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GENERAL STUDIES 3: ECONOMY

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ENERGY CHURN AHEAD

City Gas Distribution (CGD) Sector

Reduced APM Gas Allocation

- **Lower Allocation:** APM gas allocation for priority sectors like domestic PNG and CNG reduced from 72% to 44% (as of November 16).
- **Costlier Alternatives:** Companies rely on expensive HPHT gas and imported RLNG, increasing gas costs by ₹5 per scm or ₹7 per kg.

Impact on Profitability and Volume Growth

- **Higher Costs:** Increased dependence on costly gas sources affects profitability, especially in priority segments like D-PNG and CNG.
- **Competitiveness Issues:**
 - Diesel poses stiff competition, with CNG's cost advantage eroding.
 - Adoption of electric buses (PM e-Bus Seva scheme) reduces demand for CNG in public transport.
- **Stagnation in Growth:** New CNG vehicle registrations remain flat; CNG volume growth slowed to 11% in the last two years.

Limited Cost Pass-Through and Earnings Decline

- **Price Sensitivity:** Difficulty passing cost increases to consumers without affecting demand.
- **Projected Losses:** Partial cost pass-through could reduce sector earnings (EBITDA) by ₹2,300 crore in the next financial year.
- **Industrial Shift:** Price-sensitive industrial segments are moving to alternatives like propane, with a 25% decline in consumption after gas price hikes.

Consolidation Pressures

- **Larger Players' Advantage:**
 - Established networks and favorable gas procurement contracts help larger players manage challenges.



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- Strong balance sheets and completed CAPEX programs offer resilience.
- **Smaller Entities Struggle:**
 - Reliance on spot gas purchases and high CAPEX burdens smaller companies.
 - Eleven weak areas are potential acquisition targets.
- **Debt Dependency:** 61 PSU-operated areas may face increased debt due to investment needs, fostering consolidation.

Source: <https://indianexpress.com/article/opinion/columns/gas-price-rise-and-trumps-expected-policies-9755303/>

