

Press Release

Godavari Gas Private Limited

December 21, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	336.00	ACUITE A- Stable Reaffirmed	-
Bank Loan Ratings	54.00	-	ACUITE A2+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	390.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) and the short-term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) to the Rs.390.00 Cr of bank facilities of Godavari Gas Private Limited (GGPL). The outlook is '**Stable**'.

Rationale for the rating

The ratings continued to reflect strong linkage with Andhra Pradesh Gas Distribution Corporation Limited (Acuite A- CE/ Under Watch with developing implications) and Hindustan Petroleum Corporation Limited (Central government Undertaking). In addition, GGPL has strategic importance as the company has 5 years of marketing exclusivity and 25 years of infrastructure exclusivity for supply to gas in East and West districts of Andhra Pradesh. Ratings also factors in improvement in operational performance during FY22 due to increase in number domestic connections and CNG stations. The improvement is also driven by restoration of normalcy and rise in economic activities. However, the ratings are constrained by time and cost overrun due to slow execution of project and increase in interest cost.

About the Company

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 the districts of East Godavari and West Godavari in Andhra Pradesh. The project cost for laying of infrastructure in two districts for first 5 years is Rs 475 Cr which is funded through Rs 335 Cr of Term loan and Rs 140 Cr of Equity share capital.

Analytical Approach

To arrive at rating, Acuite 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 Andhra Pradesh Gas Distribution Corporation Limited (APGDC) and Hindustan Petroleum Corporation Limited (HPCL). This is because APGDC and HPCL hold

the entire stake in GGPL, have common board member representation and have extended a letter of comfort for the bank borrowings of GGPL.

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 the balance 26 percent. 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 a blanket approval for laying of gas pipeline from AP Government. GGPL has also 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 \$1 Non-APM price for Industrial and commercial PNG demand. The senior management of GGPL comprises employees from APGDC and HPCL which provides strong operational support. Apart from this, both APGDC and HPCL have extended Letter of Comfort (LOC) for the borrowings of GGPL.

Improvement in operational performance

The company has registered strong revenue growth of 172 percent in FY22 as against degrowth of 26 percent in FY21 due to significant addition of industrial and domestic PNG connections. Revenue stood at Rs 27.50 Cr in FY22 as against Rs 10.09 Cr in FY21. The improvement is driven by rise in economic activities backed by restoration of normalcy. Profit margin of company had improved in FY22 as EBITDA margin stood at 25 percent in FY22 as against 6.06 percent in FY21. Acuite believes the scale of operation and profit margin will continue to witness improving trends backed by continuous increase in industrial connections and CNG stations.

Improvement in financial risk profile

The modest financial risk profile of the company is marked by its moderate net worth, high gearing ratio and modest debt protection metrics. The net worth stood at Rs.79 Cr as on 31st March 2022 as compared to Rs 59 Cr in the previous year. The gearing of the company stood at 2.20 times as on 31st March 2022 as against 2.76 times as on 31st March, 2021. TOL/TWN stood at 2.85 times in FY22 as against 3.72 times in FY21. The interest coverage ratio stood modest at 1.67 times as on 31st March, 2022 against 0.28 times as on 31st March, 2021. The Net Cash accruals to Total Debt (NCA/TD) stood at 0.01 times in FY2022. Acuite believes the financial risk profile will improve over the medium term backed by steady accruals.

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 GGPL are expected to benefit from this growth.

Weaknesses

Time overruns

The project has witnessed cost and time overrun because of slow execution due to delay in capital infusion by the promoters. Hence this resulted into increase in interest during construction period. Project cost is increased to around Rs 513 Cr from Rs 475 Cr. The additional cost will be funded by promoters. The revised complete date is August 2023. Any further time with significant cost overruns would be a key monitorable.

Rating Sensitivities

- Timely completion of project without further time and cost overruns
- Sustained and substantial improvement in the revenue and financial risk profile through addition of new connections.

Liquidity Position

Adequate

GGPL's liquidity position is enhanced by its association with HPCL and AP government. The company does not have any maturing debt obligations for the next two years till FY25. The company is planning to reschedule existing term loans which will further expand the repayment schedule. APGDC and HPCL have extended Letter of Comfort (LOC) for the borrowings of GGPL which provides additional comfort to its lenders.

Outlook : Stable

Acuité believes that GGPL 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	27.50	10.09
PAT	Rs. Cr.	(0.26)	(4.76)
PAT Margin	(%)	(0.94)	(47.14)
Total Debt/Tangible Net Worth	Times	2.20	2.76
PBDIT/Interest	Times	1.67	0.28

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>
- Trading Entitle: <https://www.acuite.in/view-rating-criteria-61.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>

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
23 Sep 2021	Bank Guarantee	Short Term	4.00	ACUITE A2+ (Reaffirmed)
	Term Loan	Long Term	175.00	ACUITE A- (Reaffirmed)
	Term Loan	Long Term	160.00	ACUITE A- (Reaffirmed)
	Term Loan	Long Term	1.00	ACUITE A- (Reaffirmed)
	Bank Guarantee	Short Term	28.00	ACUITE A2+ (Reaffirmed)
	Bank Guarantee	Short Term	22.00	ACUITE A2+ (Reaffirmed)
17 Apr 2020	Bank Guarantee	Short Term	22.00	ACUITE A2+ (Reaffirmed)
	Bank Guarantee	Short Term	28.00	ACUITE A2+ (Reaffirmed)
	Bank Guarantee	Short Term	5.00	ACUITE A2+ (Assigned)
	Term Loan	Long Term	175.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	160.00	ACUITE A- Stable (Reaffirmed)
14 Feb 2019	Bank Guarantee	Short Term	28.00	ACUITE A2+ (Assigned)
	Bank Guarantee	Short Term	22.00	ACUITE A2+ (Assigned)
	Term Loan	Long Term	160.00	ACUITE A- Stable (Assigned)
	Term Loan	Long Term	175.00	ACUITE A- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	28.00	ACUITE A2+ Reaffirmed
Canara Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	22.00	ACUITE A2+ Reaffirmed
Indusind Bank Ltd	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	4.00	ACUITE A2+ Reaffirmed
Indusind Bank Ltd	Not Applicable	Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	1.00	ACUITE A- Stable Reaffirmed
Canara Bank	Not Applicable	Term Loan	Mar 30 2017 12:00AM	8.50	Sep 30 2032 12:00AM	Simple	175.00	ACUITE A- Stable Reaffirmed
Canara Bank	Not Applicable	Term Loan	Mar 30 2017 12:00AM	8.50	Sep 30 2032 12:00AM	Simple	160.00	ACUITE A- Stable Reaffirmed

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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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