

City gas infrastructure will drive capex, credit demand

The last of a three-part series on credit pick-up looks at how the push for city gas is creating demand for development of gas infrastructure

AMRITHA PILLAY & SHINE JACOB
Mumbai/New Delhi, 17 December

City gas distribution (CGD), or the distribution of natural gas to consumers through a network of pipelines, is progressing in leaps and bounds. With the last two bidding rounds for CGD licences, nearly 70 per cent of the country's population has been covered. And this is translating into credit demand for the country's banking system.

Currently, state-run oil companies dominate India's CGD segment, although conglomerates such as Adani Group are also stepping up their presence in it. According to industry experts, banks find it comfortable to lend to this sector owing to its strong borrower profile.

With the completion of the

10th CGD bidding round, city gas will be available in 228 geographical areas, comprising 402 districts spread over 27 states and Union Territories and covering 53 per cent of its geographical area. Bharat Petroleum

Corporation (BPCL), Hindustan Petroleum Corporation (HPCL), GAIL, Torrent Power, Indian Oil Corporation and Adani Gas were some of the companies that won licences in the 10th round.

"Given that most of the CGD projects are being executed by state-run oil companies or large corporate groups, banks are comfortable in funding these projects," said Debasish Mishra, partner at Deloitte Touche Tohmatsu.

The push for city gas is also creating a greater demand for the development of an overall

gas infrastructure. According to one estimate, the country will see investments to the tune of around \$60 billion for a natural gas infrastructure — including pipelines and import terminals — by 2024.

"With the recent change in policy, there is a push for creating a gas infrastructure. After the two recent rounds, there is a huge demand for services in city gas, CNG and PNG-related equipment, pipeline and also LNG segment," said BC Tripathi, former chairman of GAIL. He added that the government should consider banning pet-coke and furnace oil to boost the segment further.

In terms of infrastructure, the two rounds are set to add 35,59,8324 km of piped natural gas connections and 7,205 compressed natural gas stations by March 31, 2029. What's more, 156,178 inch-km of steel pipelines are likely to be part of this infra-

structure. While the banking industry is hopeful that India's gas infrastructure business will fuel credit growth, some analysts have raised concerns over the aggressive bids that firms placed for certain licences in the last two rounds.

Others opine that the large size of the projects will help minimise risks. "These are infrastructure projects, where the investment is upfront, but cash flows are much superior. Given that by and large, there is a pass through for the cost of raw material, we do not see an issue," said an analyst with a domestic brokerage firm, who did not wish to be identified. The thrust on the CGD business is also well-timed since this is the fag-end of investments in refinery upgrades. "Reliance Industries' capital expenditure is now over. Similarly, investments to upgrade refineries for meeting BS-VI standards are also behind us. So CGD is now likely to drive capex in the oil and gas sector," said the analyst quoted earlier.

Tripathi hopes that there will be a retail gas revolution in the country. "The advantage is that now private players have also joined the fray," he said. In 2019, two foreign companies announced a fuel-retail tie-up in India: BP will partner RIL, while French major Total plans to tie up with Adani Gas for fuel retailing. But though city gas and retailing is expected to drive demand from the oil and gas segment, the quantum of investments is expected to remain modest.

"At best, these CGD projects would need ₹10,000 to ₹20,000 crore investments every year for the next five years," said the analyst.



IN DEMAND Investment

- India to invest \$60 billion in gas-based infra

City gas distribution coverage

- 10th round covered 50 geographical areas
- 9th round covered 78 geographical areas

Source: PIB, PNGRB

Successful bidders under 9th & 10th CGD bidding round

- Adani Gas, Bharat Gas Resources, GAIL Gas, Gujarat Gas, Hindustan Petroleum Corporation, Indian Oil Corporation, Indraprastha Gas, Rajasthan State Gas, Torrent Gas

Series concludes

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Conclave by GAIL gets together 400 HSE professionals



The 2nd Oil & Gas HSE Conclave organised by GAIL (India) Limited was inaugurated in New Delhi recently, bringing together nearly 400 Health, Safety and Environment (HSE) professionals from India and abroad to discuss safety challenges facing the oil and gas industry and ways to mitigate risks. The theme of the conclave was 'Driving HSE Culture for Building Resilient Organisation'. The two-day conclave was inaugurated by Member Secretary, National Disaster Management Academy G V V Sarma in the presence of GAIL Chairman and Managing Director Dr Ashutosh Karnatak; GAIL Director (Business Development) Manoj Jain; GAIL Executive Director (HSE) Dr S P Garg; Senior Director, Emirates National Oil Company Dr Waddah S Ghanem Al Hashmi; National Institute of Disaster Management Executive Director Maj. Gen. M K Bindal and Centre for Chemical Process Safety, New York, CEO Shakeel Kadri