



All fired up

BUOYANT PROSPECTS. Why the new domestic pricing norms are positive for gas producers

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The government is stepping on the gas, and how!

The stocks of companies that produce and supply gas to industrial and individual customers have been on fire, over the last few days. City gas distribution companies — Indraprastha Gas, Adani Total Gas — have gained almost 5 per cent over the past week. Ditto with India's largest oil producer, ONGC. This is thanks to the Government's (Cabinet committee) decision to implement the domestic gas pricing policy guidelines as proposed by the Kirit Parikh Committee.

The new pricing guideline is believed to balance the interests of gas producers and consumers and ensure long-term investment in the gas exploration space.

After the stupendous rally in energy prices — crude and natural gas — in 2022, prices have moderated a bit and are ruling steady now. In India too, the prices of domestic gas, which hit the roof in 2022, will moderate in 2023, due to the change in the pricing methodology. More importantly, this will bring stability to the revenues and earnings of gas producers. Until now, these numbers have been fluctuating due to volatile global prices as the price computation formula for domestic gas was linked to natural gas price and volume consumed in countries such as Europe, Russia, Canada, the US, etc.

NEW PRICING CONTOURS
Under the new pricing mechanism, the domestic gas price is linked to the average

price of Indian crude basket for the previous month. For instance, the gas price for May 2023 will be announced on April 30, 2023. It will be computed as 10 per cent of the average daily crude basket price for the period March 26 to April 25.

For gas from older fields, also called nominated fields, the price will be capped at \$6 per mmbtu and there will also be a floor price of \$4.5 per mmbtu. The floor and cap price will remain for the next two years and will be increased by \$0.25 per mmbtu every year, beginning FY26.

To encourage investment in new exploration, the Government has announced a premium of 20 per cent over APM (Administered Pricing Mechanism) gas price, for gas from new wells or well intervention in the nomination fields of ONGC and OIL, wherein the APM price floor and ceiling cap currently apply.

India being a gas deficient economy with significant dependency on imported gas, a stable pricing policy will encourage fresh investment in exploration and also increase production from existing wells. In 2022, India's gas consumption stood at 45,661 million standard cubic metre, of which indigenous production was 25,868 million standard cubic metre, while the balance was met through re-gasification of imported liquefied natural gas (LNG), according to data in Petroleum Planning & Analysis Cell (PPAC) website.

UPSTREAM GAS PRODUCERS

Though the new pricing scheme will have a marginal negative impact in the short term due to cut in natural gas prices, it will be positive for oil exploration companies such as ONGC and OIL India in the medium term for three reasons.

First, the new pricing guideline will bring stability to gas prices, which will help the performance of the gas division of exploration companies. The floor price of \$4.5 per mmbtu for gas from nominated old fields is positive for ONGC and OIL India. This is because, gas price historically has largely remained in the range of \$2.3 per mmbtu over the last eight years. Sample this, over the period October 2015 to March 2022, the average price of natural gas fixed by the Government was \$2.8 per mmbtu. The natural gas price saw a meteoric rise to \$6.1 per mmbtu in April 2022 and further increased to \$8.57 per mmbtu in September 2022, thanks to the Russia-Ukraine war and the resultant energy crisis.

Barring the November 2014-September 2015 period, when the gas price was higher than \$4.5 per mmbtu, the price range for natural gas has been under \$4 per mmbtu. Thus, we believe that the floor price will help stable performance of the gas exploration division for the two PSU oil explorers ONGC and OIL India, and help boost their profitability over the next 2-3 years.

Second, though the ceiling price of \$6 per mmbtu may seem to restrict the upside for gas producers when energy prices rule high globally, given the low cost of operating nominated fields for ONGC and OIL India, the margins even at the cap price should remain attractive. We can understand this better looking at the performance of OIL India's gas division. During the first two quarters of FY23, the average realisation of natural gas was \$6.1 per mmbtu for OIL India. The operating profit margin for the company's gas segment during this period was 32 per cent and 51 per cent, respectively. This compares with a loss during the first two quarters of FY22, when the average realisation was \$1.79 per mmbtu.

Further, the increase in floor and ceiling beginning FY26 at \$0.25 per mmbtu should also address any cost inflation in operating these fields.

Third, the move to offer a premium of 20 per cent over the APM gas price for newer fields will incentivise companies to pursue exploration activities and thus help overall volumes and also profit margins. More importantly, clarity on the pricing will help companies plan their capital expansion better. Also, the linkage to crude oil prices as compared to the erstwhile formula of volume-weighted price of gas in countries such as the US, Russia, Canada, Mexico, the European Union, and other countries, will help gas producers in the medium term, given that OPEC and other oil producers typically try to contain any downfall in oil price by altering production and supplies.

NEAR TERM POSITIVE FOR CGDS

For City Gas Distribution companies (CGD) such as Indraprastha Gas, Mahanagar Gas, Adani Total Gas and Gujarat Gas, we believe the move to have an immediate positive impact due to cut in APM gas prices with effect from April 2023. The 27 per cent cut in the price of APM gas from nominated fields should result in considerable cost savings for CGD players. These companies have already reduced the price of LNG (liquefied natural gas used for motor transport) and PNG (piped natural gas used for domestic and industrial purposes), soon after the approval of the new pricing scheme. Indraprastha Gas has already announced reduction in the price of CNG by ₹6 a kg in Delhi, to ₹73.59 a kg from ₹79.56 a kg earlier. Likewise, CNG prices have been cut by ₹6 a kg in Ghaziabad, Greater Noida, and Noida too.

We believe the new pricing guideline to be positive for CGD companies on two counts. First, an immediate downward revision in APM gas prices should ease the stress on operating profit margins for CGD companies witnessed over the last two quarters, following the stupendous rise in oil and gas prices, globally.

Second, the availability of domestic gas should improve with clarity in the pricing mechanism and should encourage long-term capital commitment from exploration companies. Increased availability of domestic gas will help CGD companies increase their volume.

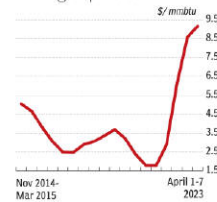
However, we believe that the cost of gas for CGD companies in the medium term will remain higher than in the recent past, given the linkage to global crude oil prices, now. This is because the new floor price of \$4.5/mmbtu for domestic gas is higher than the gas price range of \$1.8 to \$3.8 per mmbtu seen over the October 2015-March 2022 period. Ability of CGD companies to pass on the impact of price increases to end customers will be critical for sustainability of margins for these companies in the medium term.

Also, though the availability of additional gas from new fields will help improve volumes, the pricing for the new gas is going to be higher, which can have a bearing on the margin, in case these companies are not able to pass it on to their consumers.

Further, inflation and macro-economic indicators may also have a role to play in the decision of CGDs — at least state-owned ones such as Indraprastha and Mahanagar Gas — to completely pass on price increases to consumers. Further, the Petroleum Planning and Analysis Cell has been mandated to build and maintain a dedicated portal to track PNG and LNG prices regularly, which will update the prices as and when changes happen.

Besides the new pricing mechanism, increasing investments in LNG globally can have a positive rub-off on CGD companies. This is because, high LNG prices in 2022 have kindled investment interest in this space. In the European Union, re-

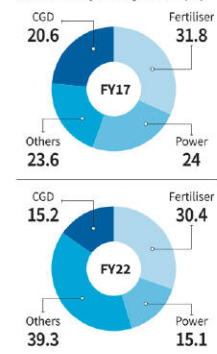
APM gas price trend



How the companies fared

	CMP (₹)	PE (trailing twelve months)	5MFY23 (y-o-y) revenue growth (%)	PST growth (CAGR)
Oil explorers				
ONGC	159	5.1	39	-27
Oil India	260	3.1	44	88
CGD companies				
Indraprastha Gas	485	23	97	17
Mahanagar Gas	991.15	15	90	12
Gujarat Gas	463	19.8	9	37
Adani Total Gas	914.15	200.5	61	-1
Others				
GAIL	108	8.5	72	-44

Gas consumption by sector (%)



gasification capacity is expected to increase by 25 per cent in 2023, thanks to expansion of existing re-gasification terminals and new floating storage regasification units. As overall LNG volumes increase, it should ease the pressure on LNG prices, which will also benefit CGD companies by way of lower raw material costs, as they bridge the gap in domestic gas supply through imported LNG.

OTHERS

For gas utility companies such as GAIL, predominantly into natural gas trading and transmission, there will not be any significant impact on margin on account of increase in gas prices. The company's revenues are largely from monetisation of its transmission pipeline infrastructure. GAIL has a negligible CGD component in its revenue. Similarly, there will not be any impact on Petronet LNG, which primarily imports LNG, does re-gasification and distribution.

Outlook on stocks

Gas exploration companies ONGC and OIL India look interesting from a medium-term investment

perspective, now with the new pricing guideline. Among the two PSU gas producers, OIL India seems attractively priced at 3 times its trailing twelve-month earnings. With an investment book of ₹29,28 crore and cash in the books of ₹4,362 crore as of September 2022, the company's current market cap of ₹28,275 crore looks impressive. **At bl portfolio**, we recently gave a 'buy' recommendation on this stock. (<https://tinyurl.com/pf-OilIndia>) ONGC, being the leader, trades at a slight premium to OIL India, at 5.1 times its trailing twelve-month earnings.

Mahanagar Gas also is expanding its wings beyond Maharashtra into Karnataka and is gearing for steady growth in the medium term. Indraprastha Gas currently trades at about 23 times its trailing twelve-month earnings, while Mahanagar Gas trades at 15 times its twelve-month trailing earnings.

We have an 'accumulate' recommendation on both Indraprastha Gas (<https://tinyurl.com/MGL-Jan2023>) and Mahanagar Gas (<https://tinyurl.com/MGL-March-2023>). Other stocks in the CGD space, including Adani Total Gas and Gujarat Gas which rank first and second in terms of highest number of geographical areas (GA), are at a premium to the above mentioned CGD companies. Adani Total Gas is trading at a steep premium to peers, at 201 times its trailing twelve-month earnings. Further, healthy balance sheet of both Indraprastha and Mahanagar Gas adds to the comfort, while Adani has debt totalling to about 0.5 times its shareholders' funds in the books, given its aggressive expansion plans.

G-7 agrees to speed up phase out of fossil fuels

BLOOMBERG
April 15

THE GROUP OF seven nations agreed to accelerate the phase-out of unabated fossil fuels but fell short of sealing a deal on a timeline to exit coal, said French energy minister Agnès Pannier-Runacher. Pannier-Runacher spoke on the sidelines of a meeting of G-7 energy and environment ministers in the northern Japanese city of Sapporo that runs through Sunday. The ministers are negotiating a joint communicate that outlines support from the world's most advanced economies for the global energy transition.

"For the first time ever, the G-7 says that we must accelerate the phasing out of all unabated fossil fuels," Pannier-Runacher told reporters. "The



G-7 ministers on climate, energy and environment in Sapporo, northern Japan

AP

G-7 says that there should be no more new coal fired power plants." The G-7 have appointed themselves leaders in the global mission to decarbonise, and the communicate sends an important political signal that sets the tone for energy and climate conversations the rest of the year.

The failure to agree on a timeline to exit coal may weaken resolve ahead of a critical UN climate summit in Dubai this year—COP 28—with over 200 nations will be pressed to phase out the fossil fuel. The G-7 calls for accelerating installment of renewables, Pannier-Runacher said.



G-7 ministers agree to cut gas consumption

SAPPORO (Japan): The Group of Seven rich nations have agreed to call for reducing gas consumption and increasing electricity from renewable sources while phasing out fossil-fuels faster and building no new coal-fired plants, France's energy transition minister said on Saturday, *Reuters* reported.

G-7 environment and energy ministers, however, could not agree on a specific date to exit coal power, France's Agnes Pannier-Runacher told reporters on the first of two days of climate and energy talks in Sapporo in northern Japan.

"The G-7 countries have agreed that the first response to the energy crisis must be to reduce energy and gas consumption... For the first time ever, the G-7 said that we must accelerate the phasing out of all unabated fossil fuels... Finally, it sent a message about accelerat-



ing renewable energy," Pannier-Runacher said.

The G-7 decided to endorse a goal to "drastically increase electricity generated by renewable energies," a person with knowledge of the discussions separately told *Reuters*, asking not to be identified because the information is not public.

Ministers also appeared to be considering numerical targets for increasing solar power

capacity to at least 1 terawatt and offshore wind power capacity to 150 gigawatts by 2030, the source said.

Energy-poor Japan was pushing for investments to stay for the gas industry in order to keep the liquefied natural gas in the energy mix as a transition fuel, winning some - but not all - support from the rest of G-7.

"The imperatives on gas supply are only short-term. This

implicitly means that we cannot invest in the exploration of new gas capacity," Pannier-Runacher said, adding that nuclear energy is backed by G-7 as a "solution for the energy transition" with security of supply.

The event has also put focus on the need to help emerging countries reduce emissions, including through financing.

"We, the G-7, need to not only reduce our own emissions but also take concrete actions to achieve emission reductions globally," Japan's Economy and Trade Minister Yasutoshi Nishimura said in his opening remarks, singling out countries in the "Global South".

Nishimura said ministers would like to discuss ways to use finance to help reduce carbon in so-called "hard-to-abate" industries, which include chemicals, shipping and steel.

AGENCIES

HPCL LPG Bottling Plant at Matia dist.Goalpara in Assam

Rameshwar Teli, Minister of State for Petroleum & Natural Gas and Labor & Employment, dedicated the HPCL LPG Bottling Plant at Matia, District Goalpara in Assam, to the Nation on 12th April 2023. Through this plant of HPCL in North East India, LPG Cylinders will be supplied to about 8 lakh consumers through appx. 75 HPCL LPG



Distributors in the states of Assam, Tripura, Nagaland and Meghalaya. Chairman

and Managing Director of HPCL, Shri Pushp Kumar Joshi in his welcome address informed that HPCL has constructed this LPG Bottling Plant of 30 TMTA capacity at Industrial Development Center, Matia, District Goalpara situated on 30 acres of land with various state-of-the-art facilities, at a total project cost of Rs 70 crore approx.





NSE to bring WTI crude, gas futures

New Delhi: National Stock Exchange said it will launch futures contracts on underlying WTI crude oil and natural gas in the commodity derivatives segment from May 15. This comes after NSE received Sebi approval to launch the rupee-denominated Nymex WTI crude oil and natural gas futures contracts in its commodity derivatives segment. **PTI**

ईरान उप-समुद्री प्राकृतिक गैस पाइपलाइन को ओमान से भारत तक बढ़ा सकता है

एजेंसी ■ मुंबई

ईरान समुद्र से गुजरने वाली प्राकृतिक गैस पाइपलाइन को ओमान से भारत तक बढ़ाने पर विचार कर सकता है। ईरान के आर्थिक संबंधों के उप विदेश मंत्री मेहदी सफारी ने शुक्रवार को एक बयान में यह बात कही। सफारी ने बृहस्पतिवार शाम एमवीआईआरडीसी वर्ल्ड ट्रेड सेंटर मुंबई की एक बैठक में कहा, ईरान पहले ही ओमान तक इस प्राकृतिक गैस पाइपलाइन का निर्माण कर रहा है, जिसे भारत में पोरबंदर तक बढ़ाया जा सकता है। एमवीआईआरडीसी वर्ल्ड ट्रेड सेंटर मुंबई ने एक बयान में कहा कि सफारी इस साल 7-10 मई के बीच तेहरान में आयोजित होने वाले ईरान एक्सपो 2023 के प्रचार और 11 प्रमुख श्रेणियों में व्यापार तथा निवेश को बढ़ावा देने के लिए

मुंबई आए थे। बयान में उप विदेश मंत्री के हवाले से बताया गया कि आर्थिक प्रतिबंधों के बावजूद, भारत ईरान के शीर्ष पांच व्यापार भागीदारों में शामिल है। उन्होंने कहा, भारत को हमारा निर्यात 2022 में 60 प्रतिशत बढ़ा है। पिछले दो महीनों में यह 90 प्रतिशत बढ़ा है।

इसका मतलब है कि कच्चे तेल के साथ ही दूसरी वस्तुओं का व्यापार भी बढ़ रहा है। ईरान भारत की ऊर्जा जरूरतों को पूरा करने के लिए प्रतिबद्ध है। उप-विदेश मंत्री ने कहा कि भारत आने का उनका एक मकसद ईरान के दक्षिण में स्थित चाबहार बंदरगाह को बढ़ावा देना था, ताकि इसके जरिए भारत, मध्य एशिया, कॉकेशस क्षेत्र (काला सागर और कैस्पियन सागर के बीच का क्षेत्र) और यूरोपीय बाजारों तक पहुंच कायम कर सके।

जल्द मिल सकता है सस्ती गैस का तोहफा ओमान से भारत तक पाइपलाइन विस्तार की तैयारी में ईरान

नई दिल्ली, 15 अप्रैल (एजेंसी): भारत को जल्द ही ईरान से पाइपलाइन के माध्यम से सस्ती गैस का तोहफा मिल सकता है। दुनिया के प्रमुख गैस उत्पादक देश ईरान से ऐसे संकेत मिल रहे हैं कि जल्द ही वह समुद्र से गुजरने वाली प्राकृतिक गैस पाइपलाइन को ओमान से भारत तक बढ़ाने पर विचार कर सकता है। ईरान के आर्थिक संबंधों के उप-विदेश मंत्री मेहदी सफारी ने एक बयान में यह बात कही। सफारी ने एम.वी.आई.आर.डी.सी. वर्ल्ड ट्रेड सेंटर मुम्बई की एक बैठक में कहा कि ईरान पहले ही मिडिल ईस्ट के देश ओमान तक इस नैचुरल गैस पाइपलाइन का निर्माण कर रहा है। ईरान इस पाइपलाइन को भारत में पोरबंदर तक बढ़ाने पर विचार कर रहा है।

एम.वी.आई.आर.डी.सी. वर्ल्ड ट्रेड सेंटर मुम्बई ने एक बयान में कहा कि सफारी इस साल 7-10 मई के बीच तेहरान में आयोजित होने वाले 'ईरान एक्सपो 2023' के प्रचार और 11 प्रमुख श्रेणियों में व्यापार तथा निवेश को बढ़ावा देने के लिए मुम्बई आए थे।

