

Press Release

Andhra Pradesh Gas Distribution Corporation Limited

June 02, 2022



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	300.00	ACUITE A- Reaffirmed Rating Watch with Developing Implication	-
Total Outstanding Quantum (Rs. Cr)	300.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) on the Rs.300.00 cr. bank facilities of Andhra Pradesh Gas Distribution Corporation Limited (APGDC). The rating remains '**Under Watch with Developing Implications**'.

Reasons for Rating Watch

The rating is placed on watch with developing implications mainly on account of challenges faced by the company in achieving the funding tie-up from promoter companies and bankers 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 (Petroleum and Natural Gas Regulatory Body) 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. Further, the DCCO of June 2021 set by PNGRB was not achieved by the company and proposal for extension of DCCO till June 2023 is pending with PNGRB and is in discussion. The project is 69 percent completed as on 31 March 2022. 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. And further cost overrun, if any are yet to be assessed.

The company has drawn down Rs.65 crore out of total term loan sanctioned of Rs.200 crore from UBI (erstwhile Andhra Bank) and has repaid the entire amount of Rs 65 Crore in July 2021. The bank of Maharashtra Sanction letter was expired and same has not been renewed by the company.

Acuite will initiate necessary action to resolve the watch after the revised DCCO extension from PNGRB will finalised and funding tie-up for the project get established. Acuite will be closely monitoring the developments regarding the ongoing discussions with PNGRB and promoters. 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 Gas 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 APIIC Limited (APIIC) with GGL holding 50 percent, APGIC holding 15 percent, APGENCO holding 9 percent and APIIC holding 26 percent as on 31 March 2022. GGL, the 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.40.15 billion for FY2021.

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.

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 and as the project got delayed again, further cost overrun, if any are yet to be assessed. The original Date of Commencement of Commercial Operations (DCCO) for the project set by PNGRB was 31 March 2018, which was revised to June 2021 and that has also been not achieved and proposal for further extension of DCCO till June 2023 is still in discussion with PNGRB and yet to be finalised. The project is around 69 percent completed as on 31 March 2022. Further, the funding tie-up for the project will be crucial with the timely funding being available from both promoters and lenders.

Acuité believes that ability of the company to execute the project with timely available of funding will be a key rating sensitivity

Rating Sensitivities

- Proposed DCCO Extension approval by PNGRB
- Achieving funding tie-up on timely manner.

Material covenants

None

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.

Outlook: Not Applicable

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	0.00	0.00
PAT	Rs. Cr.	(1.30)	(0.71)
PAT Margin	(%)	0.00	0.00
Total Debt/Tangible Net Worth	Times	0.00	0.38
PBDIT/Interest	Times	0.00	(10.86)

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Group And Parent Support: <https://www.acuite.in/view-rating-criteria-47.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
27 Jan 2021	Term Loan	Long Term	200.00	ACUITE A- (CE) (Ratings Under Watch)
	Term Loan	Long Term	100.00	ACUITE A- (CE) (Ratings Under Watch)
05 Nov 2019	Term Loan	Long Term	100.00	ACUITE A- (CE) Negative (Reaffirmed)
	Term Loan	Long Term	200.00	ACUITE A- (CE) Negative (Reaffirmed)
29 Aug 2018	Term Loan	Long Term	300.00	ACUITE A- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	300.00	ACUITE A- Reaffirmed Rating Watch with Developing Implication

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About Acuité Ratings & Research

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