

October 03, 2023

.Haryana City Gas Distribution (Bhiwadi) Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term fund based - Term loan	37.51	61.76	[ICRA]BBB-(Stable); reaffirmed/assigned
Long-term/Short-term – Fund-based facilities	0.00	2.74	[ICRA]BBB-(Stable)/[ICRA]A3; assigned
Long term fund based - Cash credit	6.50	6.50	[ICRA]BBB-(Stable); reaffirmed
Long-term/Short-term - Non-fund based facilities	35.00	45.00	[ICRA]BBB-(Stable)/[ICRA]A3; reaffirmed/assigned
Long term - Unallocated	0.99	-	-
Total	80.00	116.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation factors in the healthy growth in volumes for Haryana City Gas Distribution (Bhiwadi) Limited (HCG) in the industrial piped natural gas (PNG) segment and expectations of the growth trend continuing as more industrial users switch to natural gas. The company also operates CNG stations and supplies gas to retail customers (domestic PNG). The daily sales run rate, which was around 1,73,490 scm/day (total volume) for FY2023, has increased to more than 200,000 scm/day in the current fiscal. With the increase in volumes and gas prices, the operating income witnessed a substantial growth in FY2023 to Rs. 325.5 crore from Rs. 169.2 crore in FY2022. The operating income for Q1 FY2024 stood at ~Rs. 83.3 crore. While the operating margins fell in the previous two fiscals mainly on account of rising gas prices, the company has been able to protect its absolute EBITDA per scm due to formula-based pricing with the customers. The overall financial profile improved with a steady improvement in leverage and coverage metrics.

The ratings continue to factor in HCG's network exclusivity as the city gas distributor in Bhiwadi for a period of 25 years (expiring in 2043). Moreover, the Bhiwadi geographical area (GA) comprises a high proportion of industrial users, where there has been a consistent increase in gas consumption. Despite the expected increase in sales volumes, the operating income is likely to remain steady in FY2024 given the moderation in gas prices. However, the profit generation is expected to remain, in line with the previous fiscal.

The ratings derive strength from the established track record of the Group, as HCG is promoted by SKN .Haryana City Gas Distribution Pvt Ltd (SKN), which has been operating a city-gas distribution (CGD) network in Gurgaon since 2008. The company draws support from SKN's technical know-how and experience. Further, it has secured a gas tie-up with Gas Authority of India Limited (GAIL) for its existing requirements. The ability of the company to secure gas tie-ups for the increased quantity remains to be seen.

However, the ratings remain constrained by the company's exposure to regulatory risks associated with CGDs. HCG has not been able to meet its minimum works programme for domestic household connections, as specified by the Petroleum and Natural Gas Regulatory Board (PNGRB). While PNGRB has extended the MWP timeline in light of the delays due to Covid-19, the ability of the company to meet these commitments remain to be seen.

ICRA also notes that the Group is expanding into a new GA (Puducherry) through a separate entity and any sizeable outflow from HCG to this entity will be a credit negative. Moreover, in FY2023, the company advanced a sizeable amount to a sister concern towards the use of land owned by that entity, which has impacted the liquidity profile of HCG. The ratings are also

constrained by high customer concentration with the top 10 customers comprising ~46% of the gross sales. ICRA also notes that there was a legal dispute involving sister concerns - Haryana City Gas Distribution Limited (HCGDL) and Indraprastha Gas Limited (IGL) - in the Gurgaon GA and the same has been recently settled and Gurgaon has been divided into two separate GAs and HCGDL and IGL have each been allotted one GA.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that HCG will continue to benefit from the Group's established track record and exclusive position as a CGD in Bhiwadi, which will help it to maintain its credit profile over the near term, with a healthy increase in industrial gas consumption.

Key rating drivers and their description

Credit strengths

Favourable demand growth outlook for both PNG and CNG segments– ICRA expects demand for industrial PNG to grow as the ban on dirty fuels has prompted many industries with high value addition to voluntarily switch to these fuels for their own benefit. Also, the low level of CNG penetration, continued regulatory push to commercial vehicles and the favourable economics for private vehicles are some of the factors driving growth in the CNG segment.

Exclusive position in Bhiwadi CGD– HCG has received authorisation from PNGRB for networking exclusivity in the Bhiwadi region for 25 years (expiring in 2043). Moreover, in the light of delays due to Covid-19, the regulatory board has extended the marketing exclusivity and the milestone completion timeline till September 2025.

Group track record in CGD and gas tie-up with GAIL– HCG is promoted by SKN, which has been operating a CGD network since 2008. It can benefit from the technical know-how and the experience of its promoters. HCG has secured gas tie-ups with GAIL to meet its requirements and also makes use of spot purchases.

Healthy growth in industrial PNG volumes– The company has shown a significant increase in volumes, especially in the industrial PNG segment, as the Bhiwadi geographical area (GA) has a high proportion of industrial users. These volumes are expected to increase, going forward, as more industries shift to gas, which can be accelerated in the current context as gas prices have moderated.

Improvement in financial risk profile– The cash generation has improved with the increase in volumes and scale of operations, resulting in better coverage indicators. Despite a debt-funded capex planned in the current fiscal to open additional CNG and city gas stations, the leverage and coverage metrics are expected to remain comfortable, going forward.

Credit challenges

Exposure to regulatory risks – HCG is susceptible to regulatory risks associated with CGDs. However, ICRA notes that, at present, the company has a five-year marketing exclusivity and a 25-year network exclusivity, as per its agreement with PNGRB. There was a legal dispute involving sister entity HCGDL and Indraprastha Gas Limited (IGL) in the Gurgaon GA, which has been settled recently and Gurgaon has been divided into two separate GAs, and HCGDL and IGL have each been allotted one GA.

Lower domestic PNG connections than minimum work programme requirements – The company has not met the yearly targets set by PNGRB as it is lagging behind in the number of domestic connections required, which exposes it to regulatory risks. While PNGRB has extended the timeline for meeting these MWP targets, completing its minimum work programme requirements will remain a key rating monitorable.

Customer concentration risks– HCG's top 10 customers comprise ~46% of the gross sales. Nonetheless, ICRA notes that the company has been acquiring new customers gradually.

Support to Group entities remains a monitorable – The Group is expanding its CGD activities in a new GA in Puducherry under a separate entity. Any material support to this entity which impacts the liquidity position of the company will remain a key

monitorable. Moreover, in FY2023, HCG has extended a sizeable deposit to a sister concern for the use of land in Bhiwadi, which has impacted its liquidity position.

Liquidity position: Adequate

HCG's liquidity position is adequate, driven by healthy cash flow generation and availability of cushion in the fund-based limits. While the cash build-up was constrained in FY2023 as the entity advanced a sizeable amount to its sister concern, the liquidity is expected to be at a comfortable level if there are no further instances of advances/upstreaming of funds to group/promoters.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if HCG demonstrates a significant increase in its scale, along with diversification of the customer base while maintaining healthy profitability metrics and liquidity position. Improvement in the credit profile of the parent entity will also be a credit positive.

Negative factors – The ratings can be revised in case of a significant decline in OI and profitability, or if a sizeable debt-funded capex results in debt/OPBDITA of more than 2.8 times on a sustained basis. Further, any loans and advances extended to Group companies, which impact its liquidity position, can weigh on the rating. Moderation in the credit profile of the parent entity may also impact the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodologies for City Gas Distribution companies
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

HCGDL was established in 2008 by Mr. Satish Chopra to bid for the licence for the distribution of natural gas in the domestic, commercial, industrial and transport sectors at Bhiwadi in Rajasthan. On August 1, 2018, the Petroleum and Natural Gas Regulatory Board (PNGRB) had issued grant of authorisation to lay, build, operate and expand the CGD network for the Bhiwadi geographical area (GA). According to the management, the company received a no-objection certificate from the Rajasthan government in 2009 to supply piped natural gas (PNG) and compressed natural gas (CNG) to consumers in the Bhiwadi area. However, the grant authorisation from PNGRB was received in 2018. After receiving the grant, the company submitted a performance bond of Rs 4.0 crore to PNGRB. Further, the company has signed an agreement for the supply of gas from GAIL. The market exclusivity for the region is for five years, starting August 2018.

Key financial indicators (audited)

	FY2022	FY2023
Operating income	167.5	325.8
PAT	12.8	19.8
OPBDIT/OI	14.9%	11.7%
PAT/OI	7.6%	6.1%
Total outside liabilities/Tangible net worth (times)	2.2	1.9
Total debt/OPBDIT (times)	1.9	1.6
Interest coverage (times)	8.3	8.0

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years				
	Type	Amount rated (Rs. crore)	Amount outstanding as of June 30, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
				Oct 03, 2023	Jul 03, 2023	Jul 19, 2022	Jul 09, 2021	Nov 02, 2020	
1 Term loan	Long term	61.76	52.55	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BB+(Stable)	[ICRA]BB(Stable)	[ICRA]BB-(Stable)	
2 Cash credit	Long term	6.50		[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BB+(Stable)	[ICRA]BB(Stable)	[ICRA]BB-(Stable)	
3 Non fund-based facilities	Long term/Short Term	45.00		[ICRA]BBB-(Stable)/[ICRA] A3	[ICRA]BBB-(Stable)/[ICRA] A3	-	-	-	
4 Unallocated	Long term	-		-	[ICRA]BBB-(Stable)	-	-	-	
5 Fund based facilities	Long term/Short Term	2.74		[ICRA]BBB-(Stable)/[ICRA]A3	-	-	-	-	
6 Non fund based - Bank Guarantee	Long term	-		-	-	[ICRA]BB+(Stable)	[ICRA]BB(Stable)	[ICRA]BB-(Stable)	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term fund based - Term loan	Simple
Long-term/Short-term - Fund based facilities	Simple
Long term Fund based - Cash credit	Simple
Long-term/Short-term - Non-fund based facilities	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 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	2018-2023	9-10%	2025-2028	61.76	[ICRA]BBB-(Stable)
NA	Cash credit	NA	NA	NA	6.50	[ICRA]BBB- (Stable)
NA	Non fund-based facilities	NA	NA	NA	45.00	[ICRA]BBB-(Stable)/[ICRA]A3
NA	Fund based facilities	NA	NA	NA	2.74	[ICRA]BBB-(Stable)/[ICRA]A3

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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