

Sector View

Oil & gas: An energetic performance

The sector did well in the December quarter, thanks to good volume growth

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The oil and gas sector delivered a strong show in the December 2017 quarter, with almost all the major companies delivering healthy double-digit profit growth Y-o-Y. The consolidated profit of Reliance Industries grew 25 per cent Y-o-Y, led by healthy volume growth and higher margins in the petrochemicals segment that offset the slight fall in operating profit in the refining segment due to dip in crude volumes refined.

Besides, the digital business (RJio) established itself as a profit driver. RJio posted its first quarterly net profit, aided by subscriber additions and a cut in interconnect usage charges. The organised retail business also performed well, with operating



profit more than doubling. Oil and gas exploration, though, struggled with losses continuing due to production challenges.

The rally in crude oil and the increase in the formula-linked domestic gas price helped the

PSU oil and gas explorers, ONGC and Oil India, in the December quarter. Higher realisations from both oil and gas saw ONGC's profit rise about 15 per cent Y-o-Y, while Oil India's profit increased 55 per cent. Profit growth would have been higher

but for increase in depreciation, depletion and impairment costs, and decrease in other income.

Inventory gains

The PSU oil marketing companies Indian Oil, HPCL and BPCL benefited from healthy inventory gains due to rising crude oil prices, along with increase in sales volumes and higher gross refining margins – the difference between the price of the product slate and cost of crude oil. Indian Oil's profit nearly doubled, while HPCL's profit rose about 23 per cent Y-o-Y. BPCL's profit though dipped about 6 per cent Y-o-Y due to increase in operating expenses related to the stabilisation of the Kochi refinery.

Growth in profits

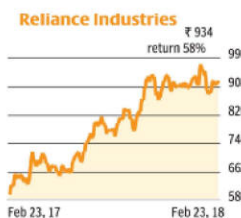
Similar to the oil companies, the gas utilities also did quite well in the December quarter, thanks to favourable pricing dynamics and volume growth. An increase in transmission volumes, with higher sales to power plants and

higher capacity utilisation at its petrochemicals plant at PATA, helped gas transmission major GAIL (India) grow its profit by more than 28 per cent Y-o-Y.

Gas importer and regasifier Petronet LNG's profit increased by about a third compared to the year-ago period, driven by good volume growth at its mainstay Dahej terminal and also at the Kochi terminal, and higher price realisations.

Delhi-based city gas distributor Indraprastha Gas benefited from healthy volume growth in both the compressed natural gas (CNG) and piped natural gas (PNG) segments, which offset margin pressure due to higher gas sourcing and other costs that were not fully passed on.

The company's profit rose about 15 per cent Y-o-Y in the December quarter. Mumbai-based Mahanagar Gas posted a stronger 25 per cent growth in profit, aided by not only higher volumes in CNG and PNG, but also higher price realisations that offset cost increases.



Good show

The PSU oil marketing companies benefited from healthy inventory gains and increase in sales volumes