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REPATRIATION FRAUGHT WITH COMPLICATIONS

Indian oil PSUs' dividends stuck in Russia balloon to around $900 mn

SUKALP SHARMA
NEW DELHI, SEPTEMBER 18

File

INDIA'S PUBLIC sector oil companies' stuck dividend income from their Russian investments has ballooned to around $900 million as the companies have been unable to work out a mechanism with the Russians to repatriate that money or use it in bilateral trade between the two countries, according to sources in the know.

Dividend payments received by ONGC Videsh (OVL), Oil India (OIL), Indian Oil Corporation (IOC), and Bharat Petroleum Corporation (BPCL) arm Bharat PetroResources (BPRL) from their participation in Russian upstream oil projects are stuck in their bank accounts in Moscow due to payment channel-related restrictions in the aftermath of Russia's February 2022 invasion of Ukraine. The dividend income is being credited into their bank accounts in roubles. The bank in Russia where the money is accumulating is understood to be the Commercial Indo Bank (CIBL), an affiliate of the State Bank of India (SBI).

The issue has been taken up time and again by the Indian companies with their Russian partners over the past couple of years. It has also featured in government-to-government discussions between New Delhi and Moscow, but a resolution is still awaited due to various complications arising from Western sanctions on Moscow and its energy sector.

OVL, the overseas investment arm of Oil and Natural Gas Corporation (ONGC), holds 20 per cent stake in the Sakhalin-1 project and 26 per cent in the Vankor project. The consortium of IOC, OIL, and BPRL has 23.9 per cent share in Vankor and 29.9 per cent in the Taas-Yuryakh project. Around $600-$650 million of the stranded dividends belong to the consortium of IOC, OIL, and BPRL. Around $250 million in dividends belonging to OVL are also stuck. With the money stuck in Russia, the only viable options would be to use it for payments there, increase investments in Russia, and fund operational and capital expenditure requirements of existing projects, according to executives with the Indian oil companies.

However, the dividend payments being received are after deduction of operational expenses and there is no plan at present to invest more capital into the ongoing projects, said an oil company official who did not wish to be identified. Also, the companies are currently not exploring investments in any new project in Russia, which leaves using the money for payments as the only feasible option.

The only exception to this could be OVL, which is required to pay around $600 million to Russia for its re-nomination as a shareholder in the Sakhalin project. The company wants to use its stuck dividend income to partly settle this payment, and is in talks with Russian authorities. Following the outbreak of the Russia-Ukraine war and the consequent exit of American oil major ExxonMobil from Russia, the Sakhalin project was nationalised by Moscow. The other shareholders in the project are now required to put in their share of the abandonment fund—used to finance the decommissioning and closure of an oil and gas asset—for regaining their stake in it. Theoretically, the money can be used to partly pay for India's crude oil purchases from Moscow. But according to a senior official with one of the consortium members, it is a proposition fraught with multiple challenges. Firstly, while IOC and BPCL do buy Russian oil, OIL does not. Secondly, the investments in Russian projects are through special purpose vehicles registered in overseas territories like Singapore.

This means that any payment dealing with Russian oil in this case would also come under jurisdiction of overseas territories, and not just Russia and India. It is worth noting here that there are various Western sanctions against Russia and its energy sector. Therefore, cross payments for Russian oil using this dividend income could end up becoming an extremely complex exercise from taxation and accounting standpoints. The companies have been seeking the opinion of legal and international accounting experts to work a way out.

From being a marginal supplier of crude to India before the war in Ukraine, Russia has emerged as New Delhi's biggest source of oil over the past year, overtaking heavyweights like Iraq and Saudi Arabia. Indian refiners started snapping up Russian crude, which was being offered at a discount by Moscow as the West began to shun Russian barrels.

Soon after the war in Ukraine broke out, a number of major Russian banks were banned from the Society for Worldwide Interbank Financial Telecommunication (SWIFT) financial transaction processing system, seriously constricting Moscow's ability to access the global payments system. Russia also restricted repatriation of US dollars out of the country in a bid to curb foreign exchange volatility.

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Lower oil gains capped for OMCs

Ashish Agrawal
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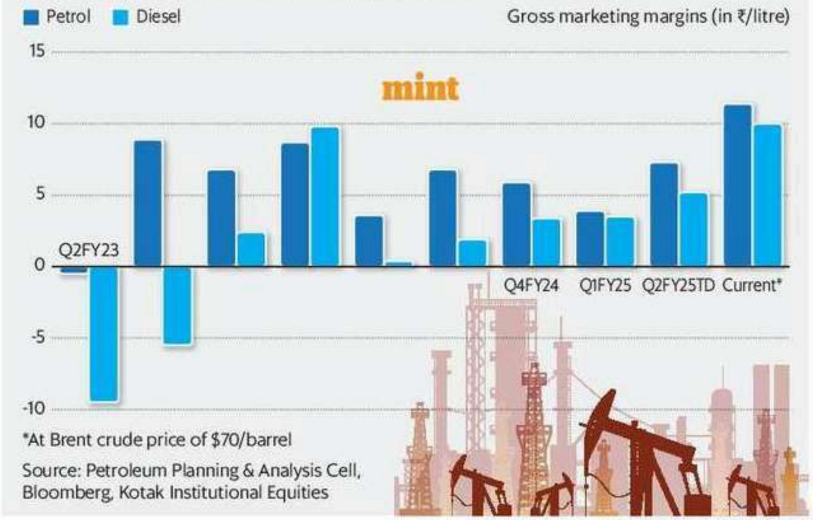
Potential gains

OMCs can benefit from the recent drop in crude oil price as gross marketing margins on diesel and petrol have risen sharply



*At Brent crude price of $70/barrel

Source: Petroleum Planning & Analysis Cell, Bloomberg, Kotak Institutional Equities

PRANAY BHARDWAJ/MINT

State-run oil marketing companies (OMCs) are on course to see a marked improvement in their profitability, thanks to the recent drop in crude oil prices amid stable product prices.

The average Brent crude price fell to $70 per barrel in September from over $80 in August. Yet, the companies face uncertainty due to a possible government cut in retail fuel prices, which would limit their gains.

But first, why are crude prices falling? Crude is down 20% from its peak of over $90 per barrel in April. Subdued demand outlook, especially from China, weighed on prices. Also the expectation that Organisation of the Petroleum Exporting Countries and partners (Opec+) will gradually reverse additional voluntary output cuts of 2.2 million barrels per day (mbpd) from December.

The International Energy Agency estimates the global crude oil market will reach a surplus of 1.8 mbpd in 2025 versus 0.1 mbpd in 2024 and a deficit of 0.2 mbpd in 2023. So, estimates for crude oil prices have been tapered. For instance, ICICI Securities Ltd expects FY25 crude to average below FY24's average of $83 per barrel. The brokerage cut FY25/FY26 Brent estimates to $80/ $85 per barrel versus $85/$87.

OMCs' integrated margin (refining plus marketing businesses) is expected to get a boost from strong marketing margins though softening crude has hit refining margins.

Gross marketing margins on petrol and diesel for the September quarter till date (Q2FY25-TD) are at ₹7.3 a litre and ₹5.2 a litre, up from ₹3.9 a litre and ₹3.5 a litre in Q1FY25, Kotak Institutional Equities' analysts said on 12 September.

"With petrol/diesel/LPG (about 80-85% of OMCs' sales) retail prices frozen, overall integrated margins rise at a lower oil price," the brokerage said. "Based on the current ~$70/barrel oil prices, the integrated margins are $29-30/barrel for petrol/diesel (versus the average of $15-20 per barrel) over FY2018-23."

Sure, a possible cut in retail prices is a threat. The adverse impact can be limited if the cut is near ₹2 per litre. Emkay Global Financial Services sees aggregate Ebitda for the three OMCs up over 50% in Q2FY25 over Q1 level, assuming Brent crude at $75 per barrel and ₹2 per litre fuel price cut.

Hindustan Petroleum Corp. Ltd's (HPCL) gains could increase in H2FY25 with the completion of its Vizag expansion project expected this month. ICICI Securities doesn't expect earnings-per-share to be much impacted if the retail price cut is a reasonable ₹2-3 per litre.

OMCs are making significant investments to reduce vulnerability to oil price fluctuations, especially in the downstream petrochemicals segment. Indian Oil Corp. Ltd (IOC) is investing ₹61,000 crore to build a pechem complex in Orissa. IOC expects its petchem capacity to rise to 14mtpa by FY30 from 4.3mtpa now, with petchem intensity up at 15% from 6.1%. Petchem intensity is the percentage of crude oil processed to produce petrochemicals.

Bharat Petroleum Corp. Ltd (BPCL) estimates the intensity will grow to 8% by FY29 with two new petchem projects in Bina and Kochi. Over the next five years, BPCL and HPCL plan total capex outlay of ₹1.7 trillion and ₹75,000 crore. To be sure, gains from these projects may take time to reflect in the performance of these companies.

CRUDE SLIDE

THE average Brent crude price fell to $70 per barrel in September from over $80 in August

OMCs are making significant investments to reduce vulnerability to oil price fluctuations

BUSINESS STANDARD, Delhi, 19.9.2024
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Non-BSVI diesel buses from NCR banned if AQI turns severe

In an effort to tackle severe pollution during the upcoming winter season, the Commission for Air Quality Management (CAQM) in NCR and adjoining areas has introduced a revised Graded Response Action Plan (GRAP). As part of these new guidelines, inter-state buses from NCR states, except those running on electric vehicles (EVs), CNG, or BSVI diesel engines, will be prohibited from entering Delhi if the city's Air Quality Index (AQI) reaches Stage III – 'Severe' (AQI between 401-450). **BS REPORTER**

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Why governments are loath to cut fuel prices

BY HOWINDIALIVES.COM

Global crude oil prices have fallen sharply in recent weeks. The price of the variant of crude that India imports is currently around $73 a barrel. The last time crude oil was this low was around November 2021, just a few months before Russia invaded Ukraine and triggered a surge in oil prices globally. While there is a growing clamour for retail prices of petrol and diesel to be cut, governments have been slow to respond, given the outsized support that oil provides to their revenues.

In the past five years, India has been more sensitive on the input side than the output side. Adjusted for exchange rates, the price of crude for Indian refiners is currently ₹39 a litre. Back in June 2022, it was ₹57. Thus, against a gain of ₹18 on the input side, the price of petrol has been cut by only ₹2 in the past two years. But with several state elections approaching, more cuts may be imminent.

Political considerations aside, the government has little incentive to cut fuel prices on purely economic grounds. Petroleum secretary Pankaj Jain said oil companies may cut prices if global crude prices stay low for an "extended period". A major consideration would have been inflation, which is heavily influenced, directly and indirectly, by fuel prices. Until as recently as June, consumer inflation was above 5%, driven by food prices. But the fuel price component has been negative since September 2023, reducing the incentive to cut prices.

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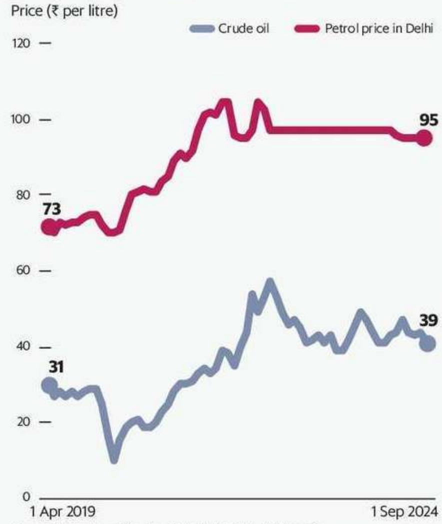
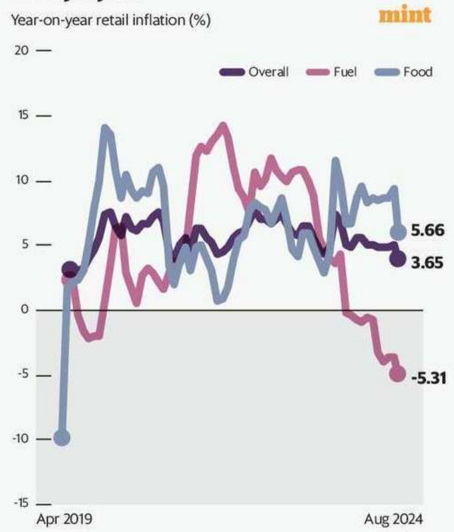
For the past five years, refining margins have stayed steady



Source: Petroleum Planning & Analysis Cell, ministry of petroleum and natural gas

Fuel inflation has been negative for nearly a year



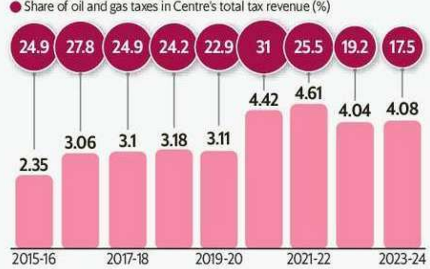
Source: Ministry of statistics and programme implementation

Tax Riches

ANOTHER ECONOMIC disincentive for the government to cut fuel prices is the importance of the petroleum industry to India's public finances. In 2023-24, the industry contributed over ₹4 trillion to the central government in the form of both direct and indirect taxes. That's around 18% of its total tax revenues for the year, though the importance of that contribution has fallen in recent years.

A cut in fuel prices could, depending on the magnitude, put a dent in central government coffers. Besides tax revenue, dividends from oil companies owned by the government contributed another ₹19,000 crore to it. State governments earned another ₹3.18 trillion in taxes, duties and royalties from oil companies. For states, taxes on fuel and liquor are among the few levers of revenue that remain fully within their control since the migration to a nationwide Goods and Services Tax regime in July 2017.

Oil still wields a big influence on the Centre's tax revenues



Data includes corporate taxes paid by oil and gas companies, but excludes dividend tax. Data for 2023-24 is provisional.

Source: Petroleum Planning & Analysis Cell, ministry of petroleum and natural gas; budget documents

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Indian refiners are topping margin benchmarks since 2020-21

Gross refining margin ($ per barrel)

Data for 2023-24 is provisional.

Source: Petroleum Planning & Analysis Cell, ministry of petroleum and natural gas

Protecting Margins

HEALTHY MARGINS give oil companies more room for price cuts. Gross refining margin (GRM) is the difference between the sale price of petroproducts (such as petrol and diesel) and the price of crude oil. While the GRM of government-owned oil companies remains well above the benchmark Singapore GRM, that difference is set to fall in 2024-25, according to credit rating firm CareEdge Ratings.

In recent years, India has imported larger volumes of Russian crude at lower rates than crude from other sources, helping refiners make outsized profits. However, the differential between Russian crude and Middle-East crude has narrowed, and is likely to reduce the GRM of Indian refiners. The CareEdge report expects GRM to fall to $6-8 a barrel in 2024-25. In 2023-24, Indian oil refiners reported a GRM of $8-14 a barrel. If GRM falls, expect oil companies to be even more cautious in cutting retail prices.

EV Threat?

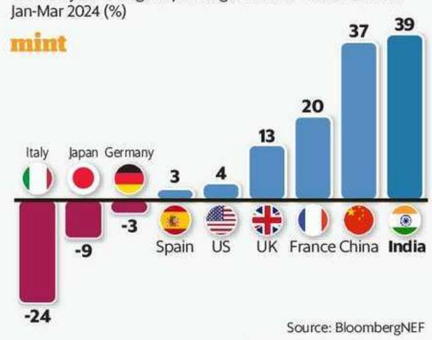
BEYOND SHORT-term movements in global oil prices and the fortunes of oil companies, a major long-term challenge to the fossil fuel industry is electric vehicles (EVs). According to BloombergNEF, EV sales in India grew 39% year-on-year in the first quarter of 2024. Brisk growth could reduce retail sales of petrol and diesel over time. Revenue from fuel taxes, so important to governments the world over, could be hit.

However, this is unlikely to happen anytime soon. EVs are still a small share of overall vehicle sales. While EV sales in countries such as India and China have been strong, sales in more developed countries have been subdued. Italy, Japan and Germany reported negative growth in the March quarter. Expect the Indian state, like other governments worldwide, to remain addicted to crude oil—and the revenue it brings.

www.howindialives.com is a database and search engine for public data.

EV sales in several developed markets hit a bump in Q1

Year-on-year change in passenger electric vehicle sales in Jan-Mar 2024 (%)



Source: BloombergNEF

Windfall tax cut on crude may not impact firms, govt

SUBHAYAN CHAKRABORTY
New Delhi, 18 September

The windfall tax on domestically produced crude oil being slashed to zero is not expected to have a significant impact on the government's revenue or the tax burden of upstream oil companies, analysts said on Wednesday. The move is in line with falling global crude prices, and subsequent shrinking of profit of domestic oil producers, they stressed.

On Tuesday, the Centre brought down the tax to nil, down from ₹1,850 per tonne and ₹2,100 per tonne in the two previous fortnights. Classified as the Special Additional Excise Duty (SAED), windfall tax is levied on domestically produced crude oil, and export of diesel, petrol, and jet fuel (ATF). The tax rates are reviewed every fortnight based on average oil prices in the previous two weeks. It had been slashed to nil once before, on April 4, 2023.

"The impact of the windfall tax on oil companies was limited recently, since oil prices have been around $70-72 per barrel. In the latest fortnightly period, the windfall tax on domestically produced crude had been ₹1,850 per tonne, which translated to ₹$3 per barrel," Prashant Vasisht, senior vice president and co-group head, corporate ratings, at ICRA Limited told *Business Standard*.

"Since the imposition of the tax, the realisations of upstream companies has been in the range of $70-75/barrel. So, removing the tax is not expected to impact the oil companies much," he added.

Windfall taxes are designed to tax the profits a company derives from an external, sometimes unprecedented, event — for instance, the energy price-rise as a result of the Russia-Ukraine conflict. But falling global prices of crude have punctured the justification for the tax.

Debasish Mishra, chief growth officer, Deloitte South Asia, said upstream oil companies may not be earning supernormal profit recently, thereby removing the justification for a windfall tax. "International crude prices have corrected to around $70 per barrel with a downward bias due to the demand scenario. Given the geology — the cost of producing crude remains high in India — domestic oil producers may not have been earning much windfall profit," Mishra said.

No revenue impact

The move is also not expected to have significant revenue implications for the exchequer, Mishra added. "The government's revenue realization from windfall tax has not been as significant as its realizations from the excise duty on sales of petrol and diesel," he pointed out.

Analysts believe the latest cut in the tax is along expected lines. "Back when the windfall tax was first imposed in August, 2022, the government had said it would revisit the imposition of windfall tax in case global crude prices fall to about $70 per barrel.

RASHTRIYA SAHARA, Delhi, 19.9.2024
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ऊर्जा मांग में 25% योगदान देगा भारत

ह्यूस्टन (भाषा)।

भारत के ऊर्जा मंत्री हरदीप पुरी ने विश्व की ऊर्जा जरूरतों पर विचार-विमर्श के लिए आयोजित बहुराष्ट्रीय सम्मेलन में कहा कि अगले दो दशकों में भारत वैश्विक ऊर्जा मांग में 25 प्रतिशत का योगदान देगा। यहां जॉर्ज आर. ब्राउन कन्वेंशन सेंटर में 52वीं गैसटेक एग्जीबिशन एंड कॉन्फ्रेंस भारत सहित विश्व के पांच प्रमुख ऊर्जा मंत्रियों की रणनीतिक अंतर्दृष्टि के साथ शुरू हुई।

'दृष्टिकोण, नवाचार और कार्रवाई के जरिए ऊर्जा में बदलाव' विषय पर आयोजित इस कार्यक्रम में वैश्विक ऊर्जा स्थिरता तथा तेजी से कार्बन मुक्त बनने की आवश्यकता पर गौर किया गया। अपने मुख्य भाषण में केंद्रीय पेट्रोलियम एवं प्राकृतिक गैस मंत्री हरदीप सिंह पुरी ने वैश्विक ऊर्जा परिदृश्य में भारत की बढ़ती प्रभावशाली भूमिका पर जोर दिया। उन्होंने कहा, 'यदि वैश्विक मांग एक प्रतिशत बढ रही है, तो हमारी मांग तीन गुना तेजी से बढ रही है। अगले दो दशकों में भारत ऊर्जा मांग में वैश्विक वृद्धि में 25 प्रतिशत का योगदान देगा।' पुरी ने कहा, 'हमें हरित बदलाव को प्रबंधित करने और इसमें सफलता प्राप्त करने की अपनी क्षमता पर पूरा भरोसा है।' सम्मेलन की पहली मंत्रिस्तरीय समिति में अमेरिका, भारत, मिस्र, नाइजीरिया और तुर्किये के अधिकारी शामिल रहे। इन्होंने महत्वपूर्ण भू-राजनीतिक और उद्योग चुनौतियों पर विचार-विमर्श किया।

इस बीच, भारत और अमेरिका ने न्यायसंगत तथा व्यवस्थित ऊर्जा बदलाव के लिए ऊर्जा मूल्य श्रृंखला में द्विपक्षीय सहयोग को और मजबूत करने के तरीकों का पता लगाने पर सहमति व्यक्त की है। केंद्रीय मंत्री हरदीप सिंह पुरी ने ऊर्जा संसाधन के लिए सहायक विदेश मंत्री ज्योफ्री प्याट से यहां मुलाकात की।