

Press Release

Andhra Pradesh Gas Distribution Corporation Limited

November 05, 2019

Rating Reaffirmed Outlook Revised



Total Bank Facilities Rated*	Rs.300.00 Cr.
Long Term Rating	ACUITE A- (CE) / Outlook: Negative (Revised from ACUITE A-/Stable)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE A- (CE)**' (read as **ACUITE A minus (Credit Enhancement)**) on the Rs.300.00 cr. bank facilities of Andhra Pradesh Gas Distribution Corporation Limited (APGDC). Further, Acuite has revised the outlook to '**Negative**' from '**Stable**'.

The revision in the outlook is driven by the significant time and cost overrun in the project and the likely delays in disbursements by lenders given the non-fulfilment of certain stipulations in the loan sanctions.

APGDC is a joint venture company between GAIL Gas Limited (a wholly owned subsidiary of GAIL (India) Ltd.), a Central Government Public Sector Enterprise (PSU) and Government of Andhra Pradesh through its public sector undertakings i.e. Andhra Pradesh Gas Infrastructure Corporation Limited (APGIC), APGENCO Limited and APIIL Limited.

APGDC has been authorised to lay, operate, expand Natural Gas Pipeline from Kakinada to Srikakulam (Total length of the pipeline is around 300 KM) through a bidding process carried out by Petroleum and Natural Gas Regulatory Board (PNGRB). The project is divided into 2 phases. Phase I runs from Kakinada to Vizag, which is of 178 Kms and Phase II runs from Vizag to Srikakulam, which is of 102 Kms.

Standalone (Unsupported) Rating

ACUITE BB-/ Stable

Analytical Approach

To arrive at rating, Acuite has considered the standalone business and financial risk profile of APGDC and notched up the standalone rating by factoring in the strong operational and financial support extended by Gail Gas Limited (GGL) and Andhra Pradesh Infrastructure Corporation Limited.

Key Rating Drivers

Strengths

• Strong operational and financial support from GGL and GoAP

APGDC is a joint venture between Gail Gas Limited (GGL) and Andhra Pradesh Gas Infrastructure Corporation Limited (APGIC), APGENCO Limited (APGENCO) and APIIL Limited (APIIL) with GGL holding 50 percent, APGIC holding 27 percent, APGENCO holding 16 percent and APIIL holding 8 percent as on 30 September 2019. GGL, the largest shareholder single largest shareholder of APGDC, was incorporated in May 2008. GGL is a wholly owned subsidiary of GAIL (India) Limited (GAIL) and is engaged in implementation of City Gas Distribution (CGD) projects in Madhya Pradesh, Karnataka, Haryana, Uttar Pradesh, Karnataka, Uttarakhand and Jharkhand. GGL, on a consolidated basis registered revenues of Rs.53.67 billion for FY2019.

GAIL has signed Gas Transfer Agreement (GTA) for three MMSCMD with APGDC for gas transfer from KG basin to Vizag. The senior management of APGDC comprises employees from GGL and GoAP, which provides strong operational support. Apart from the operational support, both APGIC and GGL have extended Letter of Comfort (LOC) for the borrowings of APGDC.

Acuite believes that APGDC's credit profile will continue to be supported by its association with the GGL and GoAP. The ownership pattern of APGDC, support from GGL & GoAP and credit quality of GGL & GoAP will remain key rating sensitivities.

• Expected growth in the CGD sector

Gas is currently used in India for both domestic and industrial consumption. The major industrial consumers of gas are Fertilizers, Refineries, Petrochemicals, and Power Generation. There are other industries including glass and ceramics, pharma units who also prefer to utilise gas, as it is a more efficient and clean fuel. However, these industries are largely dependent on Naphtha and Fuel Oil (FO) due to lack of transmission and storage capacity for natural gas.

The Government of India (GoI) has taken various policy measures to promote the use of natural gas over other energy sources, as it is more efficient and clean fuel. GoI has also mandated provision of entire domestic gas for domestic PNG and CNG segment. Petroleum and Natural Gas Regulatory Board (PNGRB) has taken various initiatives to expedite the bidding and pre-approval procedures. Further, the state Pollution Control Board is encouraging the industry to switch from conventional fuel sources such as coal to natural gas and the regional transport authority mandates the conversion of public transport vehicles to CNG.

Acuite believes that the CGD segment is to sustain the growth in medium term on account of healthy offtake from end-use segments and government initiatives and players such as APGDC are expected to benefit from this growth.

Weaknesses

• Significant delays in project completion

APGDC has been authorized to lay, operate, expand natural gas pipeline from Kakinada to Srikakulam (Total length of the pipeline is around 300 KM) through a bidding process carried out by PNGRB and has already taken up the construction of the pipeline project.

The total cost for phase I was Rs.450 crore (as per the initial estimates) which was to be funded by term loans of Rs.300.00 crore and remaining by the promoters (GGL & GoAP). However, the project has faced cost overrun and the revised project cost is estimated to be around Rs.498.67 crore. The original Date of Commencement of Commercial Operations (DCCO) for the project set by PNGRB was 31 March 2018, which was revised to 31 December 2019 on account of delays in project execution. The project is around 59 percent completed as on 30 June 2019 as per the progress report of Mecon Limited. The project completion was further derailed on account of heavy rains from July-September 2019 and the company has requested PNGRB to extend the due date to March 2020; which is yet to be approved by PNGRB.

APGDC could not achieve financial drawdown from its lenders due to non-adherence to certain stipulations set by the lenders. However, as informed by the company the stipulations have been met and the disbursement is expected to happen shortly.

Acuite believes that ability of the company to execute the project as per revised timelines will be a key rating sensitivity.

Liquidity position

APGDC's project is yet to commence operations. In the interim, the promoters are expected to support pre-operative expenses and are expected to infuse funds to meet additional equity contribution arising on account of cost overrun as per the revised funding pattern.

Rating Sensitivities

- Adherence to DCCO as per the revised timelines
- Revision in the terms of sanction by the lenders as per revised DCCO

Material Covenants

None

Outlook: Negative

Acuite believes that the APGDC's credit profile will be impacted by significant time overrun in project implementation. The rating may be downgraded, if there are further delays in the project execution. The outlook may be revised to 'Stable' if the company is able to achieve the DCCO as per revised timelines set by PNGRB.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	0.04	0.05	0.05
EBITDA	Rs. Cr.	(3.93)	(1.92)	(1.70)
PAT	Rs. Cr.	(3.46)	(1.58)	(0.67)
EBITDA Margin	(%)	(9,221.15)	(3,643.68)	(3,501.38)
PAT Margin	(%)	(8,123.50)	(2,994.69)	(1,374.64)
ROCE	(%)	(5.47)	(3.65)	(1.68)
Total Debt/Tangible Net Worth	Times	0.21	0.14	0.02
PBDIT/Interest	Times	(781.93)	(351.39)	(76.99)
Total Debt/PBDIT	Times	(4.26)	(3.53)	(1.61)
Gross Current Assets (Days)	Days	88,950	34,616	8,344

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.htm>
- Criteria For Group And Parent Support - <https://www.acuite.in/view-rating-criteria-24.htm>
- Explicit Credit Enhancements - <https://www.acuite.in/view-rating-criteria-49.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
29-Aug-18	Term loans	Long term	300.00	ACUITE A-/Stable (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
Term loans	Not Applicable	Not Applicable	Not Applicable	200.00	ACUITE A- (CE) / Negative (Revised from ACUITE A-/Stable)
Term loans	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE A- (CE) / Negative (Revised from ACUITE A-/Stable)

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About Acuité Ratings & Research:

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