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OIL FUTURES TOP $94.7 A BARREL

Brent's Rise Leaves a Crude Impact on User Cos & Shares

OMCs, paint cos and airlines to feel the heat; but cement firms are unlikely to be affected directly

Stock Performances

	Time			
	5-Day	2023 (YTD)	1-Year	3-Year
OIL MARKETING COS				
HPCL	-1.94	8.52	10.15	18.05
BPCL	-0.06	7.89	12.25	-5.43
IOC	-1.75	18.85	33.09	1.80
PAINTS				
Asian Paints	-1.95	5.28	-3.26	15.95
Berger Paints	3.20	29.22	18.11	-2.41
Kansai Nerolac	-2.41	12.63	1.18	-45.93
AVIATION				
InterGlobe Aviation	-3.92	17.49	30.54	39.26
SpiceJet	-5.18	-2.34	-12.25	-59.93
TYRE				
Apollo Tyres	-2.83	13.85	29.42	109.40
Ceat	-2.71	31.74	27.10	98.97
MRF	-0.47	23.56	25.99	43.88
CEMENT				
UltraTech	1.36	22.81	33.42	63.18
Grasim	4.69	12.81	11.64	111.08
ACC	-2.17	-17.79	-24.06	24.01
Shree Cement	1.81	12.64	12.90	9.86

(Figures in %) Source: BSE, NSE

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Mumbai: Rising crude prices tends to be bad news for India as it has always weighed down on the economy in the past. With Brent crude futures at about $95 a barrel due to supply cuts by oil producing countries like Saudi Arabia and Russia, market participants have begun evaluating its impact with the country importing more than 80% of its oil needs.

In addition to the economy, companies in various sectors such as paints, tyres, oil, cement, and aviation also feel the direct pain of rising prices as crude is a key raw material for many of them. **ET** looks at the impact of rising crude prices on these sectors and stock prices:

OIL MARKETING COS (OMCS)

Analysts see profitability of oil refining and marketing companies getting squeezed on account of the firming crude oil prices.

"Since gross margins are lower in diesel and petrol, bleeding in OMCs is expected to continue," said Swarnendu Bhushan, co-head of research at Prabhudas Liladher. "In OMCs, the refining margins are strong, but the marketing margins are lower. If the crude oil prices remain above $90 post the second quarter, then margin downgrades can occur."

OMC shares will remain subdued, and the underperformance will continue. "ONGC, GAIL and Gujarat Gas are some stocks that can withstand the pressure from rising crude prices," said Bhushan.

PAINTS

Paint companies are likely to witness earnings downgrades, given the industry's heavy dependence on oil derivatives. "About 60-65% of the total raw material cost of paint can be attributed to crude oil derivatives," said G Chokkalingam, founder, Equinomics Research. He said market leaders might be able to withstand the cost pressure, but the overall impact will be negative. The foray of Grasim Industries into the paints business could put further pressure on margins.

"This industry will see a major impact also because its growth in the last couple of years has not been in double digits. The increase in raw material cost will pinch them." he said.

TYRE

Since crude is a significant component in manufacturing of tyres, higher crude prices are expected to impact tyre stocks negatively. "Crude is used for producing synthetic rubber and carbon black, which collectively contribute to more than 30% of the total raw material costs of tyres," said Ashwin Patil, senior research analyst at LKP Securities. He said that increasing operating leverage from demand for autos, particularly in PVs and two-wheelers may offset part of the margin pressure though.

Investors will, however, do better by remaining selective about shares of tyre makers in the wake of elevated crude prices. "Stocks like MRF, Apollo and CEAT, which are strong players in personal vehicles (PV) and two-wheelers in the listed space should get slight advantage over those who are strong in commercial vehicle (CV) and tractors space which are now in a slow lane and are expected to post lower growth this fiscal," said Patil.

AVIATION

The airline industry has been one of the most impacted among various sectors by rising oil prices. Aviation turbine fuel (ATFs) makes up for over 40% of airlines' operating costs. Brokerage Emkay Global said OMCs have hike domestic ATF prices in September by 14% from last month. The firm said recovering yields on account of the upcoming holiday season could help partly offset fuel cost pressures. But, a weakening rupee could lead to forex losses for aviation companies in the September quarter. Chokkalingam said market leaders like IndiGo may be able to withstand the pressure better, though earnings will remain weak.

Aviation turbine fuel (ATFs) makes up for over 40% of airlines' operating costs

CEMENT

The cement industry is likely to not be affected directly because of increasing crude prices since coal and pet coke are the major fuel contributors. Pet coke is a by-product of the refinery process but not directly correlated to higher crude prices. However, concerns may arise if diesel prices are hiked. "Power and fuel and transportation make up about 65% of the cost of production for cement," said Snehdeep Bohra, director, Fitch Ratings. He doesn't expect a hike in diesel prices.

"Cement industry has witnessed a margin decline in FY23 due to high diesel prices because of the Russia-Ukraine war. If the rise in crude leads to a hike in diesel prices, then transportation costs will increase and impact margins."

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De-rating of BPCL, HPCL, IOC on the cards as dominance in petroleum pipelines gets challenged

AGENCIES
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The common carrier access of product pipelines may result in sustained de-rating of BPCL, HPCL, Indian Oil even lower, Swarnendu Bhushan - Co-Head of Research, Prabhudas Lilladher said in a research.

Although HPCL/BPCL/IOCL are trading at 0.9/1.2/0.8x FY24 PBV, a look at their long term valuation charts suggests that they could still correct from here.

Marketing margins losses continue for OMCs. Average HPCL and BPCL returns have under-performed Nifty by 15/7/6 per cent in past 3/6/12month, while IOCL's performance has given 8 per cent underperformance against Nifty in 3 months (overperformed 3/16 per cent in 6/12m) due to inability of raising retail prices amid rising crude oil prices.

As per our calculation, the gross marketing margin on petrol and diesel stand at Rs 5.5lit and loss of 3.8/lit respectively in September compared to Rs10.6lit/10.2/lit in 1QFY24 and Rs 8.4/2.7/lit in 2QFY24YTD, the report said.

"We remain cautious on PNGRB's decision to implement common carrier for product pipelines due to the challenge it poses for OMCs. OMCs own 90 per cent of marketing infrastructure including pipelines, marketing terminals and depots", the note said.

While pipelines constructed under bidding process already have provisions for common carrier, older pipelines are still lacking behind. Overall utilisation of product pipelines at 68 per cent in FY23 does present an opportunity to other interested parties including private players.

Pipelines provide the cheapest method of transportation, as next best coastal is 46 per cent costlier while roadways are even twice as costly. In addition to the cost of creating new infrastructure, uncertainty of obtaining right of using land for laying pipelines remains a key challenge limiting expansion of private players in product retailing. However, post implementation of unified tariff of natural gas pipelines, we expect PNGRB to open petroleum product pipelines, a step that may sound like fall of the last bastion for OMCs, the note said.

Pipelines are the most critical part of the supply-chain as their construction takes long time. Just to share a perspective, Kochi-Bengaluru gas pipeline has still not been completed even after a decade of commissioning the Kochi LNG terminal.

Private players have largely remained at bay (6-7 per cent market share in sale of petrol/diesel in FY23) given 1) pricing interventions in petrol and diesel resulting in non-competitive environment, and 2) high cost plus time involved in laying marketing infrastructure alongside risk associated with it. However, at times OMCs have bled in terms of losses in marketing segment due to inability to pass on high cost to consumers, over a longer period of time; they have shown resilient profits.

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NTPC mining arm to explore battery minerals overseas

Power producer NTPC's mining arm will explore overseas sourcing of battery minerals such as lithium, cobalt and nickel, three sources told *Reuters* on Monday. India, which is among the world's top greenhouse gas emitters, has been pursuing pacts with other countries to secure key minerals in resource-rich countries such as Australia, Argentina and Chile. The country aims to be a net zero emitter of greenhouse gases by 2070. REUTERS

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The ministry plans to set up PSPs at de-coaled areas. BLOOMBERG

CIL, NHPC may convert old mines to pump storage

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State-run Coal India Ltd and India's largest hydropower company NHPC Ltd may join hands to explore the possibility of converting abandoned or closed mines into pump storage projects (PSP).

A person aware of the development said the coal ministry under its plan to set up PSPs at "de-coaled areas", where all the coal has been mined, has directed Coal India to partner with NHPC and other related agencies. Coal India is currently in the process of appointing a consultant for the project.

PSPs are hydro-projects where two reservoirs at different heights generate power as water moves through turbines.

"Because in our coal mines we have huge height, if a storage is created at the top then during day time, there would be solar (power), (through which) water can be stored there and during the night hydro power can be generated," said the person.

Another person said some of the closed mines may be auctioned out on an 'as is where is' basis for setting up of PSPs, from which they developer-cum-operator would be able to sell power.

Responding to a query, the coal ministry said: "Ministry has asked Coal India to coordinate with related agencies to explore the possibility of converting its de-coaled mines to pump storage projects in a bid to boost energy transition."

It said NHPC has visited a few Coal India sites but found them unsuitable for the projects.

NHPC said "there is no proposal to form joint ventures with Coal India to develop PSP projects over de-coaled mines". Queries mailed to Coal India remained unanswered.

The mining major and its subsidiaries have been taking several steps for alternative uses of these mines including dumping or filling of fly ash for reclamation of land, development of eco and mine tourism parks, afforestation, pisciculture, and supply of drinking water.

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MoU inked to produce renewable energy

In a first, Jindal Renewables Power Pvt Ltd (JRPPL) will set up Pumped Storage Projects in districts of Raigarh and Bilaspur with an investment of ₹11, 730 crore. JRRPL signed an MoU with the state government for 2,160 MW power generation through such projects. Pumped Storage Hydropower (PSH) is a form of hydroelectric energy storage. It is a configuration of two water reservoirs at different elevations that can generate power as water moves down from one to the other (discharge), passing through a turbine, informed Pradeep Tandon, JSPL executive president.