



# OIL AND GAS INDUSTRY ANALYSIS

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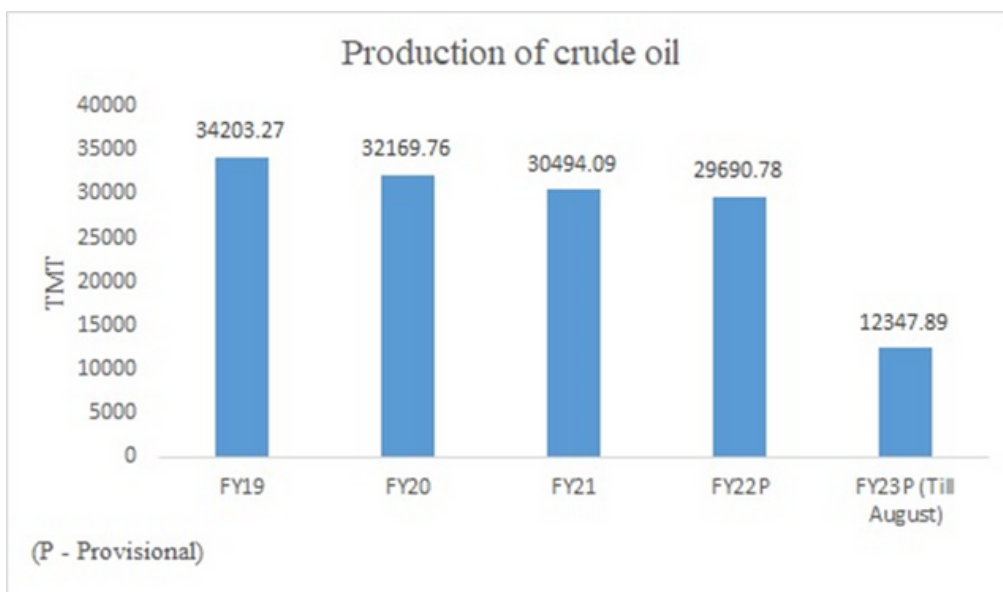
October 2022



India is the third largest energy consumer in the world after China and USA. It is also the fastest growing energy consumer. India's energy requirement is fulfilled primarily by Coal, Crude Oil, Natural Gas and Renewable Energy. Oil and gas within the energy mix play an important role as over one third of the energy required is met by hydrocarbons. Growing economy and population growth are the main drivers for oil & gas demand increasing every year. Government of India is determined to promote usage of natural gas, as a fuel and feedstock across the country, and to increase its share in primary energy mix from around 6.7% in 2021 to 15% by 2030. The oil and gas sector is among the eight core industries in India and plays a major role in influencing the decision-making for all the other important sections of the economy. India's economic growth is closely related to its energy demand, therefore, the need for oil and gas is projected to increase, thereby making the sector quite conducive for investment. To spur growth of domestic production and attract new entrants, many policy initiatives in the areas of generation of quality geo-scientific data and providing easy access, finding future oil & gas by awarding new exploration acreage, expediting production from new development acreages and from existing production acreages and focus on production maximisation have been taken in the recent years. The Government has adopted several policies to fulfil the increasing demand. It has allowed 100% foreign direct investment (FDI) in many segments of the sector, including natural gas, petroleum products and refineries, among others.

## Production of crude oil

Production of crude oil in India during first five months (April–August) of current financial year (FY23) was 12347.89 thousand metric tonne (TMT) which was 1.07% lower than production during corresponding period of last year respectively. In FY22, production of crude oil was 29690.78 TMT which was 2.63% lower than production during corresponding period of last year respectively. Production was fall mainly on account of Oil and Natural Gas Corporation (ONGC) produced less than the target. Crude oil production by ONGC in nomination block during August 2022 was 1625.57 TMT, which was 4.53% lower than target of the month and 1.05% lower when compared with production of August 2021. Cumulative crude oil production by ONGC during April–August, 2022 was 8231.77 TMT, which was 1.81% lower than target for the period but 1.38% higher than target for the period and production during corresponding period of last year respectively.



## Production of petroleum products

During the month of August 2022, Production of petroleum products was 20934.48 TMT, which was 0.59% lower than the target for the month but 7.03% higher than the production of August 2021. Cumulative production during April-August, 2022 was 111010.64 TMT, which was 5.19% and 10.75% higher than target for the period and production during corresponding period of last year respectively. Production of petroleum Products by Oil's Refineries during August 2022 was 20659.83 TMT, which was 0.28% lower than target for the month and 7.46% higher than the production of August 2021. Cumulative production during April-August, 2022 was 109495.70 TMT, which was 5.33% and 11.14% higher than target for the period and production during corresponding period of last year respectively. Production of petroleum Products by Fractionators during August 2022 was 274.65 TMT, which was 19.39% lower than the target for the month and 18.01% lower than production of August 2021. Cumulative production during April-August, 2022 was 1514.94 TMT, which was 4.0% and 11.77% lower than target for the period and production during corresponding period of last year respectively.

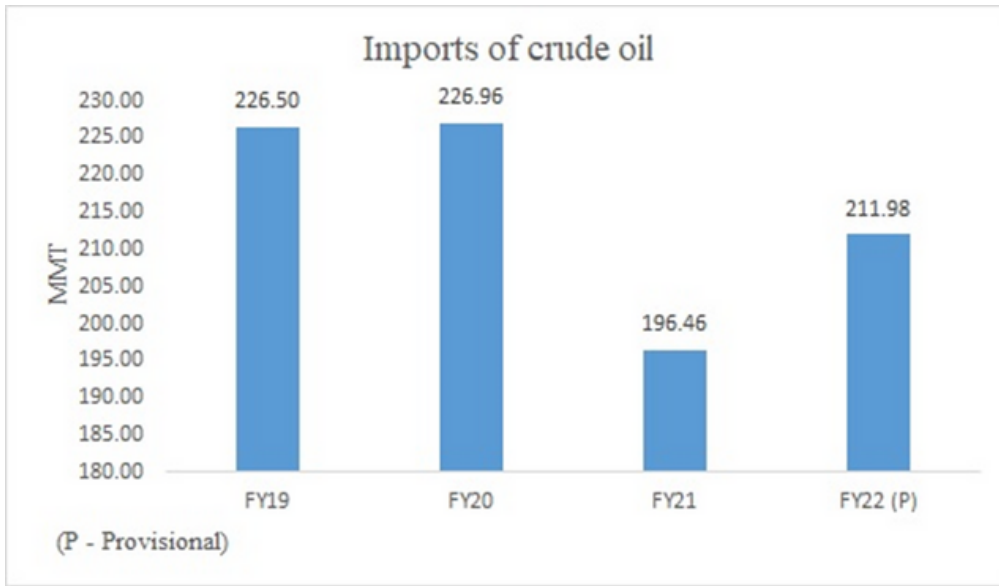
## India's oil demand likely to rise 7.73% in 2023

The Organization of the Petroleum Exporting Countries (OPEC) in its report has said that India's demand for petroleum products like petrol and diesel will grow by 7.73% in 2023, the fastest pace in the world. The growth in demand is the fastest in the world ahead of 1.23% of China, 3.39% of the US and 4.62% of Europe. India is the world's third largest oil importing and consuming nation behind the US and China. The demand for petroleum products in India is supported by the healthy economic growth, continuing economic reopening amid ease of COVID restrictions and easing of trade-related bottlenecks supporting both mobility and industrial sector activity.

## Imports of crude oil

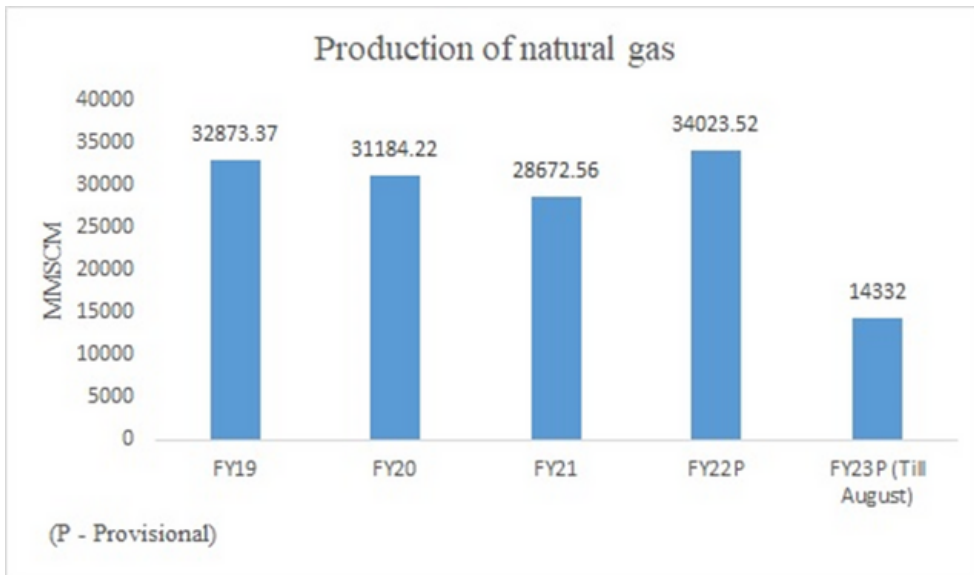
India imported 211.98 million metric tonnes (MMT) (Provisional) of crude oil in last financial year (FY22), up from 196.46 MMT in FY21. However, this was lower than pre-pandemic imports of 226.96 MMT in FY20. The imported crude oil is turned into value-added products like petrol and diesel at oil refineries, before being sold to automobiles and other users. In value term, India's crude oil import bill nearly doubled to \$119.2 billion in FY22 up from \$62.2 billion in the previous fiscal year, as energy prices soared globally following the return of demand and war in Ukraine.





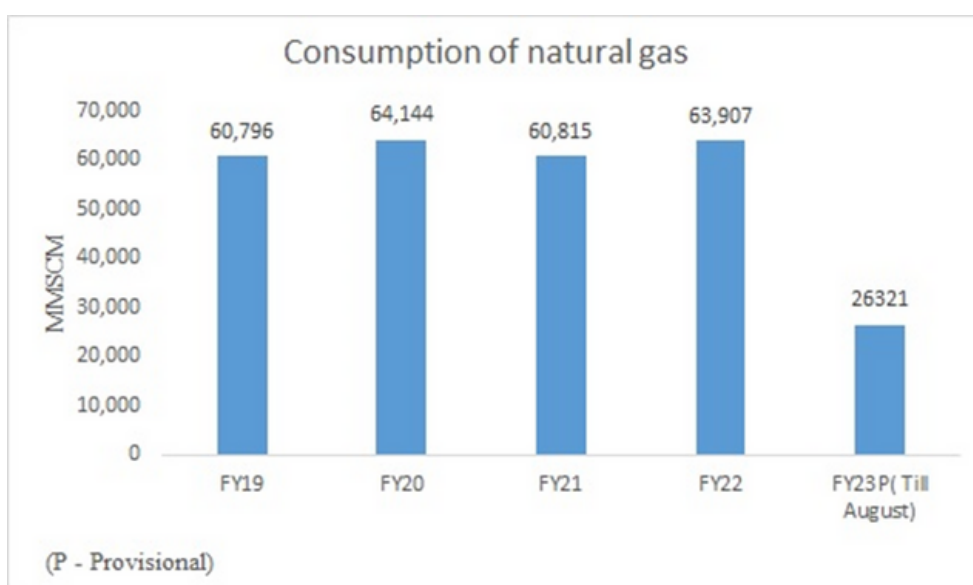
### Production of natural gas

Natural gas production during April-August 2022 was 14332.0 Million Metric Standard Cubic Meter (MMSCM), which was 2.98% lower when compared with target for the period but 2.46% higher than production during corresponding period of last year. Natural gas production during FY22 was 34023.52 MMSCM, which was 18.66% higher than production during corresponding period of last year but 9.65% lower when compared with target for the period. Natural gas production by ONGC in the nomination blocks during August 2022 was 1661.56 MMSCM, which was 3.26% lower target for the month and 4.7% lower than the production of August 2021. Cumulative natural gas production by ONGC during April-August, 2022 was 8411.01 MMSCM, which was 0.95% and 1.35% lower than target for the period and production during corresponding period of last year respectively.



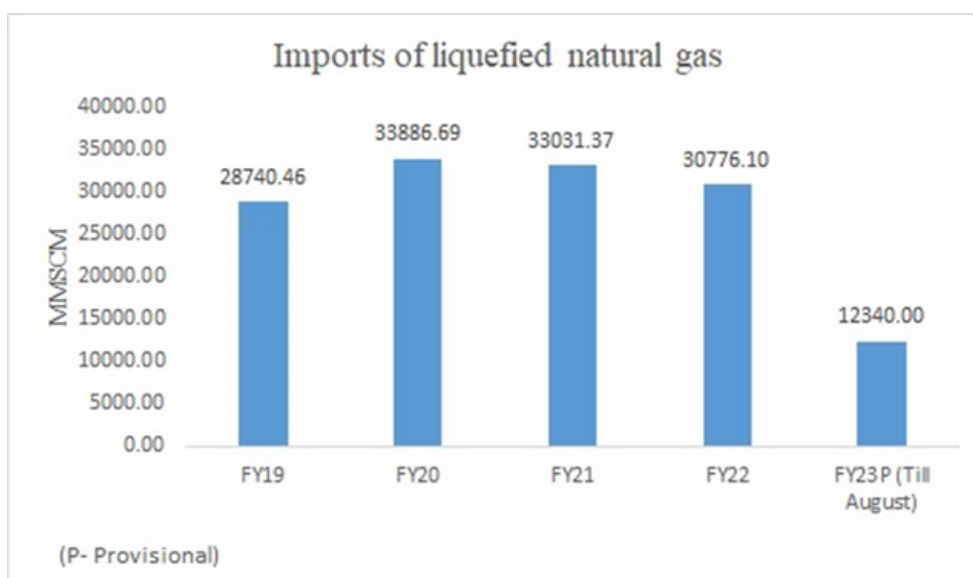
## Consumption of Natural gas likely to fall in current fiscal (FY23)

There is expectation that India's natural gas consumption will fall in the current calendar year as high prices are adversely impacting the demand for the key commodity used by fertiliser manufacturers and city gas distribution (CGD) entities, among others. India consumed 63,907 MMSCM of natural gas in FY22. The government of India revised the price of domestic natural gas by 40% to \$8.57 per mBtu, for the second half of FY23. This will impact demand. Increase in gas prices for priority segments - CNG (Transportation) and PNG (Domestic) - can definitely materially impact the customer value proposition and thus affect new customers moving to gas from alternate fuels like petrol, diesel, and LPG.



## Imports of liquefied natural gas

India imports around half of its natural gas requirements. Imports of Liquefied Natural Gas in India have reduced by 6.83% to 307760.10 MMSCM in FY22 as compared to 33031.37 MMSCM in FY21. During April-August of FY23, India has imported 12340 MMSCM of liquefied natural gas. Imports were fall mainly on account of high spot LNG prices disincentivised imports, with industrial users turning to cheaper fuels than spot LNG.



## Windfall tax on Industry

A windfall tax is a tax levied by government against certain industries when economic conditions allow those industries to experience above-average profits. So when any industry, in this case-oil and gas-benefits from an event or a one-off external situation (the Russia-Ukraine war) that they were not responsible for and make sudden profits, these profits are taxed separately, over and above the normal taxes that these companies pay to the government. Crude oil prices have skyrocketed following the Russia- Ukraine war and the country's oil companies recorded more than normal profits due to this. For instance, companies - ONGC, Oil India and GAIL- declared all-time high net profit in the fiscal year 2022 when international prices soared to a near 14-year high of \$139 per barrel due to the conflict. India first imposed windfall profit taxes on July 1, 2022 joining a growing number of nations that tax super normal profits of energy companies. At that time, export duties of Rs 6 per litre (USD 12 per barrel) each were levied on petrol and aviation turbine fuel and Rs 13 a litre (USD 26 a barrel) on diesel. A Rs 23,250 per tonne (USD 40 per barrel) windfall profit tax on domestic crude production was also levied. The government will review the windfall tax on petroleum and the duty on auto fuel export every 15 days for recalibration.

## Recent developments

**Govt increases natural gas price by 40%:** The government has raised the price of natural gas by 40%. Natural gas is used to generate electricity or fertiliser and turned into compressed natural gas (CNG). This is the third increase in rates since April 2019 and the reason is strengthening of energy prices in the global market. As per an order of Petroleum Planning and Analysis Cell (PPAC), a body of the Petroleum ministry, the rate paid for gas produced from old fields, which make up for nearly two-thirds of all gas produced in the country, was hiked to USD 8.57 per million British thermal units from the current USD 6.1. Similarly, the price of gas from difficult and newer fields like the ones in Reliance Industries and its partner bp plc operated deepsea D6 block in KG basin, was hiked to USD 12.6 per mmmBtu from USD 9.92.

**Govt approves deregulation of sale of domestically-produced crude oil:** The government has allowed firms like ONGC and Vedanta to sell locally produced crude oil to any Indian refinery for turning it into fuel, such as petrol and diesel, as it deregulated one of the last few avenues that were still under its control.





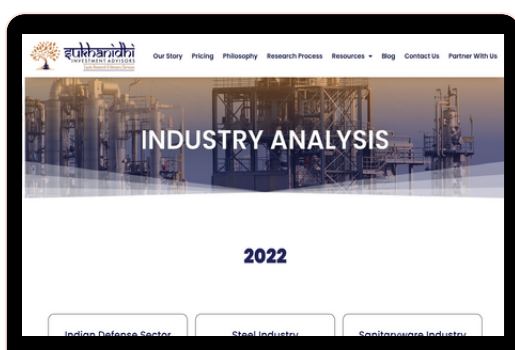
**IOC to set up unit in GIFT City to help raise capital:** Indian Oil Corporation (IOC), the nation's largest oil firm, has said it will float a new company to carry out finance activities including global treasury services in GIFT City, Gandhinagar. Its board has accorded approval for the formation of a wholly-owned subsidiary and opening its office in the International Financial Services Centre (IFSC) at Gujarat International Finance Tec-City (Gift City) in Gandhinagar.

**Iran offers Indian firms 30% stake in gas field:** Iran has offered ONGC Videsh and its partners a 30 per cent interest in development of the Farzad-B gas field in the Persian Gulf that was discovered by the Indian consortium. ONGC Videsh, the overseas arm of state-owned Oil and Natural Gas Corporation (ONGC), in 2008 had discovered a giant gas field in the 3,500 square kilometer Farsi offshore block.

**Petronet LNG to invest Rs 40,000 crore in 5 years:** Petronet LNG, India's biggest gas importer, is planning to invest Rs 40,000 crore in the next five years for expanding import infrastructure as well as foraying into new business to boost profitability to Rs 10,000 crore.

## Outlook

Oil and gas Industry is expected to witness muted growth in near term amid rising crude oil and natural gas prices. The rise in crude prices due to the Ukraine-Russia conflict pushed up domestic prices of transportation fuels and other oil products in India. Meanwhile, there is expectation that natural gas consumption will fall in this year as Govt increases natural gas price by 40%. High prices are adversely impacting the demand for the key commodity used by fertiliser manufacturers and city Oil and gas Industry is expected to witness muted growth in near term amid rising crude oil and natural gas prices. The rise in crude prices due to the Ukraine-Russia conflict pushed up domestic prices of transportation fuels and other oil products in India. Meanwhile, there is expectation that natural gas consumption will fall in this year as Govt increases natural gas price by 40%. High prices are adversely impacting the demand for the key commodity used by fertiliser manufacturers and city gas distribution (CGD) entities, among others. Besides, International crude oil prices experienced a sharp increase in the recent period. All oil-importing countries faced the specter of this 'oils hock' and India, being a net oil importer, was no exception. Although the burden of the price increase at the international market was not fully passed on to domestic consumers in India, the combined oil pool deficit exerted pressure on government finances, affecting the macroeconomic outlook and inflation in the ensuing year.



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