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Indian Gas Utilities

Gas prices remain elevated in the backdrop of Russia-Ukraine conflict

JUNE 2022

Highlights

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Gas prices remain elevated due to continued Russia-Ukraine conflict

The prices are expected to remain high in the near to medium term due to changes in global gas supply chain owing to conflict-related sanctions and other disruptions

- Gas demand is expected to grow in by ~8-9% 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, any further pandemic waves and lockdown measures will remain ~~a~~ key concerns.
- Sharp increase in natural gas prices in the last one year due to various factors, including Covid-19-related disruptions, odd weather patterns, lower renewable and hydro power generation and increase in crude oil prices. The Russia-Ukraine conflict has further added pressure and prices are expected to remain elevated in the near to medium term.
- 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 a sharp demand recovery in FY2022, there was a shortfall in domestic gas allocation for the CNG and domestic PNG sectors, as per the existing allocation guidelines of MOPNG. To address the issue of allocation shortfall, MOPNG has revised the guideline to ensure requirement assessment on a quarterly basis and GAIL will pool in any domestic gas shortfall with high pressure/high temperature (HPHT) domestic gas and RLNG and supply at uniform prices.
- 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 27.3x for FY2023 and Total debt/OPBDITA expected at 0.67x over the same period.
- Despite the decline in revenues in FY2021, 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

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1

Domestic gas supplies are expected to increase in the medium term, but will still lags demand, keeping reliance on LNG imports at a high level. There could be a structural shortage of LNG capacity given the net-zero commitments that different Governments are making and under investments by global upstream companies due to ESG goals

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 favorable with the revised gas allocation policy to mitigate impact of shortfall in domestic gas allocation for the CNG and PNG (domestic) segments. 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 over runs 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. ICRA also expects some increase in term contracts for LNG.

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
~8-9% Growth	**~5-6% YoY growth**	**~12-13%**	**Rs. 14,100 crore**	**0.7x**
Volume growth driven by commissioning of new fertiliser plants and increasing offtake by new GAs. However, any further Covid-19 waves and lockdown will remain ~~a~~ key concerns	Revenue to witness healthy growth driven by higher volumes and price revisions	Profit margins expected to witness some moderation	Debt levels to increase moderately due to planned capex	Debt/OPBDITA to witness some increase

Credit implications of Russia-Ukraine face-off

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Midstream

- Elevated LNG prices have adversely impacted capacity utilisations of LNG terminals, pipelines
- Increase in LNG prices is negative for new LNG terminals as volumes and returns would be adversely impacted
- The profit margins on the CNG and PNG(d) segments will witness some pressure due to a shortfall in allocation of domestic gas, although the revised gas allocation policy will partly mitigate the impact. High LNG prices will have a negative impact on PNG (I) & PNG (C) margins

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, nil or low leverage, robust liquidity and strong financial flexibility

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

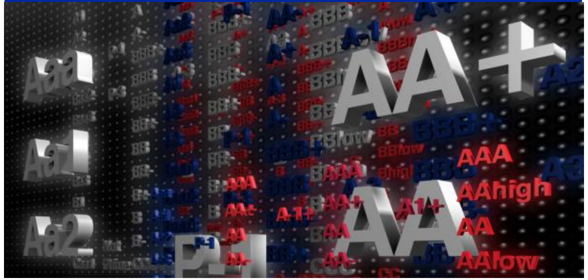
5 Financial Forecasts

6 Industry Performance

Agenda

7 **Industry Peer Comparison**

8 **ICRA Ratings on Gas Utility Companies**



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Thank You!