



Oil Resumes Slide

Oil dropped over 2% Friday as a UK rate hike added to concern over economic growth that outweighed lower US stocks. Brent crude slipped \$1.8 to \$72.29 a barrel. – Reuters

OMCs Pick Rights Issue & Preference Share Routes

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Mumbai: Indian Oil Corporation Ltd (IOCL) and Bharat Petroleum Corporation Ltd (BPCL) will launch rights issues and Hindustan Petroleum Corporation Ltd (HPCL) will make a preferential share allotment to the government this financial year, according to sources aware of the development.

ET had reported on May 2 that the government was weighing

equity infusions resulting in possible stake increases in the three oil marketing companies

— IOCL, BPCL and HPCL — after they submit their capital investment plans for FY24.

Govt had set aside ₹30k cr as capital support for the 3 OMCs in union budget

A rights issue allows companies to raise funds by inviting existing shareholders to buy additional shares.

OMCs to Seek Board Nod Soon ►► 6

OMCs to Seek Board Nod Soon

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Shareholders can participate in the rights issue by purchasing new shares of the company, usually at a discount to the market price.

“It has been decided that IOCL and BPCL will launch rights issues and HPCL will issue preferential shares to the government. A formal announcement is likely soon and then the companies would be appointing merchant bankers,” said a senior industry official aware of the discussions.

The government had set aside ₹30,000 crore as capital support for OMCs in the budget. But this hinged on the OMCs presenting the finance ministry with capital investment plans. The government does not want to grant the Rs 30,000 crore capital support by way of subsidy for selling petrol and diesel below cost.

“The companies will be calling board meetings to seek approval on this matter,” said an official

from an oil company without divulging further details.

The OMCs and the oil ministry did not respond to emails and WhatsApp texts till press time.

BPCL in a regulatory filing on Thursday said, “A meeting of the Board of Directors of Bharat Petroleum Corporation Limited will be held on Wednesday, 28th June 2023, to consider the various modalities for capital infusion including rights issue, for achieving energy transition, net zero and energy security objectives, subject to requisite approvals as required under applicable law.” The shares of BPCL ended 3.74% down on Friday.

The government holds 51.50% stake in IOCL, the largest public sector refiner and marketer, while the rest is with the public. In BPCL, it holds a 52.98% stake while 46.71% is held by the public. In HPCL, state-run Oil and Natural Gas Corporation (ONGC) holds a 54.90% stake while the rest is owned by the public.

OMCs slip 3% as Brent crude prices plunge

MEGHNA SINHA
Mumbai, June 23

SHARES OF OIL marketing companies (OMCs) fell around 3% on Friday after international benchmark Brent prices slipped 4% to \$74.43 per barrel.

While shares of Indian Oil and HPCL fell nearly 2.5%, BPCL declined 3.74%. ONGC and Oil India also tumbled as oil prices have a direct impact on their margins and profitability. The Oil India stock fell 1.46% and ONGC declined 1.32%.

Markets experts attribute this fall to the unexpected interest rate hike by Bank of England and warnings about the looming US rate hikes by the Fed.

"The quantitative tightening by different central bankers has put pressure on oil prices. In the last six months, we have seen a good demand and production growth. The OPEC is wrestling with whether to make another cut in supply. While Saudi Arabia desires to cut production, Russia indicated that no change to output is expected. Considering this scenario, Brent may touch \$68 in near future", said Kunal Shah, VP, head of research, Nirmal Bang Commodities.

Higher interest rates could slow economic growth and reduce oil demand. The official data of US oil inventory and Chinese factory activity is due next week which may further drive oil prices.

According to a Motilal Oswal's report, the Chinese government enforces a strict quota system on crude imports as well as exports of refined products. Hence, with the largest refining capacity in the world, its policy decisions will play a major role in shaping up the supply-demand dynamics of the global refined product market.

"Once we have a clarity that there won't be further tightening, the oil demand can recover. I am optimistic about the recovery of demand of crude oil in the next



SLIPPERY SLOPE

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quarter and we shall see better pricing by next year" Shah said.

According to Vandana Bharti, head of commodities research, SMC Global Securities, the UK central bank raised interest by 50 bps when the market expectation was 25 bps. Additionally, the hawkish commentary by Fed chairman led to the fall in crude prices.

In addition, the demand from China market is slow as the economy is struggling to recover and while they have cut interest rates, a stimulus is still awaited. Until then the price is likely to remain range bound. In worst case scenario, the price may fall to \$60. In the domestic market, Crude MCX may rally up to ₹6,200 and support would be at ₹5,400.

"Until some relief measures are announced by China, price may remain range bound. The support level remains between \$72 and \$76 per barrel," said Ravi Diyora, director of research, Kunvarji Group.

AS STATE POLLS NEAR

Oil cos may cut petrol, diesel prices by ₹4-5/litre from Aug

IANNS / New Delhi

Oil marketing companies (OMCs) may have to cut petrol and diesel price by Rs 4-5 a litre from August onwards given the key state elections likely from November-December onwards.

Though OMCs' FY24 P/B valuations appear reasonable, there exists significant uncertainty on earnings in the fuel marketing business given risk of OPEC+ strong pricing power driving high crude price during the next election-heavy 9-12 months, JM Financial Institutional Securities said in a research.

Hence, optimism on OMCs will be contingent on crude sustaining below USD



80/bbl and government fully compensating for FY23 fuel under-recoveries.

OMCs valuations appear reasonable but sharp jump in crude price during elections could pose risk to OMCs marketing earn-

ings, the report said.

However, OMCs marketing segment earnings could come under risk if Brent crude price jumps above OMCs break-even crude price of USD 85/barrel or if any fuel price cut is followed by rise in crude price, as reversal of fuel price cut might be unlikely during the election period.

Upside risk to crude price exists as we believe OPEC+ will continue to support Brent crude price at USD 75-80/bbl, which is the fiscal break-even crude price for Saudi Arabia, given their strong pricing power, the report said.

OMCs may be asked to cut petrol/diesel price by Rs 4-5/ltr from August onwards given the key state elections likely from

November - December onwards.

Media reports suggest that the oil ministry may nudge OMCs to cut petrol/diesel prices as OMCs' balance sheet has largely got repaired and are likely to report strong profits in 1QFY24; however, the reports didn't mention the likely timeline and quantum of possible cuts as it will depend on level at which crude price and INR/USD exchange rate stabilises.

"Our calculation suggests that OMCs can potentially cut petrol/diesel prices by Rs 4-5/ltr from August'23 onwards, based on current crude price/product cracks, given the series of elections in the next 12 months (starting November - December'23)", the report said.

Energy transition goals get a multibillion-dollar boost

SHREYA JAI

New Delhi, 23 June

India and the United States will set up the first multibillion investment fund in a bid to achieve their net carbon zero and clean energy transition goals, according to a joint statement issued by the two nations.

"India and the US committed to create innovative investment platforms that will effectively lower the cost of capital and attract international private finance at scale to accelerate the deployment of green-field renewable energy, battery storage, and emerging green technology projects in India," said the joint statement issued late Thursday night.

It said the US and India would endeavour to develop a first-of-its kind, multibillion-dollar investment platform aimed at providing catalytic capital and de-risking support for such projects.

In the green energy space, the two nations agreed to join hands on a variety of new-age fuels and technologies.

They will work together to bring down the cost of green hydrogen under India's National

Green Hydrogen Mission and the US Hydrogen Energy Earthshot. The US also welcomed India's decision to co-lead the multilateral Hydrogen Breakthrough Agenda.

The leaders also called for the development of joint efforts in carbon capture, utilisation, and storage, given its role in reducing emissions.

The statement also highlighted the creation and development of the 'Global Biofuels Alliance', which will be launched in July 2023, with the US as a founding member.

The US also welcomed India as the newest partner in the Mineral Security Partnership to accelerate the development of a diverse and sustainable critical energy minerals supply chain.

The leaders noted the ongoing negotiations between the Nuclear Power Corporation of India (NPCIL) and Westinghouse Electric Company (WEC) for the construction of six nuclear reactors in India, said the statement. They also welcomed the consultations between the US DOE and India's DAE for facilitating opportunities for WEC to develop a techno-commercial offer for the Kovvada nuclear project.



Payment plan for 10K e-buses

India and the United States have announced plans to create a payment security mechanism that will facilitate the deployment of 10,000 'Made-in-India' electric buses in India. This announcement came during Prime Minister Narendra Modi's visit to the US.

NITIN KUMAR

Rlys in green pact with US

The Indian Railways signed a memorandum of understanding with the United States Agency for International Development (USAID) on June 14 to establish collaboration in bringing greener railway technologies in India. The agreement would entail long-term energy planning.

DHRUVAKSH SAHA



**CAPITAL
IDEAS.**



RICHA MISHRA

A recent media report on Pakistan buying discounted Russian crude oil in Chinese currency, did not surprise many. India, on the other hand has reportedly asked its banks and traders to avoid using Chinese Yuan for Russian imports.

It may just be optics, says Lauri Myllyvirta, lead analyst, Centre for Research on Energy and Clean Air. "Which currency is used for transactions has no real meaning, since everyone converts their currency holdings after the transactions. If there was a serious attempt to block payments to Russia for oil in hard currency then this could have some significance, but as we have discussed, the US, EU etc. want third countries to be able to import Russian oil," he said.

India, which has emerged as one of the top buyer of Russian oil, is said to be using UAE Dirhams to settle trade. But there is growing concern that this too will become a challenge.

As energy expert Narendra Taneja puts it, "The entire conventional international payment system is disrupted following the Western sanctions against Russia over Ukraine. But the world needs Russian oil to keep the global crude prices in check. China, a big importer of crude from Russia, faces no challenge as the volume of trade between the two countries is very large and therefore it can easily pay in its own currency."

Taneja says India and Russia will find a solution to the payment issue soon. "It could be part payment via a mutually acceptable Rupee-Rouble mechanism by the Indian refiners and part by persuading the Russian oil exporters to invest in the Indian energy sector, including LNG import terminal, refinery, oil and gas infrastructure and petroleum strategic reserves etc. I am sure New Delhi and Moscow will work out a new way forward on the issue soon," he said.

According to Swasti Rao, Associate Fellow at the Europe and Eurasia Center, Manohar Parrikar Institute for Defence Studies and Analyses, "Russia would have happily agreed to sell crude oil at discounted rates and free-on-board (just like for India) because Pakistan has agreed to pay in a currency that Russia can use towards its war efforts (unlike rupees that cannot be used in Russia and that Russia has not invested back in India yet)."

"Despite warning Pakistan for months of consequences if it turns out that it is sending weapons to Ukraine, Russia brushed aside all 'consequences' rhetoric and clinched an oil deal with Pakistan. This could be because Pakistan-Russia oil deal for Pakistan, will cover almost 60-65 per cent of its requirements therefore, a major

India's oil payment woes with Russia

The rupee-rouble trade hasn't taken off. India needs to work on a Plan B to continue sourcing Russian oil



REUTERS

breather for a country nearing economic collapse," she said.

RUSSIA'S WORRIES

"It also shows the vulnerability of Russia's oil trade re-routing that is unable to fetch more revenues despite efforts at cutting down production at OPEC+ level to boost prices. Drastic fall in revenues have begun since the oil ban and price cap have come into effect in the end of December 2022. The impact can be seen in 2023 where the energy revenues are down almost by a 45 per cent and the economy has incurred a deficit of about \$42 billion by the end of May 2023. On a brighter note, it provides an opportunity for Russia to diversify its sales strategy to ensure resilience of its energy trade," she said.

Also, in case of Russia-Pakistan oil deal, China has been a facilitator, she said adding "It has been supporting Pakistan for a while. The only conceivable reason why Pakistan oil deal has happened is because Islamabad has agreed to make the payments in Yuan. Dollar and Euro payments are affected due to the sanctions on Russia. Only friendly currencies like Yuan are welcome in Russia by which Moscow can

There are talks between India and Russia for payments in Dirhams, but the catch is the Dirham is also pegged to the dollar

support the rising cost of its protracted war in Ukraine."

Then what should be India's plan B to avoid situations like this? "There already are parallel payments mechanisms but they work best as plan B. They are not enough to replace the dollar," Rao said.

Why isn't the Rupee-Rouble payment mechanism taking off? According to Rao, there are two reasons: First, there are reservations on rupee-rouble convertibility as the Rouble's value is propped up by capital controls and not determined by the market. As a result there is always uncertainty on the real value of the Rouble.

Second, the unprecedented rise in oil trade between India and Russia in one year alone has led to a massively ballooning trade deficit. India's trade deficit with Russia stands at \$34.79 billion, second only to its trade deficit with China.

This has led to staggering amounts of Indian rupees in Russian banks that cannot be used by Russia in its war efforts. In fact, apart from roadblocks in oil payments, the last two consignments of \$ 400 air defence systems too have not been delivered to India due to failed attempts at payment mechanisms.

"Russia has refused any more payments in Indian rupees and India has refused to pay in Yuan. Talks are on to explore other options like the Dirham but no decision has been taken yet. The only way out of this deadlock is to make payments in friendly currencies. Bulk of payments so far have been made in

Dirhams, but the catch is the Dirham is pegged to the Dollar. So India's oil trade with Russia is not leading to de-dollarisation, in fact it is strengthening it due to lack of options," she added.

India is buying Russian oil because it is economically viable, though it may not be as cheap as New Delhi would have liked it to be. Use of alternate payment systems can only work as plan B to a small number of international transactions.

"Dollar is not getting replaced for the foreseeable future. Any country that wants its currency to become the global reserve currency or global trading currency must have transparency in their capital systems. As long as currency values are fixed by capital controls of a central bank, like in the case of Yuan or Rouble, traders and investors cannot trade in it. Global trade can be done only in currencies like the dollar or the euro with floating transparent rates or those like the Dirham that peg its value to reserve currencies," Rao said.

For India to secure its energy supply it should have a plan B to meet the fiscal shocks, that are likely to emanate from geopolitical tensions. Some experts believe that it would need to work its strategy on a case-to-case basis. To ensure its energy security and cushion itself from geopolitical shocks, India needs to diversify its energy sourcing basket and have an alternative payment mechanism.



BPCL in talks with Rosneft for term deal to buy discounted Russian oil

REUTERS

NEW DELHI, JUNE 23

STATE-RUN REFINER BPCL is in talks with Rosneft to buy about 6 million metric tons (43.8 million barrels) of discounted Russian crude at a price based on the Dubai benchmark, according to three sources with direct knowledge of the matter.

The deal would deepen India's commitment to its now-biggest oil supplier in the wake of Western sanctions on Moscow and mark a continued shift by Rosneft to pricing its oil against the Middle Eastern benchmark used in Asia and away from the Europe-dominated Brent.

Under the pending deal, Rosneft would deliver the equivalent of 6 to 7 cargoes of about 700,000 to 720,000 barrels each per month through March 2024 to Bharat Petroleum Corp Ltd (BPCL), according to the sources.

Talks are at an advanced stage for a contract, with both sides working out details including terms of payment, the sources added. BPCL and Rosneft did not respond to requests for comment.

BPCL eyes Rs 17k cr via rights issue to fuel net-zero plans

PRASANTA SAHU

NEW DELHI, JUNE 23

HERALDING A process of equity capital injection by state-run oil marketing companies in their bid to fund their carbon reduction plans, Bharat Petroleum Corporation (BPCL) will soon launch rights issues worth about Rs 17,000 crore in tranches.

The government, its promoter, will invest Rs 9,000 crore in the company during the process, a senior official told *FE*, adding that this would not raise the government's stake in the firm.

The BPCL board of directors will meet on June 28 to consider the capital infusion for achieving energy transition, net zero and energy security objectives. BPCL's share price closed at Rs 359.5 on the BSE on Friday, down 3.74 per cent from the last close.

"BPCL will be getting from the government about Rs 9,000 crore in different tranches as it is going for the rights issue of about Rs 17,000 crore," the official said. The Centre owns 52.98 per cent in the fuel retailer-cum-refiner.

In the FY24 Budget, the government had announced Rs 30,000 crore equity capital investment in the three OMCs —

Indian Oil Corporation (IOC), BPCL and HPCL — in a move towards energy transition and net-zero objectives. IOC, the largest state-run OMC, will get the largest share of the pie.

The amount of equity infusion in IOC, also likely through a rights issue, will be finalised soon.

IOC and BPCL had demanded capital support through loans, keeping in mind the market sensitivity to an increase in the government holding in these companies after the equity infusion. However, the government felt that a rights issue would address their concerns as the government holding would not increase.

The government's direct/indirect holding in the three state-run retailers, which provide over 90 per cent of domestic fuel supplies, is around 51 per cent each, the minimum required to be classified as a state-run firm. The Centre owns 51.5 per cent of IOC, while the country's top state-run explorer ONGC owns 54.9 per cent of HPCL. In HPCL, the Centre will likely infuse capital through preferential allotment of equity shares, the source added.

The Centre has announced the capital investment in the OMCs' refinery upgradation and emission reduction projects. **FE**

BPCL to raise ₹17k cr to fuel net-zero plans

IOC to follow suit with rights issue, HPCL may opt for preferential allotment

PRASANTA SAHU
New Delhi, June 23

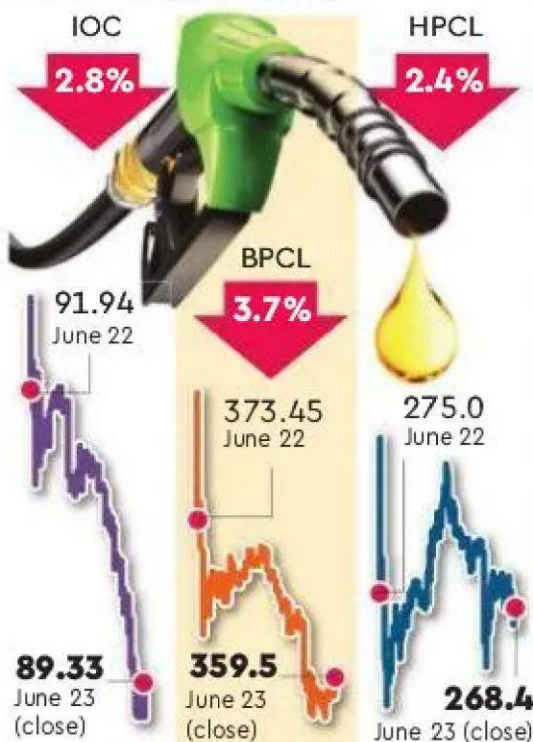
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STOCK PRICES DROP



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BPCL to raise ₹17k cr to fuel net-zero plans

IN THE Budget 2023-24 presented on February 1, the government had announced ₹30,000 crore equity capital investment in the three OMCs — Indian Oil Corporation (IOC), BPCL and HPCL — towards energy transition and net-zero objectives. IOC, the largest state-run OMC, will get the largest share of the pie.

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The Centre has announced the capital investment in the OMCs' refinery upgradation and emission reduction projects such as hydrogen plants.

Due to the inability to pass on the full impact of hardening global crude prices to consumers, BPCL's net profit declined by 79% on year to ₹1,870 crore in FY23, while IOC's net profit declined by 66% on year to ₹8,789 crore. HPCL reported a loss of ₹8,974 crore in FY23 compared to net profit of ₹6,383 crore in FY22.

All the three companies had reported losses in the first two quarters of last fiscal, subdued net profits in the third quarter, and sharp increase in profits in the fourth quarter ending March 2023.

The OMCs are likely to report significant profits in the current and the next quarter (Q1 and Q2FY24) as well, considering the moderation in crude oil prices.



After increasing VAT on petrol, diesel, Punjab govt imposes tax on pensioners



SNS & AGENCIES

CHANDIGARH, 23 JUNE

After increasing the VAT on petrol and diesel for the second time and hiking the electricity rates, the Punjab government imposed a Rs 200 per month development tax on the pensioners in the state.

The tax, under the head of Punjab State Development Tax, will be deducted from the pensioners' account at the time of issuing the pension.

The tax will be applicable on all retired state government employees -- be they of any

Board or Corporation, or are direct pensioners of the state government.

The Finance Department has issued a letter in this regard. The proposal was put forward by the state Excise and Taxation Department, which is the nodal agency for collecting the tax amount.

Responding to the imposition of tax, Congress leader and Leader of Opposition Partap Singh Bajwa slammed the government for 'levying' the tax on pensioners.

"After increasing VAT on petrol and diesel and enhanc-

ing electricity rates, it has now given the pensioners of Punjab a gift," he tweeted along with the letter.

The Punjab Senior Vets Association has also condemned the order which puts retirees drawing pension on par with the employees.

AAP's state chief spokesperson Malvinder Singh Kang clarified the development tax was imposed by the previous Congress government in 2018. "Kindly refrain from peddling false information as the Mann government has neither proposed nor imposed such regressive development tax on our people," Kang tweeted, while replying to Bajwa.

However, Bajwa said: "The @AAPPunjab has failed to raise Rs 20,000 crore in revenue from sand mining and Rs 34,000 crore by ending corruption. The govt is now attempting to raise revenue with such a harsh step.

"There are lakhs of pensioners in the state, who will get affected by this. Apparently, the AAP has no sustainable roadmap to revive the economy of Punjab".



4-5 रुपए प्रति लीटर सस्ता होगा पेट्रोल-डीजल!

नई दिल्ली, 23 जून (एजेंसी): नवम्बर-दिसम्बर में कुछ राज्यों में होने वाले चुनाव को देखते हुए ऑयल मार्कीटिंग कंपनियां (ओ.एम.सी.) अगस्त से पेट्रोल और डीजल की कीमतों में 4-5 रुपए प्रति लीटर की कटौती कर सकती हैं। यानी ईंधन सस्ता हो सकता है। जे.एम. फाइनेंशियल इंस्टीट्यूशनल सिक््योरिटीज ने एक रिसर्च में कहा कि तेल कंपनियों की वैल्यूएशन बेहतर है, लेकिन पयूल मार्कीटिंग बिजनैस में कमाई को लेकर अनिश्चितता बनी हुई है। ओपेक प्लस की मजबूत प्राइसिंग पावर अगले 9-12 महीनों के दौरान कच्चे तेल की कीमत को बढ़ा सकती है।

तेल कंपनियों को उम्मीद है कि कच्चे तेल की कीमत 80 डॉलर प्रति बैरल से नीचे बनी रहेगी, हालांकि यह सरकार की ओर से वित्त वर्ष 2023 की अंडर-रिकवरी की पूरी तरह से भरपाई पर निर्भर करेगा। रिपोर्ट में कहा गया है कि ओ.एम.सी. का वैल्यूएशन अच्छा है, लेकिन चुनाव के दौरान कच्चे तेल की कीमत में तेज उछाल से आय को

खतरा हो सकता है। अगर ब्रेंट क्रूड की कीमत 85 डॉलर से ज्यादा हो जाती है और पयूल की कीमत में कोई कटौती होती है, तो तेल कंपनियों की कमाई पर खतरा पैदा हो सकता है, क्योंकि चुनाव के दौरान पयूल प्राइसिंग में कटौती की संभावना काफी कम है।

रिपोर्ट में कहा गया है कि कच्चे तेल की कीमत में बढ़ौतरी का जोखिम मौजूद है। ओपेक प्लस अपनी मजबूत प्राइसिंग पावर को देखते हुए ब्रेंट क्रूड की कीमत को

75-80 अमरीकी डॉलर प्रति बैरल पर समर्थन देना जारी रखेगा, जो सऊदी अरब के लिए राजकोषीय ब्रेक-ईवन क्रूड कीमत है।

नवम्बर-दिसम्बर में प्रमुख राज्यों में चुनावों को देखते हुए तेल कंपनियों को अगस्त से पेट्रोल-डीजल की कीमत में 4-5 रुपए प्रति लीटर की कटौती करने के लिए कहा जा सकता है, क्योंकि ओ.एम.सी. की बैलेंस शीट काफी हद तक दुरुस्त हो चुकी है और वित्त वर्ष 24 में मजबूत मुनाफा दर्ज करने की संभावना है। हालांकि, रिपोर्ट में संभावित कटौती की समय-सीमा और मात्रा का जिक्र नहीं किया गया है।

