

June 19, 2020

Assam Gas Company Ltd.: Issuer rating of [ICRA]A+ (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	[ICRA]A+ (Stable); Assigned
Total	-	

*Instrument details are provided in Annexure-1

Rationale

The assigned rating factors in the long and established track record of the company in the natural gas transmission business, near monopoly in the natural gas transmission in the state of Assam, favourable outlook for natural gas consumption in the state of Assam, healthy financial risk profile characterised by stable cash accruals, nil debt and large cash balances and large share of transmission revenue from dedicated pipelines, which are outside the regulatory control. AGCL has been in operations since 1967 when it setup its first pipeline in the state of Assam and has commissioned nearly 6 mmscmd of natural gas pipeline (both dedicated and common carrier pipelines) from 1986 to 2004. The company is the sole transporter of natural gas in the state of Assam. Nonetheless, the gas consumption in the state of Assam remains limited due to low availability of natural gas in the region. With the construction of the Barauni-Guwahati pipeline and the Indradhanush Gas Grid Limited underway, the availability of natural gas in the North Eastern region is expected to improve substantially post commissioning of these pipelines. As a result, the pent-up demand for natural gas is also expected to be met. Several customers of AGCL are debottlenecking current capacities and few are setting up new capacities as well which augurs well for AGCL in terms of higher transportation of the natural gas through AGCL's network resulting in higher revenues. Additionally, AGCL is also planning to increase its reach to various tea estates which are currently using coal as a medium for heating tea leaves, which should provide support to gas consumption for the company. AGCL also derives a major share of revenues from its dedicated pipelines wherein the transmission tariff is mutually agreed upon between the consumer and the transporter of natural gas with an annual increment in place, thus providing a level of certainty of revenues in the near to medium term. AGCL's financial risk profile has remained healthy characterised by stable cash accruals from operations, large cash balances and nil debt over the past several years. As a result, the capitalisation and coverage indicators have remained healthy e.g. interest coverage ratio was 58.7x (consolidated) at the end of FY2019 and at the end of 9M FY2020 interest coverage ratio (on a standalone basis) was 37.0x. The leverage (total Debt/OPBDITA) and gearing (Total debt/Tangible Networth) have remained nil since FY2015 on a consolidated basis. Going forward as well the financial risk profile of the entity is expected to remain healthy despite the company planning significant capex over the next 3-4 years driven by the stable cash accruals and current cash balances which should result in limited reliance on the debt going forward.

The rating is however constrained by the ageing pipeline infrastructure of the company, regulatory risk for the common carrier pipelines, relatively weak credit quality of its bulk customers, whose offtake has also been declining due to their ageing plants, customer concentration risk for the subsidiary DNP Limited, and project risks associated with its expansion plans. AGCL's infrastructure was setup from 1986 to 2004 and has seen an increase in the economic life twice by PNGRB during tariff revisions. The infrastructure may require significant investments for modernisation. Natural gas availability remains an issue in the North Eastern region as the state has not been connected to the National gas grid and production from gas fields in the North Eastern states has remained limited. However, with the expected commissioning of the Barauni-Guwahati pipeline (set by GAIL; to be completed by December 2021) and IGGL network (expected to be

commissioned by end of FY2023) coupled with development of new fields by E&P companies, gas availability will improve in the region. On the regulatory front, AGCL's common carrier pipelines remain exposed to the regulatory risk for tariff revision by PNGRB. The recent downward revision in the tariff by PNGRB in its June 2019 order will impact the profitability of the company going forward. Several consumers of AGCL have old and ageing plants wherein the gas offtake has been much below the optimum level. As a result, AGCL's transportation infrastructure has remained under-utilised. With few plants focusing on modernisation and also expansion of capacities, the utilisation of pipeline infrastructure is expected to improve post completion of the capex plans of the consumers. DNP Limited (AGCL's subsidiary with 51% stake) transports natural gas to Numaligarh Refinery Limited (NRL) through a dedicated pipeline and thus relies only on NRL for its revenues. This exposes the company to customer concentration risk, though the superior credit quality of the off taker remains a key mitigant to the risk.

ICRA also takes note of the fact that, AGCL had been reported under the defaulters list by one of the bankers due to a commercial dispute, as stated by the management. While the issue is expected to be resolved in the near term, the maximum liability that AGCL may have to incur on this account is limited to around Rs. 2.5 crores which is not material given the current liquidity at hand with the company.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's opinion that AGCL will continue to maintain its healthy financial risk profile given the stable cash accruals and current large cash balances despite the planned capital expenditure of ~Rs. 700-800 crore over the next 3-4 years.

Key rating drivers and their description

Credit strengths

Long and established track record in the natural gas transmission and CGD network of the company; Monopoly in natural gas transmission in Upper Assam: AGCL has been constructing and operating natural gas transmission pipelines in the state of Assam since 1967. The current pipeline network in the state of Assam has been built between 1986 to 2004 and AGCL has been the sole transporter of natural gas in the Upper Assam part of the state, barring its subsidiary DNP. Nonetheless, competition will emerge over the long term with the commissioning of IGGL and Ganga-Brahmaputra pipeline projects in the State.

Access to domestic gas for supply to commercial and industrial users of Piped Natural Gas i.e. PNG (C) and PNG (I) to keep supplies competitive against liquid fuel in CGD networks: AGCL supplies domestic gas to its PNG (C) and PNG (I) users as well while the demand for the same is met through imported R-LNG across rest of India. As a result of the availability of domestic gas, the PNG supplies will remain competitive against liquid fuels.

Healthy financial risk profile characterized by large cash balances, nil debt levels and stable cash accruals: AGCL's financial risk profile remains healthy characterised by stable cash accruals, large cash balances and nil debt levels. The company has not undertaken any major capex plans in the last few years and the dividend outflow has remained limited. With stable cash accruals of ~Rs. 100 crore per annum, the cash levels have increased to about Rs. 552 crore (consolidated) by the end of FY2019.

Large share of revenue from dedicated pipelines with annual increment in transmission tariff ensuring healthy cash accruals: AGCL's pipeline network is a mix of dedicated pipelines and common carrier pipelines. AGCL derives a major share of revenue from the dedicated pipelines wherein the transport of gas and consumer of gas negotiate the

transmission tariff and the contracts have defined annual increments for the tariff in the contracts unlike common carrier pipelines wherein PNGRB determines the transmission tariff

Upcoming capacity expansions and debottlenecking of capacities by several existing consumers to aid increased natural gas offtake: Several of the AGCL's consumers are undertaking de-bottlenecking and capacity expansions at their existing facilities. As a result, the gas offtake is expected to rise going forward which should result in higher gas transportation income for AGCL.

Credit challenges

Ageing infrastructure with manual and semi-automatic systems: AGCL's infrastructure was setup from 1986 to 2004 and has seen an increase in the economic life twice by PNGRB during tariff revisions. The infrastructure may require significant investments for modernisation.

Limited availability of natural gas in the North Eastern states currently; though gas supplies expected to improve in future: Natural gas availability remains an issue in the North Eastern region as the state has not been connected to the National gas grid and production from gas fields in the North Eastern states has remained limited. However, with the expected commissioning of the Barauni-Guwahati pipeline and IGGL network coupled with development of new fields by E&P companies will lead to improved natural gas availability in the region

Regulatory risk associated with AGCL's pipeline business, with sharp cuts in tariff made for its common carrier PLs in recent orders: AGCL's common carrier pipelines remain exposed to the regulatory risk for tariff revision by PNGRB. The recent downward revision in the tariff by PNGRB in its June 2019 order will impact the profitability of the company going forward

Customer concentration risk for DNP Limited (AGCL's subsidiary); superior credit quality of offtake a key mitigant: DNP Limited (AGCL's subsidiary with 51% stake) transports natural gas to Numaligarh Refinery Limited (NRL) through a dedicated pipeline and thus relies only on NRL for its revenues. This exposes the company to customer concentration risk, though the superior credit quality of the offtaker remains a key mitigant to the risk. Moreover, any downward revision in tariff for this pipeline will impact its cash accruals. Additionally, IGGL will be laying a pipeline from Guwahati to Numaligarh and thus will emerge as a key competitor for DNP Limited wherein the volume offtake or incremental volumes could get diverted to IGGL as the entity will be connected to the National gas grid thus having access to plenty of gas supplies.

Declining offtake by various bulk consumers given ageing plants: Several of AGCL's consumers have old and ageing plants (BVFCL, power plants of ASEB & NEEPCO) wherein the capacity utilisation and natural gas offtake has been below the optimum levels. As a result, AGCL's pipeline infrastructure has remained underutilised. Additionally, these bulk consumers contribute a major share of the transmission revenues of the company which may face headwinds in case of these plants facing operational issues due to ageing of the plants. Moreover, credit quality of some of these customers is relatively weak.

Project risks associated with its large capex plans: AGCL is planning to undertake several projects in the near to medium term for setting up pipelines, expansion of the CGD network in Upper Assam region and investment in the JVs engaged in petrochemical production and setting up of CGD network. The capex plans include setting up of a parallel pipeline to the existing pipeline i.e. Nambor-Golaghat-Numaligarh pipeline with a capex Rs. 210 crore aimed at supplying natural gas to the tea gardens in the area of Kaziranga area with tentative completion of the project expected to be around the end of FY2021. AGCL will also setup a pipeline to supply rich gas to Brahmaputra Cracker & Polymer Limited (BCPL) wherein, the

lean gas will be pumped back into the system after heavier hydrocarbons are utilised by the cracker. The total capex for the project is ~Rs. 230 crore, project expected to be completed along with the Nambor-Golaghat-Pipeline. AGCL will also be setting up around 90 CNG stations in the Upper Assam regions over the next 3-4 years with a capital outlay of around Rs. 200 crore. AGCL will also be investing in the JV, Purba Bharati Gas Limited, with JV partners GAIL Gas Limited and OIL India Limited to the extent of Rs. 240 crore over a period of next 8-10 years. The JV has been authorised to setup CGD network in the Kamrup and Kamrup Metro GA and Karimganj-Cachar GA. AGCL has been investing in Assam Petrochemicals Limited (rated [ICRA]BBB+(Stable)) as well which is in the midst of setting up a 500TPD Methanol and 200TPD formalin plant, wherein the equity contribution of ~Rs. 28 crore is being made to meet the equity portion of the capex funding. The timely completion of these projects without major cost over runs will remain a key determinant of returns from these projects and will also remain a key rating sensitivity.

Liquidity position: Strong

AGCL's liquidity is expected to remain strong given the stable nature of cash accruals, no debt repayments in the near term and large cash balances which are more than adequate to meet the margin funding for the upcoming capex plans. AGCL is expected to complete debt tie-ups for the capex plan shortly which will provide adequate amount of debt funding for the capex plans.

Rating sensitivities

Positive triggers – Rating may be upgraded in a scenario of lower than expected debt being availed for the capex program and/or higher than expected cash generation

Negative triggers – Material decline in scale of operations, higher than expected debt levels availed for the capex program and investments and/or significant payouts to promoters in the form of dividend and/or any other form will lead to negative pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	NA
Consolidation/Standalone	The rating is based on the consolidated financials of the company

About the company

Assam Gas Company Limited (AGCL) is a Government of Assam entity with the government holding 100% equity in the company. AGCL was incorporated in 1962 and started its transmission business in 1967. The company is engaged in transmission and trading of natural gas in the state of Assam with a transmission pipeline capacity of 5.5 mmscmd (including dedicated and common carrier pipeline) with a length of ~206 KM. The company has a network of trunk pipelines and distribution pipelines serving more than 400+ tea estates, 31,000 domestic piped natural gas consumers, more than 1000 commercial and industrial consumers and bulk consumers. Some of the major bulk consumers include Assam Petro Chemicals Limited (APCL, [ICRA]BBB+(Stable)), Assam Gas Based Power Plant (AGPP of North Eastern Electric Power Corporation, NEEPCO), Brahmaputra Valley Fertiliser Corporation Limited (BVFCL), Namrup Thermal Power Station (NTPS) and Lakwa Thermal Power Station (LTPS).

Key financial indicators (audited)

	FY2018	FY2019	9M FY2020
Operating Income (Rs. crore)	306.7	350.7	253.7
PAT (Rs. crore)	101.3	65.6	52.7
OPBDIT/OI (%)	45%	37%	71.5
RoCE (%)	17.5%	9.2%	16%
Total Outside Liabilities/Tangible Net Worth (times)	0.2	0.2	0.2
Total Debt/OPBDIT (times)	0.0	0.0	0.0
Interest Coverage (times)	66.3	58.7	37.0
DSCR	62.0	37.1	53.7

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)			Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					19-Jun-2020	-	-	-
1	Issuer Rating	Long Term	-	-	[ICRA]A+ (Stable)	-	-	-

Amount in Rs. crore

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 [click here](#)

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Issuer Rating	-	-	-	-	[ICRA]A+ (Stable)

Source: AGCL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
DNP Limited	51.00%	Full Consolidation

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