

INDIAN GAS UTILITIES INDUSTRY

**CNG prices set to increase; CGD
entities to face margin pressure in
the short term**

October 2024





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ICRA expects Compressed Natural Gas (CNG) prices to rise by Rs. 5-5.5/kg with a 20% reduction in the allocation of Administered Price Mechanism (APM) gas by the GoI for the City Gas Distribution (CGD) sector, effective from October 16, 2024. With the APM gas allocation going down, CGD entities will have to source gas from costlier sources like spot Liquefied Natural Gas (LNG) and high pressure-high temperature (HPHT) gas, thereby increasing the input gas costs for the players.



- The Government of India (GoI) has reduced the allocation of APM gas by ~20% for the CGD sector with effect from October 16, 2024. The reduction in the APM gas allocation comes at a time the GoI has been promoting the use of CNG as a vehicular fuel.
- With the reduction in the allocation of APM gas, CGD entities will have to bridge the gap immediately from the spot LNG market and later shift to HPHT gas or long-term LNG. The gas replacing the de-allocated APM gas is more expensive compared to APM gas.
- ICRA estimates that the reduction in the APM gas allocation will necessitate a price increase of Rs. 5-5.5/kg for CNG. On account of this, the margins of CGD entities are expected to be impacted negatively, as ICRA expects the entities to undertake price increase in a graded manner.
- CNG prices have risen substantially since the beginning of CY2022 as APM gas production has dwindled while CNG sales have grown at a robust pace. In the medium to the long term, ICRA expects CNG prices to continue to rise as APM gas production shrinks amid rapidly growing CNG sales, impacting its economics vis-à-vis alternative fuels.
- Since CNG prices are expected to rise from hereon, the CGD entities may have to compromise on their margins in the long term to ensure healthy economics of CNG vis-à-vis alternative fuels.
- While the allocation of APM gas has been reduced for the CGD sector, ICRA does not expect a material impact on the gas offtake by the sector as CNG as a fuel continues to be highly competitive against other auto fuels. Thus, ICRA expects the overall consumption growth to remain in the range of 6-8% YoY for FY2025.



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