'Govt must include opportunity cost of imports in gas pricing'

India's move towards a gas-based economy is slow because of the gap in its domestic natural gas production and the market's inability to absorb the high cost of imported liquefied natural gas. In an interview with **Jyoti Mukul, SHASHI SHANKER,** chairman and managing director of Oil and Natural Gas Corporation (ONGC), the country's biggest oil and gas producer, talks about India's transition to gas, and hopes for a better price for domestic gas. Edited excerpts:

What would be the change in energy dynamics in India as the world undergoes a energy transition for a greener future?
In the past four-five years, the global energy environment, particularly the oil and gas business, has gone through a lot of volatility and swings in its fortunes. We had the dramatic resurgence of oil and gas in the US on the back of remarkable growth in shale, highlighting the continuing significance of technology in our business. That was followed by a crash in crude oil prices, which went as low as $26 a barrel. We saw a period when geopolitical events just did not seem to matter and when exploration & production (E&P) activity was severely hit as companies cut capex.

During this time, the renewable energy sector was growing. Globally, its consumption grew 18 per cent in 2019 and averaged over 14 per cent in the last 10 years. Every year, we see more and more renewables being added and their costs dropping to the extent that some of the recent projects are being bid at grid parity. But oil will still have a crucial role to play, not just in the short or medium term but also in the longer-term. When I say oil, I mean oil and oil-equivalents — which means gas as well. Most industry outlooks confirm that.

Going forward, the role of fossil fuel will undergo a change with increasing dominance of green fuel and the resultant decrease in the share of coal and oil in the energy basket mix by 2040.

Gas is being promoted as a green fuel and will gain prominence as many consumers will adapt to it. So, as the largest oil and gas operator in one of the most energy-hungry economies globally, I also see a lot of opportunities for ONGC.

How important will the role of natural gas be in contrast to crude oil?
Our government has set clear targets for expanding the share of gas in the nation's energy mix from 6-7 per cent to 15 per cent in the next few years. We saw a 6 per cent year-on-year jump in gas production in the last two years.

Our gas production has already crossed 70 mscmd (million standard cubic metre per day) — the highest ever. We produced 45.86 million tonnes of oil equivalent in FY19, largely driven by a 5.4 per cent uptick in gas output. Gas production was 24.75 billion cubic metres — it is the fourth successive year of growth in gas supply.

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Q&A
SHASHI SHANKER
Chairman and Managing Director, ONGC

What can be done to develop a vibrant gas market?
Economic growth can be achieved by providing gas business a boost. However, market forces need to be allowed to play. It is difficult for the producers to recover the cost if the prices are kept very low.

From November 1, 2014, domestic gas price is being determined and notified by the Ministry of Petroleum and Natural Gas. The price dropped significantly from the initial notified price of $5.05 to $2.48 a million British thermal units (mmBtu). Even the latest notified price of $3.23 on gross calorific value basis (equivalent to $3.59 on net calorific value basis) is lower by 14.52 per cent compared to last administered price mechanism gas price of $4.20 mmbtu on NCV basis which was applicable till October 2014.

As a result, during FY18, cost of production of natural gas by ONGC was $3.59/mmBtu against the average domestic gas price of $2.69 and loss from gas business was ₹4,272 crore. Similarly, during FY19, the cost of production was $3.48/mmBtu against the average domestic gas price of $3.21 and the loss was ₹861 crore.

Typically, gas imported in the Asian markets is costlier than many international benchmarks. In fact, the price of domestic gas is lower than that of gas imports. This acts as a disincentive to domestic producers and is not remunerative enough to invest in development of new discoveries and fields. Hence, we are asking the ministry to consider a review of the gas pricing formula based on opportunity cost of imported gas.

How well is Hindustan Petroleum Corporation integrated into the group?
The group now has a presence in all the segments of the oil and gas portfolio maintaining a healthy upstream — midstream/downstream — retail ratio of 1:1:1.2. We are in the process of taking measures in line with our strategy document Energy Strategy-2040. It envisions ONGC as "a diversified energy company with strong contribution from non E&P businesses; 3x revenues and 5-6x market capitalisation".

How far have you progressed on your KG basin blocks?
We are on schedule. KG-DWN-98/2 deepwater project is a flagship project with committed investment of ₹35,000 crore. This marks ONGC's big-ticket entry into the deepwater arena. All the contracts for the major activities have already been awarded and we are expecting first gas this financial year and first oil in later half of next year. Along with reduced hiring and field services costs, the government's favourable policies such as premium prices for difficult fields also supported our move to develop the deepwater hydrocarbon reserves.

At its peak, the project will produce 17 per cent and 24 per cent of our current oil and gas output, respectively. We are confident of leveraging our proven shallow-water expertise in this new frontier.

When does ONGC plan to finalise contracts for its 64 fields?
It is moving in accordance with the schedule fixed by the Cabinet. The technical bid submission was extended only to give opportunity for more firms to participate and submit their bid. The technical bids have been opened and the participation has been overwhelming.

Axis Bank reports 8% drop in pre-tax profit

ABHIJIT LELE
Mumbai, 22 January

Axis Bank's profit before tax (PBT) declined by 8.03 per cent to ₹2,271.8 crore for the third quarter ended December (Q3FY20). The private lender had posted a pre-tax profit of ₹2,470.14 crore in Q3 of FY19.

The stock closed lower by 0.7 per cent at ₹712.7 per share on BSE. Net profit in Q3 rose by 4.53 per cent to ₹1,757 crore over ₹1,680.8 crore in the same quarter of FY19. The bank benefited from the cut in corporation tax rate. The effective tax rate for the bank is down to 25 per cent from 33 per cent.

The net interest income (NII) rose by 15 per cent to ₹6,453 crore from ₹5,604 crore in the same quarter in FY19. Net interest margin (NIM) stood at 3.57 per cent, up from 3.36 per cent in Q3 FY19, the bank said. Non-interest revenue (other income) declined by 5 per cent to ₹4,001 crore as against ₹3,787 crore in Q3FY19.

The bank said provisions, including those for loan loss and contingencies, grew by 13.63 per cent to ₹3,470 crore in Q3FY20 from ₹3,054.51 crore in the same period in FY19. Loss from specific loan provisions in Q3 declined by 11.63 per cent to ₹2,962 crore from ₹3,352 crore in the same quarter in FY19.

The asset quality showed improvement as gross non-performing assets (GNPAs) declined year-on year and sequentially.

GNPAs moved up at 5.0 per cent in December 2019 from 5.75 per cent in December 2018.

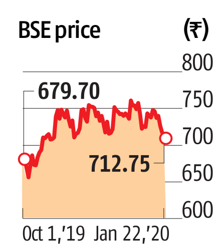
The bank's share of low cost — current account and savings (CASA) — deposits stood at 41 per cent at the end of December 2019 down from 46 per cent at end of December 2018.

The total Capital Adequacy Ratio (CAR) according to Basel III guidelines was at 18.20 per cent as of December 31, 2019, against 15.81 per cent as of December 31, 2018.

IN A NUTSHELL

Figures in ₹ cr	Q3FY19	Q3FY20	% change
Net interest income	5,603.7	6,453.0	15.2
Other income	4,000.7	3,786.6	-5.4
Total income	18,130.4	19,494.9	7.5
Provisions & contingencies	3,054.5	3,470.9	13.6
Tax	789.3	514.8	-34.8
Net profit	1,680.9	1,757.0	4.5
Gross NPA	30,854.7	30,073.0	-2.5
Net NPA	12,233.3	12,160.3	-0.6
% of gross NPA	*5.8*	*5.0*	
% of net NPA	*2.4*	*2.1*	

Compiled by *BS* Research Bureau Source: Capitaline



RBL Bank PBT down 72% to ₹94 cr

RBL Bank's profit before tax (PBT) dipped by 72.2 per cent to ₹93.88 crore for the third quarter on the back of a sharp rise in provisions for stressed assets. It had posted a PBT of ₹337.8 crore in quarter ended December 2018. The stock closed lower by 0.67 per cent at ₹339.1 per share on BSE. The net profit in Q3FY20 was down by 68.93 per cent to ₹69.95 crore over ₹225.19 crore in Q3 FY19. Net interest income rose by 41 per cent to ₹922.6 crore from ₹655.1 crore in same quarter last financial year. Net interest margin for the quarter improved to 4.57 per cent for reporting quarter as against 4.12 per cent in Q3FY19. The non-interest revenue (other income) grew by 30 per cent to ₹487 crore as against ₹374.1 crore in Q3FY19. The bank said provisions, including those for bad loans and contingencies grew almost four times to ₹638.29 crore in Q3Fy20 from ₹160.68 crore in same period last year. **ABHIJIT LELE**