

OMCs' marketing margins to get a push from low crude prices

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New Delhi, September 8

AFTER A PROLONGED period of volatility in crude oil prices, which led to state-run oil marketing companies (OMCs) posting weak earnings in the first quarter of the current financial year, a new declining trend in prices, if sustained, is expected to result in healthier marketing margins for downstream companies moving forward.

Analysts also anticipate that diesel and petrol prices could drop at the retail level if crude prices remain within the current range.

"Given the nature of our oil industry, it is likely that marketing margins (of OMCs) will be healthier, while refining margins may be under pressure," said Ashwin Jacob, partner at Deloitte India.

The country's three major OMCs—Indian Oil, Bharat Petroleum, and Hindustan Petroleum—

BRIGHT PROSPECTS

■ Three major OMCs—Indian Oil, Bharat Petroleum, and Hindustan Petroleum—experienced a weak first quarter in FY25

■ It was driven by lower refining margins

■ Crude prices are currently at one of their lowest points

■ It is due to factors such as lower global demand growth and an increase in supply entering the market



■ ONGC and Oil India, reported strong earnings in Q1FY25 as their net crude oil price realisations improved

■ However, if crude prices continue to decline, upstream companies may have to reevaluate their cost structures

■ Brent crude prices hovered around \$71 per barrel on Sunday, while WTI crude fell further to \$67 per barrel

experienced a weak first quarter in FY25, driven by lower refining margins. Moreover, the reduction in fuel prices compressed their marketing margins. Earlier, these state-owned companies had reduced auto fuel prices by ₹2 per litre, marking the first cut since April 2022.

"Typically, overall OMC margins

at all three companies have a close relationship with refining margins. This market seems to be signaling a lower gross refining margin environment in the near future, so OMC margins may also be under stress," Jacob added.

Crude prices are currently at one of their lowest points, especially

compared to the previous 12-13 months. This is due to factors such as lower global demand growth and an increase in supply entering the market. Analysts believe that crude prices could fall further, particularly if the Organisation of Petroleum Exporting Countries (OPEC) does not delay unwinding its production cuts.

"Crude prices are likely to remain range-bound between \$70-75 per barrel but may move further downwards if OPEC doesn't delay the unwinding of their output cuts," Jacob said. "It is expected that prices of petrol and diesel may fall at the retail end if the decline in crude prices is seen as a consistent trend,

which appears to be the case."

Analysts are projecting that crude oil prices will edge lower in the medium term, driven by an expected surplus in the global market by 2025, despite OPEC's decision to maintain voluntary production cuts of 2.2 million barrels per day (bpd) until September 2024.

The International Energy Agency (IEA) expects non-OPEC supply to rise robustly by 1.4-1.5 million barrels per day in 2024 or 2025.

For the country's upstream companies, however, analysts foresee shrinking margins in the near future, putting pressure on their earnings.

State-owned oil producers, Oil and Natural Gas (ONGC) and Oil India, reported strong earnings in Q1FY25 as their net crude oil price realisations improved. However, if crude prices continue to decline, upstream companies may have to reevaluate their cost structures.

"One will likely see lower mar-

gins at the upstream companies' end in the immediate future, though if the government reduces the wind-fall tax again (as it did at the end of August), it may provide some margin relief. Upstream companies will also likely reassess their costs and be prudent with their capital expenditure programmes," Jacob said.

Brent crude prices hovered around \$71 per barrel on Sunday, while West Texas Intermediate (WTI) crude fell further to \$67 per barrel.

Union petroleum and natural gas minister Hardeep Singh Puri, in an interview with CNBC, indicated that the government is "on the side of lower oil prices" given the country's reliance on imports for 88% of its crude oil requirements.

Puri emphasised that global oil prices are not driven by scarcity but by an "artificial holding back of supplies." He also mentioned that the government is not currently considering raising taxes on fossil fuels.

CRUDE CALCULATIONS

More cheap oil from Venezuela is coming to Indian shores. How big an opportunity is this?

S DINAKAR
New Delhi, 8 September

S ometime soon, in the next few days, Degas, a very large crude carrier laden with Venezuelan oil, is expected to dock at Jammagar to unload 2 million barrels of dirty, high sulphur crude oil, shipping data shows. With this, the cheapest crude available to India is again within reach, nearly five months after the United States reimposed restrictions on oil exports from the South American nation.

The 42-day journey, made around the horn of Africa, to evade missiles hurled by the Houthi rebels on tankers taking the shorter Suez Canal route, will end at India's west coast on September 11, according to data from Paris-based market intelligence agency Kpler. Reliance, India's second biggest refiner, operates a 1.36 million barrels per day (bpd) refinery in Jammagar where it has the capability to process some of the dirtiest crudes.

The dark, viscous Meroy aboard the Degas is one such. It is also acidic in nature, corrosive and tougher to refine into petrol or diesel. These oils are available at large discounts to the Gulf and Russian oils populating the Indian crude universe, enabling huge savings.

Venezuelan grades were, on an average, cheaper by \$15-19 a barrel (bbl) this year compared to the Indian crude import basket, according to oil ministry and customs data. That translates into annual savings of \$3 billion annually based on peak volumes, according to Business Standard's calculations.

US sanctions on Venezuelan state-run oil company PDVSA extend from 2019, with curbs on exports lifted twice. The first time was in October 2023 for a six-month period, but with conditions. Venezuelan President Nicolas Maduro allegedly violated Washington's terms, prompting the Biden administration to reimpose in mid-April this year a ban on crude sales, with exceptions made for companies such as Chevron, Repsol, and Maurel and Prom to operate in Venezuela. As part of the exceptions, Reliance obtained a licence, and the soon-to-arrive ship is coming from PDVSA.

Reliance declined to comment.

Cost advantage

It's a timely trade for Reliance, says Vandana Hari, a Singapore-based energy expert. In 2015, when India's purchases of Venezuelan oil peaked at 441,000 bpd — around 12 per cent of crude imports that year — Reliance's

FILLING UP

India-Venezuela oil imports in 2024 (in mn barrels)

2024	RIL	IOC	HMEL	Total	Avg price (\$/bbl)	Avg price India crude basket	Venezuelan savings (\$/bbl)
Jan	2	0	0	2	60.6	79.2	18.6
Feb	3.1	1.2	0.8	5.1	63	81.6	18.6
Mar	4.8	0	0	2	66	84.5	18.5
Apr	2	0	0	2	72	89.4	17.4
May	3.9	0	0	3.9	68	83.6	15.6
Jun	2	0	0	2	67.8	82.5	14.7
Jul	0	0	0	NA	NA	84.1	
Aug	0	0	0	NA	NA	78.3	
Sep*	2	0	0	2	NA	75.3	

*Enroute; Note: IOC = Indian Oil Corporation, HMEL = HPCL-Mittal Energy Limited
Sources: Indian customs data; Kpler

share was 75 per cent. Rosneft-run Nayara Energy accounted for the rest, Kpler data shows.

The savings that feed into its refining margins prompted Reliance to secure Washington's blessings in July to import Venezuelan oil. Meroy averaged \$68 a bbl in June — \$14 a bbl cheaper than the discounted Russian barrels and \$20 a barrel cheaper than the Saudi Arabian and US grades, according to customs data.

Reliance, despite having no production assets in Venezuela and being of non-western origin, secured a licence because of New Delhi's strong ties with Washington, which has offered India an option to turn away from further Russian purchases, industry officials say.

Venezuela's crude exports this year averaged 705,000 bpd, the highest since 2019. India imported around 22 million barrels of Venezuelan oil in 2024, 1.5 per cent of India's total purchases during the period, of which Reliance's share was nearly 20 million barrels, including this month's delivery, Kpler data shows. Indian Oil, which is keen on securing a licence to import the crude, imported one cargo.

A senior Indian government official expressed scepticism if other Indian companies would secure exemptions from Washington because Maduro was accused of rigging elections to retain power. State-run explorer ONGC has applied for permission to operate two areas in Venezuela, but US officials have said Washington will continue to "calibrate" its sanctions policy through Venezuela's presidential inauguration in January, says London-based information provider Energy Intelligence. Former US President Donald Trump has threatened to impose stringent sanctions on Venezuela, if elected, industry sources say.

Amid the uncertainty, a question that pops up is how big of an opportunity does a US licence offer India. On paper, it is huge.

The opportunity

Deciphering the savings accruing

from Venezuelan oil, industry officials say Indian refiners may have to seek the more expensive Russian or Gulf crudes if Meroy was not available legally. For instance, in March, Reliance imported 4.8 million barrels of Meroy, which on a delivered basis cost \$66 a bbl, according to Kpler and customs data. Russian crude oil, despite the discounts, cost \$15 a bbl more. An alternate grade from Russia, in Venezuela's absence, would have cost \$75 million more that month — if India were to replicate its past peak of 450,000 bpd of Venezuelan oil, it stands to save more than \$3 billion at current prices.

"Venezuelan crude oil exports have seen steady growth to China, Europe, and the US over the last seven months, and the trend is likely to continue unless the Caracas-Washington DC relations hit roadblocks," said Narendra Taneja, a Delhi-based energy expert. "India's top refiners know Venezuela well, thanks to their long history of buying crude oil from there before the American sanctions."

But there are practical considerations.

"Considering Meroy is a very heavy crude with high acidity levels, Indian refineries are not designed to process the crude neat, in the absence of large-scale blending facilities," said R Ramachandran, an oil industry consultant and former refining head at Bharat Petroleum. "Certain complex refineries have been experimenting to process this crude, mixing it with other lighter oils to create value in terms of margins, but in order to obtain larger benefits of this discounted crude, significant investments need to be made in plant configurations."

Hari doubts that India's appetite for Venezuela will grow much because traditionally only a few refiners have bought crude from the country. "Having to get prior approval is no doubt also a barrier to growing demand. Finally, if Trump comes back into power, there could be a big question mark again on the crude flows," she says.

GST to incentives: Govt looks at ways to make ATF cheaper

The plan involves talks with states to cut levies and tax incentives for key stakeholders

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NEW DELHI

The central government is looking at ways to reduce the prices of aviation turbine fuel (ATF) in India by, among other options, building consensus to bring it under the goods and services tax, as it seeks to make the country a competitive aviation hub.

The strategic plan involves discussions with states to reduce taxes and allowing tax incentives for key stakeholders like airlines and oil companies, according to three people in the know of the developments. Compensation for states may also be considered to make up for the loss in revenue, the people said on the condition of anonymity.

Ministries of civil aviation, petroleum & natural gas and finance and have been tasked with working out a solution to address the price disparity of ATF in the country, the people said.

Jet fuel in India is about 60% costlier than the key refuelling hubs of Dubai, Singapore and Kuala Lumpur because of higher taxes.

Since ATF costs make up almost 40% of the operating cost of airlines, bringing prices down can help boost air traffic. That dovetails with the government's objective of boosting India's aviation sector by adding airports, pushing local manufacturing and developing MRO (maintenance, repair and overhaul) facilities.

While bringing the fuel under goods and services tax (GST) could bring prices down and make them competitive, petroleum products—including petrol, diesel, natural and ATF—have been kept out of the ambit of GST as they are key revenue



Jet fuel in India is about 60% costlier than the key refuelling hubs of Dubai, Singapore and Kuala Lumpur due to higher taxes. MINT

sources of states.

A lot of refuelling traffic flies over India and can be tapped, according to Mark D. Martin, chief executive officer of aviation strategy firm Martin Consulting. "Benefits should be given to both domestic and international airlines in order to keep a level-playing field."

Speaking to *Mint*, secretary to the ministry of civil aviation, V. V. V. said: "We are directly engaged with the ministry of petroleum. The pricing mechanism was initially completely opaque, but now it is transparent. However, the prices are still higher than global trends. We are working to ensure that they are rationalized. This will take

some time."

A senior official at the Department for Promotion of Industry and Internal Trade (DPIIT), speaking on the condition of anonymity, said, "We are hoping for a positive outcome, as a competitive cost structure can make the Indian aviation market more attractive to foreign airlines and investors, potentially leading to partnerships, joint ventures, and greater foreign direct investment (FDI)."

ATF is costlier in India because of higher taxes. ATF prices currently attract value added taxes (VAT), and central and state excise duty. VAT varies from 1% to 30% across states. Amid efforts to make jet fuel cheaper,

about 31 states and union territories have already lowered the levy to the range of 1-5%, while five tax it at 20-30%.

In July, the union minister for petroleum and natural gas Hardeep Singh Puri had said the ministry would work towards bringing petrol, diesel, and ATF under GST. The decision on bringing a commodity under GST regime would require approval from the GST Council, which includes finance ministers from all the states. Queries sent to the union ministry of petroleum & natural gas and finance and commerce and industry remained unanswered till press time.

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40%
The share of jet fuel in an airline's operating cost

1-30%
Rate of VAT on jet fuel that varies across states

Oil may bring a tailwind for IndiGo

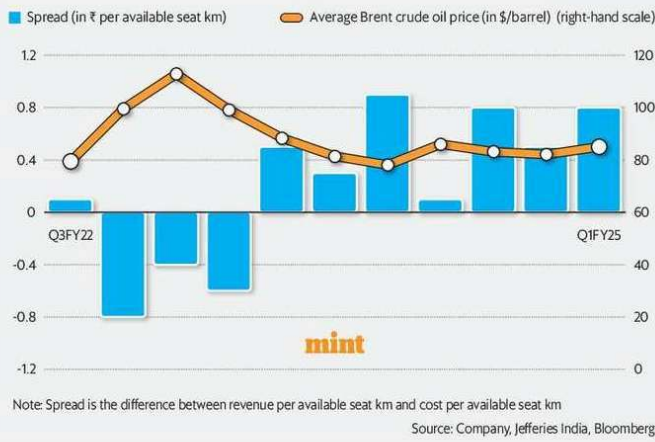
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Brent crude oil price has hit a fresh calendar year low of \$71 a barrel, down by about 16% so far in Q2FY25 as against the Q1FY25 average. Predicting crude price is generally hard even when current news reports range from the slowdown in China to tensions in the Gulf region. Still, if the crude drop sustains, it could mean a bonanza for InterGlobe Aviation Ltd that runs the IndiGo airline.

Aviation turbine fuel (ATF), a crude oil derivative, has eaten into about 40-50% of IndiGo's revenue earned from ticket sales over the last three financial years to FY24. A drop in the ATF cost flows directly to Ebitda. While companies consuming crude oil-based derivatives in other sectors might have to pass on the benefit of lower raw material price to their customers, there is no such pressure on IndiGo owing to the virtual duopoly in the Indian aviation market. IndiGo and Tata group dominate the country's skies with their respective domestic market shares at 62% and 28.8% in July, as per Directorate General of Civil Avi-

Two to tango

IndiGo's spreads have a strong dependence on how crude oil prices behave and were negative during Q4FY22-Q2FY23 due to steep rise in crude



ation. So, others such as SpiceJet Ltd and Akasa Air are much smaller.

A relevant question here is whether the Street is factoring the lower crude oil price bonanza into their estimates? Jefferies India's latest report shows that their estimates are conservative. Currently, the broking firm is assum-

ing an ATF price of ₹100 per litre for FY25-FY27 versus around ₹104 per litre in FY24. However, even before the sudden drop in crude price over the last few days, ATF price in September is at about ₹95 per litre, according to Indian Oil Corp. Ltd's website. ATF prices generally move in tandem with

crude price with about a month's lag between the crude oil price movement and the subsequent adjustment in ATF price. As such, each rupee fall per litre from Jefferies' assumed ₹100 per litre would mean a bump-up of about ₹270 crore and ₹300 crore to their profit before tax projections for FY25 and FY26 of ₹7,600 crore and ₹8,300 crore, respectively.

Jefferies analysts expect 13% CAGR in number of passengers and passenger revenue over the three years to FY27 without any change in ticket prices. But if the analysts have not factored likely gains from the business class service launched with Delhi-Mumbai route in the first tranche, proposed to be extended to 12 routes by December 2025, there

could be further uptick to the unchanged ticket prices expectations. Collectively, sustained lower crude price and better ticket prices will mean improved spreads. In the June quarter (Q1FY25), IndiGo's spread stood at ₹0.8 per seat kilometre. Spread is revenue per available seat kilometre (ASK)

minus cost per ASK.

Investors who don't view IndiGo as a proxy play on crude price will have to take a call on valuation. Bloomberg consensus estimates show that the stock is trading at a price-to-earnings multiple of 22 times based on FY25 estimated earnings. But there is no comparable domestic peer to evaluate whether this

is high or low. Alternatively, Delta Airlines, the world's largest aviation company by market capitalization, quotes at a price-to-earnings multiple of six times. However, it must be noted that Delta operates in a saturated market compared to IndiGo, which is present in the fast-growing Indian aviation market.

As such, IndiGo is well positioned to cater to the rising demand by increasing the ASK capacity to 200 billion by FY27 from 139 billion at FY24-end, according to Jefferies. Though IndiGo has weathered the aircraft engine snag issues well in the past, investors would hope that there are no faults in its aircraft fleet dominated by Airbus like the ones experienced with Boeing.

FLYING HIGH

ATF has consumed 40-50% of IndiGo's ticket revenue over the past three fiscal years to FY24

INDIGO is ready to meet rising demand for air travel by boosting capacity over 40% by FY27

India's sovereign wealth fund to fire on PSU fuel

Govt to shift PSU stakes to fund, which will earn from dividends, share sales

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The Union government plans to pool its shares in listed public sector companies to build India's first sovereign wealth fund, two people aware of the plans said. The fund will sell new and existing shares, receive dividends, raise money from strategic investors, and borrow against its shares to raise capital for its investment corpus.

The government will transfer its shares in listed PSUs, as well as the Specified Undertaking of the Unit Trust of India (Suuti), to this fund, the people cited above said on the condition of anonymity. Government-owned Suuti holds shares in various private listed companies. The plan, still in its early stages, is being discussed at various levels in the government and at PSUs.

"It is estimated that these companies (listed PSUs) can provide the fund a corpus of ₹50 trillion, which can be leveraged to get funds for the purpose," one of the two officials cited above said. The sovereign fund will invest in India and abroad.

The government owns more

NEW VISTAS

About 40 countries have sovereign wealth funds, which they use to buy critical assets, back large corporations, and build infrastructure.



STOCKING UP

GOVT weighs golden share, differential voting rights in PSUs

NEW fund may be run by professionals as in overseas funds

INDIA now strikes overseas acquisitions through PSUs, JVs

SARVESH KUMAR SHARMA/MINT

than 51% stake in 48 publicly traded companies, which will be transferred to this fund. Its stake in every company going public will also be transferred to the new fund.

The Centre may also sell new shares in these PSUs minus voting rights, so that its own voting rights do not get diluted. Additionally, it

may bring in regulation for so-called golden share, which gives its owner relatively more power in terms of management and economic rights, and special control.

Emails sent to the Prime Minister's Office, and the ministries of finance and commerce remained unanswered till press time.

The government has sounded several experts, including Axis Bank chief economist Neelkanth Mishra and Kotak Mahindra Asset Management Co. managing director Nilesh Shah, for their views, the people cited above said.

When contacted, Mishra said, "It would not be appropriate to speak on this." Shah declined to comment.

A third person aware of the matter said the plan is to create a sovereign fund run by professionals on the lines of Singapore's Temasek and GIC, floated in the 1960s and 1970s. The two sovereign funds helped float large and prestigious corporations such as Singapore International Airlines and made aggressive investments abroad.

"Wealth funds have been there in smaller sizes," said N. R. Bhanumurthy, director, Madras School of Economics, referring to funds in which the central government holds a stake. "With this plan, the government is scaling it up to a bigger level, which is a good idea since it will help focus government's resources in the most required segments of the country's economy," Bhanumurthy added.

About 40 countries have their

TURN TO PAGE 6

Sovereign wealth fund to fire on PSU fuel

FROM PAGE 1

own sovereign wealth funds, including large economies such as China, the US and Russia, as well as smaller ones such as Pakistan, Indonesia and Malaysia. Some of the more well-known names include Norway's Government Pension Fund Global, Singapore's Temasek, Abu Dhabi Investment Authority, Qatar Investment Authority and Mubadala Investment Co. Countries such as China and the US, which have multiple funds, use them to acquire critical assets and build infrastructure in several countries.

India makes such acquisitions through companies already present in the space and the specific company's balance sheet funds it.

For instance, India's key focus currently is on securing rare earth metals such as lithium, and it is in talks with countries in Africa and Latin America to get critical mineral blocks on a government-to-government basis.

To this end, the government created Khanij Bidesh India Ltd, a joint venture company of three PSUs—National Aluminium Co. Ltd, Hindustan Copper Ltd and Mineral Exploration & Consultancy Ltd—and the overseas deals are funded mostly through their balance sheet.

Apart from seeking critical technology and energy security by funding acquisition of critical minerals, the new fund will also invest in the domestic market.

"Usage can be domestic as well as international. It can invest in the domestic markets, too, and the fund can also look to optimize running of PSUs through mergers or demergers. Essentially, these government companies can work as one unit instead of working in silos," said the first official cited earlier.

उज्ज्वला योजना-चार की तैयारी में जुटी केंद्र सरकार

नई दिल्ली, विशेष संवाददाता। कल्याणकारी योजनाओं का दायरा बढ़ाते हुए केंद्र सरकार प्रधानमंत्री उज्ज्वला गैस योजना-चार शुरू करने की तैयारी कर रही है। इस योजना के तहत सरकार गरीब परिवारों को 50 लाख से ज्यादा अतिरिक्त मुफ्त गैस कनेक्शन दे सकती है। इस वक्त देश में प्रधानमंत्री उज्ज्वला गैस योजना (पीएमयूवाई) के तहत 10 करोड़ 33 लाख गैस कनेक्शन हैं।

मोदी सरकार ने अपने पहले कार्यकाल में एक मई, 2016 को उत्तर प्रदेश के बलिया से पीएमयूवाई की शुरुआत की थी। इसके तहत आठ करोड़ मुफ्त कनेक्शन देने का लक्ष्य रखा गया था, लेकिन योजना की सफलता को देखते हुए सरकार ने वर्ष, 2021 में पीएमयूवाई-दो शुरू की।

देश में अभी 31.40 करोड़ कनेक्शन

देश में इस वक्त 31 करोड़ 40 लाख एलपीजी कनेक्शन हैं। उनमें करीब 33 फीसदी कनेक्शन पीएमयूवाई के तहत दिए गए हैं। पिछले कुछ वर्षों में पीएमयूवाई उपभोक्ताओं की औसत एलपीजी खपत में भी काफी वृद्धि हुई है। वर्ष 2019-20 में 3.01 रिफिल से 29% बढ़कर 2023-24 के लिए 3.87 रिफिल (जनवरी, 2024 तक) हो गई है।

इसके बाद 2023 में पीएमयूवाई-तीन लॉन्च की गई। यह योजना बेहद सफल साबित हुई। पीएमयूवाई लक्ष्य हासिल करने के बावजूद कमजोर परिवारों में योजना की मांग है।