

IMPROVED REVENUES PROMPT MOVE

Capital infusion in OMCs set for a cut

PRASANTA SAHU
New Delhi, October 17

THE CAPITAL INFUSION plan for state-run oil marketing companies (OMCs) may turn out to be much lower than the budgeted level of ₹30,000 crore in the current fiscal.

The government is weighing the option of releasing only a part of the budgeted amount in the current fiscal, and balance in subsequent years if found necessary after assessing the financial position of these companies, according to official sources.

In the Budget 2023-24 presented on February 1, the government announced the equity investment plan for the three OMCs — IOC, BPCL and HPCL — towards energy transition and net-zero objectives.

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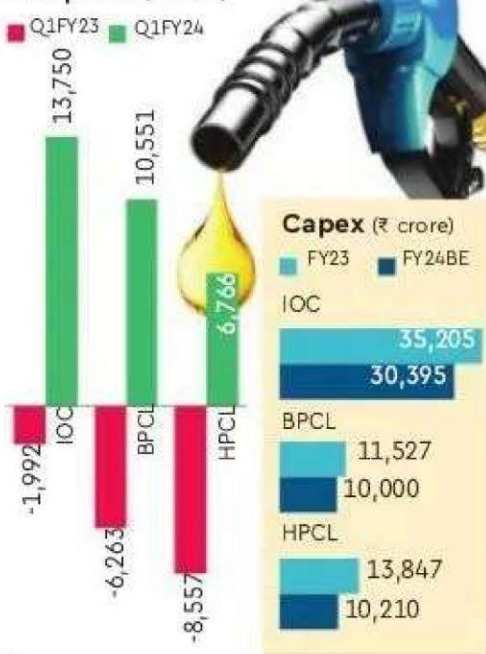
The change in the plan is in view of the improved revenues of the firms in recent months. Also, there are concerns about the shareholders having to cope with a fall in earning per share (EPS) as a result of the budgeted equity infusion plan.

“Capital infusion will happen gradually as that much cash is not immediately required by OMCs due to their improved revenues in recent months,” a senior official told *FE*, adding that “only a portion” of the amount may be provided to the OMCs in FY24.

Following the Budget announcement, the BPCL Board in June approved an ₹18,000 crore rights issue to shareholders, entailing at least ₹9,500 crore capital infusion by the

EPS ON A DECLINE

Net profit (₹ crore)



Centre for its 52.98% stake. In July, the IOC board approved a rights issue for raising ₹22,000 crore, which requires the government to infuse at least ₹11,330 crore for its 51.5% stake.

The remaining amount of capital infusion by the government was to go to HPCL, a subsidiary of state-run upstream major ONGC, likely through a preferential allotment.

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FROM THE FRONT PAGE

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"Putting too much additional equity is problematic as other shareholders would also infuse equity in their rights issues. EPS will come down, which will impact the share prices also," the official added.

EPS of IOC, BPCL and HPCL suffered in the previous financial year due to sharp increases in crude prices, which could not be passed fully to consumers due to price freeze. The IOC EPS fell to ₹5.98 in FY23 (from ₹26.34 in FY22), BPCL's to ₹8.78 (₹41.31) and HPCL's ₹63.26 (₹13.97). Lower EPS, an indicator of lower profitability, impacts investor sentiment on the stocks, hurting minority shareholders the most.

The combined loss of three state-run retailers – IOC, BPCL and HPCL – for the first half of the last financial year was a whopping ₹21,201 crore due to petrol and diesel prices freeze when global prices rose. To compensate them, the Centre provided an equivalent amount of Budget support last year. IOC reported a net profit of ₹13,750 crore in Q1FY24 compared to a net loss of ₹1,992 crore

This is the regulation that has been been challenged in court. The ruling from the Delhi high court is that while this is being adjudicated, an airline's contractual notice period applies.

Are companies free to have their own notice periods or is the DGCA-defined timeline mandatory?

We had 330 pilots in April and today we are well over 450. We have an additional 125 pilots who have signed contractual commitments with us. We are able to attract pilots despite the 6-month notice period. So, we don't believe our notice period is viewed to be onerous. This is not a pilot issue because what happened with this small number of pilots is unprecedented. I have never encountered something like this. 99.99% pilots have never done such a thing.

What was the notice period the pilots actually served before leaving?

Some pilots served 12 hours, some served 24 hours, and some 36 hours. The overwhelming majority served between 0-3

days. I cannot remember pilots in India or anywhere else in the world doing this.

What impact has this had on your remaining pool of pilots?

Our pilots, airport employees, and Akasa Care employees had to step up and bear the brunt of it in July and August. We are proud of our pilots and the entire staff who came forward.

How many destinations and flights per day do you have now compared to June? We don't disclose those numbers but I can say that within 30 days we will be very close to getting back to flying what we were flying. We chose to sacrifice a bit of revenue to be able to offer our customers the reliability they deserve. The long term is much more important than to squeeze out unreliable flying in the short term. You will see us adding flights and destinations very shortly and will exit December with a network that is roughly 30-35% larger than today.

Akasa's market share hit a peak of 5.2% in July even before completing one year

in operation. The pilot issue dragged it down to 4.2% in September. At what level will the airline end December or March?

I don't have that forecast because we are not in the market share game. This is not an important statistic for us. Some of the most profitable airlines in the US have a market share of less than 5%. We want to grow profitably and grow with free cash flow that we have.

But despite your efforts to contain them, the fight for such highly skilled manpower will continue for many years to come. Is this the best time to become a pilot?

India's domestic flying has exceeded pre-Covid levels but international flying has not and their combination has also not exceeded pre-Covid levels. The DGCA handed out around 5,000 commercial pilot licenses between 2019 and now. This has happened when the flying is still below pre-Covid levels which means that there are lots of young fresh pilots who are still not employed today and it is going to take 2-3

years to accommodate that pool.

How big will your fleet be by the end of the year and when do you start international operations?

We will exit March with about 25 aircrafts and we should be 40 planes by March. From the Indian government, we have received a designation as one of the international airlines and the second thing we have are the route authorities for Riyadh, Jeddah, Doha and Kuwait but there are a few more steps required. The Indian government now needs to endorse our operating certificate for these routes before we can work with the foreign governments to get the slots and their third-party government approvals. It takes 30-90 days for the second step to happen.

Suddenly there is lots of investor interest in India's aviation sector. Is Akasa exploring fundraising at the moment?

We are going to place a three-digit aircraft order before the end of this (financial) year and we have a sufficient amount of cash on hand to be able to place that kind of order. We don't need any cash to sign that order.

'Our network will be 35% bigger by Dec-end'

Indian basket of crude prices shot up by an average of 18% in FY23 to \$93.15/barrel compared to \$79.18/barrel in FY22. The Indian basket of crude oil averaged \$74-75/barrel in May, June 2023, \$80.37 in July, \$86.43 in August, \$93.54 in September and \$89.4 so far in October, reflecting fluctuations in prices due to global developments. OMCs are expected to continue making profit till the oil price remains below \$85 a barrel, analysts have said.

Recently oil prices have moved up due to conflict in Israel.

"Another war has started (in Israel) and elections are coming up. If OMCs are not able to raise prices when the cost rises, whether the government will reduce excise duty or OMCs will absorb losses for a while needs to be seen," another official said.

IOC has projected a capex of ₹30,395 crore in FY24 compared with ₹35,205 crore in FY23. BPCL's estimated capex is ₹10,000 crore in FY24 from ₹11,527 crore in FY23. HPCL is to invest ₹10,210 crore in FY24 as against ₹13,847 crore in FY23.

The share price of IOC, BPCL and HPCL rose 1.01%, 2.23% and 2.08% respectively on Monday from the previous closing price on the BSE.



Freight rates for Russian crude oil to India up 50% in a week

Reuters
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Oil freight rates from Russia's Baltic ports to India are up some 50% since last week as more shipowners quit the market after the first US sanctions on shipowners carrying Russian crude priced above a G7 cap, three persons in the know said on Tuesday.

The Group of Seven (G7) countries imposed sanctions in December last year prohibiting shippers or insurers domiciled in member countries from offering services to

facilitate Russian oil exports when the price is above \$60 a barrel.

The sanctions do not apply to shipping companies or insurers from other countries, regardless of the price.

"Freight rates rose to some \$7.5 million per voyage on Monday from \$4.5 million-4.8 million last week," a person with a trading firm involved in Russian oil sales told *Reuters*.

"Some vessels were put on subs above \$7 million as more shipowners, especially Greek, decide to exit Russian business. Some have quit a month ago, but today the number of



Shipping costs for Russian oil have been gradually declining since winter, when the G7's price cap was implemented.

such companies went up," the person said, on condition of anonymity.

"The freight market is bullish in general, with rates going

up for West Africa-US Gulf, West Africa-Mediterranean and cross Mediterranean routes, tempting shipowners to seek safer alternatives," the

person added.

Higher shipping rates and payment issues amid rising US control over Russian oil shipments may put Moscow's plan to trim discounts for its oil on the global market on hold, one of the persons said.

"Urals discounts (on a cost, insurance and freight basis) may widen due to higher freight, transaction costs and sanction risk," another trader in the Russian oil market said.

Russian crude discounts to global benchmarks have stabilised at \$11-12 per barrel from \$35-38 per barrel in early 2023, Russian deputy prime minister Alexander Novak said

in an interview.

Shipping costs for Russian oil have been gradually declining since winter, when the price cap was implemented, amid growing vessel numbers and as many shipowners, including in Europe, were attracted to the market by high rates.

The decline in shipping costs helped Russian oil exporters to increase profits.

The US and its partners in the G7 were committed to denying Russia any energy revenues, Geoffrey Pyatt, the US assistant secretary for energy resources, said on Friday.

Israel-Hamas conflict clouds loom over oil, LNG supplies

If Iran tries to block the Strait of Hormuz, costs could be steep for India and other countries

SUBHAYAN CHAKRABORTY

New Delhi, 17 October

The entire flow of crude oil from Iraq, Saudi Arabia, and the United Arab Emirates (UAE)-- among the largest sources of imported oil for India -- may be at risk if Iran attempts to block the Strait of Hormuz in the wake of the conflict between Israel and Hamas, senior officials of state-run oil-marketing companies and refineries told *Business Standard*.

Overall, more than half of the crude oil bought by India passes through the strait, which is also the primary shipping route for oil from Kuwait, Oman, and Qatar, they said. As much as 56 per cent of the crude oil imported by India in value terms came from these countries in FY23.

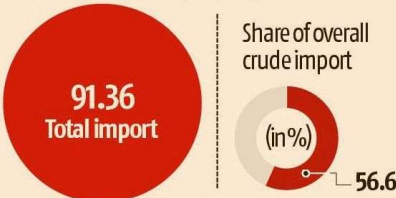
"Crude flows through the strait have remained consistent until now, and they are expected to remain so if the crisis in Israel does not escalate. But in the event of Iran getting drawn into the conflict, it could become complicated. Any incident in the strait can disrupt shipping flows, and that will raise the cost burden for us," a top official from BPCL's Kochi refinery said.

In July this year, Iran and US navies had a standoff at the chokepoint after international tankers were fired upon by the Iranian navy.

Connecting the Persian Gulf to the Gulf of Oman and wider Arabian Sea, the strait is

ENERGY IMPORTS THROUGH THE STRAIT OF HORMUZ

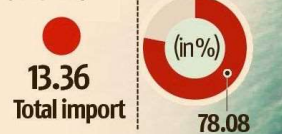
Top crude oil source
2022-23 imports (in \$ bn)



Iraq	33.37
Saudi Arabia	29.04
UAE	16.41
Kuwait	8.02
Oman	2.65
Qatar	1.87

Top LNG source

2022-23 imports (in \$ bn)



Qatar	8.32
UAE	3.16
Oman	1.88

Source: Ministry of Commerce

considered one of the most important naval chokepoints in global maritime shipping. The 167-km-long strait has a width varying from about 96 km to as little as 39 km, and separates Iran on the north coast from the Musandam peninsula on the south coast, which is shared by the UAE and Oman.

Estimates suggest that 88 per cent of all oil leaving the Persian Gulf goes via the Strait of Hormuz. In 2018, its daily oil flow averaged 21 million barrels per day, or the equivalent of about 21 per cent of global petroleum liquids

consumption, according to the US Energy Information Administration (EIA). The daily flow has consistently risen from 16 million barrels per day in 2009-10. According to the EIA, 76 per cent of the crude oil and condensate that moved through the Strait of Hormuz went to Asian markets, including India, in 2018.

While the currently affected regions do not produce oil, the conflict in Israel and the Gaza Strip has raised the geopolitical risk premium on oil, resulting in rising prices, Prashant Vasisht, senior vice president and co-group

head (corporate ratings), ICRA Limited, said. "However, if the conflict spreads, supplies may be affected as the Middle East region produces almost a third of the global supplies. Higher crude oil prices would lead to an increase in the import bill and the current account deficit. The prices of feedstocks for a host of chemicals, including specialty chemicals, would increase and long-term LNG (where linked to crude oil prices) cost would rise," he said.

For India, the bigger headache would be liquefied natural gas (LNG), nearly 80 per cent of which originates in Qatar and nearby countries. The EIA calculates that more than one-quarter of the global LNG trade also transited the strait in 2018.

"All LNG shipments from Qatar have to pass through the strait. Any risk involved in carrying the cargo would shoot up freight rates," an official with a state-run OMC said.

Natural gas prices have already jumped to their highest levels in seven months, driven by the Israel-Hamas conflict and fears of key export berths being hit.

In 2019, Iran presented a proposal dubbed the Hormuz Peace Endeavour, or HOPE, at the United Nations General Assembly, aimed at stabilising the area and ensuring that trade flows are not affected. India, China, Oman, and Afghanistan attended a meeting on the same in 2020 when Tehran's tensions with the US had escalated.



AMID SHARP FALL IN MARKETING MARGINS

OMCs to register a weak Q2

Sequential rise in refining margins may have provided a cushion

ARUNIMA BHARADWAJ
NEW DELHI, October 17

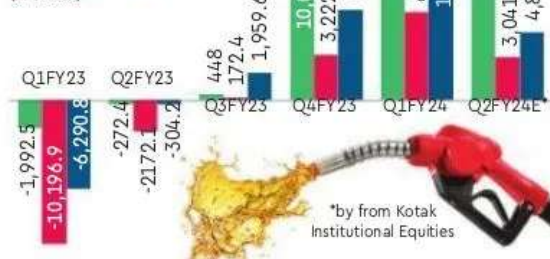
STATE-RUN OIL MARKETING COMPANIES (OMCs) – IOC, BPCL and HPCL – are seen to have posted weaker earnings in the second quarter of the current financial year, due to a sharp fall in the marketing margins of petrol and diesel, after the rise in benchmark crude oil prices.

However, analysts believe that a sequential improvement in the refining margins can provide some cushion for these downstream oil companies in the July-September quarter. Although the OMCs may still have partly recouped the losses reported in the last financial year in the first half of FY24, the prospects are not bright for the second half of the current year.

"We expect a sharp QoQ decline (off a bumper 1QFY24 base) in EBITDA (Earnings before Interest, Taxes, Depreciation, and Amortisation) for oil marketing companies, as marketing margins on petrol/diesel declined sharply with the rise in

SPIRALLING DOWN

PAT (profit after tax)
■ IOCL ■ HPCL ■ BPCL
(in crores)



*by from Kotak Institutional Equities

crude and product cracks," said Kotak Institutional Equities in a report.

The latter half of the second quarter saw a great volatility in the oil market owing to the production cuts by Saudi Arabia and Russia, in addition to those already in place by the Organization of Petroleum Exporting Countries.

Crude prices, as a result, touched their highest level of \$97/bbl since November 2022. Added to the concern was the outbreak of Israel-Hamas war. Elara Securities, however, saw a rise in the average crude inventory to \$5.8/bbl in Q2FY24 compared to nil in Q2FY23.

"OMCs diesel retail gross margin should post ₹15.6/litre YoY gain but fall ₹7.6/litre QoQ

to ₹2.1/litre," Elara Securities said. It also expects gasoline margin to fall ₹2.8/litre on quarter to ₹7.9/litre, but increase ₹7.3/litre on a yearly basis. Even though brokerage firms expect refining margins of the OMCs to go up, they remain cautious on the retail pricing of petrol and diesel, which will primarily determine the earnings of these companies in the quarter that just ended. Analysts at Prabhudas Lilladher expect that recovery in refining margins will take Q2 PAT (Profit After Tax) of the downstream companies to ₹19,700 crore, 25.2% down from ₹30,500 crore in Q1FY24.

The brokerage firm also sees OMCs EBITDA declining to ₹34,000 crore, down 28.3% from the previous quarter. The

adjusted PAT is seen declining 35.3% to ₹197 billion. Nuvama Institutional Equities foresees a decline of 51.8% in the EBITDA of OMCs from Q1FY24.

The average refinery utilization of OMCs is estimated at 107.1% compared with 110.6 in the first quarter. The refinery utilization is however estimated up from 97.3% in Q2FY23.

However, even on the rise in Brent crude prices, the reported GRMs (gross refining margins) of OMCs is likely to rise sharply by \$14-19 per barrel in the September quarter," according to the brokerage.

Analysts at Motilal Oswal expect blended marketing margins for OMCs at ₹5/5.4/5.1 per liter in Q2FY24 due to an increase in the Brent crude prices and stable retail fuel prices during the period. The brokerage firm has further estimated Brent prices by Q4FY24 to be at \$90/bbl and to remain at this level throughout FY25 as the International Energy Agency expects oil markets to tighten in the second half of the calendar year 2023.

If crude prices surge even beyond, OMCs may find themselves in a more upsetting situation. Over the past two quarters, OMCs have been posting profits until late September

when crude prices rose significantly and these companies had to suffer under recoveries to the tune of Rs 7/litre on sale of petrol and diesel. "IOC (Indian Oil Corporation Ltd) is likely to report weak operating profit due to decline in marketing margins (Rs 4.4/ltr vs Rs 8.7/ltr in Q1)," Prabhudas Lilladher said in its preview. The firm also expects the company's gross refining margin to be at \$12.4/bbl. While analysts see earnings of the OMCs taking a hit in Q2FY24, upstream companies, on the other hand, might seem to have benefited from high crude oil prices realizations due to lagged impact of windfall tax and also QoQ higher product sales. Upstream companies ONGC and OIL are, however, likely to improve their Q2 PAT to ₹12,200 crore compared with ₹11,300 crore in Q4FY23, with steady net crude price realization post windfall taxes and capped domestic gas prices at \$6.5/mmBtu, analysts at Prabhudas Lilladher noted. Elara Securities also expect PAT for upstream companies to increase in the range of 13-22% on year. "ONGC oil & gas production fell 1% YoY but rose 1% QoQ while Oil India oil & gas production is likely to improve 1% YoY and 4% QoQ," the firm said in its report.



Windfall Tax on Domestic Crude Slashed



New Delhi: The government on Tuesday cut special additional excise duty (SAED) on crude petroleum to ₹9,050/tonne with effect from October 18. In the last fortnightly review on September 29, windfall tax on domestically produced crude oil was set at ₹12,200/tonne.

Besides, the SAED or duty on export of diesel will be reduced to ₹4/litre, from ₹5 per litre currently. The duty on jet fuel or ATF will be reduced to ₹1/litre from ₹2.5/litre currently.

SAED on petrol will continue at nil. India first imposed windfall profit taxes on July 1, 2022. — **PTI**

एनसीआर में सिर्फ सीएनजी व इलेक्ट्रिक वाहनों की आवाजाही हो : राय

राज्य ब्यूरो, नई दिल्ली : पर्यावरण मंत्री गोपाल राय ने मंगलवार को



गोपाल राय •

मांग की कि केंद्र सरकार वायु प्रदूषण पर अंकुश लगाने के लिए पटाखों पर पूरी तरह प्रतिबंध लगाए। साथ

ही पूरे राष्ट्रीय राजधानी क्षेत्र यानी एनसीआर में केवल सीएनजी और इलेक्ट्रिक वाहनों की आवाजाही को ही अनुमति प्रदान करे। उन्होंने केंद्रीय पर्यावरण मंत्री भूपेन्द्र यादव को लिखे पत्र में कहा कि दिल्ली सरकार ने सड़ों के दौरान वायु प्रदूषण को रोकने के लिए कई

दिल्ली के पर्यावरण मंत्री ने केंद्रीय पर्यावरण मंत्री भूपेन्द्र यादव को पत्र लिखकर आग्रह किया, पटाखों पर भी पूर्ण प्रतिबंध की उठाई मांग

कदम उठाए हैं, लेकिन ये कदम तब तक प्रभावी नहीं होंगे जब तक हरियाणा, राजस्थान और उत्तर प्रदेश एनसीआर क्षेत्र में प्रदूषण के स्रोतों से नहीं निपटते।

गोपाल राय ने पर्यावरण के लिए काम करने वाली संस्था 'सेंटर फॉर साइंस एंड एनवायरमेंट' की एक रिपोर्ट का भी हवाला दिया है। उन्होंने कहा कि दिल्ली में 31 प्रतिशत प्रदूषण राष्ट्रीय राजधानी के स्रोतों से जबकि 69 प्रतिशत एनसीआर में आने वाले राज्यों के

अपनी नाकामी छिपा रही है आप सरकार : सचदेवा



वीरेंद्र सचदेवा •

दिल्ली प्रदेश भाजपा अध्यक्ष वीरेंद्र सचदेवा ने कहा कि प्रदूषण से निपटने के लिए ठोस कदम उठाने में आम आदमी पार्टी की सरकार पूरी तरह से नाकाम है। अपनी नाकामी छिपाने के लिए दिल्ली के पर्यावरण मंत्री गोपाल राय ने केंद्रीय पर्यावरण मंत्री भूपेन्द्र यादव को पत्र लिखा है। केंद्र सरकार को पत्र लिखकर प्रदूषण रोकने में हस्तक्षेप की मांग करने से पहले उन्हें दिल्ली सरकार द्वारा उठाए गए कदमों की जानकारी देनी चाहिए। दिल्ली में वायु व जल प्रदूषण को रोकने में केंद्र सरकार हरसंभव सहयोग कर रही है।

स्रोतों से होता है। इसके साथ ही उन्होंने मांग की है कि केंद्र सरकार राष्ट्रीय राजधानी में वायु प्रदूषण के लिए जिम्मेदार कारकों से निपटने पर चर्चा के लिए आपात बैठक बुलाए। राय ने कहा कि राष्ट्रीय

राजधानी क्षेत्र (एनसीआर) में आने वाले राज्यों को पूरे क्षेत्र में पटाखों और पराली जलाने पर पूर्ण प्रतिबंध लगाना चाहिए। एनसीआर के तहत आने वाले राज्यों में अब भी कई औद्योगिक इकाइयों में प्रदूषण फैलाने

वाले ईंधन का इस्तेमाल हो रहा है।

गोपाल राय ने कहा कि इन्हें तुरंत पाइपड प्राकृतिक गैस (पीएनजी) में परिवर्तित किया जाना चाहिए। एनसीआर राज्यों में संचालित भारी प्रदूषण फैलाने वाले ईट भट्टों को प्रदूषण पर लगाम लगाने के लिए जिग-जैग तकनीक अपनाने के लिए कहा जाना चाहिए। डीजल जेनरेटर पर निर्भरता कम करते हुए एनसीआर राज्यों में सभी हाउसिंग सोसायटियों में बिजली सुनिश्चित की जानी चाहिए। संबंधित राज्य सरकारों को गैर-नियत वाहनों (बिना सीएनजी) को पूर्वी और पश्चिमी पेरिफेरल एक्सप्रेसवे पर उनके मूल बिंदु से डायवर्ट करने के लिए कहा जाना चाहिए।

कच्चे तेल, डीजल पर अप्रत्याशित लाभ कर घटा

नई दिल्ली, एजेंसी। सरकार ने मंगलवार को देश में उत्पादित कच्चे तेल पर विशेष अतिरिक्त उत्पाद शुल्क घटाकर 9,050 रुपये प्रति टन कर दिया। नई दर बुधवार से प्रभावी हो जाएगी।

इससे पहले, 29 सितंबर को समाप्त पखवाड़ा समीक्षा में देश में उत्पादित कच्चे तेल पर अप्रत्याशित लाभ कर 12,200 रुपये प्रति टन तय किया गया था।

इसके अलावा, डीजल के निर्यात पर विशेष अतिरिक्त उत्पाद शुल्क (एसएईडी) को घटाकर चार रुपये प्रति लीटर कर दिया गया है। फिलहाल यह पांच रुपये प्रति लीटर है।