

State-owned OMCs' fortunes take a turn

Every 25 paise a litre decline in automobile fuel margin could alter analysts' FY19 earnings estimates for IOC, BPCL and HPCL by 5-10%

UJJVAL JAUHARI
New Delhi, 6 December

In the September quarter, oil marketing companies (OMCs) had benefited from the spike in gross refining margins (GRMs), as well as marketing margins, and inventory gains. In the current quarter, however, they are finding more challenges.

The benchmark Singapore GRMs had surged to a 10-quarter high in the September quarter, the second one (Q2) of this financial year. This was on the back of supply disruptions caused by Cyclone Harvey in the US. At \$8.3 a barrel, the GRMs were up 29 per cent sequentially and 61 per cent over a year.

However, by mid-November (the latest data available), these GRMs had declined 12 per cent sequentially to \$7.3 a barrel, on increasing US supplies. Thus, the December quarter (Q3) might be different.

The bigger concern pertains to marketing margins, the profit the three government-owned OMCs make on retail sales of automobile fuels (petrol, diesel). In Q2, the OMCs had shown an improvement in these margins, which analysts said was a key positive. By mid-November, marketing margins are reported to have dipped significantly. Analysts at ICICI Securities, in fact, say the net marketing margins turned negative from November 16. And, that in Q3 till date, the margins are down 55 per cent sequentially and 23 per cent year-on-year, at 76p (a litre). This decline is on the back of inadequate retail price hikes, despite rising crude oil prices.

Assuming crude remains at



SENSITIVITY TO REFINING, MARKETING MARGINS

(FY19 estimates)	BPCL	HPCL	IOC
EPS (₹)	40.5	35.3	39.0
Refining margins lower by \$1/barrel	35.7	31.5	34.1
% change	-12.0	-10.8	-12.5
Marketing margins lower by ₹0.5/litre	34.4	28.2	34.7
% change	-15.1	-20.0	-11.2

Source: Kotak Institutional Equities; EPS: Earnings per share

\$61.85 a barrel and diesel cracks (margin) stay during the rest of Q3 at the current level, ICICI Securities estimates the diesel net margin might fall 68-77 per cent sequentially and 44-60 per cent year-on-year. The net margin for petrol might fall by 57-65 per cent sequentially and 28-42 per cent year-on-year.

As a result, the shares price of Indian Oil Corporation (IOC) and Hindustan Petroleum Corporation (HPC) are down 16-17 per cent from their high in Q2. Bharat Petroleum Corporation (BPC) is down about 10 per cent from its high in October; its lower decline could be explained as owing to its exploration and production hydrocarbon assets. These get higher valuations with every rise in crude oil prices. BPC would also benefit from the

expansion of its Kochi refinery.

IOC, too, will continue benefiting from its new Paradip refinery. However, concerns also remain elevated due to the potential risk in Oil & Natural Gas Corporation (ONGC) selling its equity stake in IOC to fund the acquisition of HPC. Analysts at Emkay Global, in their mid-November note, had said their earlier preferred pick was IOC but due to the offer-for-sale announcement and concern about ONGC selling its IOC stake for the HPC acquisition, the stock will remain range bound at ₹370-420, till further clarity emerges.

Within the three OMCs, their preferred pick remains BPC. For, commissioning of the Kochi expansion will add to its volumes and incremental GRM from the second half of this

financial year, a catalyst for growth.

Having said that, with the present headwinds in the form of lower refining and marketing margins, most analysts are cautious on the OMC stocks despite the recent fall. Those at Kotak Institutional Equities say, "It might be a bit difficult for OMCs to earn steady margins as earlier, leave aside any possibility of increase in these, under an environment of elevated crude prices of \$55-65 a barrel, a coming prolonged election cycle over the next 12-18 months and sustained competitive pressure from private players."

Notably, the private players have garnered 7.9 per cent market share in diesel and 5.5 per cent in petrol during the first half of FY18, from 5.9 per cent and 4.9 per cent, respectively in FY17. The prolonged period of elections could prevent the three state-owned entities from raising their fuel prices, affecting the marketing margins. Analysts say every 25p a litre reduction in automobile fuel margins would impact their FY19 earnings estimates for HPC, BPC and IOC by 10 per cent, 7.5 per cent and 5.6 per cent, respectively.

The marketing margins on diesel and petrol have already declined sharply to about ₹1 a litre, from ₹3.1 a litre in Q2, due to lack of a commensurate increase in domestic retail prices since the first week of November despite rising crude prices, say analysts at Kotak Institutional Equities.

Easy for GAIL

SPORTS BUREAU

GUWAHATI

Vijay Sundar Prashanth and Saketh Myneni powered Gas Authority of India Limited (GAIL) to a 2-0 victory over Hindustan Petroleum Company Limited (HPCL) in the quarterfinals of the 37th Petroleum Sports Promotion Board (PSPB) inter-unit tennis tournament on Wednesday.

In the semifinals, GAIL will play defending champion and top seed Oil and Natural Gas Corporation (ONGC) which had a bye.

Oil India Limited (OIL) and Indian Oil Corporation (IOC) set up the other semifinal.

In the women's event, featuring three teams in a round robin league, Riya Bhatia won both her singles and doubles matches to help GAIL to a 2-1 victory over IOC.

The results: Men (quarterfinals): GAIL bt HPCL 2-0 (Vijay Sundar Prashanth bt Raj Kumar 6-0, 6-2; Saketh Myneni bt Anup Toppo 6-0, 6-1).

Oil India Limited (OIL) bt Numaligarh Refinery Limited (NRL) 2-0 (Anshuman Dutta bt Jhitanta Rabha 6-0, 6-0; Chandrashekar Mohanty bt Subul Haloi 6-0, 6-0).

Indian Oil Corporation (IOC) bt Oil India Limited (OIL)-B 2-0 (Dhruv Sunish bt Dhruva Jyoti Hazarika 6-0, 6-0; Sumit Nagal bt Luknak Niling 6-0, 6-0).

Women (league): Indian Oil Corporation (IOC) bt Gas Authority of India Limited (GAIL) 2-1 (Nidhi Chilumula lost to Snehadevi Reddy 4-6, 2-6; Riya Bhatia bt Perna Bhambri 6-2, 6-0; Riya Bhatia & Prarthana Thombare bt Snehadevi Reddy & Perna Bhambri 6-6 (conceded)).

GAIL hires drone to secure gas pipelines

PRESS TRUST OF INDIA
New Delhi, December 6

GAIL INDIA, THE country's biggest gas transporter, has deployed a drone on pilot basis for surveillance of its main trunk pipeline as it uses technology to secure its vast network, its director (pipelines) Ashutosh Karnatak said.

In the aftermath of the June 2014 accident at its pipeline in Andhra Pradesh that killed at least 18 people, the state-owned firm has taken a number of initiatives to raise safety standards including replacing old pipelines and using advanced technology.

"We have hired one drone on a pilot basis for aerial surveillance of the HBJ pipeline in the Chambal Ravines in Madhya Pradesh," he told reporters here.

Based on the results, the company may decide to buy or hire more drones to monitor its 15,000-km pipeline network, he said.

The drones will be used to patrol the pipeline to detect physical abnormal activity



like encroachment or intrusion on the pipeline.

For using drones, GAIL had to secure permissions from multiple agencies. Previously, the government had given permission to Indian Railways and the National Highways Authority of India (NHAI) for similar purposes.

As line patrolling is extremely difficult for pipeline sections passing through forests, rivers, environmentally sensitive areas and other inaccessible areas, GAIL would use drones for aerial surveillance of 200 kilometres for the Hazira-Vijaipur-Jagdishpur/Dahej-Vijaipur pipelines.

Oil analysts grow more bullish after Opec extends output deal

KOUSTAV SAMANTA &
SWATI VERMA

Reuters

OIL analysts have raised their forecasts for the crude price next year after major producers agreed to extend output cuts, a Reuters poll showed on Wednesday.

Political tensions in Saudi Arabia, production disruptions in Libya and Nigeria and economic depression in Venezuela that has cut crude output will also support oil prices, the analysts said.

Benchmark Brent crude futures are now forecast to average \$58.84 in 2018, up more than \$3 from \$55.71 estimated in the previous poll at the end of October.

The Organization of the Petroleum Exporting Countries (Opec) and non-Opec producers, led by Russia, last week extended their deal to cut output by 1.8 million barrels per day (bpd) until the end of 2018 to end persistent oversupply. The group signalled it may stage an early exit from the deal if the market overheats and

triggers too much of a price rise.

"The Opec cut extension is expected to send a positive signal regarding faster rebalancing in the oil markets. Strong compliance is expected from Opec as the Opec economies are still heavily dependent on oil revenues to meet their fiscal budget deficits and hence they need higher oil prices," said Rahul Prithiani, director at Crisil Research.

Some analysts, however, expressed doubts over compliance from non-Opec countries, especially Russia, which has plans to expand production from its newer oilfields. "The main positive surprise involved Libya and Nigeria, previously exempted (from the deal), which will now be subject to a cumulative production cap," said Daniela Corsini, commodity market economist at Intesa Sanpaolo in Milan.

Oil prices have rallied strongly in the second half of this year, on a growing belief that the Opec-led output cuts, coupled with strong consumption, were bringing the

market back into balance. Brent crude was trading above \$62 a barrel on Tuesday.

The North Sea benchmark, which has recovered about 25 per cent since the deal was announced last year, is expected to average \$54.19 per barrel in 2017.

Opec oil output fell in November by 300,000 barrels per day (bpd) to its lowest since May,

while compliance with pledged supply curbs rose to 112 per cent.

The survey of 30 economists and analysts forecast US crude futures would average \$54.78 per barrel in 2018, up from a previous forecast of \$52.50. WTI was expected to average \$50.65 a barrel this year.

Asia will be a key driver of global demand growth, helping to tighten the balance between supply and consumption, analysts said. "Non-OECD (Organisation for Economic Co-operation and Development) demand could rise by up to 1.3 million barrels per

day in 2018, largely driven by China and India," said Giorgos Beleris, analyst at Thomson Reuters Oil Research and Forecasts.

The biggest increase in exports to Asia has been coming from the US, partly stimulated by a reduction in export volumes from the West Asia. Rising US shale production has increased the discount of US crude futures to Brent to around \$5 per barrel, meaning it is cheaper for Asian buyers.



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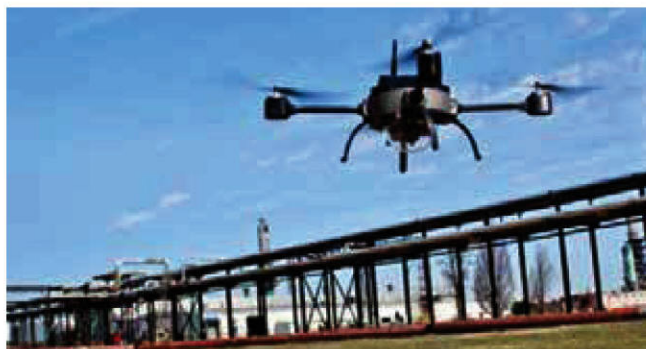
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extremely difficult for pipeline sections passing through forests, rivers, environmentally sensitive areas and other inaccessible areas, GAIL would use drones for aerial surveillance of 200 kilometres for the Hazira-Vijaipur-Jagdishpur/Dahej-Vijaipur pipelines.

GAIL has also started using satellite surveillance as well as PIDS or pipeline intrusion detection system to detect any breaches, he said adding the company has replaced old pipelines in the KG and Cauvery basin and Gujarat at a cost of about Rs 1,500 crore to prevent any accident.

A government probe into the June 2014 accident had highlighted safety lapses at the firm and prompted sector regulator Petroleum and Natural Gas Regulatory Board (PNGRB) to slap a penalty.

Also, natural gas is being dehydrated and corrosion causing water, sulphur and carbon-

di-oxide removed to prevent damage to pipelines and avert any repeat of the 2014 accident, he said.

Karnatak said drones will be used to detect encroachments around pipelines as they are a big safety hazard.

In the pilot, a drone will fly over the pipeline, capturing pictures and other data using smart technology. The data will be analysed to detect any potential hazard.

GAIL, at present, uses foot patrolling to spot encroachments and seeks local administration's help in getting them cleared.

Drones will however not be able to detect any leakage, for which the company will continue to rely on sensors and patrolling, he said. GAIL is using live satellite monitoring of the pipelines and is now integrating advance Unmanned Ariel Vehicle (UAV) with this system. P11

GAIL to host Oil & Gas HSE Conclave; 350 industry titans to participate

NEW DELHI: GAIL (India) Limited hosts the high-profile Oil and Gas HSE Conclave of oil and gas Companies on 08th and 9th December, 2017 at Noida. The two day conclave will have the convergence of senior officials from the Ministry of Petroleum and Natural Gas and heads of oil and gas PSUs of the country.

Speaking at the curtain raiser press conference of the Conclave at GAIL's Corporate Office in Delhi, Dr. Ashutosh Karnatak, GAIL Director (Projects) and Chairman, Oil and Gas Conclave and P K Gupta, GAIL Director (HR) emphasised the importance of the operation and maintenance aspect of the Oil and Gas Sector in terms of Health Safety and Environment related issues that each plant of Hydrocarbon Sector grap-



GAIL Director (Projects) Ashutosh Karnatak and Director (HR) P K Gupta addressing a Press conference

ple and keeping the pedestal of accident free, smooth operation of the plant is of paramount importance.

While supplies of and production of the vital products of transportation of the hydrocarbon products, natural gas through cross country pipeline infrastructure, refinery and petrochemical units are main-

tained at the optimum level to meet the requirement of the Country as a whole, smooth operation of the plants are required to be maintained by mitigating the risk of any eventuality during the operation.

Dr. Karnatak, said hydrocarbon sector is prone to various industrial hazard during operation.

MPOST

Indian Oil prepares for shift to a less carbon-intensive future

BY GIRESH CHANDRA PRASAD

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NEW DELHI

The country's largest refiner Indian Oil Corp. Ltd is making a strategic shift to a less carbon-intensive future by getting into clean energy and related infrastructure, while keeping refinery expansion plans flexible for course correction, said chairman Sanjiv Singh in an interview.

What is pushing the state-run refiner to new markets is the rise of renewable energy sources in the country's energy mix, which cuts down diesel use for power generation, and a possible adoption of electric vehicles by consumers in future. The refiner wants to be a part of the transformation in energy markets, not a victim of it. "A lot of research going on in alternate fuels and alternate modes of transportation are funded by companies in the oil and gas business. It is a process in which all of us are involved," said Singh.

Indian Oil, which recently opened its first electric vehicle charging station in Nagpur, is working on a plan to have a network of such stations.

The firm is also working on scaling up an imported liquefied natural gas (LNG) based transportation system which requires infrastructure for LNG transportation from the import



Indian Oil chairman Sanjiv Singh.

terminal and for its retail distribution. The first LNG-run bus was introduced in Kerala by a joint venture of Indian Oil Corp. Ltd Tata Motors Ltd and Petronet LNG Ltd last November. Singh said Indian Oil is working on scaling up the project.

"We have capability to import and retail gas. We are basically a retail company," said Singh, adding that gas will also be the feedstock for the fertilizer plants it has set up at Sindri in Jharkhand, Gorakhpur in Uttar Pradesh and Barauni in Bihar in partnership with power producer NTPC Ltd. Experts said that entering alternative modes of fuel will help downstream oil firms like Indian Oil mitigate risk.

"Companies need to have a strategy in place to mitigate risk (from the changing energy mix). Opening charging stations will help in this regard. However, electric mobility may

gain currency only over several years due to its present constraints about availability of charging points, cost of battery and the range of distance that can be covered per charging," said K. Ravichandran, senior vice-president, group head-corporate ratings, ICRA Ltd.

Indian Oil will proceed cautiously with its approved refinery expansion plans as well as those currently on the drawing board while carefully evaluating the trends in the energy market to see if any change in plan is needed. India hopes to make the nation fully reliant on electric vehicles by 2030.

"Today, we talk about a demand estimate of 450 million tonnes of refinery products by 2040. Probably as time goes by, we will have to see whether all these predictions, which are based on several assumptions and parameters, are on the same predicted levels or need some correction," said Singh.

ड्रोन से गैस पाइपलाइन की निगरानी होगी

नई दिल्ली | विशेष संवाददाता

गैस पाइप लाइनों की निगरानी के लिए कंपनियां अब ड्रोन का इस्तेमाल करेंगी। देश की सबसे बड़ी गैस कंपनी गेल इंडिया लिमिटेड ने अपनी मुख्य पाइपलाइन की निगरानी और सुरक्षा के लिए ट्रायल के तौर पर ड्रोन को तैनात किया है। कंपनी का कहना है कि प्रयोग सफल रहा तो और ड्रोन भी तैनात किए जाएंगे।

गेल इंडिया लिमिटेड के निदेशक (पाइपलाइन) आशुतोष कर्नाटक ने

तैयारी

- गैस कंपनी गेल ने सुरक्षा के लिए ट्रायल के तौर पर ड्रोन तैनात किया
- प्रायोगिक तौर पर एक ड्रोन किराए पर लिया गया है

कहा कि कंपनी ने मध्य प्रदेश के चंबल के बीहड़ों में पाइपलाइन की निगरानी के लिए प्रायोगिक तौर पर एक ड्रोन किराए पर लिया है। इसके नतीजों

के आधार पर कंपनी अपनी करीब 15 हजार किमी लंबी पाइपलाइन नेटवर्क की निगरानी करने के लिए कुछ और ड्रोन को किराए पर लेने या खरीदने का फैसला करेगी।

कंपनी का कहना है कि तीन साल पहले आंध्र प्रदेश में पाइपलाइन हादसे में करीब 18 लोगों की मौत के बाद सुरक्षा को लेकर कई कदम उठाए हैं। इसके साथ पुरानी पाइपलाइनों को बदलने और उन्नत तकनीक का इस्तेमाल के साथ सभी कदम उठा रही

है। ताकि, भविष्य में इस तरह के हादसों को रोका जा सके।

आठ दिसंबर से ऑयल एंड गैस एचएसई कॉन्क्लेव का आयोजन कर रही गेल इंडिया लिमिटेड पाइपलाइन विस्तार पर बड़ा खर्च करने की भी तैयारी कर रही है। गेल की वर्ष 2018 में तीन हजार आठ सौ करोड़ रुपये की अतिरिक्त खर्च की भी योजना है। वहीं 2019 में गेल पाइपलाइन पर छह हजार करोड़ रुपये खर्च करने की तैयारी है।