Mahanagar Gas Limited

Instrument	Amount	Rating Action
Long-term Debt Programme	Rs. 100 crores	[ICRA]AAA (Stable) (reaffirmed)
Long-term non-fund based limits	Rs. 200 crores	[ICRA]AAA (Stable) (reassigned)
Short-term non-fund based limits	Rs. 400 crores	[ICRA]A1+ (reaffirmed)

ICRA has reaffirmed the [ICRA]AAA (pronounced ICRA triple A) rating assigned to the Rs. 100 crore[1] long-term debt programme of Mahanagar Gas Limited (MGL)[2]. ICRA has also reaffirmed/ re-assigned long-term rating of [ICRA]AAA and short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) rating to the Rs. 600 crore non-fund based bank limits of Mahanagar Gas Limited (MGL). The outlook on the long-term rating is 'Stable'.

The ratings reaffirmation continue to favourably reflects the strong parentage and ownership pattern of Mahanagar Gas Limited (MGL); its current monopoly position in the Greater Mumbai and surrounding expansion areas; its diversified customer profile; strong financial risk profile and high financial flexibility. Despite expiration of its marketing exclusivity for both GA1 (Geographical Area) and GA2, ICRA expects the company to continue to enjoy a dominant market share because of its first mover advantage as evident from its established network. In addition, there are significant entry barriers for third party marketers arising mainly from issues in gas availability at competitive prices. As per the PNGRB regulations, MGL enjoys physical exclusivity (25 years from the year 1995 for Greater Mumbai and from 2005 for expansion areas thereby, which can be further extended for a block of 10 years).

Further, MGL's gas-tie up has been boosted by the change in the domestic gas allocation policy wherein CGD players are allocated 110% domestic gas towards the CNG and PNG (domestic) segments of CGD entities.
ICRA also notes that the regulatory risk has eased for the company as the Supreme Court ruled in favour of Indraprashta Gas Limited (IGL) in its dispute with the Petroleum and Natural Gas Regulatory Board (PNGRB), with respect to the determination of its network tariffs and compression charges. The Supreme Court verdict which clarifies that PNGRB does not have the powers to determine the network tariffs, compression charges or in any other manner fix the prices for CGD companies with own network is a major positive for the sector. It alleviates the regulatory risk and allows the CGD industry incumbents greater freedom to fix the final prices of CNG and PNG for consumers.

The domestic gas prices have been reduced to US$ 3.06/ MMBTU (GCV basis) for the six-month period April 1, 2016 to September 30, 2016 which is a 20% reduction from the gas price of US$3.82/mmbtu (GCV basis) applicable for the period October 1, 2015 to March 31, 2016. The reduced cost of input gas for the CGD players have resulted in lower CGD and PNG (domestic) gas prices, with MGL dropping the CNG prices by Rs. 0.70/ kg and PNG (d) prices by Rs. 0.60/ scm. In the case of both these segments, the competitive advantage of gas over alternative fuels will improve and this augurs well for demand growth. CGD players, while retaining their contribution margins, should benefit by way of volume growth in the CNG and PNG (domestic) segments. With regards to other two segments viz PNG (Industrial) & PNG (Commercial), improved cost competitiveness of the alternate fuels due to sharp drop in the crude prices during 12-18 months and price discounts by OMCs, had eroded the advantages of gas. Hence, the company could not get incremental volumes from these segments and it report 2% degrowth in 9m FY 16.

ICRA also notes that MGL has aggressive capital expenditure plans in Mumbai and the surrounding areas. It has successfully bid under the fourth round of bidding, for Raigad district and has started undertaking capex for setting up the CGD network. The large scale of the capex (~Rs 1000 Cr over 25 years) and the gestation period associated with build-up of sales volumes is expected to moderately impact the company's return on capital employed and credit metrics from current levels as initial development and stabilization would take time. However, the company is expected to benefit from location of Raigad district as it is in continuity to its existing

[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.

GAs and has an access to the pipeline network of GAIL in the entire GA. Overall, in ICRA's view, the company's strong capital structure is expected to keep its financial risk metrics comfortable over the long term despite large capital expenditure plans.

ICRA also notes that MGL, as part of its expansion strategy, might participate in future bidding rounds of PNGRB to enter other cities. MGL may also consider the inorganic route for growth and may consider picking up equity stakes in other CGD entities. These event based risks for the company have not been factored while assigning the ratings and ICRA shall evaluate the impact of the same on its credit risk profile as and when they materialise.

Company Profile

Mahanagar Gas Limited ("MGL") is the sole authorised distributor of compressed natural gas ("CNG") and piped natural gas ("PNG") in Mumbai, its adjoining areas and the Raigad district in the State of Maharashtra, India. The Promoters of the Company are GAIL and BGAPH3, each of who holds 49.75% of Equity Shares in MGL, with 0.50% held by Government of Maharashtra ("GoM").

The company supplies gas to the industrial, residential, commercial and compressed natural gas (CNG) segments. MGL has large plans to augment its gas distribution network in the existing Mumbai region and also expand its network in the surrounding regions such as Mira-Bhayander, Thane-Vashi-Belapur (TVB), Kharghar-Panvel-Taloja (KPT) Kalyan-Dombivali-Ambernath & Ulhasnagar (KD& AB). After successfully wining the bid, the company is also setting up the CGD network in the Raigad district. The average sales of MGL in FY2015 was 2.38 Million Metric Standard Cubic Meter per Day (mmscmd) while it was 2.42 mmscmd in 9m FY2016, spread across CNG and PNG segments. The company procures natural gas mainly from GAIL (APM, non-APM and R-LNG).

Recent Results

MGL reported net profits of Rs. 301.0 crore on an operating income of Rs. 2094.93 crore in 2014-15. During 6m 2015-16, it reported net profits of Rs. 148.79 crore on an operating income of Rs. 1053.31 crore.

April 2016

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3 BG Plc, ultimate holding company of BGAPH has became 100% subsidiary of Royal Dutch Shell Plc, during the month of February, 2016

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