

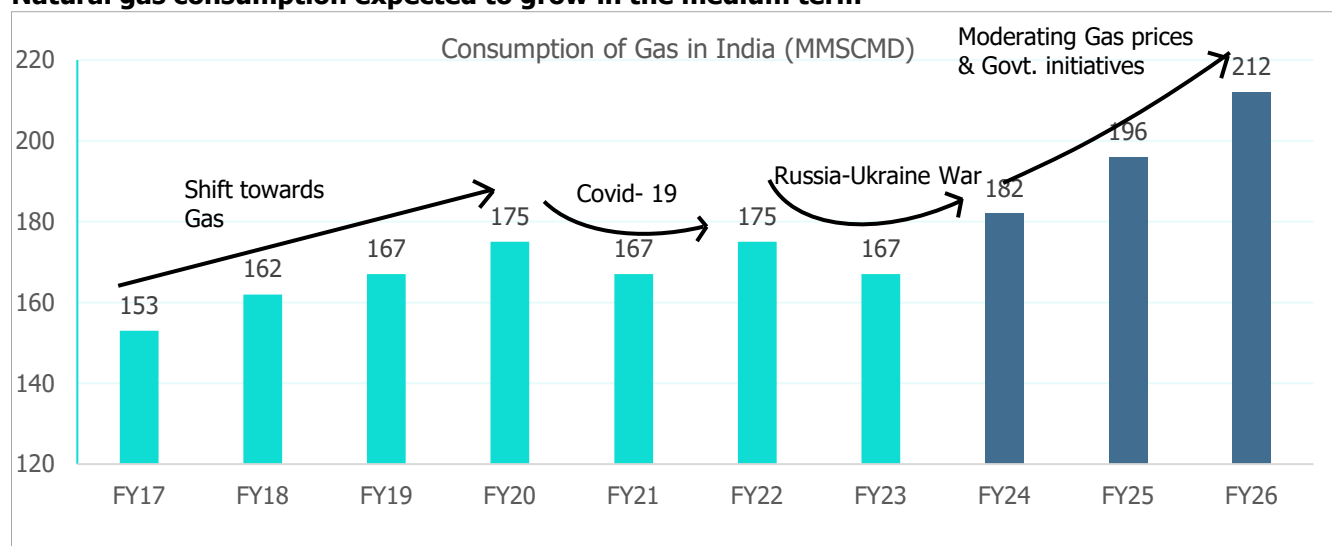
# Natural Gas: Import Dependency Expected at Around 45% by FY26

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## Synopsis

- India has set an ambitious target to increase the share of natural gas in its overall primary energy mix to 15% by 2030 from the prevailing 6% share.
- India is envisaged to have robust demand for natural gas from all the major consumption segments viz. Fertilizer, City gas distribution, Power, Refineries and Petrochemicals. After digesting the shocks of the Covid-19 pandemic and the Russia-Ukraine war, gas consumption in FY24 is expected to be the highest ever in the country.
- Imported LNG prices which had shot up significantly in FY23 due to supply disruptions arising from the outbreak of the Russia-Ukraine war have also now normalised during the last one year; and with sizeable expansion of LNG export capacities being undertaken by the gas surplus hubs/regions of the globe, imported LNG prices in India are expected to remain range bound, thus supporting demand.
- The higher demand for natural gas in the country is also expected to be supported by sizeable growth in domestic gas production wherein nearly 30 MMSCMD of new domestic natural gas production has gradually come on-stream over the last three years and another around 15 MMSCMD of new domestic natural gas production is expected to come on-stream during FY25.
- With the rise in domestic natural gas production, India's dependency on imported LNG, which stood at 53% of total consumption in FY21, has gradually declined over the last three years and is expected to remain at around 45% by FY26.

## Natural gas consumption expected to grow in the medium term

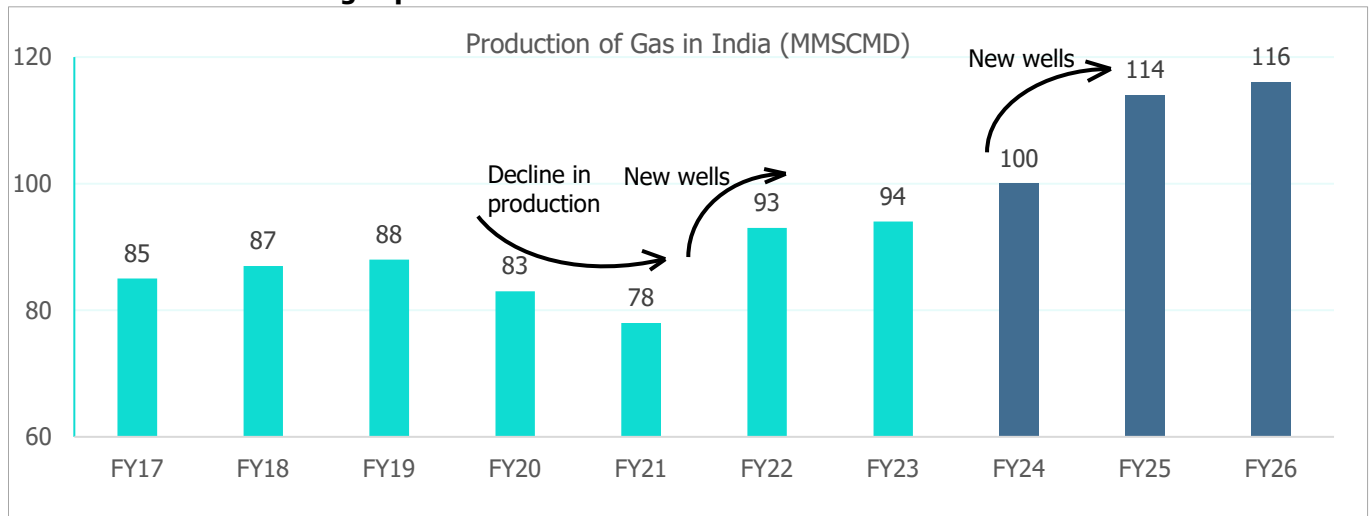


With greater thrust of the Government for transitioning towards cleaner fuel, there was a steady growth in natural gas consumption till FY20. However, due to the impact of the Covid-19 pandemic, there had been a decline in natural gas consumption during FY21 in line with an overall decline in energy consumption in the country. Post subsiding of the impact of the pandemic, industrial activity rebounded which again led to an increase in gas consumption in FY22, reaching to pre-Covid levels. It was on course to grow further in the subsequent year,

however, the sudden outbreak of war between Russia and Ukraine in February 2022 led to a sharp increase in prices of natural gas in FY23 whereby gas lost its cost competitiveness to the alternate fuels. Accordingly, natural gas consumption declined in FY23. With imported gas prices normalizing to around \$10-\$12/mmbtu by the end FY23 and remaining range bound in the current fiscal, natural gas consumption has again started its upward trajectory in 9MFY24 and CareEdge Ratings expects India to record its highest-ever gas consumption annually in FY24.

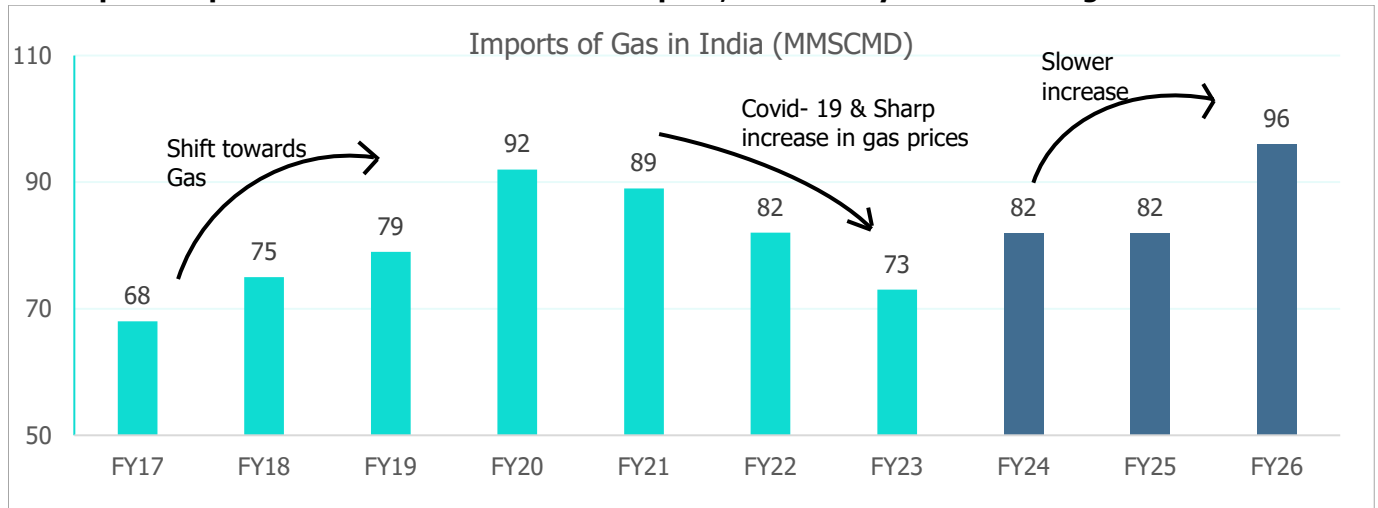
Going forward, with imported LNG prices expected to remain range-bound, growth in domestic natural gas production and sizeable demand from key user industries, natural gas consumption is slated to grow significantly in the medium term.

**Rise in domestic natural gas production**



Domestic natural gas production was on a declining trend till FY21 on the back of depleting production from existing fields; with no major discoveries coming on-stream. However, due to new gas discoveries in a few off-shore fields coming onstream, domestic natural gas production again started improving from FY22. Going forward also, we expect domestic gas production to improve in the medium term on the back of production ramp-up from discoveries of the recent past along with sizeable new production expected to come onstream in FY25.

**Gas imports expected to increase at a moderate pace; albeit likely to remain range-bound**



On the back of limited domestic natural gas production, India historically had a high dependence on imported gas. However, during the last three years ended FY23, gas imports had declined mainly due to improved domestic gas production and a rise in imported gas prices.

Going forward, gas imports are expected to increase at a moderate pace in spite of expected growth in domestic production because consumption of natural gas is expected to outpace domestic production. Still, imports as a percentage of total consumption are expected to remain largely range-bound during next two years, up to FY26. Had there been no growth in domestic gas production, probably dependence on imports would have been much higher.

### **CareEdge Ratings' View**

"India aims to increase the share of natural gas in its primary energy mix from existing 6% to 15% by 2030, focusing on key end-use sectors like fertilizers, city gas distribution, power, refineries, and petrochemicals. Despite high reliance on imports in the past due to falling domestic production, significant growth in domestic gas output from FY22 onwards along with expected increases in FY24 and FY25 offer hope for reduced import dependency. Regulatory steps to adjust domestic gas pricing, stabilizing imported gas prices, adequate LNG capacity in India, and expanding gas pipeline infrastructure are expected to support this shift towards a greater share of natural gas while keeping our import dependency at around 45% of total natural gas consumption by FY26," said Hardik Shah, Director at CareEdge Ratings.

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