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Firm refining prospects add to confidence on OMC outlook

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Domestic oil marketing companies (OMCs) surprised positively with the refining performance posted during the January-March quarter. The Benchmark Singapore GRMs (Gross refining Margins) had improved to $8.2 a barrel from $6.3 a barrel during Q3 FY23.

The reported refining margins for oil marketing companies are expected to have got a further boost from rising contributions of lower priced Russian oil, said analysts. Indian Oil Corp. Ltd (IOCL), Bharat Petroleum Corp. Ltd (BPCL) and Hindustan Petroleum Corp. Ltd's (PCL) GRMs ranging at $14.1-20.6 a barrel was better than expectations.

The Benchmark GRMs, however, had dropped to $3.8 a barrel during the ongoing quarter (Q1), a significant decline from the average of $8.2 a barrel during Q4. The rising covid cases in China, global recession concerns had weighed and led to this decline, said analysts. The positive, nevertheless, is that the benchmark GRMs have started to rebound again.

Oil companies got a further boost from rising contributions of lower priced Russian oil. HT

Reuters Singapore refining margins increased 23% week-on-week to $5.1 a barrel in the week ended 21 May, from $4.2 a barrel in the previous week, suggested Nomura Research data. Analysts at Nomura attributed the rebound to an increase in spreads across products except for naphtha and LPG (liquified petroleum gas). Sharp decline in Singapore complex refining margin in Q1 of FY24 to $3.8 a barrel from $8.2 a barrel in Q4 FY23 was impacted by lower spreads across all products, except fuel-oil, Nomura analysts said.

The analysts have been expecting a rebound. Jefferies India analysts in a 22 May report had said recent weakness in refining margins seemed transitory as Russian diesel exports were unexpectedly elevated despite European Union ban. However, with signs of Chinese demand recovering, diesel inventories in US and Asia at multi-year lows and US gasoline demand expected to rise to peak summer driving season, refining margins should strengthen.

Although super-normal margins seen in Q4FY23 by OMCs may moderate, the refining margins will remain healthy and better than single digit averages seen earlier.

"We expect GRM of OMCs to sustain at a higher level on the back of Russian discounted oil share in crude basket inching up and the recent recovery in diesel/gasoline cracks while the global refining capacity addition delay will further support the GRMs" said Yogesh Patil, senior analyst at Dolat Capital.

MORNING STANDARD, Delhi, 1.6.2023
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India biggest refined fuel supplier to Europe in April

RAKESH KUMAR @ New Delhi

INDIA became the largest supplier of refined fuel to Europe in April 2023 as the country exported nearly 406 kbd (thousand barrels per day) to European countries in the month, as per energy cargo tracker Vortexa.

Besides India, Russia is the second-biggest exporter of refined oil to Europe as it exported 365 kbd, followed by Saudi Arabia 352 kbd, Kuwait 211 kbd and the USA 181 kbd in April 2023. Private oil firms exported all refined products as state-owned firms drew a blank. "India exported about 1.38 mbd of refined products (incl. both clean and dirty products) in May 2023. The top destination countries it exported to are Australia, the UAE and Singapore. Reliance, from its Jamnagar refineries, is the top exporter of refined crude," said Serena Huang, an analyst at Vortexa.

Europe's dependence on India for fuel supply increased manifold after the Russia-Ukraine war in February 2022. Following the war, European countries which were largely dependent on imports from Russia, reduced their reliance on Russian oil and gas. The western countries announced several sanctions on the export of Russian crude. However, Russia has diversified its supply, and India and China became the largest importer of its crude. India emerged as a major market for Russia in FY23, as the latter offered steep price discounts on crude.

As per Vortexa, India imported Russian crude 1678 kdb in April and 1,960 kbd in May 2023. From among its traditional suppliers, India imported 839kbd from Iraq, 560 kbd from Saudi Arabia and 203 kbd from UAE.

PIONEER, Delhi, 1.6.2023
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Key infra sector growth slows down to 6-month low of 3.5% in April

PTI ■ NEW DELHI

The production growth of eight key infrastructure sectors slowed down to a six-month low of 3.5 per cent in April 2023 due to a decline in the output of crude oil, natural gas, refinery products and electricity.

The core sector growth was 9.5 per cent in April 2022 while in March 2023 the key infra sectors recorded a growth rate of 3.6 per cent. The growth rate in April 2023 is the lowest since October 2022 when the sectors expanded by 0.7 per cent.

Coal production growth declined to 9 per cent in April this year, according to the official data released on Wednesday.

Fertiliser production soared by 23.5 per cent, steel by 12.1 per cent and cement output by 11.6 per cent in April, the data showed.

BUSINESS STANDARD, Delhi, 1.6.2023
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Missing in action: Domestic infra finance

The resources of state-owned entities are too small for the enormous requirements, especially in renewable energy

SMALL CHANGE (₹crore)

Leading govt infra companies	Paid-up capital & GoI loans
ECGC Ltd	3,950
India Infrastructure Finance Co Ltd	49,256
Housing & Urban Dev Corp Ltd	60,922
Indian Renewable Energy	25,331
Power Finance Corporation Ltd	322,539
REC Ltd	282,610
Indian Railway Finance Corporation Ltd	393,579
Rail Vikas Nigam Ltd	8,400
Newspace India Ltd	910

Source: Public enterprise survey, FY22

SUBHOMOY BHATTACHARJEE
New Delhi, 31 May

As India logs into the largest ever infrastructure build-up, the array of government-run financial corporations are conspicuously low-key.

For decades, various government ministries have built up assorted financing companies. The Public Enterprises Survey of the Central government lists 27 of them with a total paid-up capital of ₹11.46 trillion. More than half of the sum is accounted for by Power Finance Corporation (PFC) and REC, of which PFC is a holding company, at ₹6.05 trillion, and another ₹49,256 crore by India Infrastructure Finance Company Ltd. As the table shows, the rest are tiny.

Compared to the demand of over ₹112 trillion that the National Investment Pipeline estimates India will need to raise, the resource bases of these companies are negligible. For instance, of the ₹80,000 crore PFC plans to raise in FY24, about half will be via domestic debt, which includes public issues, debt securities, tax-free bonds, term loan from banks, and other financial institutions. Most of the remaining ₹40,000 crore will be raised abroad as syndicated loans, FCNR (B) loans, term loans, and bonds or notes, among others.

This dearth of domestic infrastructure finance is noticeable particularly in the renewable energy (RE) sector. It has implications. Globally, how money is raised for the energy sector now matters a lot. Insurance companies are looking into every possible detail of how energy companies, not only in the fossil fuel sector but also in RE, have sourced their funds. The International Energy Agency estimates Indian demand will climb 3 per cent annually due to urbanisation and industrialisation.

Given those numbers, it matters who brings in the money. Government-run financial agencies could have a head start in this respect as they can assure investors about the transparency of the funding route so as to bring down the costs.

Also, despite its promise, financing for RE like wind power and bio energy is difficult, as the returns are often volatile. There is a huge demand for blended finance in this context. Blended finance means the "strategic use of public and philanthropic resources to mobilise private capital for development purposes" as defined by the RBI. The central bank's recent report on currency and finance (May 2023) notes an additional annual investment of about 2.5 per cent of GDP would be required to replenish this infrastructure gap by 2030.

The needs of both blended finance and a transparency framework mean it is the government-run financial arms that are best suited for the purpose. Also as a Carnegie India research paper notes, "India's climate finance strategy must include another pillar: a clear, significant increase in the R&D spend allocated to climate-related research". Again, the government-run finance companies are best positioned to do this.

The rates for loans offered by these infra financing companies are far higher than what the companies can raise on their own balance sheets in India or abroad

Yet, despite these needs, the role of government-sponsored infra finance companies in this transition is lethargic. In FY24, for instance, the Centre will spend ₹10 trillion as capex. The Indian Railways has lined up a massive ₹2.4 trillion of capex spending in FY24. All of this will be financed by loans, known as Gross Budgetary Support from the Centre. Missing in action is the Indian Railway Finance Corporation, which was set up to raise such finance.

Meanwhile, NTPC subsidiary NTPC Green Energy has announced it will raise ₹9,000 crore just this year in term loans, and the myriad oil and gas companies plan to raise ₹1.5 trillion by FY25. They are reaching out principally to the banks and institutions abroad.

Not that the state-owned power, railway or oil and gas companies do not wish to do business with their brother infrastructure financing companies. There are three reasons for their hesitancy. First, the rates for loans offered by these infra financing companies are far higher than what the companies can raise on their own balance sheets in India or abroad. For instance, a 10-year RBI paper fetches between 7 and 8 per cent in the market. A loan raised by an infra company is necessarily costlier. Second, in the case of IRFC, for instance, the company has exhausted its borrowing capacity. The third reason is the most important. These companies have hardly placed themselves at the vanguard of the green finance revolution sweeping the world. So, raising money from them does not bring any measurable benefit to the state-owned infrastructure firms.

One constraint is the low gearing requirements for energy sector companies in the Asia Pacific region. This restricts the room to bring in change by the lenders, argues Christina Ng, co-author of a report on the subject written for Institute for Energy Economics and Financial Analysis. "While these companies do not have high leverage levels, data shows an overwhelming use of bonds as a source of debt capital and changes can be brought here," she argues.

Here, too, it is the Centre that has moved in. From January this year, the finance ministry has begun issuing sovereign green bonds as part of its borrowing programme. Yet if the companies look around they could also produce an enormous scale of innovations. An example is the Emissions Trading Systems or ETS. Several countries such as Mexico and China have launched pilot ETSes. As the RBI notes, "The federal structure of India could help in implementing ETS pilot programmes across states".

Last year, IIFCL Managing Director P R Jaishankar said the company planned to issue green bonds to finance RE projects. REC has established a Green Finance Framework modelled on the Green Bonds Principles of the International Capital Markets Association to evaluate which projects could be classified as green. But none of these institutions has taken the lead to establish industry-level standards, a surprising omission given the pace at which India is pushing for widening the green finance market globally.

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Oil sinks below $70 as physical market signals ample supplies

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Oil fell below $70 as the physical market for crude signalled that supplies are more than adequate to meet the tepid demand.

West Texas Intermediate's June-July cash roll, which reflects crude supply balances at Cushing, Oklahoma, dropped to a discount of 30 cents a barrel, indicating lower demand for barrels being delivered in June than in July. Stockpiles at the delivery point for benchmark US crude futures rose 1.05 million barrels in the week ending May 26, according to traders, who cited data from Wood Mackenzie.

Crude prices have dropped about 13% this year. BLOOMBERG

The futures market also reflected ample supply in the short term as the front-month WTI spread deepened into contango, with shorter-dated contracts trading at a discount to longer-dated ones.

Crude prices have dropped about 13% this year amid China's lackluster recovery from its Covid Zero policy and concerns about aggressive monetary tightening in the US. All eyes will be on the OPEC+ coalition's next meeting on 4 June.

Last week, Russia said OPEC+ is unlikely to take any further measures at its meeting, undercutting Saudi Arabia's warning to oil short sellers to "watch out."

Despite Russia having previously pledged to reduce output, its crude oil flows to international markets show no substantive sign of the curbs.

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Russian oil now 46% of India's crude buys

IOC overtakes Reliance as biggest importer of Russian crude oil

S DINAKAR
31 May

India's import of discounted crude oil from the Russian Federation hit an all-time high in May, with state-run refiner Indian Oil Corporation (IOC) becoming the biggest importer of Russian oil, pushing Reliance Industries to the second place, trade and shipping data shows.

Indian imports of Russian oil, which accounted for over 46 per cent of its total crude oil imports in May, have grown after strong backing from New Delhi, with state-run refiners powering imports of discounted crude. Discounts on Russian oil average around $10 a barrel, said an official from a state-run refiner. IOC's May purchases rose 64 per cent month-on-month and accounted for half of its crude imports last month, ship tracking data shows.

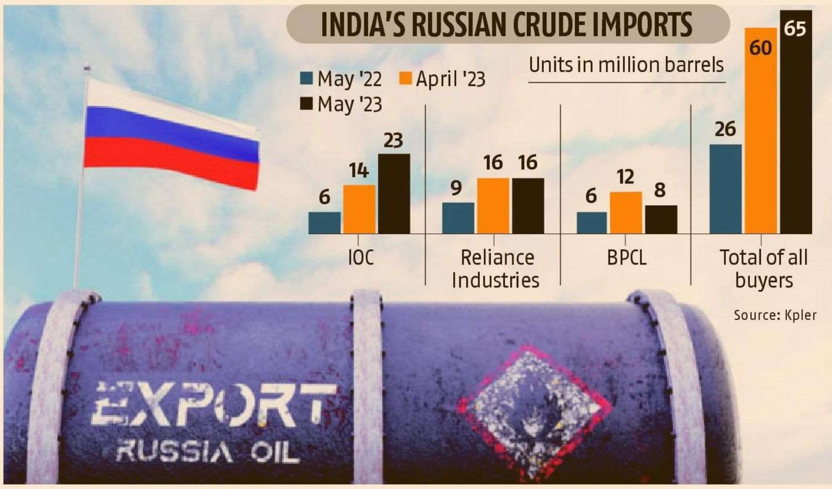
India imported around 65 million barrels of Russian crude in May, against around 60 million barrels in April and 26 million barrels in May 2022, according to the data from Paris-based commodity market intelligence firm Kpler. IOC bought 23 million barrels last month, compared to 16 million barrels of Reliance. Reliance and IOC purchased 16 million barrels and 14 million barrels in April, respectively.

Oil minister Hardeep Singh Puri told an industry event last week that it made no sense to have energy availability without affordability. India's top ministers have on many an occasion stressed on Indian refiners pursuing the cheapest source of oil to ensure affordable fuel for Indian consumers despite sustained pressure from Washington and Brussels to moderate purchases of Russian oil. But IOC, which saves hundreds of millions of dollars on Russian oil purchases, is yet to pass on its gains from cheaper supplies to Indian consumers at the pump.

Russian oil supplies exceeded the combined shipments of the next six biggest shippers — Iraq, Saudi Arabia, Mexico, the UAE, Kuwait, and the US — in May. Supply from the US dropped to 4 million barrels in May; it was 16 million barrels in May 2021, before the Ukraine war, reflecting how Russia has eaten into US market share, Kpler's ship-tracking data shows. Share of the US in the Indian oil market dropped to less than 3 per cent last month, from 13 per cent in May 2021.

Purchases from Russia averaged around 2.1 million barrels a day in May, predominantly of Russian Urals — a medium, sour grade similar to Gulf crude. India's total crude imports totalled 4.5 million barrels a day. Urals, a grade that typically trades below a G-7 grouping imposed price cap, accounts for 68 per cent. Most of the remaining grades like Sokol, ESPO, Varandey, light and sweet crudes that are more expensive than heavier oils typically trade above the cap.

Indian state-run refiners insist that all their Russian imports trade below the price cap. ONGC chairman Arun Kumar Singh said at a recent media briefing that Mangalore Refinery and Petrochemicals' (MRPL's) Russian oil imports fall below the price cap. Refiners said the invoices presented to banks have pricing details, which are given by sellers and never exceed the cap. The US-led G7 imposed a $60 per barrel cap on the loading price of exports of Russian crude in December. Since then, Indian purchases from Russia have jumped by 76 per cent.



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Major firms like Total have been active in drilling for energy off the coast of Suriname. REUTERS

Suriname keen on Indian energy cos

The South American nation of Suriname is hosting an oil and gas conference from 19 to 23 June in hopes of attracting energy companies, particularly from India, according to persons aware of the matter.

According to some estimates, Suriname is thought to have at least 3-4 billion barrels of oil reserves which were discovered in recent years.

While American and European energy companies currently dominate the energy market in Suriname, the country's officials are interested in bringing in Indian companies and expertise. A query mailed to the ministry of external affairs remained unanswered at press time.

Major firms like ExxonMobil, Royal Dutch Shell and Total have been active in drilling for energy off the coast of Suriname, which is located on the northeastern coast of South America. Invitations have been extended to Indian energy majors although an exact list of attendees has not been finalized. India has demonstrated an increased interest in Latin America and the Caribbean for its energy needs. SHASHANK MATTOO & RITURAJ BARUAH

ECONOMIC TIMES, Delhi, 1.6.2023
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TRADING BELOW BOOK VALUE are likes of ONGC, Indian Oil, PFC, New India Assurance; analysts see potential for high returns

Valuation Comfort Makes PSUs Attractive

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Mumbai: The Nifty PSE index comprising shares of India's leading state-owned companies made a multi-year breakout this week, indicating the benchmark could extend recent gains.

With the index expected to give another 10-15% returns in the near term, investors are combing through the market for potential PSU winners. Analysts said despite their outperformance in the past two years, many shares in this space are still trading below their book value — an indicator of cheaper valuations. When the price-to-book value of a company is below 1, it means the market is underpricing the company's shares.

ONGC, Indian Oil, Power Finance Corporation (PFC), REC, SAIL, General Insurance, Oil India, and New India Assurance are among the PSUs trading below their book value. ONGC, which rallied 10% in the last six months, is trading at a book value of 0.71 times. According to the Bloomberg Consensus estimates, the stock is expected to yield 18% in a year.

Shares of Indian Oil Corporation traded at 0.91 times its book despite a 17% rally in six months. The stock has an upside of about 20%.

The Nifty PSE index rallied 9% in the last three months and 18% in the last year. By comparison, the Nifty has gained 7% in the past three months and 11% in the past year. PSUs have been in the spotlight in recent times due to a rebound in commodity prices, the government's disinvestment programme and better dividend prospects.

"In the last few weeks, how prices extended their move confirmed Nifty PSE's breakout from its 2008 highs. This development has sent prices in an uncharted territory, which generally indicates a strong upward trend," said Sameet Chavan, chief analyst-technical & derivatives at Angel One. "We expect the index to continue its merry run, and in the near to medium term, we will not be surprised to see it marching towards 5,000-5,150 levels." The index closed at 4,799.65 on Wednesday.

PFC surged 34% and REC 28% in the past six months but are still trading below their book value and also lower than their five-year average price-to-earnings (PE) ratio — another valuation measure.

"The government's disinvestment plans have triggered a re-rating in the segment while value buying ideas emerged during the volatile stock market supporting performance of value PSU stocks," said Vinod Nair, head of research, Geojit Financial Services. "The viability to invest at current elevated levels on a long-term basis should be considered on a stock-to-stock basis depending on the earnings outlook and valuation."

Underpriced by the Street

Stock	LTP (₹)	6-Month Return (%)	Price to BV	PE	5-Year Avg PE
ONGC	154.90	9.78	0.71	5.64	7.71
Indian Oil Corp	90.00	17.42	0.91	12.70	5.85
Power Finance Corp	182.40	34.22	0.55	3.01	3.07
REC	141.55	28.27	0.62	3.31	4.03
SAIL	82.50	-2.77	0.64	17.30	7.89
General Insurance	184.45	23.83	0.69	5.04	56.85
Oil India	257.25	25.70	0.72	3.19	4.79
New India Assurance	118.90	8.83	0.74	18.60	39.18
NLC India	94.65	11.55	0.84	8.98	10.85
HUDCO	57.15	7.22	0.73	6.72	5.91
Chennai Petro	375.60	74.05	0.88	1.62	4.48
Shipping Corp	94.85	-9.60	0.64	5.09	6.00
PTC India	99.70	13.30	0.60	6.54	6.38
IFCI	11.05	-15.97	0.64	–	175.76
PTC India Financial	16.00	-7.51	0.42	5.85	16.89

Source: CapitaLine

VEER ARJUN, Delhi, 1.6.2023
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आठ बुनियादी उद्योगों की वृद्धि अप्रैल में सुस्त पड़ी

नई दिल्ली, (भाषा)। आठ बुनियादी उद्योगों की वृद्धि की रफ्तार अप्रैल, 2023 में सुस्त पड़कर 3.5 प्रतिशत रह गई है। यह इसका छह महीने का निचला स्तर है। मुख्य रूप से कच्चे तेल, प्राकृतिक गैस, रिफाइनरी उत्पादों और बिजली का उत्पादन घटने से बुनियादी उद्योगों की वृद्धि सुस्त पड़ी है। पिछले साल अप्रैल में बुनियादी उद्योगों का उत्पादन 9.5 प्रतिशत बढ़ा था। मार्च, 2023 में बुनियादी उद्योगों की वृद्धि दर 3.6 प्रतिशत रही थी। यह बुनियादी उद्योगों की वृद्धि की अक्टूबर, 2022 के बाद सबसे सुस्त रफ्तार है। उस समय बुनियादी उद्योगों का उत्पादन 0.7 प्रतिशत बढ़ा था। बुधवार को जारी आधिकारिक आंकड़ों के अनुसार, अप्रैल में कोयले का उत्पादन नौ प्रतिशत घटा है। हालांकि, समीक्षाधीन महीने में उर्वरक उत्पादन में 23.5 प्रतिशत की बढ़ोतरी हुई है।

RASHTRIYA SAHARA, Delhi, 1.6.2023
Page No. 13, Size:(2.78)cms X (4.84)cms.

आठ बुनियादी उद्योगों की वृद्धि छह माह के निम्न स्तर पर

नई दिल्ली (भाषा)। आठ बुनियादी उद्योगों की वृद्धि की रफ्तार अप्रैल, 2023 में सुस्त पड़कर 3.5 प्रतिशत रह गई है। यह इसका छह महीने का निचला स्तर है।

मुख्य रूप से कच्चे तेल, प्राकृतिक गैस, रिफाइनरी उत्पादों और विजली का उत्पादन घटने से वुनियादी उद्योगों की वृद्धि सुस्त पड़ी है। पिछले साल अप्रैल में वुनियादी उद्योगों का उत्पादन 9.5 प्रतिशत वढ़ा था। मार्च, 2023 में वुनियादी उद्योगों की वृद्धि दर 3.6 प्रतिशत रही थी। यह वुनियादी उद्योगों की वृद्धि की अक्टूवर, 2022 के वाद सवसे सुस्त रफ्तार है। उस समय वुनियादी उद्योगों का उत्पादन 0.7 प्रतिशत वढ़ा था।