

NO PRICE CUTS YET, SAY COMPANIES

India Inc sees margins rising as crude falls

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ADROP IN crude oil prices is likely to ease cost pressures for a large number of companies across sectors — from paints and industrial segments to textiles and fast-moving consumer goods (FMCG)—which use crude-linked derivatives as a key input. Firms, however, say they remain cautious about cutting product prices as they carefully monitor demand conditions and the impact it could have on value growth.

Earlier this week, Brent crude futures slipped to nearly a three-year low of below \$70 a barrel amid slowdown concerns in China. While they consolidated to around \$72 levels on Friday, most analysts and companies expect crude oil prices to be muted for now.

Titanium dioxide, a crude derivative, accounts for about 20-25% of the raw material cost for paint companies. Players such as Asian Paints and Berger Paints

IN WAIT & WATCH MODE

Brent crude prices (\$ per barrel)



■ Say margins may improve due to falling crude prices

■ Adhesive firms say pricing action to depend on price softness in the future

■ For FMCG firms, while crude is benign, other inputs turning inflationary a concern

had taken price hikes of about 1-2% in July-August and will hold on to the price lines for now, executives said.

“As the price of crude oil declines, operating margins will improve. But we are unlikely to drop product prices immediately, since we have to keep market conditions in mind, even as raw

material prices change,” Abhijit Roy, MD & CEO, Berger Paints, said.

“Our margins are in the range of about 15-17%. It may cross the 17% mark due to the softening of raw material prices. But the impact will be visible only from the third quarter,” Roy added.

Sources at Asian Paints also indicated

that they were unlikely to cut product prices after recently hiking rates by about 1%. The price hike had come after nearly 12-18 months and had been carefully thought through, keeping in mind both volume and value growth, they said.

While both Berger Paints and Asian Paints saw a 7-12% growth in sales volumes in the June 2024 quarter, value growth had fallen by 2-3% during the period, owing to price cuts taken and a shift in product mix. Both firms are keen to reverse this trend, sector experts said.

“Commodity prices will keep fluctuating. This time, the drop in crude is linked to demand concerns, mainly due to the slowdown in China. Paint companies in India will evaluate the demand conditions here before deciding on pricing action,” HM Bharuka, a paint industry expert and former vice-chairman and MD of Kansai Nerolac, said.

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India Inc sees margins rising as crude prices decline

PIDILITE INDUSTRIES, THE maker of adhesives such as Fevicol and Fevikwik among other products, which depends on vinyl acetate monomer (VAM), a key raw material that is a derivative of crude oil, has said pricing action will depend on the softness in the price of the commodity in the future.

"There were mid-single digit price rollbacks in FY24 since the price of VAM had softened during the period," Bharat Puri, MD, Pidilite Industries, said. "Further price reductions will depend on how input prices move from here," he said in an earnings call after the firm's June quarter results last month.

VAM prices have softened to levels of about \$850-1,000 per metric

tonne (MT) in the last one year, sector experts said. But as VAM makers in the US and Europe tighten supplies, prices could firm up going ahead, they added.

As much as 60% of Pidilite's raw material costs are due to VAM, and the company meets its VAM requirement largely through imports, analysts tracking the company said.

For FMCG companies, a fall in crude-linked derivatives will mean that they can pass on some of the gains to consumers as they look to shore up volume growth. But this will also mean that price-led growth, which is currently flat to negative, may fall sharply, hurting value growth.

Most home and personal care



(HPC) companies have been acutely aware of falling FMCG value growth over the last few quarters as commodity prices on the crudeside have been benign. For perspective, almost 40-50% of an HPC company's raw material basket is crude-linked depending on the category and product type.

Derivatives such as linear alkyl benzene (LAB), for instance, are used

in detergents, light liquid paraffin (LLP) is used in hair oils, creams and cosmetics. While high-density polyethylene (HDPE) goes into the packaging of all FMCG products from soaps to detergents, hair oils, creams, shampoos, conditioners and toothpastes. During an interview with FE this week, Hindustan Unilever CFO Ritesh Tiwari said inputs such as crude palm oil and coconut oil had turned inflationary in recent months, which could have an impact on the vegetable oil basket, though crude-linked inputs were soft.

"While crude has been benign, we are monitoring other inputs such as crude palm oil, which goes into making soaps, hair care and some skin care products, which has turned infla-

tionary in recent months. We avoid knee-jerk reactions to commodity upswings and downswings. Pricing action will be calibrated," Tiwari said.

Ashwin Jacob, partner at Deloitte India, said: "Lower trending crude prices, if sustained for some time, will have a beneficial effect on industries and sectors closely linked to crude prices. More specifically, several chemical sub-sectors such as paints and polymers will benefit from lower crude prices in the short term. This will likely result in better margins for some of the incumbents, and possibly some impact on the end-industry demand, if lower prices are passed on."

*With inputs from
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ISMA partners with TERI, PRAJ for sustainable biofuel solutions

Our Bureau

New Delhi

The Indian Sugar and Bio Energy Manufacturers Association (ISMA) on Thursday announced that it has signed a Memoranda of Understanding (MOUs) with The Energy and Resources Institute (TERI) and PRAJ Industries to advance sustainable bioenergy solutions. The MoUs focus on sustainable aviation fuel (SAF) and explore the potential of bio-ethanol, bio-gas, green bio-hydrogen and green methanol.

“Unlike conventional jet fuels, SAF produced from renewable resources can significantly reduce greenhouse gas emissions, which remain one of the biggest challenges. By virtue of our collaboration, we will leverage the research and policy expertise

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of TERI and the technology solutions of PRAJ to negate such challenges and build a robust bioenergy ecosystem,” ISMA Director-General Deepak Ballani said in a statement.

ATF BLENDING

Aimed at building a bio-economy and low-carbon energy infrastructure in India, this collaboration will play an integral role in promoting knowledge sharing, policy advocacy, and capacity build-

ing, he said. The latest collaboration will create an enabling environment for SAF production and deployment, aligning with the government’s sustainability goals, ISMA said, adding it will further catalyse the country’s commitment to meeting the requirement of 1 per cent blending of SAF with Aviation Turbine Fuel by 2027 and 5 per cent by 2030 under the CORSIA mandates of the International Civil Aviation Organisation (ICAO). CORSIA’s second voluntary pilot phase is currently in progress (2024-26).

The aviation industry accounts for 3 per cent of global carbon emissions or nearly 1 billion tonnes every year. With the sector’s growing contribution to carbon footprint, the need for an alternative to traditional jet fuel becomes more pressing.

CAPITAL IDEAS.



RICHA MISHRA

A recent post on X by Awanish K Awasthi, Advisor to the Chief Minister of Uttar Pradesh, attracted attention. It read: “ONGC, recognised as India’s largest crude oil explorer, intends to construct a refinery and petrochemical complex in Prayagraj, Uttar Pradesh, with a significant financial commitment of ₹70,000 crore.”

The public sector oil giant’s intent to diversify is not new. Addressing shareholders at the 31st Annual General Meeting of the company on August 30, Arun Kumar Singh, Chairman and CEO of the company, said: “Petrochemicals demand in the country is expected to remain strong, and will continue to be a key driver of oil and gas demand in the future. The focus on petrochemicals is part of ONGC’s diversification strategy.”

“The company is planning to increase its presence in oil-to-chemicals that will convert crude oil directly into high value chemical products and adding value proposition in the changing energy landscape,” he went on to say.

The question is not ONGC’s intent to diversify into petrochemicals, but whether the country’s top most hydrocarbon explorer and producer should focus on downstream?

Whether the entities under ONGC Group which have expertise in downstream and petrochemicals should be the ones taking such an initiative?

Whether before making such announcements a proper due diligence should be done or not, after all ONGC is a listed entity.

A counter can be that recently Andhra Pradesh Chief Minister Chandrababu Naidu, following his meeting with Bharat Petroleum Corporation Ltd’s top management, had posted: “...We explored the establishment of an oil refinery and petrochemical complex in Andhra Pradesh with an investment of ₹60,000-70,000 crore. I have sought a detailed plan and feasibility report in 90 days. About 5,000 acres of land will be required for this project, which the government looks forward to facilitating in a hassle-free manner.”

Just as in the current situation where ONGC has not responded to the post, at that time BPCL also remained silent.

Also, whether a on-land project makes a viable proposition as it will also require creation of infrastructure to flow the feedstock — crude oil or natural gas, and if LNG is used, to create storage facility.

ONGC’s Energy Strategy 2040 talks about downstream petrochemicals too. It reads: “ONGC already has a significant presence in the market through OMPL, OPAL and HPCL’s

Let ONGC chart its own course

Political interests should not be allowed to govern the public sector giant’s business decisions



petchem investments. There is a potential opportunity for ONGC to expand capacity and target a play in the C2 and C3 chains across bulk and intermediate products.”

“Considering the scale benefits in both capex and opex, ONGC should evaluate an at-scale play (around 1 MMTPA). Several players are evaluating green field/brownfield capacity addition in attractive segments of the value chain... If it is unable to move quickly to claim the space, ONGC should wait for competitive moves to play out in the near to medium term before reassessing the investment case,” the strategy statement said.

Those tracking ONGC point out, as a standalone entity, ONGC’s focus should be on domestic and international oil and gas exploration and production business opportunities as well as provide value linkages in other

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Critics also question the location — Prayagraj. On the face of it, the decision looks more political than a proper business decision. Years back also an attempt was made to set up a refinery in and around Prayagraj (erstwhile Allahabad), but after doing the feasibility study the project was left in the back-burner.

NORMAL TRANSITION

Whatever may be the case, petrochemicals are the normal transition for energy majors today. But there are also entities supposed to undertake these activities.

ONGC’s first diversification to downstream happened when it acquired stakes in MRPL, the second was acquiring HPCL. Today, all entities under ONGC Group umbrella have a predefined task. While MRPL and HPCL are into refining and retailing, OPAL is into petrochem business and OTPC is into power. Recently, ONGC Green came into existence.

Spelling out the future outlook at the AGM, the Chairman and CEO had said: “We continue with our stable capex programme with emphasis on focused exploration, rejuvenation of mature western offshore fields and faster monetisation of eastern offshore deep-water fields...”

The vision statement on

downstream/midstream investments reads thus: “Globally, NOCs have invested in midstream and/or downstream opportunities internationally to gain or consolidate upstream access or as a part of larger value proposition for the country beyond oil and gas. For example, Chinese NOCs and government agencies in Africa have historically leveraged a comprehensive orchestrated value proposition (that extends beyond oil and gas into other areas) for priority upstream access.”

The pertinent point is that it states that “Investments to be driven by a strong business case: ONGC’s approach towards international downstream investments should be guided by a strong business case that targets.”

“Attractive returns in downstream/midstream target countries where there is capacity deficit (e.g. refining capacity deficit in some African markets) and in value-chain segments where ONGC’s ability to win is high (e.g. higher group capability in refining driven by domestic refining portfolio),” it said.

Clearly, if political interests are left aside, the PSU giant knows what it wants to do. As is the case with most public sector undertakings, decisions are taken depending on what political masters decide. The entities should be left alone to find their own course.