

## RATING RATIONALE

16 March 2021

### Gujarat State Petroleum Corporation Ltd.

**Brickwork Ratings withdraws the ratings of External Commercial Borrowings (ECB) facility and reaffirms the ratings for the Bank Loan Facilities aggregating to Rs.7500.00 Crs of Gujarat State Petroleum Corporation Ltd. (GSPC)**

#### Particulars

Facilities/ Instrument**	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (Aug 2020)	Present
<b>Fund Based – ECB</b>	1085.02 (US\$ 144.74 mn)	<b>0.00</b>	<b>Long Term</b>	<b>BWR AA- (Stable)</b>	<b>Rating Withdrawn^^</b>
<b>Fund Based – Rupee Term Loan</b>	1448.42	<b>2212.80</b>			<b>BWR AA- (Stable) Reaffirmed</b>
<b>FB – Corporate Term Loan</b>	951.56	<b>912.20</b>			
<b>Fund Based – CC</b>	1015.00 <sup>^</sup>	<b>1375.00<sup>^</sup></b>			
<b>Non-Fund Based – LC/BG</b>	3000.00 <sup>^</sup>	<b>3000.00<sup>^</sup></b>	<b>Short Term</b>	<b>BWR A1+</b>	<b>BWR A1+ Reaffirmed</b>
<b>Total</b>	<b>7500.00</b>	<b>7500.00</b>	<b>Seven Thousand and Five Hundred Crores Only</b>		

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for the definition of the ratings

\*\* Details of Bank Loan facilities are provided in Annexures-I

<sup>^</sup> Includes unallocated CC facilities of Rs.625.00 Crs and LC/BG facilities of Rs.675 Crs.

<sup>^^</sup> BWR has withdrawn the ratings of External Commercial Borrowings (ECB) as the company has fully repaid the foreign currency loans and have substituted these loans with domestic currency term loans. No Dues Certificate has been obtained in this regard.

#### RATING ACTION / OUTLOOK

The reaffirmation of the rating takes into account the recent debt substitution measures taken by the company wherein certain high cost debt has been replaced with low cost debt which also includes unhedged external commercial borrowings (ECB) that have been substituted with domestic currency term loans thereby eliminating the exchange rate volatility risk and leading to interest cost savings further contributing to the increase in its Net Profit Margins in 9MFY21 period. The rating continues to factor in the experienced management of GSPC, strong parentage with the Government of Gujarat (GoG) owning 90.68% stake (directly and indirectly through GoG entities) and its presence across the value chain in the energy sector through its subsidiaries, significant improvement in gas trading volumes to 22 MMSCMD (million metric standard cubic meter per day) during 9M FY21 period, proposed moving out of certain loss-making exploration and production (E&P) assets. The rating also factors in a

substantial debt reduction due to the debt realignment plan wherein GoG infused equity of Rs.6000.00 Crs through GSIL (rated BWR AA(SO) (Stable) ,conversion of compulsory convertible debenture of Rs.550 crs as at FY20 and through loans prepayment, which resulted in positive net-worth and significant improvement in its debt to equity ratio and improved operational and financial performance along with key credit metrics.

Earlier, the net worth has turned negative due to the one-time impairment/write-offs of Rs.14923.55 Crs of its E&P assets. Post debt realignment plan its net-worth has turned positive and going forward debt to equity ratio is expected to improve further on account of the expected increase in accretion of its profit to net worth and reduction in debt levels on account of the prepayments. Overall debt at the consolidated level has reduced from ~Rs 27000 crs as on FY17 to ~Rs10000 crs as on FY20. Furthermore, its investment in subsidiaries/ associate companies such as Gujarat State Petronet, Gujarat Gas, Sabarmati Gas, GPPC and GESG have steadily contributed to the growth in revenue streams and financials on a consolidated basis have shown improvement..

The rating continues to remain constrained on account of its leveraged capital structure despite of the improvement in its capital structure through debt realignment measures, volatility in the revenues on account of the fluctuation in the prices of natural gas and decline in the E&P business due to write offs.

### **KEY RATING DRIVERS**

#### **Credit Strengths:**

##### **Strong Parentage Support along with the Strong Presence across value chain :-**

GoG owns 90.68% equity in the company directly and indirectly through State Government entities and GSPC has been receiving timely need based financial support from the state government in terms of equity infusion. GSPC, along with its subsidiaries/JVs and affiliates, is an integrated energy company with strong presence across the entire value chain, including gas marketing, oil & gas exploration, development and production, developing liquefied natural gas (LNG) terminals, gas transmission, city gas distribution and power generation. It has been engaged in the gas marketing business since 2004 and is the second largest gas marketing company in India.

##### **High Cost Debt Substitution with Low Cost Debt :-**

In September 2020, GSPC has substituted its outstanding unhedged Foreign Currency Term Loans with domestic currency term loans and thus exchange rate fluctuation risk has been eliminated. Further in November 2020, the company has substituted a high cost term loan of ~Rs. 588.75 Crores under Consortium arrangement with low cost term loan leading to the significant interest cost savings of around ~ 300 bps. These measures have helped the company to improve its PAT position by around ~34% mainly due to the reduction in the finance cost by ~28%. in the 9MFY21 period as compared to the corresponding period last year.

##### **Improved financial risk profile:**

On a standalone basis, operating revenues increased to Rs.15232.37 Crs in FY20 from Rs.14368.58 Crs in FY19. However in 9MFY21 operating revenues have declined by ~17%

to ~Rs.9349 crs from ~Rs.11285 crs in the corresponding period during last year on account of the fall in the prices of natural gas mainly due to Covid-19 pandemic even though trading volumes have increased to 22 MMSCMD in FY219M period as compared to 17.8 MMSCMD in FY209M period. The Company's operating profitability margins have minimal impact as the procurement cost of natural gas have also remained lower on account of the fall in the prices of natural gas. The Company has recorded a significant increase in Profit After Tax in the 9MFY21 period by ~34% on account of the reduction in finance cost by ~28% as result of the debt substitution measures undertaken by the company as compared to the corresponding period last year. On a Consolidated basis its total operating income has increased to Rs.21303.09 Crs in FY20 from Rs.19114.27 Crs in FY19. The overall debt at the consolidated level has reduced from ~Rs 27000 crs in FY17 to ~Rs.10,000 crs in FY20 due to debt realignment measures and prepayment of debt. As a result total debt to equity ratio has improved even though capital structure continues to remain leveraged. Debt coverage indicators are adequate with DSCR at 1.57x at the consolidated level as on 31st March 2020 and the debt coverage metrics are expected to improve further as a result of the high cost debt substitution with low cost debt which will lead to significant savings in interest cost thus contributing to increase in its net cash accruals.

**Growth prospects and outlook of gas trading business:**

As per PNGRB estimates, India's share in the gas sector is aimed to be at 15.00% of the overall energy sector by 2030 from the current level of 6.2%. It is expected to help grow the country's gas consumption to 115 bcm (billion cubic meters) by 2030 with a CAGR of 7.20%. Furthermore, Gujarat accounts for ~32.00% of the total gas consumption in India, wherein almost ~84.00% of its area is covered under the city gas distribution network (CGD).

**Credit Risks:**

**Leveraged capital structure:**

GSPC's net-worth was eroded due to the one-time impairment cost of Rs.14,923.55 Crs during FY17. GSPC's net worth has turned positive in FY19 as result of the debt realignment plan wherein the Gujarat State Investments Ltd (GSIL) have infused equity to the tune of Rs.6000 crs towards takeover of GSPC's NCDs of Rs.6000 crs. Despite a reduction in its overall debt due to realignment plan and resultant capital infusion, its debt to equity ratio still remains high at 5.83x on a standalone basis as on 31st March 2020. On a consolidated basis the total debt to equity ratio has improved significantly from 5.40x as on FY19 to 3.02x as on FY20.

**Portfolio of E&P business and write-offs:**

During FY17, the company incurred a loss of Rs.16,303.19 Crs on account of the impairment of the E&P assets worth of Rs.14,923.55 Crs towards the value of the Participating Interest (PI) in KG Block. It had a PI in ~60 blocks, of which 11 were overseas blocks. Over the years, the company exited from its loss-making assets and now, it has reduced its PI to 16 blocks as of FY219M. During FY20, it has accounted for Rs.551.98 Crs of impairment due to the sharp fall in oil prices during the current year. BWR expects no further deterioration on the E&P asset profile. Going forward; the company is focusing more on the gas marketing business.

**Price Volatility Risk :**

The Company remains exposed to the volatility in the prices of natural gas which may have a direct impact on its growth in the revenue from the gas trading business. In 9MFY21, the revenues of the GSPC has fallen by ~17% as compared to the corresponding period last year on account of the fall in the average selling price of the natural gas by around ~32%. However EBIDTA margins have not been impacted to that extent as their procurement cost also has been lower and PAT margins have improved on account of the significant reduction in the finance cost.

**ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA**

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale). BWR has taken a consolidated view on the company's operational and financial performance, promoter's contribution, substantial debt reduction, current gas trading volumes, its presence across the energy value chain, and the reduction in E&P assets while arriving at the rating.

**RATING SENSITIVITIES**

Going forward, the focus on the gas trading business and tapping the market available in India and especially in Gujarat, ensuring adequate volumes of gas trading activities and maintaining moderate EBITDA margins while reducing its debt position will be key monitor cables and sensitivities for the company.

**Positive:** The rating may be revised upwards if the gas trading volumes improve substantially, along with an improvement in EBITDA margins, if there is significant improvement in its capital structure and debt coverage metrics

**Negative:** The rating may be revised downward if the company fails to reduce its E&P assets at an optimum level, if there is a further significant impairment of its E&P assets, if there is significant deterioration in its overall financial risk profile.

**LIQUIDITY: Adequate**

On Standalone level, the total debt maturing in FY21 is ~Rs 427 crs, out of which the company has paid the debt of ~345 crs maturing as per repayment schedule and additionally they have also made prepayments of the loans of ~Rs 513 crs. The remaining debt maturing as per the schedule that is yet to be paid in FY21 is Rs.85 crs. The Company has already generated net cash accruals of Rs.640 crs till 9MFY21 i.e. till Dec 2020. which was utilized for the debt repayment. Also from the remaining three months of operations further net cash accruals to the tune of ~Rs.240 crs is expected to be generated in FY21. Further It has unutilized working capital limits of Rs.500 Crs, undrawn short term loans of Rs.275 Crs and undrawn long term debt of Rs.450 Crs from GSFS which indicates sufficient liquidity available to service the remaining debt maturing in FY21. On Consolidated basis the company's liquidity position is adequate as characterized by the expected net cash accrual generation in the range of ~Rs 2500 crs to ~Rs 3000 crs against the debt repayment of ~Rs.1900 crs in FY21.

**COMPANY PROFILE**

Incorporated in 1979, Gujarat State Petroleum Corporation Ltd. (GSPC) is primarily engaged in the gas trading business and now it has minimal presence in E&P business. GSPC, a

government of Gujarat owned entity, pursues projects across the value chain in the energy sector. The GoG owns 90.86% equity stake directly and indirectly as at FY20. GSPC, along with its subsidiaries/JVs and affiliates, is an integrated energy company with presence across the entire value chain, including marketing, oil & gas exploration, development and production, developing liquefied natural gas (LNG) terminals, gas transmission, city gas distribution and power generation.

GSPC has been engaged in the gas marketing business since 2004 and is India's second-largest gas marketing company. The company sources gas and supplies it to customers in a number of industries such as power generation, fertilisers and city gas distribution primarily in the state of Gujarat which is the largest gas consuming state in the country.

### KEY FINANCIAL INDICATORS (INR Crs)

#### FINANCIAL INDICATORS – ISSUER (Standalone)

Key Parameters	Units	FY19	FY20
Result Type		Audited	Audited
Operating Income	Rs. Crs	14368.58	15232.37
EBITDA	Rs. Crs	1171.45	1564.66
PAT	Rs. Crs	259.51	366.38
Tangible Net-worth	Rs. Crs	675.62	1031.46
Total Debt to Equity	Times	10.07	5.83

On Standalone basis in FY21 upto Dec 2020, the company has recorded the Total Operating Income of ~Rs.9349 crs.

#### FINANCIAL INDICATORS – ISSUER (Consolidated)

Key Parameters	Units	FY19	FY20
Result Type		Audited	Audited
Operating Income	Rs. Crs	19114.27	21303.09
EBITDA	Rs. Crs	4137.60	4840.59
PAT	Rs. Crs	1618.22	2322.24
Tangible Net-worth	Rs. Crs	2310.58	4494.75
Total Debt to Equity	Times	5.38	3.02

### KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED

The terms of the sanction of loans from all banks and financial institutions include standard covenants normally stipulated for such facilities by banks/FIs. The lenders have stipulated certain financial covenants wherein the company is required to maintain certain debt coverage and leverage ratios at minimum level.

**COOPERATION WITH PREVIOUS RATING AGENCY IF ANY: NA**

**RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]:**

S. No.	Instrument	Current Rating			Rating History					
		Type (Long Term/ Short Term)	Amount Outstanding (₹ Crs)	Rating	06 Aug 2020		2019		2018	
	NCD/ Bank Loan				Amt (Rs.Crs)	Rating	Amt (Rs.Crs)	Rating	Amt (Rs.Crs)	Rating
1.	FB – ECB	Long Term	0.00	<b>Rating Withdrawn</b>	1085.02 (US\$144.74 mn)		-	-	-	-
2.	FB - TL	Long Term	2212.80	<b>BWR AA-(Stable) Reaffirmed</b>	1448.42	<b>BWR AA-(Stable)</b>	-	-	-	-
3.	FB – Corp. TL	Long Term	912.20		951.56		-	-	-	-
4.	FB – CC	Long Term	1375.00 <sup>^</sup>		1448.42		-	-	-	-
5.	NFB – LC/BG	Short Term	3000.00 <sup>^</sup>	<b>BWR A1+ Reaffirmed</b>	951.56	<b>BWR A1+</b>	-	-	-	-
<b>Total</b>			<b>7500.00</b>	<b>INR Seven Thousand and Five Hundred Crores Only</b>						

<sup>^</sup> Includes unallocated CC facilities of Rs.625.00 Crs and LC/BG facilities of Rs.675 Crs.

## COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

### Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Infrastructure Sector](#)

Analytical Contacts	
<b>Nirav A Shah</b> <b>Senior Rating Analyst</b> Board: 022 - 28311426 Ext: 676 <a href="mailto:nirav.shah@brickworkratings.com">nirav.shah@brickworkratings.com</a>	<b>Vipula Sharma</b> <b>Director – Ratings</b> Board: 080 - 40409940 Ext: 330 <a href="mailto:vipula.s@brickworkratings.com">vipula.s@brickworkratings.com</a>
<b>1-860-425-2742</b>	<b>media@brickworkratings.com</b>

Gujarat State Petroleum Corporation Ltd. (GSPC)

**ANNEXURE I**  
**Details of Bank Loan Facilities rated by BWR**

Sl. No.	Facilities	Type of Facilities	Long Term (₹ Crs.)	Short Term (₹ Crs.)	Total (₹ Crs.)
1	Fund Based	Term Loans	3125.00	--	3125.00
2.	Fund Based	Cash Credit	750.00	-	750.00
3.	Fund Based (Unallocated)	Cash Credit	625.00	-	625.00
3.	Non Fund Based	LC/BG	-	2325.00	2325.00
4.	Non-Fund Based (Unallocated)	LC/BG	-	675.00	675.00
<b>TOTAL</b>			<b>4500.00</b>	<b>3000.00</b>	<b>7500.00</b>

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