

'HPCL acquisition to shield against revenue shocks'

Shashi Shanker, who took over charge as Oil and Natural Gas Corporation (ONGC) as chairman and managing director from 1 October 2017, has an experience of over 30 years in diverse Exploration and Production (E&P) activities. He is credited with leading the ONGC drilling of the deepest deep-water well covering a water depth of 3174 metre, a world record. Shanker is also the director (in-charge) and member of the High Powered Steering Committee for Government's flagship initiative 'Make-in-India'. During a recent media interaction held in Mumbai, he spoke with **DNA Money** on a range of issues affecting the industry in general and ONGC in particular. Below are the excerpts.

■ **Would you consider Hindustan Petroleum Corporation Ltd (HPCL) 's acquisition as a huge burden on ONGC's finances, specially since its valuation seems to be pretty high?**

There is an impression this acquisition decision was thrust on us. That is not the case. It was announced by the finance minister in the Budget and then, they consulted us on what we want. We chose HPCL after considering all the pros and cons. We are confident that we will be completing the deal before March-end. Advisors are working on the amount that



There is an impression this acquisition decision was thrust on us. That is not the case. We chose HPCL after considering all the pros and cons. We are confident that we will be completing the deal before March-end

needs to be shelled out for the acquisition.

The real rationale behind the move is the fact there is fall in revenue in normal business set up when the crude prices go down for an upstream company, and the revenue rises with the crude

prices' increase. Inversely, the revenue for downstream companies falls when crude prices surge, while revenue climb when the crude prices drop. Therefore, to maintain a balance and insulate ONGC from the shocks of fall in revenue, the deal with HPCL is

important. We have around 15 million tonne capacity in Mangalore Refinery & Petrochemicals (MRPL), but we have no retail presence. However, HPCL has huge retail presence with over 14,400 outlets, but does not have enough refining capacity. So, there is perfect business sense in choosing HPCL.

■ **How is the work at Russia's Vankor shaping up considering the acquisition has significant strategic importance to India, both in terms of augmentation of India's energy security and enhancing the country's stature in the global political and economic arenas.**

As you know, Vankor is the second largest field by production in Russia - accounts for 4% of Russian production. It has started generating revenue resulting in addition of 124.61 million tonne of oil equivalent (Mmtoe) of proved and probable (2P) reserves. We expected production of 4.628 million metric tonne (MMT) of crude and 1.716 billion cubic metre (BCM) of gas in FY18.

■ **What is the latest update on Phase-III refinery expansion at Mangalore Refinery Petrochemicals Ltd (MRPL)?**

All units under Phase-III refinery expansion commissioned as MRPL is producing Euro IV grade of petrol and diesel and is equipped for commercial production of Euro V. MRPL declared divi-

Vankor has started generating revenue resulting in addition of 124.61 million tonne of oil equivalent of proved and probable reserves. We expected production of 4.628 million metric tonne crude and 1.716 billion cubic metre of gas in FY18

dend of 60% i.e., Rs 6 per share amounting to Rs 1,052 crore. To top it, the company achieved highest revenue of Rs 5256.6 crore with exports of Rs 3741.2 crore in FY17. MRPL is now focusing on expanding its domestic market presence by direct marketing of its products Petcoke, Sulphur and Polypropylene.

■ **The government apparently is not happy over the low yields from the ageing gas and oil fields and wants to give them to the private players in order to improve their efficiency. Any comments as to what kind of arrangement it will be and how much improvement in output is expected from it?**

We have not got any such proposal. We ourselves are taking so many modernisation projects in order to improve the efficiency of these fields.

ONGC wants higher gas price to produce KG, Kutch discoveries

NEW DELHI: State-owned Oil and Natural Gas Corp (ONGC) has sought more than doubling of natural gas prices to help bring significant discoveries in KG basin and Gulf of Kutch to production. Gas discoveries in shallow sea off Andhra Pradesh on the east, and off Gujarat on the west are economically unviable to produce at the current government-mandated price of \$2.89 per million British thermal unit, a senior company official said.

The company wants a price of over \$6 per mmBtu to help it produce the gas without suffering any losses. In the absence of a viable gas price, it will have to mothball the \$1.5-billion projects, he added. "We have made representation to the government that the current price is not enough to make the discoveries viable. We have sought special pricing dispensation," he said. **PTI**

ONGC wants higher gas price to produce KG, Kutch discoveries

NEW DELHI: State-owned Oil and Natural Gas Corp (ONGC) has sought more than doubling of natural gas prices to help bring significant discoveries in KG basin and Gulf of Kutch to production.

Gas discoveries in shallow sea off Andhra Pradesh on the east, and off Gujarat on the west are economically unviable to produce at the current government-mandated price of \$2.89 per million British thermal unit, a senior company official said.

The company wants a price of over \$6 per mmBtu to help it produce the gas without suffering any losses. In the absence of a viable gas price, it will have to mothball the \$1.5-billion projects, he added.

"We have made representation to the government that the current price is not enough to make the discoveries viable. We have sought special pricing dispensation," he said.

The BJP-led government in October 2014 had evolved a new pricing formula using rates prevalent in gas surplus nations like the US, Canada and Russia to determine rates in a net importing country.

While prices have halved to \$2.89 since the formula was implemented, the government has allowed a higher rate of \$



6.3 per mmBtu for gas fields in difficult areas like deepsea.

The official said the Krishna Godavari basin block KG-OWN-2004/1 is in shallow water and does not qualify as a 'difficult field'. On the western side, the block GK-28 in Gulf of Kutch is a nomination block which does not qualify for higher rates, he said.

While the KG block will produce a peak output of 5.35 million standard cubic meters per day, the same from Gulf of Kutch block will be around 3 mmscmd. It would take a minimum three years to bring the gas finds to production.

The combined output is about 14 per cent of the ONGC's current output of 60 mmscmd.

"If we don't get the right price, it will not be possible for us to develop the two projects. If we are forced to do

so, it would be like putting in huge amount of money without expecting the same to return," the official said.

He said the KG block discoveries are in water depth of just about 8-meters, developing which is costly since ultra-shallow rigs are scarce and therefore expensive.

ONGC also has a couple of smaller fields with a total expected peak production of 1.1 mmscmd, which cannot viably produce at the current domestic gas prices.

The official said the company was in the process of preparing field development plans for all these fields but will go slow if the prices are not viable.

For more than a year now, ONGC has been petitioning the Oil Ministry for setting a floor price of at least \$4.2 per mmBtu for domestically produced natural gas. PTI

Gas price: ONGC has sought more than doubling of natural gas prices to help bring significant discoveries in KG basin and Gulf of Kutch to production. Gas discoveries in shallow sea off Andhra Pradesh on the east, and off Gujarat on the west are economically unviable to produce at the current government-mandated price of \$2.89 per million British thermal unit, a senior company official said.

PTI

ONGC wants higher gas price for KG, Kutch

STATE-OWNED Oil and Natural Gas Corp (ONGC) has sought more than doubling of natural gas prices to help bring significant discoveries in KG basin and Gulf of Kutch to production, reports PTI. Gas discoveries in shallow sea off Andhra Pradesh on the east, and off Gujarat on the west are economically unviable to produce at the current government-mandated price of \$2.89 per million British thermal unit, a senior company official said. The company wants a price of over \$6 per mmBtu to help it produce the gas without suffering any losses. In the absence of a viable gas price, it will have to mothball the \$1.5-billion projects. "We have made representation to the government that the current price is not enough to make the discoveries viable," he said.

KG, Kutch discoveries: ONGC seeks doubling of gas prices

ONGC is preparing development plans for these fields but will go slow if prices not viable

PRESS TRUST OF INDIA
New Delhi, November 26

OIL AND NATURAL Gas Corp (ONGC) has sought more than doubling of natural gas prices to help bring significant discoveries in KG basin and Gulf of Kutch to production.

Gas discoveries in shallow sea off Andhra Pradesh on the east, and off Gujarat on the west are economically unviable to produce at the current government-mandated price of \$2.89 per million British thermal unit, a senior company official said.

The company wants a price of over \$6 per mmBtu to help it produce the gas without suffering any losses. In the absence of a viable gas price, it will have to mothball the \$1.5-billion projects, he added.

"We have made representation to the government that the current price is not enough to make the discoveries viable. We have sought special pricing dispensation," he said.

The government in October 2014 had evolved a new pricing



formula using rates prevalent in gas surplus nations such as the US, Canada and Russia to determine rates in a net importing country.

While prices have halved to \$2.89 since the formula was implemented, the government has allowed a higher rate of \$6.3 per mmBtu for gas fields in difficult areas like deep sea.

The official said the Krishna Godavari basin block KG-OWN-2004/1 is in shallow water and does not qualify as a 'difficult field'. On the western side, the block GK-28 in Gulf of Kutch is a nomination block which does not qualify for higher rates.

While the KG block will produce a peak output of 5.35 million standard cubic metre per day, the same from the Gulf of Kutch block will be around 3 mmscmd. It would take a mini-

mum three years to bring gas finds to production.

The combined output is about 14% of the ONGC's current output of 60 mmscmd.

"If we don't get the right price, it will not be possible for us to develop the two projects. If we are forced to do so, it would be like putting in huge amount of money without expecting the same to return," the official said.

He said the KG block discoveries are in water depth of just about 8 meters, developing which is costly since ultra-shallow rigs are scarce and therefore expensive.

ONGC also has a couple of smaller fields with total expected peak production of 1.1 mmscmd, which cannot viably produce at the current domestic gas prices.

The official said the company

was in the process of preparing field development plans for all these fields but will go slow if the prices are not viable.

For more than a year now, ONGC has been petitioning the oil ministry for setting a floor price of at least \$4.2 per mmBtu for domestically produced natural gas.

The new formula provides for revising rates every six months – on April 1 and October 1, based on one-year average gas price in the surplus nations with a lag of one quarter.

When the formula was implemented, rates went up from \$4.2 to \$5.05 per mmBtu, but fell to \$4.66 per mmBtu in April 2015 and to \$3.82 in October that year. In 2016, the prices further dipped to \$3.06 per mmBtu in April and to \$2.50 per mmBtu in October. In April this year, prices fell further to \$2.48 but have risen to \$2.89 from October 2017.

Oil minister Dharmendra Pradhan, in a written reply to a question in the Lok Sabha on March 20, had stated that the cost of production of natural gas in the prolific Krishna Godavari basin is between \$4.99 and \$7.30 per mmBtu.

The same for other basins is in the range of \$3.80 to \$6.59 per mmBtu, he had said, adding the production costs of companies vary from field to field depending upon the size of the reservoir, location, logistics and availability of surface facilities.

■ ONGC Seeks Higher Price to Produce Gas in KG, Kutch



NEW DELHI State-owned Oil and Natural Gas Corp (ONGC) has sought more than doubling of natural gas prices to help bring significant

discoveries in KG basin and Gulf of Kutch to production. Gas discoveries in shallow sea off Andhra Pradesh on the east, and off Gujarat on the west are economically unviable to produce at current price of \$2.89 per million British thermal unit, a senior company official said. ONGC wants a price of over \$6 per mmbtu to help it produce gas without suffering losses.

Oil & gas producers to gain as crude rises, refiners to be hit

AMRITHA PILLAY

Mumbai, 26 November

With the rise in global crude oil prices, analysts expect oil and gas producing entities to gain but refining ones to see tough times.

In sector jargon, these are respectively termed upstream and downstream companies.

Upstream entities hunt for, find and extract crude oil and natural gas. Examples are GAIL, Reliance Industries (RIL) and Oil & Natural Gas Corporation (ONGC).

The downstream ones refine and process crude oil or gas. Examples are the government's three oil marketing companies (OMCs) — Indian Oil Corporation (IOC), Bharat Petroleum Corporation (BPC) and Hindustan Petroleum Corporation (HPC). Some are in both; RIL, for instance, is also a refiner.

Prices for the Indian crude oil basket have moved up in four months to \$61.57 a barrel, from \$48.1, an increase of 28 per cent.

This, say analysts, will put the OMCs in a tough spot. Since the prices of petrol and diesel are decontrolled, the hike here will be passed on through an increase in product prices; for cooking gas, which is controlled, their finances will take a hit.

Of the three government OMCs, says an analyst with a brokerage who wishes to not be named: "HPC will be hit the most". According to an IIFL research report dated November 22, the company's share of earnings before interest, tax, depreciation and amortisation (inclusive of pipelines) from the marketing is the highest at 60-70 per cent; the other share of earnings is from the refining segment. The share of marketing for the other two are less than 60 per cent.

Inventory gains could offset a small portion of this

CASH-RICH

- Prices for the Indian crude oil basket have moved up in four months to \$61.57 a barrel, from \$48.1, an increase of 28%
- According to an analyst, of

the three-government OMCs, HPC will be hit the most

- ONGC and Oil India are expected to be the main beneficiaries

- GAIL is expected to see short-term gain

- Analysts expect elections in various states over the next year to influence the regulatory decisions



impact. "On the refining side, if the price remains firm, we should be ending with some inventory gain by the end of the quarter," said another analyst with a domestic brokerage.

Amongst the three OMCs, Indian Oil is expected to see better inventory gain. RIL is also expected to gain here; it will also gain from its presence in the petrochemical segment," said the analyst quoted earlier.

The gain, however, is immense for the upstream companies as crude prices rise. ONGC and Oil India are expected to be the main beneficiaries.

According to Fitch Ratings, the credit metrics of Indian

state-owned oil and gas companies could weaken due to large downstream capital expenditure and potential consolidation. "BPC, HPC and HPC-Mittal Energy are likely to see an increase in leverage

due to large debt-funded capex," the agency said last week.

It expects downstream entities' refining margins to remain solid overall this financial year, despite some compression from the FY17 levels due to slightly higher crude prices and tapering product spreads.

"We expect higher gross refining margins for RIL and BPC, as a result of their recently completed capex programmes."

GAIL, the natural gas processing and distribution com-

pany, is expected to see short-term gain. "Gas prices have not moved up quarter on quarter," the second analyst added. However, these gains might cease once gas prices are revised in March.

In the event of crude prices seeing an upward trend for a longer period, analysts say government regulations would be key. For instance, if the OMCs are not allowed to pass on the rise in crude oil prices to end-customers.

Analysts expect elections in various states over the next year to influence the regulatory decisions. "Private companies in the retail segment might be hit in the event of unfavourable regulations," says a third analyst with a brokerage.

Fitch Ratings says the credit metrics of PSU oil & gas firms could weaken due to large downstream capex and potential consolidation

ONGC seeks 2X price for KG gas

New Delhi: Oil and Natural Gas Corp (ONGC) has sought more than doubling of natural gas prices to help bring significant discoveries in KG basin and Gulf of Kutch to production.

Gas discoveries in shallow sea off Andhra Pradesh on the east, and off Gujarat on the west are economically unviable to produce at the current government-mandated price of \$2.89 per million British thermal unit, a senior company official said.

The company wants a price of over \$6 per mmBtu to help it produce the gas without suffering any losses. In the absence of a viable gas price, it will have to mothball the \$1.5-billion projects, he added. "We have sought spe-



cial pricing dispensation," he said.

The BJP-led government in October 2014 had evolved a new pricing formula using rates prevalent in gas surplus nations like the US, Canada and Russia to determine rates in a net importing country.

While prices have halved to \$2.89 since the formula was implemented, the government has allowed a higher rate of \$6.3 per mmBtu for gas fields in difficult areas like deepsea. The Krishna Godavari basin block KG-OWN-2004/1 is in shallow water and does not qualify as a 'difficult field'.

On the western side, the block GK-28 in Gulf of Kutch is a nomination block which does not qualify for higher rates, he said. While the KG block will produce a peak output of 5.35 million standard cubic meters per day, the same from Gulf of Kutch block will be around 3 mmscmd. It would take a minimum three years to bring the gas finds to production. —PTI

ओएनजीसी को चाहिए तेल व गैस के ज्यादा दाम

नई दिल्ली : सरकारी कंपनी ओएनजीसी चाहती है कि उसे केजी बेसिन और कच्छ की खाड़ी में खोजे गए क्षेत्रों से उत्पादित गैस के लिए ज्यादा कीमत मिले। कंपनी ने मौजूदा दाम के मुकाबले दोगुना मूल्य की मांग की है। सरकार के फॉर्मूले के अनुसार फिलहाल गैस की कीमत 2.89 डॉलर प्रति एमएमबीटीयू (गैस मापक यूनिट) निर्धारित है।

कच्चे तेल से चढ़ेंगी ओएनजीसी, गेल

वैश्विक कच्चे तेल की कीमतों में तेजी से गेल, ओएनजीसी और रिलायंस इंडस्ट्रीज जैसी तेल एवं गैस उत्पादक अपस्ट्रीम कंपनियों



को मदद मिलेगी, जबकि डाउनस्ट्रीम मार्केटिंग कंपनियों पर दबाव देखा जा सकता है। भारतीय कच्चे तेल की कीमतें नवंबर में बढ़कर 61.57 डॉलर प्रति बैरल पर पहुंच गई हैं जो पिछले चार महीने में लगभग 28 फीसदी की वृद्धि है। चार महीने पहले कीमतें 48.10 डॉलर के करीब थीं। विश्लेषकों का कहना है कि इस वृद्धि से तेल विपणन कंपनियों पर दबाव आएगा। हालांकि ये कंपनियां पेट्रोल और डीजल का बढ़ा बोझ ग्राहकों पर डाल सकती हैं मगर गैस के मामले में उनको झटका झेलना होगा।

आईओसी, बीपीसीएल और एचपीसीएल देश में तीन प्रमुख सार्वजनिक ओएमसी हैं।

कच्चा तेल चढ़ने से मजबूत होंगी गेल और ओएनजीसी

अमृता पिल्लई

विश्लेषकों का मानना है कि वैश्विक कच्चे तेल की कीमतों में तेजी से गेल, ओएनजीसी और रिलायंस इंडस्ट्रीज जैसी तेल एवं गैस उत्पादक अपस्ट्रीम कंपनियों को मदद मिलेगी जबकि डाउनस्ट्रीम मार्केटिंग कंपनियों पर दबाव देखा जा सकता है।

भारतीय कच्चे तेल की कीमतें नवंबर में बढ़कर 61.57 डॉलर प्रति बैरल पर पहुंच गई हैं जो पिछले चार महीने में लगभग 28 फीसदी की वृद्धि है। चार महीने पहले कीमतें 48.10 डॉलर के करीब थीं। विश्लेषकों का कहना है कि इस वृद्धि से तेल विपणन कंपनियों पर दबाव आएगा। हालांकि ये कंपनियां पेट्रोल और डीजल का बढ़ा बोझ ग्राहकों पर डाल सकती हैं मगर गैस के मामले में उनको झटका झेलना होगा।

इंडियन ऑयल कॉरपोरेशन (आईओसी), भारत पेट्रोलियम कॉरपोरेशन (बीपीसीएल) और हिंदुस्तान पेट्रोलियम कॉरपोरेशन (एचपीसीएल) देश में तीन प्रमुख सार्वजनिक ओएमसी हैं। एक घरेलू ब्रोकरेज फर्म के विश्लेषक ने कहा, 'एचपीसीएल पर ज्यादा असर होगा क्योंकि उसका विपणन पर ज्यादा जोर रहा है।' आईआईएफएल की एक शोध रिपोर्ट के अनुसार एचपीसीएल की विपणन से संबंधित एबिता भागीदारी सर्वाधिक है। हालांकि विश्लेषकों का मानना है कि पुराने भंडार से मिलने वाली बढ़त से कंपनी को कुछ हद तक भरपाई में मदद मिल सकती है। एक अन्य विश्लेषक ने बताया, 'उम्मीद है कि तिमाही के अंत तक भंडार में कुछ वृद्धि होगी। यदि कीमतें स्थिर रहती हैं तो इसमें कुछ और बढ़ोतरी हो सकती है।' इन तीनों कंपनियों में आईओसी को अपने भंडार से ज्यादा फायदा मिलने की आशा है।

विश्लेषकों का कहना है कि रिलायंस इंडस्ट्रीज जैसी निजी कंपनियों को भी इन्वेंट्री का लाभ मिलेगा। विश्लेषक ने कहा,



'आरआईएल को पेट्रोकेमिकल क्षेत्र में अपनी उपस्थिति का भी लाभ मिलेगा।' हालांकि कच्चे तेल की कीमतों में वृद्धि का ज्यादा फायदा अपस्ट्रीम कंपनियों को मिल सकता है। विश्लेषकों का मानना है कि ओएनजीसी और ऑयल इंडिया इसकी मुख्य लाभार्थी होंगी।

फिच रेटिंग्स के अनुसार डाउनस्ट्रीम में बड़े पूंजीगत खर्च और संभावित समेकन की वजह से सरकारी तेल और गैस कंपनियों का क्रेडिट हिसाब गड़बड़ा सकता है, लेकिन उनकी अपनी रेटिंग के संदर्भ में थोड़ी गुंजाइश अब भी है। फिच ने पिछले सप्ताह अपनी रिपोर्ट में कहा था कि भारत पेट्रोलियम कॉरपोरेशन, हिंदुस्तान पेट्रोलियम कॉरपोरेशन और एचपीसीएल-मितल एनर्जी लिमिटेड को भारी ऋण से पूंजीगत खर्च की वजह से ज्यादा फायदा हो सकता है।

संभावना जताई जा रही है कि डाउनस्ट्रीम कंपनियों का रिफाइनिंग मार्जिन कच्चे तेल की कीमतों में तेजी की वजह से वित्त वर्ष 2017 के स्तर से कुछ नीचे आने के बावजूद वित्त वर्ष 2018 के दौरान मजबूत बना रहेगा। फिच की रिपोर्ट में कहा गया है, 'आरआईएल और बीपीसीएल के लिए सकल रिफाइनिंग मार्जिन मजबूत रहने की संभावना है क्योंकि इन कंपनियों ने हाल में अपने पूंजीगत खर्च कार्यक्रमों को पूरा किया है।'।

प्राकृतिक गैस की प्रोसेसिंग एवं वितरण कंपनी गेल को भी गैस और कच्चे तेल की कीमतों में अनियमितता की वजह से अल्पावधि फायदा मिल सकता है। ब्रोकरेज फर्म के विश्लेषक ने कहा, 'गेल को इसलिए अच्छी बढ़त मिलेगी क्योंकि वह गैस-केंद्रित कंपनी है और गैस कीमतें तिमाही आधार पर नहीं चढ़ी हैं।' हालांकि ये फायदे उस वक्त खत्म हो सकते हैं जब अगले साल मार्च में गैस कीमतों में संशोधन होगा।

कच्चे तेल की कीमतों में दीर्घावधि में तेजी के रुझान को देखते हुए विश्लेषकों का मानना है कि इस संबंध में सरकारी बंदिशें अहम साबित होंगी। एक अन्य विश्लेषक ने कहा, 'यदि ओएमसी कच्चे तेल की कीमतों में तेजी का लाभ ग्राहकों को मुहैया कराने में समर्थ नहीं रहती हैं तो हम बंदिशों की वापसी देख सकते हैं।'।

विश्लेषकों का मानना है कि अगले एक साल के दौरान विभिन्न राज्यों में चुनाव के कारण सरकार के निर्णय प्रभावित होंगे। एक घरेलू ब्रोकरेज फर्म के विश्लेषक ने कहा, 'आपको यह देखना होगा कि चुनाव नजदीक होने पर सरकार ईंधन से जुड़े विभिन्न नियमों के साथ किस तरह कदम उठाती है। खुदरा क्षेत्र में परिचालन कर रही निजी कंपनियों प्रतिकूल नियमों की स्थिति में प्रभावित हो सकती हैं।'।

Saudi oil giant gears up for \$20 bn project

By **Reem Shamseddine**
in Dhahran, Saudi Arabia

STATE OIL giant Saudi Aramco and petrochemical producer Saudi Basic Industries Corp signed a memorandum of understanding on Sunday to build a \$20 billion complex converting crude oil to chemicals in the kingdom.

The project, which the partners said would be the largest crude-to-chemicals facility in the world, is a sign that the Saudi government plans to spend heavily on diversifying the economy beyond crude oil exports.

Private sector investment has slowed in the last few years because of low oil prices and government austerity policies, so Riyadh aims to invest billions of dollars on developing value-added manufacturing industries such as chemicals, as well as service industries like tourism.

Aramco Chief Executive Amin Nasser told reporters that a final decision on whether to go ahead with the crude-to-chemicals project would be made by the end of 2019. His company was tentatively looking at the Red Sea port city of Yanbu, already an industrial centre, as the location for the project, he added.

The complex would start operations in 2025, processing about 400,000 barrels per day of Arabian Light crude oil to produce about 9 million tonnes of chemicals and base oils annually, plus 200,000 bpd of diesel for domestic consumption.

Saudi Aramco, SABIC Plan \$20b Oil-to-Chemicals Complex

Reem Shamseddine

Dhahran: State oil giant Saudi Aramco and petrochemical producer Saudi Basic Industries signed a memorandum of understanding on Sunday to build a \$20 billion complex converting crude oil to chemicals in the kingdom. The project, which the partners said would be the largest crude-to-chemicals facility in the world, is a sign that the Saudi government plans to spend heavily on diversifying the economy beyond crude oil exports.

Private sector investment has slowed in the last few years because of low oil prices and government austerity policies, so Riyadh aims to invest billions of dollars on developing value-added manufacturing industries such as chemicals, as well as service industries like tourism.

Aramco chief executive Amin Nasser said a final decision on whether to go ahead with the crude-to-chemicals project would be made by the end of 2019. His company was tentatively looking at the Red Sea port city of Yanbu, already an industrial centre, as the location for the project, he added.

The complex would start operations in 2025, processing about 400,000 barrels per day of Arabian Light crude oil to produce about 9 million tonnes of chemicals and base oils annually, plus 200,000 bpd of diesel for domestic consumption. SABIC's chief executive Yousef al-Benyan said the project was the first time that Saudi Arabia's two biggest companies were cooperating on a joint industrial project using a new technology. Investment costs would be shared equally.

Aramco, the world's largest oil company, has been developing its downstream business as it prepares for the government to sell about 5% of its shares next year, a privatisation exercise which Riyadh says could raise around \$100 billion.— Reuters

Oil Options the Cheapest in 3 Yrs With Opec Meet Approaching

Bloomberg

Betting on price swings in oil costs the least in three years before next week's Opec meeting. Implied volatility of options on second-month West Texas Intermediate futures sank to 20.94% Friday, the lowest level since October 2014, according to data compiled by Bloomberg.



Implied volatility of options on 2nd-month WTI futures sank to 20.94% Friday

Volatility has been sinking as futures move steadily higher, with prices reaching \$59 a barrel for the first time in more than two years. This week's cheap options may prove a good deal, if the Opec/non-Opec meeting next week brings any surprises that send prices gyrating. Opec and Russia are said to have agreed on the framework of an extension of the oil supply cuts beyond March. But there still are details to be hammered out.

Draft NEP to Go for Cabinet Approval

The policy stresses on making energy prices market-driven, reducing subsidies

Yogima.Sharma
@timesgroup.com

New Delhi: A draft national energy policy proposing aligning energy prices with international rates will be put up for the approval of the Cabinet.

If approved, energy prices across sectors would become market-driven and subsidies would be limited to identified beneficiaries via direct benefit transfer, much on the lines of the LPG subsidy.

In June, government think

tank Niti Aayog released a draft National Energy Policy (NEP), on which it had been working since 2015. Prime Minister Narendra Modi had chaired inter-ministerial consultations on the policy after the coal ministry expressed reservations over market-driven prices that would pose a threat to the monopoly and margins of Coal India.

The policy will help India integrate with the global energy world without compromising on the energy needs of the poorest of the poor, who will continue to get subsidy on all forms of energy directly into their bank accounts through direct benefit transfer (DBT), a senior government official told ET.

"The outward-looking policy is against any kind of subsidies at the production and distribution levels as it distorts the system. Instead, it has strongly vouched



GETTY IMAGES

for DBT as the technological platform to transfer subsidies to the poor after the success of LPG," the official said, speaking on the condition of anonymity.

In its draft policy released in June, Niti Aayog said India's energy demand was likely to soar around three times by 2040, leading to increase in overall

primary energy imports.

It had also made a case for a single regulator to govern India's energy market to make 'India's economy energy-ready' by 2040. The NEP will replace the Integrated Energy Policy of the UPA regime and lay the road map for government push towards clean energy and reducing fuel import.

According to the draft NEP, the period 2017-2040 is expected to witness a quantum leap in the uptake of renewable energy, drastic reduction in energy intensity, doubling of per-capita energy consumption and tripling of per-capita electricity consumption. "It is expected that implementation of the NEP would cater to wider consumer choices and provide a level playing field, competitive economy and energy security to India by 2040," the draft policy had said.

Big Picture

OPEC is in the dark about shale

No one has a clear view of just how much shale oil will be hitting the market

ANGELINA RASCOUET/ANTHONY
DIPAOLA/GRANT SMITH

Organisation of Petroleum Exporting Countries (OPEC) will have to decide whether to extend global oil cuts without knowing whether they're triggering a new flood of rival supply from US shale producers.

Analysts gave differing outlooks for US shale output in a briefing to officials from the OPEC, stoking concern ahead of OPEC's planned meeting on November 30, according to people with knowledge of the discussions. The analysts included Andy Hall, the veteran crude trader who closed his hedge fund this year, said the people, who asked not to be identified because the briefing was private. The duration of any extension in output

limits will depend partly on estimates of future supplies of US shale and other competing crudes.

The OPEC and allied producers, including Russia, are to gather this week to assess oil markets and decide whether to extend cuts beyond March.

Several OPEC ministers, including Saudi Energy Minister Khalid Al-Falih, have expressed support for longer cuts, which took effect in January.

Some OPEC officials are uneasy that no one seems to have a clear view of just how much shale oil will be hitting the market, the people said.

Forecasts of 2018 growth in shale output range from 5,00,000 barrels a day to as much as 1.7 million barrels a day, complicating any fore-

casts, Hall said at the briefing, according to the people with knowledge of his comments. Hall, once known in the oil industry as 'God' for his lucrative trades, said the US Energy Information Administration (EIA) is underestimating this year's growth in shale oil by about 3,00,000 barrels a day, according to the people.

Wide range

Other participants in the

briefing included Per Magnus Nysveen, head of analysis at Rystad Energy AS; Amrita Sen, chief oil analyst at consultant Energy Aspects Ltd; and analysts from Citigroup Inc. and Morgan Stanley, according to the people with knowledge of the discussions on Wednesday in the Austrian capital.

Rystad's Nysveen said shale output will gain on average by about 1.2 million barrels a day each year through 2020, due



largely to producers' more efficient use of capital, according to the people. Rapid expansion in shale output will remain a US phenomenon, as other regions of the world lack such promising prospects, said Marianne Kah, the former chief economist for ConocoPhillips, according to the people.

Cuts by OPEC and other suppliers to clear a glut have helped lift oil from lows of less than \$30 a barrel last year. With West Texas Intermediate crude trading at more than \$55 a barrel, producers in the US are drilling more wells to boost production.

The US is set to pump about 9.2 million barrels a day on average this year, before raising output to a record 9.9 million in 2018, the EIA said in the short-term energy outlook. US crude production climbed to a record 9.66 million last week, the EIA said. BLOOMBERG



Paving the way

Cuts by OPEC and other suppliers to clear a glut have helped lift oil from lows of less than \$30 a barrel last year

Oil giants to build \$20-bn oil-to-chemicals complex

REEM SHAMSEDDINE

26 November

State oil giant Saudi Aramco and petrochemical producer Saudi Basic Industries signed a memorandum of understanding on Sunday to build a \$20-billion complex converting crude oil to chemicals in the kingdom.

The project, which the partners said would be the largest crude-to-chemicals facility in the world, is a sign that the Saudi government plans to spend heavily on diversifying the economy beyond crude oil exports.

Private sector investment has slowed in the last few years because of low oil prices and government



The new complex would create an estimated 30,000 jobs and would add 1.5 per cent to Saudi Arabia's GDP growth by 2030

austerity policies, so Riyadh aims to invest billions of dollars on developing value-added manufacturing

industries such as chemicals, as well as service industries like tourism. Aramco Chief Executive Amin

Nasser told reporters that a final decision on whether to go ahead with the crude-to-chemicals project would be made by the end of 2019.

His company was tentatively looking at the Red Sea port city of Yanbu, already an industrial centre, as the location for the project, he added.

The complex would start operations in 2025, processing about 400,000 barrels per day of Arabian Light crude oil to produce about 9 million tonnes of chemicals and base oils annually, plus 200,000 bpd of diesel for domestic consumption.

SABIC's chief executive Yousef al-Benyan said the project was the

first time that Saudi Arabia's two biggest companies were cooperating on a joint industrial project using a new technology.

Investment costs would be shared equally.

Aramco, the world's largest oil company, has been developing its downstream business as it prepares for the government to sell off about 5 per cent of its shares next year, a privatisation exercise which Riyadh says could raise around \$100 billion.

The new complex would create an estimated 30,000 jobs directly and indirectly and add 1.5 per cent to Saudi Arabia's gross domestic product by 2030, the companies said.

REUTERS

Seven Islands Shipping eyes oil super-tanker segment

Plans expansion with protectionist policies as anchor

P MANOJ

Mumbai, November 26

Seven Islands Shipping Ltd, founded by a former ship master, is betting on India's voracious appetite for oil and the lack of adequate local tonnage to carry such cargo for state-run firms despite a preference given to Indian ships, to sell shares in an initial public offering (IPO) to fund an expansion plan.

"Indian flagged ships are not carrying the entire crude oil imported into India," said Captain Thomas Wilfred Pinto, 58, the Chairman and Managing Director, adding that the firm has filed a draft prospectus with the market regulator SEBI in September.

Indian flag ships moved 13.9 per cent of the 202.9-million-tonnes (mt) of crude imported into India in FY-16, up from 11.5 per cent of the 189.44-mt in FY-15.

"India ships are running short. There is a lacuna in the

system. Lot of foreign ships are carrying our cargo. If we keep quite, more will come in. We want to fill the gap and we found that oil super tanker is the right segment," Pinto, who spent 20 years at sea and another four at Mercator Ltd, told *BusinessLine* in an interview.

India has only seven oil super tankers out of the 43 crude oil carriers.

Share sale

Seven Islands - focussed on the oil tanker segment - plans to raise as much as ₹450 crore through the share sale, the first for an Indian shipping company in 20 years. The share sale is expected to test investor interest in a sector battered by the prolonged global slowdown since 2008.

Nearer home, the industry is witnessing a shake-out with the collapse of Prathiba Shipping Co Ltd and the imminent bankruptcy of Varun Resources Ltd, India's biggest LPG fleet owner.

The share sale will be split into two - a fresh issue of shares worth ₹200 crore to fund the acquisition of a



Big potential India has only seven oil super-tankers among its 43 crude oil carriers. Indian flagged ships do not carry all the crude oil shipments imported into the country

second-hand, so-called very large crude carrier (VLCC) or oil super tanker. A 15-year-old VLCC will cost less than \$30 million in today's market.

The IPO will also include a ₹250-crore offer for sale by existing shareholders comprising ₹125 crore apiece by promoters and investors.

Promoters currently hold a 73.6 per cent stake in the company. The US-based private equity firm Wayzata III Indian Ocean Ltd invested ₹75 crore for a 19.3 per cent stake in the company in June 2015 at ₹610 per share. The planned IPO will

see the exit of the private equity firm, some two years earlier than the mutually agreed exit time-line for the investor.

Modest beginning

Seven Islands, the country's third biggest crude and product carrier by dead weight tonne (DWT) capacity, had a modest beginning in 2003.

Starting operations with a small ship of 7,000 tonnes, it has expanded to run a fleet of 12 ships comprising two small ships, seven medium range

vessels, two Suezmax tankers and one VLCC of 300,000 tonnes. Since inception, it has been a profit-making company. In FY-17, it earned ₹381.39 crore with an EBITDA of ₹205.91 crore and net profit of ₹106.977 crore.

The company has a debt of about ₹100 crore with a debt-equity ratio of less than 1.

In ship charter tenders issued by State-owned oil firms, an Indian ship has the so-called right of first refusal to

match the lowest rate quoted by a foreign-flag ship and take the contract, according to rules set by the Director General of Shipping, India's maritime regulator, to support Indian flagged ships.

Moreover, State-run oil firms transporting oil products for local use along the Indian coast have to give preference to Indian flagged ships, according to India's cabotage law.

"We intend to take advantage of the right of first refusal in crude oil and cabotage for oil products to acquire more vessels and increase our market share," Pinto added.

Centre plans mega port to cater to PSU oil majors' \$40-b petrochem complex

P MANOJ

Mumbai, November 26

The Centre has flagged off a techno-economic feasibility study to build a mega port to cater to the \$40 billion west coast refinery and petrochemicals complex being planned by three state-run oil firms. The proposed port will come up at Vijaydurg in Maharashtra's Sindhudurg district.

"We are exploring the feasibility of a refinery-based government port in Vijaydurg," I Jeyakumar, Chairman of Mormugao Port Trust told Business line.

"An in-principle decision has been taken by the government in this regard. Already, we have had advanced level discussions with the PSU oil refineries. We have mandated Tata Consulting Engineers Ltd to prepare a techno-economic feasibility report of the proposed port project to help us take a final decision," Jeyakumar added.

Joint venture

The proposed port will be developed through a joint venture between Mormugao Port Trust, Mumbai Port Trust and Maharashtra Maritime Board (MMB) - the state government agency tasked with developing ports in Maharashtra, he said.

Indian Oil Corporation Ltd (IOC), Hindustan Petroleum Corporation Ltd (HPCL) and Bharat Petroleum Corporation Ltd (BPCL) signed a joint venture in June this year to build one of the world's largest integrated refinery and petrochemicals complex with a capacity of 60 million tonnes a year. The refinery is expected to start operations in 2022.

"The proposed refinery is being developed by government oil PSUs. So, a government-run refinery with a government port will be more ideal. This port will have guaranteed cargo and require huge investments. Its logical to have a government port when a PSU refinery is coming so that we will cater not only to liquid cargo but all other cargo destined for Kolhapur

and southern Maharashtra region. The entire area will be developed under the Sagarmala's coastal economic region. That's the vision of the government," Jeyakumar added.

The refinery-based port puts a question mark on the viability of a private port in Vijaydurg that was awarded in March 2008 to a consortium led by Bangalore-based Jupiter Capital Pvt Ltd, the venture development, management and investment firm founded by businessman and Rajya Sabha law maker from the BJP, Rajeev Chandrasekhar.

Jupiter Capital was given the rights to develop and operate the 75-mt capacity port for 50 years through the memorandum of understanding (MoU) route - with any competitive bids.

After its original JV partner, Malaysia-based partner Pembinaan Redzai Sdn Bhd pulled out of the project, Jupiter Capital was permitted by the MMB to induct Privilege Hitech Pvt Ltd - a firm owned by Rakesh Kumar Wadhawan and his son Sarang, the promoters of Housing Development and Infrastructure Ltd (HDIL) - as a strategic investor with a 63% stake in the special purpose company - Vijaydurg Ports Pvt Ltd - formed to develop and operate the port.

Aside the change in the promoters, the planned port was hit by a ban on developing new ports in the Konkan region between August 2010 and December 2013, delaying the environment clearance process and the preparation of a detailed project report. The project has since received the terms of reference for environment approvals and the process is underway.

Atul Patne, CEO of MMB said that the Jupiter Capital-Privilege Hitech team has been granted a two-year extension to complete the pre-construction formalities. "They will submit environment clearance and go ahead with the project," he told BusinessLine.

तेल कीमतों को लेकर हम कितने चिंतित हों

भारतीय नीति निर्माताओं को तेल क्षेत्र पर चौकस नजर रखनी चाहिए लेकिन बहुत अधिक भयभीत होने की कोई वजह नहीं है। इस संबंध में विस्तार से बता रहे हैं **अभीक बरुआ**

भले ही क्रेडिट रेटिंग में सुधार हो रहा हो लेकिन अंतरराष्ट्रीय बाजारों ने हाल ही में हम पर जो नई गुगली फेंकी है वह चिंता के लिए पर्याप्त वजह देती है। कच्चे तेल की कीमतों में तेज बढ़ोतरी देखने को मिली है। देश में तेल की जरूरत का 80 फीसदी आयात करना होता है और साहसी से साहसी नीति निर्माता या अर्थशास्त्री भी यह मानेगा कि जून से तेल कीमतों में आई 40 फीसदी की समेकित वृद्धि हमारी अर्थव्यवस्था को अवश्य प्रभावित करेगी। अगर कच्चे तेल की कीमतों में प्रति बैरल 10 डॉलर तक की बढ़ोतरी होती है तो चालू खाते के मौजूदा स्तर में 4-45 आधार अंकों का इजाफा हो सकता है। मुद्रास्फीति 45 आधार अंक तक ऊपर जा सकती है। इसके अलावा भी असर पड़ सकता है। हमें तेल कीमतों में गिरावट का काफी लाभ मिला है। वर्ष 2014 से 2016 के बीच हमारी अर्थव्यवस्था को इसका काफी लाभ मिला है। अब हमें उस लाभ के सहारे आगे बढ़ना होगा।

ऐसे में यह देखना उपयोगी हो सकता है कि तेल के दामों में तेजी हमें कितना नुकसान पहुंचा सकती है? यह बात दो

बातों पर निर्भर करती है। पहला नुकसान का आकलन पहले ही किया जा चुका है और दूसरा अतिरिक्त नुकसान इस बात पर निर्भर करेगा कि तेल किस हद तक ऊपर जाता है? अब जरा दूसरे मुद्दे पर ध्यान केंद्रित करते हैं। अतिरिक्त नुकसान इस बात पर निर्भर करेगा कि यहां से कीमतें कितनी ऊपर जाकर स्थिर होंगी? क्या हम अगले एक साल तक 100 डॉलर प्रति बैरल की दर पर खरीद करेंगे या 65-70 डॉलर।

तेल के बाजार पर नजर रखने वाली मेरी सहयोगी तन्वी गर्ग कहती हैं कि 65 डॉलर प्रति बैरल की दर मध्यम अवधि की संभावना है। उनकी यह दलील भी है कि तेल बाजार की मांग और आपूर्ति का गणित कहता है कि कीमतें करीब 55 डॉलर के आसपास रह सकती हैं। ऐसे में माना जा सकता है कि अगले छह महीनों तक कच्चे तेल की औसत दर 60 डॉलर प्रति बैरल रहेगी।

तेल कीमतों की सीमा की बात करें तो जून के बाद से इनकी कीमत का रुख एकतरफा तेजी का रहा है। ऐसा इसलिए हुआ है क्योंकि तेल निर्यातक देशों के संगठन द्वारा निर्धारित कटौती की मात्रा का

अनुपालन बढ़ा है। उदाहरण के लिए जून में वास्तविक कटौती उस कटौती का 80 फीसदी रही जिस पर सहमति बनी थी। अक्टूबर में उत्पादकों ने मिलजुलकर अपनी प्रतिबद्धता से ज्यादा कटौती की। चूंकि ओपेक मूलतौर पर सऊदी अरब के नेतृत्व वाला पश्चिम एशियाई समूह है, ऐसे में इस क्षेत्र में बढ़ते तनाव का असर इस पर देखा जा सकता है। इसके सदस्य देशों की सरकारों पर यह दबाव होगा कि वे अपने नागरिकों को बेहतर स्थिति में रखें। इसमें रोजगार सृजन और बुनियादी विकास से लेकर सामाजिक योजनाओं तक तमाम मानक शामिल हैं। जब उनका राजकोषीय व्यय बढ़ेगा तो उनको भी अतिरिक्त आय की जरूरत होगी जो तेल से आएगी। इन देशों के लिए तेल राजस्व प्राप्ति का बड़ा जरिया है। ऐसे में कीमतों में बढ़ोतरी का अनुमान लगाया जा सकता है।

अच्छी खबर यह है कि राजकोषीय नफा-नुकसान से निरपेक्ष कीमत में पिछले कुछ समय में गिरावट आई है। यहां चकित करने वाली बात है कि यह निरपेक्ष स्तर सबसे ज्यादा सऊदी अरब के लिए घटा है। इससे पता चलता है कि सऊदी अरब की अर्थव्यवस्था ने अपने उत्पादों में तेजी

से विविधता उत्पन्न की है। यानी अब उसकी सरकार तेल पर उतनी निर्भर नहीं है जितनी पहले थी। कुछ विश्लेषकों का दावा है कि सऊदी अरब अपने बजट को तेल की 70 डॉलर प्रति बैरल से कम कीमत पर भी संभाल सकता है। वह ऐसा कह भी रहा है। यह मूल्य तात्कालिक जरूरत है क्योंकि वहां की कंपनी सऊदी अरामको को वर्ष 2018 में प्रस्तुत होने वाले आईपीओ में अच्छा मूल्यांकन चाहिए।

सवाल यह है कि तेल कीमतें कहाँ जाकर स्थिर होंगी? आम समझ कहती है कि कीमतें 65 डॉलर के आसपास रहेंगी। गैर ओपेक बड़े देश मसलन रूस आदि बड़े पैमाने पर आपूर्ति करना शुरू कर देंगे। ईरान की निरपेक्ष दर 55 डॉलर प्रति बैरल के आसपास है। ऐसे में सुन्नी देशों के साथ तनाव बढ़ना तय है।

बहरहाल, अमेरिका इस बाजार को प्रभावित कर सकता है क्योंकि कुछ मौजूदा विसंगतियाँ जैसे कि मौसम आदि भविष्य में अमेरिकी आपूर्ति के मार्ग में बाधा नहीं रहेंगी। अंतरराष्ट्रीय ऊर्जा एजेंसी (आईईए) का मानना है कि वर्ष 2018 में पारंपरिक अमेरिकी आपूर्ति और शेल गैस की आपूर्ति दोनों स्थिर रहेंगे। शेल गैस का उत्पादन बीते कुछ सालों के दौरान अनिश्चितता के घेरे में आ गया था लेकिन अब इसमें कोई समस्या नहीं है और आने वाले सालों में इसमें सुधार होगा। इससे जुड़ी तमाम आशंकाएं निर्मूल साबित हुई हैं। डलास फेडरल रिजर्व ने गत मार्च में

एक रोचक सर्वेक्षण किया जिसमें उसने मौजूदा शेल उत्पादकों तथा संभावित नए कारोबारियों से पूछा कि उनके लिए इस कारोबार में कौन सी दर नफा-नुकसान से निरपेक्ष रहेगी? मौजूदा कारोबारियों ने कहा कि डब्ल्यूटीआई कूड के लिए 38 डॉलर प्रति बैरल (ब्रेंट कूड के लिए 41 डॉलर) की दर और नए कारोबारियों ने कहा कि इसके लिए 55 डॉलर प्रति बैरल की दर उचित रहेगी।

इससे यही संकेत मिलता है कि तेल कीमतों में गिरावट आ सकती है। बहरहाल, मांग में भी इजाफा हो रहा है। चीन इसमें अहम भूमिका निभाएगा क्योंकि उसकी मांग बहुत ज्यादा है। माना जा रहा है कि भविष्य की मांग वृद्धि में आधी हिस्सेदारी चीन की रहेगी।

लब्बोलुआब यह कि हमारे लिए तेल कीमतें 55 से 65 डॉलर प्रति बैरल के बीच रह सकती हैं यानी औसतन 60 डॉलर प्रति बैरल। बाजार में तेजी के हिमायतियों को नवीकरणीय ऊर्जा बाजार पर नजर रखनी चाहिए। यहां कुछ बातें ध्यान देने लायक हैं। वर्ष 2016 में बिजली क्षमता बढ़ाने के लिए सोलर फोटोवोल्टिक तकनीक का प्रयोग इस हद तक हुआ कि वह ताप बिजली को पार कर गया। बीते पांच सालों में सौर ऊर्जा और पवन ऊर्जा की नीलामी कीमतें तेजी से कम हुई हैं। ऐसे में यह भी नहीं कहा जा सकता है कि नवीकरणीय ऊर्जा धीरे-धीरे अपनी हिस्सेदारी बढ़ाएगी।

(लेखक एचडीएफसी बैंक के मुख्य अर्थशास्त्री हैं। लेख में प्रस्तुत विचार उनके निजी हैं।)