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INDIAN GAS UTILITIES INDUSTRY

City gas distribution companies face rising gas costs as APM gas allocation falls further

APRIL 2025

Highlights

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Progressive reduction in APM gas allocation for the CGD sector is pushing CGD players to hike up prices while partly absorbing the increased costs.

Going forward, with APM gas production expected to fall, CGD entities would progressively rely on gas sources with costs higher than the APM gas and thus will continue to witness cost pressures in the near future.

- On April 15, 2025, the GoI[1] replaced ~2.75 mmscmd of APM[2] gas with NWG[3] for the CGD[4] sector. The NWG is priced* at a 12% slope of the monthly average of the Indian crude oil basket price.
- The latest cut in APM gas follows a series of such cuts, beginning October 2024, which have cumulatively reduced APM gas allocation to the sector by 4.5 mmscmd to 5 mmscmd[5].
- The reallocation is expected to result in an increase in the gas costs for the CNG[7] segment by ~Rs. 0.54 per scm[5] or Rs. 0.41/kg for the CGD sector. ICRA expects this to have an EBITDA impact of ~Rs. 400 crore (Rs. 0.35/scm of EBITDA/scm) on the CGD sector in case the CGD entities choose not to pass on the price increase to consumers. However, ICRA believes this increase can be easily passed on by the CGD entities.
- While the current increase in gas costs is not material, a sustained reduction in the proportion of APM gas in the overall gas mix will put continued pressure on CGD entities to raise prices.
- While the increase in CNG prices over the years has moderated the competitiveness of CNG passenger vehicles on a total cost of ownership basis, nevertheless, it remains the most competitive fuel.
- The GoI's announcement of domestic gas allocation on a two-quarter advance basis and preferential allotment of NWG provides gas allocation visibility to CGD players. Nevertheless, shrinking gas production from nomination fields will lead to increasing reliance on more expensive gas.

*__1:GoI__: Government of India __; 2: APM__: Administered Price Mechanism; __3__: __NWG__: New Well Gas; __4: CGD:__ City Gas Distribution; __5: MMSCMD__: Million standard cubic metres per day; __6: SCM__: Standard Cubic Metres; ; __7: CNG__: Compressed Natural Gas __; *NWG Gas price__ = 12% x Monthly Average Price of Indian Crude oil basket for the previous month*

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Thank You!