

# Upstream gas producers get an outlook boost with price hikes

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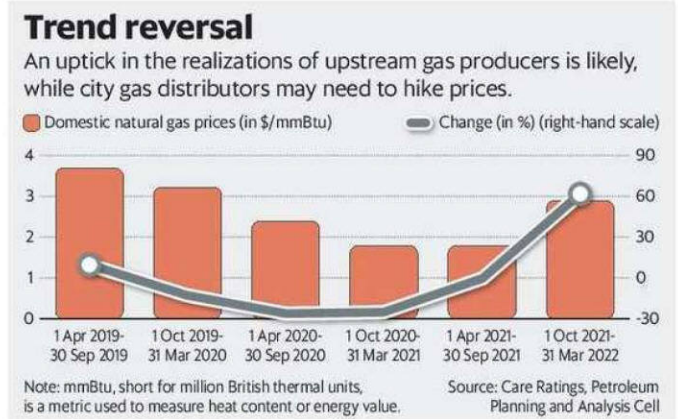
Given the surge in international gas prices, India's sharp 62% hike in domestic gas price to \$2.9/mmBtu (metric million British thermal units) from \$1.79/mmBtu does not come as a surprise. Even as rising prices are likely to hurt some sectors, upstream gas producers such as ONGC Ltd and Oil India Ltd are the biggest beneficiaries.

Domestic gas prices are decided considering the volume-weighted average of US Henry Hub, UK NBP gas prices and Japanese crude cocktail prices. It should be noted that domestic gas prices have been

on a slide since 2019 and this is the first price hike since then.

The biggest beneficiary is ONGC, India's largest domestic gas producer. Analysts expect domestic gas prices to be raised further when they come up for review in six months. As such, rising crude prices have boosted ONGC's earnings outlook.

Analysts at Morgan Stanley in a 25 September note said, "India's producer gas prices should rise to above break-even levels for the first time since 2015 and triple by mid-2022, climbing to record highs, mirroring the rise in underlying global gas benchmarks, which have risen 2-3x above pre-covid levels." They see significant tailwinds for ONGC, which would



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see its domestic gas business turning profitable for the first time in two decades.

The company's international investments in oil fields (oil and gas assets) in Russia and other

countries through ONGC Videsh Ltd are also becoming more profitable. As per BofA Securities Ltd, ONGC is among the key beneficiaries of higher crude realizations. Further, the

gas price ceiling for gas produced from difficult fields has been raised to \$6.13/mmBtu for the second half of FY22 from \$3.62/mmBtu for the first half. This is positive for recent gas production from difficult fields by ONGC and Reliance Industries Ltd (RIL).

While RIL too is a beneficiary of gas price hikes, there is unlikely to be a material impact on revenues given the low contribution from this segment. Oil and gas exploration, and production business contributed only about 2-3% to consolidated Ebitda for RIL. Ebitda is earnings before interest, tax, depreciation and amortization.

For other gas companies such as GAIL (India) Ltd, the rise may

lead to a negative impact on their LPG (liquefied petroleum gas) segment, where domestic gas is the feedstock. To some extent, the current high LPG prices may offset this impact, according to analysts. What's more, city gas distribution companies (Indraprastha Gas Ltd, Mahanagar Gas Ltd and Gujarat Gas Ltd) are likely to pass on an increase in gas costs to consumers, which would be neutral for Ebitda margin, said Yogesh Patil, an analyst at Reliance Securities Ltd.

Given the positives, shares of upstream companies such as ONGC and Oil India have scaled fresh highs recently. Potential gas price hikes may keep the buoyancy in these shares intact.

## NTPC to list three subsidiaries, exit JV with SAIL

These transactions are cumulatively expected to fetch around ₹39,832 crore.

The government has not prescribed any mandatory method for asset monetisation, and said that models to be adopted will depend upon various factors including "asset profile, objectives for monetisation, expectations of sponsor and investors".

The IPO process of NREL — through which NTPC plans to set up all its new renewable capacity — is expected to be complete in Q3 FY23, the source said.

NTPC had incorporated NREL to focus on its green energy business in October, 2020, and its IPO is seen to unlock significant value given the market performance of other renewable energy companies which have much lower capacity addition targets. The company aims to attain 60,000 MW of green capacity by 2032 from the current level of around 1,400 MW, and wants to have 8,000 MW of installed renewable energy base by FY23. "NREL should be bigger than NTPC in times to come," the aforementioned person added.

NTPC had acquired 100% equity stake in NEEPCO, which is primarily engaged in gener-

ating and supplying electricity in the northeastern region, from the Government of India in March, 2020. It operates seven hydro (1,525), three gas-based (527 MW) and one solar (5 MW) power stations, including the 600 MW Kameng hydro project. Recently, the Union power ministry has advised NEEPCO to reduce its manpower/megawatt

strength from current high levels. It has also been directed to diversify operations into renewable energy and expand business across the country. Subsequently, NEEPCO signed an MoU with state-run Indian Renewable Energy Development Agency for developing a five-year action plan for building and acquiring renewable energy projects.

NVVNL is mainly engaged in the power trading business, and is the government-nominated agency for settlement of cross-border grid operation related charges with Bangladesh, Bhutan, Nepal and Myanmar. It has implementing solar projects at identified airports and buildings through MoUs with the Airport authority of India, South Delhi Municipal Corporation and IIT Jodhpur. NVVNL is also slated to supply 40 electric buses in Andaman and Nicobar Islands and 90 electric buses to the Bengaluru Metropolitan Transport Corporation. It has undertaken pilot projects on green hydrogen as well, to be carried out in Leh and Delhi with ten hydrogen fuel cell electric buses.

The ₹6 lakh crore national monetisation pipeline consists of projects worth more than ₹1.6 lakh crore in the energy sector, which also include oil and gas pipelines of GAIL, Indian Oil Corporation and Hindustan Petroleum Corporation and electricity transmission lines of Power Grid Corporation of India.



आजादी का अमृत महोत्सव के तहत, गैल (इंडिया) ने सिटी गैस वितरण और कम्प्रेस्ड नैचुरल गैस के बारे में जागरुकता के लिए एक कार्यक्रम का आयोजन किया। यह कार्यक्रम पेट्रोलियम और प्राकृतिक गैस मंत्रालय के तत्वावधान में आयोजित हुआ।