

RESEARCH

Oil & Gas

Domestic gas price regime - not much change

SUMMARY

Oil & Gas

The Cabinet Committee on Economic Affairs (CCEA) has approved 'Natural Gas Marketing Reforms', with an objective to discover market price of gas from new producing fields through a transparent and competitive process. The CCEA has also permitted affiliates of gas producing companies to participate in bidding process. However, pricing formula for existing producing fields remains the same. The detailed guidelines are awaited, but seems like this would have a marginal impact on our valuation and earnings for ONGC and OINL. Despite providing a gas pricing freedom, we believe prices would remain unattractive on sustained low oil prices, and would continue to hamper domestic gas production outlook.

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TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	4,000
Cipla	Buy	850
GAIL	Buy	155
Petronet LNG	Buy	310
Tech Mahindra	Buy	910

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,600
Chola Investment	Buy	280
Laurus Labs	Buy	1,200
Transport Corp	Buy	270
Mahanagar Gas	Sell	750

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.79	5bps	7bps	(80bps)
India 10Y yield (%)	6.01	(1bps)	8bps	(44bps)
USD/INR	73.33	0.2	(0.3)	(3.2)
Brent Crude (US\$/bbl)	41.99	(1.5)	(1.6)	(28.0)
Dow	28,303	1.9	0.6	7.4
Shanghai	3,218	(0.2)	(4.1)	10.0
Sensex	39,879	0.8	4.0	4.5
India FII (US\$ mn)	6 Oct	MTD	CYTD	FYTD
FII-D	(39.2)	(336.3)	(15,016.1)	(5,256.6)
FII-E	144.7	445.0	4,485.0	11,088.0

Source: Bank of Baroda Economics Research

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08 October 2020

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Marketing freedom: The CCEA has allowed e-bidding for all incremental gas production from domestic fields, while also allowing affiliate companies of producers (especially beneficial for RIL, ONGC and GSPC) to bid for volumes from these fields. This follows from recent bidding from RIL and GSPC seeing a muted response from industry. The government may come up with a detailed guideline to ensure the process is transparent enough to not skew prices in favour of the affiliate companies.

Existing APM production to continue with old pricing mechanism: Existing gas production (~60 mmscmd) will continue to be priced as per the old formula (set at US\$1.9/mmbtu from Oct’20, against current spot LNG price of US\$5/mmbtu). Government for now is not looking to revise prices higher, ignoring commentary from ONGC/OINL about cost of production being ~US\$3/mmbtu for these.

Not much change for incremental production: While government has assured market linked pricing for incremental production, the only change this notification carries is on constituting an e-bidding process, and providing a better marketing freedom. ONGC intends to produce ~20 mmscmd from fields in KG basin from 2021, while RIL is expected to ramp up production by ~15 mmscmd by 2023 from KG basin. However, most of the FDPs for these fields were approved prior to Feb 2019, hence its unclear whether these productions would get marketing freedom.

Details awaited: We would look for details for the e-bidding process, and new terms for marketing freedom, before revisiting our estimates.

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KEY RECOMMENDATIONS

Ticker	Rating
ONGC IN	BUY
OINL IN	REDUCE



Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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