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India Infrastructure
City Gas Distribution in India

Session: Trends, Development and Outlook

MARCH 2022

Highlights

LNG prices have remained elevated owing to odd weather patterns, supply disruptions, low inventory levels, lower renewable and hydro power generation, growing demand and increase in crude oil prices. The Russia-Ukraine conflict has added additional pressure in the near term

- Gas demand is expected to grow in by 7% in FY2022 vis-à-vis FY2021, 9% in FY2023 and 4% in FY2024 owing to commissioning of new fertiliser plants and increasing offtake by CGD entities enabled by expansion in pipeline network and new LNG terminals. However, any further waves and lockdown measures will remain a key concern.
- The spot LNG prices have been elevated due to supply-side disruptions, low inventory levels, growing demand and increase in crude oil prices. In the near term, the Russia-Ukraine conflict will also result in prices remaining elevated. In the medium term, there could be a structural shortage of LNG capacity, given the net zero commitments that different governments are making and under investments by global upstream companies due to ESG goals
- Capex in FY2022 was impacted by second wave of Covid-19. While capex is expected to increase going forward, there are considerable execution risks for CGD entities with pan India projects and limitations in the availability of skilled resources
- CGD demand is driven by favourable economics of conversion, given domestic gas allocation for the PNG(D) and the CNG segments. The PNG (industrial and commercial) segment, though, continues to face competition from alternate fuels. The sharp increase in gas prices in the recent period and the Russia-Ukraine conflict may also have some adverse impact on demand and margin
- The debt levels of the industry are expected to increase to remain flattish as on March 31, 2022 but are expected to increase to ~Rs. 14000-15000 crore by March 31, 2023 due to the expected increase in capex
- The debt coverage indicators of the industry are expected to remain healthy – interest coverage expected at 24.9x for FY2023 from 23.4x for FY2021 and Total debt/OPBDITA expected at 0.54x from 0.67x over the same period
- Despite the decline in revenues in FY2021 the credit profile of most incumbents is not expected to weaken substantially owing to the regulatory protection or dominant competitive position of most of the entities in this sector besides healthy margins and liquidity and strong financial flexibility.

Industry Outlook - Stable

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1

Domestic gas supplies are expected to increase substantially in the medium term, but will still lag demand, keeping reliance on LNG imports at a high level. There could be a structural shortage of LNG capacity given the net zero commitments that different governments are making and under investments by global upstream companies due to ESG goals

2

The setting up of new fertiliser plants and CGD projects in new GAs is expected to drive the growth going forward and will be enabled by commissioning of new pipelines and LNG terminals. The total re-gasification capacity in India is expected to increase significantly from around 32 MMTPA currently to around 61.5 MMTPA by FY2025.

3

The long-term outlook for the CGD sector remains favorable with domestic gas allocation in place for the CNG and PNG (domestic) segments. The PNG (industrial and commercial segment though supported by the ban on pet coke and furnace oil, would continue to face stiff competition from alternate liquid and solid fuels. The PNG (domestic) segment will continue to benefit from the aggressive targets set by MOPNG. However, the near term demand may witness some impact due to sharp increase in prices and Russia-Ukraine conflict.

4

The capex execution in FY2022 was impacted by second wave of Sovid-19. While capex are expected to increase going forward, there would be considerable execution risks with pan India CGD projects and limitations in the availability of skilled resources; potential cost over runs are not ruled out given the surge in demand and over stretched vendors

5

ICRA's outlook for the gas utilities sector is Stable, as despite the adverse impact of sharp increase in gas prices, the demand is expected to witness growth driven by new fertilizer plants and CGD projects in new GAs. While, profit margin will witness some pressure in near term they will remain healthy . Further, The credit profile of most of Indian gas utilities derives comfort from low gearing levels.

Industry Outlook - Stable

FY2023 Outlook - Stable

DEMAND GROWTH	REVENUES	OPERATING MARGIN	TOTAL DEBT	DEBT/EBIDTA
~9% Growth	**~6.6% YoY growth**	**~13-14%**	**Rs. 14,700 crore**	**0.5x**
Volume growth driven by commissioning of new fertiliser plants and increasing offtake by new GAs. However, any further waves and lockdown measures will remain a key concern	Revenue to witness healthy growth driven by higher volumes and price revisions	Profit margin expected to witness some moderation	Debt levels to witness some increase due to planned capex	Debt/OPBDITA to remain stable

Credit Implications of Russa-Ukraine Faceoff

Midstream

- Elevated LNG prices have adversely impacted capacity utilisations of LNG terminals, pipelines
- Increase in LNG prices is negative for new LNG terminals as volumes and returns would be adversely impacted
- The profit margins on CNG and PNG(d) segments will witness some pressure due to lag in allocation of domestic gas. High LNG prices will have a negative impact PNG (I) & PNG (C) margins

Credit profile of most incumbents is not expected to weaken substantially owing to the regulatory protection or dominant competitive position of most of the entities in this sector besides healthy margins, nil or low leverage, robust liquidity and strong financial flexibility

Agenda

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1 Perspective on Gas Prices

2 Regulatory and Policy Developments

3 Transmission, Marketing and Re-gasification

4 City Gas Distribution

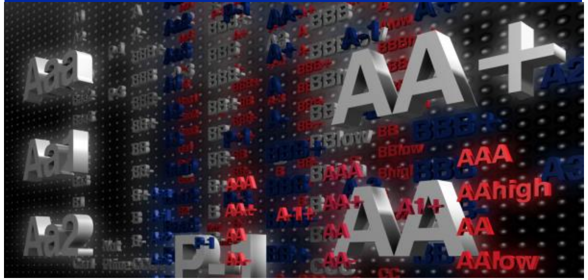
5 Financial Forecasts

6 Industry Performance

Agenda

7 Industry Peer Comparison

8 ICRA Ratings on Gas Utility Companies



Analytical Contact Details

	Sabyasachi Majumdar	Prashant Vasisht	Sai Krishna
	Senior Vice-President	*Vice-President*	*Assistant Vice President*
Email	sabyasachi@icraindia.com	prashant.vasisht@icraindia.com	sai.krishna@icraindia.com
Phone	0124- 4545 304	0124 – 4545 322	044- 4596 4304

Analytical Contact Details

Varun Gogia

Assistant Vice President

varun.gogia@icraindia.com

0124- 4545 373

Business Development/Media Contact Details

	L. Shivakumar	Jayanta Chatterjee	Naznin Prodhani
	Executive Vice-President	*Executive Vice-President*	*Head Media & Communications*
Email	shivakumar@icraindia.com	jayantac@icraindia.com	communications@icraindia.com
Phone	022- 6114 3406	080 – 4332 6401	0124 – 4545 860

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Thank You!