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COVID-19 IMPACT

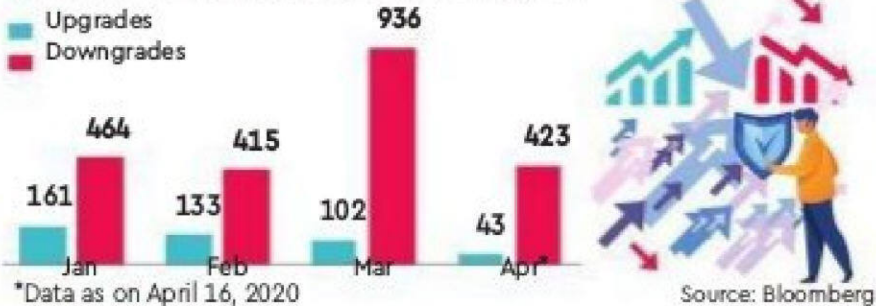
Even the best of banks, Corp India to plumb new depths

21 downgrades a day since January compared with 15 between January and mid-March

CHIRAG MADIA
Mumbai, April 19

THE BEST OF India's companies and banks are in a spot as the pandemic-related lockdown brings business to a halt. In an economy ravaged by pay-cuts and lay-offs, experts expect financiers — both for consumer and corporate loans — to see delayed repayments and probably even defaults.

Even otherwise, consumption demand for large-ticket items like homes and high-priced durables is expected to remain anaemic for the rest of the year while investments are likely to come to a complete standstill pressuring revenues and cash flows across India Inc. Corporate India's finances already look far more stretched than they did even a month back.



Rating action on various India companies

Company	Rating action	Rating agency
Tata Motors	Downgraded	Fitch
Cairn India Holdings	Downgraded	Fitch
JSW Steel	Review for downgrade	Moody's
Vedanta Resources	Review for downgrade	Moody's
Indiabulls Housing Finance	Downgraded	Moody's
ONGC	Downgraded	Moody's
Delhi International Airport	Downgraded	Moody's
GMR Hyderabad International Airport	Possible downgrade	Moody's
Hero FinCorp	Review for downgrade	Moody's
Muthoot Finance	Outlook to negative	Moody's
Shriram Transport Finance	Rating lowered	S&P Global Ratings
Bajaj Finance	Outlook to negative	S&P Global Ratings
Power Finance Corp	Outlook to negative	S&P Global Ratings
Axis Bank	Outlook to negative	S&P Global Ratings
ICICI Bank	Outlook to negative	S&P Global Ratings

Source: Rating agency

Continued on Page 2

Covid impact: Even the best of banks, Corp India to plumb new depths

AT 21 downgrades a day between January and now, compared with 15 downgrades a day between January and mid-March, the deterioration in companies' financial health has been rapid. The pain isn't about to end anytime soon; Crisil believes downgrades will continue to outnumber upgrades in 2020-21 following the economic impact of the Covid-19 pandemic.

Last Friday, S&P Global Ratings lowered the ratings on Shriram Transport Finance to 'BB' from 'BB+' as it expects funding conditions could tighten amid challenging operating conditions and weakness in asset quality. The outlook for Bajaj Finance, too, was also revised to negative as it was for Manappuram Finance, Muthoot Finance and Power Finance Corporation. It wasn't just NBFCs, S&P believes banks too could be impacted by heightened economic risks. The rating outlooks for Axis Bank and ICICI Bank were revised to negative.

In the first four months of 2020, close to 2,240 firms have been downgraded, while only 439 have been upgraded.

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INSIGHT

Move petroleum to GST: The time is now

The health crisis is a moment of reckoning and an opportune time to revisit GST policy-design

MUKESH BUTANI

The 2016 game-changing constitutional amendment to facilitate introduction of GST was described as a "grand-bargain". The states agreed to "cede" their exclusive sovereignty to tax supply of goods *inter alia* in lieu of a constitutional assurance that the Union shall compensate them for five years "for loss of revenue arising on account of implementation" of GST. In hindsight, as the GST collections have revealed, this was not fear of the unknown. Indeed, majority of the states are availing of the compensation. There is a catch-though. The compensation is pegged based on FY 2015-16 collection and assures year-on-year 14 per cent incremental revenue to the states. In a sense, therefore, "loss of revenue" as a precondition is a misnomer given the Union guarantee to compensate even for states failure to meet growth projections. The 14 per cent growth in tax revenue is far ahead of the economic curve, even without the Covid-19 crises. Nonetheless, all sovereign assurances must be fulfilled. A recent media report of central government disbursing ₹20,000 crore of GST compensation, reaffirms that constitutional guarantees are sacrosanct. Given the enormity of Union's burden, the health-crisis is a moment of reckoning and an opportune time to revisit GST policy-design.

Subsuming of petroleum products, firstly, is a low-hanging fruit as it does not require a constitutional amendment. If indeed revenue buoyancy and not a policy imperative, is the cause for its exclusion, such concern is misplaced. Even in the current design, the Constitution permits both the Centre and the states to levy excise duty and sales tax, respectively, in addition to GST. Thus, revenue shortfall can be addressed by the levy of such additional taxes with no obstacle to join the GST chain. This single move will substantially benefit the aviation and transportation industry, including manufacturing sectors for whom fossil fuels form a significant cost component.

Though technically petroleum products have been deregulated in terms of price-fixation and government-controlled oil marketing companies determine its retail price, the ad-valorem basis of levy significantly pushes up the tax component when crude oil prices are low. Hence, it is *de facto* the government which continues to be the price-setter. It is therefore common that most reductions in global crude prices do not reach the consumers owing to simultaneous increase in taxes. This is a situation far from optimal considering that the very objective of deregulation, announced in October 2014, was to "facilitate greater competition in the auto fuels retail segment... expected to benefit consumers due to greater competition among oil companies... expected to foster greater efficiency in oil companies benefitting the consumers."

A counter-narrative in favour of high taxes on petroleum is to address twin objectives of revenue buoyancy and fiscal deficit. This is supplemented by an argument that such products qualify as sin goods and thus high taxes dissuade their consumption. The latter argument is least convincing, though, there could be other economic and environmental imperatives to support higher taxation. The major nations have addressed such additional levy by way of carbon tax. India's response on move to GST, as explained above, is embedded in the constitutional scheme, which permits additional taxes on petroleum products. Furthermore, other sin goods, such as coal, fast-foods, lottery, tobacco products, etc. are also within GST.

A bigger question facing the government is if it can afford to maintain such levies in a situation where economic revival is of paramount importance? When it comes to growth imperatives, the range of enquiry is beyond fossil fuels and extends to natural gas, LPG etc. Steep levies are bound to derail the budgets of industrial consumers and households alike with frugal profit and income levels, respectively. One may argue that deserving citizens will be cushioned with direct-benefit-transfer scheme and others can afford to pay. This argument fails as the petroleum tax structure is inefficient and regressive, particularly in the current economic environment and hence, deserves a relook.

The corporate rate cuts announced last September, though welcomed, could not invigorate investment and economic activity as was anticipated given that the economy was already in stress due to credit growth and manufacturing woes. The urgent need of the hour is to boost consumption such that there is an incentive for investment in the manufacturing and service sector.

There is yet another facet to this conundrum. It is becoming increasingly clear that fiscal stimulus will continue to expand for fast-track economic revival. Its objectives could not fructify with prevailing high tax on petroleum products and inefficiencies due to lack of credit mechanism. The burden of stimulus on central government will effectively benefit the states, whilst they maintain the current tax structure on petroleum products. In other words, stimulus earmarked for economic revival will be hived off, albeit partially, in the form of tax collection. In other words, the existing taxation policy on petroleum products is set to negate the economic revival. Conversely, if petroleum products are brought in the GST chain, states will undertake coordinated action under the aegis of GST Council and not derail an important step in GST reforms.

Subsuming petroleum products within GST, besides addressing an unfinished reform shall boost GST collections as economic revival gains momentum. This will make a compelling case for reducing the median GST rate, as consumption gathers speed. In summary, what is being advocated is a move to GST without interrupting the current effective rate structure, with the aid of constitutional mandate to levy additional taxes. Simultaneously, bringing states on board using the stimulus carrot and compensation sovereign assurance, which is valid until FY 21-22, makes it a compelling case. For the states to revive growth with high economic activity fuelled with stimulus from the Centre and consumption, GST being a destination levy, makes an even more compelling case.

Should the GST Council push for this proposition and the states support, it will be illustrative of true cooperative-federalism ethos at play.

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Focus on PSUs and Agri: BMS, BKS

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New Delhi: RSS-affiliated Bharatiya Mazdoor Sangh and Bharatiya Kisan Sangh have urged the Centre to focus on the public sector units and agriculture as the new growth engines.

BMS, which had objected to the government's disinvestment policy, has urged the Centre to widen the role of PSUs amid the Covid-19 pandemic.

"The current crisis has exposed the inherent incapability of the private sector," BMS chief Saji Naraynan said. "The role of public sector must be increased. It is the public sector which has risen to the challenge, be it telecom, oil or any other industry."

'It is the public sector which has risen to the challenge, be it telecom, oil or any other industry'

"We are also going to suggest that wage subsidy or wage assistance, if any, should be directly given to workers rather than their employers. Several workers, who are not under ESI net, should be given EPF benefits," Narayanan said.

BKS organising secretary Dinesh Kulkarni said: "The role of agriculture and allied sectors becomes important. The government and the NITI Ayog should work on developing a larger agricultural model to engage more and more people with good return. We are discussing it among ourselves and will make suggestions to the government in coming days."

Why letting refiners fill storage caverns is a win-win plan

Move aims to leverage low global crude prices, ensure oil PSUs do not default on purchase pacts

ANALYSIS

RICHA MISHRA

New Delhi, April 19

After many missed opportunities, India seems to have finally woken up to the importance of crude oil storage.

Taking advantage of low global oil prices and to ensure that domestic public sector refiners do not default on their purchase agreements, the Ministry for Petroleum & Natural Gas has allowed them to use the strategic petroleum reserves (SPRs) for storing their purchases as well as to buy for the government.

"We have started filling our strategic reserves at the government's cost. Three vessels have already come and the target is to get 10-11 more such large crude vessels in the next 40 days or so," a senior government official told *BusinessLine*.

Oil guzzlers such as India cannot have better days than now for filling their storage capacities with cheap crude oil. On April 16, the cost at which Indian refiners bought their crude oil was about $20 a barrel.

But the challenge for India is the short time-window available to ship the buys to the storage facilities if the monsoon breaks on time. "The offloading at Mangaluru may not happen if monsoon breaks. Indications are that it will need to be shut for almost four months after May 22," the official said.

Specific grade

Besides, each cavern can take only a specific grade of crude so that consistency is maintained. Though India has only 5.33 million tonnes (mt) of SPR capacity across three locations — 1.3 mt at Visakhapatnam, 1.5 mt at Mangaluru and

The challenge for India is the short time-window available to ship oil to storage facilities before the monsoon sets in

2.5 mt at Padur (Karnataka) — what is imperative is to make full use of this cheap oil opportunity while it lasts.

The move will also allow domestic refiners such as Indian Oil Corporation, Bharat Petroleum Corporation, Hindustan Petroleum Corporation and Mangalore Refinery and Petrochemicals Ltd to fill the caverns with their surplus buys so that the quantity already contracted for is not left floating in high seas. Additionally, it will ensure that the refiners do not end up defaulting on their payments to the sellers and pay more for delays in offloading.

The storage facility at Visakhapatnam is almost full and HPCL has been asked to fill the remaining capacity there.

Taking stock

Petroleum Minister Dharmendra Pradhan, when recently reviewing the country's strategic petroleum reserve programme, instructed India Strategic Petroleum Reserves Ltd (ISPRL) to augment the storage of crude. ISPRL is a special purpose vehicle under the Ministry mandated to build and operate SPRs.

Pradhan tweeted recently: "We are going the extra mile to meet India's energy security in spite of #Covid-19 challenge. More crude oil cargoes, at low prices, are lined up to reach Mangalore port during April and early May to completely fill the Mangalore and Padur SPRs. Taking advantage of the low crude oil price, India is filling the strategic petroleum reserves to their full capacity. The first consignment of 1 million bbls of crude procured through @IndianOilcl unloaded at Mangalore SPR..."

Yan Chong Yaw, Director, Refinitiv Oil Research, said: "India has sought to take advantage of the low-price oil environment by filling its SPRs. Despite the recent agreement by the OPEC+ alliance to cut production by an unprecedented 9.7 million bpd in a bid to shore up prices, the global glut in supplies, due to massive demand destruction in the wake of the Covid-19 outbreak, is still so high that prices will remain low enough to be attractive for the government to fill its three SPR sites in the South that can store up to 36.87 million barrels."

Fall in demand

"A month ago, when oil prices first collapsed following a disagreement between OPEC and Russia over output cuts, Indian refiners had taken advantage by buying extra barrels, leading to record-high imports for March at 20.3 million barrels, based on Refinitiv Oil Research assessments. This move has since backfired when Covid-19 exploded through the country, forcing a nationwide lockdown that severely curbed air travel, vehicle movement and industrial activity," he said.

"Refineries have to shut down capacity to cope with the devastating demand losses. To date, about 1.4 million bpd of capacity, or about a third of the country's 5 million bpd capacity, has been shut amid declarations of *force majeure* on lifting of crude oil cargoes," he added.

Petrol, diesel demand set to pick up in second half of April

PRESS TRUST OF INDIA
NEW DELHI, 19 APRIL

Petrol and diesel consumption, which saw its biggest-ever decline in the aftermath of a nationwide lockdown, is likely to pick up in the second half of the month as the government has allowed trucks to ply as well as farmers and industries in rural areas to resume operations after 20 April.

Petrol and diesel sales had fallen by over 66 per cent and aviation turbine fuel (ATF) consumption collapsed by 90 per cent as the unprecedented nationwide lockdown shut factories, stopped road and rail transportation and suspended flights.

"The government has allowed inter and intra-state movement of goods traffic by road as well as rail. Also, farming operations, as well as industries outside municipal limits, have also been allowed to operate from 20 April. All these will involve fuel consumption," a top industry official said.

Trucks are the biggest user of diesel. Diesel is also used as fuel in the harvester and other agri equipment. Some goods train also run on diesel.

All these activities, the official said, will allow diesel demand to pick up in the latter part of the month.

Also, vehicles used by e-commerce operators will be allowed to ply. These vehicles would largely use petrol.

"There isn't much hope for ATF but petrol and diesel demand certainly will look up if all the industries and activities permitted by the government resume operations from 20 April," the official said.

The government hasn't yet allowed resumption of domestic and international flights.

Also, road construction and resuming on work on projects in industrial clusters have been allowed, which too would consume fuel, he said.

As part of a plan to exit the world's biggest lockdown and revive stalled economic activity, the government has allowed makers of information technology hardware, farmers and industries in rural areas to resume operations after 20 April.

This came a day after Prime Minister Narendra Modi extended a nationwide lockdown to 3 May to prevent the spread of coronavirus. The lockdown was first imposed on 25 March for 21 days.

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India's fuel demand likely to fall by 5.6% in 2020: IEA

THE INTERNATIONAL ENERGY Agency (IEA) has estimated India's annual fuel consumption - a proxy for oil demand - declining by 5.6% in 2020 to 4.73 million barrels per day (bpd), compared to a forecast of 2.4% growth in its March report. India's gasoline demand would decline by 9% to 667,000 bpd this year, while diesel would drop by 6.1% to 1.65 million bpd, the IEA said on Wednesday. India's oil demand would decline by 18.7% and 2.7% in the second and third quarters, before rising by 1.4% in the fourth quarter, it said.

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Govt extends oil block bid deadline to June 10

THE BID SUBMISSION date for the fifth bid round under the Open Acreage Licensing Policy (OALP) has been extended to June 10, it was notified last week. "The bid submission date for India OALP Bid Round-V, offering 11 blocks for exploration and development, is extended to June 10, 2020," the Directorate General of Hydrocarbons (DGH) said in a tweet. The fifth bid round was to close on March 18. However, the bid date was first extended to April 16 and then late last month, it was extended again without a closing deadline being given.