

Indian Gas Utilities

Benign gas prices and uptick in domestic production supporting gas consumption in India

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International gas prices expected to remain range-bound amid healthy inventories globally with forecast for a mild winter across the globe.

Domestic demand expected to grow 8-10% YoY in FY2024 amid healthy domestic gas availability and softening LNG prices.

Going forward, capex in the sector is expected to increase, especially for CGD entities. The entities are likely to be exposed to project execution risk.



- Natural gas demand grew ~14% YoY in 7M FY2024 supported by softening liquefied natural gas (LNG) prices and uptick in domestic gas production. Gas demand is expected to increase by about 8-10% in FY2024 and about 6-8% in FY2025 driven by increasing offtake by the City Gas Distribution (CGD) sector amid an expanding network, strong offtake by the industrial segment (i.e., refineries, petrochemical plants), and a surge in offtake by the power sector amid rising power demand.
- LNG prices have remained soft since the beginning of FY2024 supported by faster-than-anticipated filling of 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; 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 underway in the CGD and pipeline segment. The debt coverage indicators of the industry are expected to remain healthy, while interest coverage is expected at ~20x for FY2024 and FY2025, and Total debt/OPBDITA at ~0.79x 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



Demand to grow 8-10% in FY2024 supported by healthy offtake across sectors amid rising domestic gas production and softer LNG prices








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

FY2024 Outlook - Stable

DEMAND GROWTH	REVENUES	OPERATING MARGIN	TOTAL DEBT	DEBT/EBIDTA
				
<p>~8-10% growth</p> <p>Volume growth driven by improving offtake across sectors amid growing domestic production and soft LNG prices</p>	<p>~10-11% YoY de-growth</p> <p>Revenue to witness moderation due to moderation in gas prices even as sales volumes are set to rise</p>	<p>~11-12%</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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