Press Release

Andhra Pradesh Gas Distribution Corporation Limited

January 27, 2021

Rating Reaffirmed

Total Bank Facilities Rated*	Rs.300.00 Cr.
Long Term Rating	ACUITE A- (CE) (Under Watch with Developing Implications)

** Refer Annexure for details*

Rating Rationale

Acuité 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). The rating is placed 'Under Watch with Developing Implications'.

Reasons for Rating Watch

The ratings are placed on watch with developing implications mainly on account of challenges faced by the company in achieving the funding tie-up in order to complete the project as per the Date of Commencement of Commercial Operations (DCCO) timelines.

APGDC has been authorized to lay, operate, expand natural gas pipeline from Kakinada to Srikakulam (Total length of the pipeline is around 300 KM) which is divided into two phases. The corporation is currently executing phase one of the project for which the initial DCCO set by PNGRB was 31 March 2018. The project has suffered multiple time and cost escalations after which the revised DCCO as per PNGRB stands June 2021; however, for the lenders the DCCO is only be extended upto 31 March 2021 as per RBI guidelines. The project is 67 percent completed as on 31 October 2020 as per the progress report of Mecon Limited. Due to multiple revisions in the DCCO, the project cost has escalated to Rs.623.78 crore from the initial cost of Rs.450 crore. The corporation is yet to achieve the funding tie-up for the escalated project cost and is in talks with RBI for extending the DCCO by six months (until September 2021) on account of delays in project completion due to Covid-19 pandemic. The company has also received call letter from its promoters for additional equity infusion of Rs.308.00 crore, which is expected to come before 31 March 2021.

Acuité currently is in discussions with the company to understand the impact of these developments on its liquidity and debt servicing ability. In the event of the company demonstrating the ability to successfully alter its liability profile by deferring DCCO with the concurrence of lenders/PNGRB, Acuité will initiate necessary action to resolve the watch. Acuité will be closely monitoring the developments regarding the ongoing discussions with lenders, promoters and RBI. The occurrence of any credit events in such a situation could impart a necessary action towards the rating.

About the Company

Andhra Pradesh based APGDC was incorporated in 2011. 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, Acuité 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 APIIC holding 8 percent as on 31 March 2020. 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 operating income of Rs.51.44 billion for FY2020.

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.

Acuité 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.

Acuité 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) which is divided into two phases.

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 significant time and cost overrun and the revised project cost is estimated to be around Rs.623.78 crore. The original Date of Commencement of Commercial Operations (DCCO) for the project set by PNGRB was 31 March 2018, which is now revised to June 2021; however, for the lenders the DCCO is only be extended upto 31 March 2021 as per RBI guidelines. The project is around 67 percent completed as on 31 October 2020 as per the progress report of Mecon Limited. The company has approached RBI and has requested to extend the DCCO till September 2021 on account of delays in project completion due to Covid-19 pandemic, which is yet to be approved by RBI.

APGDC could not achieve financial drawdown from its lenders due to non-adherence to certain stipulations set by the lenders and is in discussions with lenders for additional loan due to increase in the project cost. The company has also received call letter from its promoters for additional equity infusion of Rs.308.00 crore, which is expected to come before 31 March 2021.

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

Liquidity position: Adequate

APGDC's project is yet to commence operations. In the interim, the promoters are expected to support preoperative 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
- Achieving funding tie-up on timely manner

Material Covenants

None

Assessment of Adequacy of Credit Enhancement

Not Applicable

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	0.05	0.04
PAT	Rs. Cr.	(2.21)	(3.46)
PAT Margin	(%)	(4,822.31)	(8,123.50)
Total Debt/Tangible Net Worth	Times	0.52	0.21
PBDIT/Interest	Times	(10.45)	(781.93)

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-52.htm
- Infrastructure Entities - https://www.acuite.in/view-rating-criteria-51.htm
- Explicit Credit Enhancements - https://www.acuite.in/view-rating-criteria-49.htm
- Criteria For Group And Parent Support - https://www.acuite.in/view-rating-criteria-47.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-53.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
05-Nov-19	Term Loan	Long term	200.00	ACUITE A- (CE) / Negative (Reaffirmed)
	Term Loan	Long Term	100.00	ACUITE A- (CE) / Negative (Reaffirmed)
29-Aug-18	Term Loan	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	March 2015	13%	April 2030	200.00	ACUITE A- (CE) (Under watch with developing implications)
Term loans	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE A- (CE) (Under watch with developing implications)

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About Acuité Ratings & Research:

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