

Tripura Natural Gas Company Limited

Instrument	Amount	Rating Action
Fund Based Limit – Term Loan	Rs. 11.00 crore	[ICRA]A- (Stable) assigned

ICRA has assigned a rating of [ICRA]A- (pronounced ICRA A minus) to the Rs. 11.00 crore¹ term-loan facility of Tripura Natural Gas Company Limited (TNGCL)². The outlook on the long-term rating is stable.

The assigned rating factors in TNGCL's monopoly position in the city gas distribution (CGD) business in and around Agartala, Tripura as well as the strong parentage and ownership structure, which reduces the business risks to a large extent. The rating also draws comfort from the favourable demand outlook of the CGD business due to the price differential between gas and liquid fuels, aided further by the Government subsidy of 40% on basic gas price for compressed natural gas (CNG) and piped natural gas (PNG) (domestic) consumers in the north eastern India, apart from other advantages. The regulatory support in the form of assured availability of gas to the CGD entities for the CNG and PNG (domestic) segments and pricing flexibility of the CGD players under the current regulatory provisions are strong credit positives for the sector, including TNGCL. Besides, the secure gas tie-up with Gail (India) Limited, a large shareholder of TNGCL, mitigates gas availability risks for the company's industrial and commercial PNG segments. ICRA also takes note of TNGCL's strong financial profile, marked by healthy profitability and return indicators, conservative capital structure, robust debt coverage metrics and cash flow position, as well as a steady revenue growth over the last few years, driven by continuous expansion of customer base.

The rating, however, is constrained by the company's relatively small scale of operations due to its presence in a single geographical area with low population, unlike other established CGD players with operations spread across multiple locations. Moreover, during FY2016, a sales de-growth was witnessed in the company's industrial PNG segment because of relatively higher price of gas for the segment vis-à-vis liquid fuels. Besides, the debt-funded capex planned by TNGCL in the near to medium term is quite large compared to its current balance sheet size. While the project is aimed at expansion of geographical reach and network, which would remain critical to the company's long-term growth, the substantial capex would increase debt service obligations going forward and expose TNGCL to project-related risks. ICRA notes that any significant delay in execution of the project, as witnessed in the expansion programme concluded in the recent past, and the gestation period associated with build-up of sales volumes post capex, may negatively impact the company's cash flows and business returns.

Going forward, the company's ability to conclude the capex undertaken within the expected time-frame and budgeted cost, while optimising business returns through augmentation of customer base in tandem with infrastructure expansion, would remain key rating sensitivities.

Company Profile

Tripura Natural Gas Company Limited (TNGCL) is involved in CGD business in and around Agartala, Tripura. It supplies piped natural gas (PNG) to domestic, commercial and industrial consumers, and compressed natural gas (CNG) to automobile users. TNGCL is a joint venture among Gail (India) Limited (GAIL), Tripura Industrial Development Corporation Ltd (TIDCL, a Government of Tripura undertaking) and Assam Gas Company Limited (AGCL, a Government of Assam undertaking), holding around 49%, 25.5% and 25.5% equity shares, respectively. The company was established in 1990 as a joint venture between TIDCL and AGCL. In 2005, GAIL became a shareholder in TNGCL to implement gas distribution projects in Tripura. The company has a presence in the PNG segment since its inception, and entered into the CNG business in 2007.

Recent Results

The company posted a net profit of Rs. 9.37 crore on an operating income of Rs. 57.22 crore in FY2016, compared to a net profit of Rs. 7.94 crore on an operating income of Rs. 50.66 crore in FY2015.

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¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions please refer to ICRA's website www.icra.in or other ICRA Rating Publications



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