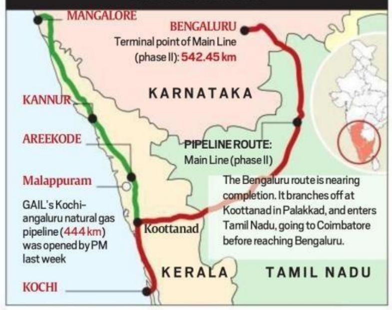
Gas pipeline from Kochi to Mangaluru: hurdles crossed, and why it matters

THE TWO BRANCHES



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THIRUVANANTHAPURAM, JAN 10

ON TUESDAY, Prime Minister Narendra Modi dedicated to the nation the Kochi-Mangaluru natural gas pipeline of the Gail Authority of India Limited (GAIL). The key infrastructure project has come about after overcoming protests in Kerala, misconceptions about safety, and a long delay.

The terminal, since 2013

The pipeline will deliver liquefied natural gas (LNG) sourced from a terminal in Kochi built by Petronet LNG in 2013 at a cost of Rs 4,500. However, for want of pipeline connectivity, it could not be utilised until now. The terminal's objective is to supply natural gas for domestic and industrial use in Kerala and South India. It is South India's first LNG-receiving, regasification and re-loading terminal with a capacity of five million metric tonnes per annum.

Phases and sections

The project, conceived in 2007, envisages pipelines from Kochi to Mangaluru and to Bengaluru. In the first phase, a 44-km line was laid in Kochi, linking the terminal with local industrial users, including Bharat Petroleum Corporation Limited. To take natural gas to domestic consumers, Indian Oil Corporation (IOC) entered into a pact with Adani Gas Ltd.

The second phase of the pipeline passes through seven districts of Kerala to carry natural gas from Kochi to Bengaluru via Palakkad, with another leg taking it to Mangaluru. The Kochi-Mangaluru line (444 km) has been opened while the Bengaluru leg is nearing completion, officials said.

Already 2,750 domestic gas connections have been given in Kochi and work for supply of natural gas in other towns is going on. The pipeline supplies 3.8 million cubic metres of gas a day to industrial and residential customers in Kochi and is set to cross 4 million cubic metres in the city itself. Menagaluru has a potential of 2.5 million cubic metres per day, The capacity utilisation of the LNG terminal will go up to 25-30%.

Delays since 2007

In 2009, the then CPM-led government headed by V S Achuthanandan gave single-window clearance to the project, which should have been completed in 2013. However, protests took place as local people wanted the alignment along a sea route rather than through inhabited areas; they felt the pipeline was a ticking gas bomb.

After the Congress-led government headed by Oommen Chandy came to power in 2011, the CPM, then in opposition, chose to stand with the protesters. When even local leaders of the ruling UDF joined the agitation, the government suspended the survey. GAIL too suspended all contracts. The government even pulled up then Chief Secretary Jiji Thomson for having said the pipeline would be laid at any cost and the protestors would be arrested. During the UDF regime, only 48 km of the 444-km pipeline could be laid.

The pipeline was planned at an estimated cost of Rs 2,915 crore in 2009. Due to the delays, its cost went up to Rs 5,750 crore.

Expedited by Vijayan

While in opposition, the CPM had stood with the agitators. But, after assuming office in 2016, Chief Minister Pinarayi Vijayan placed the GAIL pipeline in his 100-days projects. As Vijayan had the party under his firm control, no one in the CPM or Left Democratic Front questioned his decision, and local leaders stepped back from their protest. The Centre too wanted Kerala to give top priority to the project as the LNG terminal in Kochi was incurring huge losses.

To win over landowners, Vijayan increased the compensation amount for the acquired land, and reduced the width of the land to be acquired was reduced. After laying the pipeline, farmers were allowed to cultivate, except deep-rooted crops. Although right wing Muslim outfits Social Democratic Party of India (SDPI) and Welfare Party of India (of Jamaat-e-Islami) led protests in many places, and the protests turned violent in Kozhikode district in 2017, the government ensured that work proceeded under police protection.

Q3 results, IIP data will weigh on mkts

Adopt stock-specific trading approach; short-term traders should avoid contrarian moves

CHERUKURI KUTUMBA RAO

Boosted by optimism on vaccine rollout, expectations of strong Q3 earnings, consistent liquidity flow from FII inflows and positive global cues from US; the benchmark indices ended at record closing highs during the week ended. The Sensex rallied 913.53 points to 48,782.51 and the Nifty jumped 328.75 points to 14,347.25. The broader markets continued to outperform benchmarks with the Nifty Midcap and Smallcap indices notching 5.2 per cent and 3.8 per cent gains during the week.

It is pertinent to observe that over the past 10 weeks, the Nifty has gained over 2,800-odd points; and 9 out of 10 weeks have ended with weekly gains. The only one week that had a negative ending was that of just 11-odd points. The Sensex completed its longest stretch of weekly increases since 2009. The market capitalisation of BSE-listed companies also touched a new high.

In addition to around Rs 53,500 crore of inflow in December, FIIs net bought more than Rs 9,200 crore worth of shares in January till date. Expect the upward momentum in market to sustain long as the FII flows are positive. The focus of the Indian markets is on Q3 earnings for present. Prominent companies coming out with Q3 numbers in the coming week include Infosys, Wipro, HCL Technologies, HDFC Bank, Karnataka Bank, Tata Elxsi, Filatex India, Aditya Birla Money, L&T Finance Holdings, PVR and Shoppers Stop. Expectations are also high on the forthcoming Union budget.

Key inflation data and IIP numbers are also due in the coming week. Scanning the rotational buying across the sectors, adopt sector/stock-specific trading approach. Short-term traders should limit their leveraged positions and avoid contrarian trades.

Heard on the street

US stocks ended the first week of 2021 at record levels, as investors looked past political turmoil and signs of economic weakness to focus on prospects for more fiscal stimulus.

It is interesting to observe that a year back, on January 10, 2020, Bitcoin was $7,808 and at last check, Bitcoin was trading at $39,104 price over the weekend. In fact, it has almost doubled from $21,310 (as of December 17, 2020) in less than a month and appreciated nearly 4X since October. In a recent note of a major investment bank it predicted Bitcoin's price rise could be as high as $146,000 in long-term to compete with gold as an 'alternative' currency. Are we in times of excessive froth and irrational exuberance is the question now.

Futures & options/sector watch

Mirroring the strong bullish undertone in cash markets, derivative segment witnessed robust trading during the week ended. The maximum open interest in Calls is at 14,500 followed by 15,000; whereas the maximum open interest in Puts OI is at 14,200 followed by 14,300. Fresh Put writing was seen at 14,200.With Put writers continuously adding up hefty open interest at 14100 & 14,200 strikes, punters predict limited down side in Nifty for present. The Implied Volatility (IV) of calls closed at 18.06 per cent while that for put options closed at 18.97. The Nifty VIX for the week closed at 20.62 per cent. PCR OI for the week closed at 1.67 indicates more puts writing than calls.

MARKET KHABREIN

Coming week will see introduction of the Nifty Financial Services Index in the derivative segment. Nifty Financial Services Index is a 20 stock Index as against 12 stocks Bank Nifty and the constitution is different. While Bank Nifty is fully banks, Nifty Financial Services has financial institutions, banks, and insurance companies with the banks constituting almost 63 percent, while the rest is coming from other sectors that are gaining traction. On Friday, the Nifty Financial Services Index closed at 15,511 and the Bank Nifty ended at 32,084.

Recovery in key verticals, strong demand tailwinds, continued increase in digital spends, especially after Covid-19, large deals ramp-up and lower-than-expected furloughs could help IT companies show robust revenue growth. Stay on invested and buy declines of Infosys, HCL Tech and Wipro. True to predictions, cement stocks started witnessing strong buying. Buy strong companies like Ultratech, Ambuja and Ramco Cements for surprising gains. Sources indicate bonus issue in Ramco Cements. Auto sector witnessed a bumpy ride laced with speed breakers during year ended. After zero to marginal sales during the lockdown months, sharp rebound was seen in the latter half of the year on the back of festive demand, lower interest rates, easy financing, and pick-up in economic activities. Demand, especially in passenger car and two-wheeler segments, has been fuelled by people's preference for personal mobility.

Stock futures looking good for buying are Amaraja, Axis Bank, HDFC Bank, Hero Motocorp, Jubilant Food, Marico and Wipro. Sell on rallies: Bajaj Finance, Biocon, HPCL, ITC, Torrent Power and NTPC.

Stock picks

Sarla Performance Fibers Limited (formerly known as Sarla Polyester Limited) is a 100 per cent EOU engaged in the manufacturing and export of polyester and nylon textured, twisted and dyed yarns, covered yarns, high tenacity yarns and sewing thread. The company exports to 40 countries. The company's emphasis is to focus on niche end-user applications in India, higher value-added yarns to leading global apparel brands and companies. One of the positive factors in recent time is the increasing gap between cotton and polyester prices. Though there was a glut in cotton and prices had fallen due to oversupply and less off take from China, the synthetic fibre prices also fell following the slump in crude oil and its derivatives. The prospects of polyester/nylon yarns remain healthy due to increase in demand and due to decrease in the price of partially oriented yarn (POY) and chips. Buy at current levels of Rs 30 for short term target price of Rs 42 / 45 during the announcement of Q3 results and Rs 60 / 70 in next 9 to 12 months.

Andhra Petrochemicals Limited (APL) is a joint venture promoted by APIDC and Andhra Sugars Limited (ASL). APL was established with a capacity to produce 30,000 MTPA of oxo alcohols in Visakhapatnam. The plant has undergone an optimisation and modernisation scheme to increase the capacity to 73,000 MTPA. The plant employs technology from JM Davy, London, U.K., with total capital investment of Rs 4,970 million. Estimated demand of oxo alcohols at 250,000 MTPA, with healthy growth rate of 8 per cent to 10 per cent per annum, in general, is a good opportunity for the company with existing capacity of 80,000 MTPA, considering the huge demand-supply gap in the country. Sales realisation has improved on account of anti-dumping duties imposed by India on imports from certain countries.

The company signed natural gas (NG) term sheet agreement with GAIL last year. The NG project is expected to be completed by Q3 of 2020-21 and NG is expected to be available from Q4 of 2020-21, which may substantially bring down cost of production. Results of Q3 are expected to be very good with sources indicating Rs 40 crores plus PAT, which is one of the highest in its history. Buy for target price of Rs75 / 80 during results time and Rs120 in medium-term.

Olectra Greentech Ltd is engaged in manufacturing polymer insulators and electric buses. OGL is the largest manufacturer and suppliers of composite insulators in India. After GOI has introduced Faster Adoption and Manufacturing of (Hybrid &) Electric Vehicles (FAME-II) policy in India which aims to boost electric mobility and increase the number of EVs in commercial fleet by providing subsidy/incentives on electric vehicles; Olectra tied up with global major BYD and entered the electric bus segment aggressively. Olectra has already bagged orders for over 1,450 electric buses for various STUs across India. Further, orders of over 3,000 buses are in pipeline. The presence of Olectra electric buses in India has crossed more than 1500 numbers, first for any OEM in India. The company has reportedly put plans in place to indigenise the buses, which will boost the profitability tremendously. With the delivery plans of orders in place for Q3 and Q4, the company is expected to post quantum jump in turnover for FY20-21 to close to Rs 600 crores. Punters are labelling the company "Indian Tesla". Buy for short term target of Rs250 and medium term target of Rs 400.

(The author is a stock market expert. He is former vice chairman of AP Planning Board)