



INDIAN OIL AND GAS INDUSTRY ANALYSIS

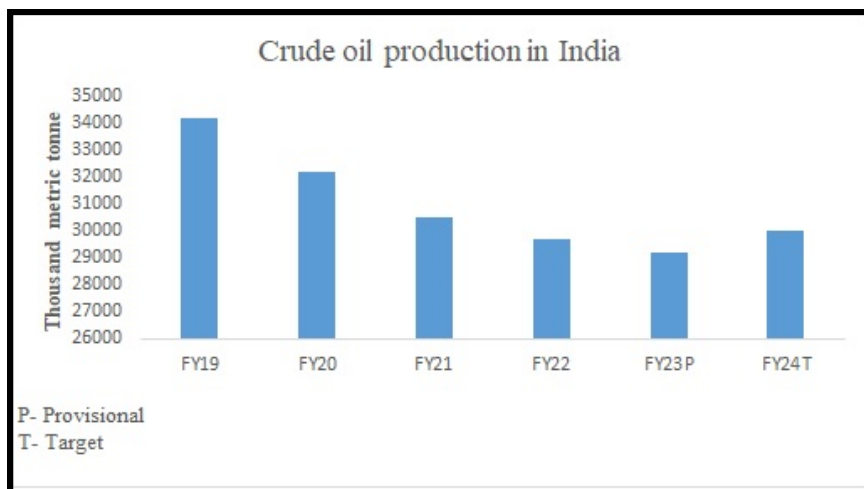
November - 2023



The Indian Oil and Gas industry is growing rapidly and playing an important role for the development of Indian economy. India, which imports around 85% of the crude oil its needs and roughly 55% of its natural gas needs, is the third-largest crude oil importer in the world after the USA and China. 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. 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. The FDI limit for public sector refining projects has been raised to 49% without any disinvestment or dilution of domestic equity in existing PSUs.

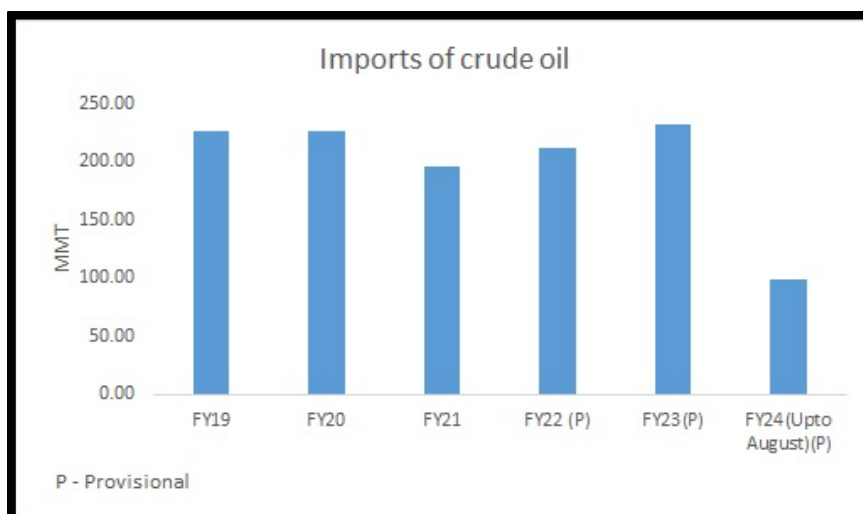
PRODUCTION OF CRUDE OIL IN INDIA :

Crude oil production during April, 2023 was 2382.29 Thousand metric tonne (TMT) which was 2.15% lower than target and 3.54% lower than the production during April, 2022. Crude oil production by ONGC (Oil and Natural Gas Corporation) in nomination block during April, 2023 was 1592.15 TMT which was 1.33% lower than the target and 3.54% lower than the production during April, 2022. Reasons for shortfall in production are as under: Less than planned Production from WO-16. Losses due to unplanned power shut down gas leak compressor shutdown and flowing well falling sick in Mehsana asset. Closure of wells due to ullage constraints because of stoppage of crude oil receipt by M/S CPCL at their storage facility at CPCL-CBR. Water cut increase and potential decline in Gandhar, Ankleshwar and Jambusar fields and lack of new development opportunities in Ankleshwar. Decrease in production in Kesanapalli-West due to decline in well KWDAC and Malleswaram due to delay in Hydrofracturing in Rajahmundry. Crude oil production by OIL (Oil India Ltd) in the nomination block during April, 2023 was 268.60 TMT which was 0.89% lower than target but 6.82% higher than the production during April, 2022. Crude oil production lower mainly due to less than planned contribution from workover wells, drilling wells and old wells. Crude oil production by Pvt/JVs companies in the PSC/RSC (Production Sharing Contract) regime during April, 2023 was 521.54 TMT which was 5.16% lower than the target and 8.12% lower than the production during April, 2022. Cumulative crude oil production during April-March, 2022-23 was 29178.56 TMT, which was 8.41% lower than target for the period and 1.73% lower than production during corresponding period of last year respectively.



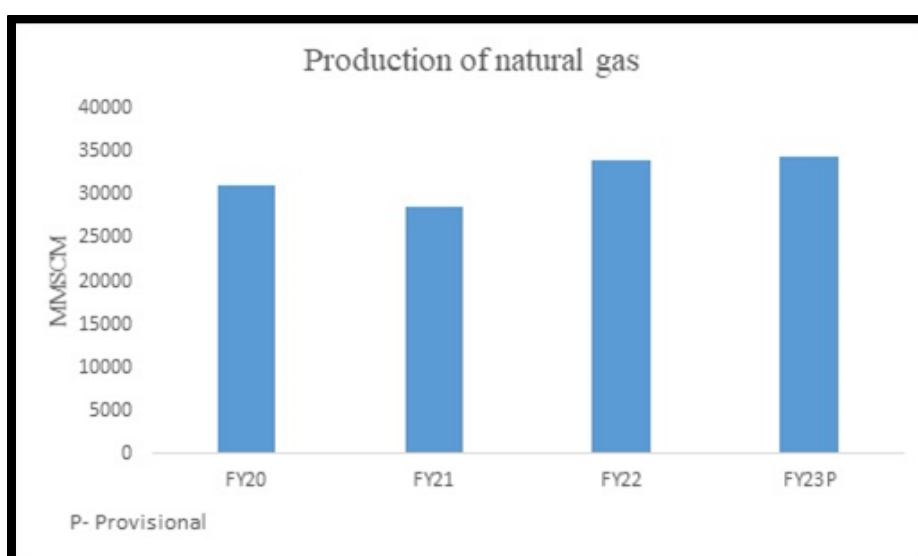
IMPORTS OF CRUDE OIL :

India is amongst top 5 importers of crude oil across the globe. Around 85% of India's demand for oil is met through imports on the back of the demand surge. Crude oil imports of India have been steady in the current financial year till August, as compared to last year. India's crude oil imports stood at 98.4 million metric tonne (MMT) (Provisional) in the first five months of the current financial year, as against 99 MMT (Provisional) in the same period of last year. Rising demand for fuel and other petroleum products amid flagging domestic crude oil output has resulted in India's reliance on imported crude increasing to a record 87.3% of domestic consumption in 2022-23, up from 85.5% in 2021-22. Crude oil imports increased by 9.58% to 232.73 MMT (Provisional) in FY23 as compared to the corresponding period of the previous year.



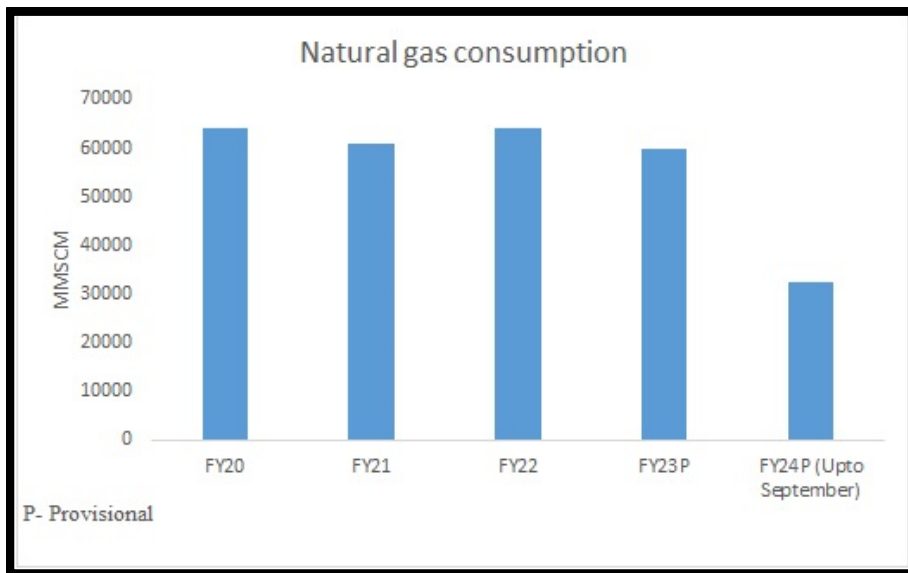
PRODUCTION OF NATURAL GAS :

Natural gas production during April, 2023 was 2744.59 Million Metric Standard Cubic Meter (MMSCM) which was 3.75% lower than the monthly target and 2.91% lower than the production during April, 2022. Natural gas production by ONGC in the nomination blocks during April, 2023 was 1606.66 MMSCM which was 6.62% lower than the target and 5.93% lower than the production during April, 2022. Natural gas production during April-March 2022-23 was 34450.27 MMSCM, which was 6.34% lower when compared with target for the period but 1.25% higher than production during corresponding period of last year. Natural gas production by ONGC during April-March, 2022-23 was 19968.96 MMSCM, which was 7.42% and 3.20% lower than target for the period and production during corresponding period of last year respectively.



NATURAL GAS CONSUMPTION :

Total Natural Gas Consumption in India for the month of September 2023 was 5254 MMSCM which was 12.54% higher than the corresponding month of the previous year. The data indicates a total consumption of 5,254 MMSCM for the month of September, reinforcing India's position as one of the fastest-growing markets for natural gas. The cumulative consumption of 32614 MMSCM for the current financial year till September 2023 was higher by 7.10% compared with the corresponding period of the previous year. Total gas consumption for the financial year 2023 (FY23) was 59968.77 MMSCM which was lower by 6.53% compared with the corresponding period of the previous year.



IMPACT OF ISRAEL-PALESTINE CONFLICT ON INDIA :

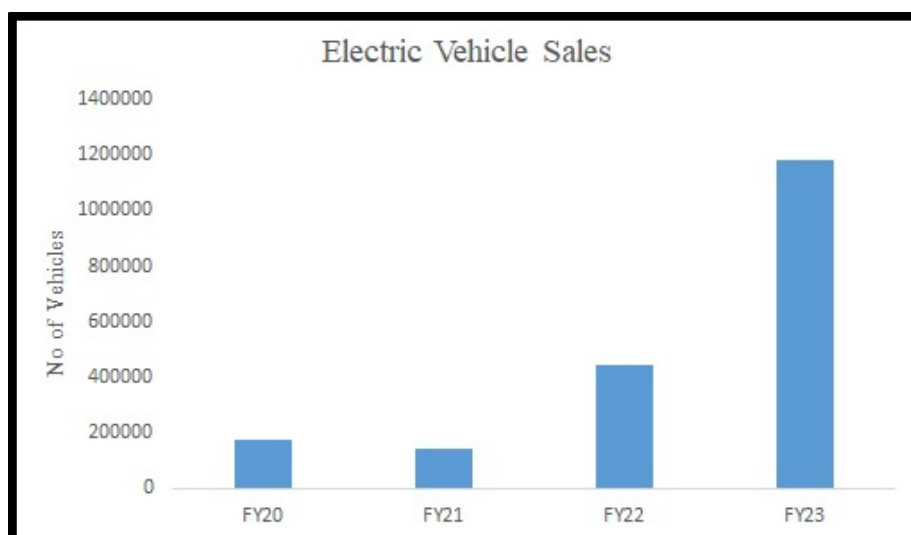
Indian Petroleum and Natural Minister Hardeep Puri has said that the Israel-Palestine conflict will not impact crude oil supplies to India. He assured that the government is closely monitoring the situation. There is no immediate threat to India's import of crude oil from the Middle East, particularly from Iraq and Saudi Arabia, even as the surprise attack by Hamas on Israel threatens to upend the fragile peace in West Asia. However, the war has fuelled volatility in the price of crude oil in the international market. High prices will impact India's import bill and margins of oil marketing companies (OMCs). If the conflict escalates further or its duration increases, there is a chance that it may impact movement along the energy trade routes posing a threat to oil markets.

IMPACT OF BUYING RUSSIAN CRUDE OIL :

In May 2023, India completed 14 months of ramping up discounted Russian crude oil imports. India imported crude oil worth around \$40 billion from Russia in these 14 months. The average price of Russian crude for Indian refineries was \$79.75 per barrel. Compared to non-Russian suppliers, the price was around \$14.5 lower per barrel. That means oil imported from Russia was around 15.3 per cent cheaper compared to other supplying nations. Major beneficiaries in the overall foreign trade were five refineries named Indian Oil Corporation, Reliance Industries, Bharat Petroleum Corporation, Hindustan Petroleum Corporation, and Nayara Energy. India is the world's third-largest consumer of crude oil. Only 15% of the crude oil needs are fulfilled by the Indian suppliers. The remaining 85% of the oil is imported from different suppliers including Saudi Arabia, Iraq and Russia. Before the war broke out between Russia and Ukraine in February 2022, Russia was a marginal player in India's oil trade. In just 14 months, it has become the largest supplier for India.

IMPACT OF GROWING ELECTRIC VEHICLE MARKET ON OIL MARKETING COMPANIES :

Oil marketing companies (OMCs) - Indian Oil Corporation, Bharat Petroleum Corporation and Hindustan Petroleum Corporation - are facing a new challenge these days with every electric vehicle sold in the country eating into the sale of liquid fuel - petrol and diesel. These companies have a combined more than 90% of India's fuel retail market. Diesel is the most consumed fuel, accounting for about two-fifths of domestic fuel demand. There are expectations that in the next three to five years, EVs will gain much ground. So, this will impact the sale of fossil fuels. Every single EV coming in the market is impacting their petrol and diesel sales. Thousands of EVs are out of the liquid fuel ecosystem now. The portion of EVs is still insignificant but it is growing and is expected to reach a critical mass someday.



ETHANOL CAN HELP REDUCE OIL IMPORTS :

Ethanol Blending Programme (EBP) was launched in India in 2003. In 2018, it was given a new thrust under the National Policy on Biofuels (NPB). Among other things, NPB is a guide to producing bioethanol that would be blended with petrol. The government has said it plans to push up the current 10% ethanol blended petrol to 20% from 2025. This work is happening in two phases. In the first phase, 15 cities will be covered and then it will be expanded throughout the country in the next two years. The government is confident of achieving its target by 2025. Via blending, the government wants to reduce India's dependence on imported fuel (and heavy outgo of foreign exchange).

RECENT DEVELOPMENTS

- **India begins producing 'reference' fuel, joins select league of nations:**

India began producing 'reference' petrol and diesel, joining a select league of nations that produce the highly specialised fuel which is used for testing automobiles. The start of production of 'reference' fuel is another step towards Aatmanirbhar Bharat (self-reliant India) as it will end imports. These fuels, which have higher specifications, are critical for calibrating and testing by automobile manufacturers and testing agencies like the International Centre for Automotive Technology (ICAT) and the Automotive Research Association of India. For decades, India has relied on imports to meet the demand for these specialised fuels.

- **Government launches 12th City Gas Distribution (CGD) Bidding Round:**

The government launched the 12th city gas distribution bidding round on October 12, 2023, which offered licences for seven geographical areas (GAs) spread over five states and two union territories. The areas on offer cover 92 districts in Arunachal Pradesh, Meghalaya, Manipur, Nagaland, Sikkim, Jammu & Kashmir and Ladakh. The latest licensing round will expand city gas coverage to almost the entire country. Shri Hardeep Singh Puri, Minister of Petroleum & Natural Gas and Housing & Urban Affairs said that successful conclusion of 11th CGD bidding round has increased potential coverage of CGD sector to about 98% population and 88% geographical area of the country.

- **ONGC planning to invest Rs 1 lakh crore to set up two petrochemical plants**

ONGC is planning to invest about Rs 1 lakh crore in setting up two petrochemical plants to convert crude oil directly into high-value chemical products as it prepares for energy transition. Crude oil, which companies like ONGC pump out from below seabed and underground reservoirs, is a primary source of energy. It is processed in oil refineries to produce petrol, diesel and jet fuel. With the world looking to transition away from fossil fuels, companies around the globe are looking at new avenues to use crude oil.

• Guidelines for Natural Gas Pricing:

The Government has approved the revised domestic natural gas pricing guidelines for gas produced from nomination fields of ONGC/OIL, New Exploration Licensing Policy (NELP) blocks and pre-NELP blocks, where Production Sharing Contract (PSC) provides for Government's approval of prices. The price of such natural gas shall be 10% of the monthly average of Indian Crude Basket and shall be notified on a monthly basis. For the gas produced by ONGC & OIL from their nomination blocks, the Administered Price Mechanism (APM) price shall be subject to a floor and a ceiling. Gas produced from new wells or well interventions in the nomination fields of ONGC & OIL, would be allowed a premium of 20% over the APM price. The reforms have led to significant decrease in prices of Piped Natural Gas (PNG) for households and Compressed Natural Gas (CNG) for transport.

OUTLOOK

Indian oil and gas industry is likely to perform well in coming times as the government's capital spending in different industries is expected to boost the momentum of economic activity in coming years. There is expectation that India is going to lead the growth in global oil demand as a rising working age population, high economic growth, an expanding middle class and rapid urbanisation drive up thirst for the fossil fuel. The ongoing steady services business activity, including air travel recovery and mobility as well as manufacturing and agricultural activity are expected to support oil demand in coming times. Diesel will be the major driver of the demand growth, supported by transportation fuels. Besides, gas consumption in India is expected to grow in coming times, supported by softer LNG prices. Fertilizer sector will continue to remain the largest consumer of gas. Meanwhile, the demand from city gas distribution (CGD) is underpinned by the compressed natural gas (CNG) segment, which remains robust owing to the strong economic advantage over alternate fuels. However, there is expectation that the industry may face some trouble in long term as uses of electric vehicles continuously rising.

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