

Russian oil gush

India's crude oil imports from Russia reportedly hit a fresh high of 1.6 million barrels per day in February, higher than our combined oil imports from Iraq and Saudi Arabia, two of the country's other top suppliers. This has taken Russia's market share in India's total oil imports to 35%. This figure was a paltry under-2% before the shake-up caused by Russia's invasion of Ukraine early last year. A price cap imposed recently by the West on Russian oil was needless interference, but it hasn't gotten in the way of shipments sought by Indian oil refiners and supplied by Moscow. Like other US-led economic sanctions intended to punish Russia, that restriction has had less impact than Washington might have expected. The Russian economy shrank only a bit more than 2% in 2022, so Vladimir Putin being pushed out of power for putting his country's people in misery is more of a Western fantasy than strategy. The US-led West must also realize that New Delhi has its own interests to guard, and acquiring discount oil is a sign of this and not any geopolitical comfort with an anti-West bloc. As with arms procurement, it's pragmatism that motivates such Indian deal-making.



WTI traded below \$79 a barrel after gaining more than 4% last week. Oil has held a \$10 range since the start of the year. **BLOOMBERG**

Oil slips on China growth lag, Fed rate hike worries

Bloomberg

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Oil declined as China's modest new growth ambitions and the prospect of tighter US monetary policy posed headwinds for global fuel consumption.

West Texas Intermediate (WTI) traded below \$79 a barrel after gaining more than 4% last week. China's premier Li Keqiang announced a goal for gross domestic product of around 5% at the annual National People's Congress on Sunday, lower than economists had expected. The nation, the world's largest oil importer, ended its restrictive Covid Zero policy late last year.

"The GDP forecasts from China were a rather low target

and may be a potential reason for oil's weakness today," said Giovanni Staunovo, an analyst at UBS Group AG in Zurich. "But we expect China will come in a bit above target. If Chinese imports rise and Russian production falls, prices should move higher from here."

Oil has held within a tight \$10 range since the start of the year, whipsawed by optimism over China's recovery and expectations of further interest rate hikes from the US Federal Reserve. Saudi Arabia has signalled confidence in the near-term outlook, raising most of its prices for crude shipments to Asia and Europe for April.

Investors will be watching speeches from Fed chair Jerome Powell and jobs data this week for clues on the path for monetary tightening.

"Crude remains in a tug-of-war between optimism over Chinese reopening and nervousness over a hawkish Fed hurting the US economy," said Vandana Hari, founder of oil market analysis provider Vanda Insights.

Traders have started factoring in rate hikes, but are hoping for smaller increases than last year.

Reuters contributed to this story.

Mahanagar Gas looks to spread wings with Unison Enviro deal

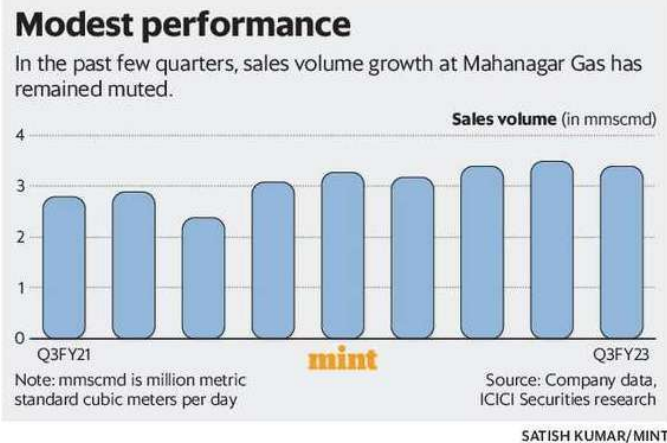
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Mahanagar Gas Ltd's (MGL) shares closed nearly 9% up on Monday on the NSE, also hitting a new 52-week high during trading hours. Investors are visibly excited about the city gas distribution (CGD) company acquiring 100% stake in Unison Enviro Pvt. Ltd (UEPL). The deal will help MGL expand to territories outside Mumbai, a dominant area of operations. This aids MGL's long-term volume growth outlook.

"MGL's volume growth has been weaker (versus Indra-

prastha Gas/Gujarat Gas) and UEPL acquisition provides MGL an opportunity to expand its operations beyond Mumbai and should help address growth concerns," said analysts at Kotak Institutional Equities. According to them, the acquisition price of ₹531 crore may appear steep at 5.9x FY22 EV/sales. "But we note CGDs are typically long-gestation projects, and sales/profitability typically improves with scale," they said.

UEPL is engaged in the supply of natural gas to domestic, commercial, and industrial sectors. The deal is MGL's first inorganic acquisition in the CGD sector. The company said the



purchase will enable it to expand to newer markets in Maharashtra (Ratnagiri, Latur and Osmanabad) and Karnataka (Chitradurga and Davanagere).

"While these areas do seem primarily rural, we believe the large populations and some

industrial/commercial potential in each of these districts can support reasonable volumes of 0.2-0.25mmscmd in 3-4 years. This implies aggregate about 1mmscmd additional volumes by FY28E for MGL," said ICICI Securities analysts.

In the December quarter, MGL's sales volume stood at 3.4mmscmd. The company's volume growth has been muted in the past few quarters due to high gas prices. To be sure, it could be a long wait before the gains of the acquisition reflect in volumes. This is because MGL would have to invest in infrastructure and ramp up execution. Note that while UEPL has

clocked strong revenue growth over FY20-FY22, it reported a loss of ₹24.9 crore in FY22.

Hence, until volume growth uptick is visible, scope for meaningful upsides in MGL stock appear capped. Nitin Tiwari, executive vice president, Yes Securities, said, "As of now, MGL is trading at discount to peers Indraprastha Gas and Gujarat Gas. A visibility on sustained volume growth is essential for rerating and this acquisition can perhaps help narrow the discount." MGL's share trade at 9.5 times estimated earnings for FY24, as per Bloomberg data. Indraprastha and Gujarat Gas share trade at 17.4 times and 25.7 times, respectively.

BS-VI norms, chip crunch may hit PV sales in March

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NEW DELHI: Festive demand in March may not help boost car sales much as dealers grapple with patchy supplies of vehicles compliant with the new BS-VI phase-II norms, continuing chip crunch and the Holi festival falling in the middle of a working week.

Navratri in March-April is traditionally the second busiest period for automotive sales after the main festive season of October-November. However, this time, passenger vehicle sales are likely to grow at a more tepid pace, dealers said.

"Production of PVs was regularly in the ballpark of 320,000-340,000 units per month. But in January and February, production had dropped to 325,000 units in January and only about 300,000 in February. So, while production has gone up, year-on-year, we can see that the numbers have dropped sequentially as OEMs are approaching production cautiously in the wake of the new regulatory norms. This is affecting product availability," said Vinkesh Gulati, director of United Group.

While supply chain challenges have compounded due to the scarcity of electronic parts, demand for newly-launched vehicles and SUVs continues to grow at a moderate pace, even as pressure on the entry-level car segments remain.



Sales of two-wheelers advanced 15%, while those of three-wheelers jumped 81% and passenger vehicles 11%, as per FADA. MINT

Carmakers are offering discounts on entry-level models and popular models such as Kia's Seltos SUV to exhaust stocks before the new-generation facelift is launched.

"Dealers are under pressure to liquidate all BS-VI phase-one stocks within this month, so we do expect sales to rise by 15-20% in March compared with February and in the area of 10-12% on a year-on-year basis. Because of the Navratra week starting in March, we will be able to sell in good volumes without having to discount too much," Gulati said.

"March has multiple festivals such as Holi, Ugadi, Gudi Padwa and Navratri. This will help push auto sales. Apart from this, better availability of vehicles, the change in on-board diagnostic norms from April, which will increase vehicle prices, the industry may see schemes being rolled out by the OEMs, thus aiding higher sales," the Federation

of Automobile Dealers' Association (Fada) said in a statement.

Vehicle registration data released by Fada showed that total retail sales of vehicles grew by 16% in February.

Sales of two-wheelers, three-wheelers, passenger vehicles, tractors and commercial vehicle sales rose by 15%, 81%, 11%, 14% and 17%, respectively.

Meanwhile, two-wheeler demand, which has been severely hit, is in a recovery phase.

"Demand in two-wheelers is recovering; it is not growing—we are still to capture the [5 million] or so units deficit we have from our peak pre-Covid-19 levels before the sector can start growing," Gulati told *Mint*.

Auto dealers are taking a cautious view of demand despite long waiting periods for passenger vehicles as macroeconomic indicators suggest a slowdown in rural spending.

After Exxon & Chevron, Total signs up for ONGC acreage

NEW DELHI: After supermajors ExxonMobil and Chevron, French multinational TotalEnergies has signed a preliminary pact to look at opportunities to explore oil and gas in state-owned ONGC's Mahanadi and Andaman acreage.

Oil and Natural Gas Corporation (ONGC) signed a memorandum of understanding (MoU) with TotalEnergies "to establish a holistic framework between the two for exchange of each other's technical strengths in deepwater offshore, especially

Mahanadi and Andaman," the state-owned firm said in a tweet.

With production declining from ageing and mature fields and no major oil and gas discovery being made in recent times, ONGC is tapping technologically superior overseas firms. It hopes to use its expertise to open difficult reservoirs and boost output.

In August last year, ONGC had inked an agreement with US giant ExxonMobil to jointly work on deep-water exploration plans off the country's east

and west coasts. A month later it signed an MoU with Chevron New Ventures PTE Ltd, a subsidiary of California-based energy major Chevron Corporation, to assess exploration potential in India.

The initial pacts have so far not translated into a commercial partnership for any block.

The collaboration with TotalEnergies "shall lead to deployment of best practices and technology in offshore, to reduce greenhouse emissions for sustainable development,"

ONGC said in another tweet.

This strategic technology-driven collaboration will develop future cooperation for potential business in Deepwaters of the Bay of Bengal on mutually aligned purposes, it said.

"We will jointly evaluate exploration and development opportunities to create synergies with local economies," said ONGC Director (Exploration) Sushma Rawat.

With ExxonMobil, ONGC in August 2022 signed a Heads

of Agreement (HoA) for deep-water exploration in the country.

"The collaboration areas focus on the Krishna Godavari and Cauvery basins in the eastern offshore and the Kutch-Mumbai region in the western offshore," the company had said then. ONGC has a licence to explore and produce oil and gas from multiple offshore areas and has significant plans for carrying out deep-water exploration, primarily focused on the gas-rich Krishna Godavari, Mahanadi and Andaman basins. AGENCIES

France's Total signs up for ONGC acreage

PRESS TRUST OF INDIA
New Delhi, March 6

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ONGC, TotalEnergies sign MoU

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THE COMPASS

Unison Enviro acquisition, decline in prices light up Mahanagar Gas' growth prospects

Most analysts have 'buy' and 'add' ratings for the stock, see 5% to 10% uptick

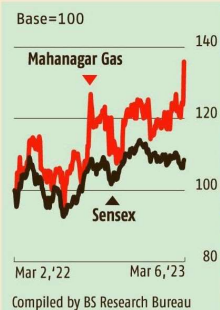
DEVANGSHU DATTA

Mahanagar Gas (MGL) has acquired Unison Enviro (UEPL), an entity previously owned by Ashoka Buildcon and North Haven, which is an affiliate of Morgan Stanley India Infra Fund. MGL will take 100 per cent stake in UEPL for a consideration of ₹531 crore.

MGL is a leading natural gas distribution company, supplying compressed natural gas (CNG) to vehicles and piped natural gas (PNG) to domestic, commercial, and industrial consumers in Mumbai, Navi Mumbai, Thane and adjoining areas, and Raigad district – all in Maharashtra.

UEPL has the licence to develop and operate city gas distribution business in Ratnagiri and Latur and Osmanabad geographical areas in Maharashtra and also Chitradurga and Davanagere in Karnataka. Investors have seen this as a positive development with the stock price of MGL immediately being pushed up by almost 9 per cent.

The transaction is likely to be completed after September 2023 (approximately 5 years after the award of license). Given UEPL's gross debt of ₹11,300 crore, this implies an Enterprise Value (EV) of ₹640 crore and therefore, a high price/sales multiple of 8.3x and an



astronomical EV/Ebitda (earnings before interest, tax, depreciation and amortisation) ratio of 3,120x. UEPL's coverage includes 37,362 sq km, with a population of roughly 10 million and about 2 million

households in aggregate. Analysts believe that UEPL currently has volumes of 0.1 mmscmd or even less. Analysts covering the deal say that volumes can ramp up to around 1 mmscmd by the 2027-28 financial

year (FY28), given investments in the range between ₹700 and ₹800-crore. At that consumption level, Ebitda (assumed industry mid-range of ₹6/scm) for UEPL would be over ₹200 crore, which would more than justify the cost. Under those assumptions, MGL is adding an NPV (net present value) of ₹50 per share through the buyout. MGL's own quarter three (Q3FY23) run-rate was 3.4 mmscmd.

Ratnagiri is also contiguous to Raigad which MGL has rights to, and this could lead to potential synergy benefits. The acquisition could also address concerns about lower volume growth for MGL and it gives the company an opportunity to expand beyond the Mumbai Metropolitan area.

MGL's Q3FY23 Ebitda of ₹260 crore and Adjusted PAT (profit after

tax) of ₹170 crore, was slightly above the Street estimates, due to higher realisations, lower employee costs, and higher Other Income. MGL was affected by lower CNG volume growth due to higher gas prices. But the gross margin improved despite an increase in APM gas prices, which the company successfully passed on.

There were hopes that the Kirit Parikh Committee would reduce APM gas prices but this did not happen. MGL hiked prices in October and November, from ₹80 per kg to ₹89.5 in two stages.

Given falling crude and spot LNG prices, this should have led to improved spreads in Q4FY23. Hopes remain that APM price revisions in March would be downwards, given global trends. Cabinet approval for a price cut,

as recommended by the Committee, would be expected.

The Ebitda spread in Q3, at ₹8.16/scm was up 140 per cent year-on-year and up 2.7 per cent quarter-on-quarter, which was more than the increase in gas input costs. Ebitda spreads could improve further to ₹9.5/scm in FY24. There are risks, of course, such as slower volume growth, margin compression, adverse regulatory changes, higher LNG prices, slower infrastructure roll-out and competition from electric vehicles. Also, this acquisition has a long gestation period.

Most analysts are calculating target prices between ₹1,050 and ₹1,100, which offers an upside from the current levels of ₹987. There's consensus on "buy" or "add" ratings.

SECOND CONSECUTIVE HIKE FOR ASIA

Saudi Arabia Jacks Up April Oil Prices for Asia & Europe

Aramco shows it's bullish about oil; prices unchanged for US customers

Bloomberg

Saudi Arabia signalled it sees oil demand picking up in Asia and Europe by raising most prices for crude shipments to the regions.

While oil futures have weakened slightly this year, many energy traders and executives see them climbing — perhaps to \$100 a barrel — as China's economy recovers after the lifting of coronavirus lockdowns and inflation in other major economies decelerates.

State-controlled Saudi Aramco increased most official selling prices for Asia in April. The company's main Arab Light grade was lifted to \$2.50 a barrel above the regional benchmark, 50 cents more than the level for March.

That was in line with a Bloomberg survey of refiners and traders, which forecast a



rise of 55 cents. It's the second month running for which Aramco has increased prices for Asia, its biggest market.

Prices for US customers were left unchanged. Those for North-West Europe and the Mediterranean jumped by as much as \$1.30 a barrel.

Brent crude has dipped 1% this year to just above \$85 a barrel. It's fallen from around \$115 since mid-2022, with a slowing global economy and higher interest rates countering supply disruptions triggered by Russia's war on Ukraine.

INBRIEF

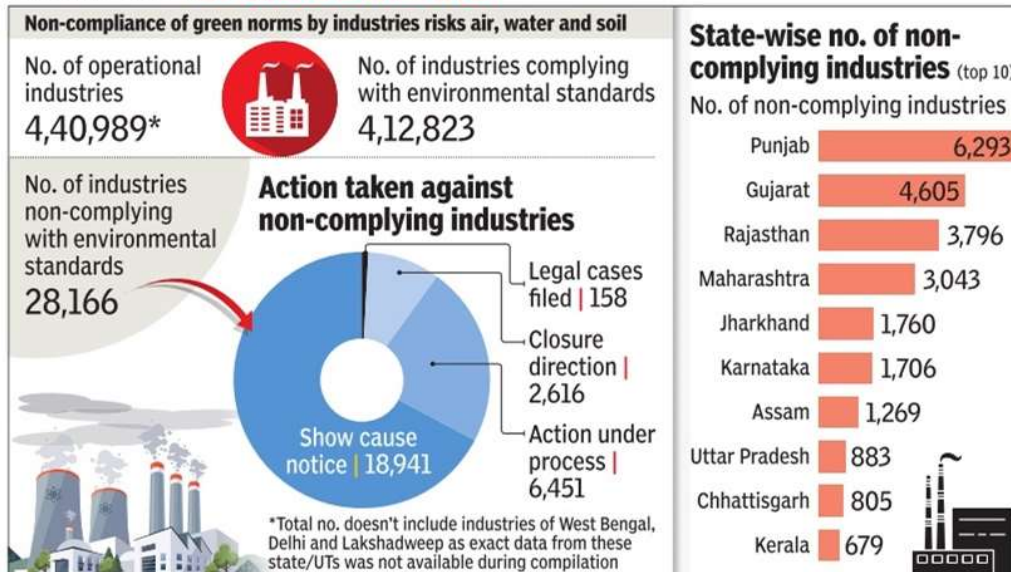


ONGC, TotalEnergies ink MoU to explore deep-water blocks

ONGC has signed a memorandum of understanding with French major TotalEnergies for exploration of deep-water blocks, the company tweeted on Monday. The MoU seeks to provide technical help for ONGC's push to explore and reduce green house emissions in development of deep-water blocks especially in Mahanadi and Andamans, off east coast. REUTERS

Over 6% of desi industries don't follow green norms

WHAT THE UPGRADE MEANS



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New Delhi: Over 6% of India's operational industries (4,40,989) currently don't comply with one or the other environmental standards, risking air, water and soils due to emissions and discharge of effluents carrying various pollutants, shows a compilation on non-compliant industries and actions taken against them over the years by state pollution control boards.

As per the compilation, shared by the environment ministry in Parliament, Punjab has the highest number (6,293) of such polluting industries followed by Gujarat (4,605), Rajasthan (3,796), Maharashtra (3,043) and Jharkhand (1,760). The Central Pollution Control Board, which has power to impose en-

Times View: The percentage of polluting industries seems low, but the actual numbers are worrying. Watchdogs need to be more stringent and proactive in their endeavours. Errant units must also be regularly monitored. Repeat offenders should not only be fined but warned of suspension. The environment's failing health is the elephant in the room. We cannot ignore it anymore.

vironmental compensation (EC) on such industries that violate various green norms under different laws, had imposed over Rs 13.4 crore of EC on 34 polluting chemical/fertilisers and cement industries and collected over Rs 12.3 crore from them during 2018-22. The EC is imposed against polluters for contaminating/ damaging the environment.

The highest amount (over Rs 1.9 crore) of EC was imposed on Madras Fertilisers Ltd., Madhavaram Taluk, Tiruvallur district of Tamil Nadu in January, 2019 followed by Rs 1 crore on Assam Petrochem-

icals Limited, Namrup, Dibrugarh, Assam in February the same year. While the Tamil Nadu company paid the EC, a closure direction was issued against Assam Petrochemicals in November, 2020 for not depositing the compensation. The list of other companies that paid EC for violations include Indian Oil Corporation (Ltd. (Gujarat refinery) of Vadodara, Gujarat; Oil & Natural Gas Corporation Ltd., (Tatipaka Mini refinery), Nagaram, East Godavari, Andhra Pradesh; and Hindustan Petroleum Corporation Ltd., Chembur, Mumbai.