

OIL AND GAS

Sector Impact - Positive

Background

| Particulars | FY08 | H1FY09 | H2FY09 | FY09 | H1FY10 | Growth (%) | |
|--------------------------------------|---------|--------|--------|---------|--------|------------|--------|
| | | | | | | q/q | y/y |
| Production | | | | | | | |
| Crude Oil (MMT) | 34.120 | 16.805 | 16.705 | 33.510 | 16.600 | -0.63 | -1.22 |
| Natural Gas (MCM) | 32,402 | 16,615 | 16,234 | 32,849 | 21,307 | 31.25 | 28.24 |
| Refinery Production (MMT) | 156.10 | 80.871 | 79.899 | 160.77 | 77.992 | -2.39 | -3.56 |
| Consumption | | | | | | | |
| Petroleum Products (MMT) | 128.946 | 69.304 | 64.295 | 133.599 | 72.062 | 12.08 | 3.98 |
| Imports | | | | | | | |
| Crude Oil (MMT) | 121.672 | 64.838 | 63.317 | 128.155 | 69.605 | 9.93 | 7.35 |
| Petroleum Products (MMT) | 22.462 | 9.975 | 8.310 | 18.285 | 7.166 | -13.77 | -28.16 |
| Export | | | | | | | |
| Petroleum Products (MMT) | 40.779 | 19.033 | 17.898 | 36.931 | 14.393 | -19.58 | -24.38 |
| Prices | | | | | | | |
| Crude Oil (Dubai) (\$/bbl) | 77.40 | 115.13 | 48.41 | 81.80 | 63.01 | 30.16 | -45.27 |
| Crude Oil (Indian Basket - US\$/bbl) | 79.50 | 116.46 | 48.96 | 82.70 | 63.62 | 29.94 | -45.37 |

Source: Petroleum Planning & Analysis Cell (PPAC), Infraline, CMIE and CARE Research

- Crude oil production during H1FY10 was 16.6 MMT, falling short by 5.3% as against targeted production of 17.526 MMT. Natural gas production during H1FY10 was 21,307 MCM, falling short by 13.9% as against the planned target of 24,737 MCM due to scheduled maintenance-related shutdowns by major consumers. The production showed substantial increase in H1FY10 mainly due to start-up of gas production from the KG Basin.
- Consumption of petroleum products showed marked improvement over the previous year, increasing by close to 4.0% on yearly basis. The rise in consumption was driven by increased consumption of HSD due to weak monsoon and amplified industrial activities.
- Export and import of petroleum products deteriorated sharply in H1FY10, dropping by 24.38% and 28.16% respectively on yearly basis, mainly due to lower global demand in the recessionary environment.
- The average price of Indian basket of crude oil in H1FY10 was US\$63.62/bbl as against the average price of US\$116.46/bbl during the same period last year. It may be noted that yoy comparison of prices may not be appropriate given the spike in crude prices in H1FY09.

- The NELP-VIII round was launched on April 9, 2009 and offered 70 blocks for E&P-related activities. In total 76 bids were received for 36 blocks (24 deep water blocks, 28 shallow water blocks, 18 on-land blocks). The response to NELP-VIII round was lower than the previous rounds because of the global economic situation. Whereas under CBM-IV round, 10 blocks were offered through international competitive bidding and a total of 27 bids were received for eight blocks.

Budget Proposals

1. Decision on recommendations by the Kirit Parikh Committee will be taken by the Ministry of Petroleum & Natural Gas (MoPNG) in due course.
2. The government would prefer extending cash subsidies to issuing oil bonds.
3. Minimum Alternate Tax (MAT) increased from the current rate of 15% to 18% of book profits.
4. Basic custom duty of 5% on crude oil has been restored.
5. Basic custom duty on diesel and petrol has been increased from 2.5% to 7.5%. Duty on other refined products will be restored to 10%.
6. The central excise duties on petrol and diesel are increased by Re.1 per litre each.

Duty Structure

| (%) | Existing | Proposed |
|-------------------------------|---------------|---------------|
| CUSTOMS DUTY | | |
| Crude Oil ¹ | Nil | 5 |
| Motor spirit (MS) | 2.50 | 7.50 |
| High Speed Diesel (HSD) | 2.50 | 7.50 |
| Superior Kerosene Oil (SKO) | 5 | 10 |
| Liquefied Petroleum Gas (LPG) | 5 | 10 |
| Aviation Turbine Fuel | Nil | 10 |
| Naphtha | 5 | 10 |
| Furnace Oil | 5 | 10 |
| EXCISE DUTY | | |
| Motor Spirit (MS) | Rs. 13.35/ltr | Rs. 14.35/ltr |
| High Speed Diesel (HSD) | Rs. 3.6/ltr | Rs. 4.6/ltr |

Notes: 1) For crude oil, cess of Rs. 2,500/MT and NCCD of Rs. 50/MT chargeable in lieu of excise; NCCD of Rs 50./MT chargeable in lieu of custom duty. 2) The above rates exclude additional education cess @ 2% and NCCD @ 1%.
Source: PPAC

Budget Impact: Industry

1. The government did not announce any measures to implement recommendations by the Kirit Parikh Committee. Any decision in this regards shall be taken by MoPNG in due course. Market participants were expecting a formal road map for implementation of some of the recommendations.
2. The government has shown preference for extending cash subsidies to issuing oil bonds. This is positive for state-run Oil Marketing Companies (OMCs) in the short run, as they would be able to curtail losses incurred by selling fuel at below-market prices. However, the gap between disbursement of cash subsidies and actual under-recoveries would decide the extent of benefit. This move is also likely to add more credibility to the reported fiscal deficit numbers as currently oil bonds are considered as “off-balance sheet” items and are not included in the calculation of fiscal deficit.
3. The increase of MAT rate from 15% from 18% is expected to result in high tax outflow in initial years. This move effectively negates the benefit arising out of the tax holiday provision and is negative for companies falling under MAT regime.
4. Increase in the custom duty of crude oil is likely to put some pressure on the realizations of domestic refiners. This move is likely to reduce refining margins of private sector refiners such as RIL and Essar. However, the impact of the increase would not be very pronounced in case of state-run OMCs as higher under recoveries arising out of higher refinery gate prices will be compensated by the government in the form of cash subsidies.
5. Increase in basic custom duty of refined products is positive for state-run OMCs as it provides them with duty protection against imported fuels.
6. Basic excise duty on petrol and diesel has been revised up by Re.1 per ltr each to Rs.14.35 and Rs.4.60 per ltr, respectively. We expect that impact of this change in duty to be neutral for the industry as it is passed on to the consumers.
7. Overall, CARE Research expects the 2010-11 Union Budget to have positive impact on the oil and gas sector. This budget is very positive for state-run OMCs on three accounts 1) increase in custom duties of major refined petroleum products are likely to provide effective duty protection 2) the hike in custom duty of crude oil will be indirectly compensated to these refiners in the form of cash subsidies and, 3) the rise in excise duty in petrol and diesel will be passed on to the consumers.

Budget Impact: Companies

| Company | Products | % of Sales | Applicable Proposals | Overall Impact |
|--------------------------------|--------------------------|------------|----------------------|----------------|
| Oil & Natural Gas Corp. Ltd. | Exploration & Production | 100 | 4 | ▲ |
| Reliance Industries Ltd. | Exploration | 5 | 1, 3, 4 | ▼ |
| | Oil Refining | 71 | | |
| | Petrochemicals | 23 | | |
| | Others | 1 | | |
| Bharat Petroleum Corp. Ltd. | Refining & Marketing | 100 | 1, 2, 4, 5, 6 | ▲ |
| Hindustan Petroleum Corp. Ltd. | | | | |
| Indian Oil Corp. Ltd. | | | | |

Legends:

| | | | | | |
|----|-----------------|----|-----------------|----|--------------|
| ▲▲ | Highly Positive | ▼ | Negative | ◄► | Neutral |
| ▲ | Positive | ▼▼ | Highly Negative | ∅ | No Proposals |