LPG Under-recoveries of OMCs Expected to Reduce by ~45% Y-o-Y in FY26

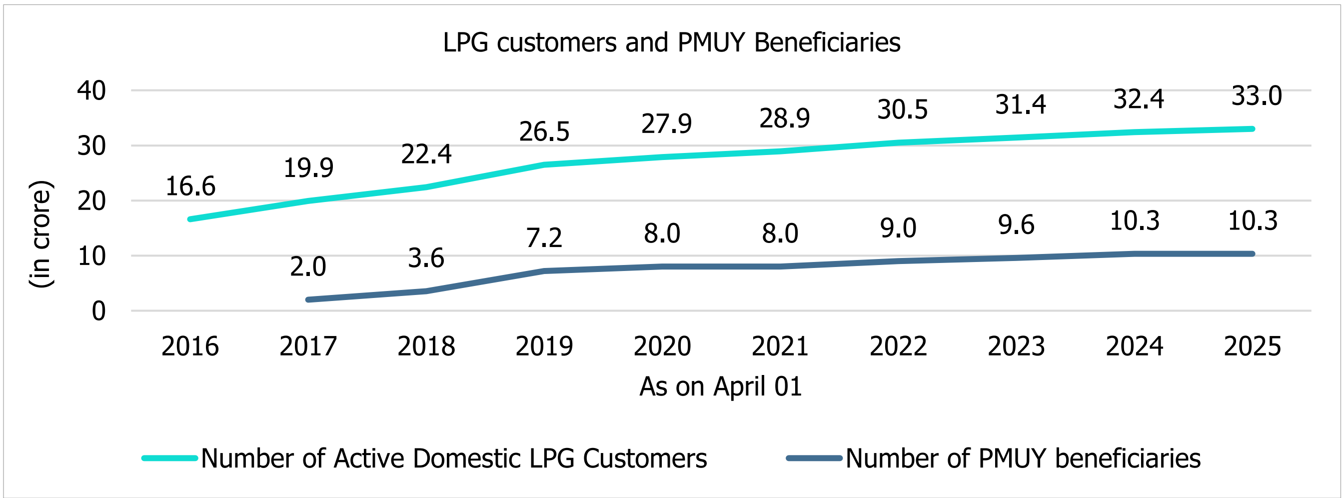
May 13, 2025 I Ratings

Synopsis

- In India, about 90% of LPG consumption is attributed to household cooking. Industrial, commercial, and automotive account for the remaining 10%. Over the past decade, the total number of domestic LPG consumers in India doubled to ~33 crore as of April 01, 2025.
- With the significant increase in the LPG consumer base, consumption of LPG has outpaced its domestic production, mainly because of lower LPG production by Indian crude oil refiners. This has led to an increased import dependency for LPG, accounting for ~60% of the domestic LPG requirement in FY25, compared to around 46% a decade ago.
- In FY25, Oil Marketing Companies (OMCs) suffered significant LPG under-recoveries to the extent of ~Rs 220/ 14.2 kg cylinder essentially because of higher LPG sourcing cost vis-à-vis its retail prices. This led to an aggregate LPG under-recovery of Rs 41,270 crore in FY25 for the three major OMCs combined, thereby exerting pressure on their profitability, as reflected in a decline in the PAT of all three OMCs from approximately Rs 85,000 crore in FY24 to approximately Rs 35,000 crore in FY25.
- However, with the hike in retail LPG price by Rs 50 / cylinder (effective April 08, 2025), the LPG under-recoveries are expected to reduce by 25% in FY26. Furthermore, international LPG prices are also expected to soften due to a decline in the Saudi Contract Price (the benchmark for LPG pricing) in March 2025 and May 2025, following a fall in crude oil prices, which could lead to another ~20% reduction in LPG under-recovery in FY26. Cumulatively, the LPG under-recoveries are expected to decrease by ~45% in FY26 if crude oil prices remain around USD 65/bbl.

Doubling Of LPG Consumer Base

In India, about 90% of LPG consumption is attributed to household cooking. Industrial, commercial, and automotive accounts for the remaining 10%, wherein the share of auto LPG has been gradually declining due to the shift of automobiles to alternative fuels, such as CNG and electric vehicles.



Source: PPAC

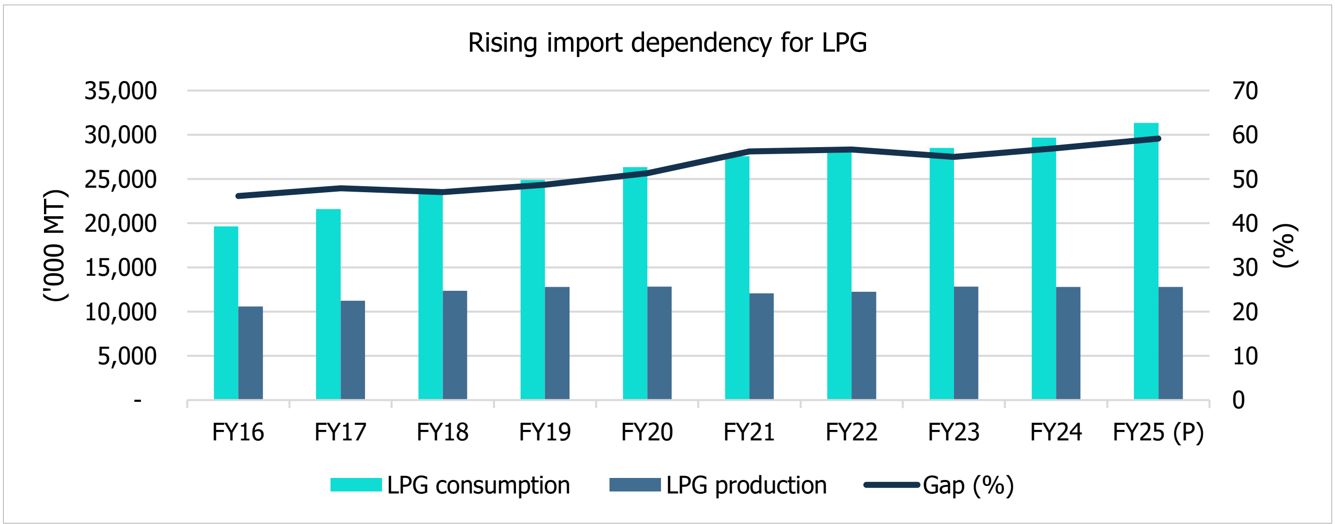
Over the past decade, the total number of domestic LPG consumers in India doubled to ~33 crore as of April 01, 2025. This growth in the consumer base is largely attributable to increased penetration in rural areas, where reliance on alternative fuels for cooking, such as kerosene, coal, and biofuel, has historically been higher compared to urban regions. The Pradhan Mantri Ujjwala Yojana (PMUY) was launched in May 2016 to provide LPG connections to eligible households nationwide. It was later replaced with Ujjwala Yojana 2.0 in 2021, which also supported the growth in LPG connections. W.e.f. From April 8, 2025, the retail selling price of a 14.2 kg cylinder has been increased by Rs 50 to Rs 853 in Delhi. Eligible PMUY beneficiaries receive a subsidy of Rs 300 per cylinder under the Direct Benefit Transfer scheme, applicable for up to 12 refills per year.

LPG Demand Growth to Slow Down with Gradual Development of CGD Networks

LPG consumption grew at a 10-year CAGR of ~6%, driven by increases in both the number of connections and per capita LPG consumption among PMUY beneficiaries. The per capita consumption of 14.2 kg of cylinders increased from 3.01 cylinders in FY20 to 4.43 cylinders in FY25 for PMUY beneficiaries, primarily driven by greater rural penetration. In contrast, demand for LPG in urban regions is expected to be gradually replaced by PNG (Domestic) connections provided by CGD companies. The Petroleum and Natural Gas Regulatory Board (PNGRB) has set an ambitious target of 12.6 crore PNG (Domestic) connections by 2032, which is expected to partly replace the LPG demand in the long run, especially for non-PMUY users. However, PNG (Domestic) connections could only reach 1.4 crore as of February 28, 2025, vis-à-vis the target of 2.9 crore connections.

Given the significant penetration level of LPG already achieved and the government's focus on increasing PNG (Domestic) usage, the LPG consumer base is near saturation, with expected annual growth of 1%-2% going forward.

Import Dependency for LPG To Continue



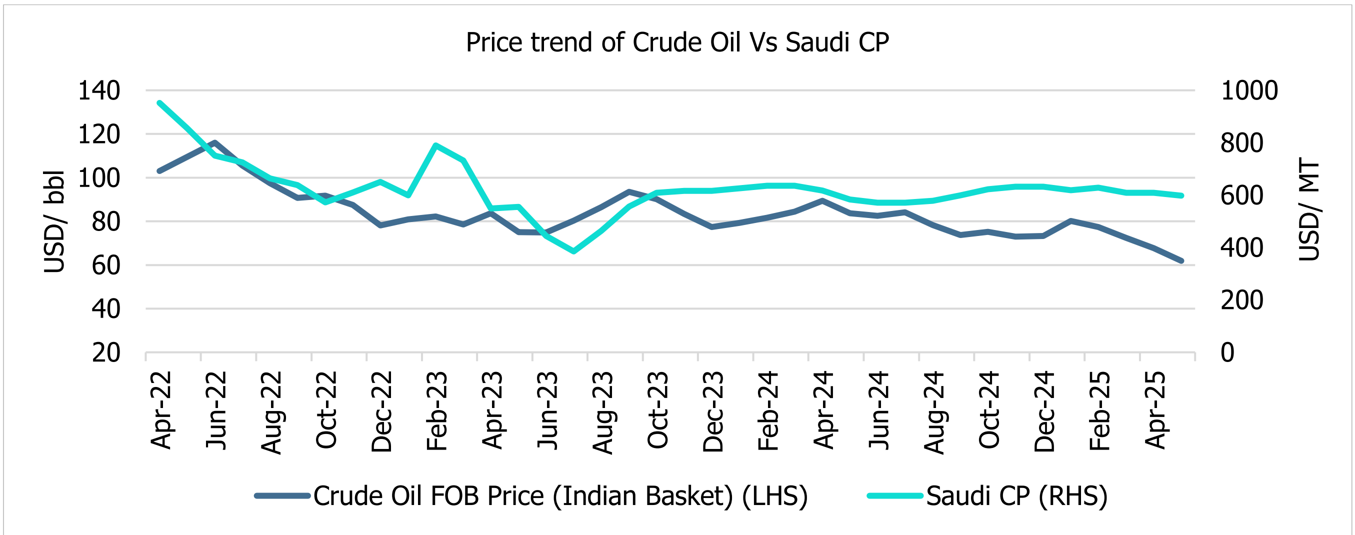
Source: PPAC

While LPG consumption grew at a 10-year CAGR of ~6%, its domestic production lagged at less than a 3% growth rate during the same period. With consumption outpacing production, the dependency on LPG imports increased from 46% in FY16 to ~60% in FY25. Around 90% of the LPG import demand is being met by Middle Eastern countries, including the UAE, Qatar, and Saudi Arabia.

While domestic production is expected to increase going forward, as Indian crude oil refining capacity is anticipated to rise by 20% over the next 4-5 years, it will still be lower than the domestic requirement, resulting in continued import dependency for LPG.

Trend of LPG Procurement Cost

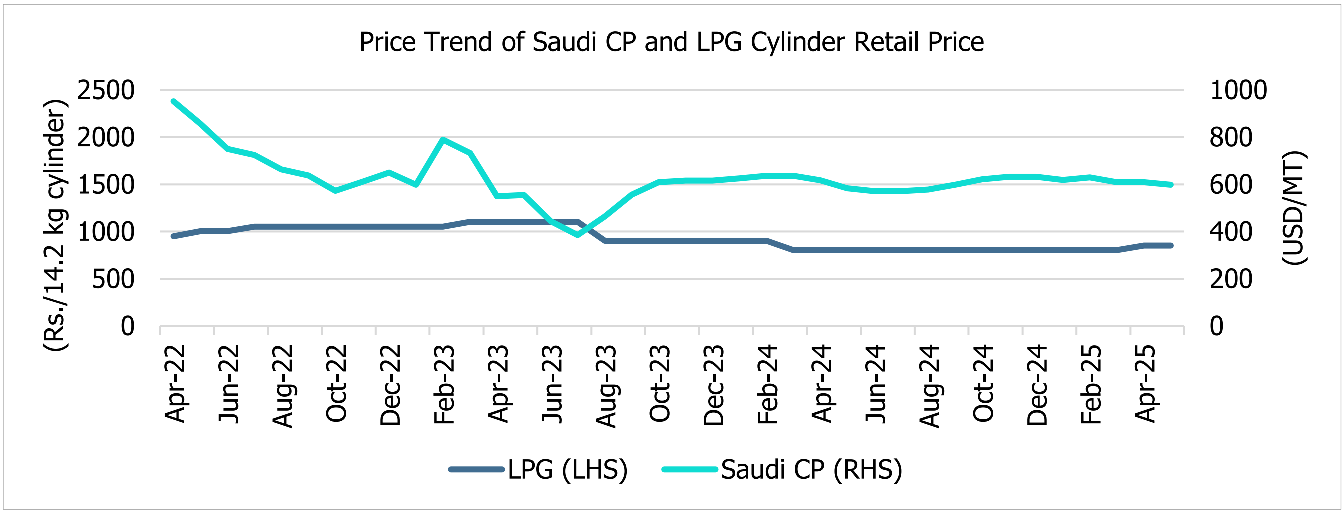
The procurement cost of LPG is linked to the international LPG benchmark, specifically the Saudi Contract Price, which in turn is mainly dependent on the price of crude oil, its primary raw material. Historically crude oil price changes has translated in changes in Saudi Contract Price with a lag. While the crude oil price (Indian basket) declined sharply to USD 67.7/bbl in April 2025 and further to USD 61.8/bbl in the first week of May 2025 from an average of USD 78.6/bbl in FY25, the decline in the Saudi Contract Price is lagging. The sharp decline in crude oil price is attributable to the planned increase in production by OPEC+, coupled with concerns about demand due to a likely slowdown arising from the global tariff war. As China imports a large portion of its LPG requirements from the US, the heightened tariff war has led China to explore alternative avenues, including the Middle East. This has prevented the Saudi CP price from declining in line with the recent decline in crude oil prices. This situation has opened up opportunities for India to diversify its LPG purchases from the US which could also help India reduce its trade surplus with the US.



Source: PPAC, International Saudi CP price

LPG Under-recoveries expected to reduce by ~45% Y-o-Y in FY26

In India, the Ministry of Petroleum and Natural Gas (MoPNG), GoI regulates the prices of domestic LPG (subsidised and non-subsidised). The last price increase was implemented in March 2023, following which the GoI reduced LPG cylinder prices by Rs 200 per cylinder in August 2023 and further by Rs 100 per cylinder in March 2024.



Source: PPAC

OMCs faced significant under-recoveries in LPG to the extent of ~Rs 220 / 14.2 kg cylinder in FY25, as the higher LPG sourcing cost could not be passed on to the consumers. With the recent increase in LPG prices by Rs 50 per cylinder, effective April 8, 2025, the LPG under recoveries are expected to have decreased to approximately Rs 170 per cylinder. Furthermore, anticipated reduction in LPG sourcing cost going forward on the back of decline in crude oil prices as well as higher sourcing of LPG from US is expected to further reduce the LPG under-recoveries in the coming quarters such that aggregate under-recoveries of Indian OMCs could decline by ~45% in FY26 y-o-y.

CareEdge Ratings' View

"In FY25, the LPG under-recoveries for OMCs soared significantly, squeezing their profitability. The combined net profit of the three major state-owned OMCs plummeted from approximately Rs 85,000 crore in FY24 to approximately Rs 35,000 crore in FY25. Such under-recoveries are expected to decrease by ~45% in FY26, benefiting from the recent LPG price hike and the anticipated softening of international LPG prices. Historically, OMCs have been compensated for LPG under-recoveries through subsidies, with a subsidy of Rs 22,000 crore provided in FY23. The profitability of OMCs remains sensitive to the timeliness of Government support for such under-recoveries," said Richa Bagaria, Associate Director, CareEdge Ratings.

"In FY26, OMCs are expected to experience lower refining margins due to a weak global demand scenario for end products, while their fuel retailing margins are expected to expand on the back of lower crude oil prices, while pump prices remain largely stable. LPG under-recoveries are also expected to decline materially in FY26, following the recent price hike per cylinder. At the same time, reduction in LPG under-recoveries in FY26 would also be critically dependent on a reduction in LPG sourcing cost. Further, with the recent increase in excise duty by Rs 2/litre from April 08, 2025, the Government is expected to mop up incremental ~Rs 33,000 crore, which can be passed on to OMCs for their LPG under-recoveries in FY26," said Hardik Shah, Director, CareEdge Ratings.

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