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With the Union Budget likely to be presented in July, there are a plethora of expectations and suggestions being made to the government.

But one common suggestion is asking the government to spend more on capex. This is significant because normally investment is in the purview of the corporate sector (which includes PSUs). This opens the discussion on whether the corporate sector is passing the buck and not doing its bit.

In FY24, the national gross fixed capital formation expenditure was ₹91-lakh crore which is around 31 per cent of the GDP. Assuming the FY25 GDP is around ₹328-lakh crore and the investment ratio remains unchanged, the amount of capital formation would be around ₹102-lakh crore.

The Interim Budget had targeted a capex of ₹11.11-lakh crore for the year, which would be 11 per cent of total capital formation. There are two questions here — how much can 11 per cent of the total drive overall investment and second, how much more does India Inc want the government to do.

Data on the Centre's capex is quite illuminating. The government increased total capex from ₹3.36-lakh crore in FY20, just before Covid struck, to ₹11.11-lakh crore for FY25. This is a multiple of 3.3 times.

So there has been considerable advancement made here. But this was made possible also by the increase in government borrowings from ₹9.33-lakh crore in FY20 to ₹15.55-lakh crore in FY25. This was the result of the fiscal deficit ratio also moving up sharply from 4.6 per cent of GDP in FY20 to 9.2 per cent in FY21 and then gradually rolled back to 5.1 per cent in FY25.

This was the time the government had to spend in a big way on both welfare schemes (NREGS, PM-Kisan, housing, free food etc.) as well as capex to keep the economy moving at a time when the private sector was not in a position to do so.

FISCAL PRESSURES

Quite clearly this accelerated pace of growth in capex cannot be sustained forever. While the government can increase its outlay, the pressure of maintaining the fiscal deficit at acceptable levels (4.5 per cent by FY26 and probably 3 per cent in the subsequent three years) would place some limits on the same.

The government would have to balance the two objectives of maintaining social welfare outlays till such time that there is more employment created (which will be in



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Capex: India Inc has to do its part

INVESTMENT THRUST. Government has been doing much of the heavy lifting on investment in recent times. It's time the private sector stepped up

the private space as this is where jobs are created with capex).

Further it should be noted that capex has been concentrated mainly in roads, railways and defence. Executing large projects can also run into capacity issues given that India has a federal set up and land acquisition is a challenge even for national highways projects.

Logically the onus of investment has to be on the corporate sector. Interestingly NSO data on contributors to gross fixed capital formation shows that the corporate sector has a dominant share of 44 per cent followed by the household sector with 42 per cent for FY23. For the household sector, dwellings accounted for 70 per cent of total capital. Here it must be pointed out that a major boost to housing has been provided by the government in the Budget, through the PM Awas Yojana, not through capex.

Due to fiscal constraints the Centre cannot sustain the current levels of capex. Given the strong growth prospects, the corporate must step up to the plate

Hence there has been progressive indirect contribution to capital formation by the government through the household sector.

Data on growth in gross fixed capital formation throws light on the relative pace of growth across sectors. For the system as a whole CAGR was 11.5 per cent for the period FY18-FY23. In case of both the PSUs and private players growth was lower than this average while it was higher for the government and household sectors.

Therefore, the corporate sector needs to take charge here and not always look for the government to provide acceleration. For the corporate sector, investment decisions crucially hinge on return on investment, so business considerations override all other factors.

In case of the government this is not the case, as money spent is based on necessity and while there is now a clear direction on monetising assets that have been created, profitability is not the chief concern.

CAPACITY UTILISATION

Currently, the corporate sector's average capacity utilisation was 76.5 per cent as of March, as per the RBI. This number is impressive as normally a ratio of 78-80 per cent triggers fresh investment.

However, based on the companies' investor presentations, it can be seen that industries which are linked to infrastructure have witnessed steady growth in investment, which include steel, cement, chemicals, and machinery.

There also seems to be an absence of demand revival in the last two years due to lower rural incomes and high inflation, which has eroded purchasing power. So FMCG and durable goods companies are unlikely to invest till economic conditions improve.

The conclusions that can be drawn are that while the government does play the role of engine to drive infra industries' growth by providing the initial push, there is need for the corporate sector to accelerate their plans.

Prospects for GDP growth in the next five years are bright and it can be said with reasonable confidence that it would average around 8 per cent. Hence, there is reason to invest across sectors.

The clue is employment generation which generates income and consuming power. But it is the private sector, especially manufacturing that has to invest as well as create jobs to lead to a virtuous self-fulfilling cycle.

The writer is Chief Economist, Bank of Baroda. Views expressed are personal



Fertiliser subsidy outgo to decrease

SANGEETHA G
CHENNAI, JUNE 19

Decline in raw material prices and natural gas price is likely to bring down the subsidy requirement for the fertiliser sector. However, rupee depreciation can add to the subsidy burden.

For nutrient-based fertilisers, the average prices for input raw material such as phosphoric acid,

rock phosphate and sulphur had started to decline from 4QFY23. While phosphoric acid prices declined to \$968 per tonne against FY24 average price of \$974 per tonne, rock phosphate prices fell from \$213/tonne to \$203/t and sulphur prices came down from \$335/tonne to \$150/t.

For the nutrient based subsidy scheme, Ind-Ra expects the announced

● **THE AVERAGE** prices for input raw material such as phosphoric acid, rock phosphate and sulphur had started to decline from 4QFY23.

levels in the budget to remain sufficient for FY25, given the decline in key input prices coupled with stability in natural

gas prices, finds India Ratings.

Ind-Ra expects the average pooled gas price to remain moderate at \$10-13/MMBtu in FY25 against \$17/MMBtu in FY24. A moderation in the Henry hub prices and of corresponding linked imported LNG, relative stabilisation in average prices of crude oil and cooling off of the spot LNG prices would be supportive.



INDIA RANKS 63RD ON WEF'S ENERGY TRANSITION INDEX

INDIA HAS BEEN ranked 63rd on a global Energy Transition Index released on Wednesday by the World Economic Forum, which said the country has shown significant improvement across energy equity, security and sustainability. European nations dominated the top ranks with Sweden topping the index, followed by Denmark, Finland, Switzerland and France in the top five. China was ranked 20th.

INDIAN REFINING SEGMENT IN PARLOUS STATE



Govt-run refiners may not be able to aggressively invest in clean energy projects as they stare at a rough road amid dwindling margins, volatile crude prices, shrinking discounts on Russian oil buys, and an inability to set prices for the fuels they sell

5 DINAKAR
New Delhi, 19 June

India's oil ministry made a show of record profitability of state oil marketing companies last fiscal — a performance that had more to do with geopolitics and some luck with global crude oil prices than with management or the government — but the noise generated failed to bury a poor fourth quarter and uncertain prospects moving forward. Moreover, such profits would not have been possible if state oil companies had stopped making supernormal margins on selling fuels, and had passed on lower costs from crude sourcing to Indian motorists, industry officials said.

Now, the road ahead looks unpaved. State-run refiners led by Indian Oil are staring at a rough year amid dwindling refining and marketing margins, volatile crude prices, shrinking discounts on Russian oil purchases, and, more important, an inability to set prices for the fuels they sell.

A projected downside in performance raises concerns over the capability of these companies to aggressively invest in clean energy projects that require billions of dollars, and the level of support they will require from the exchequer towards capex and operational needs — barring a one-time grant of ₹22,000 crore to refiners in FY23 for losses that they incurred from selling LPG, the Narendra Modi government has refrained from subsidising refiners directly in the last few

years. Also, after setting aside ₹30,000 crore to fund energy transition initiatives of state oil companies, the government spent nothing, and cut the allocation by half after carrying forward disbursement to this financial year.

What will a coalition government's role be amid lower margins, shrinking discounts, and growing clean energy spends in a volatile global environment remains to be seen.

Gross refining margins, a measure of a company's profitability while processing crude to fuels, will dip sharply this fiscal from a year earlier in line with benchmark Singapore GRMs, which plunged to a fourth of August 2023 levels, according to industry reports. Marketing margins, generated by selling

petrol and diesel at the pump, are also facing headwinds. Put together, they will impact cash flows and profitability, industry officials said.

"While FY23 and FY24 were exceptional years for Indian refiners, FY25 is expected to witness some normalcy with moderation in refining and marketing margins as a result of contracting discounts and lower product cracks," said Hardik Shah, director at CareEdge Ratings. The rating agency expects a refining margin of \$6-\$8/bbl in FY25, with full utilisation of refining capacities, around half of last year's levels.

"In the long term, given adequate capacity expansions in China and India, and weak demand prospects, we expect GRMs to remain weak," said Swarnendu Bhushan, co-head, insti-

tutional equities, Prabhudas Lilladher. The Mumbai-based brokerage built in a GRM of \$6/bbl for FY25/26E, a third of what refiners earned in FY23.

The performance of oil marketing companies in the January-March 2024 quarter may set the tone for the year ahead. Combined profits of ₹12,987 crore fell by around 40 per cent or by over ₹8,300 crore in the January-March quarter. The shrinkage in profits was because of lower product cracks, shrinking Russian discounts, and lack of pricing power over petrol and diesel.

GRMs of Indian refiners in FY24 dropped to an average of \$10-\$12/bbl from a record average of \$16-\$18/bbl a

year earlier. For instance, Indian Oil reported a GRM of \$8.4/bbl in the January-March period, lower than an estimate of \$12.3/bbl, contributing to a decline of 49 per cent in consolidated net profit during the quarter at ₹5,488 crore from a year earlier, Prabhudas

Lilladher said.

Supernormal marketing margins have supported record annual profits at refiners despite lower GRMs. The operating profit of oil players jumped multi-fold last fiscal due to higher marketing margin, CareEdge's Shah said. Indian Oil, BPCL and HPCL posted combined profits over 25 times higher than the previous fiscal, the oil ministry had said.

Strong marketing margins were led by a decline in the price of the Indian crude basket to \$82.6/bbl last fiscal from \$93.2/bbl a year earlier coupled with discounts on Russian oil in January-June 2023 averaging as high as \$15/bbl, according to the oil ministry and industry data. At the same time the retail price of petrol and diesel was unchanged since April 2022.

But profits from selling fuels at the pump are declining. Margins in May 2023 on petrol and diesel were as high as ₹13 and ₹12/litre, respectively, Prashant Vasishth, senior vice president and co-group head, corporate ratings, at ICRA said in an email. That slumped to ₹2 and a negative ₹0.03/litre this April after New Delhi cut pump prices by ₹2/litre prior to the general elections. In normal times, marketing margins are typically around ₹2.50-₹3/litre, refining officials said.

Prospects of lower profits from

both refining and marketing leave state oil companies with less to invest, especially when capital expenditures are set to soar, led by the twin planks of fuels and clean energy. Strained finances leave them even more dependent on New Delhi to part-fund their clean energy projects, with refiners seeking a PLI equivalent scheme to build new facilities, industry officials said.

Indian Oil, Bharat Petroleum and Hindustan Petroleum have announced around ₹3.5 trillion investments in energy transition projects but execution is slow. Oil marketing companies are capable of financing their refining investments but as far as clean energy is concerned, it will take a much longer time to pan out, Bhushan said. But state ownership eases the process of securing funds, he added.

All three refiners have planned a combined capital expenditure of ₹55,000 crore in refining and petrochemicals for FY25, according to budget documents. Bharat Petroleum announced ₹1.7 trillion of investments in five years on refining, chemicals and clean projects, averaging around ₹35,000 crore annually, but in the 2024-25 budget, the refiner's annual capex is just ₹11,000 crore. Surprisingly, the budget makes no mention of a capex for clean energy projects for any refiner.

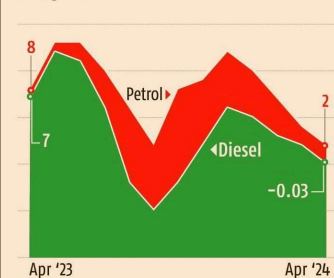
Product cracks have eased while oil prices are expected to be higher this fiscal by \$5-\$7/bbl from current levels, forecasts show. State interference in setting fuel prices looks set to continue in a coalition government, shrinking the headroom for refiners to diversify into energy transition while speeding up spending, leaving the state to step up its support.

GRMs of Indian refiners in FY24 dropped to an average of \$10-\$12/bbl from a record average of \$16-\$18/bbl a year earlier

ROUGH RIDE

Marketing margin trend

(loss)/gain (Rs/Litre)



Singapore GRM trend

(\$/bbl)



Source: ICRA

Pump price disparity fuels demand for bringing petrol, diesel under GST

N. Ravi Kumar
HYDERABAD

Petrol and diesel turned dearer in Karnataka last week, but not enough to stop vehicles bound for neighbouring Telangana and Tamil Nadu tanking up in the State.

Triggering a ₹3-3.5 per litre increase was Karnataka's decision to increase sales tax on the fuels, a move aimed at mopping up additional revenue.

Even after the higher levy, the difference in per litre price of diesel works out to a little over ₹6.50 and almost ₹5.50 compared with prices in Telan-



gana and T.N. respectively.

Petrol prices in Tamil Nadu are competitive, while the incentive for vehicles bound for Telangana to purchase in Karnataka is nearly ₹4.50 per litre, according to fuel prices published by oil companies.

Apart from benefiting the State levying compara-

tively lower tax, the pattern also translates into leakage of revenue for neighbouring States levying higher rates. It is not limited to retail sales as sources in the petroleum trade in Telangana say bulk diesel supplies to consumers, across the State borders, is not uncommon.

Petroleum dealers are for bringing petrol and diesel under Goods and Service Tax (GST) resulting in pricing that will uniform, barring a small variation on account of transportation costs, across the country, Consortium of Indian Petroleum Dealers leader K. Suresh Kumar said.



Supplying 20 trucks to Delhivery, Volvo Trucks sets off on LNG journey

G Balachandar

Chennai

Volvo Trucks India has taken a significant step in its LNG (liquefied natural gas) journey by delivering its first set of 20 LNG-powered heavy-duty trucks to Delhivery, a third-party logistics service provider.

These LNG-powered trucks will operate alongside Delhivery's existing fleet of Volvo diesel-powered trucks. As India continues to promote a gas-based economy, Volvo Trucks has conducted trials in India with LNG and decided to introduce its LNG trucks for select applications. Volvo's

LNG trucks are equipped with the company's patented HPDI (high-powered direct injection) technology. Unlike spark ignition engines, HPDI uses compression ignition or diesel cycle, resulting in a 15-20 per cent improvement in fuel economy over other LNG trucks. Additionally, HPDI technology produces lower emissions compared to spark-ignited LNG trucks while maintaining the same torque and efficiency as diesel engines, according to B Dinakar, Executive Vice President of Volvo Trucks, VE Commercial Vehicles Ltd.

Dinakar also noted that Volvo Trucks is actively working on building an ecosystem



B Dinakar, Executive Vice President of Volvo Trucks

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for LNG transportation while promoting its LNG vehicles. The company is collaborating with various stakeholders, including regulatory authorities, to ensure the availability of LNG filling stations along routes used by LNG trucks.

Volvo Trucks is in discus-

sions with Indian Oil Corporation, Mahanagar Gas in Mumbai, and several other companies, including city gas distribution firms. "Collaboration is the way forward in this space, and Volvo Trucks will continue to work towards building the ecosystem," Dinakar added.

GROWTH MARKETS

LNG is measured in kilograms, with one kilogram of LNG providing the same energy as 1.4 liters of diesel. Although LNG prices increased during the recent crisis, LNG is currently about 10 per cent cheaper than diesel. Compared to fossil fuels, LNG reduces CO2 emissions by 20

percent. Volvo's LNG trucks are also BioLNG compatible, which can potentially reduce CO2 emissions by 100 per cent.

"We view India as one of our key growth markets," said Hanna Ljungqvist, Head of Market India & Indonesia, Volvo Trucks.

"With the rapid development of roads and expressways, the value of Volvo trucks in terms of safety, durability, and speed presents a significant growth opportunity across various segments."

Globally, Volvo Trucks has sold over 7,500 LNG trucks, with Europe accounting for more than one-third of its LNG volumes.

ऊर्जा बदलाव सूचकांक में भारत 63वें स्थान पर, स्वीडन सबसे आगे : डब्ल्यू.ई.एफ.

नई दिल्ली, 19 जून (एजेंसी): विश्व आर्थिक मंच (डब्ल्यू.ई.एफ.) द्वारा बुधवार को जारी वैश्विक ऊर्जा बदलाव सूचकांक में भारत दुनिया में 63वें स्थान पर है। डब्ल्यू.ई.एफ. ने कहा है कि भारत ने ऊर्जा समानता, सुरक्षा और स्थिरता के मामले में उल्लेखनीय सुधार दर्ज किया है।

इस सूचकांक में यूरोपीय देशों का दबदबा है। स्वीडन सूचकांक में शीर्ष पर है। इसके बाद डेनमार्क, फिनलैंड, स्विटजरलैंड और फ्रांस शीर्ष 5 देशों में शामिल हैं। चीन का स्थान 20वां है।

डब्ल्यू.ई.एफ. ने कहा कि भारत और कुछ अन्य विकासशील देशों मसलन चीन तथा ब्राजील द्वारा दिखाया गया सुधार महत्वपूर्ण है, क्योंकि 83 प्रतिशत देश तीन ऊर्जा प्रणाली प्रदर्शन आयाम - सुरक्षा, समानता और स्थिरता - में से कम-



से-कम एक में पिछले साल की तुलना में पिछड़ गए हैं।

भारत द्वारा उठाए गए विभिन्न कदमों का उल्लेख करते हुए डब्ल्यू.ई.एफ. ने कहा कि देश ऐसे नतीजे देने में अग्रणी रहा है जिन्हें अन्य स्थानों पर दोहराया जा सकता है। इसमें कहा गया है कि सरकारें जागरूकता पैदा करने और नीतिगत हस्तक्षेप पर भी विचार कर सकती हैं।

इसमें ऊर्जा-दक्ष निर्मित बुनियादी ढांचेकेलिएदिशानिर्देश औररेट्रोफिटिंग के लिए प्रोत्साहन शामिल है।