May 28, 2024

Adani Total Gas Limited (erstwhile Adani Gas Limited): Long-term rating upgraded to [ICRA]AA(Stable) and short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund-based limits – Term loans	1,500.00	1,391.00	[ICRA]AA (Stable); rating upgraded from [ICRA]AA-(Stable)
Long term - Fund-based limits – Cash credit	30.00	30.00	[ICRA]AA (Stable); rating upgraded from [ICRA]AA-(Stable)
Short term - Fund-based limits– BD/Short-term loan	50.00	50.00	[ICRA]A1+; reaffirmed
Short term - Non-fund based limits – LC/BG	3,850.00	3,650.00	[ICRA]A1+; reaffirmed
Long term/Short term - Unallocated	70.00	379.00	[ICRA]AA(Stable)/[ICRA]A1+; long-term rating upgraded from [ICRA]AA-(Stable) and short-term rating reaffirmed
Total	**5,500.00**	**5,500.00**	

**Instrument details are provided in Annexure-I*

Rationale

The long-term rating upgrade of Adani Total Gas Limited (ATGL/the company) takes into account its improving financial risk profile, backed by continued growth in sales volume which in turn has resulted in a higher scale of operations and better profitability. The overall contribution margins have been on an uptrend amid a favourable gas allocation policy for the city gas distribution (CGD) sector as well as robust growth in compressed natural gas (CNG) volumes. The ratings also factor in the rising revenue share from the new geographical areas (GAs) awarded in the recently concluded ninth and tenth CGD bid rounds.

The ratings continue to factor in ATGL's healthy financial risk profile, characterised by adequate return and debt protection metrics on the back of the robust cash generation from its ongoing business. The company continued to witness a healthy growth in volumes in FY2024, backed by increased demand from the legacy GAs[1] as well as revenue addition from the new GAs.

After the revision in the APM gas pricing methodology in April 2023, APM prices have come down to $6.5/mmbtu which along with the availability of HPHT gas has stabilised the contribution margin on the sale of CNG and PNG(D) and will support a healthy cash generation. Nonetheless, the company's ability to hike prices and the long-term demand prospects remain exposed to the changes in the spread between CNG/PNG and alternative fuels.

The company generally has a balanced mix of compressed natural gas (CNG) and piped natural gas (PNG) consumers, with the latter mainly comprising the industrial and commercial segment. After facing significant demand headwinds in FY2023 owing to elevated LNG prices, the PNG (C) and PNG(I) segments witnessed modest growth in FY2024 as LNG prices softened. Going forward, the growth in these segments will remain exposed to the volatility in LNG prices and its relative competitiveness against alternative fuels, particularly in the PNG(I) segment. Demand has remained healthy for CNG and PNG (D) due to their advantage over competing fuels, aided by the favourable allocation of domestic gas for these segments. Any significant upward

[1] *Ahmedabad, Faridabad, Vadodara and Khurja*

revision in domestic gas prices or changes in the gas allocation policy could impact their competitive advantage over liquid fuels/liquefied petroleum gas (LPG) and would be a rating sensitivity.

ICRA also notes that the long-term demand prospects remain favourable and the company will benefit from the operationalisation and ramp up of the CGD network in the newly awarded GAs in the ninth, tenth and eleventh CGD bid rounds, which will drive the growth in scale.

The ratings also draw comfort from the parentage, with equal holding (37.4%) by Total Energies SE (Total; rated (P)A1/P-1, outlook is Positive by Moody's) through Total Holdings SAS and the Adani family. ICRA expects ATGL to have significant operational synergies with Total over the long term. As Total is among the leading liquefied natural gas (LNG) players in the world, ATGL could benefit for efficient gas sourcing tie-up for its operations. Any change in Total's linkages with ATGL will be a key monitorable.

The ratings are constrained by the execution and funding risks associated with the large ongoing capex planned over the next seven to eight years for the operationalisation of the CGD network in the 29 newly awarded GAs. ICRA notes that the minimum work programme (MWP) for each GA and its achievement will be critical to avoid any penalties.

The ratings also consider the large equity commitments by ATGL towards its joint venture - Indian Oil Adani Gas Private Limited (IOAGPL) – along with the newly awarded 10 GAs and the corporate guarantees extended to IOAGPL for issuing the performance bank guarantee (PBG) to the regulator for its CGD operations.

The Stable outlook reflects ICRA's expectation of a healthy growth in ATGL's sales volume on the back of a favourable demand outlook. The growth in sales volume will be driven by the operationalisation of the new GAs awarded in the ninth, tenth and eleventh rounds, along with the increased CNG and PNG (D) offtake from consumers. In addition, the availability of low-cost domestic gas for the CNG and PNG (D) segments and a comfortable contribution margin should result in healthy profitability and cash generation.

Key rating drivers and their description

Credit strengths

Strong promoter profile – ATGL is promoted by the Adani family and TotalEnergies SE. While the Adani Group has strong experience in executing large-scale projects, Total is among the leading LNG players in the world and has a strong credit profile {rated (P)A1/P-1, outlook is Positive by Moody's} and ATGL could benefit for efficient gas sourcing tie-up for its operations. Any change in Total's linkages with ATGL will be a key monitorable.

Favourable long-term demand prospects, backed by competitive advantage of CNG and PNG (domestic) segments - ATGL has a healthy mix of CNG and PNG sales with the CNG segment accounting for ~64% of the volumes and the PNG segment for 36% in FY2024. Gas sales volumes grew 15% YoY to 2.37 mmscmd in FY2024 from 2.06 mmscmd in FY2023 across both the segments due to the addition of CNG stations, new customers and strong economic recovery. The volume growth is also attributable to the volume build-up from CNG operations in the GAs awarded in the recent CGD bid rounds. The Ahmedabad GA remained the major contributor for ATGL, forming 41% of the sales volume in FY2024.

The CNG and PNG (domestic) segments continue to witness healthy demand due to their advantage over competing fuels, aided by the favourable allocation of domestic gas for these sectors. However, since FY2023, with growing demand, the APM gas allocation is falling short of meeting the industry's entire demand for these segments. As a result, the industry is looking to meet the shortfall through LNG/HPHT gas. Moreover, any significant upward revision in domestic gas prices or changes in the gas allocation policy could impact the competitive advantage over liquid fuels/liquefied petroleum gas (LPG) and would be a rating sensitivity. ICRA also notes that the long-term demand prospects remain favourable, and the company will benefit from the operationalisation of the CGD network in the newly awarded GAs in the ninth, tenth and eleventh CGD bid rounds, which will drive the growth in scale.

Healthy financial profile – In FY2024, the operating income (OI) rose by ~2% YoY to Rs. 4,417.7 crore in FY2024, driven by a robust ~15% YoY growth in the sales volumes, partially tempered by the softening in gas prices. In FY2024, the margins improved with the implementation of the recommendations of the Kirit Parikh committee which brought down the APM prices. The improved margins were further backed by the preferential allocation of HPHT gas (along with downward revision of HPHT gas price) which reduced the dependence on imported LNG for the CNG and PNG (D) segment and the softening of LNG prices which reduced the input gas costs for operations. Robust growth in the high-margin CNG segment also aided the profitability.

Given the high profitability and internal accruals, the company's net worth improved significantly, resulting in a comfortable gearing of 0.44 times as on March 31, 2024. The total debt/OPBDITA remained at 1.41 times as on March 31, 2024. However, going forward, the debt levels are expected to increase because of the large, committed capex plans, which would moderate the leverage and coverage metrices to a certain extent. However, ICRA notes that the CGD GAs are long-gestation projects, funded using long tenor loans and thus the leveraging can remain high in the initial phase of commissioning of the GAs.

Credit challenges

Project execution and funding risks associated with GAs awarded in ninth, tenth and eleventh CGD bid rounds – In the ninth, tenth and eleventh CGD bid rounds concluded in August 2018, March 2019 and September 2021, respectively, ATGL was awarded 29 new GAs by the Petroleum and Natural Gas Regulatory Board (PNGRB). The company has large capex requirements of around Rs. 9,500-10,500 crore to be incurred over the next five years, starting FY2024, for these GAs. The cumulative capex over the course of FY2025 and FY2026 would be in the range of Rs. 3,000-3,200 crore. The significant scale of the capex plans exposes the company to project execution risks, although its execution track record and the progress achieved in several GAs of the ninth and tenth rounds mitigate the impact to some extent.

Any significant delay or under-achievement of the MWP target in the GAs attracting major penalties and/or encashment of the performance guarantees submitted by ATGL towards the new GAs will be a key rating sensitivity. ICRA also takes note of the financing risk, as a major portion of the debt funding for the capex (including for eleventh round) is yet to be tied up. Nevertheless, the company has debt funding in place for the initial five-year capex for the GAs allocated under the ninth and tenth rounds, with undrawn limits available to take care of the capex plans in the near term. Further, the ability of the company to tie up funding at competitive rates remains a key monitorable.

Ability to tie up gas sources for PNG (industrial) at competitive prices would be critical – ATGL gets domestic gas for the CNG and PNG (D) segments, as per the Government of India's allocation policy. For its PNG (industrial) and PNG (commercial) gas requirement, the company has adequate gas tie-ups in place for the medium term. However, its ability to secure additional gas requirements at competitive prices in the long term would remain critical. In addition to its successful past track record, the presence of Total as a co-promoter mitigates this risk to a large extent.

Equity commitments towards its JV, IOAGPL– Till the eighth CGD bid round, IOAGPL had received authorisation from PNGRB to implement CGD network in nine GAs. ATGL had contributed ~Rs. 670 crore to the JV as equity as on March 31, 2024. Additionally, IOAGPL was awarded nine new GAs for CGD implementation by the PNGRB in the ninth round and one GA in the tenth round. Going forward, the company expects the total capex requirement for these new GAs to be about Rs. 3,500 crore over the course of next 2 years, to be funded in the prudent debt-equity mix. ATGL would be required to contribute equity commensurate to its stake in IOAGPL, as per the financial plan finalised for the timely achievement of the MWP milestones.

Environmental and Social Risks

Environmental considerations - ATGL is promoting the use of natural gas, which reduces CO_2 emissions, and is a cleaner fuel, and hence, is favourable with regard to environmental concerns. Moreover, for its PNG segment, it offers attractive terms to new customers to switch to natural gas, thereby promoting the use of cleaner fuel. Moreover, wherever possible, ATGL has taken initiatives to conserve natural resources such as water, paper and electricity. It has launched complete online billing for its domestic CNG business to reduce paper consumption. It has also promoted the use of solar energy at its various locations and reduced freshwater withdrawal.

Social considerations – The worldwide trend towards a shift to less carbon-intensive sources of energy could structurally increase the demand for natural gas. However, for emerging markets like India, such change in consumer behaviour or any other driver of change is expected to be moderately paced. Therefore, ATGL would benefit from the structural shift in the longer term, which would support its credit profile as well.

Liquidity position: Adequate

ATGL's liquidity position remains adequate with annual cash flow from operations of ~Rs. 818.2 crore in FY2024 (~Rs. 740 crore during FY2023). The cash flow from operations is expected to be in the range of Rs. 1,200-1,350 crore in FY2025 and FY2026. Its repayment obligations are ~Rs. 124 crore in FY2025 and ~Rs. 172 crore in FY2026. A capex of ~Rs. 1,500 crore is expected in FY2025 and ~Rs. 1,740 crore in FY2026. The liquidity is further supported by unencumbered cash balances of Rs. 133.2 crore as on March 31, 2024 (fixed deposits balance of Rs. 319.3 crore against which there is a FDOD facility/security). The company also has a sanctioned fund-based working capital facility, the average utilisation of which remained low over the past 12 months.

Rating sensitivities

Positive factors – ICRA could revise the outlook or upgrade the rating if the company continues its healthy volume trajectory in its key GAs without impairing the profitability.

Negative factors – The ratings could be revised downwards if any adverse regulatory action materially weakens the financial flexibility of the Adani Group/company to raise funds at competitive rates and increases the cost of funding. Pressure on the ratings can arise if the gross external debt/OPBDITA increases over 3.5 times on a sustained basis, or if the PNGRB levies a significant penalty for non-achievement of the MWP, weakening the liquidity profile. Further, any weakening of the linkages with the Total Group could be a negative sensitivity factor.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for City Gas Distribution Companies
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of ATGL

About the company

Adani Total Gas Limited, incorporated in 2005, is in the CGD business, which involves the marketing and distribution of natural gas (piped and compressed). At present, ATGL is one of the largest CGD players in India with presence in 33 GAs, including the 14 GAs won under the eleventh-round bid. ATGL has also entered into a 50:50 JV with Indian Oil Corporation Limited, with the joint venture, IOAGPL, engaged in the implementation of CGD network in several other GAs across India. IOAGPL is present in 19 GAs across the country.

Key financial indicators (audited)

Standalone	FY2022	FY2023	FY2024
Operating income	3,037.8	4,378.0	4,471.7
PAT	504.7	529.8	653.1
OPBDIT/OI	25.4%	19.9%	24.7%
PAT/OI	16.6%	12.1%	14.6%
Total outside liabilities/Tangible net worth (times)	0.8	0.9	0.8
Total debt/OPBDIT (times)	1.3	1.6	1.4
Interest coverage (times)	14.7	11.1	9.9

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years					
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31,2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023			Date & rating in FY2022	
					May 28, 2024	Feb 12, 2024	Mar 03, 2023	Feb 01, 2023	Aug 05, 2022	Dec 31, 2021	Nov 30, 2021
1	Term loans	Long term	1391.00	988.22	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Negative)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2	Proposed term loans	Long term	-	-	-	-	[ICRA]AA- (Negative)	-	-	-	-
3	Fund-based limits - Cash credit	Long term	30.00	--	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Negative)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
4	Fund-based limits - BD/Short-term loan	Short term	50.00	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Non-fund-based limits - LC/BG	Short term	3650.00	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
6	Unallocated limits	Long term/Short term	379.00	--	[ICRA]AA(Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Negative)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term - Fund-based limits – Term loans	Simple
Long term -Fund-based limits – Cash credit	Simple
Short term - Fund-based limits– BD/Short term loan	Simple
Short term - Non-fund based limits – LC/BG	Very Simple
Long term/Short term – Unallocated limits	NA

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 analysing 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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	FY2017	NA	FY2026	21.3	[ICRA]AA (Stable)
NA	Term loan	FY2020	NA	FY2029	169.7	[ICRA]AA (Stable)
NA	Term loan	FY2024	NA	FY2027	500.0	[ICRA]AA (Stable)
NA	Term loan	FY2024	NA	FY2029	400.0	[ICRA]AA (Stable)
NA	Term loan (Proposed)	NA	NA	NA	300.0	[ICRA]AA (Stable)
NA	Fund-based limits – Cash credit	NA	NA	NA	30.00	[ICRA]AA (Stable)
NA	Fund-based limits– BD/Short term loan	NA	NA	NA	50.00	[ICRA]A1+
NA	Non-fund based limits – LC/BG	NA	NA	NA	3650.00	[ICRA]A1+
NA	Unallocated limits	NA	NA	NA	379.00	[ICRA]AA (Stable)/ [ICRA]A1+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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