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INDIAN GAS UTILITIES INDUSTRY

Second APM gas cut for CGD sector; margins of entities under pressure

November 2024

Highlights

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The APM gas allocation for the CGD sector has been reduced for a second time with effect from November 15, 2024 after a 20% reduction in allocation from October 16, 2024.

ICRA believes this signals a policy shift by the GoI and there could be further reductions in the APM gas allocations to the sector, going forward.

- The Administered Price Mechanism (APM) gas allocation for the City Gas Distribution (CGD) sector has been reduced for a second time with effect from November 15, 2024 after a 20% reduction in allocation from October 16, 2024.
- In the near term, the gap will have to be met through spot Liquified Natural Gas (LNG), which is currently available at around $13-14/mmbtu and in the medium term through Term LNG or High Pressure High Temperature (HPHT)gas.
- With the current reduction, the APM gas availability for the CNG segment has fallen to ~40-45% of the demand vis-a-vis ~70% prior to the reduction in October 2024.
- ICRA believes the successive APM cuts, signal a policy shift by the GoI and there could be further reductions in the APM gas allocations to the sector, going forward.
- To maintain the contribution margins at earlier levels, CGD entities would have to increase the retail prices of CNG by about Rs. 8.5-9.0/kg, in ICRA's assessment.
- ICRA believes the sharp rise in the cost of procurement would urge CGD players to take graded price increases, which would impact the margins of incumbents. The expected price rise may result in slower growth in the CNG vehicle registrations, which have been the key driver of CNG sales volume for the sector.

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Thank You!