

March 30, 2016

Facilities	Amount (Rs. Crore)	Ratings
Term Loan (Proposed)	35.00	SMERA A/Stable (Assigned)
Bank Guarantee	15.00	SMERA A1 (Assigned)
Bank Guarantee (Proposed)	15.00	SMERA A1 (Assigned)

SMERA has assigned rating of '**SMERA A**' (**read as SMERA A**) to the Rs.35.00 crore proposed long-term (fund based) bank facility and short term rating of **SMERA A1 (read as SMERA A one)** to the Rs.30.00 crore short term (non-fund based) bank facility of Green Gas Limited (GGL). The outlook is '**Stable**'.

The ratings are supported by GGL's strong market position and parentage, comfortable financial risk profile and robust debt protection metrics. The ratings however, remain constrained by its moderate scale of operations and susceptibility of the credit risk profile to adverse regulatory developments.

GGL, a joint venture between GAIL India Limited (GAIL) and Indian Oil Corporation Limited (IOCL), enjoys a monopoly with respect to the marketing of natural gas and development of city gas distribution (CGD) infrastructure in Lucknow and Agra. It supplies both, CNG (Compressed Natural Gas) and PNG (Piped Natural Gas) in these cities.

GGL enjoys a strong market position characterised by the absence of significant competition and high growth potential for CNG and PNG in the above mentioned cities. The strong market position is also evident from the company's above average profitability and return indicators. The ratings also factor in the operational support that GGL receives from its parent companies, GAIL and IOCL. With GAIL being the sole supplier of natural gas to GGL and IOCL being its largest customer, GGL also derives benefits from its parentage in terms of relatively uninterrupted supply and off take of natural gas.

GGL has maintained a comfortable financial risk profile, with healthy capital structure and robust debt protection metrics. The company is almost debt free, with gearing levels at around 0.03 times and net worth of around Rs.174 crore as on March 31, 2015. SMERA believes that the company's capital structure and net worth will continue to remain comfortable going forward, supported by healthy accretion to reserves.

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The company has maintained healthy accruals and return indicators with net cash accruals of around Rs.30 crore and return on capital employed (RoCE) of about 23-24 per cent over the past two years. As per the new pricing formula, the natural gas prices are expected to decrease in the near future, with international prices having already declined to around \$2.15/mmbtu in the Dec '15 Jan'16 cycle, as compared to around \$3.40/mmbtu in the previous June-July 2015 cycle. This expected reduction would further support the company's margins, accruals and return indicators going forward.

The company plans capex of around Rs.175-200 crore over the next two to three years, to increase the number of CNG pump stations and PNG subscriber base. Notwithstanding this capex plan, SMERA believes that the company's financial risk profile will continue to remain healthy over the medium term.

The company's credit risk profile however, is constrained by its moderate scale of operations and limited market share in the commercial and industrial PNG segments. The rating also takes into account the geographical and customer concentration risks. The credit risk profile is expected to continue to remain vulnerable to adverse regulatory changes.

Outlook: Stable

SMERA believes that GGL's credit risk profile will continue to be supported by its strong market position in Agra and Lucknow and healthy financial risk profile. The outlook may be revised to 'Positive' in case of substantial increase in revenues and accruals while maintaining its debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of significant decline in revenues and accruals or larger than expected debt funded capex, leading to deterioration in the company's debt protection metrics.

About the Company

GGL is a joint venture between GAIL and IOCL. It was incorporated on the directions of the Ministry of Petroleum and Natural Gas in 2005 and commenced operations in December, 2006. The company is the sole distributor of PNG and CNG in Lucknow and Agra and has 15 CNG stations altogether. The current PNG subscriber base of GGL stands at over 10,000.

GGL realised Rs.162.64 crore of revenue and Rs.26.77 crore of PAT (profit after tax) in FY2015 against Rs.160.66 crore of revenue and Rs.22.63 crore of PAT in FY2014.

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