

Press Release

Green Gas Limited (GGL)

24 June, 2017



Rating Upgraded

Total Facilities Rated*	Rs.65.00Cr
Long Term Rating	SMERA A+ /Stable (Upgraded from SMERA A/Stable)
Short Term Rating	SMERA A1+ (Upgraded from SMERA A1)

**Refer Annexure for details*

Rating Rationale

SMERA has upgraded the long term rating assigned to the bank facilities of Green Gas limited (GGL) to **SMERA A+ (read as SMERA A plus)** from **SMERA A (read as SMERA A)** and the short term rating to **SMERA A1+ (read as SMERA A one plus)** from **SMERA A1 (read as SMERA A one)**. The outlook is 'Stable'.

Green Gas Limited (GGL) was established in 2005 as a joint venture between Indian Oil Corporation Limited (IOCL) and Gas Authority of India Limited (GAIL). GGL is engaged in the distribution and marketing of Compressed Natural Gas (CNG) and Piped Natural Gas (PNG) in Agra and Lucknow. The company currently enjoys exclusive marketing rights for CNG and PNG in Lucknow and also the right to develop and maintain PNG and CNG infrastructure in Lucknow as well as Agra.

The rating upgrade factors in the significant increase in the PNG subscriber' base coupled with endorsement of GGL's exclusive PNG and CNG distribution rights in Lucknow by the Petroleum & Natural Gas Regulatory Board (PNGRB). The rating continues to reflect GGL's strong parentage and comfortable financial risk profile marked by a conservative capital structure and healthy cash accruals of the company.

List of Key Rating Drivers and their detailed description

Strengths:

Strong Parentage: GGL is a joint venture between Indian Oil Corporation Limited (IOCL) and Gas Authority of India Limited (GAIL) and was formed under the directions of the Ministry of Petroleum and Natural Gas. IOCL and GAIL are 100 per cent Government of India (GoI) undertakings and GGL continues to receive operational and managerial support from its promoter companies from time to time. The company's key management personnel include directors and employees of GAIL and IOCL.

SMERA expects GGL to continue to receive significant operational and managerial support from its promoter companies over the near to medium term. The strong corporate governance and

managerial oversight exercised by the promoter companies is expected to enable GGL to maintain a healthy credit risk profile over the near to medium term.

Healthy market position: GGL enjoys exclusive PNG and CNG Distribution rights in Lucknow for five years and exclusive city gas infrastructure development rights for 25 years in Agra and Lucknow. GGL thus has significant monopoly in the City Gas Distribution (CGD) business in its areas of operation. Consequently, the company is unlikely to experience any significant competitive pressures over the near to medium term.

GGL's monopoly power has enabled the company to maintain healthy profitability margins. GGL reported an operating profit margin of 30.57 per cent in FY2015-16 as against 27.42 per cent in FY2014-15. The increase in profitability margins is primarily driven by GGL's ability to maintain stable selling prices for its PNG and CNG despite sustained decline in well-head prices for natural gas.

SMERA believes that events which may endanger GGL's monopoly power in its areas of operation can have adverse impact on GGL's pricing power and market position over the medium term which may further result in significant deterioration in the credit risk profile of the company.

Comfortable financial risk profile: GGL operates in a capital intensive business. The company is required to undertake development of PNG and CNG infrastructure in line with PNGRB regulations. Despite the highly capital intensive nature of operations, GGL is able to generate adequate internal accruals to fund its capital expenditure and working capital requirements from time to time. As a result, the company has no long term or short term debt as on 31 March, 2017.

Further, the company has been able to maintain healthy liquidity on its books in the form of unencumbered fixed deposits of Rs. 45.86 crore on 31 March, 2016 vis-à-vis Rs. 40.83 crore on 31 March, 2015.

SMERA believes that GGL's ability to continue to generate adequate cash accruals to fund its capital expenditure plans and maintain adequate liquidity in the business shall be a key credit monitorable. Significant increase in the overall debt levels of the company shall result in downward pressures on the company's credit risk profile.

Weaknesses:

Modest scale of operations: GGL's operations are limited to Agra and Lucknow in Uttar Pradesh. The company reported a PNG subscriber's base of 16000 domestic (~ 7700 on 31 December, 2016) and 20 commercial/industrial (approximately) on 31 March, 2017. GGL currently also operated 17 CNG stations (11 in Lucknow and 6 in Agra) and is planning to add two more stations in the first half of FY2017-18.

GGL reported a modest operating income of Rs. 219.05 crore (Provisional) in FY2017 as against Rs. 179.19 crore in FY2016. Approximately 97 per cent of GGL's revenues in FY2017 are from sale of CNG in Agra and Lucknow while the remaining is from sale of PNG in these cities.

SMERA believes that GGL's ability to sustain scaling up of operations while expanding its PNG subscribers' base shall be critical towards improving its overall credit risk profile.

Susceptibility of performance to regulatory risks: GGL's operations are dependent on the regulatory environment surrounding the CGD business. The PNG and CNG prices are determined by the PNGRB from time to time – resulting in limited pricing flexibility of the company.

Further, GGL is required to conform to norms by PNGRB regarding infrastructure development and PNG coverage in Agra and Lucknow. Any unfavourable changes in the regulatory environment surrounding the CGD business shall adversely impact the overall credit profile of the company.

Analytical approach: SMERA has taken a standalone view of the above entity.

Applicable Criteria

- Infrastructure Entities - <https://www.smera.in/criteria-infrastructure.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

Outlook: Stable

SMERA believes that GGL will maintain a stable credit risk profile over the medium term on account of its strong parentage, experienced management and monopoly over the City Gas Distribution business in Agra and Lucknow. The outlook may be revised to 'Positive' in case of sustained increase in scale of operations along with increase in the subscribers' base of the company while maintaining its profitability margins. The outlook may be revised to 'Negative' in case of significant increase in overall debt or adverse regulatory changes affecting the exclusive infrastructure development and/or PNG & LNG marketing rights of the company.

About the Rated Entity

GGL is a joint venture between Indian Oil Corporation Limited (IOCL) and Gas Authority of India Limited (GAIL). Incorporated in 2005, GGL is a city gas distributor in Lucknow and Agra.

In FY2016 the company reported an operating income of Rs. 179.79 crore with Profit After Tax (PAT) of Rs. 34.46 crore against operating income of Rs. 162.64 crore in FY2015 with a PAT of Rs. 26.77 crore.

Status of non-cooperation with previous CRA (if applicable): CRISIL vide press release dated November 03, 2016 suspended the short term rating assigned to the bank loan facilities of the company as the company had not provided necessary information required to maintain a valid rating.

Any other information: NA

Rating History for the last three years:

Name of Instruments	FY2018 (Current)			FY2017		FY2016		FY2015	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Proposed Long Term Loan	LT	35.00	SMERA A+/Stable (Upgraded from SMERA A/Stable)	-	-	30Mar, 2016	SMERA A/Stable (Assigned)	-	-
Bank Guarantee	ST	30.00	SMERA A1+ (Upgraded from SMERA A1)	-	-	30 Mar, 2016	SMERA A1 (Assigned)	-	-
Proposed Bank Guarantee	ST	-	-	-	-	30 Mar, 2016	SMERA A1 (Assigned)		

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/ Outlook
Proposed Long Term Loan	N.A.	N.A.	N.A.	35.00	SMERA A+/Stable (Upgraded from SMERA A/Stable)
Bank Guarantee	N.A.	N.A.	N.A.	30.00	SMERA A1+ (Upgraded from SMERA A1)

Note on complexity levels of the rated instrument:
<https://www.smera.in/criteria-complexity-levels.htm>

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ABOUT SMERA

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