

# De-rating of BPCL, HPCL, IOC on the cards as dominance in petroleum pipelines gets challenged

## AGENCIES

NEW DELHI, 18 SEPTEMBER

The common carrier access of product pipelines may result in sustained de-rating of BPCL, HPCL, Indian Oil even lower, Swarnendu Bhushan - Co-Head of Research, Prabhudas Lilladher said in a research.

Although HPCL/BPCL/IOCL are trading at 0.9/1.2/0.8x FY24 PBV, a look at their long term valuation charts suggests that they could still correct from here.

Marketing margins losses continue for OMCs. Average HPCL and BPCL returns have under-performed Nifty by 15/7/6 per cent in past 3/6/12 month, while IOCL's performance has given 8 per cent underperformance against Nifty in 3 months (overperformed 3/16 per cent in 6/12m) due to inability of raising retail



prices amid rising crude oil prices.

As per our calculation, the gross marketing margin on petrol and diesel stand at Rs 5.5/lit and loss of 3.8/lit respectively in September compared to Rs 10.6/lit/10.2/lit in 1QFY24 and Rs 8.4/2.7/lit in 2QFY24 YTD, the report said.

"We remain cautious on

PNGRB's decision to implement common carrier for product pipelines due to the challenge it poses for OMCs. OMCs own 90 per cent of marketing infrastructure including pipelines, marketing terminals and depots", the note said.

While pipelines constructed under bidding process already

have provisions for common carrier, older pipelines are still lacking behind. Overall utilisation of product pipelines at 68 per cent in FY23 does present an opportunity to other interested parties including private players.

Pipelines provide the cheapest method of transportation, as next best coastal is 46 per cent costlier while roadways are even twice as costly. In addition to the cost of creating new infrastructure, uncertainty of obtaining right of using land for laying pipelines remains a key challenge limiting expansion of private players in product retailing. However, post implementation of unified tariff of natural gas pipelines, we expect PNGRB to open petroleum product pipelines, a step that may sound like fall of the last bastion for OMCs,

the note said.

Pipelines are the most critical part of the supply-chain as their construction takes long time. Just to share a perspective, Kochi-Bengaluru gas pipeline has still not been completed even after a decade of commissioning the Kochi LNG terminal.

Private players have largely remained at bay (6-7 per cent market share in sale of petrol/diesel in FY23) given 1) pricing interventions in petrol and diesel resulting in non-competitive environment, and 2) high cost plus time involved in laying marketing infrastructure alongside risk associated with it. However, at times OMCs have bled in terms of losses in marketing segment due to inability to pass on high cost to consumers, over a longer period of time; they have shown resilient profits.

# Global Oil Prices Extend Gains Toward \$95 on Tight Supply

**Houston:** Global oil benchmark Brent crude neared \$95 a barrel on Monday, with investors focused on the prospect of a widening supply deficit in the fourth quarter after Saudi Arabia and Russia extended supply cuts.

Brent crude futures rose 79 cents to \$94.72 a barrel by 11:57 a.m. ET (15:57 GMT), while US West Texas Intermediate crude futures were up \$1.24 at \$92.01.

Brent and WTI have climbed for three consecutive weeks to touch their highest since November and are on track for their biggest quarterly increases since Russia's invasion of Ukraine in the first quarter of 2022.

"The price is buoyed by expectations of a widening

supply deficit in the coming quarters as Saudi Arabia and Russia will extend oil production cuts to the end of the year and amid optimism surrounding the demand outlook in China, the world's largest oil importer," said Fiona Cincotta, senior analyst, City Index, a trading services provider.



Citi on Monday became the latest bank to predict that Brent prices could exceed \$100 a barrel this year. Chevron CEO Mike Wirth also said he thinks oil will cross \$100 per barrel in a Bloomberg News interview. Saudi Arabia and Russia this month extended a combined 1.3 million barrels per day (bpd) of supply cuts to the end of the year. **Reuters**

# High crude prices new risk to global financial stability: RBI

MONIKA YADAV @ New Delhi

GLOBAL growth is expected to face a potential slowdown in 2024, following a year of better-than-expected performance in 2023, the Reserve Bank of India (RBI) said on Monday in its monthly bulletin.

The report also flagged the high crude oil price (above \$90 a barrel) a potential risk to global financial stability.

The report pointed out that the possibility of inflation persisting above target levels and higher neutral interest rates may force central banks to maintain disinflationary approaches well into 2024.

"The upheavals over the past three years could bring about persistent price pressures that will be unpredictable and harder to root out. Hence tighter financial conditions may continue to prevail," the central bank said. The global economy could slowly be approaching an inflection point beyond which things will change to local growth booms but production inefficiencies worldwide. This has led to a view that there will be a recession; it is just getting pushed into 2024, it added.

According to the Reserve Bank of India, a new risk to global financial stability stems



## RBI sees GDP rise in Q2

The Reserve Bank of India said that key domestic economic indicators indicate an increase in quarter-on-quarter (QoQ) momentum in GDP growth in the second quarter, primarily fueled by domestic demand

from the commodity markets as crude oil prices ruling above \$ 90 per barrel challenge 10-month highs due to Saudi Arabia and Russia extending voluntary production cuts to the end of 2023.

"The strength of the United States' dollar on safe haven demand is also making crude oil prices higher. Global inflation is once again under siege as the deep deficits in global oil bal-

ances become persistent unless global demand is hit by a sharp economic downturn," the report added.

The apex bank said key domestic economic indicators indicate an increase in quarter-on-quarter (QoQ) momentum in gross domestic product (GDP) growth in the second quarter of the financial year 2023-24, primarily fueled by domestic demand.

Clothing and lifestyle retailers, as well as shopping malls, have witnessed a remarkable recovery in sales across various price points in recent weeks, said the central bank, adding that the surge has raised hopes for increased demand throughout the festival season, which commenced with Raksha Bandhan and Onam, boosting prospects for discretionary retail spending. Electronics and automobiles sectors are expected to be the next segments to attract festival-related spending.

"There are also indications that rural demand for the fast moving consumer goods (FMCG) has swung back into positive territory after being under pressure for a year," the report stated.



**Chat Room**

## Logical Linking Of Our Logistics

Apropos 'Geopolitical Geoconomics' by Ashok Malik (Sep 18), in the past, India has worked on economic corridors such as Oman-India, Iran-Pakistan-India and TAPI gas pipelines. However, LNG was the winner due to logistics and least geopolitical interference. Today, India imports LNG from the US, T&T and the farthest corner of Earth. About a decade ago, the Rakesh Mohan committee gave a roadmap for multimodal freight transportation as a majority of the freight movement across the country is diesel- or coal-based (read: by rail and road), while the coastal movement does not find much share, in spite of a large coastline. With major freight corridors like the DFCCIL and a huge road infrastructure in place, India should link rail, road, river and coastal movements for both passenger and freight traffic, reducing imported energy dependence and the rising emissions.

**SC SHARMA***By email*

## Petromin, HPCL to Invest \$700m in Fuel & EV Stations, Service Centres

Our Bureau

**Mumbai:** Saudi mobility solutions player Petromin Corporation KSA in partnership with Hindustan Petroleum Corporation (HPCL) will invest \$700 million in three strategic areas— fuel stations, multi-brand vehicle service workshops and EV charging stations.

The investment will be made over the next five years.

Petromin Express India, a subsidiary of Petromin Corporation, KSA will be partnering with HPCL to invest around \$100 million to set up around 1,000 vehicle service centres at HPCL retail outlets in India.

The companies will also invest around \$100 million to install and operate up to 5,000 electric vehicle charging units at HPCL operated stations throughout India. These charging stations will offer both high-speed DC chargers and AC chargers as well. Another \$500 million will be invested towards opera-



**Cos will make the investment over the next five years**

ting up to 500 fuel stations in KSA, Middle East and Africa.

"A joint venture as per the local laws and regulations will be formed," the companies said in a statement. The announcement was made at the India Invest Forum organised with Saudi Arabia's Ministry of Investment at the G20 Summit, New Delhi.

"This (association) will create new job opportunities, attract further investments, and facilitate transfer of technology between Saudi Arabia and India," said Kalyana Sivagnanam, Group CEO, Petromin Corporation.

Petromin is the leading Saudi mobility solutions player in automotive technology, multi-modal mobility, and sustainable transportation segment.

Operating in Saudi Arabia since 1968, it started building its reputation for producing the highest quality lubricants in the region which grew overtime into a large mobility solutions provider to cover the customer's entire automotive journey.

Petromin exports its products to over 40 countries in the GCC, Middle East, Africa, Asia with fast and reliable vehicle services backed by a vast network of service centers.

## ■ Raj Fossil Fuel Share in Energy Mix Hits Record Low



**NEW DELHI** The share of fossil fuels in Rajasthan's energy mix hit record low levels at just 50% from April to July, according to data released by

global energy think-tank Ember. This is the first time that such low levels of fossil fuel reliance have been sustained for over a quarter of the year. During the January-July period, fossil fuels contributed to the production of 34 terawatt-hours (TWh) of electricity, showing no growth (-1.6%) when compared to the corresponding period in 2022. Solar and wind power generation experienced substantial growth, recording a 28% YoY increase and generating a total of 27 TWh during the same period in 2023. It is worth noting that just two years ago, solar and wind power generation represented less than half of this year's output.

● FIRMS MAY HIKE PRICES TO PROTECT MARGINS

# Rising crude prices worry FMCG majors

Oil nudging \$95/barrel, up over 11% in a month and 24% in 3 months

VIVEAT SUSAN PINTO  
Mumbai, September 18

**HIGHER CRUDE COULD** soon become a point of concern for top fast-moving consumer goods (FMCG) companies, as it will result in a spike in crude-linked derivatives, forcing them to consider price hikes to protect margins.

Crude has touched nearly \$94.36 to a barrel, rising over 11% in a month and 24% in three months, data from Bloomberg shows.

"In the immediate future, FMCG companies are unlikely to take price hikes because it will hurt demand," says Tarun Arora, chief executive officer at Zydus Wellness. "But, if crude continues to rally like this, then inflationary pressures will grow, forcing firms to consider calibrated price hikes in the quarters ahead," he says.

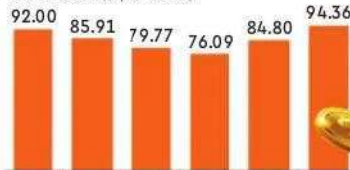
Linear alkyl benzene (LAB) is used in making detergents and constitutes almost 60-70% of the latter's input cost. High Density Polyethylene (HDPE) is crude-based polymer used in packaging material for all essential consumer items from soaps to detergents, hair oils, creams, shampoos and toothpastes. Packaging costs of these products constitute 15-20% of overall production cost for companies.

Titanium dioxide, also a crude-linked derivative, has been falling over the last few months. But LAB has increased by 1.19% in the last one month and 2.73% in the last three months, Bloomberg data shows. It is likely to firm up in the months ahead, experts tracking the market said, as crude rallies.

An increase in price of these inputs, says G Chokkalingam, founder, Equinomics Research & Advisory, will hurt margins of companies going forward. "Coming when rural areas have not recovered yet and continue to show signs of

## OIL IS NOT WELL

Brent crude (\$ per barrel)



LAB, India FOB (\$ per tonne)					
1,755	1,720	1,705	1,650	1,675	1,695
Titanium Dioxide (₹ per kg)					
370	395	395	390	375	370
Sep 19 2022	Dec 30 2022	Mar 31 2023	Jun 19 2023	Aug 18 2023	Sep 18 2023

	Brent crude (\$ per barrel)	LAB India FOB (\$ per tonne)	Titanium Dioxide (₹ per kg)
1-year	2.57	-3.42	0.00
YTD	9.84	-1.45	-6.33
Over March 2023	18.29	-0.59	-6.33
1-month	11.27	1.19	-1.33
3-month	24.01	2.73	-5.13

LAB stands for linear alkyl benzene

Source: Bloomberg

stress, companies may be forced to absorb input cost pressures as crude spikes further. This will hurt margins as companies get into the festive season," Chokkalingam says.

For now, both Saudi Arabia and Russia have indicated that they will extend their voluntary oil production cuts through the end of the 2023 calendar year, trimming 1.3 million barrels of crude out of the global market and boosting energy prices.

The July-September period, which began well for domestic FMCG companies thanks to moderating inflation and good rainfall in July, has since shown signs of stress, with August emerging the driest month in over a century and rainfall being erratic in September.

While food-linked inflation has remained a concern for FMCGs, especially, food companies due to weather uncertainty, crude-linked inflation is likely to add to the pressure.

Commodity experts said that the dual announcements from

Riyadh and Moscow last week pushed benchmark Brent crude above \$90 a barrel, a price unseen in the market since November last year. It has since rallied sharply, briefly touching the \$95-mark to a barrel on Monday morning.

FMCG companies, meanwhile, are watching the scenario unfold carefully. Last week, India's retail inflation eased to 6.83% in August from 7.44% in July as vegetable prices cooled compared to the previous month, the National Statistical Office (NSO) data showed.

A spike in crude prices, says Mayank Shah, senior category head, Parle Products, will have a cascading impact on consumer goods.

"For us, the bigger concern is wheat and sugar prices. Crude prices affect us from a packaging and freight perspective. But yes, if crude rallies, it does have a cascading impact on most consumer goods. So, FMCG companies will be watching how crude will move in the future," he adds.





# Will oil hit \$100? It already touched in some markets

## SUPPLY DEFICIT BUOYS PRICES



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**ALEX LAWLER**  
London, September 18

**WITH OIL INVESTORS** and traders focused on an oil-price rally that has come close to \$100 a barrel, some grades of crude oil are already trading above that milestone, highlighting an expectation of tight supply.

The outright price of Nigerian crude Qua Iboe surpassed \$100 a barrel on Monday, according to LSEG data. Malaysian crude Tapis reached \$101.30 last week, said Bjarne Schieldrop, analyst at Swedish bank SEB, in a report.

Oil has risen to its highest level of 2023 as investors are focused on the prospect of a supply deficit in the fourth quarter after Saudi Arabia and Russia extended supply cuts. The two are the biggest pro-

ducers in the OPEC+ group, most other members of which are also curbing output.

"The overall situation is that Saudi Arabia and Russia are in solid control of the oil market," Schieldrop said.

Brent oil futures, a global benchmark, traded as high as \$94.89 on Monday and the related benchmark used for trading much of the world's physical cargoes, called dated Brent, stood just above \$96 according to LSEG.

Brent and US West Texas Intermediate crude futures are on track for their biggest quarterly increases since Russia's invasion of Ukraine in the first quarter of 2022.

Citi on Monday became the latest bank to predict that Brent prices could exceed \$100 a barrel this year.

—REUTERS





## टॉरेंट ने पटियाला में पाइप वाली रसोई गैस की आपूर्ति शुरू की

नई दिल्ली, (भाषा)। टॉरेंट गैस लिमिटेड ने पंजाब के पटियाला में घरों में पाइप से रसोई गैस की आपूर्ति शुरू कर दी है। कंपनी अपने लाइसेंस वाले क्षेत्रों में परिचालन का विस्तार कर रही है।

टॉरेंट गैस को पेट्रोलियम और प्राकृतिक गैस नियामक बोर्ड (पीएनजीआरबी) द्वारा पटियाला, एसएस नगर, संगरूर और मलेरकोटला में सीएनजी और पाइप वाली प्राकृतिक गैस (पीएनजी) की आपूर्ति की अनुमति मिली है।

कंपनी ने बयान में कहा कि पंजाब सरकार के नवीन और नवीकरणीय ऊर्जा मंत्री अमन अरोड़ा ने सोमवार को पटियाला में एक समारोह में 101 पाइप गैस कनेक्शन को आपूर्ति शुरू करने की घोषणा की।

पटियाला में पीएनजी 46 रुपये प्रति मानक घन मीटर (कर सहित) की दर से उपलब्ध होगी। ग्राहकों

को पीएनजी का इस्तेमाल करने के लिए प्रोत्साहित करने को ईएमआई की योजना की भी पेशकश की जाएगी। ग्राहक पाइप वाली रसोई गैस के लिए केवल 590 रुपये (जीएसटी सहित) पर पंजीकरण कर सकते हैं। शेष राशि का भुगतान द्विमासिक बिल के साथ 500 रुपये की 13 किस्तों में किया जा सकता है।

बयान में कहा गया है, एलपीजी की तुलना में पीएनजी उपभोक्ताओं को कई विशिष्ट लाभ प्रदान करती है। पीएनजी सुरक्षित और विश्वसनीय है, रसोई में इसके लिए अतिरिक्त जगह बनाने की जरूरत नहीं पड़ती। टॉरेंट गैस के कार्यकारी निदेशक राकेश कुमार ने कहा, कंपनी पंजाब के लोगों को स्वच्छ ऊर्जा प्रदान करने के लिए प्रतिबद्ध है और इसके लिए वह अबतक लगभग 300 करोड़ रुपये का निवेश कर चुकी है।