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SUPPORT - GAIL

GAIL has supported a children's book - 'Pollution Solutions: For a Cleaner, Greener Earth'. The book published by TERI has been authored by Ms Urmi A Goswami and dedicated to children.

BUSINESS STANDARD, Delhi, 2.4.2022
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THE COMPASS

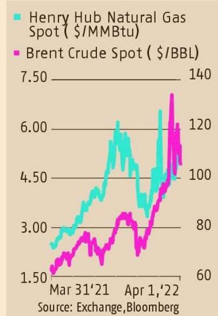
Higher fuel prices lift energy stocks

Street is expecting higher profitability for oil and gas producers, and distribution firms

DEVANGSHU DATTA

The energy shock is filtering into retail. Gas and crude prices started rising in December and spiked since the start of the Ukraine war. Due to electoral considerations, retail prices were not hiked until the conclusion of the five key Assembly polls. As a result, there were under-recoveries in the past four months, offset to an extent by inventory gains.

In the past two weeks, however, there has been a sequence of price hikes in petrol, diesel, aviation turbine fuel (ATF), CNG, and LPG. The price of domestic natural gas (NG) is reset every six months (April-September and October-March), according to a formula that takes overseas NG contracts into account. The reset in April raised domestic NG prices by 110 per cent for administered pricing mechanism gas, and by 62 per cent for high pressure, high temperature gas.



Source: Exchange, Bloomberg

India is heavily import-dependent and the Centre and state governments also raise huge revenues from various imposts on fuels. The earlier formula of asking retailers to offer subsidised prices, and compensating them via oil bonds was cumbersome and affected finances of government and fuel retailers.

Fuel is a necessary good – if it has to be bought at higher costs; households and corporates will compensate by spending less elsewhere. High retail fuel prices also feed into inflation and may result in lower consumption demand in other sectors.

The demand for petrol, ATF, and diesel is guaranteed to rise, given the increase in economic activity. Crisil estimates that gas demand will grow over 10 per cent in 2022-23, despite the rising prices. When it comes to natural gas, it is cheaper than petrol and diesel as a transport fuel, so the transport market should not be impacted. When it comes to cooking gas, there is no alternative, so the market is captive. Industries – such as ceramics, paints, speciality chemicals, fertilisers, insecticides, plastics, and film, – use these fuels as feedstock and they will witness an impact on profit margins. The fertiliser subsidy will have to be increased after the gas price hike.

For ONGC, OIL, and to an extent Reliance Industries and Vedanta, these price hikes will lead to a rise in profitability, since they are all gas and crude producers. The gains may be extraordinary for ONGC; RIL has large downstream exposure, as well as its digital and retail segments, and Vedanta has many other divisions (mostly metals).

Oil marketing firms BPCL, IOC and HPCL will suffer under-recoveries even at the current retail prices for petrol and diesel. But the market is expecting staggered hikes of another ₹6-7 per litre of petrol/diesel, which should restore positive margins (ONGC has a majority stake in HPCL which could mean lower consolidated profit.) The OMCs had a difficult Q4, sustained only by inventory gains. Q1FY23 should be better.

City gas distribution (CGD) companies will need to increase tariffs by an estimated ₹14 per kg to retain profitability. GAIL will need to raise prices for its LPG. CGD players have pricing power because NG remains considerably cheaper than alternatives in transport, and there is no alternative in household consumption. IGL has already hiked tariffs. Some industrial gas consumers (and gas-based power generators) may shut down/reduce consumption.

BPCL, GAIL, IOC and HPCL stocks have rallied sharply in the past session; ONGC and Reliance, too, did well. Adani Total shot up, while IGL rose 2 per cent.