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Changing Business Landscape and New Set of Challenges & Opportunities in LPG market in India

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Abstracts

The incumbent government is in a full swing to bring the economy back on its feet. The government has signaled that in the days to come, the market realities will come thick and fast, giving the economy a much needed respite from subdued prices and subsidy. It is estimated that the combined subsidy from subsidized LPG cylinder and Kerosene It is only a matter of time that the economy is given a “bitter medicine”, which will have a ripple effect on regions and markets. It is expected that the government will increase the price of domestic LPG cylinder by INR 5/cylinder in a phased manner. The overall subsidy on HSD, domestic LPG and Kerosene is estimated to be INR 115,548 Crore, out of which domestic LPG accounts for a whopping 44% at INR 50,324 Crore.

The report, “Changing Business Landscape and New Set of Challenges & Opportunities in LPG market in India”, conceived by InfraInsights is rightly timed and designed to provide an in-depth assessment of key elements such as: Changes in the historic subsidy regime in LPG segment, Impact of domestic LPG price recovery on end-user market, New set of opportunities & challenges for Oil Marketing Companies and Parallel Marketing Companies in LPG and outlook on likely changes in the overall LPG business landscape in India. The contents of the report are elaborate and the framework as such is designed not only for the LPG import and retail & marketing companies but also for the companies involved in the manufacturing of the LPG cylinders, Bulk LPG storage, Kit manufacturers and OEM’s.

LPG industry is not new to India and dates back to 1950s. In India, the LPG industry is quite extensive and there are players across the LPG value chain, such as: LPG importers and import terminal operators, LPG storage tank manufacturing players, LPG suppliers & distributors catering to: Domestic, Industrial, Commercial and Transport, LPG cylinder manufacturers and LPG kit manufacturers. .

LPG is present in all the four key end-consumer segments: Domestic, Industrial, Commercial and Transport. With the growth and economic development in the country, an increase in the energy/fuel consumption of the consumer segment is inevitable. With the rise in the energy requirement of the country, there is definitely an opportunity for the LPG industry to scale-up and increase its penetration in the consumer base. However, the key question is – Whether the LPG industry is really geared up to address to the increasing demand? The question may be split further to understand and analyse the situation, such as:

In the event of a phased subsidy recovery on domestic LPG, whether the LPG consumption trend in the domestic segment will see a correction? How does the economics of using a domestic LPG cylinder vis-à-vis Piped Natural Gas vary based on lifting of subsidy in a phased manner?

Whether the LPG import infrastructure capacity is sufficient to cater to the gaps in demand-supply? It is to be noted that logistics is a major cost factor in LPG selling price. While at the country level, there may be a demand-supply gap but to actually penetrate that market potential the sourcing channel and the logistics need to be competitive so that LPG can competitively penetrate across the regions in the country (north, south, west, east and centre). LPG not only faces competition from alternate fuels like Natural Gas, but also from itself: subsidized LPG and LPG imported by other private players in a given region.

What are the issues and challenges in LPG retail & distribution? Call it an inflated subsidized domestic LPG cylinder demand, relaxed attitude of the OMC's towards domestic LPG retail, mis-management or spurious practices in domestic LPG cylinder distribution, overloading due to various schemes to increase rural LPG penetration, the true urban and semi-urban LPG consumer is highly unsatisfied with the OMC's and distributors of key OMC's. OMC LPG consumers are now saturated with the repeated hassles in getting a new domestic connection, shifting an LPG connection and refilling of cylinders. With the possible opening up of domestic LPG market, at least a trend seems to have been set by limiting the subsidized cylinders in a year and direct subsidy transfer; there is a scope for private players and also OMC companies to earn customer loyalty and gaining or re-gaining market share through efficient sales and services.

Whether there are sufficient LPG cylinders and bottling capacity to meet rural as

well as urban LPG domestic and non-domestic market? Schemes such as Rajiv Gandhi Gramin LPG Vitran Yojana (RGGLVY) are claimed to be a success, with nearly 12 lakh rural households converted to LPG in the last 3 years in rural areas. However, an underlying concern is that, whether the political drive to push LPG cylinders in rural areas augers well with the overall availability of LPG cylinders in the country? Whether the “go-rural” schemes have further impacted the availability of domestic cylinders in the market? And with LPG policy reforms being discussed and implemented in a step-by-step manner, is it that a significant pent-up LPG cylinder (domestic and non-domestic) demand is waiting to be tapped?

Whether the biggest LPG consumer market, i.e. the domestic segment is likley to stay or switch to alternate fuel such as PNG? Since domestic LPG segment had been majorly serviced by OMC’s who had been struggling with there own capacity issues and inefficiencies, somewhere the LPG consumers had not been getting the fair treatment as per the norm in other segments such as telecom and retail segments. The urban customer, in particular, has the capacity and inclination to pay a premium for an efficient service. With the capping on subsidized LPG cylinders and additional cylinder purchase at market/commercial rates, there is an opportunity for the private LPG players to take leverage of their customer centric approach and operational efficiencies to tap the new and existing domestic LPG market. Much to the respite of the LPG segment is the sudden fallback in the natural gas sector, due to a drop in domestic natural gas availability and high international LNG prices, that has given a window of opportunity for LPG segment?

Whether the LPG retail and distribution segment is prepared tap strategic markets? With the growth in urban areas and development in semi-urban areas due to the growth in jobs from service segment, there is an influx in the non-resident working population across the country. Majority of the population rely on small cylinders (5 Kg) which are sold by unstructured and localized players who sell and refill these cylinders at commercial rates. The segment has well been targeted by companies coming up with electrical appliances such as induction heaters, heating coils, etc. The strategic move by the OMC’s in small LPG retail and distribution through COCO outlets is a reflection of the still untapped market potential. The domestic LPG subsidy cap has also to an extent influenced the consumer mindset that the days of low cost LPG may soon be over.

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With the above stated events and more in the pipeline, InfraInsights intent is to highlight the emerging and untapped opportunities in the LPG market for the benefit of the stakeholders and also for a positive change in the LPG sector but also for the OEM companies, LPG cylinder manufacturing companies, LPG importers, etc.

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