Saigal SeaTrade Research

India’s Oil and Gas Tanker Outlook

January 2022

Oil India exits US shale venture, sells 20 pc stake for $25 million

- State-owned Oil India Ltd (OIL) has exited from a US shale oil venture, selling its 20 per cent stake to its venture partner for $25 million - the second exit of an Indian firm from the US shale business in two months.
- "Oil India (USA) Inc (wholly owned subsidiary of OIL), divested its entire stake in Niobrara shale asset, USA," a regulatory filing by the company said, adding the consideration received was USD 25 million.
- OIL and Indian Oil Corporation (IOC) had together in October 2012 bought a 30 per cent stake in Houston-based Carrizo Oil & Gas's Niobrara shale asset in Colorado for $82.5 million.
- While OIL had acquired 20 per cent, IOC bought 10 percent in Carrizo's Niobrara basin acreage assets through their respective subsidiaries.
- The total investment of $82.5 million included an upfront cash payment of $41.25 million and a carry amount of $41.25 million, linked to Carrizo's future drilling and development cost.
- The stake was sold to Verdad Resources LLC, which is the operator of the asset.
- Originally, OIL acquired the 20 per cent interest in the liquid rich shale asset in the Denver-Julesburg Basin from Carrizo Oil & Gas, Inc. Carrizo sold its entire stake in the Niobrara asset to Verdad Resources LLC in January 2018. As a result, Verdad became the new operator of the asset.
- Haimo Oil & Gas holds the remaining 10 per cent stake in the project.
- The move by OIL follows Reliance Industries Ltd's exit from US shale, which has not been attractive in generating returns.
- In November last year, Reliance said its wholly-owned subsidiary Reliance Eagleford Upstream Holding, LP has signed an agreement with Ensign Operating III, LLC to divest its interest in upstream assets in the Eagleford shale play of Texas.
- With this, Reliance has divested all its shale gas assets and exited the shale gas business in North America. The firm had previously divested its entire stake in the Marcellus shale blocks.
- State gas utility GAIL (India) Ltd continues to hold a 20 per cent stake in Carrizo's Eagle Ford shale acreage, which it had acquired in 2011.
- OIL, in the filing, said its subsidiary Oil India (USA) Inc had reported a net profit of $279,000 on a revenue of $4.27 million in the fiscal year ending March 31, 2021.
- When in 2012 it and IOC bought a stake in Niobrara, they were to receive a 30 per cent interest in Carrizo's production of about 1,850 barrels of oil-equivalent a day from 24 gross wells.
- Carrizo held 61,500 gross acres in the Niobrara basin, of which the Oil India-IOC consortium had 18,450 acres, spread over three counties in Texas.
- Apart from participating in Carrizo/Verdad operated wells, OIL USA has also participated in wells drilled by other operators in the region, such as Noble Energy, Whiting Oil and Gas, Mallards, Bison energy etc. Net production to OIL was about 415 barrels of oil equivalent.
- OIL, whose assets in the northeast account for its entire crude oil production and the bulk of gas production, had aggressively scouted for overseas assets in the last decade.
- As a result, it acquired interest in oil and gas exploration and producing assets from Venezuela to Russia. It continues to hold those assets.

India's oil production continues to slip, down 2% in December

- India's production of crude oil, which is refined to produce petrol and diesel, continued to decline in December 2021, with lower output from state-owned ONGC leading to a near 2 per cent drop, official data showed on Wednesday. Oil production in December 2021 was 2.51 million tonnes, down from 2.55 million tonnes a year earlier and a target of 2.6 million tonnes. The output was, however, higher than 2.43 million tonnes production in November 2021.
- State-owned Oil and Natural Gas Corporation (ONGC) - India's biggest producer, produced 3 per cent less crude oil at 1.65 million tonnes in December due to delays in mobilising equipment at western offshore fields. Oil India Ltd (OIL) produced 5.4 per cent more crude oil at 2,54,360 tonnes.
- India is 85 per cent reliant on imports to meet its crude oil needs as domestic output is insufficient to meet the demand.
- During April-December - the first nine months of the current fiscal year - crude oil production fell 2.63 per cent to 22.3 million tonnes. ONGC produced 4 per cent less oil at 14.6 million tonnes.
- Natural gas production, however, rose by almost a fifth to 2.89 billion cubic meters (bcm) in December, mainly due to output from newer fields in the KG-D6 block, operated by Reliance Industries Ltd and BP plc.
- ONGC produced 5.42 per cent less gas at 1.75 bcm, while the output from eastern offshore - where KG-D6 is situated - jumped 515 per cent to 593.5 million cubic meters.
- The data did not give individual field output.
- Reliance-BP in 2020 started gas production from newer fields in the KG-D6 block.
- During April-December, India's gas output rose 21.5 per cent to 25.6 bcm. While ONGC output was 6 per cent lower year-on-year, eastern fields production surged 1,049 per cent to 5.05 bcm. ONGC produced 12.5 per cent less than the target for the first nine months of the current fiscal.
- With economic activity rebounding after a devastating second wave of COVID-19, refineries turned 2 per cent more crude oil into fuel in December and 10.5 per cent more during April-December. They processed 21.4 million tonnes of crude oil in December and 177.2 million tonnes in the first nine months of the current fiscal year ending March 31, 2022.
- Refineries operated at 101 percent of their installed capacity in December. During April-December, the run-rate was 85.18 per cent, mostly because of lower capacity operations during the earlier part of the year when the COVID-19 second wave pummeled the economy, crushing fuel demand.
- Refineries produced 6 per cent more petroleum products in December at 22.75 million tonnes when compared to the year-ago period. During April-December, the petroleum production output was 10 per cent more at 186 million tonnes.

India's oil import bill witness steep rise

- Surging prices have doubled India's oil import bill this financial year while gas import costs have risen 61%.
- India paid $82.4 billion for the crude oil it imported in the nine months through December 2021, a 108% jump over $39.6 billion paid over the same period in 2020, according to the Oil Ministry data. The jump was primarily due to spiraling prices as the volume of imported oil increased only 9% in the same period.
- The bill for nine months has already eclipsed the entire year’s import spending of $62.2 billion in 2020-21. At the current pace, this year’s import spending would easily surpass $101.4 billion of 2019-20 and may match $112 billion of 2018-19.
- Oil was trading above $88 per barrel on Monday, 36% up since the beginning of the current financial year, as supply has lagged a sharp recovery in global demand. Geopolitical tensions in the Mideast and Eastern Europe have also aided price rise in recent days.
- The average price of the Indian basket of crude oil is about $73 per barrel this fiscal year as against $45 in 2020-21 and $60.5 in 2019-20.
- The natural gas import bill too has expanded 61% to $8.7 billion even though volumes fell 3% in the April-December period. India paid $7.9 billion in 2020-21 and $9.5 billion in 2019-20 for the import of gas.
- Natural gas prices have skyrocketed in the global market as supply failed to match demand. Record-high rates in the spot market have curbed Indian consumption of liquefied natural gas (LNG). Asia-delivered LNG has traded above $30 per mmBtu for months in the spot market. Even LNG volumes obtained under long-term contracts have become expensive as these are mostly linked to oil prices that have sharply risen this year.

India’s Recovery in Petroleum Product Demand to Continue

- Fitch Ratings expects India’s petroleum product demand to remain moderately strong in the fourth quarter of the financial year ending March 2022 (4QFY22), as the easing of Covid-19 pandemic-led restrictions boosts economic activity. The recovery should support higher throughput at most rated oil marketing companies and we expect strong prices to improve the financial profiles of upstream oil and gas companies.
- We forecast capex to stay high as oil marketing companies expand their refining capacity and retail networks, and upstream companies enhance production. We expect stable crude oil production, which should marginally increase in FY23 as upstream producers continue to invest in exploration and development. India’s natural gas production increased by 22% yoy in April-December 2021 and the momentum is likely to continue over the next 12-18 months, driven by expanded production at new fields, before stabilising in FY23.
- We believe rising domestic production and higher liquefied natural gas (LNG) spot prices are likely to weigh on LNG imports through to 1HFY23. However, LNG imports should rise steadily over the medium-term as consumption picks up pace.