PE-backed firm buys Hardy Oil & Gas

Invenire had recently bought a subsidiary of Jubilant Energy via insolvency process

SHINE JACOB
New Delhi, 20 October

Now, private equity firms are expanding their reach in India's oil and gas sector, too. PE-backed Invenire Energy has acquired UK-based Hardy Oil and Gas, which holds participating interest in three hydrocarbon assets in India, for $22 million.

This comes close on the heels of Invenire buying JEKPL (former Jubilant Energy Kharsang), a subsidiary of Hari Bhartia-promoted Jubilant Energy, through the insolvency process for around ₹123 crore. Chennai-based Invenire had acquired 100 per cent in Tata Sons' oil and gas arm Tata Petrodyne through a $100-million deal last year.

Miami-based, India-focused fund Atyant Capital holds a majority stake in Invenire, which was incorporated in 2016. The limited partners or investors in Atyant Capital include US-based pension funds, insurance companies, endowments, and foundations.

According to a source close to the development, a final deal was signed between Invenire and Hardy Oil on October 2. Hardy Oil holds 18 per cent interest in PY-3 block, 75 per cent in CY-OS/2, and 10 per cent in GS-01, in which Reliance Industries is the operator. The Hardy Oil deal by Invenire will also include liabilities to the tune of $13.5 million.

Within a span of 10 days after Hardy Oil's acquisition, the PE-backed company became successful in adding fresh life to its PY-3 oil field in the Bay of Bengal. This oil field was shut down in July 2011 after a drop in production. A management committee of PY-3 — where ONGC has 40 per cent, Hindustan Oil Exploration Company has 21 per cent, Tata Petrodyne has 21 per cent, and Hardy Oil had 18 per cent share — was held in Delhi last week. With the acquisition of Tata son's arm and Hardy Oil, Invenire now holds 39 per cent stake in PY-3.

V P Joy, director general of the Directorate General of Hydrocarbons, and Amar Nath, the joint secretary in charge of exploration at the ministry of petroleum and natural gas, were also present at the first management committee of PY-3 after eight years.

The PY-3 field ran into controversy after the London-listed Hardy Oil reportedly threatened to abandon the field, saying the government was not honoring production-sharing contract (PSC). In addition, in March 2017, Hardy Oil had initiated arbitration at an international court in Singapore against its partners to collect over $10 million associated with expenditures incurred by the company in fulfilling its responsibilities as operator of PY-3, including the amounts due to Samson Maritime, a service provider to the block.

"One of the biggest contributors to the success story of India's renewable energy sector has been private equity capital fuelling investment in the initial stages of development of the sector. Will be good to replicate similar success in PE investment in small discovered fields, city gas distribution, oil services companies, etc," said Debasish Mishra, leader of energy, resources and industrial products for Deloitte India.

The directors of Invenire include Atyant Capital founder and managing director Rahul Saraogi, former head of HOEC and Essar Oil Manish Maheshwari, and industry veteran Rajiv Hura. Invenire had also won a block in Assam during the second round of discovered small field auctions held earlier this year.

"Our aim is to produce 23,000 barrels of oil per day by 2021. Our strategy is to reduce operating cost in our existing operations too," a company official said. Within a span of a year, the company managed to hold its interest in 11 blocks, including four blocks abroad (Tanzania and Indonesia).

INVENIRE'S GROWTH STORY IN PAST 1 YEAR

- Acquires Tata Petrodyne for $100 million and gets four blocks in India and four overseas (including in Tanzania and Indonesia)
- Wins a block in Assam during the second round of discovered small field auctions
- Picks up JEKPL through NCLT for ₹123 crore (10 per cent of ₹1,231 crore Jubilant owed to Central Bank of India, SBI and Exim Bank) and get 25 per cent stake in Kharsang field
- Acquires 100 per cent in Hardy Oil and Gas for $22 million on October 2

Consumer business to offset refining woes: RIL

Deleveraging, profit upside from digital initiatives are major earnings drivers

UJJVAL JAUHARI & RAM PRASAD SAHU
New Delhi/Mumbai, 20 October

Reliance Industries' performance for the September quarter was a mixed bag, with its numbers missing the estimates of most brokerages. The Street, however, is not worried as digital services and retail segments are growing at a scorching pace. Though the consolidated revenue and operating profit growth were in single digits, the new businesses registered a revenue growth of 27-43 per cent while profit growth was 49-67 per cent.

The company is banking on this pace of growth to help it scale up the two businesses to account for half of the overall operating profit as compared to a 33 per cent at the end of Q2FY20. The two businesses contributed a tad over 20 per cent a year ago. In fact, one of the reasons for brokerages such as Bank of America Merrill Lynch and SBICAP Securities to upgrade the stock price is the digital and new commerce initiatives that are expected to be medium-term growth drivers.

BoFA-ML believes that if the company can execute its plans for the key segments, its market cap could potentially leapfrog by 64 per cent to $200 billion over the next two years.

So far, the execution in digital and retail seems to be spot on. The firm has been able to grow its market share both in the organised retail space as well as in wireless services. Even as its rivals are struggling to maintain their share, Jio added 24 million customers for the second quarter in a row, taking its total subscriber base to over 355 million. Given the recent introduction of the interconnect usage charge of 6 paise per minute coupled with expectations of a tariff uptick, the decline in average revenue per user (ARPU) is expected to stabilise if not reverse. With the company expected to on board subscribers to paid fixed line broadband services, revenue and subscriber momentum should see an uptick in the coming quarters. At the current run rate, subscriber target of 500 million should be reached in a year from now.

Retail, the other growth engine, too, has been gaining share. This is on the back of a double-digit growth in same-store sales and new store additions in smaller towns and cities. Operating profit margins have improved by 150 basis points year-on-year to 6.3 per cent as higher scale, improvement in product mix and store productivity rubbed off on profitability. The increasing share of private labels (currently 14 per cent of grocery) also bodes well for margins. While online e-commerce is also well placed to grow, the near to medium term trigger is the *kirana* (unorganised retail) digitisation.

The performance of the retail and digital did offset the disappointment of the legacy businesses of refining and petrochemicals. While crude oil price continued to trend down and, thus, was expected to impact revenues of the refining segment, refining margins improved. This was due to the impact of the International Maritime Organization's new rules related to sulphur content that have started to reflect on gross refining margins (GRMs).

The premium over Singapore complex margins declined, as strength in fuel oil cracks supported Singapore margins, said the company. This was the reason that reported GRMs missed estimates of brokerages. Analysts feel that downstream margin outlook remains muted as global capacity additions may exceed growth. While prospects for gasoline cracks remains subdued, weakness in GRM premiums may be offset by boost from IMO regulations and, hence, RIL is well placed to mitigate the segment headwinds.

Any miss in refining segment was, however, made up by better-than-expected petrochemical segment's growth. The segment saw revenues grow 2.5 per cent sequentially and operating profits by 1.3 per cent sequentially. Analysts were expecting a decline in the petchem segment's operating profits, with decline in product margins. However, the weaker petrochemical product margins were offset by record petrochemical production and cost optimisation through light-feed cracking. While petchem margins are likely to remain weak on the back of higher supplies, commercialisation of the petcoke gasification project (under stabilisation phase) should help from the second half of FY20.

With major capex behind the company, RIL is now looking at deleveraging with a target to become a zero net debt company by March 2021. Avishek Datta of Prabhudas Lilladher has hiked the target price for the company to factor in the lower intensity of capex.

Meanwhile, Saudi Aramco's potential 20 per cent stake sale (based upon an enterprise value of $75 billion for the oil to chemical division) could hasten the deleveraging process.

RIDING ON CONSUMER SEGMENTS

Q2FY19 Ebitda mix	Q2FY19 (₹ crore)	%change y-o-y	% change q-o-q
Refining & marketing	5,659	-7.1	9.8
Petrochemicals	8,927	-5.8	1.3
Organised retail	2,322	66.8	13.3
Digital services	5,324	49.0	8.5
Oil & gas (E&P)	128	-66.8	-38.2
Others	809	332.6	-8.8
Total	**23,169**	**9.8**	**5.3**

YoY: Year-on-year; QoQ: Quarter-on-quarter; E&P: Exploration and production
Source: SBICAP Securities

Finding solution to GST conundrum

EXIM MATTERS

T N C RAJAGOPALAN

In a recent meet at Pune, the Finance Minister asked the participants not to damn the goods and services tax (GST) as it is the law passed by the Parliament and the State legislatures. She was responding to a professional cost accountant who said, "As of today, everybody is cursing the government — industry is cursing, consultants are cursing, auditors are cursing...".

A day earlier, the GST Council had constituted a committee of officers to consider wide range of reforms so that a comprehensive list of suggestions may emerge. The committee will consider looking into areas such as systemic changes in GST, including checks and balances to prevent misuse, measures to improve voluntary compliance, policy measures and relevant changes needed in the law, measures for expansion of tax base, improved compliance monitoring and anti-evasion measures using better data analytics and better administrative coordination. It was recognition that something is fundamentally flawed in the design and implementation of GST.

A week earlier, the finance minister of Punjab called for a fresh look at the GST structure, saying the current system was badly designed. "GDP has not gone up, tax collections are consistently going down, exports become cumbersome, filing of tax returns has actually become a nightmare," he said.

Even a senior Member of Parliament from the ruling party has written in his recent book that the GST as a practical measure has been a flop and that the unwieldy paperwork of the GST has hurt ease of doing business. Thus, there are many who feel that GST is badly designed.

For exporters, the problems created by the 'pre-import condition' for imports under advance authorisation are continuing.

In October 2017, the government put this condition for grant of exemption from Integrated GST (IGST).

In January 2019, the government realised its mistake and removed this condition. In the meantime, the Department of Revenue Intelligence (DRI) went after the advance authorisation holders who availed IGST exemption on imports after making exports. Many of them paid up the IGST with interest but some went to courts.

The Gujarat High Court, in the case of Maxim Tubes Company struck down the pre-import condition and restrained the DRI from coercive recovery of IGST. It was widely expected that the government would accept the judgment and the DRI also stopped chasing the exporters. The government, however, approached the Supreme Court and about three weeks back the apex court stayed the Gujarat High Court decision. The DRI has now re-opened all the cases and is busy summoning the exporters to its office in Kolkata, pressurising exporters to give statements to its convenience, threatening them with dire consequences if they don't pay up and so on.

The DRI is issuing summons and issuing show-cause notices proposing confiscation and penalties to even parties who have paid up the IGST with interest

The DRI is issuing summons and issuing show-cause notices proposing confiscation and penalties to even parties who have paid up the IGST with interest. Meanwhile, the denial of refund of IGST paid on export goods for advance authorisation holders who imported their inputs without IGST payment continues.

So, there is no dearth of people who feel harassed by the administration and would like to vent their frustration. They can be asked not to damn the GST but they cannot be restrained from thinking. Hopefully, the new committee will examine all the aspects and come up with useful suggestions for improvement.

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UP set to draft energy security blueprint

VIRENDRA SINGH RAWAT
Lucknow, 20 October

The Uttar Pradesh government has said it would draft an 'energy security' blueprint to become self-reliant in its electricity needs by 2031.

The state energy department has estimated the gross electricity demand in UP to overshoot 30,000 megawatt (Mw) by 2031, which therefore needs proper planning to ramp up energy production capacity, signing new power-purchase agreements (PPA) and economising on power transmission and distribution. Chairing a review meeting with senior bureaucrats on Saturday night, chief minister Yogi Adityanath stressed on the urgent need to make UP energy self-reliant and taking all possible measures so that the developing state does not face any scarcity of power supply by 2031.

He instructed UP energy department principal secretary to prepare a blueprint after making an in-depth analysis of the prevailing situation and future demand. According to sources, the state government has already made sufficient provisions for meeting the projected energy demand till 2022, which includes short and long terms PPAs with private power producers. The CM also asked officials to set up new power plants, if needed, in advance, since a new project takes four to five years to commission and therefore requires meticulous pre-planning.

STATSGURU

Global context to India's trade

LAST WEEK, global as well as domestic data showed that trade slowed significantly in 2019. Global trade grown only by 1 per cent in the first half of 2019, the International Monetary Fund (IMF) noted in its World Economic Outlook.

As trade drives global growth considerably, the impact is visible in a number of countries. While India's growth stands shoulder-to-shoulder with a slowing China, the IMF expects the US to grow at a slower pace in the coming years, and smaller Asian economies such as Bangladesh to grow faster than India (Chart 1).

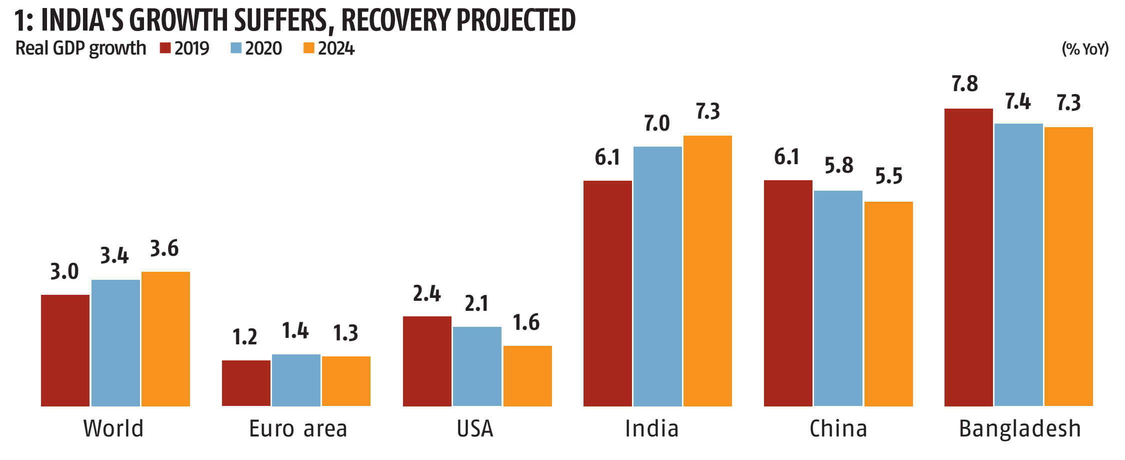
The pattern of growth in advanced economies has changed in recent years with declining investments and private spends, compensated partially by rising public expenditure (Chart 2). Wages have increased in the developed world, while productivity growth has slowed (Chart 3).

Trade volumes would grow at its slowest pace in a decade this year (Chart 4). While exports from developed countries are expected to grow at 0.9 per cent this year, developing countries are likely to witness a growth of 1.9 per cent, according to the IMF. Goods exports from Asian countries would grow faster at 2.5 per cent (Chart 5). In terms of imports growth, Asia will witness a mild contraction this year.

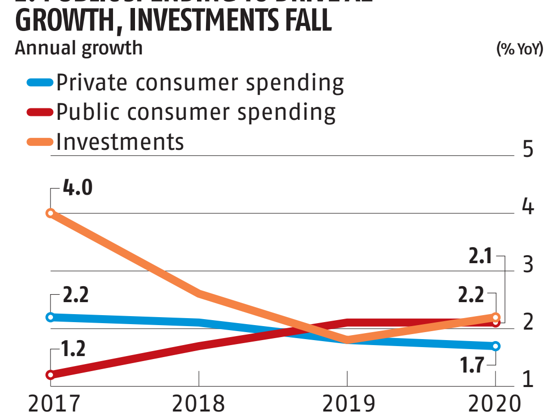
A lot of this is getting reflected in India's trade data as well. In the first half of FY20, while exports (non-oil and non-gems and jewellery) were stable, non-oil and non-gold imports contracted by 6 per cent, showing that despite slower growth and slowing consumption globally, India's demand problems are more severe.

ABHISHEK WAGHMARE

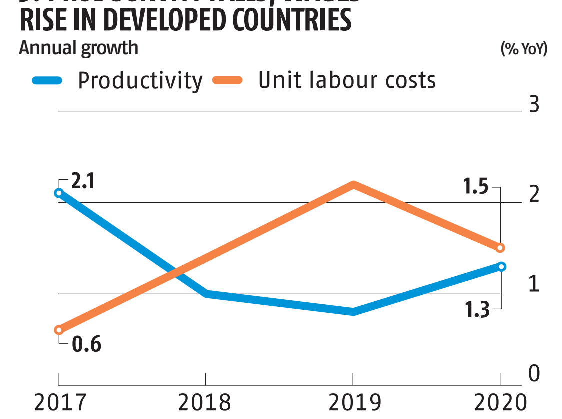
1: INDIA'S GROWTH SUFFERS, RECOVERY PROJECTED



2: PUBLIC SPENDING TO DRIVE AE GROWTH, INVESTMENTS FALL

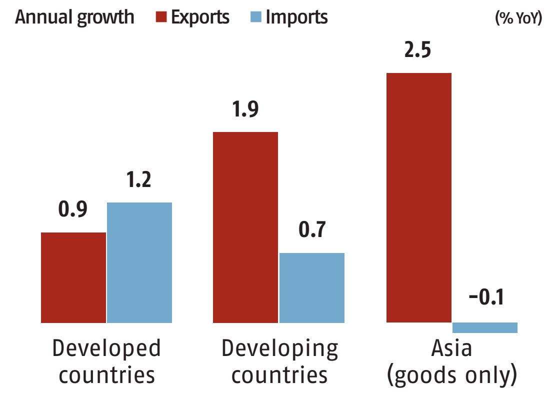


3: PRODUCTIVITY FALLS, WAGES RISE IN DEVELOPED COUNTRIES

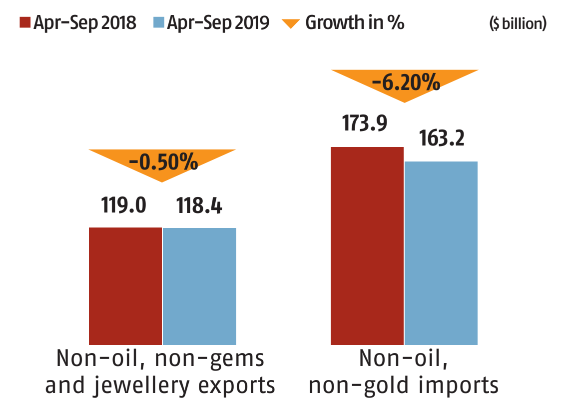


4: SLOWING GLOBAL TRADE

5: WHO ISN'T SELLING, WHO ISN'T BUYING



6: FALLING DEMAND A BIGGER WORRY



Note: Data for 2019, 2020 and for any later period are IMD projections

StatsGuru is a weekly feature. Every Monday, *Business Standard* guides you through the numbers you need to know to make sense of the headlines

Source: International Monetary Fund, Ministry of Commerce; Compiled by BS Research Bureau