ONGC News as on 02 August 2023 (Print)

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High oil prices seen to halve refiners' marketing margins

MANISH GUPTA
New Delhi, August 1

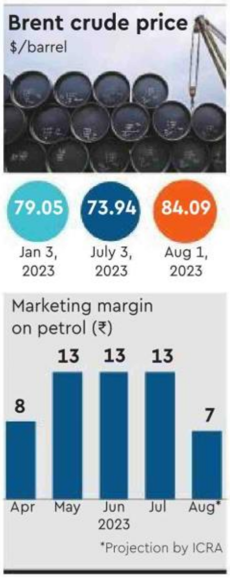
THE SUDDEN SPIKE in oil prices from below $74 to above $84 a barrel within a month is likely to impact the profitability of the oil refining and marketing companies, further reducing the chances of any moderation in retail prices of auto fuels.

Besides, the increase in oil prices are not likely to benefit even the upstream companies much, as the government raised the windfall tax on petroleum crude to ₹4,250 per litre from ₹1,600 per litre with effect from Tuesday (August 1, 2023).

Refiners like Indian Oil Corp (IOCL), Bharat Petroleum Corp Ltd (BPCL) and Hindustan Petroleum Corp (HPCL) were making healthy marketing margins till recently, which had fueled speculations that the retail prices may be reduced.

"As retail prices are static, any upward movement of oil prices would impact the profitability of OMCs. The marketing margins were in the range of Rs 12-14 per litre, now it will roughly become half," said Prashant Vasisht, vice president and co-head, ICRA. The three state-run OMCs, which control 80% of the fuel supply in India, haven't changed retail petrol and diesel prices since April 6, 2022, even though oil prices had touched $116 a barrel in June 2022 before falling to $79 in early January 2023.

As for the upstream companies Oil and Natural Gas Corp (ONGC) and Oil India Ltd (OIL), the rise in oil prices would have given additional income but for the windfall tax that the government levies whenever the price goes above $75 or so. "I don't think they will be able to get any additional benefit out of this simply because the government scoops away whatever is the upside," said Vasisht, adding that the tax remains nil when the price is in the range of $70-75 a barrel. Analysts believe that even $70-75 is a very good realisation for the upstream companies and, despite no upside from the increase in oil prices, the capital expenditure plans of the oil producing companies would not get impacted.



The fall in crude prices in the second half of last fiscal and Q1FY24 had enabled the OMCs to report profits after losses witnessed in earlier quarters. BPCL, for instance, reported a consolidated net profit of Rs 10,644 crore in the first quarter of FY24 as compared to a loss of ₹6,148 crore in the year ago quarter as the marketing margins widened considerably. The company suffered a major loss in the first two quarters of FY23 due to high crude oil price as the retail fuel price remained unchanged. The refiner finally turned around and reported net profits of ₹1,747 crore in Q3 and ₹6,478 crore in Q4.

On the gas side, as LNG prices are pegged to dated Brent prices, the prices of long term LNG would increase. Even the domestic gas prices are likely to increase if the oil prices remain high as they are also revised on a monthly basis. Generally city gas distributors (CGDs) like GAIL India and Indraprastha Gas Ltd (IGL) have passed on the increase in costs except last year. If there is any failure in passing on the increased costs, their profitability will be impacted, analysts said.

As for the oil prices, factors that would determine its trend are the oil production cuts announced by Saudi Arabia and Russia, which have brought down the inventories of oil consumers, and the ongoing recession which is seeing significant decline in China's consumption.

Besides, analysts said increase in oil prices would itself have a dampening impact on demand. Yet, on an average the expectation of oil prices is to remain in the range of $75 to $95 for the current financial year.

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RBI fines 4 PSUs for late reporting

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The Reserve Bank of India (RBI) has imposed late submission fees (LSF) of ₹2,000 crore on ONGC Videsh Ltd (OVL), Indian Oil Corp. Ltd, GAIL (India) Ltd, and Oil India Ltd for delayed reporting of their overseas investments, two people familiar with the development said.

The move may impact the overseas work commitments of these four state-run energy majors, prompting efforts by them to secure an extension from RBI, which has imposed a late submission fee of ₹500 crore each on the four firms.

State Bank of India (SBI) is the authorized dealer (AD) bank for these public sector undertakings' (PSUs') foreign transactions. It is the work of the AD bank to report and reconcile their overseas direct investments (ODIs) within the requisite timelines.

The oil ministry, the nodal ministry for these PSUs, believes the responsibility for reporting these transactions lies with SBI, not the PSUs.

The oil ministry believes the responsibility lies with SBI.

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RBI fines OVL, IOC, GAIL, Oil India ₹2,000 crore for late reporting

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"As per RBI notification dated 22 August 2022, restrictions have been placed on further remittance or transfer, wherein authorized dealer bank shall not facilitate any outward remittance/financial commitment by a person residing in India towards a foreign entity until the delay in reporting is regularized," said a senior Indian Oil Corp. executive, on condition of anonymity. "We have sought time from RBI to avoid any disruption in operations and for the smooth functioning of overseas subsidiaries. Further, we are in the process of reconciliation of the late submission fee along with SBI ODI (overseas direct investment) Cell."

A second person also said efforts are being made to resolve the issue. "It shall happen soon," the person said, on condition of anonymity.

According to RBI's Foreign Exchange Management (Overseas Investment) Regulations, 2022, those failing to submit investment evidence within the stipulated timeframe can do so with a late submission fee. "Late submission fee has been introduced by RBI with retrospective effect vide FEM (OI) Regulation, 2000. Regularization of submission of ODI-related data by the companies to RBI, under a specific Unique Identification Number (UIN)

The PSUs have sought an extension from RBI. MINT

assigned to each project through their AD banks, covers several thousands of ODI remittances processed since 2000. SBI has invariably reported all ODIs, based on documents provided by the remitting entities, to RBI as per applicable guidelines at the material time," said an SBI spokesperson. Queries emailed to the spokespeople for RBI, ministries of petroleum and natural gas and finance, OVL, Indian Oil , and GAIL remained unanswered.

According to the RBI notification on Foreign Exchange Management (Overseas Investment) Regulations, 2022, "A person resident in India who has made a financial commitment in a foreign entity in accordance with the Act or rules or regulations made there under, shall not make any further financial commitment, whether fund-based or non-fund-based, directly or indirectly, towards such foreign entity or transfer such investment till any delay in reporting is regularized," the notification added.

The overall investment by state-owned companies in oil and gas assets abroad stands at around $36.55 billion across 55 assets in 25 countries.

"As far as OVL is concerned, we are in compliance with all applicable RBI guidelines regarding remittances for our overseas projects. There are no RBI restrictions on overseas transactions," said an OVL executive who declined to be named.

"To our information, there is no basis for RBI imposing a total late submission fee of ₹500 crore on OVL due to delayed foreign investments' reporting. For overseas investments, RBI has gradually moved from manual reporting to online reporting on the RBI portal by the banks. Corporates do not have access to the RBI portal. A reconciliation of past data with the RBI portal was required, which has already been done. OVL has generally complied with the reporting requirements, and no significant fee is expected on this account as far as OVL is concerned," said a second OVL executive who also declined to be named.

"As far as Oil India is concerned, we are complying with all RBI guidelines remittances for our overseas projects," said an Oil India Ltd spokesperson.

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GAIL clocks revenue of Rs 32,227 crore in Q1 FY24

GAIL (India) Ltd reported revenue from operations of Rs 32,227 crore in Q1 FY24 as against Rs 37,572 crore in Q1 FY23. Profit before Tax in Q1 FY24 stood at Rs 1,889 crore as against Rs 3,894 crore in Q1 FY23. Profit after Tax in Q1 FY24 stood at Rs 1,412 crore as against Rs 2,915 crore in Q1 FY23.

Quarter on Quarter basis, revenue from operations was reported at Rs 32,227 crore in Q1 FY24 as against Rs 32,858 crore in Q4 FY23. PBT registered a robust growth of 220% to Rs 1,889 crore in Q1 FY24 as against Rs 591 crore during Q4 FY23. PAT increased by 134% to Rs 1,412 crore in Q1 FY24 as against Rs 604 crore in Q4 FY23 mainly on account of increased Gas Marketing and Transmission volumes & increased Transmission tariff realisation.

During the quarter, Natural gas transmission volume registered a growth of 7% to 116.33 MMSCMD in Q1 FY24 as against 108.23 MMSCMD in Q4 FY23. Gas marketing volume increased by 2% to 98.84 MMSCMD.

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ATF price hiked by a steep 8.5%; commercial LPG rate cut by ₹100

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NEW DELHI: Jet fuel or ATF price on Tuesday was hiked by a steep 8.5%—the second increase in a month, while commercial cooking gas rate was cut by ₹100 per cylinder in line with divergent trends in international benchmarks.

Aviation turbine fuel (ATF) price was increased by ₹7,728.38 per kilolitre, or 8.5%, in the national capital to ₹98,508.26 per kl, according to a price notification of state-owned fuel retailers. Rates, which vary from state to state depending on the incidence of local sales tax or VAT, have been increased on firming up of global rates that followed four months of decline.

The hike comes on the back of a 1.65% or ₹1,476.79 per kl increase in ATF prices effected from July 1.

Prior to that, rates had been cut on four occasions. Price of commercial LPG, used in establishments such as hotels and restaurants, on the other hand, was reduced by ₹100 per cylinder.

The hike comes on the back of a 1.65% increase in ATF prices effected from July 1. REUTERS

A 19-kg commercial LPG cylinder now costs ₹1,680 in the national capital.

Saudi contract price (CPP), the benchmark used for pricing of LPG, has reduced since peaking in March and the same is reflected in domestic prices, industry officials said. Globally, jet fuel prices have increased in line with the firming up of global crude oil prices, necessitating the hike in ATF rates.

Commercial LPG rates were cut on three previous monthly revisions beginning April. In three cuts, prices had gone down by ₹346.5 per 19-kg cylinder.

The price of domestic LPG—used in the kitchen for cooking purposes—remained unchanged at ₹1,103 per 14.2-kg cylinder in the national capital.

Domestic LPG rate was last changed on March 1, when it was hiked by ₹50 per cylinder.

State-owned Indian Oil Corporation (IOC), Bharat Petroleum Corporation Ltd (BPCL) and Hindustan Petroleum Corporation Ltd (HPCL) revise cooking gas and ATF prices on the 1st of every month based on the average international price in the previous month.

Petrol and diesel prices continued to remain on freeze for a record 16th month in a row. Petrol costs ₹96.72 per litre in the national capital and diesel comes for ₹89.62.

State-owned fuel retailers are supposed to revise petrol and diesel prices daily based on a 15-day rolling average of benchmark international fuel prices but they haven't done that since April 6, 2022.

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JET FUEL SALES UP 10.3% IN JULY

State-Run Cos Clock Increase in Petrol, Fall in Diesel Sales

Rains, return of private cos impact sales

Our Bureau

New Delhi: State-run oil companies sold 3.8% more petrol and 4.3% less diesel in July compared to the same month last year, with sales being impacted by heavy rains as well as the return of private sector fuel retailers to the market.

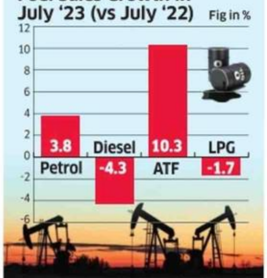
Jet fuel sales rose 10.3% year-on-year in July as airlines flew more passengers, according to the provisional sales data obtained from state-run oil marketing companies. Consumption of liquefied petroleum gas (LPG), primarily used for cooking in the country, fell 1.7% in July.

Indian Oil Corp, Bharat Petroleum and Hindustan Petroleum obtained a larger market share last summer as private refiners slowed sales to avoid selling at below-market prices. As international prices sharply rose last summer, state-run companies froze domestic pump prices, prompting private refiners to reduce their retail sales. Domestic prices have been at the same level since the May of last year while international prices have sharply fallen, allowing retailers to make extraordinary margins of Rs 8-9 on each litre of petrol and diesel sold at the pumps. This has also brought back private sector fuel retailers who are quickly regaining market share.

Reliance-BP and Nayara Energy nearly tripled their share of the country's diesel sales to 9.4% in June from a year earlier. Private players' share in the retail sales of petrol rose to 7.8% in June from 6.8% a year earlier.

Fuel Facts

Fuel Sales Growth in July '23 (vs July '22) Fig in %



Source: State-run oil cos' provisional sales data

COMMERCIAL LPG PRICE CUT

Oil companies have cut the prices of commercial liquefied petroleum gas (LPG) by ₹100 per cylinder. A 19-kg refill now costs ₹1,680 in Delhi and ₹1,640.50 in Mumbai. Domestic cooking gas prices remain unchanged.

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ArcelorMittal looks to Indian climate tech start-ups for green push

ISHITA AYAN DUTT
Kolkata, 1 August

Global steel major ArcelorMittal is trying to reel in climate technology start-ups from India to come up with ideas for its and ArcelorMittal Nippon Steel India's (AM/NS India's) decarbonisation journey.

The world's second-largest steelmaker has a global innovation fund, called XCarb, to help navigate its climate journey. And now it has launched its first country-specific accelerator programme directed at India. "It's related to our growth plans and strategic view of the country," says Irina Gorbounova, head, XCarb Innovation Fund.

Steel has a significant carbon footprint and ArcelorMittal has pledged to reduce carbon emissions by 25 per cent per tonne of steel by the end of the decade at an estimated cost of $10 billion. This does not include joint ventures (JVs).

So far, the fund has invested $189 million in seven companies and committed another $100 million in the Bill Gates-founded Breakthrough Energy Catalyst programme. "Several companies approached us," Gorbounova says. "Last year, we brainstormed with our technology teams and decided on the technology domains of interest for the group."

The accelerator was launched specifying those domains, and start-ups were invited to apply. Early July, CHAR Technologies was selected as the winner, securing a $5 million investment through XCarb. ArcelorMittal Dofasco has also signed a memorandum of understanding with CHAR to buy biocarbon from its Ontario facility for large-scale trials in the coming years.

The steel giant has also established strategic partnerships with the joint runners-up of the accelerator – Carbon Upcycling and D-CARBN – with the option of investing in them in the future.

Now, ArcelorMittal is looking to pull in decarbonisation-related ideas and technologies from India. "India is a core market for us," Gorbounova explains. "Considering our footprint and growth plans, it made sense to launch an accelerator specifically for India to tap into the country's innovative ecosystem and see if we could identify some interesting technologies that can support us in our operations here."

ArcelorMittal has a 60 per cent equity interest in the JV with Nippon Steel in India (AM/NS) and has major growth plans in the pipeline. The plant at Hazira, Gujarat, is on course to increase its capacity from 9 to 15 million tonnes (mt) by 2026. There are also brownfield options at Hazira and greenfield ones in Odisha, which will take AM/NS India's capacity to 40 mt by 2035. This is in line with the huge capex plans announced by major steel companies, which would help take India's capacity to 300 mt by 2030-31.

For the India accelerator programme, ArcelorMittal will collaborate with the Indian Institute of Technology Madras.

"There are a lot of technologies at a nascent stage that help towards decarbonisation. So, we are really casting our net across India and seeking to target not just start-ups but also getting into the labs of institutions," says Raghuttama Rao, CEO, Gopalakrishnan-Deshpande Centre for Innovation and Entrepreneurship (GDC) – IIT Madras.

Start-ups and early-stage companies can apply.

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BHEL successfully synchronises 660 MW unit of Maitree Super Thermal Power Project in Bangladesh

Bharat Heavy Electricals Limited (BHEL) has achieved a major milestone with the successful synchronisation of the 660 MW Unit-2 of the 1,320 MW Maitree Super Thermal Power Project (STPP) in Bangladesh. The synchronisation of the unit has been done ahead of the commitment given at a high level G2G meeting, which was a very tough target even at the time it was given.The 2x660 Maitree STPP is located at Rampal, Mongla, Bagerhat, Bangladesh, and is being set up by BHEL for the Bangladesh-India Friendship Power Company (BIFPCL), a 50:50 joint venture between the Bangladesh Power Development Board (BPDB) and NTPC Limited.The project is a symbol of successful cooperation between India and Bangladesh and is a priority infrastructure development project for Bangladesh aimed at establishing reliable, cost-effective, base-load power production in the country.The project uses state-of-the-art ultra supercritical technology for lower emissions and a number of further steps have been taken to mitigate environmental impacts including installation and compulsory usage of flue gas desulphurisation system to control SOx emission, installation of the tallest chimney in Bangladesh (275 mtr) for wider dispersion of emissions; electrostatic precipitator of efficiency above 99% to control ash particulate matter; covered coal shed and pipe conveyors to avoid coal particle pollution; closed cycle cooling water system and zero liquid discharge to minimise water consumption, among others.BHEL's team of dedicated professionals has worked relentlessly to ensure smooth execution of Maitree Super Thermal Power Project. The company's stringent quality control measures and adherence to international standards have been instrumental in delivering a power plant that not only meets the energy requirements of Bangladesh but also sets new benchmarks for operational efficiency and environmental responsibility. This project is a testament to BHEL's expertise and technological prowess in the power sector. This accomplishment further strengthens BHEL's position as a leading global player in providing reliable and sustainable energy solutions.