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Petrol, diesel consumption at an all-time high in May

DRIVING FACTORS. Usage has grown on the back of rising industrial, agricultural activity

Rishi Ranjan Kala
New Delhi

India consumed a record 8.2 million tonnes (mt) of diesel and 3.4 mt of petrol during May, indicating an uptick in industrial and agricultural activity.

According to the latest numbers from the Petroleum Planning and Analysis Cell (PPAC), the consumption of diesel —the mainstay of India's transport sector — is at an all-time high.

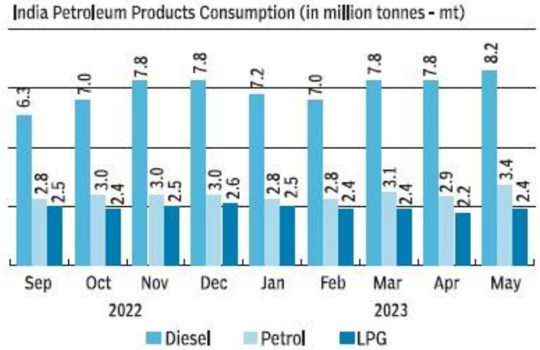
Before this, the country had clocked a record usage of 7.8 mt during April this year and in November and December 2022, aided by expanding industrial and commercial activity, as well as heightened demand for high-speed diesel (HSD) by the farm sector for irrigation. This was the highest consumption recorded in over two decades.

Analysts pointed out that diesel consumption grew in May on the back of rising industrial and construction activity and demand from the agricultural sector was also robust as food grain procurement season is in progress.

Similarly, in the case of motor spirit, the consumption hit a record last month helped by growing personal travel and the increasing number of professionals returning to offices for almost 4-5 days a week compared to 2-3 days earlier. The opening of schools has also contributed to the growing usage of petrol.

Scaling new peaks

India Petroleum Products Consumption (in million tonnes - mt)



Source: PPAC

RISING CONSUMPTION

Last month, OPEC in its monthly oil market report said that an uptick in manufacturing and construction activity coupled with growing air travel is expected to propel India's oil demand, particularly diesel, petrol, and aviation turbine fuel (ATF), higher at 5.44 million barrels per day (mb/d) in April-June 2023.

The world's most populous country consumed 5.40 mb/d of oil during Q1 2023 aided by healthy manufacturing and services activity, particularly during March 2023.

Looking forward, with anticipated healthy economic activity and ongoing air travel recovery, India's demand for oil products is anticipated to remain strong in 2023, according to the OPEC report.

"In Q2 2023, oil demand is projected to rise by 0.3 mb/d y-o-y. The government's proposed increase in capital spending is expected to support consumer's purchasing power and boost the momentum of economic activity as construction and manufacturing activity accelerates," it added.

These factors, combined with a steady rise in airline activity, will support healthy oil demand growth.

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Nuances in the ESG ratings process

Inconsistent and uneven metrics often distort ESG ratings. Putting out quality data is also of vital importance

Sankar Chakraborti

With climate change getting serious attention, there is a reason all three strategic pillars of ESG – environmental, social, and governance – are interwoven. The G aspect of ESG is a tad understated.

An organisation might deliver on the environmental and social front by increasing energy efficiency and reducing carbon footprint and water consumption. However, the firm may have scope to bring its governance standards close to acceptable levels. For example, a lack of awareness of thorough regulatory practices could unwittingly lead to its downfall.

Before making investment decisions, it's essential to scrutinise such companies. Are they in line with domestic compliance frameworks? It's essential to educate investors on how ESG-oriented, independent boards are equipped for risk mitigation.

For now, the SEBI has announced various regulations to increase investors' confidence in ESG schemes. First, ESG schemes are required to invest at least 65 per cent of AUM in listed entities where assurance on BRSR Core is undertaken. Third-party validation and certification from the board of AMCs will be mandated regarding compliance with the ESG scheme's goal.Further, disclosure of case studies and fund manager commentary will be mandated. This regulation is essential to demonstrate how ESG strategy is used in the fund. Such processes assure that an ESG fund is not simply curated just on ESG scores.

ROLE OF RATINGS

Even as SEBI continues to be investors' watchdog, the role of ESG rating agencies has come into focus. Rating agencies adopt different practices when it comes to sharing individual E, S and G scores and making them public. Some ERPs provide ESG scores for each of the 3 dimensions along with an ESG score.

Similarly, several institutions provide risk ratings that measure the exposure and management of material ESG risks. Others provide separate ratings for

ECO ISSUES. Ratings' role/ISTOCKPHOTO

governance and climate vulnerability.

Where responsibility is concerned, rating agencies are expected to assess a company's overall ESG performance accurately. If a company falls short on governance but has good environmental and social performance, the rating should duly reflect on the overall score.

Everything depends on the rating agency's methodology, data quality, transparency, and accountability. Ultimately, more standardisation ensures that ESG ratings are reliable, comparable, and meaningful.

An independent third-party rating helps investors gain confidence in a company's ESG performance.

Fears of ESG-rating institutions being under pressure from big organisations to give better ratings are exaggerated.

Additionally, strong processes allow no gaps. Records are maintained at every stage. In the issuer-based ESG-rating model, the ratings are available in the public domain. A subscriber-based rating model, usually subscribed by banks and mutual fund houses, works better. Here, top companies don't have to initiate the rating process by paying a rating fee to the rating provider. However, they can subscribe and get access to their reports if they are already rated. And that too after the rating was done. So, any conflict of interest in the business model of rating agencies is taken care of.

The effectiveness of ESG ratings lies in their completeness. Inconsistent and uneven metrics often end up misrepresenting it.

The writer is Chairman ESGrisk.ai and Group CEO Acuité

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Govt wants petrol & diesel prices slashed; OMCs cite Covid losses

SUBHAYAN CHAKRABORTY
New Delhi, 8 June

State oil-marketing companies (OMCs) have made up for losses and can be expected to lower petrol and diesel pump prices, said a top official from the Ministry of Petroleum and Natural Gas.

"Not only have OMCs had a good fourth quarter (Q4) in 2022-23 (FY23), they will have another good first quarter (Q1) in 2023-24 (FY24). If this happens, you are well within the bounds of what is legitimate to ask them to reduce prices. I do expect they will pass on some of the benefits," the official informed the media on the sidelines of an industry event in New Delhi on Wednesday.

Data for Q1FY24 will be released in July.

FUELLING TUSSLE

- Petrol and diesel prices have remained unchanged since May 2022
- Govt says OMCs have seen marketing margins zoom in FY23
- Higher gross refining margins have pushed up earnings
- OMCs, however, say profit forecast not yet solidified
- OMCs had accumulated loss of ₹18,622 cr in first 9 months of FY23

However, this view is expected to be hotly contested by OMCs. Two top executives of OMCs present at the press briefing on Wednesday said the government is taking a dim view of the matter. They argued their companies are yet to make up for losses suffered during the pandemic and the early days of Russia's invasion of Ukraine on February 24, 2022.

Retail fuel prices in India have remained unchanged for a little over a year. On May 22 last year, petrol and diesel prices were set at ₹96.72 and ₹89.62 per litre.

While Indian consumers were protected against surges in oil prices that took place in the first half of 2022, they have since not seen the benefits of subsequent fall in oil prices.

Brent crude price has dropped from a high of $112.24 per barrel on June 10, 2022, to $74.95 per barrel at the time of filing this report.

The three OMCs have booked major profits in the last quarter, the official pointed out.

Indian Oil Corporation (IndianOil) reported a jump of 52 per cent in its consolidated net profit to ₹10,841.23 crore on-year.

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Fuel prices...

Bharat Petroleum Corporation posted a 168 per cent jump at ₹6,780 crore. Hindustan Petroleum Corporation grew 79 per cent to ₹3,608 crore.

Volatility in international crude and product prices benefited OMCs' marketing earnings in Q4FY23.

After a long period of decline, blended marketing margins increased to a 10-month high of about ₹2.5 per litre in the third quarter (October-December) of FY23. In the subsequent fourth quarter (January-March), companies are estimated to have made a loss of ₹1.2 per litre on the sale of diesel. But a profit of ₹6.8 per litre on petrol again turned the blended margin on the two fuels positive. OMCs have also seen record-high gross refining margins (GRMs) in FY23.

GRM is the amount refiners earn from turning every barrel of crude oil into refined fuel products. Case in point: IndianOil's average GRM for FY23 rose to $19.52 per barrel, compared with $11.25 per barrel in the previous year, revealed company financials.

Executives from OMCs said they have pointed out to the government that while GRMs have increased over the past several months, they have started moderating recently.

"The impact of the windfall tax remains. It is difficult to say at this point in time that the worst is over," said an OMC executive. The Centre had imposed special additional excise duty or windfall tax on certain refinery products, effective July 1, 2022, reducing the profitability of refiners somewhat.

As of May 16, the windfall tax on petroleum crude has been nil, down from ₹4,100 per tonne. The tax on diesel, petrol, and aviation turbine fuel had also continued at nil. However, the rate of tax will be raised once global prices climb.

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BMC & MGL ink deal to set up compressed biogas plant

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Mumbai: The BMC on Thursday signed a memorandum of understanding with Mahanagar Gas Limited for setting up a compressed biogas plant (CBG) in the city. The CBG plant will have the capacity to process up to 1,000 tonnes of wet waste every day, said civic officials.

The BMC will collect the wet waste generated from hotels, restaurants, banquet halls and major vegetable markets across the city through dedicated vehicles, segregate it and deliver it to the plant, where it will be processed to produce compressed biogas. The municipality will provide the land for the CBG plant, which is expected to be set up in two years' time.

According to BMC officials, after work on the CBG project is complete, it will be extended further to three more phases: a biomass waste treatment plant, an organic fertilizer production plant and a green fuel production plant.

The biogas produced will be used within the city. Biogas, which is purified and compressed, can also be used as fuel for vehicles.

Mumbai generates about 6,500 tonnes of daily waste, including 3,500 tonnes wet waste. The CBG plant is expected to recycle about one-third of the 3,500 tonnes of wet waste.

According to BMC officials, the proposal for setting up the CBG plant was mooted by the Union ministry of petroleum and natural gas. Mahanagar Gas Limited is an enterprise of the Maharashtra government and GAIL, which is a PSU under this ministry.

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No plan yet for mandate on green asset investments

DESPITE LOW 'GREENIUM' on sovereign green bond issuances, the Centre at the moment is not contemplating putting a regulatory mandate for financial institutions (FIs) that would require them to invest a portion of their assets in green assets, an official said.

A mandate to FIs such as pension funds and insurance companies could have generated demand for green bonds at relatively high greenium, analysts have said.

The Centre, however, may tweak sovereign green bond issuances if the 'greenium' on such bonds in FY24 is not attractive.

For the first time, the Centre mobilised ₹16,000 crore through two tranches of green bonds in January-February.

The cut-off yield on the bonds — 5-year and 10-year papers — was 2 to 4 bps lower than traditional G-Secs of comparable maturity in the second tranche of ₹8,000 crore on February 9.

The government was not exactly happy with the outcome as it wanted a higher 'greenium' or cost advantage to the issuer compared to conventional bonds.

The Centre may do a recalibration of sovereign green bond issuances if the 'greenium' to be offered on such bonds in FY24 is not attractive, a senior government source said.

The government will float green bonds close to ₹24,000 crore in the second half of the current fiscal. Despite lower returns, many foreign investors set aside funds for investing in green projects as part of their ESG obligations.

—FE BUREAU

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Refiners likely to start reducing fuel prices soon as margins improve

Govt expects OMCs to post robust results in Q1, Q2 even after price cuts

MANISH GUPTA
New Delhi, June 8

STATE-RUN OIL MARKETING companies (OMCs) are likely to cut fuel prices soon, as the government expects them to start passing on the benefit of lower crude oil prices to the customers.

Shares of Hindustan Petroleum Corp (HPCL) fell 4.01% on Thursday, while Bharat Petroleum Corp (BPCL) and Indian Oil Corp (IOCL) closed 1.99% and 0.87% below the previous closes.

The refiners had reported losses in the first two quarters of last fiscal, subdued net profits in the third quarter, and sharp increase in profits in the fourth quarter ending March 2023.

Officials in the petroleum ministry believe the OMCs will continue to make significant profits in the current and the next quarter (Q1 and Q2 FY24) as well, considering the moderation in crude oil prices.

The price of Indian crude oil basket had touched a high of $116 a barrel in June 2022 before coming down to $80 level in January-March 2023 period and to below $75 a barrel in May 2023.

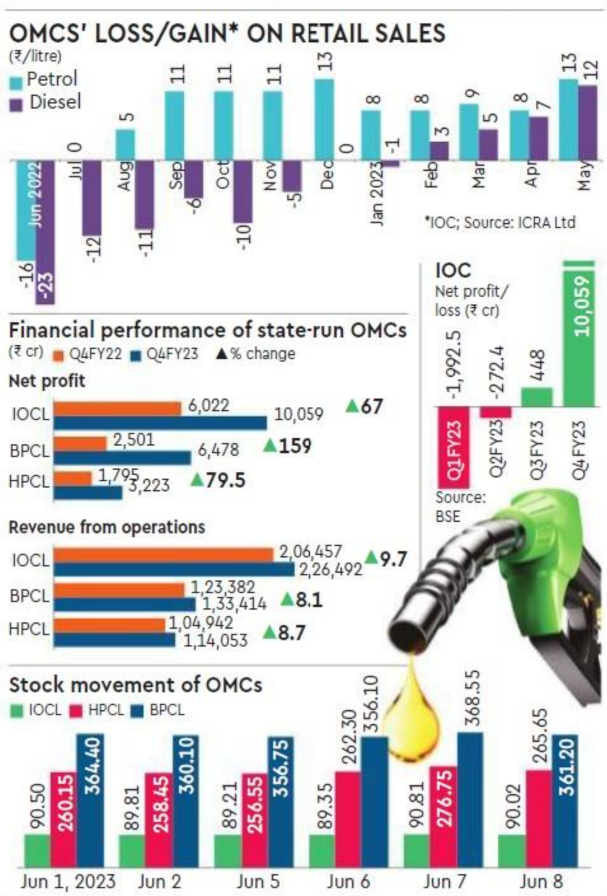
Despite wide movement in crude oil prices over the last year, price of transport fuels remained the same since April 2022. While initially the customers were saved from the rise in crude price with OMCs bearing the loss, now they are paying more despite fall in crude prices.

In June 2022, IOCL is estimated to have sold each litre at a loss of ₹16 for petrol and ₹23 for diesel. Last month in May, the refiner is estimated to have made a profit of ₹13 and ₹12, respectively.

Apart from the fall in crude oil price, the OMCs have made extra cut in their costs by importing discounted Russian crude, whose share in the overall crude oil import by India has risen more than 40%.

Brokerage firm Morgan Stanley in its recent report said that the OMCs are seeing their highest ever integrated margins and has predicted that they will recover past losses over the next few months.

"Right now prices can be cut because they are making good margins, on marketing side also, because of the decline in crude prices and the decline in the crack spreads of both MS and HSD," said ICRA vice president and co-head Prashant Vashisht.



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EIA scales up 2023 global oil price view as OPEC extends output cut

The US Energy Information Administration has scaled up its forecast for global crude oil prices in 2023 because of a recent announcement by the Organization of the Petroleum Exporting Countries and allied producers to extend production cuts through the end of 2024. Saudi Arabia also announced a new voluntary oil production cut of 1 mln bbl per day from July 2023.

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HPCL launches pilot study on using E27 fuel and ethanol blended diesel fuel

Hindustan Petroleum Corporation Limited (HPCL) announced the successful launch of a groundbreaking pilot study on vehicles using E27 fuel and ethanol blended diesel fuel. With this milestone achievement, HPCL becomes the first oil marketing company in India to initiate such a comprehensive research programme, in line with the "Roadmap for Ethanol Blending in India by 2025," which aims to promote the adoption of Ethanol Blending in gasoline. The roadmap, designed to usher in a greener and more sustainable future, outlines a phased rollout plan for achieving 20% Ethanol Blended Gasoline (E20) by April 2023 and ensuring its widespread availability by April 2025. It further emphasizes the introduction of E20 material-compliant and E10 engine-tuned vehicles starting from April 2023, followed by the production of E20-tuned engine vehicles from April 2025. At HPCL's state-of-the-art Green R&D Centre in Devanagunthi, Bengaluru, dedicated efforts are underway to conduct comprehensive research on biofuels. The center's proficient team is evaluating the effects and performance of different blends of ethanol-gasoline, ranging from 10% to 27%, as well as various blends of ethanol-diesel, on different categories of test vehicles at the Engine Research laboratory.

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Sri Lanka inks petroleum pact with US firm in collaboration with Shell for steady fuel supply

COLOMBO: In a bid to address the forex crisis and ensure a steady supply of fuel, Sri Lanka on Thursday signed a deal with an American oil firm, allowing it to become the fourth player in the island nation's fuel retail business, which used to be a state monopoly. According to a statement, the US firm, RM Parks, in collaboration with Shell, will be involved in a long-term contract for the importation, storage, distribution and sale of petroleum products.

An agreement was signed on Thursday at the Presidential Secretariat, between the Government of Sri Lanka and RM Parks Inc., a prominent international company operating in collaboration with Shell, marking a significant step towards securing a long-term contract for the importation, storage, distribution, and sale of petroleum products in the country.

"This development comes after the Ministry explored various strategies to overcome the challenges posed by the foreign exchange crisis and guarantee a continuous fuel supply to consumers," an official statement said. The Ministry of Power and Energy, Sri Lanka took the decision to ensure uninterrupted fuel supply in the island nation.

RM Parks Inc., in collaboration with Shell, aims to commence operations in Sri Lanka within 45 days after the issuance of the license. According to local media reports, this agreement marks a significant milestone in ensuring a reliable and uninterrupted supply of fuel to meet the country's energy needs amid challenging economic circumstances.

The statement said the current economic situation hindered the state Ceylon Petroleum Corporation (CPC) and Lanka Indian Oil Company (LIOC) from importing fuel shipments as planned.

Insufficient foreign exchange when opening Letters of Credit and settling bills has exacerbated the issue.

The Ministry, having sought solutions to mitigate these challenges, had invited Expression of Interest (EOIs) from reputable petroleum companies.

In mid-May, the Chinese company Sinopec Fuel Oil Lanka (Private) Limited was awarded a similar contract following successful negotiations.

RM Parks Inc., in collaboration with Shell, aims to commence operations in Sri Lanka within 45 days after the issuance of the license. "This agreement marks a significant milestone in ensuring a reliable and uninterrupted supply of fuel to meet the country's energy needs amid challenging economic circumstances". PTI

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HPCL shines at FIPI Oil and Gas Awards 2022: Hindustan Petroleum Corporation Limited (HPCL), a leading player in the Oil and Gas industry has received awards for its achievements at the prestigious FIPI Oil and Gas Awards 2022. The awards were presented by Union Minister of Petroleum & Natural Gas and Housing & Urban Affairs Hardeep Singh Puri, in the presence of Rameswar Teli, Minister of State for Petroleum and Natural Gas & Labour and Employment and Pankaj Jain, Secretary, MoP&NG. The company's commitment to sustainability, innovation, and fostering an inclusive workplace culture has been recognised through multiple accolades.