EXTERNAL SHOCKS

Why there's an LPG crisis in India

The Iran war has disrupted LPG shipments through the Strait of Hormuz, a key energy chokepoint, pushing up global LPG prices. Despite the hike in domestic LPG cylinder prices and government subsidies, the under-recoveries of oil marketing companies are likely to increase, writes ***Prashant Vasisht***

What is the consumption mix in India?

THE DOMESTIC SEGMENT accounts for 88% of the consumption mix, followed by commercial / industrial (11%) and transportation (<1%). The cost of LPG is determined on import parity basis using Saudi Contract Price and other charges such as ocean freight, bottling, inland freight, etc.

The total number of domestic LPG connections is 330 million, of which 103 million are PMUY beneficiaries. In FY25, PMUY beneficiaries consumed an average of 4.5 cylinders per beneficiary per year, while non-PMUY consumers averaged 6.6 cylinders per beneficiary per year.

60%

OF TOTAL LPG CONSUMPTION IS SOURCED FROM OVERSEAS SUPPLIERS

THE COST OF LPG IS DETERMINED ON IMPORT PARITY BASIS USING SAUDI CONTRACT PRICE AND OTHER CHARGES SUCH AS OCEAN FREIGHT, BOTTLING, INLAND FREIGHT

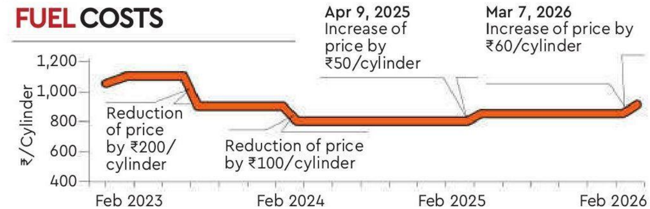
₹50,600 cr

LPG UNDER-RECOVERIES OF OMCs AS ON DECEMBER 31, 2025

Domestic price trends

THE OIL MARKETING companies (OMC) hiked domestic LPG cylinder prices by ₹60 per 14.2 kg cylinder from March 7, 2026 increasing the retail price to ₹913 per cylinder in Delhi. The previous price increase was on April 9, 2025 when the prices were increased by ₹50 a cylinder. The subsidy for PMUY beneficiaries is ₹300/ cylinder leading to an effective price of ₹613/ cylinder for the consumer.

FUEL COSTS



Source: IOC (domestic LPG retail selling price in Delhi), Icra Research

OMCs' LPG under-recoveries

THE LPG UNDER-RECOVERY burden for OMCs was ₹ 50,600 crore on December 31, 2025 owing to high international prices of LPG and lower realisations on sales. This is set to go up further given the recent hike in international LPG prices, despite the upward revision in domestic cylinder prices and support by the government. The government had approved a ₹30,000-crore compensation package for the OMCs in August 2025. The grant is being released in 12 equal monthly tranches, with the first tranche disbursed in November 2025.

PMUY subsidy burden on govt

THE PMUY SUBSIDY burden has been rising over the years with an estimated burden of ~₹12,700 crore in FY26, driven by the growth in both the number of beneficiaries and per capita LPG consumption. PMUY connections rose to 10.3 crore in FY25 from 80 million in FY20 and average consumption grew to 4.5 cylinders/ beneficiary/ year from 3 cylinders/ beneficiary/ year during the same period. The government also raised the subsidy to ₹300/ cylinder in October 2023 from ₹200/ cylinder, adding to the subsidy burden.

Impact on OMCs' profitability

IF CRUDE OIL prices remain elevated and retail prices of auto fuels are not revised, the marketing margins of OMCs are likely to come under pressure, adversely impacting overall profitability. Also, despite some improvement in gross refining margins, the continued burden of sizeable LPG under-recoveries will further weigh on earnings.

The writer is senior vice president and co-group head, Corporate Ratings, Icra