

Tripura Natural Gas Company Limited

February 27, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-Based- Term Loan	11.00	11.00	[ICRA]A- (Stable) Reaffirmed
Total	11.00	11.00	

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]A- (pronounced ICRA A minus) to the Rs. 11-crore¹ term-loan facility of Tripura Natural Gas Company Limited (TNGCL)². The outlook on the long-term rating is Stable.

Rationale

The rating reaffirmation 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 continues to draw 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 liquidity position.

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, notwithstanding a steady growth in the overall customer base over the past few years. ICRA also notes that TNGCL's previous plan of geographical expansion in Udaipur geographical area (GA) did not materialise in absence of regulatory approval, limiting the company's long-term growth prospects. Nevertheless, in the short to medium term, the risks of heightened debt-service obligation and a downward pressure on return indicators due to long gestation period for sales build-up associated with expansion in a new geographical area would be alleviated in absence of the large capital expenditure proposed earlier. However, the company's sales volumes in the PNG (industrial) segment would remain highly vulnerable to alternative fuel prices as the segment is not entitled to Government subsidy.

TNGCL's ability to achieve a sustained growth in sales volumes by augmenting customer base in tandem with infrastructure expansion, while keeping external borrowing under control, would remain key rating sensitivities.

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

Outlook: Stable

ICRA believes TNGCL will continue to benefit from the monopoly position in CGD business in Agartala, Tripura due to first-mover's advantage, though it does not enjoy any network or marketing exclusivity. The secured gas-supply agreement with Gail (India) Limited, a large shareholder of TNGCL and the Government subsidy on gas price for CNG and PNG (domestic) consumers in the north-eastern India are expected to keep TNGCL's business profile stable. The outlook may be revised to Positive if the company succeeds in obtaining regulatory authorisation for expansion in new geographical area, rendering a substantial long-term growth opportunity. However, the pace of expansion of customer base and pick-up in sales volumes post any sizeable capex would remain critical to the company's credit profile. The outlook may be revised to Negative if pressure on liquidity emerges due to increased debt-service obligation, long gestation period associated with expansion and/or reduced cost competitiveness of natural gas vis-a-vis liquid fuels.

Key rating drivers

Credit strengths

Monopoly position in CGD business in Agartala, Tripura - TNGCL is the only CGD entity operating in Tripura. The Government of India has authorised the company for carrying out CGD business in the Agartala geographical area (GA). The authorisation was accepted by the Petroleum and Natural Gas Regulatory Board (PNGRB) in February 2015. TNGCL has not been granted any infrastructure or marketing exclusivity. However, the company's established customer base, gas pipeline infrastructure built up over the years and first-mover advantage create significant entry barriers for third-party marketers. Moreover, third-party marketers remain vulnerable to availability and price stability of gas for a long term, which pose significant business risks to them. Hence, the company enjoys a monopoly position in the CGD business in the Agartala GA.

Strong parentage and ownership structure - TNGCL is a joint venture among Gail (India) Ltd. (GAIL), Tripura Industrial Development Corporation Ltd. (TIDCL, a Government of Tripura undertaking) and Assam Gas Company Ltd. (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 of TNGCL to implement gas distribution projects in Tripura. The company's strong parentage and ownership structure mitigate its management and operational risks to a large extent.

Favourable outlook on demand growth given the price differential between gas and liquid fuels, aided by Government subsidy (40%) on basic gas price for CNG and PNG (domestic) consumers in the north eastern India - The relative cost effectiveness of PNG and CNG over liquid fuels, primarily in the domestic and automobile segments, augers well for demand outlook of the CGD business in the country. Moreover, the Government subsidy of 40% on basic gas price for PNG (domestic) and CNG segments in the north-eastern India helps TNGCL keep prices for its consumers in these segments at a low level.

Regulatory support in the form of assured availability of gas to the CGD entities for CNG and PNG (domestic) segments and pricing flexibility under the current regulatory provisions - Under the current regulatory provisions, all the CGD entities would get gas supply of 100% of the volume allocated (based on past six months' consumption) as well as an additional 10% to meet incremental demand during the review period for CNG and PNG (domestic) segments. This alleviates the gas-availability risks of TNGCL for its current operations as well as for future growth in the CNG and PNG (domestic) segments. The basic purchase price of the gas allocated to the CNG and PNG (domestic) segments is fixed by the Government periodically. While the CGD entities have to declare their contribution margins (network tariff and compression charges) to the Government, they are allowed to factor in the variable and fixed expenses in addition to the contribution margin in determining the final gas prices, as per the current regulatory norms. Such pricing flexibility enjoyed by TNGCL would continue to protect its high profitability.

Secured gas-supply agreement with GAIL, a large shareholder of TNGCL, mitigates gas availability risks for the industrial and commercial segments - The Government of India's mandate to GAIL for assured gas supply to the CGD entities is limited to CNG and PNG (domestic) segments. However, TNGCL has entered into secured gas supply tie-up with GAIL, which is also a large shareholder of the company, for all its customer segments. This reduces gas-availability risks for the industrial and commercial segments as well.

Financial profile characterised by healthy profitability and return indicators, conservative capital structure, strong debt-coverage metrics and comfortable liquidity position - The company's profit margins remained healthy, aided by pricing flexibility in the CGD business. In FY2017, TNGCL's operating and net margins improved further to 40.53% and 19.36%, respectively from 37.62% and 17.24% in the previous year, due to significant decline in gas purchase price vis-à-vis decline in realisation. The company's ROCE also remained healthy between 25 and 27% over the last five years. TNGCL's limited debt level led to a low gearing (0.13 times as on March 31, 2017) and strong debt-coverage metrics, as reflected by the interest coverage of 25.42 times, total debt/OPBDITA of 0.36 times and NCA/total debt of 231% in FY2017. The company's healthy cash accrual and free cash balance also kept its liquidity strong.

Credit challenges

Presence in a single geographical area with limited population restrict the company's scale of operations - TNGCL carries out CGD business in and around Agratala, which is a small city in Tripura, with a population of only around 4 lakh as per 2011 census. The limited population restricts the company's scale of operations. Nevertheless, the company's sales volumes are likely to grow gradually, as a major portion of the population is still untapped, and the per-capita consumption of natural gas is likely to increase, going forward.

Previous plan of expansion in Udaipur GA did not materialise in absence of regulatory approval, limiting TNGCL's long-term growth prospect - In order to enhance geographical reach and increase customer base, the company previously planned to set up a PNG network in Udaipur city of Tripura. However, the regulatory approval for the same has not been obtained, restricting TNGCL's long-term growth prospect.

High vulnerability of sales volumes in the industrial PNG segment to alternative fuel prices as the segment is not entitled to Government subsidy- Unlike the PNG (domestic) and CNG segments, the industrial and commercial consumers in the north-eastern India are not entitled to receive any subsidy on gas price, which reduces cost competitiveness compared to liquid fuels for these segments. The company's sale volumes from the industrial segment declined over the last two years because of low price of liquid fuels. However, the recent hike in liquid fuel prices is likely to result in an improved demand from the industrial consumers.

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

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[City Gas Distribution Companies](#)

About the company:

Tripura Natural Gas Company Limited (TNGCL) is involved in city gas distribution (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) Ltd. (GAIL), Tripura Industrial Development Corporation Ltd. (TIDCL, a Government of Tripura undertaking) and Assam Gas Company Ltd. (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 of 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.

In FY2017, the company reported a net profit of Rs. 11.30 crore on an operating income (OI) of Rs. 58.37 crore compared to a net profit of Rs. 10.14 crore on an OI of Rs. 58.80 crore in FY2016.

Key financial indicators

	FY2016 (audited)	FY2017 (audited)
Operating Income (Rs. crore)	58.80	58.37
PAT (Rs. crore)	10.14	11.30
OPBDIT/ OI (%)	37.62%	40.53%
RoCE (%)	26.53%	26.98%
Total Debt/ TNW (times)	0.20	0.13
Total Debt/ OPBDIT (times)	0.49	0.36
Interest Coverage (times)	250.86	25.42
NWC/ OI (%)	-6%	-5%

Status of non-cooperation with previous CRA:

Name of CRA	Status of non-cooperation/ rating action	Date of Press Release
CRISIL	CRISIL BBB+/Stable (Issuer Not Cooperating; April 10, 2017 Rating Reaffirmed)	

Any other information: None

Rating history for last three years:

Instrument	Type	Current Rating (FY2018)		Date & Rating February 2018	Chronology of Rating History for the past 3 years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)		Date & Rating in FY2017 August 2016	Date & Rating in FY2016	Date & Rating in FY2015	
1	Term Loan	Long Term	11.00	8.49 (March, 2017)	[ICRA]A-(Stable)	[ICRA]A-(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 Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	24-Sep-13	NA	31-Mar-20	11.00	[ICRA]A- (Stable)

Source: Tripura Natural Gas Company Limited

ANALYST CONTACTS

K. Ravichandran

+91 44 4596 4301
ravichandran@icraindia.com

Sujoy Saha

+91 33 7150 1184
sujoy.saha@icraindia.com

Sumit Jhunjhunwala

+91 33 7150 1111
sumit.jhunjhunwala@icraindia.com

Sovanlal Biswas

+91 33 7150 1181
sovanlal.biswas@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
naznin.prodhani@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

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

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 6606 9999

© Copyright, 2018 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents