

INDIAN GAS UTILITIES INDUSTRY

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

November 2024





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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 Liquefied 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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Analytical Contact Details

Name	Designation	Email	Contact Number
Girishkumar Kadam	Senior Vice-President	girishkumar@icraindia.com	022 - 6114 3406
Prashant Vasisht	Senior Vice-President	prashant.vasisht@icraindia.com	0124 - 4545 322
Varun Gogia	Assistant Vice-President	varun.gogia1@icraindia.com	+91 987115 6542





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Business Development/Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	shivakumar@icraindia.com	022-61693304
Neha Agarwal	Head – Research Sales	neha.agarwal@icraindia.com	022-61693338
Rohit Gupta	Head Business Development – Infrastructure Sector	rohitg@icraindia.com	0124-4545340
Vivek Bhalla	Head Business Development – Financial Sector	vivek.bhalla@icraindia.com	022-61693372
Vinita Baid	Head Business Development – Corporate Sector - West & East	vinita.baid@icraindia.com	033-71501131
Shivam Bhatia	Head Business Development – Corporate Sector - North & South	shivam.bhatia@icraindia.com	0124-4545803
Naznin Prodhani	Head - Group Corporate Communications & Media Relations	communications@icraindia.com	0124-4545860





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