India Oil & Gas Daily

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Equity

Saurabh Handa
+91-22-6631-9858
saurabh.handa@citi.com

Garima Mishra
garima.mishra@citi.com

- **Diesel subsidy may be set at Rs1.49/litre**
Diesel price decontrol may only be partial, unlike in the case of free pricing of petrol, as the gov't may continue to provide a fixed subsidy of Rs1.49/ltr irrespective of the rise or fall in its market-linked retail price. The gov't freed up prices of petrol and diesel on June 25, but capped the increase in the case of diesel to Rs2/ltr against a required hike of Rs3.49/ltr. There is no clarity within the gov't about the balance Rs1.49/ltr hike needed to lift diesel to market rates. "What this means is that on diesel we will give a (virtually) fixed per-litre subsidy of Rs 1.49," a finance ministry note said. Irrespective of variations in the pump price of diesel, the note says, consumers will continue to get the Rs1.49-a-litre subsidy cushion. (Economic Times, 12th Jul)

- **India sees highest rise in natural gas output in 2009**
India recorded the highest rise in natural gas output worldwide in 2009 after Reliance Industries' (RIL) eastern offshore KG-D6 field began production, global energy giant BP said. RIL began gas production from the Krishna-Godavari basin in April 2009, and its 60 mmscmd output led to a 75% jump in natural gas availability in the country to 140 mmscmd. "Last year, India had the highest increase in production of natural gas worldwide. And, it also had the highest corresponding increase in consumption in natural gas worldwide," said BP Group chief economist Christof Ruhl. The jump in natural gas production in India was possible because the government allowed private sector firms to take a lead in exploration for hydrocarbons. (Economic Times, 10th Jul)

- **RIL raises US$1bn to fund projects**
Reliance Industries has raised US$1bn to fund projects. RIL will pay 170 bps over Libor for US$500m borrowed for five years. It will also pay 190 bps over Libor for a similar-sized loan over seven years. The bullet loans have a fixed maturity. RIL plans to invest US$5bn in a wireless internet venture. Reliance, which acquired shale gas assets from two companies in the US for US$3bn this year, is drilling for oil and gas off India's east and west coasts. (Economic Times, 10th Jul)

Daily Indicators

		9-Jul-10	8-Jul-10	Last week's avg
WTI	US$/bbl	76.1	75.4	73.9
Brent	US$/bbl	74.6	74.7	73.0
Indian Crude Basket	US$/bbl	73.7	72.9	71.8
S'pore GRM	US$/bbl	4.1	2.9	4.2
MS	US$/bbl	82.6	82.1	80.8
HSD	US$/bbl	84.7	83.9	82.6
LPG	US$/Ton	574.0	574.0	558.9
SKO	US$/bbl	85.3	84.1	82.7

Source: Reuters, Bloomberg

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

Industry News

Pvt retailers plan fuel pumps in small cities
Private sector firms planning to restart the retail sales of fuel following the deregulation of petrol prices are looking to expand in cities that proved to be unviable for them under the government's erstwhile administered pricing mechanism. With the gov't allowing petrol prices to be market driven, firms are now looking to tap urban markets, especially the smaller cities, where auto demand is on the rise. Essar Oil, which now operates 1,340 outlets, is planning to increase them to 1,700 by March. "The new retail outlets will be distributed across the country, including cities," an Essar spokesperson said. An RIL spokesperson said: "We are studying the development and reviewing all growth opportunities." (Livemint, 9th Jul)

IOC, BPCL open to buying Shell retail outlets
IOC and BPCL are planning to bid for Shell India's retail outlets. Shell India had offered for sale 20 of its 80 operational retail outlets and around 20 sites acquired earlier for setting up such outlets. The only foreign petro retailer in the country, it has approached oil marketing companies, public and private, regarding this. It is proceeding with these plans despite the recent deregulation of petrol prices. However, it plans to expand in other domestic markets. IOC Chairman and Managing Director B M Bansal said his company would like to take over outlets that had good location and sale volume. "Shell approached Indian Oil and we have given bids for some of the outlets," he said. (Business Standard, 12th Jul)

India likely to get gas from Mozambique field
Videocon-BPCL consortium, which has 20% share in the Rovuma Basin block, eyes the growing domestic energy market. Bharat PetroResources, promoted by Videocon and BPCL, plans to bring natural gas from Mozambique to India. The consortium has 20% share in the Rovuma Basin block off the coast of Mozambique in southern Africa. The 8-10 tcf of gas in the Windjammer well of the Rovuma Basin block is touted as one of the world's biggest finds this year. "We may bring this gas to India in the near future," Venugopal Dhoot, chairman, Videocon Industries, said. If BPRL and Videocon plan to bring the gas to India, they would have to put up a liquefaction plant in Africa to transfer the gas. "Considering the gas is close to the Indian Ocean, India is a viable market for it. But the entire consortium would have to agree to putting up the LNG plant," said a senior executive in one of the participating companies. (Business Standard, 10th Jul)

Company News

HPCL's 1QFY11 under-recoveries projected at Rs44.6bn
HPCL's gross under recovery on sale of sensitive products during1QFY11, has been projected at Rs44.6bn. This will include an under recovery of Rs5.8bn on sale of petrol, Rs16.6bn on diesel, Rs9.7bn on PDS kerosene, and another Rs12.6bn on sale of LPG. These under recoveries have been calculated in line with current price levels for crude and petroleum products. HPCL has sought full compensation from the petroleum ministry for the Rs44.6bn of under-recoveries estimated to be incurred on sale of sensitive products during Q1. Currently, the under recoveries on MS and HSD are being compensated by upstream companies at the rate of discount as applicable in 3QFY10, on a

provisional basis. If this procedure is carried forward in 1QFY11, HPCL fears that it would loose a large chunk as its under recoveries in 3QFY10 were pegged much lower at Rs 9.6bn, as compared to a loss of Rs 22.3bn estimated on sale of MS and HSD during 1QFY11. (Indianpetro, 11th Jul)

ONGC preparing market plan for its KG gas find

ONGC is planning to soon send a proposal for commercialisation of the dozen-plus gas discoveries in KG-DWN-98/2. ONGC plans to begin gas production from the field in 2015-16. “There are more than a dozen discoveries in KG-DWN-98/2 block. We are planning to submit our proposal for commerciality of these discoveries to the Directorate General of Hydrocarbons this month. Once commerciality is established, the next stage would be to finalise a field development plan,” R S Sharma, ONGC’sCMD said. The block is estimated to hold 14 tcf of reserves. ONGC is looking to offload part of its 90 per cent stake and has asked foreign companies, including ExxonMobil and BP, for proposals to buy a stake. (Business Standard, 10th Jul)

Cairn-led team eyes price of US$4.75/mmbtu for Ravva gas

Cairn India and its JV partners — ONGC, Videocon Industries, and Ravva Oil in the producing East Coast Ravva/Ravva satellite fields — are looking at a new gas price of US$4.75/mmbtu. Negotiations are still going on between GAIL that transports and markets the gas and the Ravva joint venture. Currently, the gas from the Ravva field is sold at US$3.5/mmbtu and the price of gas from Ravva Satellite is $4.3/mBtu. Current gas rates from Ravva/Ravva satellite fields expired on November 30, 2008, and new rates were applicable from the next day, that is, December 1, according to the production sharing contract (PSC). Till a final decision on revised price is not taken, the current price will prevail. GAIL buys 0.83 mmscmd of gas from Ravva field and 0.83 mmscmd from Ravva Satellite Field. The Petroleum Ministry had asked GAIL to keep RIL’s D6 gas price of US$ 4.2/mmbtu as one of the benchmarks while negotiating the revised price for the Cairn India-operated Ravva/Ravva Satellite Field. (Business Line, 10th Jul)

RIL faces key shale gas deadline

Atlas Energy has drilled six wells in the Marcellus acreage through the JV since the deal was signed in April with RIL. It plans to drill another 15 wells in the next quarter and 19 in the quarter after that in order to attain a pre-defined drilling target of 45 wells by the end of this year. At the same time, a key deadline looms for RIL.RIL will have to take a call by mid-August whether it wants to step up to the plate as a development operator of one of the four project areas that have been carved out of the 300,000 acres in Atlas Energy Inc’s Marcellus shale acreage. The first call — categorised as the First Reliance Operator Date in the participation and development agreement between the two sides — has to be made within 120 days of the effective date of the agreement (April 20, 2010). Reliance Industries has been hugely upbeat about the prospects from the Marcellus shale acreage. Although it must exercise the first option next month, it won’t become the development operator for the project area it picks until April next year. (The Telegraph, 11th Jul)

RIL may run for Bombay Dyeing biz

Reliance Industries may compete with Indo Rama and JBF Industries to buy the loss-making plant of Bombay Dyeing, which is on its way out of the textile business. Bombay Dyeing may seek shareholders’ nod next month to sell the plant that can produce 165,000 tonnes a year. The Wadias are metamorphosing into builders of homes and offices from selling textiles and petrochemicals, where prospects are dimming. A purchase of Bombay Dyeing's polyester business will boost RIL's capacity above 0.9 MMTPA. If Indo Rama gets it, its capacity would go beyond 0.4 MMTPA. (Economic Times, 10th Jul)

ONGC in talks with Arrow for stake sale in 3 CBM blocks
In a bid to get out of the trouble it faces in CBM development in eastern India, ONGC is exploring several options, ranging from farming-out operating stakes to roping in technology partners in three of its six CBM blocks. Discussions have already progressed with the Australia-based Arrow Energy for farming out stakes in Ranigunj and North Karanpura blocks. Also, a move is afoot to rope in the same company as a technology partner in its most promising – as well as troubled – CBM development venture in Jharia in Jharkhand. The existing CBM development project in Jharia was found unviable and ONGC is currently exploring the option of roping in a suitable partner in the project. (Business Line, 11th Jul)

'IOC will not revise petrol prices too frequently'
Indian Oil Corporation chairman BM Bansal said the company would not like to revise retail prices of petrol too frequently unless there is a major change in the prices of international crude oil. "In case crude oil (price) does not rise much, we will not like to revise prices too frequently," Bansal said on the sidelines of an industry event. Last month, the gov't had freed prices of petrol from state control and linked the same to market prices. Centre did not decide the methodology or the frequency of revision in petrol prices, leaving it open for discussion and a decision later. Bansal said Indian Oil will discuss the issue of periodicity of petrol price revision with the oil ministry by this month-end. (Financial Express, 9th Jul)

Petroleum Ministry wants gov't to allow insurers to invest in OVL
In a bid to secure more funds for overseas oil and gas acquisition, the petroleum ministry, in a recent letter, has requested the finance ministry to allow insurance companies to invest their surplus funds in bonds issued by ONGC Videsh Ltd (OVL), the overseas arm of state-run ONGC. "The letter has requested the Finance Ministry to consider issuing necessary clarification from the Insurance Division of the Ministry of Finance to Insurance regulator IRDA so that insurance companies are permitted to invest in bonds issued as well as to be issued by OVL in the future on the ground that OVL is a government company," a petroleum ministry official said. (Economic Times, 11th Jul)

Appendix A-1

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