

BIS STANDARD ON PARAFFINIC GREEN DIESEL SOON



BUREAU OF INDIAN Standards on Monday said it has developed nine standards on biofuels, and is developing a standard on paraffinic (green) diesel. BIS director general Pramod Kumar Tiwari said the standards will complement the objectives of the Global Biofuel Alliance.

BIS develops 9 standards on biofuels

NEW DELHI: Bureau of Indian Standards (BIS) on Monday said it has developed as many as nine standards on biofuels, and is in the process of developing a standard on paraffinic (green) diesel.

BIS Director General Pramod Kumar Tiwari said, these standards will significantly complement the objectives of Global Biofuel Alliance (GBA), the multilateral forum announced by Prime Minister Narendra Modi during the G20 leaders' summit held recently in the national capital.

"We are committed to support this path breaking initiative of the government through development of relevant Indian Standards and necessary quality parameters/performance specifications," he said in a statement.

He said development of standard on paraffinic (green) diesel, that is derived from second generation (2G) feedstock, is also under progress. According to the Bureau of Indian Standards, the USA, Brazil, and India are the major produc-



Global ethanol market was valued at \$99 billion in 2022 and is expected to grow at a compounded annual growth rate of 5% by 2032

ers and consumers of biofuels. These three countries collectively contribute 85 per cent production and 81 per cent consumption of ethanol globally.

The global ethanol market was valued at \$99 billion in 2022 and is expected to grow at a compounded annual growth rate of 5 per cent by 2032, cre-

ating a huge opportunity for Indian industries and contributing to farmers' income, job creation and overall development of the Indian ecosystem, it said.

Currently, about 98 per cent of the fuel requirement in India for the transportation sector is met by fossil fuels and the remaining 2 per cent by biofuels. Indian Oil Manufacturing Companies (OMCs) are working towards provisioning new distilleries for production of first generation (1G) and 2G ethanol and Indian vehicle manufacturers are developing engines compliant with ethanol blended fuel.

The government has also started an interest subvention scheme for molasses and grain-based distilleries to promote ethanol production.

It is also foreseen that flex fuel vehicles, which are capable of utilising ethanol-blended gasoline up to 85 per cent, that are already operational in the USA and Brazil, are soon to make an entry in India, the BIS added.

MPOST

Higher oil prices threaten India Inc's profit margins

Weak demand, global slowdown add to their woes

KRISHNA KANT

Mumbai, 25 September

The recent surge in crude oil prices could shave off the gains made by India Inc in profit margins in the past few quarters. Worse, it comes at a time when consumer demand in the country is slipping and major global economies are witnessing a slowdown.

A back-of-the-envelope calculation suggests that the margin expansion accounted for three-fourths of the rise in the listed firms' operating profit between the April-June quarter (Q1) of FY23 and Q1FY24, and only a quarter of profits gains came from revenue growth.

The weakening of consumer demand is also visible in slowing topline growth. The listed companies' revenue growth in Q1FY24 was the lowest in the last nine quarters, and a sharp deceleration in India's nominal gross domestic product (GDP) growth in the June quarter suggests that the slowdown may last for a while.

"The pricing power of companies has weakened in recent quarters due to a slowdown in sales and revenue growth. They will be forced to absorb most of the

rise in their input and finance cost from higher crude oil prices, resulting in lower margins in the next few quarters," Dhananjay Sinha, head of research and equity strategy at Systematix Institutional Equity, said.

The price of Brent crude oil is up nearly 24 per cent in the last three months at \$92 a barrel from \$74.9 a barrel at the end of June. This is a reversal of a year-long trend of a steady decline in crude oil prices, which had crashed nearly 40 per cent from a decade high of \$122.8 a barrel at the end of May last year to a low of \$72.6 at the end of May 2023.

The sharp decline in crude oil prices in the second half of 2022 and in the first half of 2023 had boosted India Inc's Ebitda (operating profit) margins, resulting in a surge in corporate earnings in the last three quarters (Q3 and Q4 of FY23, and Q1 of FY24), despite a steady deceleration in revenue growth in this period.

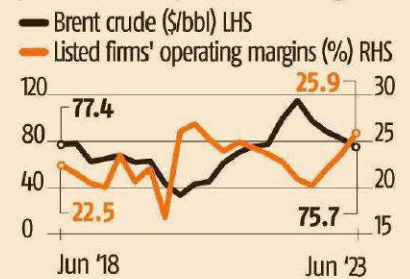
The combined operating profit of 2,936 listed companies in the *Business Standard* sample was up 33.9 per cent year-on-year (Y-o-Y) in Q1FY24 compared to just 8.2 per cent Y-o-Y growth in their combined revenues during the period.

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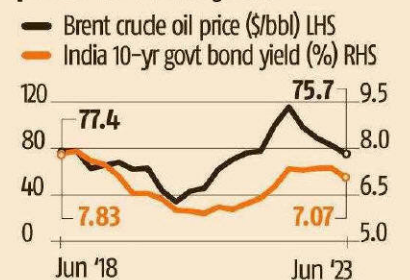


IMPACT CHECK

Opposite trajectories: Oil price vs corporate margins



Moving in tandem: Oil price vs bond yield



Sources: Bloomberg, Capitaline
Compiled by BS Research Bureau

P2
INFLATION
MAY EAT INTO
MARGINS OF
FMCG FIRMS

FROM PAGE 1

Oil prices...

Their Ebitda (earnings before interest, taxes, depreciation, and amortisation) margins expanded by 500 basis points in the period, aided by the 34.6 per cent decline in Brent crude oil price from an average of \$115.5 per barrel in the April-June 2022 quarter to an average of \$75.7 per barrel in April-June 2023.

On the bright side, however, higher crude oil prices would push up sales realisation and result in higher revenues for companies in sectors such as oil & gas.

A fall in crude oil prices benefits India Inc through two ways – lower raw material and energy prices and a decline in interest rates.

Historically, there is a negative correlation between the price of Brent crude oil and Ebitda margins of listed companies in India. Similarly, there is a positive correlation between the crude oil price and the yield on the benchmark 10-year government of India bond. Higher oil prices lead to higher yields on the 10-year government securities, which translate into higher lending rates for companies and individual borrowers. The correlation between the crude oil price and corporate margins, and the crude oil price and bond yields, seems to have become stronger in the last three years.

While a decline in raw material and energy prices pushes up the operating profit margins of manufacturers, a fall in interest rate due to the lower crude prices is beneficial to banks and non-bank lenders and companies in capital-intensive sectors such as oil & gas, metals & mining, telecom, cement, automotive, and construction & infrastructure, among others. Moreover, lower interest rates are also conducive for consumption demand, especially for auto and housing sectors.

Conversely, companies take a hit on their margins and profitability when global oil prices rally. For example, companies' operating profit margins had contracted from a high of 26.9 per cent of revenues in Q2FY21 to 20.2 per cent in Q2FY23 as the price of Brent crude surged from an average of \$33.9 in the quarter ended June 2020 to an average of \$115.7 in the quarter ended June 2022.

Similarly, the yield on the 10-year treasury bonds follows the trajectory of oil prices. Bond yields declined in 2018, 2019 and in the first half of 2020 along with a

decline in oil prices in the period. In contrast, bond yields rose in 2021 and in the first half of 2022 in line with a rebound in crude oil prices. The yield is once again up as oil prices have moved northwards.

According to analysts, crude oil prices and bond yields are linked due to the former's big influence on the government's overall tax revenues and its borrowing programme. Lower crude oil prices boost the central government excise duty on crude oil, leading to lower market borrowings and thus lower bond yields and vice versa.

India's first green hydrogen-run bus that emits just water unveiled

PTI ■ NEW DELHI

India's top oil firm IOC on Monday unveiled the nation's first green hydrogen-powered bus that emits just water as it takes the lead in bringing out unrivaled tools to replace fossil fuels.

Indian Oil Corporation (IOC) will produce close to 75 kg of hydrogen by splitting water using electricity from renewable sources. This hydrogen will be used to power two buses which will ply across the national capital region for trial runs.

Oil Minister Hardeep Singh Puri, flagging off the buses, said hydrogen will be India's transition fuel for moving away from fossil fuels.

IOC's R&D Centre at Faridabad is producing green hydrogen for the pilot run. Four cylinders with a capacity of 30 kg can run the buses for 350 km.

It takes 10-12 minutes for the four tanks to fill.

Hydrogen when burnt emits only water vapour as a by-product. With three times the energy density and the absence of harmful emissions, hydrogen shines as a cleaner, more efficient choice to meet the energy requirement.

As much as 50 units of renewable electricity and 9 kg of deionized water are needed for the production of one kilo of green hydrogen. Hydrogen can be used as a fuel for fuel cells.

Puri said by the end of 2023, IOC will scale up the number of buses to 15.

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Union Minister for Petroleum & Natural Gas, Housing and Urban Affairs, Hardeep Singh Puri flags off 1st Green Hydrogen Fuel Cell Bus at India Gate in New Delhi on Monday
Ranjan Dimri/The Pioneer

tional trials of 15 fuel cell buses powered by green hydrogen on the identified routes in Delhi, Haryana, and UP. Under this programme, the first set of 2 fuel cell buses was launched on Monday.

"Our government has ambitious plans on clean and green energy. India has taken many steps towards low carbon development- through emerging fuels like hydrogen and bio-fuels and shall account for 25 per cent of global incremental energy demand growth over the next two decades," Puri said.

Upon the launch of the two buses, a cumulative mileage of more than 3 lakh kilometers will be covered for long-term assessment of performance and durability of the new technology.

India has one of the largest synchronous grids in the world, capable of handling intermittent renewable energy and it has achieved 'One Nation-One Grid-One Frequency'.

"With the low cost solar,

synchronous grid, large demand and engineering, India will be a global champion in production and exports of hydrogen and is set to emerge as the hub for green hydrogen," he said. Puri said recently the world's first BS 6 (Stage II) Electrified Flex Fuel vehicle prototype was launched that encompasses both the flex fuel engine as well as an electric powertrain that offers higher use of ethanol combined with better fuel efficiencies.

Hydrogen is deemed as the fuel for the future with immense potential to help India meet its decarbonization targets. The global demand for hydrogen is expected to increase by four to seven times to 500-800 tonne by 2050.

Domestic demand is expected to increase by four times, from the current 6 tonne at present to 25-28 tonne by 2050.

Oil and gas PSUs shall produce around 1 million tonne per annum of green hydrogen by 2030.

IOC Unveils India's First Green Hydrogen-run Bus

New Delhi: India's top oil firm IOC on Monday unveiled the nation's first green hydrogen-powered bus that emits just water as it takes the lead in bringing out unrivaled tools to replace fossil fuels. Indian Oil Corporation (IOC) will produce close to 75 kg of hydrogen by splitting water using electricity from renewable sources. This hydrogen will be used to power two buses which will ply across the national capital region for trial runs.

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Oil near \$90 as scarce supplies vie with buying exhaustion

Oil's rally continued to cool with investors in search of a new catalyst to support more buying.

While some physical crude cargoes are commanding hefty premiums and prompt time-spreads are at the widest in a year signalling a supply scarcity, macro headwinds are capping gains. The dollar has surged to an eight-month

high, diminishing the appeal of commodities priced in the currency, and rate-hike expectations are fuelling risk-off sentiment across markets.

Still, oil has added about 25% since June and is heading for the biggest quarterly gain since March 2022 on supply curbs by Opec+ leaders Saudi Arabia and Russia. The rally led hedge funds to boost their

bullish bets on WTI to the highest since February 2022, and has rekindled talk of the \$100-a-barrel crude. Traders are now looking to China for signs of surging demand as the world's top oil importer gears up for the Golden Week holiday from Friday. More than 21 million people are expected to fly during the eight-day period. **BLOOMBERG**

Explainer

Oil on the boil: Why prices are scalding once again

The Brent crude benchmark rate has edged past \$92 per barrel, hitting a 10-month high, amid a busy political cycle in India that depends on imports for more than 85% of its domestic oil needs. **Manish Gupta** takes a look at the potential impact on the Indian economy



₹7.5/litre

under-recovery being incurred by the oil marketing companies at present

Russian crude

now accounts for 40% of India's oil imports, but the discount is coming down

1 mn barrels

per day production cut by Saudi Arabia; Russia has cut production by 300,000/day

● Behind the rise

GLOBAL CRUDE OIL prices have risen from around \$73 a barrel at end-June to close to \$94 a barrel currently, an increase of around 30%. A combination of supply cuts from the Organization of the Petroleum Exporting Countries (OPEC) and its allies, the recovery of economic activity in China over last year following the country's pandemic lockdowns, and a still-strong US economy that is fueled by robust consumer spending, are all factors that have driven up the oil price.

OPEC and its allies have cut production by up to 2.5 million barrels per day, including Saudi Arabia and Russia, which cut production by 1 million and 300,000 barrels a day, respectively. Saudi Arabia has extended its cut till December. Prices surged to record highs last year after Russia invaded Ukraine amid a global recovery from the Covid-19 pandemic impact. Oil prices moderated early this year before rallying again during the summer.

● India's sensitivity

NOMURA GLOBAL MARKETS Research, in a recent note, said it estimates that, at the current level of oil prices, the oil marketing companies (OMCs) are incurring under-recoveries to the tune ₹7.5/litre versus the over-recovery of ₹7/litre in the second quarter of the calendar year.

Higher oil prices typically feed through to the Consumer Price Index (CPI) inflation directly, via petrol and diesel prices (about 2.3% weight in the CPI basket) and indirectly through higher freight and transportation costs

with pass-through to the consumers.

Historically, every 10% rise in oil prices has resulted in a 0.3-0.4 percentage point (ppt) increase in CPI inflation. Every 10% increase translates into about a 0.1 ppt decline in the Gross Domestic Product (GDP) growth and worsens current account balance by about 0.4% of the GDP.

In theory, India has done away with the explicit fuel subsidy to control the prices. In practice, the freeze in retail prices since 2022 has had fiscal implications.

● Increasing vulnerability

NOMURA BELIEVES THAT domestic retail fuel prices are unlikely to be lifted, even if global oil prices escalate further. In 2022, when oil prices accelerated to over \$120/barrel, the impact was somewhat blunted by India's import of discounted Russian oil, which accounts for about 40% of India's oil imports so far in FY24, up from 1.5-2% pre-2022.

However, with the discount coming down, macro vulnerability has increased. India is already battling high food inflation and

although headline inflation moderated to 6.8% y-o-y in August from a high of 7.4% in July and is set to further dip to about 5.5% in September, food ex-vegetable inflation remains sticky, especially for pulses, cereals, sugar and milk.

Higher inflation, weaker terms-of-trade, and skewed monsoons are also headwinds for the rural economy, even though overall growth remains stable for now. Thus, the economy call ill afford an additional shock from higher fuel prices to growth and inflation.

● Twin deficits and policy rates

ON THE FISCAL front, having fixed domestic fuel prices means that the costs will be borne by the OMCs in the short term, and by the government, eventually, via a higher subsidy—thereby putting the FY24 fiscal deficit target of 5.9% of GDP at some risk.

Alternatively, the government will have to economise on its record capex outlays (3.3% of GDP) to meet the budgeted fiscal deficit target. Nomura says its baseline forecast for FY24 current account deficit of 1.5% of GDP assumes crude oil prices averaging around \$84/bbl.

Despite the recent surge in oil prices, the FY24 year-to-date average is tracking about \$81/bbl. However, a 10% rise in

oil prices, i.e., an average of \$92.5/bbl in FY24 would widen the current account deficit by \$12 billion incrementally, to 1.9% of the GDP. The government's intervention on fuel price control should simplify the Reserve Bank of India's (RBI's) inflation control endeavours. There is an expectation of an extended pause in policy rates for now, and more reliance on quasi-tightening through liquidity measures, if needed. Looking ahead, the baseline view of slower domestic demand, continued core disinflation and a weak global growth backdrop should mean the RBI's next policy move is likely to be a rate cut.



Tata delivers hydrogen powered buses to IOCL

MICHAEL GONSALVES
PUNE, SEPT. 25

Tata Motors, India's largest commercial vehicle manufacturer, on Monday delivered two first-of-its-kind hydrogen fuel cell powered (FCEV) buses to Indian Oil Corporation (IOCL), the country's largest petroleum company.

The Mumbai-based company said the vehicles are technologically-advanced, zero-emission buses.

In June 2021, Tata Motors won a tender from IOCL to provide 15 FCEV buses to evaluate the potential of hydrogen-based polymer electrolyte membrane (PEM) fuel-cell technology in India.

These buses are to be assessed as potential mass transport solutions for inter and intra-city commutes. The remaining 13 FCEV buses will be delivered over the next few months.

"We are creating future-ready transport solutions for both cargo and people to address the mobility needs of tomorrow's India," said Girish Wagh, executive director at Tata Motors.

The IOCL already has a hydrogen fuel dispensing station that is up and running at their research and



development centre at Faridabad to fuel these buses.

Built at a lab in Tata Motors' R&D Centre at Pune, these 12-metre-long buses are designed with a low-floor design, can seat 35 passengers and were delivered after strenuous road tests and validations.

According to Rajendra Petkar, president and chief technology officer, Tata Motors, the bus features a 350-bar hydrogen storage system, a 70-kW fuel stack, an electronic braking system, stability control, an intelligent transport system and telematics.

The two buses were flagged-off by Hardeep Singh Puri, union minister for petroleum and natural gas.

In addition to Hydrogen Fuel Cell-powered buses, Tata's R&D facilities have also developed other alternate fuel technologies, including battery-electric, hybrid, CNG, LNG and Hydrogen ICE.