

August 25, 2017

Indus Gas Limited

Summary of rated instruments

Instrument*	Rated Amount (US\$ million)	Rating Action
Long Term-Fund Based-Term Loans	198.21	[ICRA]BBB(Stable) assigned
Total	198.21	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned the long term rating rating of [ICRA]BBB (pronounced ICRA triple B) for the term loans of Indus Gas Limited (IGL)¹. The outlook on the long-term rating is Stable.

Rationale

The rating takes into consideration the discovered gas reserves of Focus' RJ-ON/6 block; revenue visibility due to gas sale agreement with GAIL (India) Limited; the financial flexibility due to the company being listed with a market capitalization of about US\$ 920 million in addition to the support extended by group and parent companies and increase in the 2P reserves of the Rajasthan block post reserve audit by independent auditors. However, the rating is constrained by the geological risks inherent in exploration and production (E&P) activities; residual project implementation risks in the development of discovered RJ-ON/6 block to ramp up production volume for next phases of production though the decade long experience of the company in exploration and production of the Rajasthan block is a key mitigant to the aforementioned risk; risks involved in timely commissioning of pipeline projects to connect the field to the national grid; dependence on group companies for subordinated debt requirements and elevated leverage levels due to large debt-funded capital expenditure (capex) plans. Moreover, the company's key credit metrics viz RoCE and coverage indicators are moderate, albeit they should improve modestly with the commencement of gas sales from subsequent phases of the development project.

Going forward, timely monetisation of the reserves and extent of dependence on debt for capex would remain key monitorables.

Key rating drivers

Credit strengths

- **The discovered gas reserves of RJ-ON/6 block with successful commencement of gas production from the second phase:** Indus holds a participating interest of 63% in the SGL field in the RJON/06 block (and 90% in the remaining area of the block) through its wholly owned subsidiary companies, namely, Newbury Oil Company Limited (NOCL), Cyprus and iServices Investments Limited (ISIL), Mauritius. The Production Sharing Contract (PSC) for the block was signed on June 30, 1998 between Government of India (GoI), Ministry of Petroleum and Natural gas, Focus Energy Limited, a group company of Indus and Oil & Natural Gas Corporation (ONGC). Initially, Focus was holding 100% participating interest (PI) in the block. In Jan 2006, Focus assigned 90% of its participating

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

interest in RJ-ON/6 block to its affiliates iSevices Investment Ltd., Mauritius-65% and Newbury Oil Company Ltd., Cyprus -25% while retaining a 10% with Focus. In May 2006, the gas discovery was made in well SGL#1, which was declared as “Commercial” by the Management Committee in Jan-2008. Subsequently, in June 2008, as per terms of the PSC, ONGC notified Focus as to its intention to opt for 30% PI option in the SGL field. As ONGC exercised the rights to acquire 30% PI, the revised PI in SGL Field of Focus Energy Ltd (Operator) is 7% while iServices Investments Ltd. has 45.50%, Newbury Oil Company Ltd. 17.50% and ONGC 30%. Thus, iServices Investments and Newbury Oil together hold 63% stakes in SGL Field of RJ-ON/6 block. Indus Gas Limited is the holding company of Newbury Oil and iServices Investments. In June 2008, Indus Gas raised around £ 25 million through IPO for 8.33% stake in the company, in Alternate Investment Market (AIM), a market operated by London Stock Exchange.

The first stage of gas supply had commenced in July 2010 to the Rajasthan Rajya Vidyut Utpadan Nigam Ltd (RRVUNL). The second stage of supply of gas was for a quantity of 0.95 MMSCMD (without CO₂) and RRVUNL began drawal of gas in March 2013.

- **Revenue visibility due to gas sale agreement with GAIL (India) Limited with “take or pay” payment guarantees, which provides comfort from debt servicing point of view:** Indus Gas along with other partners entered into Gas Sale Purchase Agreement (GSPA) with GAIL in August 2009. The sale was in two stages with first stage without CO₂ removal of 0.2 MMSCMD and second stage of enhanced volume of 0.95 MMSCMD after CO₂ removal. The first stage of supply had commenced in July 2010 to the ultimate buyer namely Rajasthan Rajya Vidyut Utpadan Nigam Ltd (RRVUNL) but owing to delays in off take from the second stage of the development project, the company enforced take or pay obligations on GAIL from October 1, 2012. Post commissioning and stabilisation of its 160 MW power plant, RRVUNL is now drawing gas at the rate of about 0.85-0.95 MMSCMD (without CO₂) of gas.
- **Financial flexibility due to the company being listed with a market capitalization of about US\$ 920 million in addition to the support extended by group and parent companies:** Gynia Holdings, a group company, has provided unsecured loans of around \$ 128.1 million to Indus (as on March 31, 2016) and these loans along with accrued interest can be repaid only after the complete repayment of bank loans of Indus. The promoter’s substantial stake in AIM listed Indus Gas (market capitalisation of ~US\$ 920 million in mid-August 2017) provides financial flexibility to raise cash.
- **Increase of the proved plus probable (2P) reserves post reserve audit by independent auditors:** Independent international auditor Senergy has upgraded the company’s reserves in its latest audit report of July 2016 due to which the 2P reserves of the SGL block have been upscaled to 582 bcf from 416 bcf earlier. At the current rate of gas production of 42 MMSCFD (with CO₂) and 1.3 tcf of 2P reserves the reserve life index of the block works out to about 82 years indicating significant potential for monetisation.

Credit weaknesses

- **Residual project implementation risks in the development of discovered RJ-ON/6 block to ramp up production volume for the next phases of production:** During the next phase of the development of the RJ-ON/6 block the company plans to supply 0.75 MMSCMD (without CO₂) of gas for another 160 MW power plant of RRVUNL, which is expected to be commissioned by Q4 FY2019. Subsequently, beginning April 2019, the company plans to supply about 0.63 MMSCMD gas through pipeline to the national grid post which the gas quantity is planned to be scaled up. For the next phases of the development of the RJ-ON/6 block, the company plans to drill additional production wells besides setting up of gas handling facilities such as gas gathering station etc. Though the company is exposed to residual project implementation risks to ramp up production volumes, the decade long experience of the company in exploration and production of the Rajasthan block partly mitigate the same.

- **Successful ramp up of gas volumes will be sensitive to the timely connection of the field with the national grid to diversify the customer base:** The company plans to supply gas to the national grid for which it is in discussions with Gujarat State Petroleum Corporation (GSPC)/ Gujarat State Petronet Limited (GSPL) for connecting the Rajasthan field to the Mehsana-Bhatinda pipeline for which a number of options are being considered. The company is also in discussion with GAIL for connecting the gas from the block to Bhilwara. Accordingly the modalities such as route, capex and funding are still to be finalised. Successfully connecting to the national grid could open up multiple customers and increase offtake and accordingly timely connection of the field to the grid remains crucial.
- **Geological risks inherent in exploration and production (E&P) activities:** The different stages of exploration and production activities are geological & geophysical activity, exploratory drilling, developmental drilling and finally production. At any of the aforementioned stages the company remains vulnerable to any geological surprises which might adversely impact the exploitation of oil and gas reserves. This risk is mitigated to an extent by the long track record of the company in exploration and production in the Indus basin.
- **Large debt-funded capital expenditure (capex) plans to keep the leverage at elevated levels:** The total additional development capex of RJ-ON/6 is expected to be around \$ 2016 million till FY2028. Indus is scheduled to incur total capex of \$ 1270 million towards development of RJ-ON/6 block. The company is funding its share of capex through a debt of about US\$ 330 million (outstanding US\$ 198.21 million as on August 9, 2017), bond programme of US\$ 75 million, equity of US\$ 50 million, additional debt of US\$ 300 million and the balance from, internal accruals and loans from group companies. The promoters also plan to infuse fresh equity into Indus Gas over the next few years. With regards to debt closure, Indus Gas has availed term loans of US\$ 330 million to meet its share of capex through foreign currency loans (current outstanding \$198.21 million), besides which the company plans to raise an additional US\$ 300 million term loan. The company also raised US\$ 75 million through a bond programme from the Singapore market. Going forward, the large debt funded capex planned to be incurred by the company is expected to keep the leverage at elevated levels.

Moderate credit metrics: Indus Gas received take or pay payments of \$1.0 million (~Rs 5.8 crore) from GAIL during FY2015 and nil during FY2016 and FY2017 owing to gas drawl at contracted rates. Indus Gas posted net sales of Rs 298.5 crore in FY2016 as against Rs 253.1 crore in FY2015. The net profit of the company was higher at Rs 102.8 crore in FY2016 as against Rs 99.3 crore in FY2015. The RoCE was stable at 6.3% in FY2016 vis-a-vis 6.9% in FY2015. The gearing increased from 4.1x as at FY2015 end to 4.4x as at FY2016 end. As per provisional and unaudited results for FY2017, the sales of the company increased from Rs 298.5 crore in FY2016 to Rs 361.4 crore in FY2017. The RoCE increased marginally to 7.5% in FY2017. The gearing declined to 3.0x as at FY2017 end from 4.4x as at FY2016 end. The debt coverage indicators were muted with total debt/OPBDIT at 13.8x in FY2016 and 8.3x in FY2017. Accordingly the company's key credit metrics viz RoCE and coverage indicators are moderate, albeit they should improve modestly with the commencement of gas sales from subsequent phases of the development project

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Upstream Oil companies](#)

About the company:

Indus Gas Limited (Indus) was incorporated and registered in Guernsey on 4 May 2008 as a limited company. Later, Indus got listed on the Alternate Investment Market (AIM) of the London Stock Exchange in June 2008. Indus has business interests in India in oil and gas blocks through its wholly owned subsidiary companies, Newbury Oil Company Limited (NOCL), Cyprus and iServices Investments Limited (ISIL), Mauritius. Indus holds 63% participating interest in the SGL field in the RJON/06 block (and 90% in the remaining area of the block) through these subsidiary companies. The RJ-ON/06 block is an onshore gas block in Rajasthan. Indus is promoted by Mr. Ajay Kalsi and the promoters along with group companies currently hold around 82.66% stake in the company.

Key Financial Indicators

	FY2016 (Audited)	FY2017 (Provisional)
Operating Income (Rs. crore)	298.5	361.4
PAT (Rs. crore)	102.8	241.5
OPBDIT/ OI (%)	93.3%	95.6%
RoCE (%)	6.3%	7.5%
Total Debt/ TNW (times)	4.4	3.0
Total Debt/ OPBDIT (times)	13.8	8.3
Interest coverage (times)	10.8	6.1
NWC/ OI (%)	-47.1%	-42.4%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);
NWC: Net Working Capital

Status of non-cooperation with previous CRA: Crisil has in its rationale published on Indus Gas Limited, dated 22, November, 2016, stated the following: "CRISIL is yet to receive adequate information from Indus Gas Limited (Indus) to enable it to undertake a rating review."

Any other information: Not applicable

Rating history for last three years:

Table:

S. No.	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Type	Amount Rated (US\$ million)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2014
				August 2017	December 2016	August 2015	April 2013
1	Fund based limits-Term Loans	Long term	198.21	[ICRA]BBB (Stable)	[ICRA]A- (Stable) suspended	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument Details

ISIN No	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (US\$ million)	Current Rating and Outlook
-	Long term- fund based-Term Loans 1	Feb 22, 2010	3M Libor+5%	May 31, 2018	15.68	[ICRA]BBB (Stable)
-	Long term- fund based-Term Loans 2	Mar 1, 2012	3M Libor+4.25%	Mar 31, 2021	31.59	[ICRA]BBB (Stable)
-	Long term- fund based-Term Loans 3	Oct 18, 2014	3M Libor+4.1%	May 7, 2024	150.94	[ICRA]BBB (Stable)

Source: the company

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