

Short-term prospects remain weak for OMCs

Rising crude oil prices, uncertainty ahead of polls present challenges

HARSHITA SINGH

New Delhi, 4 September

Despite a robust turnaround in the financial performance of oil marketing companies (OMCs) during the June quarter (Q1FY24), their stocks have been southward bound for the last one month.

The fall comes on the back of rising crude oil prices, which surged to a nine-month high of \$88.7 a barrel on Monday.

A busy political calendar in the months ahead, which may see the government keep a lid on auto fuel prices, is also a dampener, said analysts.

Shares of Hindustan Petroleum (HPCL), Bharat Petroleum (BPCL) and Indian Oil Corporation (IOC) have shed 9-11 per cent since their respective earnings announcement between July 26 and August 4.

The near-term outlook for the stocks remains uncertain. This comes as the recently announced government subsidy on LPG cylinders has heightened market fears of more such measures for petrol and diesel, analysts said.

"Following the cut in LPG cylinder price, the government may introduce more such subsidies for auto fuels. If so, this will not be seen positively by the markets. If a part of such a subsidy has to be borne by OMCs, it will hurt their financials. This risk element is creeping into the stocks. So, from a tactical point of view, short-term investors may remain underweight on this space," said Mahantesh Sabard, an independent market analyst.

The already weakening marketing margins will likely be a concern ahead as the fate of OMCs remains tied to uncertain crude prices and the inability to raise retail prices amid the busy election calendar, experts said.

"After making supernormal profits in Q1FY24, we expect OMC earnings to normalise in the coming quarters as marketing margins have been falling again with the rise in benchmark petrol and diesel prices. OMCs are estimated to make a margin of ₹3-3.5 per litre, given the upcoming elections and uncertain crude prices," said Swarnendu Bhushan and Payal Shah of Prabhudas Lilladher, in a note.

According to the note, the gross mar-



SLIPPERY PATH

■ Shares of HPCL, BPCL and IOC have shed 9-11 per cent since their respective earnings announcements between July 26 and August 4

■ According to a Prabhudas Lilladher note, the GRM on petrol has slipped to ₹5.5 a litre, while it turned negative (-₹0.7 a litre) on diesel in August as compared to ₹10.1 and ₹7.4 per litre, respectively, in July

LAGGING INDICES

Stock (price in ₹)	Mar 31, 2023	Sep 04, 2023	% change
Hindustan Petroleum	236.8	253.0	6.8
Bharat Petroleum	344.1	344.6	0.2
IndianOil	77.9	90.0	15.5
BSE Oil & Gas	17,383.4	18,853.1	8.5
Sensex	58,991.5	65,628.1	11.3
Nifty50	17,359.8	19,528.8	12.5

Compiled by BS Research Bureau
Source: Bloomberg, exchanges

keting margin (GRM) on petrol has slipped to ₹5.5 a litre, while it turned negative (-₹0.7 a litre) on diesel in August as compared to ₹10.1 and ₹7.4 a litre, respectively, in July.

An increase of \$1 per barrel affects OMC gross marketing margins by 50 paise per litre, it noted.

Refining margins a relief

OMCs saw their profits swell in the June quarter due to strong marketing margins even as lower refining margins weighed on their top line.

Due to the decline in crude, HPCL, BPCL and IOC's GRMs fell to \$7.4, \$12.6 and \$8.3 per barrel, respectively, in Q1. It was \$16.7, \$27.5 and \$31.8 a barrel, respectively, in the year-ago period.

But the current silver lining for the companies remains a swift recovery in GRMs, analysts said.

Refining margins are likely to improve on the back of rising Singapore GRMs and

discounted Russian crude benefits.

Singapore GRMs have recovered sharply since July and are currently at around \$12.1 per bbl, said the Prabhudas Lilladher note.

While short-term volatility will persist, investors willing to look beyond the election cycle can remain invested in the stocks, amid low valuations, experts said.

"OMCs generally recover marketing margins over a period of time. These were meaningfully higher till recently to make up for losses last year. Looking at the business in totality, refining profitability is high and to an extent can make up for weakness in marketing. So, other than short-term events, strength in the refining cycle, deleveraging of balance sheets, discounts on crude from Russia and attractive valuations should be the other factors to consider before taking an investment call," said Sandip Bansal, associate director at ASK Investment Managers.

'Govt to only pay for Ujjwala subsidy not LPG price cut'

INFORMIST / New Delhi

The government will not bear the entire brunt of the 200-rupee cut in the price of a 14.2 kg cylinder of domestic liquefied petroleum gas, but will only pay for new as well as old beneficiaries under the Pradhan Mantri Ujjwala Yojana, a top finance ministry official said.

"The government is not bearing the price cut. The government will pay for Ujjwala subsidy only," the official told Informist.

On Tuesday, the Union Cabinet had approved reducing prices of domestic liquefied petroleum gas by 200 rupees a cylinder for all users while an-



nouncing it will shortly start distribution of gas connections under the government's flagship Ujjwala plan to another 7.5 mln women, taking the total number of beneficiaries under the scheme to 103.5 mln.

Under this scheme, the government provides a subsidy of 200 rupees per 14.2 kg cylinder for up to 12 refills per year to women from low-income households.

FinMin initiates Budgetary exercise for 2024-25

The Finance Ministry has initiated the process to prepare the interim Budget for 2024-25 by inviting inputs on expenditure from different ministries and departments. It will be an interim Budget as the elections for the Lok Sabha are due early next year.

"Pre-budget meetings chaired by Secretary (Expenditure) shall commence in the second week of October 2023...shall continue till around mid-November, 2023," according to the Budget Circular (2024-25) of the Budget Division under the Department of Economic Affairs of the Finance Ministry.

PM Ujjwala homes ordering more than 3 LPG cylinder refills a year doubled since FY19

Parvathi Benu
Chennai

The introduction of the ₹200 subsidy on LPG cylinders could push more people to use the clean cooking fuel, suggests data. This is because, despite the steep price of cooking gas, India saw more households, including poor ones, shifting to liquid petroleum gas for cooking.

DATA FOCUS.

The subsidy was announced by Prime Minister Narendra Modi on August 29. "This reduction is in addition to the existing targeted subsidy of ₹200 per cylinder given to PM Ujjwala Yojana beneficiaries. For the PMUY households, therefore, the effective price in Delhi after this reduction will be ₹703 per cylinder," reads a statement from the Centre.

RISING DEMAND

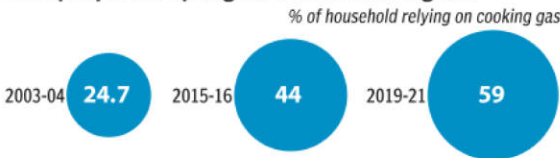
The National Family Health Survey data show that in the 2019-21 period, 59 per cent of all Indian households used LPG or natural gas for cooking. The proportion of this group was just 44 per cent in 2015-16 and 24.7 per cent in 2003-04.

This was despite the steep rise in price of LPG between 2015-16 and 2019-21. Data from Indian Oil Corporation show that a 14-kg cylinder of LPG cost ₹509.5 in Delhi on April 1, 2016. On April 1, 2021, it was ₹809. On March 1, 2023, ₹1,103.

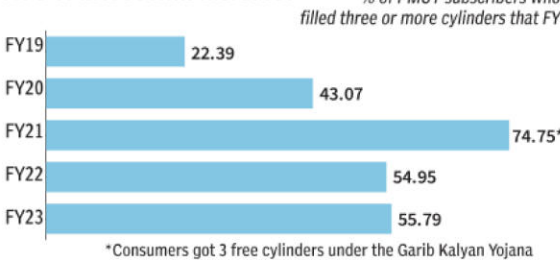
Even among the PMUY homes, the demand for LPG cylinders increased. Data from the Ministry of Petroleum and Natural Gas shows that while 22.39 per cent of the total PMUY subscribers ordered three or more cylinder refills in FY19, the pro-

Fuelling clean cooking

More people are opting for cleaner cooking fuel



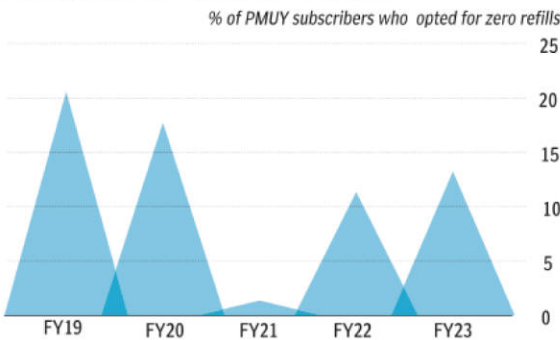
Proportion of PMUY subscribers opting for 3 or more refills increases



1.27 crore

Number of Ujjwala Yojana subscribers who opted for zero refills in FY23

Fewer people are opting for zero refills



Source: Rajya Sabha, PPAC

FY23. During Covid times, in FY21, the proportion was exceptionally high — 75 per cent. That could have been because of the introduction of the Pradhan Mantri Garib Kalyan Yojana, wherein PMUY consumers got three free refills.

While the refill proportion dipped to 55 per cent in FY22, it went up in FY23. In May 2022, the Centre announced

(up to 12 cylinders) for PMUY consumers for FY23. Going by these numbers, the number of people opting for clean cooking fuel could increase in FY24, after the introduction of the new subsidy.

The Ministry data also show that the proportion of PMUY consumers who opted for zero refills is down compared with pre-pandemic

25% PMUY customers took no cylinder refill or just one last year

Of 9.58 crore PMUY households, 1.18 crore bought no refills in 2022-23, another 1.51 crore bought one refill

DATA POINT

Maitri Porecha

One out of every four beneficiaries of the Pradhan Mantri Ujjwala Yojana (PMUY), a scheme that aims to make LPG gas cylinders available to rural and deprived households, either did not take any cylinders during 2022-2023 or took just one refill.

The spike in LPG cylinder prices made them an expensive proposition even for subsidised households; rates have almost doubled since 2018, reaching ₹903 a cylinder in March 2023 even after a subsidy of ₹200 per cylinder was offered to PMUY beneficiaries in May 2022.

One in nine PMUY beneficiaries, or over 1.18 crore households, bought no refill cylinders at all last year (Chart 1). Another 1.51 crore beneficiaries bought only one refill cylinder, according to data from three major gas companies – Indian Oil Corporation Limited (IOCL), Bharat Petroleum Corporation Limited (BPCL) and Hindustan Petroleum Corporation Limited (HPCL) – obtained via multiple Right to Information queries.

Between January 2018 and March 2023, there was an 82% spike in the rate of subsidised LPG cylinders. In January 2018, a PMUY household could purchase a subsidised cylinder for ₹495.64; by March 2023, the same cylinder cost ₹903 (Chart 2). Factoring in the additional subsidy of ₹200 for the 14.2 kg LPG cylinders for all consumers, announced by Prime Minister Narendra Modi this week, this cylinder will now cost ₹703.

A non-subsidised LPG cylinder of 14.2 kg cost ₹741 in January 2018. By March 2023, the price of the cylinder had increased by 49% to ₹1,103. As the recent ₹200 subsidy is applicable for all consumers, the LPG cylinder for non-PMUY households will now cost ₹903.

The average PMUY beneficiary

refilled less than four LPG cylinders during 2022-23. According to the RTI replies, the per household consumption of PMUY beneficiaries for IOCL was 3.53 cylinder refills; for HPCL, it was 3.72 refills; and for BPCL, it was 4.02 refills. This is in sharp contrast to non-PMUY consumers, whose per household consumption of LPG cylinders was 6.67 refills. (Chart 3)

According to RTI replies by IOCL and HPCL, subsidies extended to select non-PMUY beneficiaries amounted to at least an additional ₹2,454.81 crore last year. "Subsidy is not the decision of the Oil Marketing Companies and the amount changes based on the difference between the Retail Selling Price (RSP) linked to international price of LPG and the subsidised cost to customer as decided by the government," the RTI reply states.

Over 70% of the LPG retail price in Delhi is determined by the international Free On Board (FOB) price of LPG. FOB is a weighted average of the Saudi Aramco contract price for Butane (60%) and Propane (40%). Apart from base price, factors such as import charges, bottling charges, freight, delivery charges, GST and distributor commission determine the price of LPG.

Chart 4 shows the international FOB price of LPG in \$ per metric tonne between January 2019 and July 2023. The FOB price of LPG had been on a rising trend since May 2020. In March 2022, it was the highest in at least the last three years (\$952 per metric tonnes). Due to the absence of subsidy back then, the hike in FOB price was borne by the consumer.

Notably, the FOB prices have been rapidly falling since April 2022, coinciding with the first subsidy announcement in May 2022. The FOB prices cooled down to a new low of \$385 per metric tonnes by July 2023. Soon after, the latest subsidy announcement was made.

With inputs from Vignesh Radhakrishnan and Jasmin Nihalani

Running out of gas

The data for the charts were sourced from RTI replies to Madhya Pradesh-based activist Chander Shekhar Gaur by Indian Oil Corporation, Bharat Petroleum, Hindustan Petroleum, and reports from the Petroleum Planning & Analysis Cell



Chart 1 | The chart shows the number of beneficiaries who bought no refill and one refill (in crore)*

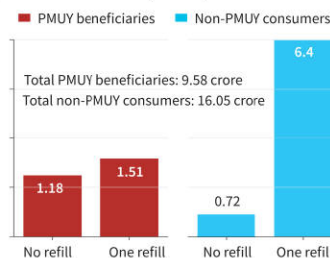


Chart 3 | The chart shows the average refills of LPG cylinders per household in 2022-23 by PMUY and non-PMUY consumers



*BPCL did not provide data regarding refills for non-PMUY beneficiaries

Chart 2 | The chart shows the price of subsidised LPG cylinders for PMUY beneficiaries and non-subsidised cylinders (in ₹)

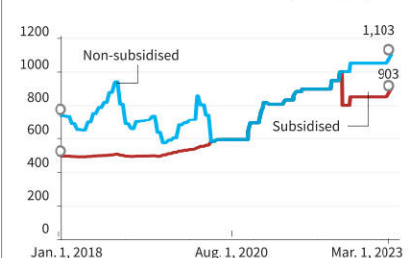
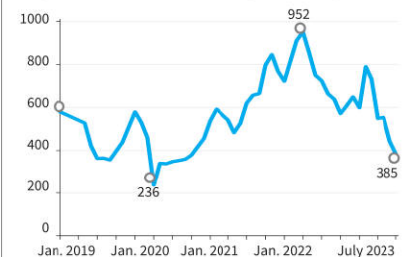


Chart 4 | The chart shows the international FOB price of LPG in \$ per metric tonne between January 2019 and July 2023





■ DPA, Kandla is in the process of revamping the pipelines of Oil Jetties for augmenting its capacity as well as enhancing the productivity. On Sep 3, MT GUNES K became the first vessel to berth at OJ-01 for discharging through the revamped pipelines. It unloaded 18.150 MT of Cane Molasses.

अंबाला में गैस पाइपलाइन बिछाने का कार्य जल्द होगा पूरा- डीसी

टीम एक्शन इंडिया/अम्बाला (मनीष कुमार)डीसी डॉ. शालीन ने अपने कार्यालय में हिन्दुस्तान पेट्रोलियम ऑयल गैस एजेन्सी प्रोजैक्ट हैड अवनीत घनारा, जिला उद्योग केन्द्र, नगर निगम, वन विभाग व अन्य सम्बन्धित विभागों के अधिकारियों के साथ एक बैठक लेते हुए घरों में पाईप लाईन के माध्यम से गैस कनेक्शन उपलब्ध करवाने बारे समीक्षा करते हुए इस कार्य को तेजी से करने बारे निर्देश दिए। सम्बन्धित प्रतिनिधि ने डीसी को बताया कि भारत सरकार द्वारा हिन्दुस्तान पेट्रोलियम ऑयल गैस एजेन्सी के माध्यम से घरों में पाईपलाइन के माध्यम से गैस

कनेक्शन उपलब्ध करवाने की योजना हैं। कुरुक्षेत्र व अम्बाला में यह एजेन्सी कार्य कर रही हैं। अम्बाला में सैक्टर 8, 9 व 10 में गैस कनेक्शन उपलब्ध करवा दिए गए हैं। इन्कोए सैक्टर.1 व प्रेम नगर के साथ.साथ अन्य कुछ क्षेत्रों में गैस कनेक्शन से सम्बन्धित नेटवर्क भी डाला जा चुका हैं। उन्होनें यह भी बताया कि इस कार्य के लिए वन विभाग व अन्य विभागों से एनओसी लेनी है। डीसी ने इस विषय के तहत लोक निर्माण विभागए एचएसआईडीसीए वन विभाग, प्रदूषण नियंत्रण बोर्ड, नगर निगम व अन्य सम्बन्धी विभाग के अधिकारियों को निर्देश दिए कि

हर परिवार को मिलेगा नेचुरल रसोई गैस का कनेक्शन, 3 सैक्टर में चालू

डीसी ने एजेंसी अधिकारियों को दिए आदेश

हरिभूमि न्यूज ▶▶ अंबाला

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अंबाला। अधिकारियों की मीटिंग लेते डीसी डॉ. शालीन।

में पाइपलाइन के माध्यम से गैस कनेक्शन उपलब्ध करवाई जा रही है। कुरुक्षेत्र व अंबाला में यह एजेंसी कार्य कर रही है। अंबाला शहर के सैक्टर-8, 9 व 10 में गैस कनेक्शन उपलब्ध करवा दिए गए हैं। इंडो, सैक्टर-1 व प्रेम नगर के साथ-साथ अन्य रिहायशी कॉलोनियों में गैस कनेक्शन के लिए पाइपलाइन का नेटवर्क डाला जा चुका है। उन्होंने यह भी बताया कि इस कार्य के लिए वन विभाग व अन्य विभागों से एनओसी लेनी है। उपायुक्त ने इस विषय के

तहत लोक निर्माण विभाग, एचएसआईडीसी, वन विभाग, प्रदूषण नियंत्रण बोर्ड, नगर निगम व अन्य विभागों के अधिकारियों को निर्देश दिए कि इस कार्य में एजेंसी के जो भी मापदंड हैं उसके तहत एनओसी उपलब्ध करवाएं ताकि इस कार्य को तेजी से किया जा सके। उपायुक्त ने एजेंसी को भी कहा कि वे इस कार्य में तीव्रता से कार्य करते हुए लोगों ने पाइपलाइन के माध्यम से गैस कनेक्शन उपलब्ध करवाने का कार्य करें।

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हरिभूमि न्यूज ►► अंबाला

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अंबाला। अधिकारियों की मीटिंग लेते डीसी डॉ. शालीन।

में पाइपलाइन के माध्यम से गैस कनेक्शन उपलब्ध करवाई जा रही है। कुरुक्षेत्र व अंबाला में यह एजेंसी कार्य कर रही है। अंबाला शहर के सैक्टर-8, 9 व 10 में गैस कनेक्शन उपलब्ध करवा दिए गए हैं। इंडो, सैक्टर-1 व प्रेम नगर के साथ-साथ अन्य रिहायशी कॉलोनियों में गैस कनेक्शन के लिए पाइपलाइन का नेटवर्क डाला जा चुका है। उन्होंने यह भी बताया कि इस कार्य के लिए वन विभाग व अन्य विभागों से एनओसी लेनी है। उपायुक्त ने इस विषय के

तहत लोक निर्माण विभाग, एचएसआईडीसी, वन विभाग, प्रदूषण नियंत्रण बोर्ड, नगर निगम व अन्य विभागों के अधिकारियों को निर्देश दिए कि इस कार्य में एजेंसी के जो भी मापदंड हैं उसके तहत एनओसी उपलब्ध करवाएं ताकि इस कार्य को तेजी से किया जा सके। उपायुक्त ने एजेंसी को भी कहा कि वे इस कार्य में तीव्रता से कार्य करते हुए लोगों ने पाइपलाइन के माध्यम से गैस कनेक्शन उपलब्ध करवाने का कार्य करें।