

Five oil PSUs sign JV pact for N-E Natural Gas Pipeline Grid

GUWAHATI: Five central oil PSUs - IOCL, ONGC, GAIL, OIL and NRL - on Friday signed a joint venture agreement for executing the North-East Natural Gas Pipeline Grid as a step towards the Urja Ganga Gas Pipeline Project, a NRL statement said here.

The JV company shall develop, build, operate and maintain the Natural Gas Pipeline Grid connecting Guwahati to the other major North-Eastern cities and major load centres such as Numaligarh Refinery and integrating it with gas producing fields, wherever feasible, in the region.

The JV agreement was signed by IOCL Executive Director (Project) H K Singh, ONGC General Manager R Kaul, GAIL Chief General Manager (PD) D M Rao, OIL Chief General Manager (PL) B K Mishra and NRL Senior Chief General Manager (Corporate Affairs) A K Bhattacharya, the statement said.

The Rs 6000 crore Grid's estimated length would be around 1500 km, the statement



said adding that the tentative time schedule for commissioning it would be four years, including one year for pre-project activities.

The JV company will have equal equity contribution from all the partners.

The project will connect the state capitals of all the eight North Eastern states - Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura.

The Gas Grid Project will

connect all NE States to the National Gas Grid through Barauni-Guwahati Gas Pipeline being laid by GAIL.

From Guwahati, the pipeline will extend to Numaligarh, Dimapur, Kohima and Imphal in one direction; Shillong, Silchar, Aizawl and Agartala in the second direction and to Itanagar in the third direction.

Gangtok will be connected from Siliguri from the gas pipeline of GAIL coming from Barauni to Guwahati. P11

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InFocus

Oil Marketing Companies

Poor earnings predictability

Inventory gains to offset the negative impact of falling marketing margins and gross refining margins

Indian public sector oil marketing companies (PSUs OMCs) Indian oil (IOCL), Bharat Petroleum (BPCL) and Hindustan petroleum (HPCL) underperformed broader index over the past year even though the core operating performance has been strong, reflecting the general investor perception that the profit potential of downstream refining companies would get affected by increased subsidies and under recoveries.

Under-recovery is a notional loss in revenues to the extent the international price of the fuel is higher than the fuel prices under the PDS.

The fear is not unfounded, given elections in three states and the Lok Sabha polls slated within the next 12 months. The Union government has passed on the recent spike in crude oil prices to consumers. However, the policy might change going forward.

Retail prices of diesel and petrol in India have been deregulated and move in line with global trends. However, that was not the case in the end June 2018 quarter. Their prices were not hiked for 19 days from 24 April 24 in the run-up to the Karnataka polls. A similar trend was witnessed in the end December 2017 quarter, when elections to the Gujarat assembly were held.

Brent crude oil witnessed an upward trajectory in the past two quarters. Prices are currently trading at four years high levels of US \$70-75 per barrel. In addition, the depreciation of the rupee has added to the woes. The consequent high petrol and diesel prices are resulting in uncertainty over OMCs' ability to pass them on to the customers. These concerns have weighed on the performance of the PSU OMC stocks.

The drop in the benchmark Singapore gross refining margins (GRMs), a profitability measure for the refining sector, over the past one month because of the decline in petroleum product cracks in various geographies including North America, Europe and Asia has also contributed to the fall in stock prices. However, the unsold inventory stockpile is expected to provide some respite to refiners.

Globally, refining margins have been strong over the last three years due to healthy product demand. While the consumption momentum is likely to remain as strong net refining capacity addition will lag demand growth, thereby, supporting the refining margins in longer term. Also, tightening marine fuel norms will increase demand for light crude as refiners try to minimize heavy bottom products. As a result, light-heavy differential will expand going forward. OMCs with improved refinery technology can also capitalize on increasing heavy crude diet and, thereby, make the most of spreads expansion.

Profitability of the Indian refining sector has been on an upswing for the last three years due to benign crude oil prices. Aggregate OMCs PSUs' profit increased to Rs 39637 crore in the fiscal year ended March 2018 (FY 2018) from Rs 11217 crore in FY 2015 as the average Brent crude oil prices declined to US\$ 57.9 per barrel in FY2018 as against US \$ 86.4 per barrel in FY 2015. Profit also got a lift from supportive government policies to spare oil companies of subsidy burden. Under-recoveries of oil marketing companies dipped to Rs 28237 crore in FY2018 from Rs 143738 crore in FY 2014. With the deregulation of diesel prices in 2014,

subsidies are applicable only on domestic LPG and kerosene supplied through the public distribution system are applicable. Under-recoveries on diesel were only up to 18 October 2014. LPG under-recoveries are part of direct benefit transfer from Q1 of FY2016.

Global oil demand is expected to grow 1.4 million barrels per day (mbd) in CY 2018 due to improved global economic outlook and strong petrochemical feedstock demand. Global oil demand growth was 1.6 mbd in CY 2017 compared with the 10-year average growth of 1.1 mbd even in a rising crude oil price environment. Global refinery utilization remained high at 82.8% in CY 2017 compared with a five-year average of 81.3%.

India is emerging as a refinery hub and refining capacity exceeds the demand. The country's refining capacity has increased from a modest 62 million tonnes per annum (mtpa) in CY 1998 to 247.566 mtpa at present, comprising 23 refineries: 18 PSUs, three private sector and two joint ventures (JVs). The refining capacity is not only sufficient for domestic consumption but leaves a substantial surplus also for export of petroleum products. Since FY 2002, India is a net exporter of petroleum products. The country exported 44.3 mmt of petroleum products worth US \$ 2170 crore in April-November 2017. India is the largest exporter of petroleum products in Asia since August 2009.

Outlook

With several state elections scheduled in FY 2019 and national elections due in May 2019, the Central government is likely to partially manage the price of auto fuels (although petrol and diesel prices are de-regulated) as international oil prices have increased sharply to US \$75-80 per barrel and the Indian rupee has also depreciated to around Rs 68 against the US dollar. Hence, the frequent control of auto fuel prices in the election-heavy year could make the marketing earnings volatile and result in poor earnings predictability for OMCs. Inventory gains due to higher crude oil prices could offset the negative impact of falling marketing margins and GRMs of the three state-owned oil fuel marketers in the quarter ended June. Gross marketing margin is the mark-up earned by fuel marketers on the sale of every liter of petrol and diesel.

— Sandeep Kumar

Strong operating performance

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COMPANY	CMP	MCAP	TTM NET SALES		TTMPBIT		TTM PBI/D		TTM PAT		TTM EV/	TTM	TTM MCAP/
	(Rs)	(Rscr)	(Rscr)	VAR(%)	(Rscr)	VAR(%)	MARGIN (%)	(Rscr)	VAR(%)	EBITDA	PE	SALES	
IOCL	157	152864	424037	17.8	36013	21.0	8.5	21346	11.7	5.8	8.0	0.3	
BPCL	376	81640	236313	16.9	12031	4.3	5.3	7919	-1.5	8.0	11.7	0.3	
HPCL	272	41494	218474	17.0	9769	2.2	5.1	6357	2.4	6.8	8.3	0.2	

CMP as on 9 July 2018

BPCL transfers gas biz to subsidiary Bharat Gas

Bharat Petroleum Corporation decided to transfer its gas business division to its subsidiary Bharat Gas Resources. "The board of directors at a meeting held on Friday approved the proposal to transfer BPCL's gas division on a going concern basis to Bharat Gas Resources, being a wholly-owned subsidiary of BPCL by way of slump sale," BPCL said in a regulatory filing. Consideration for the gas business division will be determined as on the date of transaction. Total turnover of the gas business division for FY18 was ₹33.71 billion. **PTI**

TechnipFMC wins order from HPCL

New Delhi (PTI): UK-based energy services company TechnipFMC on Friday said it had been awarded a contract for building one of the units at the Visakhapatnam refinery expansion project of state-owned Hindustan Petroleum Corporation Ltd (HPCL).

The firm said it had been awarded a "substantial contract" for a grassroots hydrogen generation unit (HGU) at the refinery. It, however, did not disclose the value of the contract.

India's east and northeast brim with enormous potential, government's Purvodaya vision will ensure it bears fruit

Dharmendra Pradhan



Odisha in the 70s – the years of my childhood – was a place of much enchantment and innocence even as it was characterised by crumbling infrastructure, potholed roads and shoddy bridges. The same held true for most of the east and northeastern region (NER). Undoubtedly, much has changed since. However, it seems to me that the region remains pulsating with unmapped potential even as the rest of the country has moved forward.

If India's eastern and northeastern flank (Assam, Arunachal Pradesh, Meghalaya, Mizoram, Manipur, Nagaland, Tripura, Sikkim, Odisha, Jharkhand, Chhattisgarh, Bihar and Bengal) were to be a country it would be the fifth largest bauxite producer, the seventh largest coal producer and the fourth largest iron ore producer in the world. Moreover, the east and NER has a young population while southern and western India is seeing an ageing population, in fact at a rate comparable to that of European nations.

To take advantage of these opportunities the need of the hour is to equip the population with market relevant skills aligned to our current needs. Our attempt is to provide the physical and intellectual infrastructure to empower youth. Around 2,578 ITIs with seat capacity of 6.18 lakh have been set up for 13 of these states. Additionally, for those seeking shorter training courses, there



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are more than 900 training centres spread across these regions offering courses under our flagship Pradhan Mantri Kaushal Vikas Yojana.

We have also established 154 Pradhan Mantri Kaushal Kendras to serve as multi-skill centres of excellence, with employment and self-employment linkages. Alongside, we have six National Skill Training Institutes in the region to drive training of trainers' programmes;

and an Indian Institute of Entrepreneurship to promote the "animal spirits" of entrepreneurial motivation for local youth. Further, towards recognising the diversity and uniqueness of our heritage we are pushing for certification of local artisans and craftsmen. We recently established a Skill-cum-Common Facility Centre in Cuttack to upskill and support the local filigree artisans and to provide training in this world-renowned art form to anyone interested.

Prime Minister Narendra Modi has justifiably declared that the growth of India is incomplete without the development of the east and NER. This conviction is articulated through the vision of Purvodaya – or re-emergence of the east – consisting of a range of policy reforms that fundamentally change the drivers of development in the region.

While we often disagree on many issues, central and state governments must work together for development to reach the people. We have walked the talk with implementation of the 14th Finance Commission (FC) recommendations. In an unprecedented change of tax devolution the share of east plus northeast India in the divisible pool of Union taxes is 35.75% of the total pool, a big jump from 13th FC recommendations. States like Odisha have seen a quantum jump of tax devolution at 42% from the 32% recommended by 13th FC. Moreover, in the past two years, of the total number of LPG connections that have been released under PMUY more than half – 2.76 crore new connections – have gone to the east and NER.

To consolidate a trade platform in the region, work is ongoing as part of a \$20 billion investment in Paradip and Dhamra ports, in areas like refinery, petrochemical, LNG terminal, a multimodal logistics park and port expansion. For energy security, work on the ambitious 2,655 km Jagdishpur-Haldia & Bokaro-Dhamra Natural Gas Pipeline (JHBDPL) project – also known as the 'Pradhan Mantri Urja Ganga' project – is proceeding at full speed. GAIL is implementing the 721 km Barauni-Guwahati Pipeline (BGPL) to connect NER with the national gas grid.

JHBDPL to be commissioned by December 2020 and BGPL by December 2021 will witness much developmental work across the length of the pipelines. There will be synchronised development of city gas distribution in Varanasi, Patna, Ranchi, Jamshedpur, Bhubaneswar, Cuttack and Kolkata as well as revival of three fertilizer units along the pipeline route. Additionally, some oil PSUs have signed an MoU to develop a gas grid system with a pipeline of 1,500 km within NER.

I hope that in looking at our larger eastern region – which has much to offer in terms of a young demography, economic and trade opportunities, leapfrogging capabilities and human and natural resources – we see a region that has begun the journey of becoming what it is meant to be, where its people exude well-being.

The writer is Union minister of Petroleum & Natural Gas, Skill Development & Entrepreneurship