

## SKN- Haryana City Gas Distribution Pvt Ltd

November 13, 2018

### Summary of Rated Instrument:

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based	7.08	7.08	[ICRA]BB+&, ratings put on watch with developing implications
Non-fund Based	10.00	10.00	[ICRA]BB+&, ratings put on watch with developing implications
<b>Total</b>	<b>17.08</b>	<b>17.08</b>	-

&- ratings watch with developing implications

### Rating action

ICRA has placed its [ICRA]BB+ (pronounced ICRA double B plus) rating on the Rs. 17.08 crore bank facilities of SKN Haryana City Gas Distribution Pvt Ltd (SKN) on 'Rating Watch with Developing Implications'. The rating watch follows the Supreme Court order that suggested that it might be worth considering if the supply of natural gas by Haryana City Gas Distribution Limited (HCGDL) (parent of SKN) can be taken over by Indraprastha Gas Limited (IGL) in Gurgaon District as an ongoing concern. ICRA will evaluate the impact of the order on SKN's credit profile, once further details are received, and shall thereafter finalise its rating action.

### Rationale

The rating action takes into account that the order by the apex court could impact the business of HCGDL and its subsidiary SKN Haryana City Gas Distribution Pvt Ltd (SKN) with the latter being the city gas distribution (CGD) operator in parts of Gurugram, Haryana. On October 30, 2018, the Supreme Court passed an order in the ongoing dispute between HCGDL and Indraprastha Gas Limited (IGL) and suggested that it might be worth considering the supply of natural gas by HCGDL can be taken over by IGL in Gurgaon District. It is also agreed between both the parties (IGL and HCG) that the valuation of HCG including the infrastructure (pipeline, etc.) may be done by an independent valuer i.e. Deloitte Haskins and Sells LLP. The valuation report has to be submitted by November 30, 2018. The next hearing of the case is scheduled on December 06, 2018.

ICRA notes that SKN is a distributor of compressed natural gas (CNG) and piped natural gas (PNG) in the new Gurugram region since 2015 and has 13 CNG stations at prime locations in Gurugram. However based on valuation and other commercial terms, if HCGDL agrees for sale of its business, IGL could take over the entire infrastructure and business of HCGDL and its group company SKN in the Gurugram region. As the aforementioned order has critical bearing on the Group's credit profile, ICRA will continue to monitor further developments.

### Key rating drivers

### Credit strengths

**Current exclusive position in new Gurugram and Bhiwadi CGD and infrastructure business:** SKN is the exclusive distributor of compressed natural gas (CNG) and piped natural gas (PNG) in the new Gurugram region since 2015.

Recently, its subsidiary Haryana City Gas Distribution (Bhiwadi) Limited (HCGD), received authorisation from Petroleum and Natural Gas Regulatory Board (PNGRB) with a market exclusivity in the Bhiwadi region for five years starting from FY2019.

**Sustained growth in sales volume in CNG segment:** The company has exhibited sustained volume growth over the years in the CNG segment driven by Government directives regarding conversion with respect to commercial vehicle fleet, favourable cost economics vis-a-vis alternate fuels and expansion to new areas. SKN reported growth in CNG sales volume of 63% in FY2018. It added 11 CNG stations over three years. Overall, the sales volumes are expected to grow driven by the favourable CNG outlook and expanding infrastructure.

**Secure gas tie-up from GAIL and IGL:** The Group company has secured gas tie-ups in place from GAIL and IGL. Also, consumption of CNG and PNG (domestic) are required to be serviced from domestic gas and accordingly any gas growth in these segments leads to increased allocation of domestic gas.

## Credit challenges

**Regulatory risks with respect to authorisations in Gurugram region:** SKN's CGD operations in Gurugram region have been authorised by PNGRB. However, the ongoing legal disputes among the shareholders and the proposed demerger of HCG impacted the proposed expansion plan of the region. On November 2, 2018, the Supreme Court has passed an order in Writ Petition to resolve the dispute between HCG and IGL and amicably suggested that it might be worth considering the supply of natural gas by HCGDL can be taken over by IGL in Gurgaon District. Currently the matter is sub-judice.

**Exposure to project execution risks associated with setting up of CGD project in Bhiwadi:** The award of new GA – Bhiwadi – to the company exposes it to execution risks associated with setting up of a city gas distribution project in a new geography as well as capex liability for meeting the minimum work program and service standards. ICRA notes that loan funding for the initial capex is in place. In FY2018, the directors drew significantly higher remuneration to support the Group's expansion plans. They have also made Group investments through SKN's balance sheet in the past. Therefore, the impact on ongoing expansion on the credit metrics will be a key monitorable.

**Decline in profitability margins owing to increased proportion of spot price gas and high director's remuneration:** SKN has been serving as the agent of CNG and PNG distribution in the New Gurgaon area since 2015 with all the official licences and approvals in the name of HCG. As per the agreement, HCG is entitled to get 0.25 million metric standard cubic meter per day (mmscmd) APM from IGL and in turn SKN is entitled to get 0.12 mmscmd. The limit has been exhausted and the company is now dependent on the purchase of gas from spot prices which is more expensive than APM gas. This has resulted in lower profitability.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

[Rating Methodology for City Gas Distribution Companies](#)

## About the company

SKN is a part of the HCG Group. The company was established in 2015 by Mr. Satish Chopra as a partnership firm but was later changed to a private limited company. HCG was set up in 2005 by the SKN Bentex Group, promoted by Mr. Satish Chopra and Mr. Kapil Chopra. In 2008, HCG received authorisation from the state government to set up city gas distribution in Gurgaon and other parts of Haryana. Consequently, HCG signed a gas sale agreement with IGL and GAIL for the supply of natural gas in select cities of Haryana.

SKN was formed after the split among the promoters of HCG in 2015 and is headed by Mr. Satish Chopra. Currently, the official licenses and approvals are in the name of HCG and the parent company has designated SKN to cater to the New Gurgaon area. As on March 31, 2018, SKN had 13 CNG stations, 15,000 PNG domestic connection and 90 commercial connections in New Gurgaon.

On August 1, 2018, Petroleum and Natural Gas Regulatory Board (PNGRB) issued grant of authorisation to the subsidiary – HCGD – for CGD network development to lay, build, operate and expand the CGD network for Bhiwadi GA.

SKN on standalone basis reported a net profit of Rs. 7.5 crore on an OI of Rs. 50.3 crore in FY2017 compared with a net profit of Rs. 2.2 crore on an operating income (OI) of Rs. 32.6 crore in the previous year. On provisional basis, the company reported a net profit of Rs. 4.4 crore on an OI of Rs. 65.9 crore.

## Key financial indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	32.6	50.3
PAT (Rs. crore)	2.2	7.5
OPBDIT/OI (%)	17.5%	36.3%
RoCE (%)	38.2%	47.7%
Total Debt/TNW (times)	1.1	0.7
Total Debt/OPBDIT (times)	2.4	0.9
Interest Coverage (times)	3.1	4.8

**Status of non-cooperation with previous CRA: Not Applicable**

**Any other information: None**

## Rating history for last three years

Current Rating (FY2019)					Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating November 2018	Date & Rating in FY2019 September 2018	Date & Rating in FY2018 July 2017	Date & Rating in FY2018 June 2017	
1	Cash Credit	Long Term	2.50	-	[ICRA]BB+&	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)
2	Term Loan	Long Term	4.58	4.58	[ICRA]BB+&	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)
3	Bank Guarantee	Long Term	10.0	-	[ICRA]BB+&	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)

&- ratings watch with developing implications

## Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
	Cash Credit	NA	NA	NA	2.50	[ICRA]BB+&
	Term Loan	FY2015	9%	FY2020	4.58	[ICRA]BB+&
	Bank Guarantee	NA	NA	NA	10.0	[ICRA]BB+&

Source: Company

&- ratings watch with developing implications

## ANALYST CONTACTS

**K. Ravichandran**  
+91-44-45964301  
[ravichandran@icraindia.com](mailto:ravichandran@icraindia.com)

**Vipin Jindal**  
+91-124-4545355  
[vipin.jindal@icraindia.com](mailto:vipin.jindal@icraindia.com)

**Manish Ballabh**  
+91-124-4545812  
[Manish.ballabh@icraindia.com](mailto:Manish.ballabh@icraindia.com)

**Pallavi Singh**  
+91-124-4545393  
[pallavi.singh@icraindia.com](mailto:pallavi.singh@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**  
+91 80 4332 6401  
[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**  
Tel: +91 124 4545 860  
[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

## 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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit [www.icra.in](http://www.icra.in)

## ICRA Limited

### Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: [info@icraindia.com](mailto:info@icraindia.com)

Website: [www.icra.in](http://www.icra.in)

### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

### Branches

Mumbai + (91 22) 24331046/53/62/74/86/87  
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,  
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,  
Bangalore + (91 80) 2559 7401/4049  
Ahmedabad+ (91 79) 2658 4924/5049/2008  
Hyderabad + (91 40) 2373 5061/7251  
Pune + (91 20) 6606 9999

© Copyright, 2018 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents