

# India's wait for LNG from Mozambique gets longer

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India's wait for liquified natural gas (LNG) supplies from the marquee \$20 billion Mozambique project has lengthened, with any progress expected only after a new government is formed in the East African country after its presidential elections on 9 October, two people aware of the development said.

Rovuma Offshore Area 1 project, once tipped as the panacea for India's growing clean fuel needs, has been a disappointment so far. The long-delayed project in which an ONGC Videsh Ltd (OVL)-led Indian consortium has a 30% stake has been beset with difficulties, with the suspension of operations following attacks by Islamic State terrorists in April 2021, after which force majeure was declared.

At stake is around \$8 billion investment made by OVL, Bha-



OVL-led Indian consortium owns 30% in the project.

rat Petroleum Corp. Ltd's Bharat PetroResources Ltd (BPRL) and Oil India Ltd (OIL), including around \$5.185 billion for buying stakes in the largest gas discovery in offshore East Africa. While OVL and OIL jointly bought 10% stake from Videocon Mauritius Energy Ltd for \$2.47 billion, OVL bought US-based Anadarko Petroleum Corp.'s 10% stake for \$2.64 billion. Also, BPRL bought 10% stake from Anadarko Petroleum for \$75 mil-

lion. Apart from this, additional investments were made to develop the project.

"Apart from what was paid at the time of acquisition of the stakes by Indian state-run firms, there have also been cash calls that have been met, thereby upping the overall investment in the gas project. There are concerns around the project," said one of the two people cited above, requesting anonymity.

OVL, BPRL and OIL hold 16%, 10% and 4% stake respectively in the project, operated by France's TotalEnergies with a 26.5% stake. The other partners are Japan's Mitsui & Co. (20%), Mozambique's state-run Empresa Nacional de Hidrocarbonetos or ENH (15%) and Thailand's PTTE Exploration and Production Plc. or PTTEP (8.5%). With the production from Rovuma basin originally slated to start in 2018, India was to get its first LNG consignment from

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# India's long wait for Mozambique LNG gets longer

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Mozambique by 2019.

"TotalEnergies is the operator for Rovuma Area-1 Offshore Mozambique (Area-1) block, where force majeure is in place. Once the force majeure is lifted, the production can start immediately. This is no problem with the asset quality per se. This asset has seen the biggest gas discovery in the recent past," said an Indian government official, requesting anonymity.

The importance of the Mozambique project in India's energy security stratagem can be gauged from the fact that external affairs minister S. Jaishankar visited the African country in April last year, becoming the first Indian foreign minister to visit it since 2010. This was followed by a visit of India's petroleum and natural gas minister Hardeep Singh Puri in October last year, when he met Mozambique's minister of mineral resources and energy Carlos Zacarias.

A Mitsui & Co spokesperson in an emailed response said, "We are not in the position to answer to your inquiries. Please ask TotalEnergies, the operator or Indian companies."

TotalEnergies has also flagged the impending Presidential elections in Mozambique and its importance for the LNG project, as articulated by its chairman and CEO Patrick Pouyanné in a July investor call.

A TotalEnergies spokesperson in an emailed response said, "The project is still under force majeure," and added, "But for more details, please refer to our CEO last call with investors end of July: On Mozambique, I can tell you that everything has been settled with the contractors. So we are clear: we know where we are. In fact, it was more a matter, to be honest, of the cost of the frozen period, which was to be



TotalEnergies is the operator for Rovuma Area-1 Offshore Mozambique block.

absorbed and discussed, because between 2020 to 2024, we have frozen some works. We have some equipment which was kept in different locations. All that has been discussed, all that is settled with them. And so, we are on the way to move forward. As soon as we can update you, we will do it. But the progress has been done in many directions, including on security."

"Now, we try to regroup all the financers around the project. As you know as well, there are some presidential elections in Mozambique coming soon. And so of course, for us, it's important to have the confirmation that the new President will follow the same policy regarding these large projects. That's where we are. So say, by end of the year, we should clarify how we should be able to move forward."

An OVL spokesperson declined comment. Queries emailed to the spokespersons of BPCL, OIL, ENH, PTTEP, Mozambique High Commission in New Delhi, and India's ministries of petroleum and natural gas; and external affairs on Tuesday late night remained unanswered till press time.

*For an extended version of this story, go to [livemint.com](https://www.livemint.com).*

**A force majeure is currently in place at the project and once that is lifted, production can start immediately from the block**





THE COMPASS

# Any correction in OMCs could be a buying opportunity

DEVANGSHU DATTA

Trends in the global energy markets are crucial if India's growth outlook is to remain healthy. Prices for the Indian crude basket were averaging around \$86.2 per barrel through Q1FY25 and then moderated to \$84 in July and to \$78-79 in August (so far).

But global crude supply may outpace weak global demand in the short term. Lower crude prices are in general, good for India and these help the Oil Marketing Companies (OMCs) in particular. Oil producers have profits capped at around \$75-80 a barrel by the windfall tax. This is the sweet spot for Oil India and ONGC. However, the oil market could turn into a

significant surplus supply in CY25.

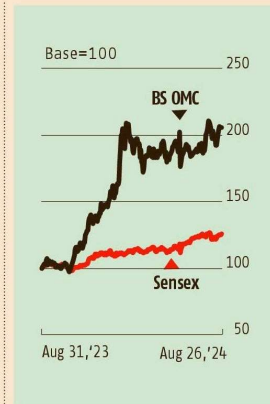
The gross refining margins (GRMs) and gross marketing margins for OMCs are critical. OPEC-plus supply cuts will expire in Q3FY25 when the oil-exporting group takes a call on future action. Indian refiners would continue to report a premium to the GRM benchmark due to a higher share of the higher-crack product, diesel.

India's oil demand remains strong with a 7.2 per cent Y-o-Y increase in total petroleum product consumption in Q1FY25. Diesel and petrol gross marketing margins (as of August 20) were at ₹7.4 and ₹10.6 per litre, respectively, and Q2FY25 average is running at ₹4.2 and ₹7.6 a litre.

The average for Q1FY25 stood at ₹3.7 per litre and ₹5.4 a litre. The fall in the crude price has been supportive of OMC margins. If the trend of lower crude prices and good GRMs is maintained, there are upsides for the OMCs.

According to CMIE, the discount on Russian crude to India was at \$1.7 per barrel in June 2024 versus \$1.4 per barrel in May '24 (far lower than the discount of \$6-10 per barrel in H1CY23). Further, Russia's share of India's crude imports improved month on month to 42 per cent in June 2024 as compared to 37 per cent in May 2024.

But LPG under-recovery continues at ₹2,500 crore per month. Current LPG under-



recoveries are at ₹160 per cylinder and the industry is hoping for policy action to cover the accumulated losses. OMC valuations look reasonable and investors will factor for a dividend yield of ₹3-4. The decline in crude oil prices could result in refining/marketing inventory losses for OMCs, but these are less significant.

More importantly, a drop in GRMs will hurt the OMCs and analysts will watch for signs of GRM normalisation.

The OMCs' risk-reward equation for investors may still be hard to judge, or even unfavourable, despite the above developments in their favour. The current valuations imply

sustainable GRM will stay higher than the historical average, which is an assumption that may be at risk. Also, it's assumed that gross marketing margins will stay above the historical average of ₹3.5 per litre. Hence, valuations are also trading at a 10-40 per cent premium to the historical price to book. Moreover, the OMCs have big capex plans, which means that the new projects must create long-term value for shareholders, and deliver an acceptable internal rate of return.

LPG under-recovery dragged down performance in Q1. Earnings took a big hit with LPG under-recoveries of ₹4,120 crore for IOC, ₹2,350 crore for HPCL and ₹2,000 crore for BPCL. IOC did manage

strong marketing margins (₹4.8/litre) and a turnaround in the petrochemical division. However, HPCL missed estimates due to a lower-than-expected marketing margin of ₹3 per litre. BPCL's operating profit was in line, with the implied marketing margin well above estimate at ₹4.8 per litre. For all OMCs, the reported GRM was in line with or above estimates.

There could be share price corrections if the misses by OMCs impact market sentiment. If share prices do correct, investors may receive an entry opportunity. Apart from reported Q1FY25 results, investors must track gross marketing margins trends, GRM trends and booked inventory gains or losses.



# Natural gas imports rise 7% in Apr-Jul on high demand

ARUNIMA BHARADWAJ  
New Delhi, August 26

**INDIA'S IMPORT BILL** for natural gas rose by 7% to \$4.6 billion during the first four months of the current fiscal, compared with \$4.3 billion in the same period a year ago. The increase was due to a rise in consumption, particularly by the city gas distribution (CGD) companies and the power sector, data from the Petroleum Planning and Analysis Cell showed.

The import bill for July stood at \$1.1 billion, registering an increase of 22% from the same period last fiscal. The country imported 11,423 million standard cubic metre of LNG (liquefied natural gas) during April to July, up by 13% from the corresponding period of FY24, the data showed. The growth was also supported by stabilised prices of natural gas from the earlier highs recorded in FY23, enabling consumers to buy more imported gas, as per analysts.

During the period, the country's consumption of natural gas rose by almost 9% to 23,364 mmscm, with major demand coming in from the CGD, fertiliser, and the power sector.

The power sector consumed 4,031 mmscm of natural gas in the first four months of FY25, up significantly by 31% from 3,071 mmscm in April-July of FY24 after the government mandated gas-based thermal plants to run at full capacity in order to meet the rising power demand.

Natural gas producing companies use some quantity of gas for their own use as internal consumption, while some quantity of gas is flared as

## TAKING STOCK

Imports of natural gas

(\$ billion)



in mmscm



Gas import dependency (%)



Source: PPAC

a part of technical requirement. After flare, loss and internal consumption by gas producing companies, the net production for sale of gas to consuming sectors like power, fertiliser, CGD, refinery, and petrochemicals among others was approximately 83.2% of the gross production during July 2024, PPAC said.

In 2022, the sudden outbreak of war between Russia and Ukraine had led to a sharp increase in prices of natural gas in FY23, as a result of which gas lost its cost-competitiveness to the alternate fuels. Accordingly, natural gas consumption declined in FY23. However, with range-bound prices, analysts expect the consumption to grow in the medium term.

"With imported LNG prices expected to remain range-bound (at \$10-\$12/mmbtu), growth in domestic natural gas production and size-

able demand from key user industries, natural gas consumption is slated to grow significantly in the medium term," CareEdge Ratings had earlier said in a report.

As the imports continue to grow, the country's production of natural gas also saw a marginal increase of 4%. However, the production growth has remained below the set targets. State-owned ONGC produced 6,271 mmscm of natural gas in the period, 4% lower than the same period of last fiscal and much lower than the target of 6,548 mmscm for the period, according to PPAC data. Oil India, however, saw an increase of 6% in gas production from last year at 1,052 mmscm, but failed to reach the target of 1,272 mmscm gas production.

As a result, the country's dependence on imported gas rose to 48.9% from 46.9% in April-July of FY24.





**DRIVEN BY POWER SECTOR DEMAND**

# Gas demand uptick bumps up India's LNG imports in April-July

**SUKALP SHARMA**  
NEW DELHI, AUGUST 26

GROWTH IN domestic demand for natural gas amid reasonable prices and ample availability of liquefied natural gas (LNG), or super-chilled gas, in the international market led to a double-digit growth in India's LNG imports in the first four months of the current financial year (FY25). Notably, the uptick in imports came amid a growth in domestic gas production as well.

The consumption growth was primarily driven by the power sector, given that the government's thrust on raising power production to meet high summer demand led to higher-than-usual electricity generation by gas-based units. The country's LNG imports rose 13.1 per cent year-on-year in April-July to 11,423 million standard cubic metres (mscm), while natural gas consumption was higher by 8.6 per cent at 23,364 mscm, per latest provisional data available with the Petroleum Planning and Analysis Cell (PPAC) of the oil ministry. Net domestic natural gas production for the four-month period was 11,941 mscm, up 4.6 per cent year-on-year.

The rise in LNG imports



## RISING RELIANCE ON IMPORTED GAS

	Apr-Jul FY24	Apr-Jul FY25	Change YoY (%)
Net domestic gas output*	11,416	11,941	4.6
LNG imports*	10,103	11,423	13.1
Total consumption*	21,519	23,364	8.6
Import dependency	46.9%	48.9%	—

\*Volumes in mscm; Source: PPAC, Ministry of Petroleum and Natural Gas

pushed up India's reliance on imported gas to 48.9 per cent in April-July from 46.9 per cent on the year-ago period. For the full FY24, India's natural gas import dependency was 47.1 per cent, the PPAC data shows.

For the April-June quarter (Q1)—the peak summer quarter in most parts of India—power generation by gas-based plants jumped 62.5 per cent year-on-year to 13.49 billion units (1 unit is 1 kilowatt hour), per data from the Central Electricity Authority (CEA). The overall plant load factor (PLF)—capacity utilisation of power gener-

ation units—for gas-based plants in Q1 was almost 25 per cent, up from 15.3 per cent in the year-ago quarter. PLF for gas-based power plants in June this year was 25.8 per cent, up from 17 per cent in June 2023. For April-July, the PLF for gas-based power plants was 22.2 per cent, against 15 per cent a year ago. Power generation from these units in April-July jumped to 16.17 billion units from 10.54 billion units in the corresponding four months of last year.

According to ship tracking data from commodity markets analytics firm Kpler, India's LNG imports

touched a near four-year high in June as gas-based power plants operated at notably higher run rates than their usually subdued capacity utilisation levels amid a surge in electricity demand due to the severe heatwave. With the monsoon covering most parts of the country in July, the power demand has evidently softened from the supernormal levels during the peak summer months.

To be sure, gas-based power plants use domestic natural gas as well as imported LNG as feedstock. As domestic natural gas production is able to meet just around half of India's total gas consumption, the cheaper local gas is allocated as per a priority list in which city gas distribution and fertiliser sectors have a higher priority than the power sector. As imported LNG is usually costlier than domestic gas, gas-based power plants have been operating at very low capacity use levels mainly due to unfavourable economics.

In anticipation of a severe summer, the Power Ministry had invoked the Section 11 of the Electricity Act, 2003, on April 12, issuing a set of instructions to the power generation companies to ensure that electricity demand is met. As part of the instructions, idling gas-based power plants were asked to operate from May

till the end of June. At almost 25 gigawatts, India's gas-based power generation capacity accounts for 5.6 per cent of the country's overall installed generation capacity, per Power Ministry data. In May, S&P Global Commodity Insights had said that with subdued prices of LNG in the spot market and growing demand for the fuel in India, there was a ramp-up in India's spot LNG purchases.

The government has been pushing for higher consumption of natural gas in India, with an aim to increase the share of the fuel in the country's primary energy mix to 15 per cent by 2030 from over 6 per cent at present. The push for higher natural gas consumption, even if it leads to higher imports, is not without reason. Natural gas is far less polluting than conventional hydrocarbons like crude oil and coal, and is usually cheaper than oil, for which India depends on imports to meet over 85 per cent of its requirement.

As the country moves towards green energy and future fuels, natural gas is seen as a key transition fuel in that journey. Various sectors, including the likes of city gas distribution, fertiliser, power generation, and refineries and petrochemicals, are seen as major growth areas for natural gas demand in India.