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Indian Gas Utilities

Gas prices expected to remain elevated; demand growth to moderate in near term

SEPTEMBER 2022

Highlights

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Gas prices remain elevated due to due to disruptions in gas markets caused by the Russia-Ukraine conflict. The structural issues are expected to persist in the near term and prices are expected to remain high.

Gas demand in FY2023 to moderate compared to earlier expectation due to high prices

Review of APM gas pricing by Kirit Parikh Committee is a key moniterable

- Gas demand is expected to grow in by ~4-5% in FY2023 owing to commissioning of new fertiliser plants and increasing offtake by CGD entities enabled by expansion in pipeline network and new LNG terminals. However, compared to earlier expectations, the demand will moderate due to lower offtake from power and industrial sector due to high prices.
- FY2021 witnessed increase in gas prices due to various reasons. Subsequently, the further sharp increase in recent months is mainly due to disruptions in the gas market caused by Russia-Ukraine conflict, leading to changes in supply pattern , with Europe trying to reduce dependence on Russia. However, the shift to alternate sources will take time as infrastructure to support the same is under implementation. The structural issues are expected to persist in the near term and keep the prices high.
- Capex in FY2022 was impacted by the 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.
- Due to sustained high prices at various hubs, the domestic APM prices are expected to witness sharp revision during the next reset in Oct 2022, which may put some pressure on the CGD sector, despite the increase in domestic gas allocation done in Aug 2022. A new committee under Mr. Kirit Parikh has been set up to review the domestic gas pricing. The recommendations of the committee will be critical for the sector. It will be favourable for the consuming sectors, if based on the revised pricing formula, the escalation in APM prices is lower than anticipated.
- The debt levels of the industry 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 30.8x for FY2023 and Total debt/OPBDITA expected at 0.58x over the same period.
- 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

1

Domestic gas supplies are expected to increase in the medium term, but will still lag demand, keeping reliance on LNG imports at a high level.

However, due to elevated prices, the demand for imported LNG may witness some moderation in near term

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 to around 61.5 MMTPA by FY2025 from around 32 MMTPA at present

3

The long-term outlook for the CGD sector remains favourable with the revised gas allocation policy to mitigate impact of shortfall in domestic gas allocation for the CNG and PNG (domestic) segments.

The allocation policy is applicable up to Q2 FY2023 and will be reviewed subsequently for coming quarters. The PNG industrial and commercial segment, however, would continue to face stiff competition from alternate liquid and solid fuels. In the near term, despite the elevated prices, while CNG and PNG remain competitive, new conversion may witness some deferment

4

The capex execution in FY2022 was impacted by second wave of Covid-19. While capex is 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 overruns are not ruled out, given the surge in demand and overstretched 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 fertiliser plants and CGD projects in new GAs. However, demand from power and industrial sector will be lower, impacting the aggregate demand growth in FY2023.
While profit margins will witness some pressure in the near term, they will remain healthy. Further, the credit profile of most Indian gas utilities derives comfort from low gearing levels

Industry Outlook - Stable

FY2023 Outlook - Stable

DEMAND GROWTH	REVENUES	OPERATING MARGIN	TOTAL DEBT	DEBT/EBIDTA
~4-5% Growth	**~25-30% YoY growth**	**~11-13%**	**~Rs. 15,000 crore**	**~0.6x**
Volume growth driven by commissioning of new fertiliser plants and increasing offtake by new GAs. However, demand from power /industrial sector to moderate	Revenue to witness sharp growth driven by higher volumes and high gas prices	Profit margins expected to witness some moderation	Debt levels to increase moderately due to planned capex	Debt/OPBDITA to witness some increase

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

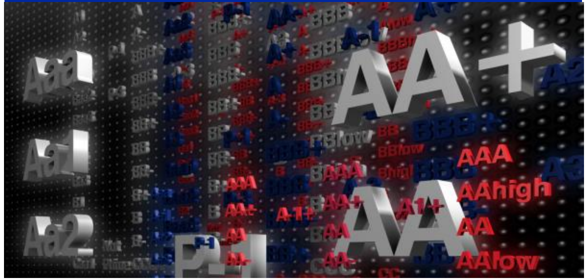
5. Financial Forecasts

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*	*Vice-President*
	sabyasachi@icraindia.com	prashant.vasisht@icraindia.com	sai.krishna@icraindia.com
	0124- 4545 304	0124 – 4545 322	022- 6114 3400

Analytical Contact Details

	Chinmay Sheth	Kushal Shah
	Senior Analyst	*Analyst*
	chinmay.sheth@icraindia.com	kushal.shah@icraindia.com
	079 – 4027 1550	079 – 4027 1527

Business Development/Media Contact Details

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

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Thank You!