May 31, 2022

Tripura Natural Gas Company Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loan	104.49	104.49	[ICRA]A(Stable); reaffirmed
Long-term Non-fund Based –Bank Guarantee	23.00	23.00	
Total	**127.49**	**127.49**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation factors in the strong business position of Tripura Natural Gas Company Limited (TNGCL) in Tripura's city gas distribution (CGD) owing to its long presence in this business. TNGCL is authorised for operations in three geographical areas (GA) - Agartala GA, the rest of West Tripura district GA (except the pre-existing Agartala) and the Gomati district of Tripura. The rating also factors in TNGCL's strong parentage and ownership structure and a favourable demand outlook for the CGD business due to the price differential between gas and liquid fuels, aided further by the Government subsidy of 40% on the basic gas price in Agartala GA, for use as compressed natural gas (CNG) in vehicles and domestic use of piped natural gas (PNG). Moreover, TNGCL benefits from the regulatory support in the form of assured availability of gas to the CGD entities for the CNG (transport) and PNG (domestic) segments and the pricing flexibility of the CGD players under the current regulatory provisions. Besides, the gas supply tie-ups with GAIL (India) Limited, a major shareholder of TNGCL, mitigate the gas availability risks for the company's industrial and commercial PNG segments.

ICRA also notes the satisfactory progress made by the company in project implementation in the two new GAs vis-a-vis the minimum work programme (MWP). The rating also factors in TNGCL's strong financial profile, marked by healthy profitability, a conservative capital structure and strong debt-coverage metrics.

The rating, however, is constrained by the company's presence in GAs with low population, which is likely to limit its scale of operations, despite a significant growth in the customer base expected from rest of West Tripura and Gomati GAs as these regions were authorised only in FY2019. The company's sales volumes in the PNG (industrial) segment would remain highly vulnerable to alternative fuel prices as the price-sensitive segment is not entitled to the Government subsidy. TNGCL would also remain vulnerable to the changes in the policies for gas allocation, pricing and subsidy, which may affect the demand and cost competitiveness of natural gas compared to alternative fuels. Further, given the sharp increase in gas purchase cost, TNGCL's ability to pass on the price hike to consumers remains critical for maintaining profitability. The company will also be exposed to project execution and stabilisation risks for the ongoing expansion in the new GAs.

The Stable outlook on the [ICRA]A rating reflects ICRA's opinion that TNGCL would continue to benefit from its strong business position in the CGD business in Tripura and its profitability would remain healthy due to the pricing flexibility enjoyed by the CGD players.

Key rating drivers and their description

Credit strengths

Strong position in Tripura's CGD business – The Government of India had authorised the company to carry out CGD business in the Agartala geographical area (GA) and the authorisation was accepted by the Petroleum and Natural Gas Regulatory Board (PNGRB) in February 2015. TNGCL does not have any infrastructure or marketing exclusivity for the Agartala GA. However, the company's established customer base and the first-mover advantage create significant entry barriers for third-party marketers.

TNGCL received the authorisation for two new GAs in FY2019 through the ninth CGD bidding round. The two new GAs include the rest of West Tripura district (except the Agartala GA already allocated to TNGCL) and the Gomati district. This will enhance the company's geographical coverage in Tripura and strengthen its monopoly in the CGD business in the state.

Strong parentage and ownership structure – TNGCL is a joint venture among Gail (India) Limited (GAIL, rated at [ICRA]AAA/Stable/[ICRA]A1+), Tripura Industrial Development Corporation Ltd. (TIDCL, a Government of Tripura undertaking) and Assam Gas Company Ltd. (AGCL, a Government of Assam undertaking rated at [ICRA]A+/Stable, the sole CGD entity in Assam). GAIL holds a 48.98% stake in TNGCL, while TIDCL and AGCL each holds 25.51%. The company was established in 1990 as a joint venture between TIDCL and AGCL. In 2005, GAIL became a shareholder of TNGCL to implement gas distribution projects in Tripura. The company's strong parentage and ownership structure mitigate its management and operational risks to a large extent.

Gas supply agreement with GAIL mitigates fuel availability risks for industrial and commercial segments – The Government of India's mandate to GAIL for assured gas supply to the CGD entities is limited to the CNG (transport) and PNG (domestic) segments. However, TNGCL has a gas supply tie-up with GAIL, which is also a major shareholder of the company, for all its customer segments. This reduces gas availability risks for the industrial and commercial segments as well.

The relative cost effectiveness of PNG and CNG over liquid fuels, primarily in the domestic and automobile segments in India, augurs well for the demand outlook for the CGD sector. Moreover, the Government subsidy of 40% on the basic gas price for the PNG (domestic) and CNG (transport) segments in Agartala GA enhances the cost competitiveness of natural gas. Under the current regulatory provisions, all CGD entities enjoy assured gas allocation for CNG (transport) and PNG (domestic). Besides, the CGD entities are allowed to decide the contribution margins in determining the final gas prices for consumers. Such pricing flexibility ensures high profitability for TNGCL.

Satisfactory progress in two new GAs; project execution and stabilisation risks remain – TNGCL has already commissioned all the CNG stations in both the new GAs out of the MWP target of 12 new CNG stations. In the rest of West Tripura district, the company has given around 9,555 new domestic connections vis-a-vis the target of 15,800 connections in eight years. However, TNGCL is yet to get gas tap-off points from GAIL for the Gomati district, and hence a significant pipeline expansion in the new GAs is pending. Hence, TNGCL would remain exposed to project execution and stabilisation risks.

Healthy financial profile – The company's profit margins remain healthy, aided by pricing flexibility in the CGD business. In FY2022, TNGCL's operating margin and net margin stood at 36.5% and 18.8%, respectively. The company has a minimal debt of Rs. 2.8-crore term loan as on March 31, 2022. A heathy accretion to the reserves is likely to strengthen its net worth, keeping the gearing low despite a term loan to be availed for the ongoing capex. TNGCL's healthy profits and conservative capital structure led to strong debt coverage metrics. Its interest coverage stood at 75 times in FY2022. Nevertheless, the sanctioned term loan for capex in the new GAs, if fully utilised, is likely to have a bearing on the debt coverage metrics.

Credit challenges

Limited population in GAs likely to restrict scale of operations – TNGCL has been involved in the CGD business for a long time in and around Agartala, which is a small city in Tripura. The two GAs authorised in FY2019 - West Tripura (excluding pre-existing Agartala) and Gomati districts – are likely to result in a steady revenue growth. However, the overall population of these GAs remains low, which is likely to restrict TNGCL's scale of operation. Moreover, though the capex in the new regions offers a growth opportunity for TNGCL, it also poses significant execution risk. Any delay or under-achievement of the MWP target in the GAs attracting major penalties and/or encashment of the performance guarantees submitted by TNGCL towards the new GAs will be a key rating sensitivity.

High vulnerability of sales volumes in industrial PNG segment to alternative fuel prices – Unlike the PNG (domestic) and CNG (transport) segments in Agartala GA, the industrial and commercial consumers in Tripura are not entitled to receive any subsidy on gas price. This increases the risk of client attrition in the PNG (industrial) segment, which is relatively price sensitive. However, for the industrial customers, the company keeps the PNG prices at a competitive level vis-a-vis the prices of alternative fuels.

Risks of changes in regulatory policies, Sharp increase in gas purchase cost possess risk to CGDs profitability – Any adverse changes in the regulatory policies for gas allocation, pricing of domestic gas, duty and tax structure and the subsidy available for TNGCL's consumers in the PNG (domestic) and CNG (transport) segments may negatively impact the availability and cost competitiveness of natural gas over alternative fuels. Further, given the sharp increase in the gas purchase cost, TNGCL's ability to pass on the price hike to consumers remains critical for maintaining high profitability.

Liquidity position: Strong

TNGCL's liquidity is expected to remain strong given the stable cash accruals, no debt repayments in the near term and healthy free cash balances (Rs. 47.9 crore as on March 31, 2022) which are more than adequate to meet the margin funding for the upcoming capex plans. TNGCL has tied up term debt for the ongoing pipeline capex at competitive rates and long tenor of ballooning repayment structure.

Rating sensitivities

Positive factors – A sustained growth in turnover, profits and cash accrual aided by an increase in the customer base in the existing and new GAs may result in an upgrade of the company's rating.

Negative factors - Negative pressure on the rating can arise if the gross contribution declines on a sustained basis, adversely impacting the operating profits, or if there is a significant drop in gas sales volumes. Any significant penalty levied by PNGRB for not achieving the MWP will also exert pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for CGD Companies
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the rated entity.

About the company

Tripura Natural Gas Company Limited (TNGCL) has been involved in the city gas distribution (CGD) business in and around Agartala, Tripura, for a long time. It received the authorisation for two new GAs (the rest of West Tripura district, excluding the pre-existing Agartala GA and the Gomati district of Tripura) in FY2019. TNGCL supplies piped natural gas (PNG) to domestic, commercial and industrial consumers, and compressed natural gas (CNG) to automobile users. It is a joint venture among GAIL, TIDCL, a Government of Tripura undertaking, and AGCL, a Government of Assam undertaking. GAIL holds a 48.98% stake in TNGCL, while TIDCL and AGCL each holds 25.51%. The company was established in 1990 as a joint venture between TIDCL and AGCL. In 2005, GAIL became a shareholder of TNGCL to implement gas distribution projects in Tripura. The company has a presence in the PNG segment since its inception and it entered the CNG business in 2007.

Key financial indicators

	FY2021	FY2022*
Operating Income (Rs. crore)	99.1	137.5
PAT (Rs. crore)	21.8	25.8
OPBDIT/OI (%)	43.0%	36.5%
PAT/OI (%)	21.9%	18.8%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	0.5
Total Debt/OPBDIT (times)	0.1	0.2

	FY2021	FY2022*
Interest Coverage (times)	91.6	74.8

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; * Provisional;*

Source: Company, ICRA Research; All ratios as per ICRA calculations;

Status of non-cooperation with previous CRA:

Name of CRA	Status of non-cooperation/ rating action	Date of Press Release
CRISIL	CRISIL B+ /Stable (ISSUER NOT COOPERATING*)	March 28, 2022

**Issuer did not cooperate; based on best-available information; Rating continues to be 'CRISIL B+/Stable Issuer not cooperating'*

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2022 (Rs. crore)	Date & Rating on	Date & Rating in FY2022		Date & Rating in FY2021		Date & Rating in FY2020
					May 31, 2022	-	-	Feb 9, 2021	Jan 29, 2021	-
1	Term Loan	Long-term	104.49	2.8	[ICRA]A (Stable)	-	-	[ICRA](Stable)	[ICRA](Stable)	-
2	Bank Guarantee	Long-term	23.00	-	[ICRA]A (Stable)	-	-	[ICRA](Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loan	Simple
Bank Guarantee	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs Crore)	Current Rating and Outlook
NA	Term loans	NA	NA	NA	104.49	[ICRA]A(Stable)
NA	Bank Guarantee	NA	NA	NA	23.00	[ICRA]A(Stable)

Source: *Company;*

Annexure-2: List of entities considered for consolidated analysis

Not applicable

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