

# NOTOS MARKET REPORT | LPG

In its bid to promote LPG as an alternative to bio-fuels, India overtook Japan to become the world's second largest importer of LPG behind China and is poised for further growth. But if that brings a smile to shipping remains debatable.

**INDIA IS NOW THE WORLD'S 2ND LARGEST LPG IMPORTER**  
 India is now the second largest importer of liquified petroleum products (LPG) in the world behind China after overtaking Japan, thanks to Modi's push to provide LPG as clean cooking fuel to every household in India. With his re-election, LPG consumption in India is set to scale new heights.

increased LPG penetration. The subsidy is intended to cover mainly the initial installation charges. Later refills are to be bought independently with a small reimbursement offered to low-income households for a limited number of refills. The target under the scheme has been to provide 50m new connections in 3 years, later extended to 80m connections over 5 years. However, the government expects to reach this target already before March 31, 2020.

**77% INCREASE IN LPG CONNECTIONS**

During the first four years of Modi government, a total of 100m new LPG connections were issued, of which about 40m new connections were provided to poor households. This is in comparison to the total 130m connections existing before that (+77%). The credit goes to the scheme, Pradhan Mantri Ujjawala Yojana (PMUY), launched in May 2016 which provides subsidies to women in poor households to get a new LPG connection, resulting in

**95% OF ALL HOUSEHOLDS SHALL USE LPG BY 2020**

LPG subsidy for the fiscal year 2019-2020 is expected to rise by 62% over the last year. Although this exponential growth is straining the government budget, the government remains confident to raise the figure of households with LPG connections to 95% by 2020 from the current 90%, with an eventual target of 100% in the near future.



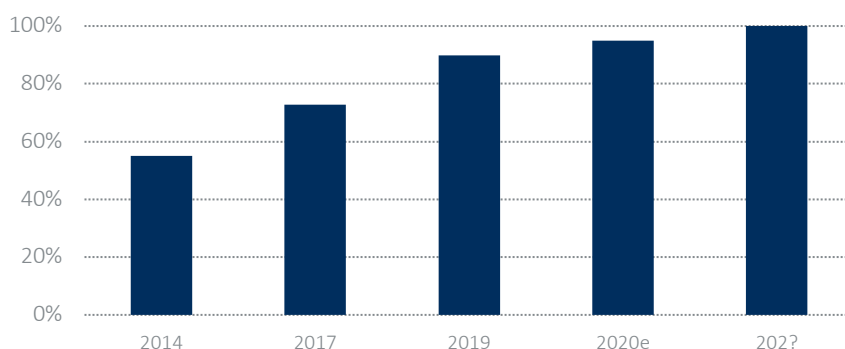
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**HOUSEHOLDS WITH LPG CONNECTIONS**



Source: Hindu Business Line 05/2018, Business Today 03/05/19, Lloyds' List 04/2019

Doubts have been raised at the success of the scheme as the refill rates have been comparatively low which suggests that households might be returning to alternate fuel sources due to constantly rising costs of refills. The government is considering plans to supply smaller size of cylinders to bring down the cost of refills and smarter ways to transfer subsidies so as to generate fiscal savings. As such, it remains optimistic about the increasing usage of LPG in households.

**STRONG INCREASE OF LPG IMPORTS EXPECTED**

LPG consumption in the country has been buoyant for the past few years, increasing on average by 8% in the last five years whereas imports have increased on average 11% p.a. from 8.1m tonnes in 2014 to 12.1m tonnes in 2018, as per Lloyds’ List. At this rate of growth and assuming that India relies for half or more of its

consumption on imports, the imports are expected to reach 17-19m tonnes by 2025. According to Oil Ministry of India’s projections and forecasts, LPG consumption is expected to grow to 30.3m tonnes by 2025 and 40.6m tonnes by 2040, as indicated in the graph below.

**EFFECT ON SHIPPING CONTENTIOUS**

We ran our own analysis to see its effects on shipping or new ships needed to match the increase in imports. If we assume that all of these new imports originate from Middle East and land up in West Coast ports in Gujarat to make it most cost- effective, then the effect on shipping is almost negligible and provides employment for barely one additional VLGC every year. Although that would still be sufficient to employ almost 10% of the orderbook of 45 new ships to be delivered in the next couple of years. No surprise that

despite this rapid rise in demand, there are not many Indian companies with gas carriers fleet. According to Lloyds List, only 21 of 1,379 global LPG fleet is owned by Indian companies. However, things could turn more interesting for shipping if a major part of these imports stems from the distant sources like US.

**INFRASTRUCTURE**

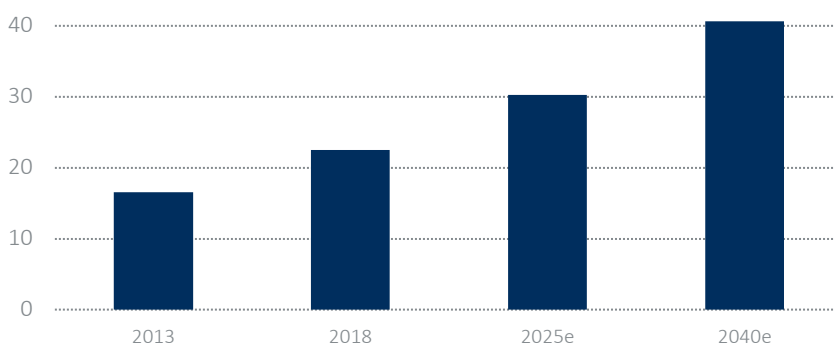
**INVESTMENTS NEEDED**

Investments are rather being made in infrastructure development which includes setting up new LPG import terminals, expanding existing ones and laying pipelines. Various projects are currently in different stages of development - terminal projects from Adani Group, Energy Infrastructure (India) Ltd. and West Coast Liquid Terminal being the frontrunners. Most of these projects are planned in Gujarat on West Coast due to the advantage of proximity to Middle East. Additionally, new pipelines infrastructure is needed to move LPG from ports to bottling plants.

**OUR CONCLUSION**

Although not sensational, but hopefully a stable source of growth for LPG consumption is emerging.

**LPG CONSUMPTION IN MILION TONNES**



Source: Economic Times 02/2019

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