

**Press Release**  
**Godavari Gas Private Limited**

February 14, 2019

**Rating Assigned**



<b>Total Bank Facilities Rated*</b>	Rs.385.00 Cr.
<b>Long Term Rating</b>	ACUITE A- / Outlook: Stable
<b>Short Term Rating</b>	ACUITE A2+

\* Refer Annexure for details

**Rating Rationale**

Acuité has assigned long-term rating of '**ACUITE A-**' (**read as ACUITE A minus**) and short term rating of '**ACUITE A2+**' (**read as ACUITE A two plus**) to the Rs.385.00 crore bank facilities of Godavari Gas Private Limited (GGPL). The outlook is '**Stable**'.

Andhra Pradesh based GGPL was incorporated in 2016 as a joint venture between Andhra Pradesh Gas Distribution Corporation Limited (APGDC) and Hindustan Petroleum Corporation Limited (HPCL). The company is engaged in distribution of Compressed Natural Gas (CNG) and Piped Natural Gas (PNG) in districts of East Godavari and West Godavari in Andhra Pradesh.

**Analytical Approach**

To arrive at rating, Acuité has considered the standalone business and financial risk profile of GGPL and notched up the standalone rating by factoring in the strong operational and financial support extended by APGDC and HPCL.

<b>Name of the entity(s) offering support</b>	<b>Nature of Support (Parent / Group / Government)</b>	<b>Rationale for expectation of support</b>
APGDC and HPCL	Parent	<ul style="list-style-type: none"> <li>• 100 per cent shareholding</li> <li>• Common board member representation</li> <li>• Letter of comfort for bank borrowings of GGPL</li> <li>• Strong operational and financial support</li> </ul>

**Key Rating Drivers**

**Strengths**

**• Strong operational and financial support from APGDC and HPCL**

GGPL is a joint venture between APGDC and HPCL, with APGDC holding 74 percent and HPCL holding 26 percent (as on 31 December, 2018). GGPL is engaged as a city gas distributor (CGD) in East Godavari and West Godavari districts of Andhra Pradesh.

APGDC, the largest shareholder with 74 percent stake in GGPL was incorporated in 2011. The company is a joint venture between GAIL Gas Limited (a wholly owned subsidiary of GAIL (India) Limited), a Central Government Public Sector Enterprise (PSU) and Andhra Pradesh Gas Infrastructure Corporation Limited (APGIC), an Andhra Pradesh State Government Public Sector Enterprise.

GGPL has received the blanket approval for laying of gas pipeline from AP Government. Moreover, GGPL has entered into a five-year renewable agreement with GAIL India Limited (GAIL) by which it gets natural gas from GAIL Limited at APM (Administered Pricing Mechanism) price for Domestic PNG and automobile CNG demand and S1 Non-APM price for Industrial and commercial PNG demand. The senior management of GGPL comprises employees from GAIL and HPCL which provides strong operational support. Apart from the operational support, both APGDC and HPCL have extended Letter of Comfort (LOC) for the borrowings of GGPL. The association with AP Government, GAIL and HPCL has enabled GGPL to raise funds at competitive pricing from the financial institutions.

Acuité believes that GPL's credit profile will continue to be supported by its association with the AP Government, GAIL and HPCL. The ownership pattern of GPL and support from AP Government, GAIL and HPCL 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 and 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 GPL are expected to benefit from this growth.

### **Weaknesses**

- **Implementation risk associated with the project**

GPL is in process of setting up CGD network in East Godavari and West Godavari district of Andhra Pradesh. The company has to lay 3600 inch-KM pipeline network along with 50 CNG stations by March 2021. GPL has laid 374 inch-KM and 8 CNG stations (includes 1 mother station and 7 daughter stations) till December 2018.

The total cost of the project is expected to be around Rs.630.00 crore out of which Rs.475 crore is expected to be deployed in initial five years. The project is funded by Rs.335 crore of bank loan and rest through promoter funding. The company has raised Rs.10.00 crore equity till date and Rs.21.50 crore is expected to be raised by March 2019.

Acuité believes that timely completion of the project and commencement of operations will remain key rating sensitivity factor.

### **Liquidity position:**

GPL's liquidity position is enhanced by its association with HPCL and AP government. The company has generated cash accruals of Rs.1.21 crore for FY2017-18 and it does not have any maturing debt obligations. Further, the company does not have any maturing debt obligations for next three years. APGDC and HPCL have extended Letter of Comfort (LOC) for the borrowings of GPL which provides additional comfort to its lenders.

### **Outlook: Stable**

Acuité believes that GPL will maintain a 'Stable' outlook over the medium term on account of its strong linkages with, and support from, APGDC and HPCL. The outlook may be revised to 'Positive' in case the company exhibits healthy growth in cash accruals while managing its working capital requirements efficiently. Conversely, the outlook may be revised to 'Negative' in case of significant delays in project execution or any dilution of support from the APGDC or HPCL, thereby impacting the debt servicing ability or any further deterioration in the financial risk profile and liquidity position of the company.

### About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	1.81	NA	NA
EBITDA	Rs. Cr.	(0.24)	NA	NA
PAT	Rs. Cr.	(0.16)	NA	NA
EBITDA Margin	(%)	(13.17)	NA	NA
PAT Margin	(%)	(9.00)	NA	NA
ROCE	(%)	(1.32)	NA	NA
Total Debt/Tangible Net Worth	Times	0.75	NA	NA
PBDIT/Interest	Times	(32.85)	NA	NA
Total Debt/PBDIT	Times	(70.90)	NA	NA
Gross Current Assets (Days)	Days	185	NA	NA

### 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>
- Entities in Service Sector - <http://acuite.in/view-rating-criteria-8.htm>
- Criteria For Group And Parent Support - <https://www.acuite.in/view-rating-criteria-24.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)

Not Applicable

### \*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	175.00	ACUITE A-Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	160.00	ACUITE A-/Stable
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	28.00	ACUITE A2+
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	22.00	ACUITE A2+

## Contacts

Analytical	Rating Desk
Aditya Gupta Head- Corporate and Infrastructure Sector Tel: 022-49294041 <a href="mailto:aditya.gupta@acuite.in">aditya.gupta@acuite.in</a>	Varsha Bist Manager - Rating Desk Tel: 022-67141160 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>
Bhanupriya Khandelwal Analyst - Rating Operations Tel: 022-49294045 <a href="mailto:bhanupriya.khandelwal@acuiteratings.in">bhanupriya.khandelwal@acuiteratings.in</a>	

### About Acuité Ratings & Research:

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