

# INDIAN UPSTREAM OIL & GAS INDUSTRY

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Crude oil prices remain range bound;  
Indian upstream players to report  
healthy profitability

March 2023



# Agenda

## 1 Perspective on Crude Prices



## 2 Windfall Gains Tax



## 3 Regulatory and Policy Developments



## 4 Oil and Gas Production



## 5 Oil Imports



## 6 Industry Projection



## 7 Industry Performance



## 8 Industry Peer Comparison



## 9 ICRA Ratings on Upstream Companies



*Oil prices fell from the highs of around \$135/bbl in March 2022 to around \$75/bbl as of now, led by weakening global demand. International gas prices also witnessed correction, however, domestic gas prices continue to remain elevated. Despite the fall in crude prices, the profitability of upstream companies is likely to remain healthy. With the introduction of windfall tax, the margins and cash accruals of the industry will be impacted, however, the capex plans of the incumbents would remain largely intact.*



- The rising concerns about US interest rate hikes led to the correction in crude oil prices, though a recovery in Chinese demand provided some support.



- Domestic crude oil production steadily declined with oilfields maturing. The domestic consumption of crude oil is expected to grow by about 3-4% over the near to medium term.



- The GoI imposed a cess of ~\$40 per barrel on crude oil production, on July 1, 2022. This largely stems from elevated crude prices and the windfall gains made by the crude producers. Since then, there have been multiple revisions in the cess, which currently stands at ~\$6/barrel.



- Prices of domestic gas also increased substantially in the last revision due to the elevated prices at various international hubs amid high spot gas prices. However, the Kirit Parikh Committee suggests floor and ceiling for domestic gas from older fields.



- There has been a dip in Russian imports by the EU, while there have been higher imports by other geographies including China, India etc. The landed price of Russian crude is at a discount of about \$11-16/bbl compared to the Middle-eastern crudes, as per the Ministry of Commerce data.



- The debt coverage indicators of the industry are expected to remain healthy – interest coverage at more than 9.1x for FY2024, with Total debt/OPBDITA at 1.5-2.0.x.



- The overall credit protection metrics of domestic upstream companies are expected to remain healthy over the medium term.



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