

Gas industry – the new beanstalk?

Great potential for long-term structural growth

In *Jack and the Beanstalk*, Jack's magical beans turn into a beanstalk, reaching into the skies overnight. The beanstalk becomes an enabler to a 'lived happily ever after' story. The Gas industry in India could very much be such a beanstalk, believes Mr Darshan Hiranandani, the Managing Director and Chief Executive Officer of H-Energy.

Key takeaways from our recent conference call with Mr Hiranandani:

Gas is what Telecom was 20 years ago

Lack of a free market and infrastructure in India has constrained the development of the Gas sector. While coal, petcoke and fuel oil are cheaper alternatives, natural gas is more economical than alternatives like diesel and naphtha. Then, there is the added advantage of convenience in terms of continuous supply, consistent quality and no requirement of storage/inventory. However, the current scenario of a monopolistic regime and onerous contracts is discouraging. Several small and medium enterprises prefer to stay away from usage of natural gas, even if it means higher cost and inconvenience. Going forward, emergence of new market players would increase the options for the buyers and aid the development of the sector. The regulatory board is also looking into unbundling of transmission and marketing, which could further open up the sector for smaller players. The Gas industry is all set to see the transformation that the Telecom industry has gone through in the last two decades (Exhibit 1).

Huge unmet demand

Along the upcoming Jaigarh-Mangalore route itself, H-Energy believes there are ~27,000 industrial consumers. Till date, as per Petroleum Planning & Analysis Cell, only ~7,000 consumers have been connected across India, many of whom might not even be taking gas all the time. Due to lack of pipeline infrastructure, virtual grids through Liquefied CNG (LCNG) cascades could improve consumption of gas tremendously. The company has signed master agreements with consumers in several industries for supply of gas. Several industrial consumers are still paying INR7/kwh+ for their electricity consumption. LNG could offer good potential in such cases.

Changed global scenario is a perfect enabler

After a long time, we are facing a global glut in supply. The glut has resulted in several new trends – destination-free contracts, flexible shipping contracts, storage and trading of LNG, and contracts linked with other commodities like coal and ammonia instead of conventional oil and gas linked contracts. India is all set to take advantage of the same with upcoming LNG terminals and FSRUs, and expansion of pipeline infrastructure.

LNG as transport fuel could open new opportunities

LNG trucks can run as much as 1,000km on a single fill and LNG is 18-20% cheaper than diesel. LNG has been in usage in China for long as transportation fuel. China has ~240,000 LNG trucks and ~3,500 LNG re-fueling stations. India approved LNG as a transportation fuel early this year. Only a few weeks ago, the guidelines for opening of refueling stations have been ratified. H-Energy expects ~10 refueling stations to be added in a year. The company itself may open five stations. While electric vehicles (EVs) could pose a threat, they do not offer any solution for heavy cargo movement – heavy trucks could require a 250kg battery pack for just a 50km range! The two leading heavy vehicle manufacturers in the country are also looking at rolling out LNG buses in the coming months.



Mr Darshan Hiranandani
MD, H-Energy

Mr Hiranandani heads the energy venture of the Hiranandani group. He holds a Masters degree, with a major in Entrepreneurship and Finance from the Rochester Institute of Technology, USA. Under his able leadership, the company has ventured into LNG regas terminals and natural gas pipeline projects in India. The company also plans to develop a liquefaction project and crude oil infrastructure in Canada.

The company has chartered a 4 MMTPA Floating Storage and Re-gasification Unit (FSRU) from Engie. The FSRU is expected to be docked at Jaigarh port from mid-2018. Jetty construction has been ongoing since 2017. The EPCM (Engineering, Procurement, Constructions and Management) contract for tie-in line has been awarded to Engineers India Limited for completion of 60km pipeline from Jaigarh to the existing Dabhol gas grid. It is also planning a 635km Natural Gas pipeline from Jaigarh to Mangalore with a capacity of 17mmscmd.

Exhibit 1: Telecom industry went through a sea change with entry of new players and better reforms

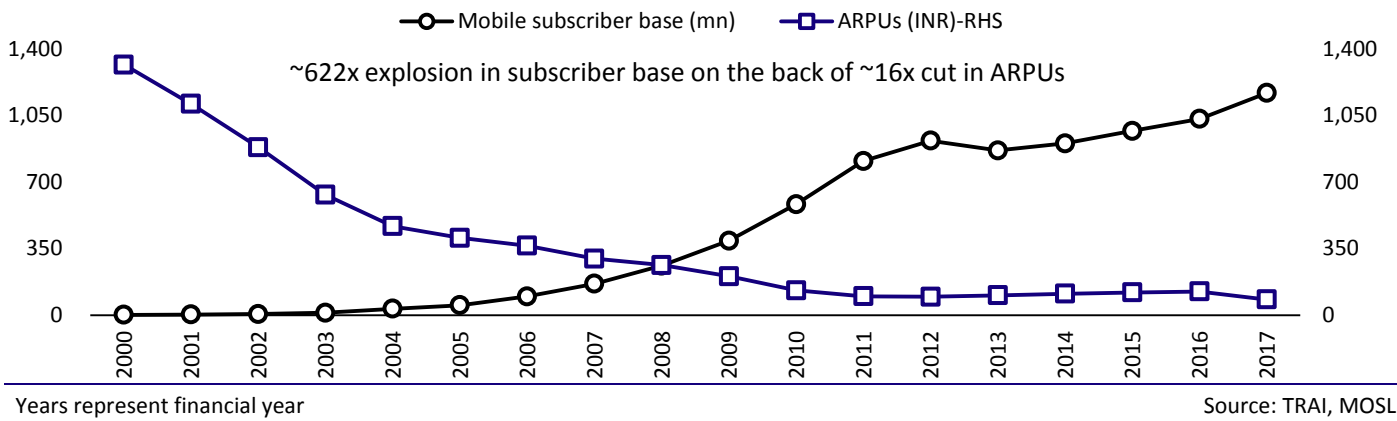
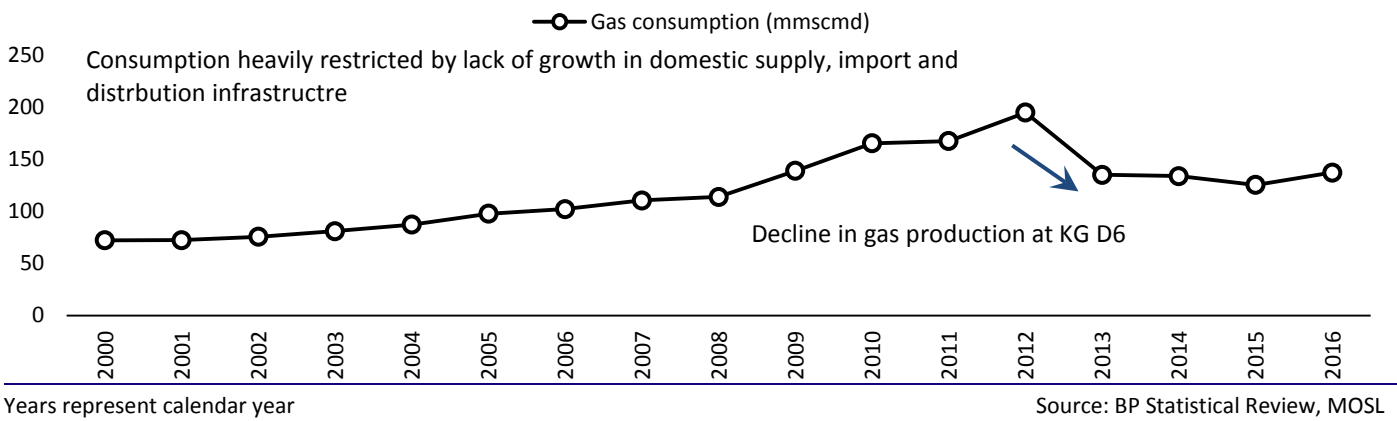


Exhibit 2: Gas consumption in India has suffered due to lack of domestic supply, lack of import / distribution infrastructure, oligopoly and lack of reforms



NOTES

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