to the LNG terminal to KLL which was approved in February 2018. GAIL also has stakes in the exploration and production of hydrocarbons. GAIL has wholly-owned subsidiaries in Singapore and the US to expand its presence outside India in LNG, petrochemical trading and shale gas assets.

Key financial indicators (audited)

GAIL Consolidated	FY2022	FY2023	FY2024*
Operating income	92,769.8	145,668.3	133,228.5
PAT	10,541.3	4,087.8	8,220.7
OPBDIT/OI	16.6%	5.1%	10.7%
PAT/OI	11.4%	2.8%	6.2%
Total outside liabilities/Tangible net worth (times)	0.5	0.7	0.6
Total debt/OPBDIT (times)	0.5	2.2	1.3
Interest coverage (times)	76.0	20.1	19.9

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; *Result*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					Jun 28, 2024	Jun 16, 2023	Jul 26, 2022	Jan 28, 2022
1	**Long term/Short term fund based non-fund based**	Long Term/ Short Term	2,800.00	-	**[ICRA]AAA (Stable)/ [ICRA]A1+**	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+
2	**Long term/Short term -Unallocated**	Long Term/ Short Term	1,200.00	-	**[ICRA]AAA (Stable)/ [ICRA]A1+**	[ICRA]AAA (Stable)/ [ICRA]A1+	-	-
3	**Fund based-non-fund based - Unallocated**	Long Term/ Short Term	0.00	-	-	-	-	[ICRA]AAA (Stable)/ [ICRA]A1+
4	**Term loans**	Long Term	3,000.00	3,000.00	**[ICRA]AAA (Stable)**	[ICRA]AAA (Stable)	-	[ICRA]AAA (Stable)

6	**Long term/Short term bank lines#**	Long Term/ Short Term	0.00	-	**-**	-	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+
7	**Long term/ short term bank lines - Unallocated#**	Long Term/ Short Term	4,000.00	-	**[ICRA]AAA (Stable)/ [ICRA]A1+**	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+
8	**Commercial paper#**	Short Term	4,000.0	-	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

 # The total amount outstanding against the rated bank lines and the commercial paper programme is fully interchangeable and will not exceed Rs. 4,000 crore. For the amount allocated to the short-term limits, a rating of [ICRA]A1+ will be applicable. For the limits rated on the long-term scale, a rating of [ICRA]AAA (Stable) will be applicable. For limits rated on both the long term/short term scale, a rating of [ICRA]AAA(Stable)/[ICRA]A1+ will be applicable

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term/Short term fund-based non-fund based	Simple
Term loans	Simple
Long term/Short term – Unallocated	Not applicable
Long term/Short term bank lines - Unallocated	Not applicable
Commercial paper	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	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long term/Short term- Fund based/Non-fund based	-	-	-	2,800.00	[ICRA]AAA (Stable)/[ICRA]A1+
NA	Term loans	FY2022-23	-	FY2026	3,000.00	[ICRA]AAA (Stable)
NA	Long term/Short term - Unallocated #	-	-	-	1,200.00	[ICRA]AAA (Stable)/[ICRA]A1+
NA	Long term/Short term bank lines – Unallocated	-	-	-	4,000.00	[ICRA]AAA (Stable)/[ICRA]A1+
Unplaced	Commercial paper#	-	-	-	4,000.00	[ICRA]A1+

Source: Company; # The total amount outstanding against the rated bank lines and the commercial paper programme is fully interchangeable and will not exceed Rs. 4,000 crore. For the amount allocated to the short-term limits, a rating of [ICRA]A1+ will be applicable. For the limits rated on the long-term scale, a rating of [ICRA]AAA (Stable) will be applicable. For limits rated on both the long term/short term scale, a rating of [ICRA]AAA(Stable)/[ICRA]A1+ will be applicable

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	GAIL's Ownership	Consolidation Approach
GAIL Gas Limited	100.00%	Full consolidation
GAIL Global (USA) Inc.	100.00%	Full consolidation
GAIL Global Singapore Pte. Ltd.	100.00%	Full consolidation
Tripura Natural Gas Limited	48.98%	Equity Method
Bengal Gas Company Limited	77.20%	Full Consolidation
Konkan LNG Limited	90.83%	Full consolidation
Avantika Gas Limited	49.99%	Equity Method
Bhagyanagar Gas Limited	48.73%	Equity Method
Maharashtra Natural Gas Limited	22.50%	Equity Method
Central UP Gas Ltd.	25.00%	Equity Method
Green Gas Ltd.	49.97%	Equity Method
Indradhanush Gas Grid Ltd	20.00%	Equity Method
Talcher Fertilizers Limited	33.33%	Equity Method
Vadodara Gas Limited	50.00%	Equity Method
Tapi Pipelines Company Ltd	5.00%	Equity Method
Mahanagar Gas Limited	32.50%	Equity Method
Indraprastha Gas Limited	22.50%	Equity Method
Petronet LNG Ltd.	12.50%	Equity Method
Brahmaputra Crackers and Polymers Ltd.	70.00%	Full consolidation
ONGC Petro Additions Ltd.	49.21%	Equity Method
Ramagundam Fertilizers and Chemicals Limited	14.72%	Equity Method
Fayum Gas	19.00%	Equity Method
China Gas Holdings Ltd.	2.71%	Equity Method

Company Name	GAIL’s Ownership	Consolidation Approach
ONGC Tripura Power Company Ltd	26.00%	Equity Method
Bharat Energy Office LLC	20.00%	Equity Method

Source: GAIL

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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.

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