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THE COMPASS

Uncertainties cloud prospects of gas sector

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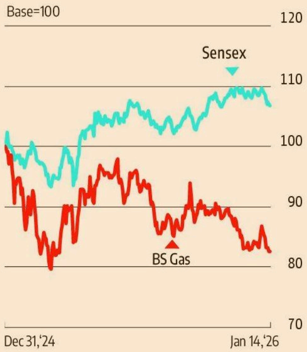
The oil and gas sector is suffering from geopolitical turmoil. While crude prices are low, rupee weakness is offsetting the benefits to an extent and refining margins have normalised as more global capacity has come on-stream, limiting earnings upside.

Henry Hub (HH) gas prices are up sharply by over 50 per cent year-on-year (Y-o-Y) in the third quarter of financial year 2026 (Q3FY26). HH has moderated recently to $3.2 per barrel (after rising to $4.5 per barrel in Nov-Dec'25) on good supply and weak heating demand in the US. By the end of Sep'27, the European Commission plans to fully phase out EU's imports of all Russian gas and LNG, with Russian LNG imports to end by Dec 26.

The Venezuela situation and political turmoil in Iran could add elements of unpredictability to the situation along with threats of US tariffs.



Low crude oil price allows oil marketing companies (OMCs) to report better marketing margins and LPG under-recovery has declined sharply from over ₹100 per cylinder to ₹30-50 per cylinder in Q3FY26. But, there are fears of adverse excise hikes.

India's overall gas demand edged up 1.6 per cent Y-o-Y in Nov'25 (led by recovery in LNG demand), but is still down 3.8 per cent Y-o-Y in the Apr-Nov'25 period, due to decline in domestic gas output and LNG demand is affected by high spot LNG prices. India's total gas demand in Oct-Nov'25 was flat Y-o-Y at 192.4 mmscmd (million metric standard cubic meters per day).

Asian spot LNG moderated recently and may normalise further as global LNG supply capacity will rise 30-40 per cent over three-four years beginning the second half of calendar year 2026 (H2CY26). But as of now, spot LNG price is higher as compared to alternatives.‹Lower spot LNG could be positive for all gas companies, particularly Gujarat Gas given 20-30 per cent dependence on spot LNG.

Petronet LNG also stands to benefit greatly from lower spot LNG. The city gas distribution (CGD) sector's total gas demand increased month-on-month to 46.4 mmscmd in Nov'25 (versus 44.2 mmscmd in Oct'25).

For CGD companies, the weak rupee and Henry Hub price volatility present challenges. Lower allocation of APM (administered price mechanism) gas and new well gas shortage are other concerns. Gujarat Gas had the least Henry Hub exposure in Q2FY26 (2 per cent), while Mahanagar Gas (MGL) had the most (34 per cent).

Given revised unified zonal tariff effective from 1st Jan'26, Indraprastha Gas (IGL) may enjoy an Ebitda margin boost of ₹0.9 per scm (standard cubic meter), MGL is likely to face a margin contraction of ₹0.3 per scm, while Gujarat Gas's margins should be unaffected. MGL may need to hike prices to offset its HH exposure. MGL's volumes however may see 10-11 per cent CAGR over FY25-28 and Ebitda margin pressure is discounted to some extent by the share price. GAIL's valuations have corrected sharply from Sep'24 highs, and the stock may have limited downside given historical valuations, and given that it's a dividend play with good free cash flows (FCF).

Transmission tariff revision, effective from Jan'26, would raise FY27 profit after tax (PAT), and transmission volumes are set to rise in FY27 after one-off disruptions in FY26. Further rationalisation of natural gas taxation may be a positive. But Q3FY26 marketing and LPG margins are expected to be weaker, petchem is likely to continue reporting losses, and Ebitda is seen flat Y-o-Y and down sequentially.

Gujarat Gas would be competitive versus propane if spot LNG falls significantly from current levels, enabling it to substitute industrial demand currently met by propane. There could be expansion of CNG demand in new geographical areas. The GSPC group restructuring expected to be completed over two–three months will lead to lower tax outgo due to carry forward losses of GSPC.

Spot LNG normalisation is expected to boost regas volume growth for Petronet and drive volumes for GAIL's gas transmission business.

The Dahej terminal capacity expansion (from 17.5 to 22.5 million metric tonnes per annum (mmtpa) by Mar'26) leaves Petronet well placed in this scenario. The ₹20,000 crore capex plans in the petchem business do raise concerns since this is currently unattractive. Adjusted Ebitda is likely to rise on better volumes, with Dahej utilisation at about 96 per cent in Q3YF26.

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NTPC Green Energy to form 50:50 JV with GAIL for setting up RE projects

NEW DELHI: State-owned NTPC Green Energy on Thursday said its board has given a go-ahead for the formation of 50:50 joint venture with GAIL (India) Ltd for development of renewable energy projects.

"Board of Directors of the Company in their meeting held on 15th January 2026, has inter-alia approved the Joint Venture Agreement for incorporation of a 50:50 Joint Venture Company (JVC) with GAIL (India) Ltd for undertaking Renewable Energy Projects, subject to approval of Ministry of Power, DIPAM and/or other statutory authorities as applicable," a regulatory filing said.

NTPC Green Energy (NGEL) is a subsidiary of state-owned power giant NTPC.

NGEL is an umbrella company for green business initiatives of NTPC and undertakes projects through organic and inorganic routes and aims to be the flag-bearer of NTPC's green energy journey to achieve the ambitious target of 60 GW by FY32. PTI

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