



Press Release
Andhra Pradesh Gas Distribution Corporation Limited
August 29, 2023
Rating Downgraded

Product	Qtm(Rs. Cr)	Long Term Loan	Short Term Rating
Bank Loan Ratings	300.00	ACUITE BBB+ Negative Downgraded Remove from Rating Watch	-
Total Outstanding Quantum (Rs. Cr)	300.00	-	-

Rating Rationale

Acuite has downgraded its long term rating to '**ACUITE BBB+**' (read as **ACUITE triple B plus**) from '**ACUITE A-**' (read as **ACUITE A minus**) on Rs.300 bank facilities of Andhra Pradesh Gas Distribution Corporation Limited (APGDC). The rating is removed from rating watch and outlook is '**Negative**'.

Rationale for rating downgrade and negative outlook:

The rating downgrade is on account of limited funding support from promoter companies leading to continued delays in project execution and cost overruns. The project is only 47 percent completed as July 31, 2023. Due to multiple revisions in Date of Completion and Commencement of Operations (DCCO), the project cost has escalated to Rs.750Cr as on July 31, 2023 from the initial cost of Rs.450Cr. The total project cost incurred as on July 31, 2023 stood at Rs. 250Cr with construction of ~78kms laid out against the total project length of 169 kms. Petroleum and Natural Gas Regulatory Body (PNGRB) has set June 2024 as the revised project completion deadline. The rating continues to derive comfort from joint ownership of GoAP and GAIL in the company and accordingly the operational support provided by the promoter group to them. GAIL India has proposed further infusion of Rs.500Cr towards completion of the project by June 2024 against maintaining equity share holding of 50% in the company. However, the proposal is at discussion stage. Going forward, timely funding support from the parent companies and completion of project within the timeline set by PNGRB will be a key rating monitorable.

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 271 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 169 Kms and Phase II runs from Vizag to Srikakulam, which is of 102 Kms.

Standalone (Unsupported) Rating

ACUITE B+ /Negative

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.1,45,531 crore for FY23. GAIL has signed Gas Transfer Agreement (GTA) for three Million Metric Standard Cubic Meters per Day (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.

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 271 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 is estimated around Rs.750 crore as on July 31, 2023. 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. PNGRB has set a deadline by June 2024 for completion of the project. The project is around 47 percent completed as on 31 March 2023. 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
- Timely fund infusion by promoters

All 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. However, over the past three years, the execution of projects has slowed down due to lack of funding.

Outlook: Negative

Acuite has removed the rating watch and assigned negative outlook on account of continuous delays in the project execution and cost overruns. The project has been delayed due to limited funding support from Government of Andhra Pradesh and Gas Authority of India Limited (GAIL). The rating may be downgraded if there are any further delays in project execution or if the expected funding support do not takes places resulting in delays. Conversely, the outlook may be to 'Stable' in case of receipt from expected funding support from the promoter companies

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	0.00	0.00
PAT	Rs. Cr.	(31.55)	(1.30)
PAT Margin	(%)	0.00	0.00
Total Debt/Tangible Net Worth	Times	0.95	0.56
PBDIT/Interest	Times	(0.11)	(1682.32)

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>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Trading Entitle: <https://www.acuite.in/view-rating-criteria-61.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Complexity Level Of Financial Instruments: <https://www.acuite.in/view-rating-criteria-55.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
02 Jun 2022	Proposed Term Loan	Long Term	300.00	ACUITE A- (Ratings Under Watch)
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)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	300.00	ACUITE BBB+ Negative Downgraded Remove from Rating Watch

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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