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The Financial Express

Oil in turmoil

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Oil in turmoil

It is time for the govt to abolish cess and lower royalties, to ensure that the lower-cost fields operate sustainably in the present price trough. Re-introduction of modest customs duties on crude imports can make up for the revenue losses

ILLUSTRATIONS: ROHNIT PHORE

RANJAN MATHAI

Former Indian foreign secretary and former Indian High Commissioner to the UK

REFORMS ANNOUNCED LAST week by India's oil regulator are useful to improve ease of doing business for domestic oil producers, but, for now, the industry's priority is to survive the oil price collapse.

The industry, it is estimated, employs 50,000 people, and contributes 1.5% of India's GDP; it meets 20% of India's requirements, which the prime minister wants raised to 33%. Oil is a strategic commodity, without which the supply chains of the economy cannot function. The price war among oil producers for shares of a dwindling market is forcing reviews of operating costs and future viability. Calibrated measures to protect India's vital oil assets are, thus, necessary.

ONGC's cautionary plea that under the burden of high taxes, cess and royalties, it cannot cover the cost of producing oil when prices are below $40 a barrel, has resonance among all Indian oil producers. It is time for the government to abolish cess and lower royalties, to ensure that at least the lower-cost fields operate sustainably in the present price trough. Re-introduction of modest customs duties on crude imports can make up for the revenue losses.

Global oil markets were already oversupplied and marked by severe price competition, even before the pandemic caused demand destruction. The closest parallel to this unprecedented situation was the period 1929-34 when a slew of giant discoveries in the US, led to a production surge during the Great Depression. Despite having started an effective cartel in 1928 to manage global marketing, the dominant US and British oil 'majors' could not handle the ensuing price destruction on their own; and it took regulatory action by the US authorities to stabilise domestic production and distribution. The majors prospered, and went on to control global oil markets for four decades; many smaller producers were either bought out or went bankrupt and disappeared from the oil map.

A global cartel would be challenging to build, but it may be attempted. The mid-April decision by OPEC+ and Russia, supported by the US, to cut 10m barrels of production per day proved ineffective as demand was down by 30 mbpd. With offtake declining sharply, the premium on storage capacity spiked to the extraordinary point—a negative price for future oil deliveries in the US. Relatively high-cost shale oil producers in the US are counted among the first to shut shop in this scenario. They could be followed by other high-cost producers worldwide.

A broader decline of US oil would be dangerous for President Trump's re-election prospects, and he has said that he would do whatever he has to do "to protect tens of thousands of energy workers and our great companies". He first tried to buy $3bn worth of oil for the US Strategic Petroleum Reserve but was blocked by Congress. Hence, he has authorised a legally tenuous scheme to rent out 30m barrels storage space in the SPR to US producers. Oil stored in May-June 2020 would have to be moved out by March 2021. Trump had earlier warned the Saudis that the US guarantee of their security could be threatened unless they agreed to production restraints. Thus, another round of coordinated cuts cannot be ruled out. Both the Russians and the Saudis have low operating costs but high "fiscal prices" due to budgetary dependence on oil. Meanwhile, US oil companies are among those allowed access to low-interest loans from the $2 trillion relief package approved by the US Congress. In the UK, the Bank of England reportedly allowed debt of oil majors to be eligible for support of the bank's corporate bond purchase scheme. The majors plan to navigate through the shakeout and retain their role in global energy markets.

China has always viewed oil supply from the prism of national security. It has largely filled its SPR—ten times the size of India's. It is determined to raise domestic production—even at a high cost—from the present level of 30% of total oil requirements. The former Chairman of Sinopec explained the rationale as preparing for increased antagonism from the US, which would try to exploit China's oil import dependence. He described 'basic self-sufficiency' as 70% coming from domestic sources; and argued that this should be achieved in a decade. Simultaneously, China is seeking to leverage its growing clout as the world's largest oil importer to create a Shanghai benchmark for prices; in March, the State Council approved the creation of an FTZ in Zhenjiang for refining and trading of oil.

Proponents of a 'green future', decry support for oil and gas and argue that recovery should be based on massive investment in renewables. But all supply chains, even for manufacture of electric vehicles, wind turbines or solar panels, leave alone food processing and daily necessities, are dependent on oil. Building the infrastructure for a low carbon future will require oil. While a long term decline for oil's central place in energy use seems inevitable, we need to ensure that our oil sector continues to contribute to the national economy and security as long as it is needed.

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Deccan Chronicle

ONGC spl flight delayed by eight hours

May 9, 2020 | Chennai | Pg No.: 2 | | Sq Cm:62 | AVE: 549764 | PR Value: 2748822

ONGC spl flight delayed by eight hours

P. A JEBARAJ | DC
CHENNAI, MAY 8

Triggering a flutter at the Chennai domestic airport here on Friday morning, 117 employees of the Oil and Natural Gas Commission (ONGC) on their way from Chennai to Mumbai, were not permitted to leave the airport terminal, as they did not possess the mandatory Covid-19 health check certificate.

Sources said, a group of 117 ONGC staff were to reach Mumbai in a special flight leaving Chennai by 7 am, and all team members had come to the airport, but they did not have the mandatory Covid-19 health check certificate, prompting airport authorities to detain the flight, until medical clearance was issued.

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The Statesman

Pradhan hints at new gas policy

May 9, 2020 | Kolkata | Pg No.: 8 | | Sq Cm:87 | AVE: 501807 | PR Value: 2509035

Pradhan hints at new gas policy

PRESS TRUST OF INDIA
NEW DELHI, 8 MAY

With current pricing formula making natural gas production economically unviable, oil minister Dharmendra Pradhan today hinted at bringing in a new gas policy as well as launching a gas exchange very soon as part of reforms to promote greater use of environment-friendly fuel in the world's third-largest energy-consuming nation.

Mr Pradhan also said that India favours reasonable prices that give some space to the producer countries.

"We have to have a reasonable price. India is a major consumer. But at this juncture, India's viewpoint is the price should be reasonable and responsible. Very low prices are not the answer. Reasonable prices are the answer," he said.

Speaking in the latest edition of the CERAWeek Conversations series, he said: "Oil prices should give some space to the producer countries. It should be profitable for them; it should be viable for them."

The transcript of his address was provided by the organiser, IHS Markit.

His views come days after international oil prices plunged to $18.10 a barrel, its lowest since November 2001. Rates have since rebounded to around $30 per barrel.

Natural gas prices in India have fallen to their lowest in more than a decade, leading to producers like ONGC incurring losses in businesses.

The Economic Times
Adani Gas Invokes 'Force Majeure'
May 9, 2020 | Delhi | Pg No.: 10 | | Sq Cm:174 | AVE: 1775416 | PR Value: 8877080

Q4 NET PROFIT UP 60%

Adani Gas Invokes 'Force Majeure'

Rachita.Prasad@timesgroup.com

Mumbai: Adani Gas has declared 'force majeure' as demand from transport, industrial and commercial users have declined and construction work at all of its upcoming city gas distribution project sites have stopped amid the Covid-19-triggered lockdown. The Gautam Adani-led utility firm hopes to make up for the lost time on new projects once the lockdown is over and is sticking to its capital expenditure plan of ₹1,500 crore for the current fiscal, its CEO Suresh Manglani has said.

"Adani Gas has invoked the force majeure provisions of the PNGRB (Petroleum Natural Gas and Regulatory Board) regulations," Manglani said on Friday. "We hope to work with the regulator." Invoking force majeure clause would help the company to extend the deadline for starting commercial operations of under-construction city gas distribution projects.

Adani Gas on Friday reported 60% on-year rise in its net profit for the last quarter of FY20 at ₹121.4 crore, boosted by a reduction in tax expenditure. Total income in the quarter remained almost flat at ₹502 crore. Its PNG sales increased 8% on-year while CNG sales volume declined 2%.

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Business Standard

Adani Gas PBT up 30% in March qtr

May 9, 2020 | Delhi | Pg No.: 2 | | Sq Cm:78 | AVE: 192209 | PR Value: 961043

Adani Gas PBT up 30% in March qtr

AMRITHA PILLAY
Mumbai, 8 May

City gas distribution company Adani Gas reported profit before tax (PBT) of ₹156 crore in the March quarter, a rise of 30 per cent on a year-on-year (YoY) basis, due to better operational performance. The company saw a marginal decline in its compressed natural gas (CNG) volumes for the March quarter.

With demand from industrial, commercial and transportation down, the hit on volumes is expected to be reported a profit after tax (PAT) of ₹122 crore, 61 per cent higher compared to the same quarter a year ago. Revenue for the company saw a marginal dip of 1 per cent at ₹490 crore.

Adani Gas' total sales volume was at 145 MMSCM for the March quarter, a YoY growth of 3 per cent. Of this, piped natural gas (PNG) sales volumes grew at 8 per cent and CNG volumes saw a dip of 2 per cent. Commenting on the trend for PNG and CNG demand, company executives said, "For CNG, roads are emp-

The Hindu Business Line

Another day, another Jio Platforms deal Reliance steps on the gas to cut debt

May 9, 2020 | Delhi | Pg No.: 3 | | Sq Cm:329 | AVE: 607819 | PR Value: 3039093

Image: 1 / 1

Another day, another Jio Platforms deal: Reliance steps on the gas to cut debt

Stock vaults to near all-time high; valuation spikes, too

ANALYSIS

ANAND KALYANARAMAN

Another day, another deal, another step towards balance-sheet deleveraging.

In its third major stake sale announcement in Jio Platforms in less than three weeks, Reliance Industries (RIL) roped in a new investor — Vista Equity Partners, a US-based private equity firm focused on software and technology investments.

Vista's investment of ₹11,367 crore for a 2.32 per cent stake pegs Jio Platforms' equity value at ₹4.91 lakh crore and its enterprise value at ₹5.16 lakh crore. This is marginally higher than what the about 1 per cent stake on Monday (May 4) to another US-based private equity firm Silver Lake implied — equity value at ₹4.90 lakh crore and its enterprise value at ₹5.15 lakh crore.

In finance parlance, the enterprise value of a business is its equity value plus debt minus cash.

The Silver Lake deal, and now the Vista deal, represent a premium of about 12.5 per cent to the equity valuation of the Facebook investment in Jio Platforms that was announced on April 22. Facebook will be paying ₹43,574 crore for 9.99 per cent in Jio Platforms. The valuation of the Facebook deal itself was 10-15 per cent higher than what many analysts were earlier estimating.

Top dollar deals

In short, with about ₹60,596 crore raised from 13.45 per cent stake sale, RIL has been able to rake in top dollar for its holdings in Jio Platforms. More such deals seem likely in the coming weeks and months.

Indications of continuation of the deal momentum in Jio Platforms were given in last Thursday's March 2020 quarter results announcement by RIL. The company had said that in addition to the Facebook investment, it has received strong interest from other strategic and financial investors and is in good shape to announce a similar-sized investment in the coming months.

The follow-up with the Silver Lake and Vista deals has been quick. More deals for stake sale in Jio Platforms could be on the anvil, going by RIL's statement last Thursday on 'interest received for similar sized additional stake' (as the Facebook deal)".

So, more deals to sell another 6.5 per cent or so in Jio Platforms cannot be ruled out, even if the timing and valuation remain uncertain. After these deals, RIL could likely retain about 80 per cent in Jio Platforms. This will further reduce, as and when RIL decides to list Jio Platforms through an initial public offer (IPO). The recent deals could be preparing the ground for an IPO in the not-too-distant future. RIL currently holds 100 per cent stake in Jio Platforms and after the deal consummation with Facebook, Silver Lake and Vista will hold about 86.5 per cent.

RIL fully owned Jio Platforms; after the deal consummation with Facebook, Silver Lake and Vista. it will hold about 86.5 per cent in the company

Debt cut drive

The stake sale deals in Jio Platforms over the past few weeks, along with the upcoming rights issue of ₹53,125 crore and the previous investment by British Petroleum should help RIL in its stated objective of raising capital of over ₹1.04 lakh crore by the June 2020 quarter, and becoming net-debt free by March 2021. The company's net debt (debt less cash) as on March 2020 was about ₹1.6 lakh crore. The company's debt-to-equity ratio as of March 2020 is 0.74 times.

Three deals in in Jio Platforms in quick succession and the likelihood of more to come seems indicative of Reliance Industries (RIL) pressing the accelerator on its debt reduction and balance-sheet deleveraging plans.

Stock rallies, valuation up

The market seems pleased, with the RIL stock gaining 3.6 per cent on Friday to close at ₹1,562 a share, compared with the 0.61 per cent rise in the Sensex. The stock has rallied close to 77 per cent from its March 23 low of ₹884 and is now within kissing distance of its December 2019 peak of ₹1,610. A good part of this rally is attributable to the stake sale deals in Jio Platforms.

The RIL stock's valuation too has vaulted. The company's consolidated profit in the recent March 2020 quarter was down about 37 per cent y-o-y due to inventory write-down as a result of the oil and petro-products price crash.

This, accompanied by the strong rally in the stock, has taken the consolidated trailing 12-months price-to-earnings ratio of the stock now to about 25 times, compared with the three-year average of about 19 times.

Excluding the one-time inventory write-off, the stock's valuation will moderate somewhat though it will still be above historical averages. The proposed rights issue price of ₹1,257 a share will be at a discount of almost 20 per cent to the current stock price.

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The Hindu Business Line

DoT's notice doesn't warrant disclosure GAIL to SEBI

May 9, 2020 | Delhi | Pg No.: 7 | | Sq Cm:53 | AVE: 97971 | PR Value: 489854

DoT's notice doesn't warrant disclosure: GAIL to SEBI

PRESS TRUST OF INDIA

New Delhi, May 8

State-owned GAIL India has told SEBI that it did not consider DoT's notice seeking ₹1.83 lakh crore in past dues as material event warranting disclosure to stock exchanges as the amount in the provisional assessment was considered not payable.

Replying to a notice by the SEBI over non-disclosure of Department of Telecommunications (DoT) assessment orders/demand notices, GAIL on Wednesday said the demand was not legally tenable. "The amount assessed in provisional assessment orders are not payable, being unrelated matter to the terms and conditions of the IP-II licence obtained by the company and hence are also legally not tenable," the GAIL said in a regulatory filing.

GAIL said it had refuted the provisional assessment orders of DoT and sought its withdrawal.

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The Financial Express

Fiscal slip up 2 ppt, need to structure package carefully

May 9, 2020 | Delhi | Pg No.: 5 | | Sq Cm:205 | AVE: 671411 | PR Value: 3357053

Fiscal slip up 2 ppt, need to structure package carefully

A ₹4 lakh crore extra borrowing acknowledges huge fiscal slippage; raise loan-guarantee component in package

THE SHARP INCREASE of over ₹4 lakh crore in the government's borrowing target—for now—is acknowledgement of the sharp deterioration in its finances. Indeed, tax collections alone could fall short by this amount, and then there are the disinvestment targets that pose a big challenge. So, even without looking at what happens to state government deficits—as a result of their own revenues as well as central devolutions collapsing—and the massive expenditure that will have to be made to deal with containing Covid-19, it is clear the 'public sector borrowing requirement' will rise to 12% of GDP or even more. Under normal circumstances, that is an almost sure trigger for a ratings downgrade, after which a large amount of FPI flows will have to exit India as their mandates require a country to be investment grade.

While this is the reason why the government has not come out with a stimulus package so far, not doing anything is no solution either. For one, as the economy collapses—and reviving it gets more difficult once large swathes of industry shut down as they will without government support—and tax collections fall, the economy gets close to getting downgraded anyway as servicing debt becomes that much more difficult. Also, it is not as if doing nothing is costless either. If there is no package and businesses start defaulting on bank loans, apart from the human costs—large direct payments will have to be made to the unemployed—the government will have to bear the costs of recapitalising PSU banks whose loans will turn NPA.

In which case, the government's rescue package has to be structured in such a way as to give the biggest bang for the buck while, at the same time, assuaging investor/rater fears. Certainly a large component has to comprise guarantees for loans extended by banks/NBFCs; if a large share of this turns bad, as it will, the bill will come due a year or so from now—not this year—if RBI suspends its NPA-recognition norms for a year or so. This alone will not do the trick and large direct infusion of cash—by way of a public sector-led investment programme and money transfers to vulnerable groups—will also be needed.

Ideally, the government should match the massive increase in expenditure—it is unlikely this is the last of the increases in the government borrowing programme—with a structured plan to cut both debt and expenditure. Including LIC, the value of PSU shares with the government are around ₹15 lakh crore; all of this should be put into a big mutual fund-type structure, and a systematic disinvestment plan should be put in place to sell, say, ₹10,000 crore of shares on the first of every month irrespective of what the market price is, and that money be used to retire debt. Sweeping reforms should plan to slash wasteful subsidies—two-thirds of Indians get a 90% subsidy on wheat and rice!—or expenditure on inefficient organisations like FCI; for those who think sweeping reforms are difficult, could anyone have imagined the sweeping labour reforms in a few states over the past few days? Addressing investor fears—slash crippling government levies in areas like telecom and oil/minerals—and opening up of new areas like retail-FDI and genuinely removing bureaucratic hurdles to business will pull in large investments to make up for slower local investment levels right now. India has always reformed in a crisis, so something good may just come out of Covid-19.

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The Financial Express

GAIL says DoT demand notice not material event

May 9, 2020 | Delhi | Pg No.: 4 | | Sq Cm:32 | AVE: 105222 | PR Value: 526112

GAIL says DoT demand notice not material event

State-owned gas utility GAIL India has told market regulator Sebi that it did not consider DoT's notice seeking ₹1.83 lakh crore in past dues as material event warranting disclosure to stock exchanges as the amount in the provisional assessment was considered not payable. Replying to a notice by the Securities and Exchange Board of India (Sebi) over non-disclosure of Department of Telecommunications (DoT) assessment orders/demand notices, GAIL on May 6 said the demand was not legally tenable.

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The Financial Express

Vista Equity to invest $1.5 bn in Jio Platforms

May 9, 2020 | Delhi | Pg No.: 1,2 | | Sq Cm:176 | AVE: 576614 | PR Value: 2883069

TECH IT FORWARD

Vista Equity to invest $1.5 bn in Jio Platforms

FE BUREAU
Mumbai, May 8

THE ₹11,367-CRORE ($1.5-BILLION) investment by private equity investor Vista Equity Partners for a 2.32% stake in Jio Platforms will help Reliance Industries (RIL) pare its net debt further from the levels of ₹1.6 lakh crore. The deal could see Jio Platforms becoming a stronger technology company as both Silver Lake and Vista primarily invest in technology platforms.

The investment by Vista in Jio Platforms may be used to redeem optionally convertible preference shares (OCPS) held by RIL, according to some analysts. Together with the $5.8-billion infusion by Facebook and Silver Lake's $750 million, the Vista investment takes the equity inflow into Jio Platforms to $7.95 billion (₹60,500 crore) for a stake of 13.45%.

RIL's fund raising plans (₹ cr)

Facebook-Jio	43,574
Rights issue	53,125*
Silver Lake-Jio	5,656
Vista-Jio	11,367
BP-Fuel Retailing	7,000*

*In the pipeline

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The Hindu Business Line
Will the improving crude oil market sentiment last
May 9, 2020 | Delhi | Pg No.: 8 | | Sq Cm:229 | AVE: 424539 | PR Value: 2122696

Image: 1 / 1

Will the improving crude oil market sentiment last?

COMMENTARY

G CHANDRASHEKHAR

After an yo-yo movement in crude oil market last three weeks, including negative prices for the US-centric WTI (West Texas Intermediate), there is now a noticeable shift in the sentiment with prices rising smartly in a short span of time.

Obviously, the extreme stress witnessed in April has eased markedly.

It is of course unclear at this point in time if the worst is over for the oil market.

Currently, both supply side and demand side factors are at play.

Price recovery

From its low of sub-$20 a barrel, Brent has quickly risen to test $30, while WTI has shown a smart recovery, trailing Brent by $5-6 a barrel. If anything, rates for the forward months are higher. With early signs of price recovery, speculative capital has moved into this market.

It is not the case that the market participants have forgotten the nightmarish scenario of storage installations brimming over on the one hand and widespread demand destruction on the other, in the wake of the Covid-19 pandemic.

But it is in the very nature of the commodity market that participants constantly look at possible changes in the supply-demand fundamentals at a forward point in time.

Cut in production

On the supply side, the OPEC+ decision to cut production has kicked in. Many companies have scaled back production.

Major shale oil producers in the US have announced production cuts, and have stopped drilling and fracking. Exploration is all but stopped.

The rig count has been declining week-on-week and is currently estimated at 325 as of May 1 versus 468 as of April 18. Shale production has fallen below the psychological 12 million barrels a day in the US as compared with over 13 mbd in March.

With the US producers scaling back output, the spread between Brent and WTI is likely to narrow.

But there is also the real likelihood that some producers may be tempted to resume production if they see WTI stay above $25 or Brent above $30 a barrel for a period of time.

Positive outlook

However, with lockdowns appearing to be past their peak in several countries and activities in China picking up momentum fast, demand side concerns have eased. It would surely take two to three months for industrial and trade activities across the world to make a comeback. So, demand outlook is gradually turning positive.

But the big suspense is over the extent to which demand will pick up in the coming months. The market at the moment seems to be optimistic about demand prospects as lockdown restrictions begin to ease and economic activities spring to life. China's import data will be watched closely.

Given the current supply-demand fundamentals and uncertainties associated with demand growth, it may take several months for the market to set the burdensome inventory lower.

Success of the coronavirus containment measures will be keenly tracked.

Volatility

So, it is reasonable to believe that oil prices will remain low (Brent hovering in the $25-30 a barrel range) over the next 3-4 months. It is no time to celebrate though.

If restrictions are lifted too soon, there is the risk of recurrence of the pandemic. In other words, the oil market will continue to remain volatile.

The writer is a policy commentator and commodities market specialist. Views are personal.

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ओएनजीसी
ONGC

The Tribune

India has ample crude oil reserves: Pradhan

May 9, 2020 | Delhi | Pg No.: 12 | | Sq Cm:60 | AVE: 554060 | PR Value: 2770302

India has ample crude oil reserves: Pradhan

NEW DELHI, MAY 8

Petroleum Minister Dharmendra Pradhan has said India is currently holding 18 per cent of the annual requirement of energy, thus indicating that the government has ensured ample reserves of crude at its disposal to easily meet all requirements in the near future. "This is the maximum capacity we could hold and we are holding that," Pradhan told Daniel Yergin, author and one of the world's noted authority on the politics of oil.

Pradhan said India's strategic storage capacity of 53 lakh tonne would be full by mid-May. Apart from that, oil companies have booked and paid for 70 lakh metric tonnes of floating oil in their contracts. There is domestic online capacity in crude oil or products of around 250 lakh metric tonnes. — TNS

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The Tribune
Another gas tragedy
May 9, 2020 | Delhi | Pg No.: 6 | | Sq Cm:182 | AVE: 1681826 | PR Value: 8409128

The Tribune

ESTABLISHED IN 1881

Another gas tragedy

Fix accountability, make sure industry gets the message

THE Bhopal gas tragedy is invariably the reference point whenever any toxic leakage takes place. The 1984 industrial disaster has become a symbol not only of the magnitude of damage that negligence can cause, but also the callousness of the State in enforcing safety regulations and taking to task those responsible. The scenes witnessed on the outskirts of Visakhapatnam were all the more reminiscent of Bhopal as a number of victims lay unconscious on the streets after exposure to styrene, which can affect the central nervous system, from a facility operated by LG Polymers. The track record of Andhra Pradesh's major industrial hub has been dismal. In 1997, the HPCL refinery vapour cloud explosion left 60 dead. In 2012, oxygen house explosion at a steel plant resulted in 19 casualties.

Thursday's vapour leak from the multinational chemical plant occurred when some workers were making preparations for re-opening of the unit after 44 days. About half of the 1,800 tonnes of styrene stored in a tank is said to have leaked before it was contained. Company officials claimed a team of 15 remained on duty at the factory throughout the lockdown period to monitor it. If that was not enough to prevent the mishap, something is drastically wrong.

The usual suspects in an Indian setting are on and off-site disaster management plans that have not gone beyond gathering dust in a file; no regular third-party inspection, and, of course, the assured retention of licence despite being found wanting on several counts. The *chalta-hai* way of working is not incidental, it has been allowed to be institutionalised. Hence, whatever the scale of the incident, there is always someone to bail the company out, always some method to escape action once the outrage dies down. Fixing accountability, thus, has to be the starting point of any investigation. Unless an example is made out of what to expect if safety guidelines are not adhered to, the obvious flurry of new stipulations would serve little purpose.

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