



Indian Gas Utilities

**Marginal uptick in natural gas prices
amid tensions in West Asia**

JUNE 2024





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International gas prices rise marginally amid geopolitical tensions and strong demand from Asia. Long-term outlook on prices remains subdued owing to large LNG supplies expected from CY2026.

Domestic consumption expected to grow 6-8% YoY in FY2025, driven by refineries and CGD sector.

Capex intensity for the sector to remain high with capex related to CGD infrastructure, gas pipelines and setting up of petrochemical capacities.



- Natural gas demand grew ~17% YoY in FY2024 supported by softening liquefied natural gas (LNG) prices and uptick in domestic gas production. Gas consumption is expected to grow ~6-8% YoY 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 recently witnessed marginal uptick amid strong demand from Asia and geopolitical tensions in West Asia. Long-term outlook for LNG prices remains subdued given large LNG supply additions expected in the US and Qatar from CY2026.



- The Government of India (GoI) has announced mandatory blending of compressed biogas (CBG) in natural gas for the CGD sector. While CBG production has lagged owing to various issues, the GoI expects mandatory blending to support investments in the sector, going forward.



- Capex intensity for the sector to remain high with capex related to setting up of CGD infrastructure, gas pipelines and setting up of sizeable petrochemical capacities over the course of next three years



- The debt levels of the industry are expected to increase to ~Rs. 225-235 bn 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 ~19-20x for FY2025 and Total debt/OPBDITA at ~0.8-0.9x over the same period.



- The credit profile of most incumbents is likely to remain stable owing to the regulatory protection or dominant competitive position of most entities in their respective sub-sectors/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 sectors








Capex in the pipeline transmission, forward integration initiatives and CGD segment with outlay of ~Rs. 20,000 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</p>	<p>~1% YoY growth</p> <p>Revenue to largely remain stable amid lower gas prices despite volume growth</p>	<p>~12%</p> <p>Profit margins expected to remain in line with FY2024 level amid soft gas prices and stable demand prospects</p>	<p>~Rs. 22,500- 22,500 crore</p> <p>Debt levels to increase given the sizeable capex underway in the sector</p>	<p>~0.8-0.9x</p> <p>Debt/OPBDITA to remain stable as operating profits expected to rise, keeping the credit profile stable</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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