

Indian Gas Utilities

**Benign prices, rising domestic
production support gas
consumption**

March 2024





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International gas prices expected to remain range-bound amid healthy inventories globally.

Domestic consumption expected to grow 14-16% YoY in FY2024, driven by a strong uptick in the offtake by the refineries and other allied sectors.

Going forward, the capex intensity to remain high for the sector driven by the expansion of the CGD networks and natural gas pipeline network being developed across the country.



- Natural gas demand grew ~16% YoY in 10M FY2024 supported by softening liquefied natural gas (LNG) prices and uptick in domestic gas production. Gas demand is expected to increase by about 14-16% in FY2024 and about 6-8% in FY2025 driven by increasing offtake by the City Gas Distribution (CGD) sector amid an expanding network and strong offtake by the industrial segment (i.e., refineries, petrochemical plants).
- LNG prices have remained soft since the beginning of FY2024 supported by higher-than-anticipated natural gas inventories in the US, the EU and Japan. China's shift towards coal and increased pipe flows from Russia have kept the LNG demand in check, thereby supporting the price levels.
- To reduce reliance on LNG imports, the Government of India (GoI) has announced mandatory blending of compressed biogas (CBG) in natural gas. While CBG production has lagged owing to various issues so far, the GoI expects mandatory blending to support investments in the sector, going forward.
- With the linkage of domestic gas prices with 10% slope to the monthly average of the India Crude Basket with a floor and ceiling of \$4.0 and \$6.5/mmbtu, respectively, for the nomination fields, gas prices are expected to remain at ceiling levels in the near term amid firm crude oil prices.
- The debt levels of the industry are expected to increase to ~Rs. 19,500-20,000 crore by March 31, 2024, and to ~Rs. 22,000-23,000 crore by March 31, 2025, due to the capex under way in the CGD and pipeline segment. The debt coverage indicators of the industry are expected to remain healthy, while interest coverage is expected at ~20-21x for FY2024 and FY2025, and Total debt/OPBDITA at ~0.75-0.80x over the same period.
- The credit profile of most incumbents is expected to remain stable owing to the regulatory protection or dominant competitive position of most of the entities in their respective sub-sector/regions, besides healthy margins, liquidity, and strong financial flexibility.



Natural gas supply to increase from domestic fields; spot LNG offtake sensitive to price levels; long-term contracts to provide stable LNG supplies



Gas consumption to grow 6-8% in FY2025 supported by benign prices and healthy offtake by the CGD and industrial sector; FY2024 growth expected around 14-16% YoY








Capex in the pipeline transmission and CGD segment with outlay of Rs.10-15,000 crore p.a. over next three years



Stable Outlook amid soft gas prices and low gearing levels



FY2025 Outlook - Stable

DEMAND GROWTH	REVENUES	OPERATING MARGIN	TOTAL DEBT	DEBT/EBIDTA
				
<p>~6-8% growth</p> <p>Volume growth in FY2025 driven by growth in the CGD sector and healthy offtake by refineries; FY2024 volume growth of 14-16% YoY to be driven by sharp uptick in offtake across industries amid soft LNG prices and higher domestic production</p>	<p>~3-5% YoY growth</p> <p>Revenue to grow 3-5% YoY driven by higher volumes and soft gas prices; revenue in FY2024 to moderate by ~11% YoY amid lower gas prices</p>	<p>~12-13%</p> <p>Profit margins expected to improve with the softening of natural gas prices</p>	<p>~Rs. 19,500- 20,000 crore</p> <p>Debt levels to increase driven by the planned capex</p>	<p>~0.8-0.9x</p> <p>Debt/OPBDITA to remain stable as increase in debt to be offset by increase in operating profit</p>

1 Perspective on Natural Gas Prices



2 Regulatory and Policy Developments



3 Transmission, Marketing and Re-gasification



4 City Gas Distribution



5 ESG Risks



6 Financial Forecasts



7 Industry Performance



8 Industry Peer Comparison



9 ICRA Ratings on Gas Utility Companies





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