GRMs for state-run oil firms tumble

Analysts attribute fall to macro demand slowdown, inventory loss, and planned shutdowns

AMRITHA PILLAY
Mumbai, 10 November

Gross refining margins (GRMs) for three state-run oil marketing companies took a hit in the September quarter. The decline, analysts said, was the combined effect of macro demand slowdown, inventory loss, and planned shutdowns.

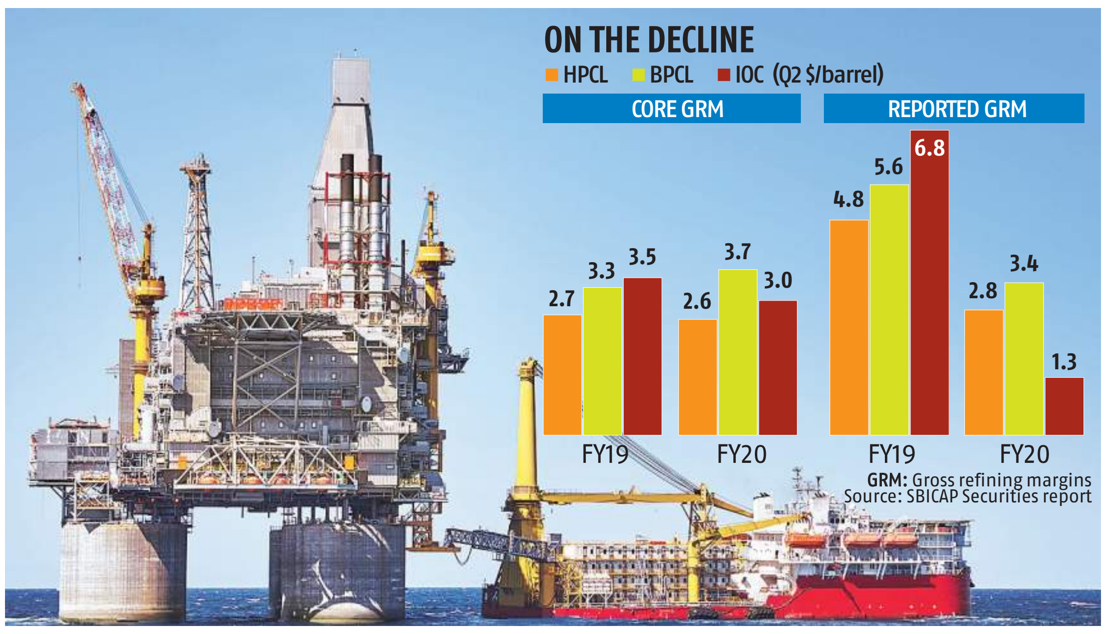
While core GRM for Indian Oil Corporation (IOC) was $3 per barrel for the quarter, Hindustan Petroleum Corporation (HPCL) reported $2.6 per barrel, and Bharat Petroleum Corporation's (BPCL)'s GRM was at $3.7 per barrel, according to a SBICAP Securities report.

These margins were far below analysts' expectations, which were between $4.9 per barrel and $6.3 per barrel. "Most analysts may have not factored in inventory numbers," said an analyst with a domestic brokerage who did not wish to be identified.

Analysts said there had been a slowdown in refining demand in certain global markets, and India's diesel demand was slowing down. In addition, they said, company-specific factors also hit GRMs for these three companies.

"A number of factors contributed to the decline. For instance, IOC had inventory loss, LPG cracks were weak until the Aramco incident happened, and HPCL took a shutdown," said Nitin Tiwari, vice-president with Antique Stock Broking.

According to the report, IOC's refining inventory loss stood at ₹1,534 crore for the quarter.



"Various reasons have contributed to the decline in GRMs for state-run oil companies, including shutdowns due to upgrade for BSVI fuels. The overall slump in demand is also systemically impacting GRMs," said Aditya Gandhi, vice-president, energy and commodities, Publicis Sapient.

Companies and analysts are hopeful of improvement in the next two quarters.

N Vijayagopal, director of finance for BPCL, expects GRMs to improve in the next two quarters owing to the new international maritime organization (IMO) regulations. These require ships to switch to cleaner fuel starting January. "We expect third and fourth quarter GRMs to be better than the first half," he said.

Others like Tiwari from Antique are hopeful the onset of winter will spur demand. "For the next two quarters, with winter setting in and IMO guidelines, GRMs should show sequential improvement."

There is, however, some caution to be exercised with building expectations over IMO. "Nobody has a full view on what would be the exact impact of the new guidelines. In relation to Indian refineries, those who have the flexibility to produce higher grade fuels will benefit from IMO," Gandhi said.

"Apart from IMO, there ain't many positive signs of demand revival, as Purchasing Managers' Index is still contracting."

Others expect the IMO benefit to trickle in later in the next financial year for companies like IOC. "The second half of this financial year looks rather gloomy as well given planned shutdowns with regard to BSVI upgrade. We cut our GRM and throughput estimate for FY20 to factor this in. However, change in IMO regulations will support GRM in FY21,"analysts with HDFC Securities wrote in a November 2 note on IOC.

RCEP outcome shows our lack of confidence

EXIM MATTERS

T N C RAJAGOPALAN

Our government's decision to stay out of the Regional Comprehensive Economic Partnership (RCEP) has drawn near-unanimous support from political parties and organisations representing farmers, traders and industries. It is clear recognition that Indian producers will find it difficult to cope with increased import, especially of dairy products from Australia and New Zealand and manufactured goods from China.

Our exports have remained stagnant for six years, clear reflection of our inability to cope with increased competition in international markets

In the early '90s, the minority government of Narasimha Rao decided to join the World Trade Organization (WTO). This was despite strong opposition from other political parties, sections of industry and farmers. Later, the coalition government of Vajpayee decided to remove the quantity restrictions, despite widespread apprehension about a surge in import to the detriment of domestic producers. Those governments were weaker than the present Modi government that commands a majority in the Lok Sabha. Our economy was also much weaker than now.

As it turned out, Indian business coped with the challenges and became more competitive. That because those decisions were accompanied by several other reform measures. Overall, the economy benefited through globalisation, with increased export and higher growth rates.

Our economy has become more robust but other economies have become even stronger. China, in particular, has built huge manufacturing capacities to reap the economies of scale. Even smaller countries like Vietnam and Bangladesh have become more competitive in some sectors, like textiles. In comparison, our competitiveness has got eroded in a number of products, mainly due to lack of enough meaningful reform in the past 15 years. Our exports have remained stagnant for six years, clear reflection of our inability to cope with increased competition in international markets.

Second, Indian producers have not been able to exploit the better market access that Free or Preferential Trade Agreements gave. While, other countries have taken better advantage of the increased access to Indian markets that they got under these agreements. India ran a merchandise trade deficit with 11 of the 15 other RCEP members in 2018-19, totalling $107.3 billion. Around 34 per cent of India's import came from this region, while only 21 per cent of our export went to there.

Third, the WTO agreement mainly opened the manufacturing sector but did not do so as much for the farm sector. It also gave flexibility to raise tariffs within the bound rates and sufficient transition time for developing countries. RCEP threatens the livelihoods of farmers in the dairy sector and also allows less flexibility on tariff adjustment.

Fourth, the current economic slowdown and the way the economy has been managed in the past few years have dented the confidence of farmers and business people alike. Many entrepreneurs and businessmen are edgy about government agencies hounding them, partly explaining their reluctance to invest. Many are weary that we have a strong government but a weak economy.

All these factors have contributed to the doubts about our ability to reap the benefits under RCEP. The government has said it is not averse to joining RCEP if its concerns are addressed. Some RCEP members are also keen that India joins. However, unless Indian producers gain confidence that they can take on the competition, it is unlikely the government will change its decision.

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OMPL to raise $510 mn via foreign currency term loan

ABHIJIT LELE
Mumbai, 10 November

ONGC Mangalore Petrochemicals (OMPL) plans to raise $510 million (₹3,600 crore) through a foreign currency term loan, maturing July 2027, with a moratorium of three years for repayment.

India Ratings and Research (Ind-Ra) has assigned an 'AAA/stable' rating. It says this was done after considering OMPL's strong operational and strategic ties with its sponsors, Mangalore Refinery and Petrochemicals (MRPL, 51 per cent stake) and Oil and Natural Gas Corporation (ONGC, 49 per cent). ONGC actually holds 71.6 per cent of the equity, the rest from its stake through Hindustan Petroleum Corporation in MRPL.

These linkages between OMPL and its parents are strong and likely to remain so during FY20-21. In FY19, both MRPL and ONGC infused equity of ₹300 crore (including ₹50 crore as securities premium) in OMPL. An additional ₹500 crore (including ₹80 crore as securities premium) was infused in June.

The board of ONGC and MRPL has also approved the issue of compulsorily convertible debentures of ₹1,200 crore

Recently, the board of ONGC and MRPL also approved the issue of compulsorily convertible debentures of ₹1,200 crore. These have a put option on both promoters as a back-stop arrangement, likely to be executed in the current quarter).

As for the $510-million term loan, there would be no repayment, as noted earlier over FY20-22. External commercial borrowing repayment would be ₹330 crore annually over this period. Despite equity infusion, OMPL's short-term loans are high. This is partly due to funds being utilised for working capital in the first half of this financial year and on account of rupee depreciation.

OMPL's total debt at end-September was ₹6,370 crore. This comprised ECB of ₹900 crore, foreign currency short-term loans of ₹760 crore, foreign currency medium-term loans of ₹2,000 crore and other short-term loans of ₹2,700 crore.

RIL cuts base price for new gas by 7% from KG-D6 block

PRESS TRUST OF INDIA
New Delhi, 10 November

Reliance Industries (RIL) has cut by about 7 per cent the minimum price it is seeking for the natural gas it plans to produce from newer fields in the Bay of Bengal KG-D6 block, after key customers such as fertiliser plants protested over the high base price, sources said.

RIL and partner BP are seeking bids from potential users for the 5 million standard cubic metres per day of gas they plan to produce from the R-Cluster Field in KG-D6 from mid-2020.

Bidders have been asked to quote a price (expressed as a percentage of the dated Brent crude oil rate), supply period and volume required. Dated Brent means the average of published Brent prices for three calendar months preceding the relevant contract month in which supplies are made.

Sources said RIL initially set a floor or minimum quote of 9 per cent of the dated Brent price — which meant that bidders had to quote the higher percentage. At a $60 per barrel price, the gas price came to $5.4 per million British thermal units (mBtu).

WHY THE MOVE

- RIL initially set a floor or minimum quote of 9% of dated Brent price, which meant that bidders had to quote the higher percentage
- At $60 per barrel price, the gas price came to $5.4 per mBtu
- But consumers saw this as a very high price, as imported LNG in the spot market is available at $4 per mBtu rate
- RIL has lowered the floor/ minimum quote to 8.4% of dated Brent
- The company had lowered the floor after a pre-bid meeting with potential consumers in September

Consumers saw this as a very high price, considering imported LNG in the spot market is available at around $4 per mBtu rate.

To pacify the consumers, RIL has lowered the floor/minimum quote to 8.4 per cent of dated Brent, they said adding the company had lowered the floor after a pre-bid meeting with potential consumers in September. At $60 per barrel price, the gas rate would come to $5.04 per mmBtu. The company did not immediately respond to an email sent for comments.

RIL has put off bidding for the gas twice in a month. Originally, e-bidding was to happen on October 11 but it was first put off to November 6 and then to November 15.

According to the bid document, the gas price will be subject to the ceiling price mandated by the government.

The ceiling price for gas from difficult fields such as those in deep-sea currently is $8.43 per mBtu.

Saudi Aramco's IPO kicks off on November 17, size not known

AFP/PTI
Riyadh, 10 November

Saudi Aramco's much-anticipated initial public offering (IPO) will begin November 17, the company's prospectus said, without revealing the size of the stake sale or pricing range.

The 658-page document, released just before midnight Saturday, said the final share price would be determined on December 5 — a day after the subscriptions close — in what is expected to be the world's biggest IPO.

After years of delays and false starts, Aramco officials last week announced a share sale on the Riyadh stock exchange for the world's most profitable firm, which pumps 10 per cent of the world's crude oil.

The prospectus said the state giant would sell up to 0.5 per cent of its shares to individual investors while it has still not decided on the percentage for larger institutional investors.

The document also highlighted risks including the potential for terrorist attacks, the possibility of anti-trust legislation and climate change concerns that could reduce global demand for hydrocarbons.

But investors in Saudi Arabia appear to be salivating at the prospect of owning a piece of the company — seen as the kingdom's crown jewel — in the IPO.

It would be the world's biggest if it eclipses Chinese retail giant Alibaba's $25 billion listing in 2014.

STATSGURU

Protectionism and RCEP

INDIA DECIDED TO walk out of the biggest regional trade partnership the world could have seen. The Regional Comprehensive Economic Partnership could have given — possibly it still can — almost unrestricted access of each other's markets to the members.

Some experts, in addition to the government, have maintained that the reason for the walkout is India's adverse trade balance. However, many critics view this as a protectionist step.

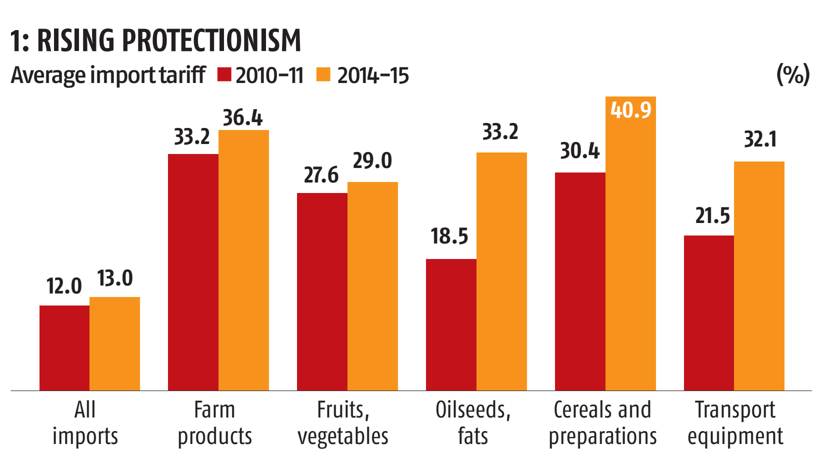
The data shows India has been protecting its domestic interests for long. The average tariff on imports into India, according to the World Trade Organization, went up between 2010 and 2015. Most of it was due to farm products (Chart 1).

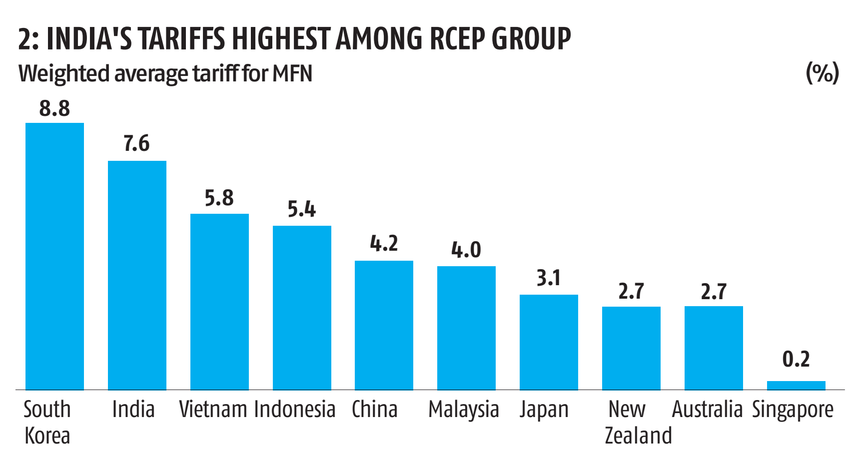
The (weighted) average tariff applicable to most favoured nations to sell their goods in India is highest among the 10 Asian peers (Chart 2), at 7.6 per cent. This is not strictly comparable with WTO data. Moreover, India only has about 3 per cent of tariff lines at zero duty, lowest among its peers, and lower compared to Vietnam's 32 per cent (Chart 3).

The data also shows trade growth has largely been independent of trade deals: India's share of trade with NAFTA countries has grown as fast as its share with North-East Asian countries, and ASEAN, as well (Chart 4). While India does not trade preferentially with any of the NAFTA members, it does, with two members of NEA and with ASEAN.

In terms of acting against dumping of cheap and excess goods, India has become more proactive in recent times. More dumping cases now reach their conclusion (Chart 5). But, on the flip side, members of the probable RCEP lead in dumping goods into India (Chart 6).

ABHISHEK WAGHMARE





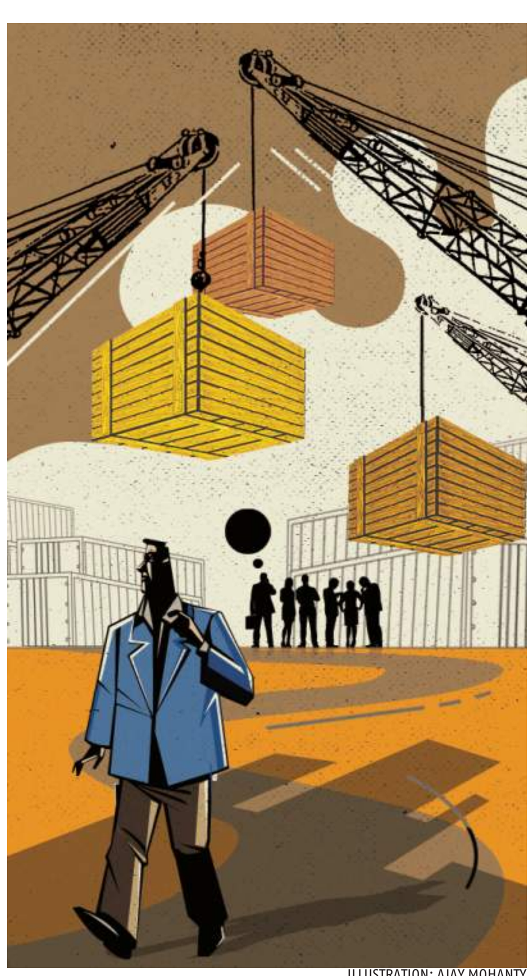
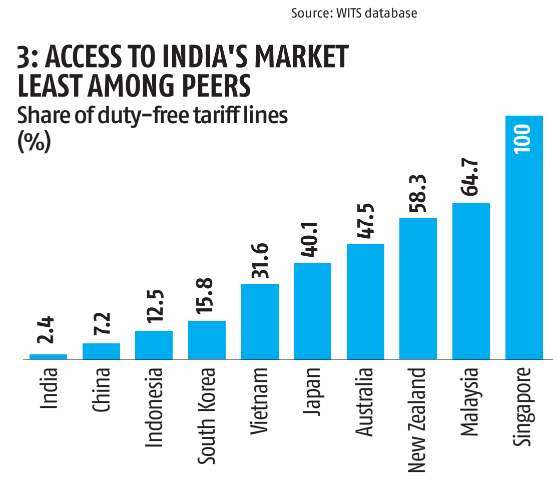
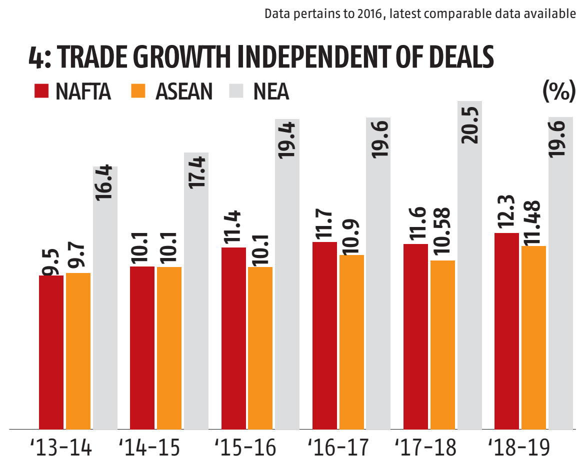
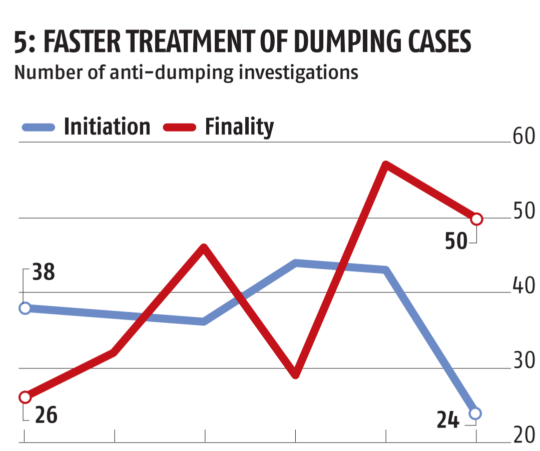


ILLUSTRATION: AJAY MOHANTY







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

Compiled by BS Research Bureau