ONGC News, 06.10.2020 Print

The Financial Express
Dividend payouts upset oil PSUs' green switch plan, says Moody's
Oct 6, 2020 | Delhi | Pg No.: 3 | | Sq Cm:63 | AVE: 205807 | PR Value: 1029035

Dividend payouts upset oil PSUs' green switch plan, says Moody's

PRESS TRUST OF INDIA
New Delhi, October 5

THE EXTRACTION OF large shareholder payouts from national oil companies by the government leaves little cash surplus for them to meaningfully invest in low carbon alternatives, Moody's Investors Service said on Monday.

The government has mandated national oil companies such as Oil and Natural Gas Corporation (ONGC) to pay a minimum 30% of their net profit as dividends to shareholders. The government benefits out of such payout as it is the largest shareholder in these firms and also gets tax on such payouts.

In a new report, Moody's said energy transition poses varying degrees of credit risk to the world's largest national oil companies (NOCs).

"The government of India has also been extracting large shareholder payouts from its NOCs leaving little cash surplus for them to meaningfully invest in low carbon alternatives," Moody's said.

ओएनजीसी
ONGC

Business Standard
The slippery slope of back-dated law
Oct 6, 2020 | Delhi | Pg No.: 7 | | Sq Cm:522 | AVE: 1292494 | PR Value: 6462469

The slippery slope of back-dated law

The retrospective tax controversy was highlighted by Vodafone, but Cairn Plc's continuing problems point to the impact this law has had on FDI in India's oil and gas sector

JYOTI MUKUL
New Delhi, 5 October

Edinburgh-based Cairn Plc, which slapped a restitution notice on the Indian government under Bilateral Investment Promotion and Protection Agreement (BIPA) in March 2015, is crying foul because its frozen assets here have been sold by the Delhi income tax department over a period of time. This is the fallout of a long-drawn case involving retrospective taxation of capital gains on transactions between foreign entities involving assets based in India. The company no longer has assets or investments in India. Once a feted poster boy for investing in India's sedimentary basins for oil and gas that could save imports, its paltry 0.1 per cent holding in Vedanta and the dividend that accrues from it are in the custody of the department.

The ₹20,000-crore Vodafone arbitration award that the Union government lost recently was widely considered a test case of India's retrospective tax legislation that was passed in 2012. That verdict will probably be challenged in the Indian courts. But an arbitration award for Cairn Plc has been awaited for almost two years. The company wants $1.4 billion from the Indian government in damages, and is peeved at selling its almost 5 per cent holding in Vedanta, which merged with Cairn India in April 2017. Does this long delay point to backroom negotiations with the government of India? All that Cairn Plc's official spokesperson said is that the award is expected "after summers".

Though the dispute sits like a black hole on the Cairn Plc balance sheet since the company has not accounted for the tax demand, the company's history and much of its fame even now is linked to a remote acreage in Rajasthan's Barmer district. The field produces around 20 per cent of India's total crude oil production of 680,000 barrels a day. This is the same asset in which Shell India bought interest after signing a production sharing contract on May 15, 1995, with the original licensee, Oil and Natural Gas Corporation (ONGC) and the Union government, but pulled out soon because it had little interest in India's not-so-richly endowed basins.

Global footprint

- **UK:** In the North Sea, a 20% interest in the Catcher area, 29.5% interest in the Kraken area
- **MEXICO:** Acreage in Atlantic Margin, interests in four blocks in the Gulf of Mexico
- **SURINAME:** 100% interest in Block 61 in the Guyana-Suriname basin
- **SENEGAL:** First deepwater discoveries in the country in the Atlantic Margin. Cairn in July 2020 announced selling interest to Woodside. Transaction expected to close in Q4 2020
- **CÔTE D'IVOIRE:** Force majeure invoked in seven Tullow-operated onshore licences where Cairn has 30% interest
- **MAURITANIA:** Awaiting renewal of licence with 90% interest in C7 block after Total exited
- **ISRAEL:** Interest in eight offshore licences

Shell sold its entire stake in the Barmer block to Cairn Plc, then a small company even globally. But Mike Watts, then the exploration in-charge at Cairn and a legendary figure in Rajasthan's oil history, and his team found reserves of 1.1 billion barrels of oil in Barmer, a discovery that quadrupled the company's share price and catapulted it into the FTSE 100 index.

As former ONGC chairman and managing director R S Sharma pointed out, "Cairn Plc's success in Barmer changed the perception of global oil and gas companies about the Indian sedimentary basins. It also explains the impressive participation of global players in the initial rounds of New Exploration and Licensing Policy (NELP) bidding."

Sharma headed ONGC when Cairn Plc sold its India arm Cairn India to Anil Agarwal's Vedanta group in 2011 to cash in on the value it created at Barmer. He also presided over some hard bargaining with the new buyers on an arbitration case involving cess payment. The Union government sided with ONGC, which holds a 30 per cent interest in the block, and asked for the withdrawal of arbitration by Cairn India as one of the conditions to approve the sale.

Cairn India was created by its British owners and listed on the Bombay Stock Exchange in 2007. Just before that, Cairn UK's holdings in nine subsidiaries were transferred to the Indian entity. Information of this transfer formed part of the initial public offer document when regulatory approvals were taken. But, the tax department in January 2014 sent Cairn a notice to file its return on these transactions. That was because the law on capital gains involving transactions by foreign entities on assets in India has been amended in 2012.

Much before the amendment, however, the tax department had asked British telecom giant Vodafone to pay ₹11,000 crore for the transaction with Hong Kong-based Hutchison Whampoa to buy the Essar-promoted telecom company then known as Hutchison Essar. This tax claim did not stand the test of courts even in 2013 when the Supreme Court struck down the demand.

The capital gains tax demand on Cairn Plc was made under this infamous retrospective amendment around the time it was struggling to sell its India business to Vedanta. The tax assessment asked for a principal tax of ₹10,200 crore due on the 2006 transactions with applicable interest and penalties. This claim sounded the death knell for foreign interest in India's oil and gas sector.

"Such tax amendments and unreasonable arm-twisting by the Indian tax regime turned away such major players from the subsequent NELP rounds," said Sharma. But despite Sharma's assertion, it is also a fact India is low on investment priority when it comes to the upstream sector because the geological challenges in deep waters of some basins make the task difficult.

Barmer, in fact, did have its share of technical challenges that were compounded by differing interpretations of contract terms. Shell gave up because it could not see viable reserves; when the block was finally developed under Cairn, the crude oil was of superior sweet quality but also "waxy", making transportation a technical challenge. A specialised pipeline was put in place to transport it but a long battle with the government ensued on whether the investment in the pipeline should be allowed as a cost recovery under the production sharing contract.

The oil exploration and production business involves a high degree of risk capital because of the geological uncertainties of blocks, so reserves are only best-guess estimates. Under NELP and pre-NELP blocks, the government's take from these blocks — a term known as profit petroleum — is derived after costs are deducted. These costs, in the form of number of wells to be drilled, were defined at the bidding stage, making returns uncertain. This inherent uncertainty in the oil business only becomes more slippery if policy changes hound critical risk capital retrospectively.

Govt mulls domestic gas floor price system to protect explorers' margin

IANS ■ NEW DELHI

The Government proposes to implement a new floor price mechanism for gas produced from domestic fields by companies such as the Oil and Natural Gas Corporation (ONGC) to prevent the fuel price from crashing below an identified threshold in current subdued market conditions.

Domestic gas price has fallen to $1.79 per million British thermal units (mmBtu) for the October-March period of the current fiscal.

The administered price of the gas has fallen in the last four six-monthly revision cycles and has now reached the lowest price levels since 2014.

At this level of natural gas prices, exploration companies such as ONGC actually lose money on fuel as tariffs crash.

Sources said the Petroleum Ministry is considering a proposal under which domestic gas will have a floor pricing that would be linked to gas prices with the Japan-Korea Marker, a benchmark index used to determine LNG tariff in North Asia with a discount.

With JKM prices hovering over $5 per million British thermal units (mmBtu) even with a $1 mmBtu discount, the Indian gas floor price under this formula will be close to $4 mmBtu.

This is much higher than the government's current administered price of natural gas and would give necessary margins to oil explorers to economically maintain gas production cycles.

"Nothing has been finalised on having a gas floor price as of now. A panel in the Petroleum Ministry is looking at various options and the best course would be adopted that has little impact on consumers but also supports oil and gas companies with remunerative and sustainable gas prices," said a source.

While a gas floor price at this juncture would benefit oil companies, it could render the price of piped natural gas to households and CNG for transportation expensive.

The average cost of gas production for the country's largest public sector oil company ONGC is about $3.7/mmBtu, much higher than the current regulated price of natural gas at $1.79/mmBtu. If the current demand cycle in the oil market sustains, gas prices may fall even further.

Lower gas price is bad news for the ONGC as it would mean further suppressed margins and losses. The company is set to lose close to Rs 6,000 crore on low gas prices this year, brokerages have said.

ओएनजीसी ONGC
The Hindu Business Line
Govt using wage pact, stock scheme to 'tame' BPCL employees ahead of privatisation unions
Oct 6, 2020 | Delhi | Pg No.: 2 | | Sq Cm:200 | AVE: 370123 | PR Value: 1850617

Govt using wage pact, stock scheme to 'tame' BPCL employees ahead of privatisation: unions

P MANOJ
Mumbai, October 5

The government is looking to 'tame' employees of Bharat Petroleum Corporation Ltd (BPCL) in a bid to check resistance through litigations against the privatisation of the state-run refiner. A long-term wage agreement and employee stock purchase scheme (ESPS) are being used as levers to achieve this goal, say employee unions.

The offer of shares under ESPS is "subject to the applicant not being party to any challenge to the proposed strategic disinvestment of BPCL, whether individually or through any collectives and whether by way of any litigation or by way of any representation/complaint to any authority whomsoever", says a BPCL document.

Clause 1 (f) of the Memorandum of Agreement (MoA) on wages and other matters signed between BPCL and two unions representing marketing workmen for 10 years, states: "The management reserves the right to review and revisit the MoA once every three years, with first such review due w.e.f. 01.06.2022."

> "If we sign this agreement, we will never be able to challenge any dispute arising out of it in courts. It will not even be entertained by the courts."

BPCL has eight unions representing marketing workmen. The two unions that signed the MoA on September 24 are the Shiv Sena affiliated BP Karmachari Union (BPKU) in Mumbai and the AITUC affiliated Petroleum Workers Union in Delhi. The MoA was discussed by the management with the BPKU alone.

The wage agreement signed by the two unions includes 95 per cent Dearness Allowance merger and 12 per cent fitment. BPCL is now coaxing the remaining six marketing workmen unions and eight unions representing workmen at Mumbai and Kochi refineries to sign the same MoA though the terms of the wage agreements for marketing and refineries were always different. These unions are seeking 100 per cent DA merger and 15 per cent fitment, similar to what was signed by other oil PSUs as per norms of the Department of Public Enterprises.

VRS-linked undertaking

BPCL is also asking employees who have taken voluntary retirement recently to sign an undertaking, accepting all the terms and conditions of the long-term settlement (LTS) on wages while leaving the company, to get the benefits. This undertaking is being sought irrespective of whether the employees who have opted for VRS are members of the two unions or not and even from those continuing in service, potentially to bypass the resisting unions.

"Can we give the management such unilateral right to overhaul a wage settlement after three years by giving three months' notice. If we sign this agreement, we will never be able to challenge any dispute arising out of it in courts. It will not even be entertained by the courts," says Aji M G, general secretary, Cochin Refineries Workers Association, which is affiliated to the CITU.

BPCL did not respond to an e-mail sent on October 2 seeking comment.

ओएनजीसी ONGC

Business Standard

Moody's: National oil firms less prepared to deal with credit risk

Oct 6, 2020 | Delhi | Pg No.: 5 | | Sq Cm:31 | AVE: 75527 | PR Value: 377636

Moody's: National oil firms less prepared to deal with credit risk

State-owned oil firms are less prepared than their private counterparts to deal with the credit risk arising out of energy transition even though sovereign linkage provides some competitive advantages, Moody's Investors Service has said. A report says energy transition poses varying degrees of credit risk to the world's largest such firms but state firms in oil importing countries are less exposed to carbon transition risk than those in oil exporting countries. **BS REPORTER**

The Economic Times
Oil PSUs Spent Rs 24K Crore as Capex Till August
Oct 6, 2020 | Delhi | Pg No.: 11 | | Sq Cm:72 | AVE: 734369 | PR Value: 3671846

Oil PSUs Spent ₹24K Crore as Capex Till August

NEW DELHI State-run oil companies have spent a quarter of their 2020-21 capex target in the first five months of the year as the pandemic decelerated project execution. All state-run oil companies have together spent ₹24,626 crore in five months through August, 25% of the total capital expenditure of ₹98,522 crore planned for the current financial year, according to the oil ministry data. – **Sanjeev Choudhary**

Business Standard (Hindi)
Rashtriya tel companiyon ko rinn jokhim jyada
Oct 6, 2020 | Delhi | Pg No.: 3 | | Sq Cm:177 | AVE: 198851 | PR Value: 994256

राष्ट्रीय तेल कंपनियों को ऋण जोखिम ज्यादा

ज्योति मुकुल
नई दिल्ली, 5 अक्टूबर

मूडीज इन्वेस्टर्स सर्विस के अनुसार, ऊर्जा पारेषण से संबंधित ऋण जोखिम से निपटने के संदर्भ में राष्ट्रीय तेल कंपनियां (एनओसी) अपने निजी समकक्षों के मुकाबले कम तैयार हैं, हालांकि उन्हें कुछ हद तक प्रतिस्पर्धी बढ़त हासिल है।

एक नई रिपोर्ट में कहा गया है कि ऊर्जा पारेषण से दुनिया की सबसे बड़ी कंपनियों के लिए ऋण जोखिम अलग अलग है, लेकिन तेल आयातक देशों (जहां खपत लगातार बढ़ेगी) में एनओसी तेल निर्यातक देशों के मुकाबले कार्बन पारेषण के कम जोखिम से जुड़ी हुई हैं। हालांकि भारत इस श्रेणी में आता है, लेकिन एनओसी का अपस्ट्रीम और विपणन खंडों पर दबदबा है और सरकार के अप्रत्यक्ष कर राजस्व का 20 प्रतिशत इन्हीं उत्पादों के विपणन से आता है। एक कॉरपोरेट फाइनैंस समूह की विश्लेषक श्वेता पटौदिया ने कहा, 'भारत में ईंधन ढुलाई के लिए खुदरा बिक्री कीमतें इन अप्रत्यक्ष करों की वजह से काफी ज्यादा हैं, जो अन्य देशों में कार्बन टैक्स के लिए एक विकल्प के तौर पर काम करता है।'

रिपोर्ट में कहा गया है कि भारत सरकार ने अपनी एनओसी से बड़ा शेयरधारक भुगतान भी किया है जिससे उसके लिए कम कार्बन वाले विकल्पों में बड़े निवेश के लिए कम अतिरिक्त नकदी रह गई है। पटौदिया का कहना है, 'भारत में अक्षय ऊर्जा के निवेश में भारी इजाफा हुआ है और यह एनओसी के बजाय सरकार के स्वामित्व वाली और निजी कंपनियों द्वारा किया गया है।'

रिपोर्ट के अनुसार, देश तेल एवं गैस की अपनी खपत लगातार बढ़ने की उम्मीद कर रहा है जिसे देखते हुए सरकार द्वारा अपने एनओसी के बिजनेस मॉडल में बड़ा बदलाव लाए जाने की संभावना नहीं है।

बीएए3 निगेटिव रेटिंग वाला भारत कच्चे तेल (वैश्विक खपत का करीब 5 प्रतिशत) का दुनिया का तीसरा सबसे बड़ा उपभोक्ता है और यह आयात पर काफी हद तक निर्भर है। भारत का ऊर्जा रणनीति का लक्ष्य अक्षय ऊर्जा का इस्तेमाल बढ़ाकर और ऊर्जा दक्षता सुधारकर आयात घटाना है। हालांकि भारत की जीवाश्म ईंधन की खपत लगातार बढ़ेगी (कोयला समेत) और उसे कम से कम वर्ष 2040 तक तेल एवं गैस का आयात करना पड़ेगा।

मूडीज के विश्लेषक हुइ तिंग सिम का कहना है कि एनओसी ने दुनिया के ऊर्जा बाजारों में अहम योगदान दिया है और वैश्विक तेल एवं गैस उत्पादन तथा रिजर्व के संदर्भ में निजी क्षेत्र (अंतरराष्ट्रीय तेल कंपनियों) में अपने प्रतिस्पर्धियों को मात दी है।

Unified tariff likely to make KG Basin gas cheaper

FE BUREAU
New Delhi, October 5

THE NEW UNIFIED gas pipeline tariff regulation, once implemented, is expected to significantly cut rates of gas to be procured from the Krishna Godavari Basin (KG Basin), Nomura analysts said. Based on the FY20 consumption levels, the Petroleum and Natural Gas Regulatory Board (PNGRB) has indicated that unified gas pipeline tariff would be around ₹ 56.8 per million British thermal units (mmBtu).

Based on the FY20 consumption levels, the PNGRB has indicated that unified gas pipeline tariff would be around ₹ 56.8 per mmBtu

Under the current additive pricing regime, the transportation cost of gas sourced from the KG Basin, touted to be the largest source of upcoming new gas in the country, is in the range of ₹100 to ₹193 per mmbtu.

For the Jagdishpur-Haldia-Bokaro-Dhamra (Urja Ganga) pipeline, rates of gas transportation from the KG Basin might fall by as much as ₹128.3 per mmBtu — or 66% lower than current tariff levels — if the new unified tariff norms are put in place, the brokerage firm noted. The unified tariff would be applicable on the integrated trunk network of 13 pipelines with combined volume of 113 million standard cubic meter per day (mmscmd) — about 75% of the country's FY20 consumption levels — mostly run by state-run Gail and Gujarat State Petronet (GSPL).

Analysts at ICICI Securities pointed that unified tariff would help boost the Urja Ganga pipeline's utilisation, as otherwise, its rates would be prohibitively high. The idea behind unified tariffs is the development of new gas markets in far flung areas by rationalising pipeline transportation rates. The current additive pricing system raises pipeline charges every 300 km, discouraging potential consumers located in areas far from the gas production facilities and import terminals.

VEDANTA RATING: **NEUTRAL**

Weak commodity prices impacted Q1

The aluminium business offset weakness in zinc and O&G; all eyes now on delisting process; retain 'Neutral' with TP of ₹148

VEDANTA'S (VEDL'S) Q1FY21 results reflect the impact of weak commodity prices as Ebitda declined 12% q-o-q to ₹39.9 bn. However, Ebitda beat estimates led by higher profitability in aluminum business. All eyes are now on the proposed delisting of VEDL by the promoters and the reverse book-building for the same started on 5th Oct'20 and will be open till 9th Oct'20. The final outcome on the success or failure of the delisting would be known on 16th Oct'20. Maintain **Neutral**.

Aluminum business offsets weakness in zinc and Oil & Gas (O&G): Q1FY21 Ebitda declined ~12% q-o-q due to a sharp plunge in commodity prices. However, it was above our expectations of ₹29.9 bn due to higher profitability in aluminum business (Ebitda of ₹13.0 bn v/s est. ₹6.2 bn). The company benefitted from reduction in renewal power purchase obligation (RPO) to the extent of ₹3.95 bn. Adj. PAT, however, grew 30% q-o-q to ₹10.3 bn due to higher other income (higher marked to market gains) and lower depreciation (due to impairment of book value in O&G business done in Q4FY20).

The share of Ebitda from Hindustan Zinc (HZL) and O&G businesses (at ₹20.7 bn) declined to 52% (v/s 62% in Q4FY20), the lowest in the last four years. This was largely due to lower commodity prices. The O&G segment reported Ebitda of ₹4.9 bn (down 43% q-o-q/73% y-o-y), primarily due to lower oil prices (down 37% q-o-q). HZL had earlier reported Ebitda of ₹15.8 bn, down 20% q-o-q, primarily due to lower zinc prices.

Aluminum business' Ebitda surprised with 15% q-o-q growth despite a ~12% plunge in aluminum prices sequentially. This was due to the sharp reduction in hot-metal cost of production (CoP) to $1,268/t (-12% q-o-q), supported by lower coal and alumina cost.

Net debt surged ₹35 bn q-o-q to ₹248 bn due to dividend payment by HZL and higher working capital. Cash and cash equivalents stood at ₹338 bn. VEDL through its overseas subsidiaries has lent $307 m to its parent Vedanta Resources (VRL) and other promoter group entities, which is repayable by Jun'21. Management expects 10-year extension of the profit-sharing contract (PSC) for its O&G block RJ-ON-90/1 in Rajasthan to be on existing terms (i.e. at 40% profit sharing). The government, however, is demanding an increase of 10% in the profit sharing to grant an extension. The matter is under litigation and is due for hearing on 16th Oct'20.

Financials & valuations (₹ billion)

Y/E MARCH	2020	2021E	2022E
Sales	831.7	789.3	875.9
Ebitda	194.1	213.8	239.2
Adj. PAT	32.6	55.8	53.8
Ebitda margin (%)	23.3	27.1	27.3
Cons. Adj. EPS (₹)	8.8	15.0	14.5
EPS Gr. (%)	-52.7	71.0	-3.6
BV/Sh. (₹)	146.9	149.7	148.5
Ratios			
Net D:E	0.7	0.6	0.6
RoE (%)	5.6	10.1	9.7
RoCE (%)	8.4	11.6	11.7
Payout (%)	53.4	85.5	126.7
Valuations			
P/E (x)	15.6	9.1	9.5
P/BV (x)	0.9	0.9	0.9
EV/Ebitda (x)	6.0	5.5	4.4
Div. Yield (%)	2.8	7.8	11.1
FCF Yield (%)	25.6	23.1	22.1

*Attributable Ebitda Source: Company, Motilal Oswal

Valuation and view

We have factored in the post-COVID recovery in commodity prices in our estimates. VEDL's cost reduction in aluminum, zinc capacity expansion completion and expected ramp-up in O&G should also support FY22e earnings growth. Over FY20-22e we estimate CAGR of 11% in Ebitda and 28% in EPS. Loan extension of $307 m to its promoter group entities highlights the stretched balance sheet of the promoter. We value VEDL on SOTP basis to arrive at a TP of ₹148.

MOTILAL OSWAL

The Indian Express
Oil jumps 6% on Trump health
Oct 6, 2020 | Delhi | Pg No.: 15 | | Sq Cm:53 | AVE: 410348 | PR Value: 2051740

Oil jumps 6% on Trump health

New York: Oil prices surged 6 per cent on Monday after doctors said US President Donald Trump could soon be discharged from the hospital where he is being treated for Covid, while six Norwegian offshore oil and gas fields were shut as more workers joined a strike. Brent was up $2.30, or 5.9%, to $41.57 abarrel by 1:09 p.m. EDT (1709 GMT). **REUTERS**