FIPI

Federation of Indian Petroleum Industry

MARCH 2020

# POLICY & ECONOMIC REPORT

## OIL & GAS MARKET

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# Policy & Economic report – Oil & Gas market

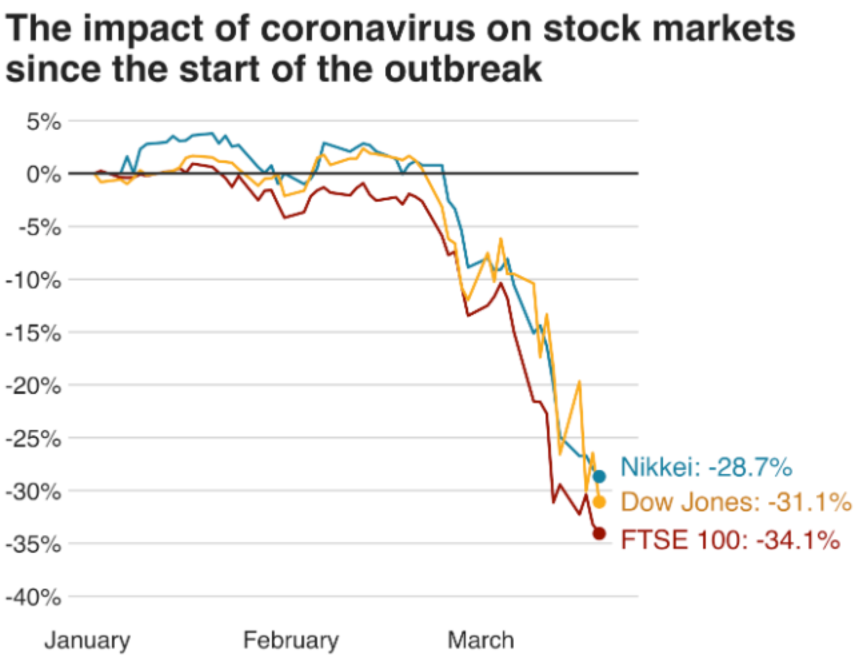
## Economy in Focus

**1. Economy takes the hardest hit as the world suffers from COVID-19 pandemic**

The coronavirus outbreak, which originated in China, has infected hundreds of thousands of people across the globe. It's spread has left businesses around the world counting costs. Below is a selection of maps and charts to demonstrate the economic impact of the virus so far:

**Global Stock Market Hit**

Big shifts in stock markets, where shares in companies are bought and sold, can affect many investments in pensions or individual savings accounts (ISAs). The FTSE, Dow Jones Industrial Average and the Nikkei have all seen huge falls since the outbreak began on 31 December.

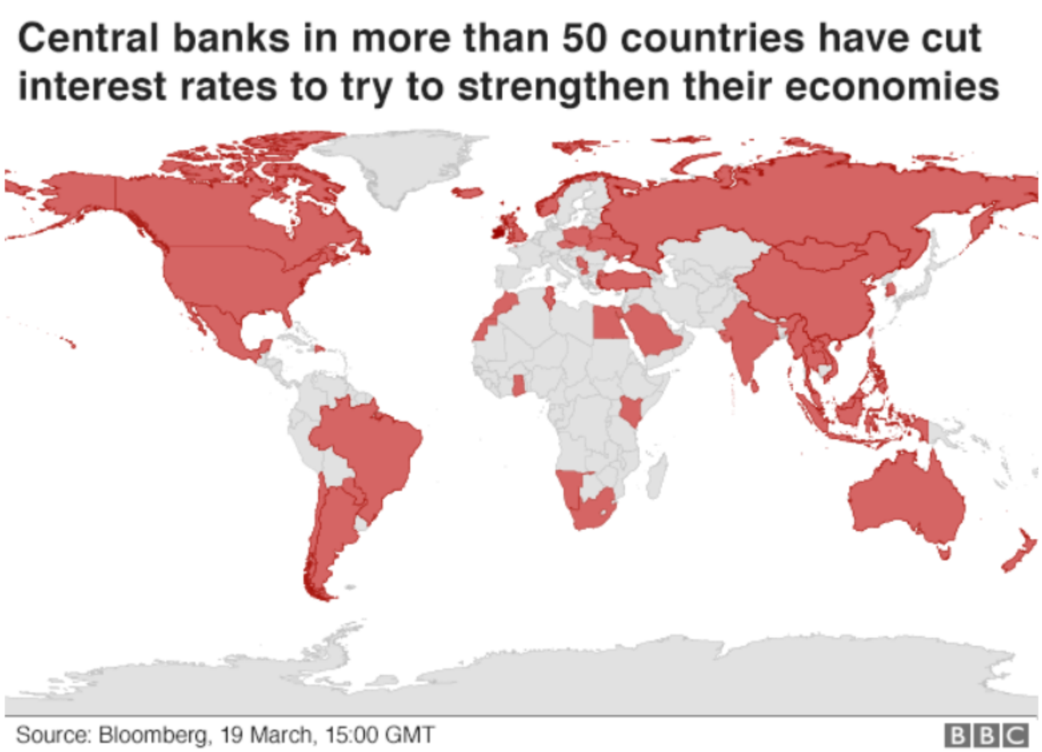



Source: Bloomberg

After a rise in the reported cases of Coronavirus in the country witnessed a rise and the economy went into a standstill, Sensex saw a sharp decline in the month of March as shown in graph:

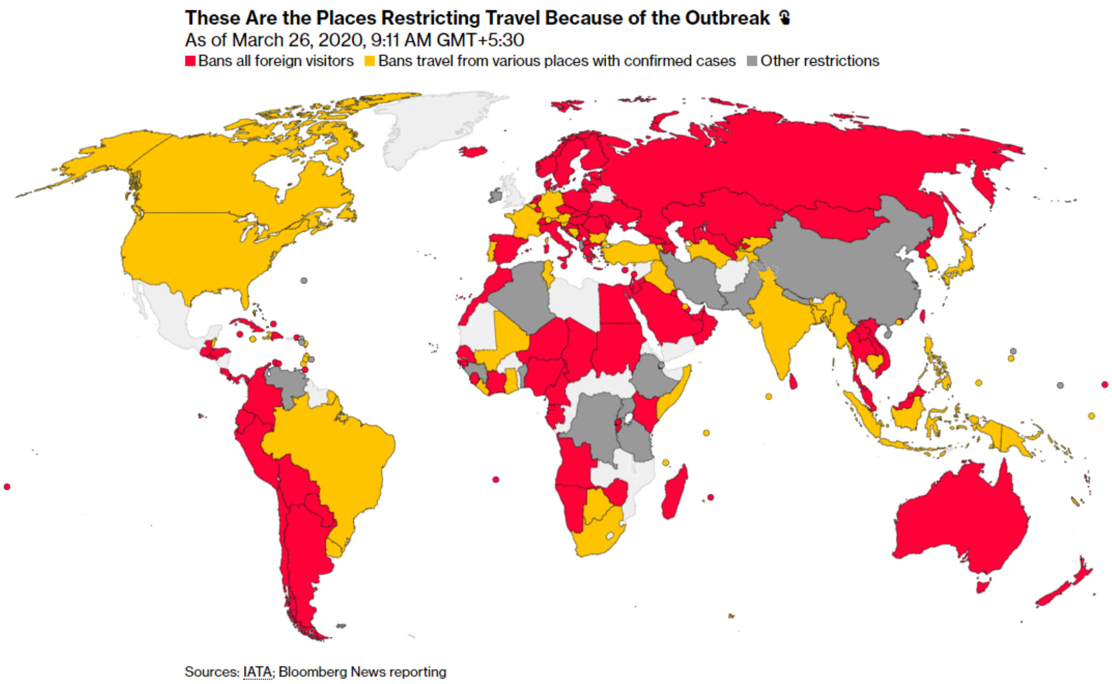

Source: Google Finance

The Dow and the FTSE have seen their biggest one day declines since 1987. Investors fear the spread of the coronavirus will destroy economic growth and that Government action may not be enough to stop the decline. In response, central banks in many countries have cut interest rates. That should, in theory, make borrowing cheaper and encourage spending to boost the economy.

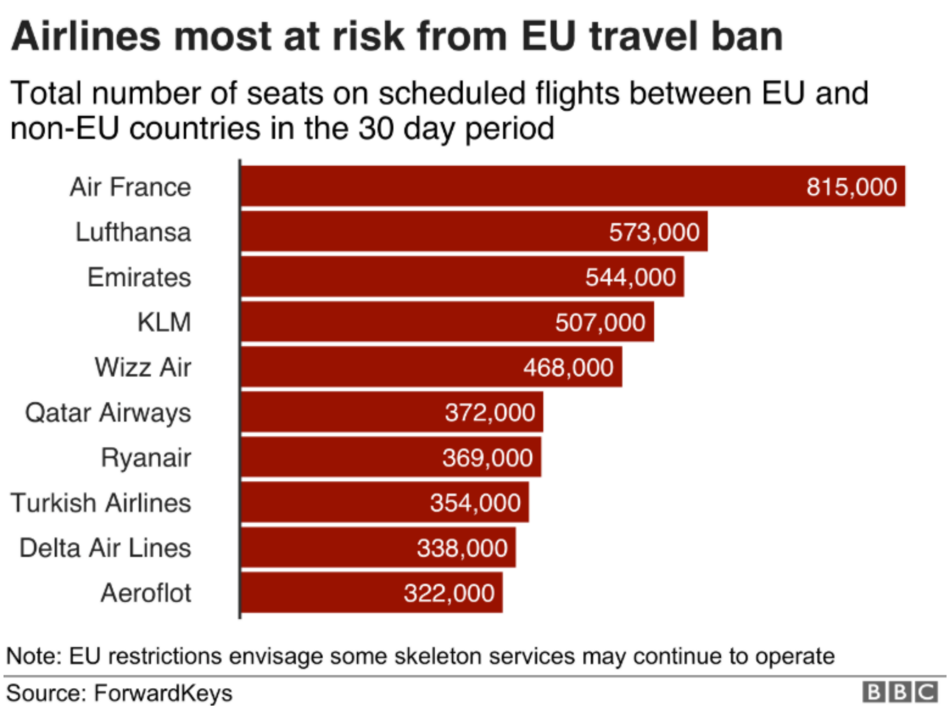



**Travel among hardest hit**

The travel industry has been badly damaged, with airlines cutting flights and tourists cancelling business trips and holidays. Governments around the world have introduced travel restrictions to try to contain the virus.




The EU is banning travelers from outside the bloc for 30 days in an unprecedented move to seal its borders because of the coronavirus crisis. The analytics firm ForwardKeys has estimated that up to 48,200 flights with 10.2 million seats could be affected by the ban, with the biggest impact falling on Air France. India has imposed a complete ban on air and rail travel as of now.

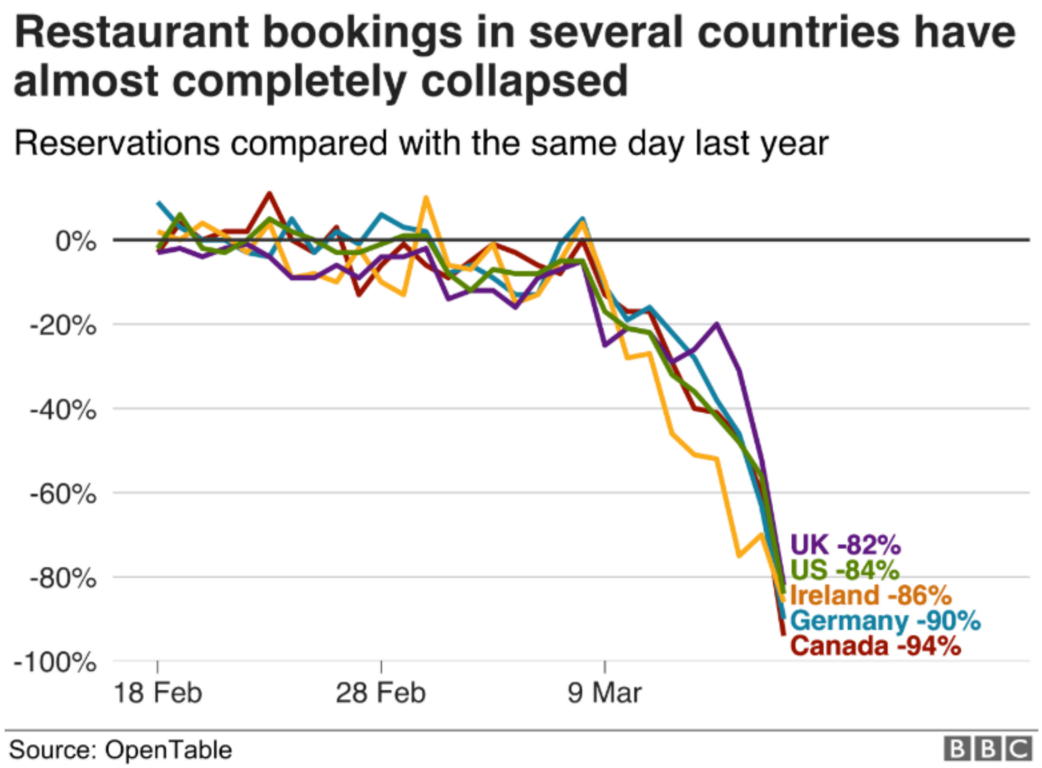



In the US, the Trump administration has banned travelers from European airports from entering the US.

UK travel industry experts have expressed concerns about Chinese tourists being kept at home. There were 415,000 visits from China to the UK in the 12 months to September 2019. Chinese travelers also spend three times more on an average visit to the UK at EUR 1,680 each.

**Customers buying less**

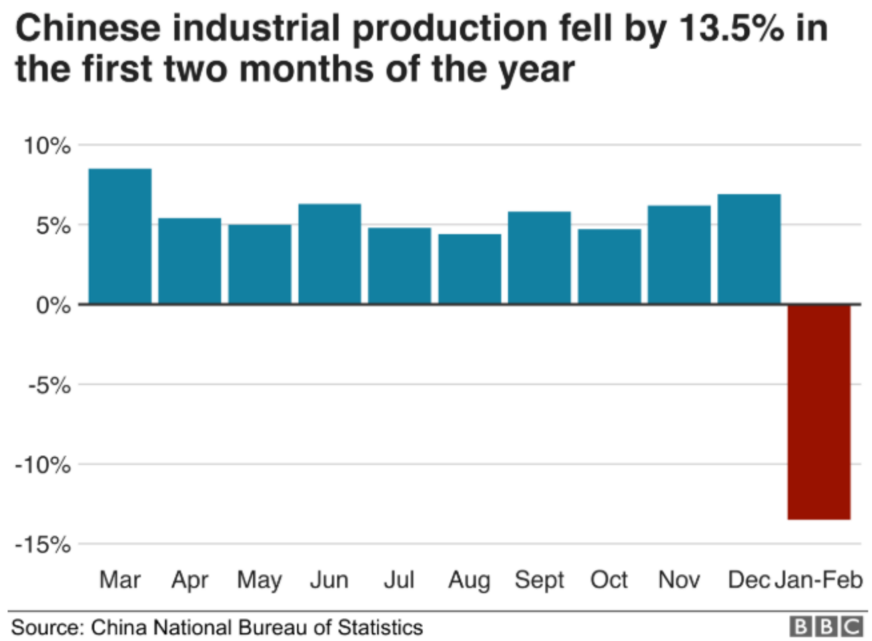
Fear of the virus and government advice to stay at home is also having a devastating impact on hotels and restaurants




**Factories in China slowed down**

In China, where the coronavirus first appeared, industrial production, sales and investment all fell in the first two months of the year, compared with the same period in 2019. China makes up for a third of manufacturing globally, and is the world's largest exporter of goods. However, China's manufacturing rebounded in March as authorities relaxed anti-disease controls and allowed factories to reopen. The purchasing managers' index issued by the Chinese statistics bureau and the official China Federation of Logistics & Purchasing rose to 52 in March from record low of 35.7 in February on a 100-point scale on which numbers above 50 show activity increasing.

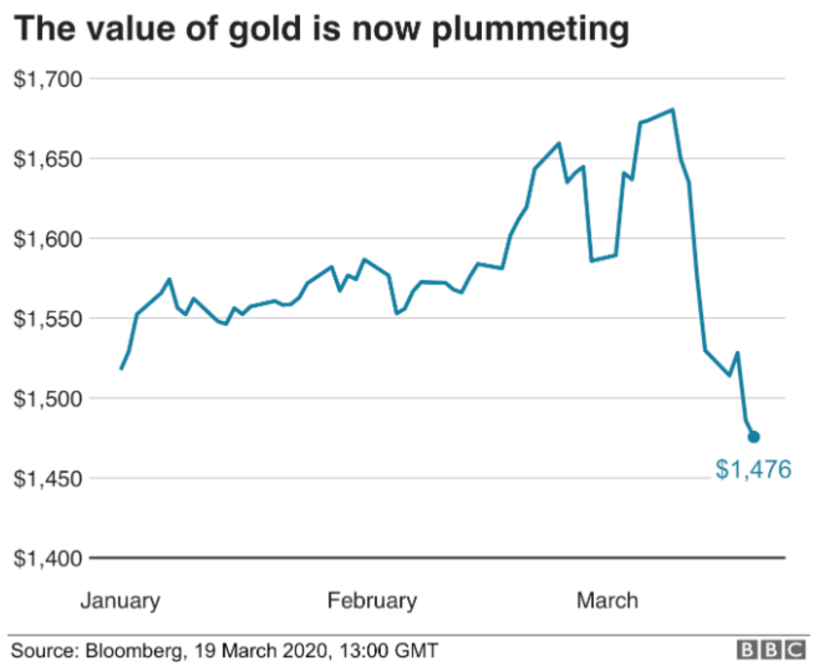
In spite of the recent growth in industrial activities, experts have warned that the economy still faces challenges as manufacturers rebuild supply chains and authorities try to prevent a spike in infections as employees stream back to work.




Restrictions have affected the supply chains of big companies such as industrial equipment manufacturer JCB and carmaker Nissan. Shops and car dealerships have all reported a fall in demand. Chinese car sales, for example, dropped by 92 per cent during the first half of February. More carmakers, like Tesla or Geely, are now selling cars online as customers stay away from showrooms.

**Even 'safer' investments hit**

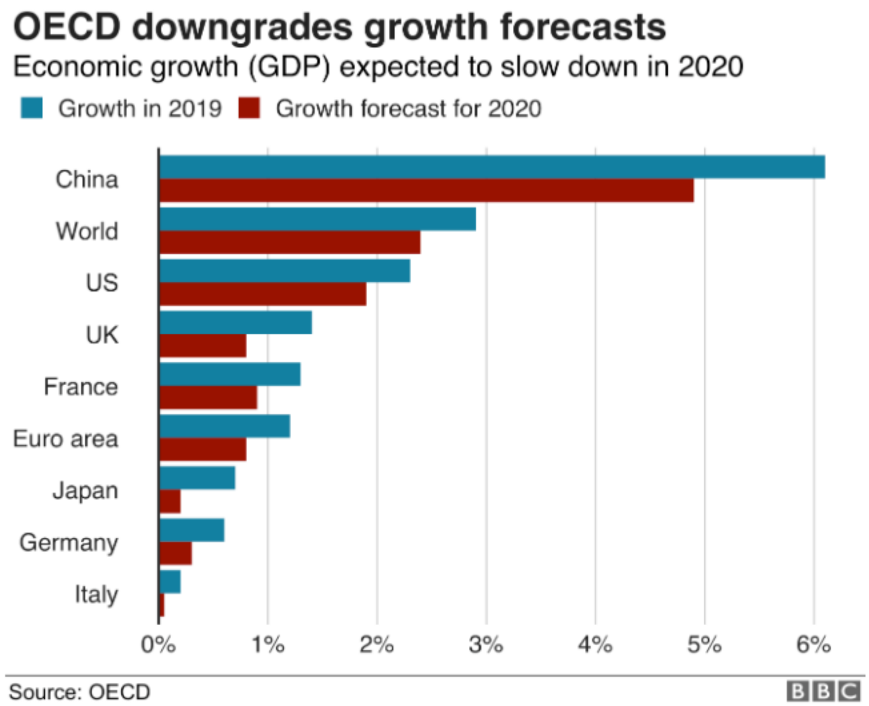
When a crisis hits, investors often choose less risky investments. Gold is traditionally considered a "safe haven" for investment in times of uncertainty. Until March the price of gold increased. But now, with investors increasingly fearful about a global recession, even the price of gold has tumbled.




Likewise, oil has slumped to its lowest price since June 2001. Investors fear that the global spread of the virus will further hit the global economy and demand for oil. The oil price had already been affected by a row between OPEC, the group of oil producers, and Russia. Coronavirus has driven the price down further.

**Growth could stagnate**

If the economy is growing, that generally means more wealth and more new jobs. It's measured by looking at the percentage change in gross domestic product, or the value of goods and services produced, typically over three months or a year. The world's economy could grow at its slowest rate since 2009 this year due to the coronavirus outbreak, according to the Organization for Economic Cooperation and Development (OECD).




2. **UNCTAD predicts Coronavirus to cost world economy USD 1 trillion; no country will be spared of the impact**

The UN Trade and Development Agency (UNCTAD) has indicated that apart from the tragic human consequences of the COVID-19 coronavirus epidemic, the economic uncertainty it has sparked will likely cost the global economy more than USD1 trillion in 2020.

UNCTAD envisages a slowdown in the global economy to under two per cent for this year, and that will probably cost in the order of USD 1 trillion, compared to expert forecasts from September, 2019.

Launching the UNCTAD report as world financial markets tumbled over concerns about supply-chain interruptions from China, and oil price uncertainty among major producers, Mr. Kozul-Wright, Director, Division on Globalization and Development Strategies, UNCTAD warned that few countries were likely to be left unscathed by the outbreak's financial ramifications.

**Doomsday Scenario** (Source: UNCTAD, UN News)

One "Doomsday scenario" in which the world economy grew at only 0.5 per cent, would involve "a $2 trillion hit" to gross domestic product adding that collapsing oil prices had been a contributing factor to that growing sense of unease and panic. While it was difficult to predict how the international financial markets will react to COVID-19’s impacts, it is clear that the markets are extremely anxious about the impact. There is already a degree of anxiety now that’s well beyond the health scares which are very serious and concerning.


Source: UNCTAD

**Spend now, to avoid meltdown later**

To counter these fears, Governments need to spend at this point in time to prevent the kind of meltdown that could be even more damaging than the one that is likely to take place over the course of the year.

Asked about how different countries might react to the crisis including China – where the virus first emerged in December – and the United States, experts are of the opinion that the Chinese Government would likely introduce significant “expansionary measures” – shorthand for increasing spending or tax cuts.

To cope with the impact of the virus, the US Government will have to look for measures well beyond simply cutting taxes and reducing interest rates. However, in an election year, it is highly unlikely that the US Government will take any such extreme measures.

Turning to Europe and the Eurozone, UNCTAD report noted that its economy had already been performing “extremely badly towards the end of 2019”.

**Europe facing recession**

Recent reports suggest that a deep recession in the Europe is inevitable, despite heavy fiscal and monetary stimulus provided by various Governments. In recent weeks, the European Central Bank (ECB) has also pumped USD 820 Billion into the European economy to boost the economies that have been adversely affected by Coronavirus. Yet, the continent's economy is expected to shrink by as much as 4.5 per cent similar to the global financial crisis of 2008. All EU countries are expected to run up huge budget deficits this year fighting the pandemic and its consequences. Countries such as Italy and Spain, with weaker Government finances, will need to be able to borrow at reasonable rates of interest.

**Commodity-rich countries face hit from stronger dollar**

So-called Least Developed Countries, whose economies are driven by the sale of raw materials, will not be spared either. Heavily-indebted developing countries, particularly commodity exporters, face a particular threat, thanks to weaker export returns linked to a stronger US dollar. The likelihood of a stronger dollar as investors seek safe-havens for their money, and the almost certain rise in commodity prices as the global economy slows down, means that commodity exporters are particularly vulnerable.

UNCTAD feels that a series of dedicated policy responses and institutional reforms are needed to prevent a localized health scare in a food market in Central China from turning into a global economic meltdown.

**3. COVID -19 may lead to 25 Million job losses: ILO**

The International Labour Organization (ILO), in its report, suggests that the economic and labour crisis created by the COVID-19, the pandemic could increase global unemployment by almost 25 million. ILO, however, also noted that if an internationally coordinated policy response is put in place, as happened in the global financial crisis of 2008-2009, then the impact on global unemployment could be significantly much lower.

The labour organization in a preliminary report titled “COVID-19 and the World of Work: Impacts and Responses, called for urgent, large-scale and coordinated measures across three pillars:

a. Protecting workers in the workplace
b. Stimulating the economy and employment
c. Supporting jobs and incomes

These measures include extending social protection, supporting employment retention, and financial and tax relief, including for micro, small and medium-sized enterprises, the report mentioned.

Based on different scenarios for the impact of coronavirus on global GDP growth, the ILO estimates indicate a rise in global unemployment of between 5.3 million (“low” scenario) and 24.7 million (“high” scenario) from a base level of 188 million in 2019. By comparison, the 2008-2009 global financial crisis increased global unemployment by 22 million, according to the report. The report also mentions an increase in underemployment as the economic consequences of the virus outbreak may translate into reductions in working hours and wages.

**Swift, coordinated policy responses: The way forward**

ILO's report emphasized on social dialogue, engaging with workers and employers and their representatives, is crucial for building public trust and support for the measures that the organizations need to overcome this crisis situation.

The report said that the labour standards provide a tried-and-trusted foundation for policy responses that focus on a recovery that is sustainable and equitable. Every step needs to be taken to minimize the damage to people at this difficult time.

## 4. Policy measures to combat the looming economic crisis due to COVID-19

Complete lockdown across many countries in wake of the COVID-19 pandemic has brought the global economy to a sudden halt. While quarantining and social distancing is the right prescription to combat COVID-19's public health impact, the exact opposite is needed when it comes to securing the global economy.

In order to withstand the economic pain inflicted by the Coronavirus, the world will have to come up with a well thought after and coordinated response. Many governments have already taken significant steps, with major measures being announced on a daily basis—including yesterday's bold, coordinated moves on monetary policy. However, much still remains to be done to boost confidence and provide stability to the global economy. Below are the three possible strategies, countries must consider for effective recovery from the impact of Coronavirus.

### a. Fiscal Policy

Additional fiscal stimulus will be necessary to prevent long-lasting economic damage. Fiscal measures already announced are being deployed on a range of policies that immediately prioritize health spending and those in need. We know that comprehensive containment measures—combined with early monitoring—will slow the rate of infection and the spread of the virus.

Governments should continue and expand these efforts to reach the most-affected people and businesses—with policies including increased paid sick leave and targeted tax relief. Beyond these positive individual country actions, as the virus spreads, the case for a coordinated and synchronized global fiscal stimulus is becoming stronger by the hour.

### b. Monetary Policy

In advanced economies, central banks should continue to support demand and boost confidence by easing financial conditions and ensuring the flow of credit to the real economy. Major central banks have taken decisive coordinated action to ease swap lines and thus lessen global financial market stresses.

Going forward, there may be a need for swap lines to emerging market economies. As the Institute for International Finance has pointed out, investors have removed nearly USD 42 billion from emerging markets since the beginning of the crisis. This is the largest outflow they have ever recorded. So central banks' policy action in emerging-market and developing economies will need to balance the especially difficult challenge of addressing capital flow reversals and commodity shocks. In times of crisis such as at present, foreign exchange interventions and capital flow management measures can usefully complement interest rate and other monetary policy actions.

### c. Regulatory Response

Financial system supervisors should aim to maintain the balance between preserving financial stability, maintaining banking system soundness and sustaining economic activity. This crisis will stress test whether the changes made in the wake of the financial crisis will serve their purpose. Banks should be encouraged to use flexibility in existing regulations, for example by using their capital and liquidity buffers, and undertake renegotiation of loan terms for stressed borrowers. Risk disclosure and clear communication of supervisory expectations will also be essential for markets to function properly in the period ahead.

## 5. Changing geopolitical landscape in times of COVID-19 epidemic

Coronavirus hasn't just brought life to a sudden stop but has also upended global politics. Below mentioned are some of the possible impacts of the ongoing pandemic on global geopolitics.

### a. Politics in the US

Back in January, the US was worried about the upcoming elections given the fallout of the most politicized impeachment process in history, the near certainty of foreign interference, and presidential candidates themselves fanning conspiracy theory flames. All that continues to be true and now Coronavirus opens up a brand-new avenue for political recriminations and mudslinging, all while complicating the physical act of going to the polls. The US has never attempted a country-wide mail-in vote or national e-voting, and in a political environment as polarized as this one, even the slightest hiccup will provide plenty of fodder for folks to denounce any election result they don't like.

### b. Decoupling of US and China

Back in January, it was feared that the impact of the US-China trade war will spread over to other countries. However, the Coronavirus has sped up that timeline considerably; manufacturing and services sectors have already been forced to begin reorganizing supply chains and staff given their exposure to China. Those moves, for the time being, are temporary, but the longer the current global health crisis holds, the more businesses will be forced to consider making these moves permanent, deepening the divide between the U.S. and China.

The economic tussle between the U.S. and China intensified, the fight between the world's two only economic superpower would transform into a broader fight of influence and values as well, coupled with national security elements as well. This, too, has been accelerated by the coronavirus, which U.S. president Donald Trump and members of his party have begun referring to as the "Wuhan virus" and "Chinese virus". China, meanwhile, has been pushing the story that the coronavirus was bioengineered in a US army lab. Both countries have leaders who very much care how their response to coronavirus is being viewed by both domestic and international audiences—laying the blame on one another doesn't help them contain the virus in any way, but it does help them deflect the political fallout. That means much more U.S.-China turbulence going forward.

### c. Impact on India

So far Indian authorities have managed to handle the coronavirus outbreak quite well. However, as the cases in India continue to rise, especially as the country is three times as crowded as China in terms of population density, it could potentially cause a serious damage to India's ambitions to emerge as economic superpower. Going forward, the economic health of the world will depend a lot on how well India tackles the pandemic.

### d. Italy finds an unlikely friend in China

Due to large scale deaths and prolonged lock-down in Italy, the country was forced to ask for help from its European Union partners through the EU Civil Protection Mechanism. However, none of the EU Member states responded. In addition, France and Germany imposed a ban on the export of face masks to Italy. This made many Italians feel deceived and humiliated by their European partners. In Italy's hour of need, China, however, responded promptly and airlifted necessary medical supplies to Rome and Milan. Many Chinese companies, operating in Italy, have also extended their support to fight the ongoing pandemic.

As a result, Italians are now seeing China as a country that provided concrete help when needed, while other, geographically closer partners behaved selfishly, despite the rhetoric of European solidarity, and did not provide any help. The support provided by China during this Coronavirus outbreak will strengthen Sino-Italian relations and pave the ground for an appropriate celebration of 50 years of diplomatic relations in November.

### e. Possible extension of Brexit

The largest group in the European parliament has urged the UK government to extend the Brexit transition period, as coronavirus plays havoc with the timetable for an EU-UK deal. Under the prevailing extraordinary circumstances, the UK Government might not choose to expose itself to the double whammy of coronavirus and the exit from the EU single market, which will inevitably add to the disruption, deal or no deal. Under the withdrawal agreement, the Brexit transition period ends on 31 December, 2020, terminating British membership of the EU single market and customs union. The EU has made little secret that it would back any extension request, but the British government has continued to rule that out. However, faced with the horrors of the pandemic the two parties may agree to extend Brexit by another one or two years as they meet on 1 July, 2020.

### f. Discontent in Latin America

Latin America was in political crisis even before coronavirus, with a newly-created middle class demanding better public services and less corruption from their leaders and not getting them. As of this writing, Latin America has yet to be hit as hard from Coronavirus as Asia and Europe, but that may be just a matter of time. Combined with the recent collapse of oil prices following Russia and Saudi Arabia's decision to enter an oil-price war, leaders of oil-producing countries like Brazil, Colombia, Ecuador and Mexico need to brace for some difficult weeks ahead; so too the rest of Latin America, whose health system and underlying infrastructure will be tested like never before in the coming weeks and months.

## 6. COVID-19, pushing US economy to steepest slowdown since 2009

Activity in the U.S. services and manufacturing sectors contracted sharply in March, as the coronavirus outbreak weighs on economic growth and grinds business operations to a halt.

The IHS Markit's U.S. services purchasing managers index (PMI) declined to a record low of 39.1 for the month, falling from a reading of 49.4 in February. This was well below the level of 42.0 expected, according to Bloomberg consensus data. IHS Markit's PMI for the domestic manufacturing sector fell to 49.2 in

March from 50.7 in February, reaching the lowest level since 2009. Consensus economists expected the preliminary monthly PMI to come in at 43.5.

According to the report, U.S. companies reported the steepest downturn since 2009 in March as measures to limit the Covid-19 outbreak hit businesses across the country. The service sector has been especially badly affected, with consumer-facing industries such as restaurants, bars and hotels bearing the brunt of the social distancing measures, while travel and tourism has been decimated.

However, manufacturing is also reporting a slump in demand, with production falling at a rate not seen since 2009, linked to either weak client demand, lost exports or supply shortages. Jobs are already being slashed at a pace not witnessed since the global financial crisis in 2009 as firms either close or reduce capacity amid widespread cost-cutting.

The report further adds to a growing pile of disappointing data depicting a U.S. economy that rapidly went from flourishing to languishing as the coronavirus pandemic overtook the country. Earlier this month, the New York Federal Reserve's Empire State Manufacturing survey posted the largest drop on record between February and March, as its overall index of business conditions fell to its lowest level since 2009. The survey noted a leveling off of employment, drop in average workweek and deterioration in firms' optimism about the near-term outlook amid the coronavirus as cause for the decline.

A subsequent report from the regional Philadelphia Federal Reserve showed a similar significant weakening in regional manufacturing activity, as general business activity, new orders and shipments dropped precipitously. As these reports rolled in, economists slashed their expectations for economic output in the U.S. Goldman Sachs economists said last week they expect a quarter-on-quarter annualized drop of 24 per cent in U.S. GDP in the second quarter, and full-year output of -3.8 per cent on an annual average basis.

Experts have predicted an even steeper drop for the next quarter – they see U.S. GDP dropping at an annual rate of 30.1 per cent in the April through June period. IHS Markit's latest data only further supports the evidences of a contraction in U.S. economic activity. The survey underscores how the U.S. is likely already in a recession that will inevitably deepen further. The March PMI is roughly indicative of GDP falling at an annualized rate approaching 5 per cent, but the increasing number of virus-fighting lockdowns and closures mean the second quarter will likely see a far steeper rate of decline."

Other countries' data have also underscored economic deterioration as the coronavirus outbreak grips the world. The Eurozone economy saw an unprecedented collapse in business activity in March as the coronavirus intensified with the region's flash PMI released reached its worst reading on record.

**7. Leaving the social unrest in the past, Chile surpasses growth expectations**

Chile's economy grew faster than expected in January after a surprising upward movement that started in December. Data from the central bank show that activity in the first month of 2020 rose 1.5 per cent year-on-year, with the mining sector growing 2.2 per cent and non-mining up 1.5 per cent. However, the consensus forecast was 1.2 per cent.

The economy contracted in October and November amid social unrest and widespread violence. In December, growth reached 1.1 per cent, beating the negative or zero growth reading the market was expecting. Local free market think-tank Libertad y Desarrollo (LyD) cited the impact of lower levels of violence seen in January, but warned of the risk of future flare-ups and fallout from coronavirus.

Social tensions eased in January and February, the country's summer vacation period, but Incidents of unrest – such as barricades in some neighborhoods of capital Santiago – were registered as people return to their jobs and schools and the focus tightens on April's constitutional plebiscite.

In terms of coronavirus, Chile has not reported any cases of the virus yet, but officials are bracing for a potential outbreak. A small, open economy, Chile is among the nations in Latin America most exposed to a slowdown in economic activity in China, where the first cases were reported.

Economic activity benefited from a reduction in violence in the first month of the year. For a favorable scenario in terms of economic recovery, it is vital to avoid a resurgence of violence and vandalism in March and beyond. Added to the above, our export sector is forecast to weaken as a consequence of Covid-19.

The research unit of asset manager Inversiones Security, part of local financial services group Grupo Security, estimated that activity accelerated in February, but warned of coronavirus fallout and the impact of heightened uncertainty. It forecast that coronavirus, compounded by domestic uncertainty, will constrain activity readings over the coming quarters. The research unit of Santander Chile is also expecting February growth to register at 2.5-3.0 per cent.

GDP growth for 2020 is estimated to come in at around 1.0 per cent, with a drop in private investment, forecast by some, seen as a contributing factor. Much hinges on uncertainty levels and how the coronavirus situation plays out.

### 8. Prolonged lockdown may lead to UK economy contracting by 5.4 per cent

A recent report suggests that the continued coronavirus epidemic will push the UK into a deep recession. Businesses have already closed their doors and consumers are limiting themselves to the purchase of essential goods only. The KPMG report predicts that the UK will suffer a GDP drop of 2.6 per cent this year if the government gets control of the problem in the coming weeks, but if the pandemic stretches over the summer, the UK economy could contract by 5.4 per cent in 2020. The report points out that it is now almost certain that the UK is slipping into its first significant downturn in over a decade.

The Bank of England made a second emergency move to cut interest rates to an all-time low of 0.1 per cent last 19 March, with the added promise of EUR 200 Bn in quantitative easing to help counter the financial turmoil. This follows an emergency 50 basis point cut earlier in March. Rishi Sunnak, the new Chancellor has introduced an unprecedented scheme, which could cost billions as the Government step in to cover wages. One estimate puts the cost of the Chancellor's promise at EUR 4.2 Bn just for the first 3 months. However, with pubs, clubs and restaurants forced to close and the country forced to bring contact with others to a minimum, the UK is now on lockdown.

The European Central Bank (ECB) has also launched its own asset buying programme, the Pandemic Emergency Purchase Programme, with a EUR 750 Bn spend this year. Interest rates are already at 0 per cent in the Eurozone, limiting the ECB's monetary capability but recently appointed president, Christine Lagarde said the ECB will go further, and it will likely need to.

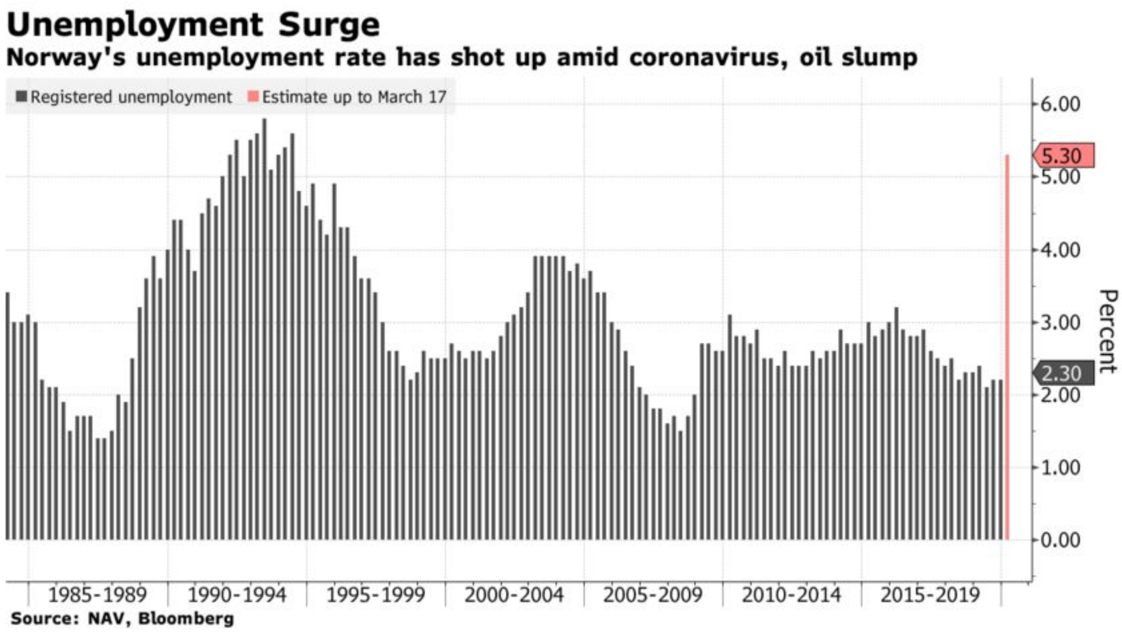
GBP/EUR has been highly volatile with 1-2 per cent daily movements becoming more common. The pound sunk to a new low as GBP/EUR interbank market touched 1.0533 last 19 March, a level not seen since the 2008-2009 global financial crisis. Sterling has recovered a little but is still trading approximately 8 per cent lower than one month ago and with ongoing events, volatility is likely to remain high.

**9. Coronavirus spread leads to over 128 per cent rise in unemployment in Norway**

The number of Norwegian citizen seeking unemployment benefits has jumped by a staggering 128 per cent within a week as the spread of the coronavirus brings the richest Nordic economy to a near standstill.

Norwegian companies have already announced thousands of temporary lay-offs. It's now clear those measures are quickly feeding through to economic data, providing a glimpse of what the rest of Europe may be facing, and putting pressure on the central bank to deliver more emergency interest rate cuts.

The Norwegian economy is heavily dependent on oil and gas exports and is presently fighting an economic crisis on two fronts, and its 5.3 per cent registered unemployment rate is already the highest since 1995.




To keep up with the crisis, the Government has decided to publish the jobless data every week henceforth. The Norwegian Labour and Welfare Administration expects the unemployment in the country to only increase in the recent future. Norway's 1993 unemployment record of 6.3 per cent may be crushed after lay-off benefits applications almost reached the total number in 2009, when the financial crisis was wreaking havoc. Experts are of the opinion such rise in unemployment is worrisome for the Norges Bank. The Norges Bank has recently factored in a slight increase in unemployment from June 2020. A further rate cut of at least 50 Bps is also expected in the near term.

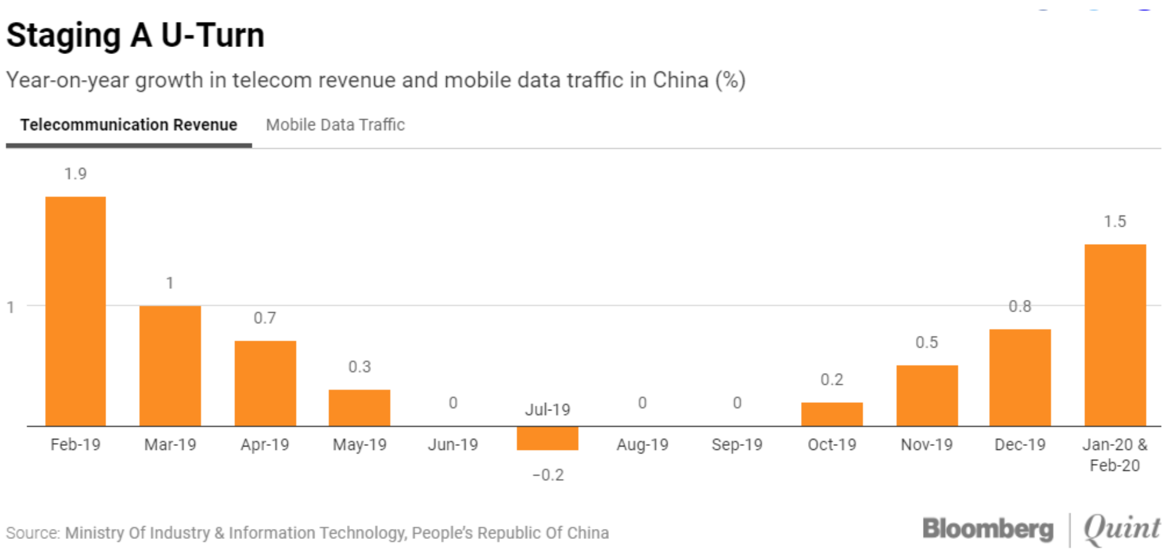
**10. Telecom, healthcare and insurance remain the silver lining for India among economy wide gloom**

The novel coronavirus pandemic has stalled economic activity, threatening to push the world into a recession, and most sectors are feeling its impact. The new virus—which has so far infected more than 400 people in India and killed seven—caused both demand and supply-side disruptions in the already slowing economy. That prompted the Central Governments in Asia's third-largest economy to call for a 21 day nationwide lockout.

However, listed below are the three sectors that have remained unscathed from the impact of the virus outbreak as yet.

**i. Telecom**

As the number of Covid-19 cases mount, the nation urged its citizens to stay at home and practice social distancing. That's expected to aid the telecom sector as Indians consume more data. In January and February, when China—the epicenter of the virus outbreak—was under lockdown, revenue of telecommunications services rose 1.5 percent compared to last year, according to the data released by the Ministry of Industry and Information Technology of the People's Republic of China. The growth rate for the first two months of 2020 was the highest in the last 12 months. Mobile data traffic, too, rebounded after declining for 10 straight months, the data showed. Subscriber additions, however, took a hit, likely exacerbated by the lockdown.




Work-from-home and social distancing are expected to boost data usage by 10-15 percent in the home broadband and mobile space in India. But that's likely to be offset by the ongoing slowdown in the economy, leading to only to a 5 percent growth in the companies' top line.

**Dialing In**

EV/Ebitda (in times)

| Stocks | 12-Month Forward | Five-Year Average |
|---|---|---|
| Bharti Airtel | 8.0 | 7.6 |
| Bharti Infratel | 3.3 | 9.2 |
| Vodafone Idea | 8.2 | 10.2 |

Source: Bloomberg

Bloomberg | Quint

India’s telecom sector, however, is facing a bigger problem. A recent judgment by the Supreme Court asked the carriers to pay interest and penalty on pending statutory dues stemming from the court’s earlier order to include non-core revenue to calculate the payouts. That dealt a blow when the sector is already bruised by a cheap tariff war launched by Reliance Jio Infocomm Ltd.

### ii. Healthcare

India committed to spend nearly INR 10,000 crore ($1.3 billion) to encourage companies to manufacture pharmaceutical ingredients domestically after the coronavirus outbreak disrupted supply chains, raised the specter of drug shortages. The impact of Covid-19 on Indian pharma has so far been limited due to existing inventory levels across supply chain but this can change if supply shortages from China continue through the end of April. India has a meaningful dependence on China for its raw material supplies. The global generic supply chain, however, can remain unaffected if the active pharmaceutical ingredient/intermediate shipments from China normalize over next two to four weeks.

The government has also issued guidelines for testing by private labs in the country, set price caps for such tests, and roped in national laboratories as the number of confirmed cases rise. Any escalation in the incidence rate could see a “one-time bump up” in domestic formulation sales for the sector. But the Covid-19 testing is unlikely to contribute meaningfully to diagnostics revenues. The benefit from Covid-19 testing is likely to be offset by potential declines in day-to-day walk-in business, particularly in the wellness segment, as well as potential loss of business-to-business volumes due to lower elective procedures.

### iii. Insurance

The Insurance Regulatory Development Authority (IRDA) of India has asked insurers to cover Covid-19 cases in their existing policies as well as ensure that they expeditiously attend to the coronavirus claims. One of the factors that work in its favour is that it’s an under-penetrated sector and hence, the impact will be low compared to other segments. There might be some short-term disruptions due to logistics but structurally there should not be an issue. Life insurers are selling more of protection policies and there is less dependence on Ulips, so the product mix is more balanced now. Also, the insurer is not as cyclical as other financials. Insurers don’t get impacted by the asset quality cycle. Like in case of banking, when there is a positive cycle you see better income and margins but when the cycle turns there are NPAs.

Even general insurers are likely to have limited impact from the virus outbreak. In fact, the insurance regulator’s decision might lead to an increase in inquiries for health policies. There will be a positive for health insurance with more people buying policies in the current scenario. General insurance is ‘counter-cyclical’, given the negative correlation of loss ratios to economic activity. Also, impact of Covid-19 on health insurance is likely to be low given the sector’s under-penetration in India, Jain said in a note. There’s also a possibility of re-insurance to kick-in, capping losses.

**Cover Story**

Price-to-book (in times)

| Stock | 12-Month Forward | Average Valuations Since Listing |
|---|---|---|
| HDFC Life | 11.1 | 14.3 |
| SBI Life | 6.3 | 8.3 |
| ICICI Prudential | 5.7 | 7.4 |
| Max Financial* | 5.8 | 4.8 |
| ICICI Lombard | 6.3 | 7.4 |

**Five year average valuations)*

Source: Bloomberg

Bloomberg | Quint

**11. Relief from FM and RBI to strengthen Indian economy in medium to long term**

The Government of India has adopted a piece meal approach to bring some relief to the economy amid nationwide lockdown in wake of the Coronavirus pandemic. On 26 March, the Hon'ble Finance Minister, Ms Nirmala Sitharaman announced for an INR 1.7 lakh crores relief package for the poor to help them tide over the disruptions. On 27 March, the RBI Governor, Mr Shaktikanta Das not only brought down the repo rate to the lowest ever but also allowed EMI and working capital holiday (not waiver), trying to provide some respite to individuals and companies, many of whom are staring at an imminent drought in cash flow or income compression.

Analysts are largely of the opinion that the relief package announced by the FM is timely, well-intentioned and has combined both cash transfers and primary food requirements for the marginalized sections of society for the next 3 months. The global economy is going through unprecedented times and India is no exception. The nationwide lockdown was rightly enforced for India to stay ahead of the curve in fighting the global pandemic. Today's package will now impart a definite direction to India's fight against the epidemic. Overall, the announcements reinforce government's intent that no one should be deprived of basic facilities in today's stressed times. We are hopeful of more calibrated responses in coming weeks as the impact of pandemic unfolds.

Below is a brief analysis of the relief scheme announced by the FM and RBI:

a. **Financial package does not represent additional funding**

The INR 1.7 lakh crore package does not entail the Government allocating additional funding for every provision under the Pradhan Mantri Gareeb Kalyan Yojana (PMGKY). For instance, the benefit to formal sector workers from the Employees Provident Fund Scheme will use the employees' own money to help them.

b. **Food grain benefits, cooking gas will help the poor**

The government announced that it would double the current food entitlement, and also provide 1 kg pulses for three months to the 800 million covered under the Food Security Act (FSA). The extension of food security and the provision of extra 5 kg of rice and 1 kg of suitable pulse is definitely laudable and universally a good measure to help crores of households.

The government has also said it would provide free cooking gas cylinders for three months to the beneficiaries of the Prime Minister's Ujjwala Yojana, which began in 2016 and gave women from below-poverty-line households their first cooking gas cylinder. How the distribution of free gas cylinders would be implemented remains to be seen, given that the programme has previously been criticized by the Comptroller and Auditor General for considerable delay in supply of cylinders.

c. **INR 20 increase in MGNREGA wages**

The government said daily wages for a labourer under the MGNREGS would increase from INR 182 to INR 202, a INR 20 increase. This would amount to an additional INR 2,000 per household.

d. **Women, senior citizens, healthcare workers and farmers**

A sum of INR 2,000 that would have been due to an estimated 145 million farmers under the Pradhan Mantri Kisan Samman Nidhi in July, would be paid early in April. Further, the Government has said it would provide insurance of up to INR 50 lakh to healthcare workers including ASHAs as they would be the ones most exposed to the pandemic.

About 200 million women who have bank accounts under the Jan Dhan Yojana will receive INR 500 a month as economic assistance for the next three months. In addition, disabled and widowed women would be given INR 1,000 over a period of three months. The government already provides INR 300 per month to widows above the age of 40 years and INR 500 a month to those over the age of 80, under the Indira Gandhi National Widow Pension Scheme. It is unclear whether the INR 1,000 will be provided in addition to that amount.

e. **RBI announcement will bring relief and encourage bank lending**

RBI has followed its global peers in announcing an unprecedented 75 basis points (0.75%) cut in lending rates besides a lot of other measures to infuse liquidity. The measures announced should encourage banks to lend more and take away some of the perceived stress on banks' finances. The RBI has also allowed a three-month moratorium on existing EMIs and all sorts of term loans, whether availed by businesses or individuals. Also, if an individual were to look out for a new home loan or a new loan to buy a car, the interest rates available now will be the lowest in years, thanks to the latest rate cut. If one already has a loan, one can defer the monthly repayment for the next three months without attracting any adverse impact on one's CIBIL score.

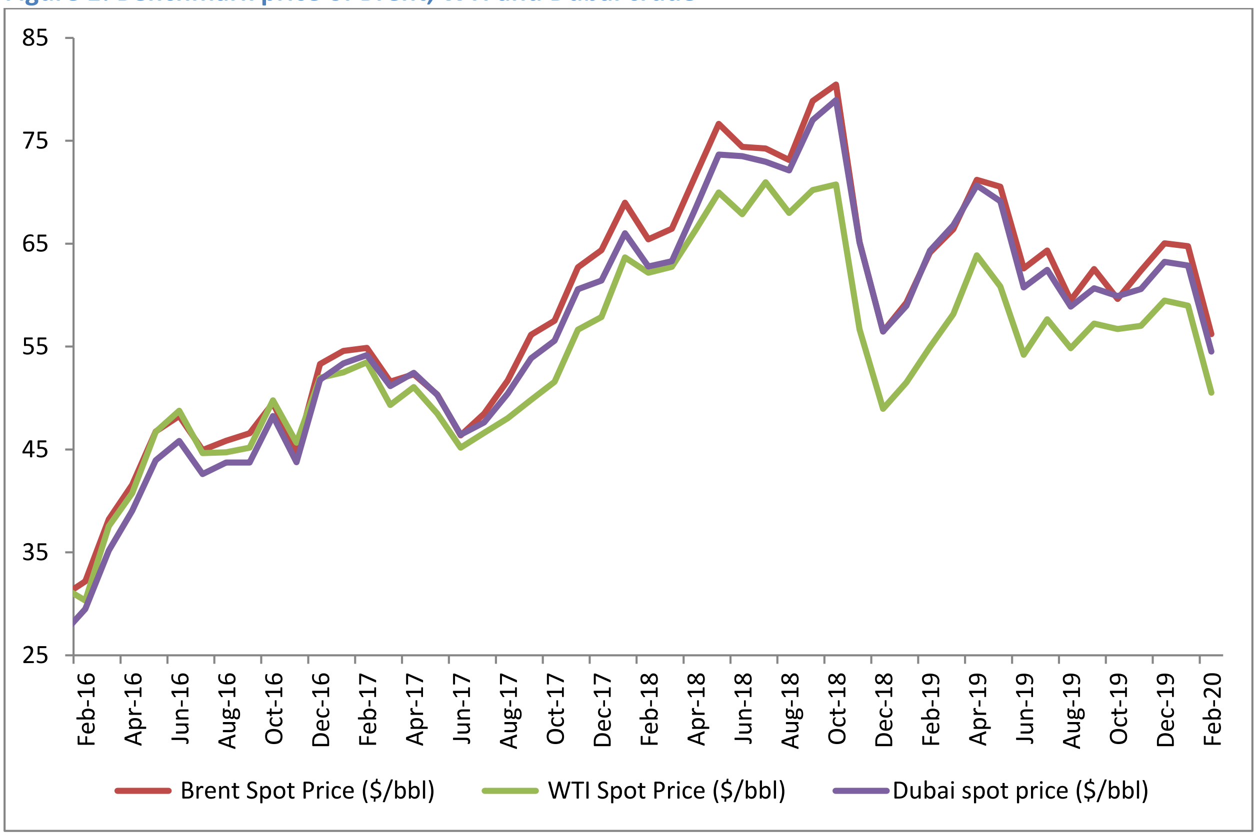
An almost similar provision has been made for businesses which are indebted from loans for working capital and other needs: these companies can also defer repayments for three months without a black mark on their credit score.

# Oil & Gas Market

## Crude oil price

Outbreak of coronavirus continued to impact the global crude oil benchmarks in the month of February. Travel restrictions, flight cancellations have led to reduction for crude oil in China, one of the largest importers of crude oil. Thin hope of production cuts led crude benchmarks to rise in the third week of February, however it failed to sustain and the prices declined again.

**Figure 1: Benchmark price of Brent, WTI and Dubai crude**




*Source: WORLD BANK*

- Brent crude price averaged $ 56.21 per bbl in February 2020, and was down by 13.2 % and 12.3 % on a month on month (MoM) and year on year (YoY) basis, respectively.
- WTI crude price averaged $ 50.53 per bbl in February 2020, and was down by 14.3 % and 8.0 % on a month on month (MoM) and year on year (YoY) basis, respectively.
- Dubai crude price averaged $ 54.51 per bbl in February 2020, and was down by 13.3 % and 15.3% on a month on month (MoM) and year on year (YoY) basis, respectively.

**Table 1: Crude oil price in February, 2020**

| Crude oil | Price ($/bbl) in February 2020 | MoM (%) change | YoY (%) change |
|---|---|---|---|
| **Brent** | 56.21 | -13.2% | -12.3% |
| **WTI** | 50.53 | -14.3% | -8.0% |
| **Dubai** | 54.51 | -13.3% | -15.3% |

- *Source: WORLD BANK*

## Crude price does a freefall in March 2020

Crude benchmarks were under pressure due to decline in demand forecast and outbreak of coronavirus. These factors continued to impact the crude oil benchmarks in the first week of March as the prices fell further. With significant travel ban in China to contain the spread of virus, the demand for refined products declined in China, the second largest consumer of crude oil. With widening gap between crude oil demand and supply, the price decline due to supply glut.

OPEC countries and other oil producing countries like Russia met on 6$^{th}$ of March in Vienna, Austria to deal with the supply glut. With close to 2 mbpd surplus crude in the market, it was decided to curtail the production by 1.5 mbpd to deal with the impacts on crude oil price caused by Corona outbreak. Saudi Arabia wanted higher production cut, because thee crude prices have fallen by around 23% in the year. However, no solution was reached to decide where the production cuts will come from. The meeting ended without a deal leaving oil market open ended.

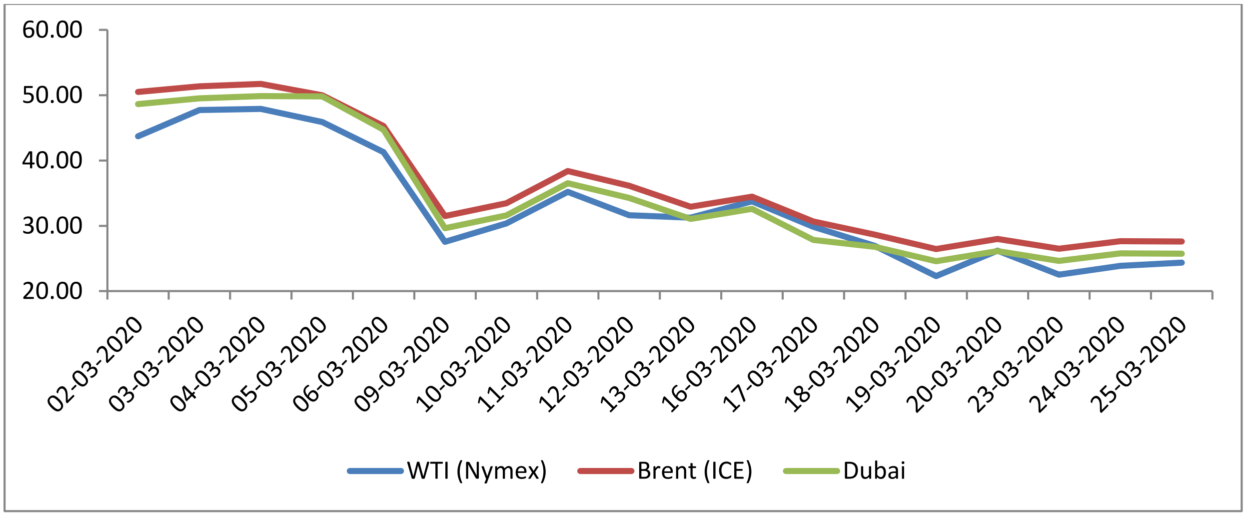
On 7$^{th}$ March, Saudi Arabia announced massive discounts to its crude oil prices for April triggering the price war. Saudi Arabia announced its intention to produce more oil and increase its production above 10 mbpd from current level of 9.7 mbpd with a capacity to produce 12.5 mbpd.

WTI plunged 24.59%, or $10.15, to settle at $31.13 per barrel. It was WTI's second worst day on record. Meanwhile, Brent crude slid $10.91, or 24.1%, to settle at $34.36 per barrel. Both the crude benchmarks saw the worst decline since 1991.

With increase in production from Saudi Arabia, the surplus oil in market crossed 2mbpd. By third week of march several nations started banning air travel. United States, the largest consumer of crude oil banned all aircraft movements from the Europe. With an intention to contain the spread of COVID-19 countries like India, China, France, Italy, New Zealand, Poland and UK implemented large scale lockdown and quarantine programs leading to temporary closing/reduction of industrial activities, internal movements etc. This further reduced the demand for Crude oil across the globe.

Average Brent, WTI and Dubai basket crude prices went down by 35.63 %, 34.87% and 36.83 % respectively from the prices in the month of February.

**Figure 2: Crude oil price in March 2020**

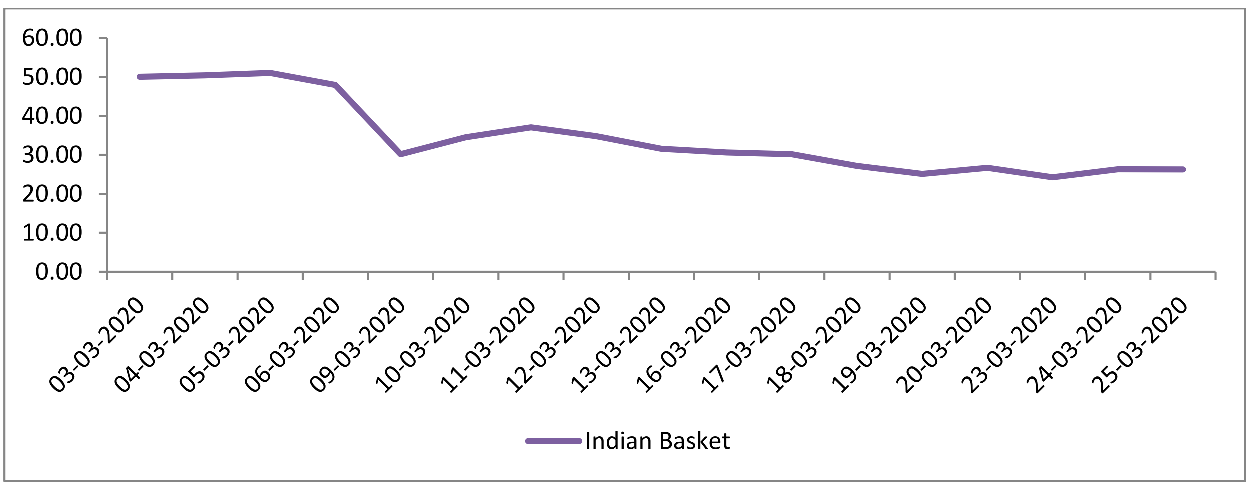



***Source: EIA***

## Indian Basket Crude oil price

- The Indian basket of Crude Oil represents a derived basket comprising of Sour grade (Oman & Dubai average) and Sweet grade (Brent Dated) of Crude oil processed in Indian refineries in the ratio of 74.77:25.23 during 2017-18.

**Figure 3: Indian crude oil basket price in $ per bbl**




*Source: Petroleum Planning & Analysis Cell*

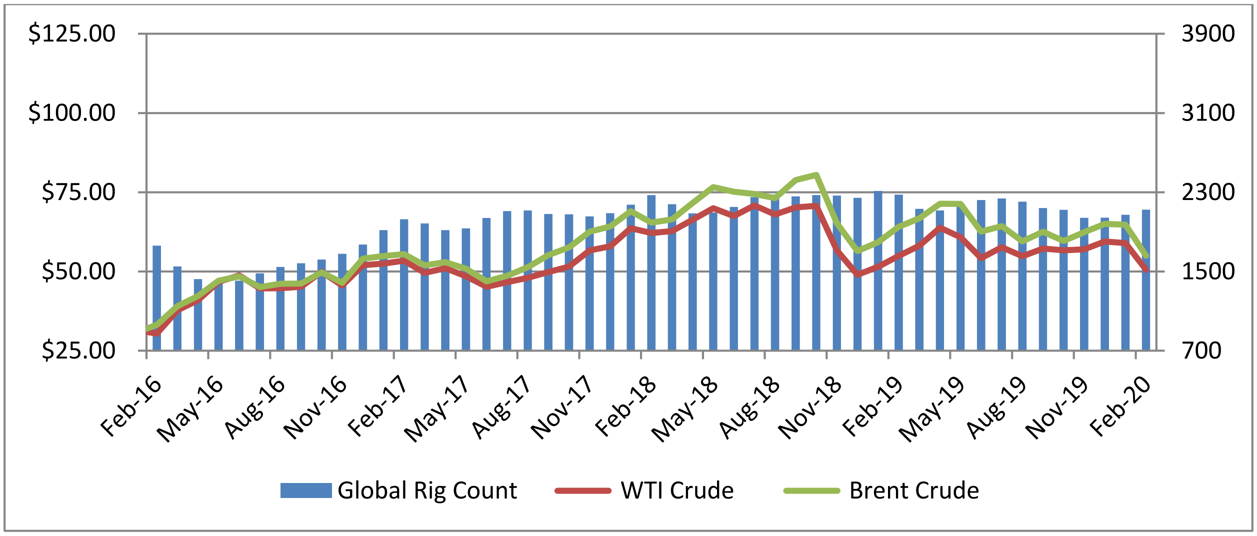
- Indian crude oil benchmark prices declined as a result of decline in major global benchmarks which are used as reference.
- Indian crude basket price averaged $35.27 per barrel in March, down by 35.86 % on Month on Month (M-o-M) and 47.15% on a year on year (Y-o-Y) basis, respectively.

# Upstream activity & Rig count

**Global rig count**

Rig count represents the total number of active drilling rigs in the world. Demand for drilling rig is highly dependent on crude oil price. When the oil price increases, demand for exploration activity increases, resulting in the increase in rig count. A lower oil price could trim the exploration budget of the oil companies, thereby reducing the demand for drilling rig.

**Figure 4 Global Rig Count vs. Crude Prices**




*Source: Baker Hughes*

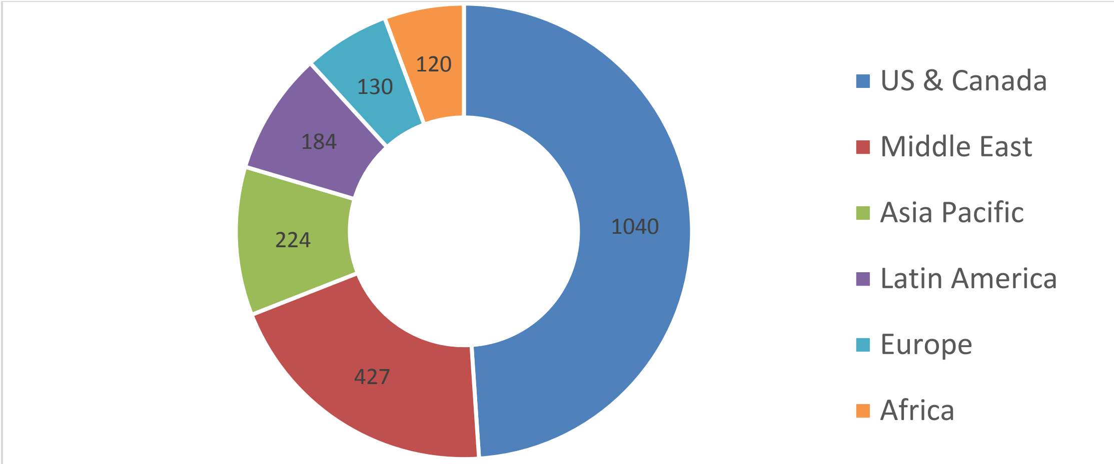
In February 2020, global drilling rig count stood at 2,125, fifty-two up from January's count. Onshore rig count increased by 50 and offshore rig count went up by 2. Major chunk of the increase in rig counts came from Canada with 45 new rigs added due to seasonality. Rig count declined in Europe, Middle East and it increased in Latin America, Africa and in Asia Pacific. Rig count stood unaltered in the United States counting 791. 768 were onshore rigs and 23 were offshore rigs. US & Canada and the Middle East count for about 2/3rd of the global rig count.

**Table 2 : Global Drilling Rig Count**

| Rig Type | Count in February 2020 | MoM (%) change | YoY (%) change |
|---|---|---|---|
| **Land** | 1,855 | 2.77% | -8.80 % |
| **Offshore** | 270 | 0.75 % | -0.74% |
| **Total** | 2,125 | 2.51 % | -7.85% |

*Source: Baker Hughes*

**Figure 5 Geography-wise Rig count -February 2020**




*Source: Baker Hughes*

**Indian Drilling Rig Count**

Indian rig count remained unchanged in the month of February 2020. On Y-O-Y basis, Indian rig count declined by 11.38 % in 2020 as compared to January 2019. 77 were onshore rigs and the rest 32 were offshore rigs.

**Figure 6 Indian Rig Count vs. Indian Basket Crude Price**

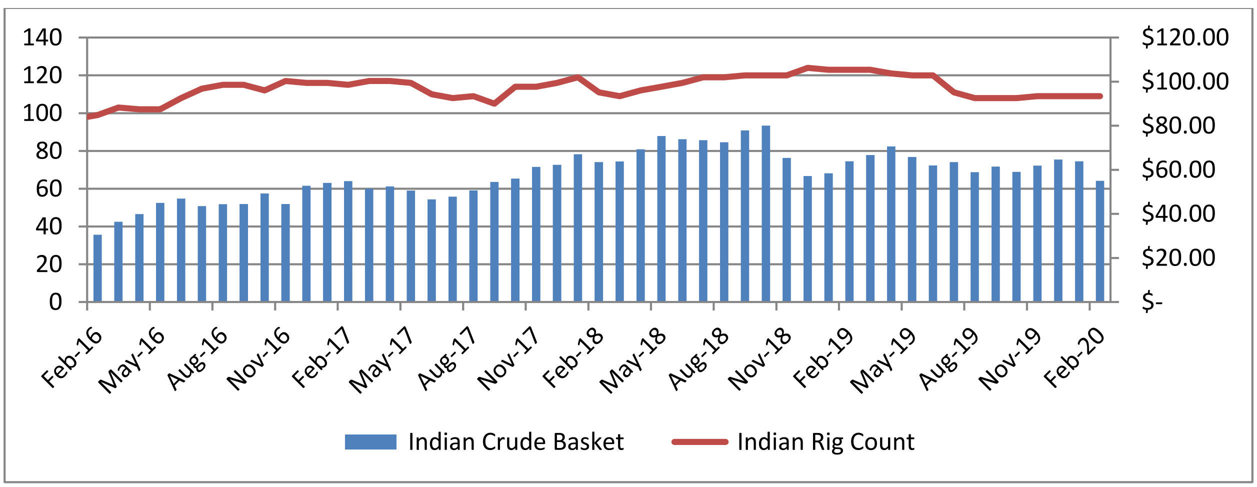



**Table 3 : Indian Rig Count**

| Rig Type | Count in February 2020 | MoM (%) change | YoY (%) change |
|---|---|---|---|
| **Land** | 77 | 0.0 % | -9.41 % |
| **Offshore** | 32 | 0.0% | -15.79 % |
| **Total** | 109 | 0.0% | -11.38 % |

*Source: Baker Hughes*

## Oil demand & supply

Preliminary data indicates that global oil supply decreased by 0.29 mb/d m-o-m to average 99.75 mb/d in February 2020, compared with the previous month. Non-OPEC supply (including OPEC NGLs) increased by 0.25 mb/d m-o-m to average 71.98 mb/d in February Incremental production from the US, Norway, Guyana, Bahrain, Oman and the UK was driving the non-OPEC oil supply. The share of OPEC crude oil in total global production decreased by 0.5% to 27.8% in February 2020 compared with the previous month. Estimates are based on preliminary data from direct communication for non-OPEC supply, OPEC NGLs and non-conventional oil, while estimates for OPEC crude production are based on secondary sources.

Non-OPEC oil supply growth in 2020 is also revised down by 0.49 mb/d from last month's assessment and the forecast is at 1.76 mb/d. The production is revised in Russia, Thailand, Indonesia, Oman, mainly while the decline comes from the US, China, Mexico, Colombia, Norway, Azerbaijan and Malaysia. World oil demand was revised lower by 0.92 mb/d to 0.06 mb/d lower than previous month. Demand for oil in 2020 is forecasted to reach 99.73mb/d.

Decline in demand forecast is primarily due spread of Corona virus and its impact on transport restrictions and lockdown in various nations across the globe. Refineries across the globe are cutting their capacity by 20-30% on lower fuel demand. Coronavirus affects the oil market in two ways. First, travel restrictions due to containment efforts limit the use of jet fuel, and supply chains slow and industrial activity declines as companies send workers home—meaning less oil and oil-based products are being used and produced. This has very direct effects on oil consumption and informs near-term calculations of real oil demand. Second, the stock market reaction to the effect of the coronavirus on the global economy builds a projection of global oil demand over the long-term. As broader market sentiment about the health of the global economy declines, so do projections about the future oil demand curve, prompting flight away from oil and energy stocks and further drawing down prices.

There are two possible scenarios for how global oil demand could evolve this year. In a more pessimistic low case, if global measures fail to contain the spread of virus, then the global demand could fall by 4.5 mbpd in 2020. If spread of Corona is curtailed quickly, then the global demand of crude oil could grow up by 0.5 mbpd.

| Table 4: World Oil demand in mbpd | 2019 | 1Q2020 | 2Q2020 | 3Q2020 | 4Q2020 | 2020 | Growth | % |
|---|---|---|---|---|---|---|---|---|
| **Total OECD** | **47.91** | **47.27** | **46.39** | **48.41** | **48.29** | **47.59** | **-0.31** | **-0.65** |
| **Dev. Countries** | **33.08** | **33.18** | **33.10** | **33.91** | **33.71** | **33.47** | **0.39** | **1.19** |
| *~ of which India* | *4.84* | *5.09* | *4.80* | *4.59* | *5.23* | *4.93* | *0.09* | *1.80* |
| **Other regions** | **18.68** | **17.12** | **18.71** | **18.93** | **19.85** | **18.66** | **-0.02** | **-0.10** |
| ~ of which China | 13.07 | 11.57 | 13.22 | 13.11 | 13.85 | 12.94 | -0.13 | -1.01 |
| **Total world** | **99.67** | **97.58** | **98.20** | **101.25** | **101.85** | **99.73** | **0.06** | **0.06** |

*Source: OPEC monthly report, March 2020*

*Note: *2019 = Estimate and 2020 Forecast*

## Global petroleum product prices

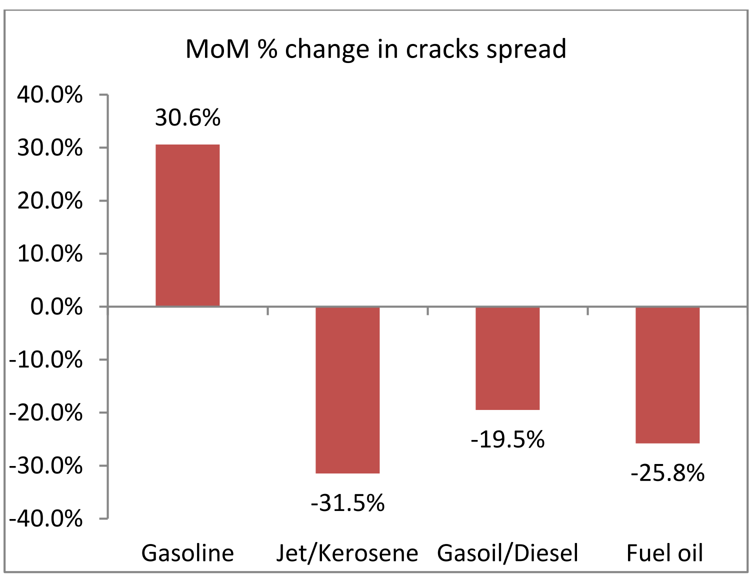
Prices in the Asian Gasoline-92 market saw a decline in price by 9.5% in the month of February as the demand decline due to Covid-19. Refinery margins performed positively as margins reached positive values for the first time in three months due to sizeable refinery cuts despite the demand decline. Refinery margins for Oman in Asia gained $3.60 on m-o-m to average $2.72/b in February, but were lower by $4.02 on y-o-y basis.

Singapore Gasoline cracks averaged $8.37/b against Oman, up by $ 3.39 m-o-m and by $84.43 y-o-y in February. Refinery utilization rates in December averaged 84.82 % in selected Asian markets comprising of Japan, China, India and Singapore.

Jet/Kerosene prices went down by 16.1 % % in February as the increase in Corona virus spread in the region caused flight cancellations. The Singapore jet/kerosene crack spread against Oman averaged $8.80/b, down by $2.44 m-o-m and by $4.71 y-o-y.

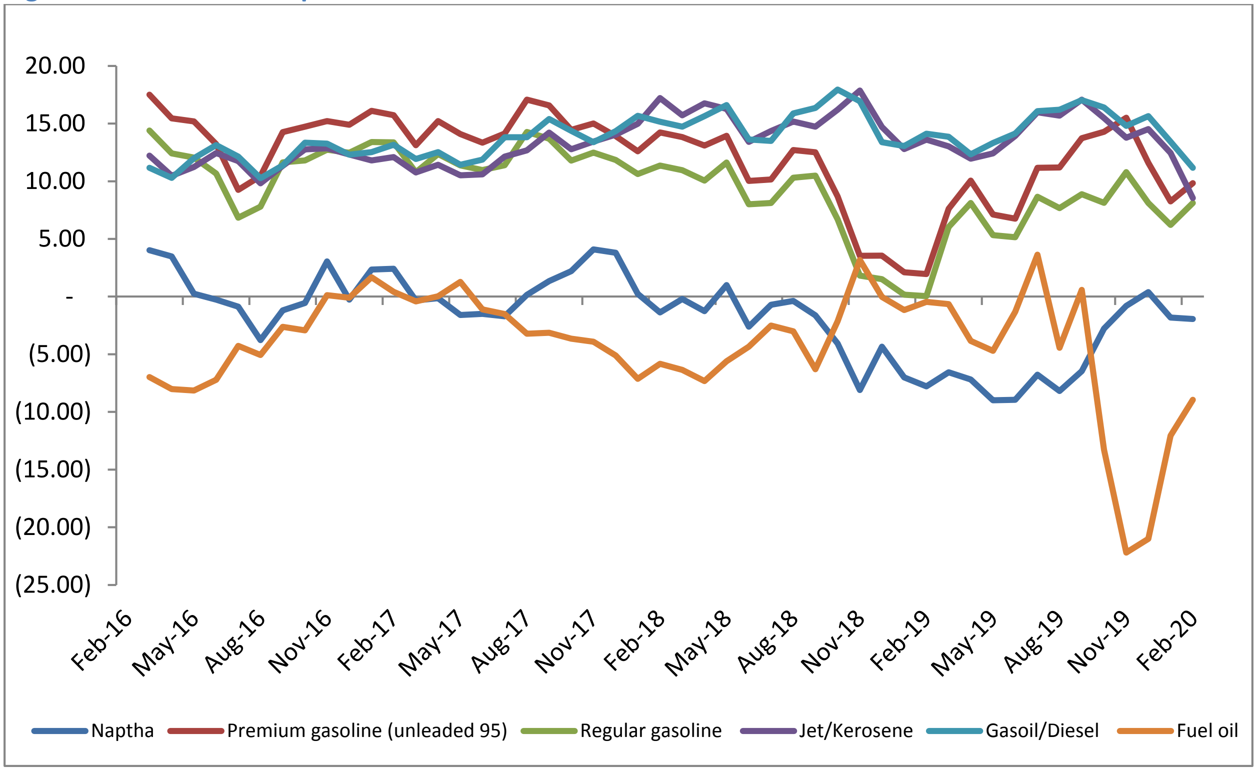
The Singapore gasoil crack spread posted another monthly loss due to pessimistic outlook for the demand despite lower ARA prop duct inventory levels as government's precautionary methods affected the gasoil consumption. In February, gasoil price declined by 13.9%. Singapore gasoil crack spread against Oman averaged $10.41/b down by $1.79 m-o-m and by $3.61 y-o-y.

The Singapore fuel oil crack spread soared extending the upward trend despite it remained in negative territory. Tight supplies, stabilization of number of covid-19 cases in China as expectations of pick-up in cooling demand from the Middle East should boost HSFO demand. Singapore fuel oil cracks against Oman averaged minus $8.69, up by $4.59 m-o-m, but down by $8.13 y-o-y.




*Source: OPEC monthly report*

Figure 7: Product crack spreads vs. Dubai crude




*Source: OPEC, FIPI*

Table 5: Singapore FOB, refined product prices ($/bbl)

| Products | Price ($/b) in February 2020 | MoM (%) change | YoY (%) change |
|---|---|---|---|
| **Naptha** | 52.56 | -13.9% | -7.0% |
| **Premium gasoline (unleaded 95)** | 64.34 | -9.5% | -2.9% |
| **Regular gasoline (unleaded 92)** | 62.62 | -9.4% | -2.7% |
| **Jet/Kerosene** | 63.05 | -16.3% | -19.1% |
| **Gasoil/Diesel (50 ppm)** | 65.67 | -13.9% | -16.3% |
| **Fuel oil (180 cst 2.0% S)** | 45.56 | -10.4% | -28.7% |
| **Fuel oil (380 cst 3.5% S)** | 44.34 | -10.3% | -30.5% |

*Source: OPEC*

## Petroleum products consumption in India

- February 2020 saw a decrease in overall consumption by petroleum products by 1.0%
- In February, LPG consumption declined by 13.6 % on M-o-M basis offsetting the increase in last two months
- Consumption of gasoline increased by 2.2% on M-o-M and by 11.3% on Y-o-Y).
- Demand for diesel increased by 3.1 % on M-o-M basis in the month of February as the demand for trucking increases

**Table 6: Petroleum products consumption in India, February 2020**

| Petroleum products | Consumption in '000 MT February 2020 | MoM (%) change | YoY (%) change |
|---|---|---|---|
| **LPG** | 2,115 | -13.6% | -4.6% |
| **Naphtha** | 1,279 | -7.6% | -0.5% |
| **MS** | 2,510 | 2.2% | 11.3% |
| **ATF** | 690 | -6.7% | 1.5% |
| **HSD** | 7,159 | 3.1% | 6.6% |
| **LDO** | 54 | -5.8% | -4.4% |
| **Lubricants & Greases** | 326 | -0.4% | -2.6% |
| **FO & LSHS** | 503 | 3.5% | -5.4% |
| **Bitumen** | 670 | 12.0% | 2.8% |
| **Petroleum coke** | 1,786 | -8.3% | 13.0% |
| **Others** | 946 | -4.0% | 13.0% |
| **TOTAL** | 18,222 | -1.0% | 4.6% |

*Source: PPAC*

## Natural Gas Price

**Global Perspective-**

Globally, oil price war and demand reduction for natural gas due to commercial and industrial downturn caused by the coronavirus have had the combined effect of the lowest crude oil and gas prices in two decades.

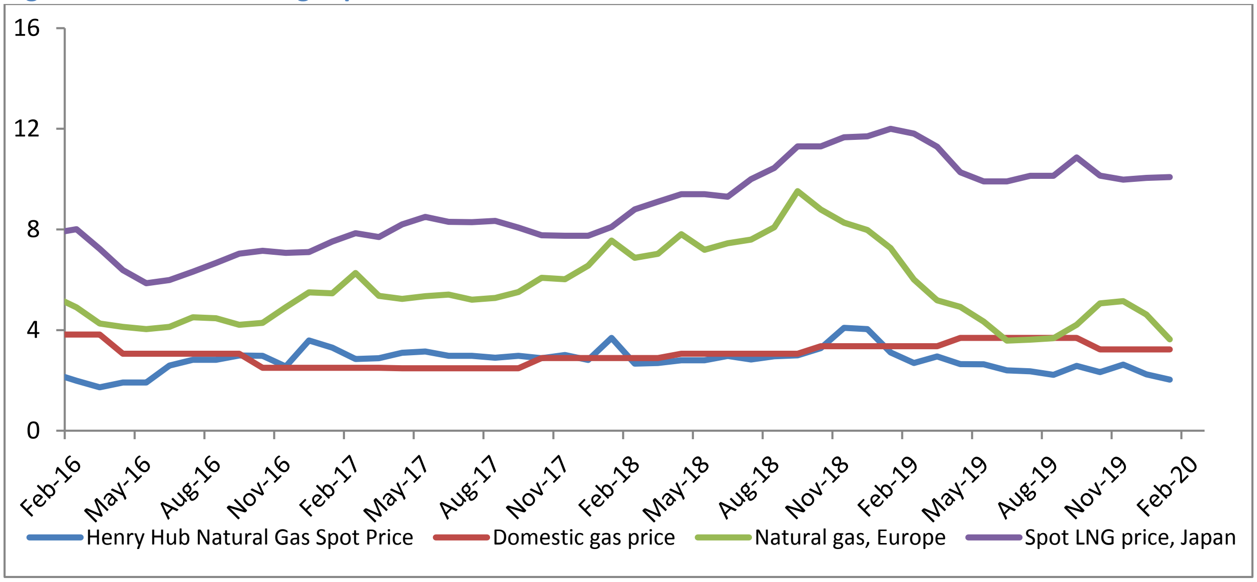
In February, natural gas price at the Henry Hub decreased by 5.4 % to reach $1.92/MMBtu. With production of gas outpacing the demand, and decline in demand due to warmer winter pushed the gas price to the lowest in 20 years. Lower gas withdrawal, reduced demand for gas in heating and power generation due to warmer temperature and close to full stockpiles have flooded the market with cheaper natural gas.

In February, the average LNG price for March delivery into northeast Asia LNG-AS fell to $2.70 per MMBtu this week, down from previous month. Prices for cargoes delivered in April are estimated to be $2.80 per MMBtu. Four LNG tankers, including three Qatari vessels bound for North Asia, have changed destination or diverted after the coronavirus outbreak hit gas demand in China.

Falling demand from China drove Asian spot prices for prompt deliveries of liquefied natural gas (LNG) to new lows this week of around $2.70 per million British thermal units (MMBtu). China's transport, commercial and industrial sectors have all been affected by the fast-spreading coronavirus outbreak

Natural gas prices in Europe fell by around 50% due to the rising gas export from Russia and the USA. The competition along with warmer winter have led to supply surplus situation. Smooth transport of gas from Russia into the Europe due to Ukraine transit deal has kept the gas supply intact. Natural gas prices in Europe is at ten year low and the gas prices are cheaper than the shipping cost of gas from the US. With storage sites across several European cities already full, the gas prices are further expected to decline.

**Figure 8: Global natural gas price trends**




*Source: EIA, WORLD BANK*

**Table 7: Gas price**

| Natural Gas | Price ($/MMBTU) in February 2020 | MoM (%) change | YoY (%) change |
|---|---|---|---|
| **India, Domestic gas price** | 3.23 | 0.00 % | -3.9% |
| **India, Gas price ceiling – difficult areas** | 8.43 | 0.00 % | 9.90% |
| **Henry Hub** | 1.92 | -5.4% | -28.6% |
| **Natural Gas, Europe** | 2.91 | -19.8% | -51.6% |
| **Liquefied Natural Gas, Japan** | 9.90 | -1.8% | -16.2% |

*Source: EIA, PPAC, World Bank*

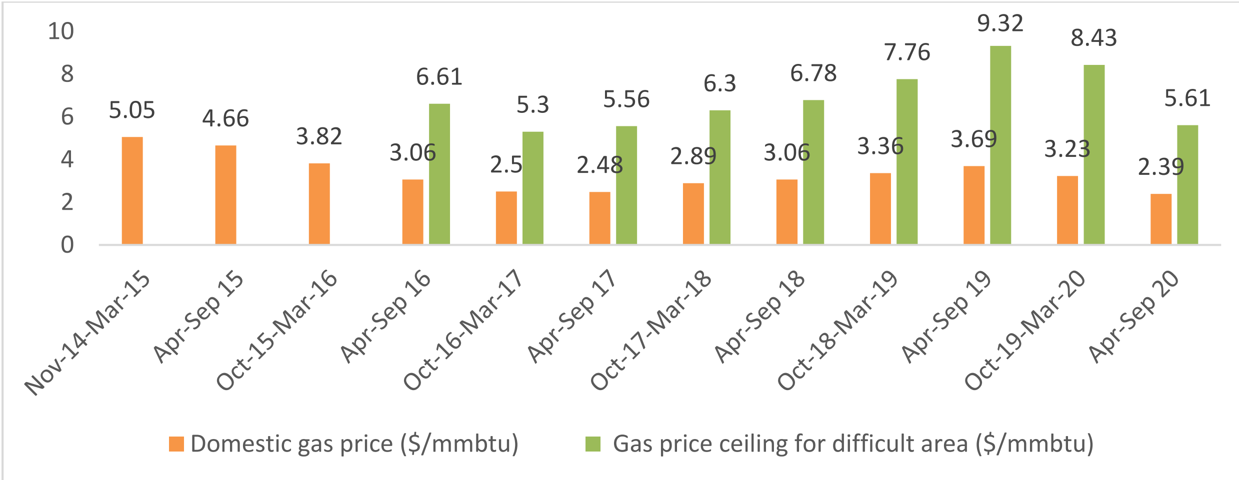
**Indian Gas market-**

Due to the decline in global gas prices, the domestic natural gas price for the period April 2020 to September 2020 has fallen by 26% over the previous period. The new gas price for April – September 2020 is notified as $2.39 per MMBTU.

The oil price collapse will reduce the prices of term LNG cargoes, but the impact has a time lag of around three months due to the pricing basis of three-month average crude prices before delivery.

A notification was issued by MoP&NG on 21st March 2016, for marketing including pricing freedom for gas to be produced from discoveries in deep water, ultra-deep water, and high-pressure high temperature areas. For the April 2020 – September 2020 period, the price of gas from such areas has been notified at $5.61 per MMBTU.

**Figure 9: Domestic natural gas price**

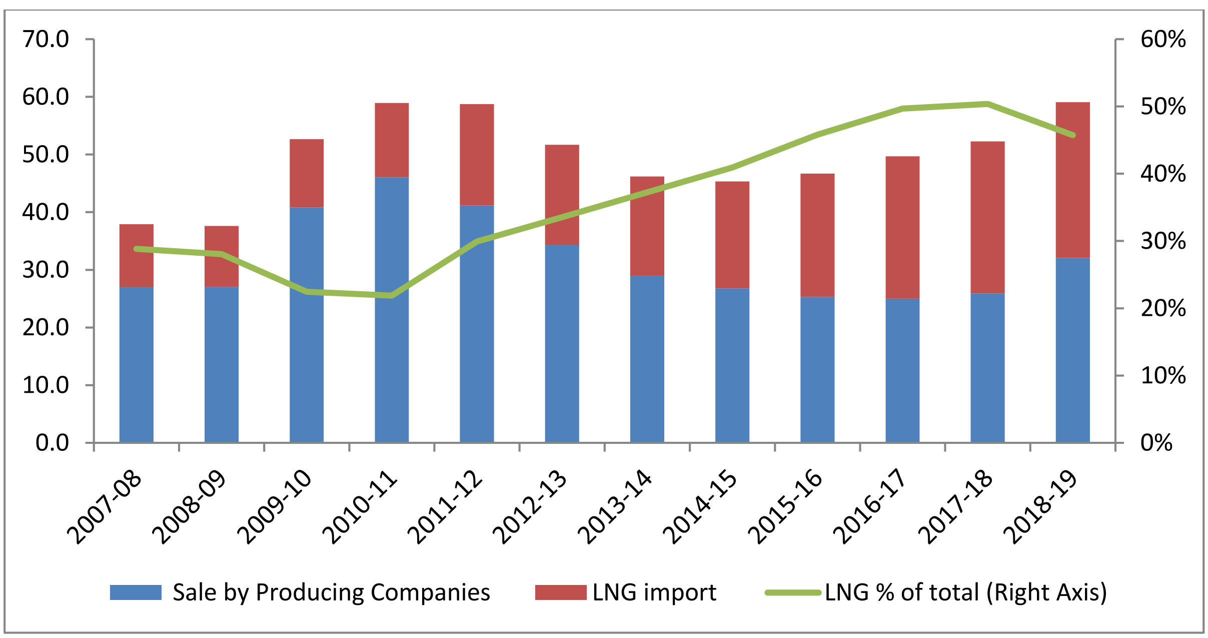



*Source: PPAC*

## Natural gas production, consumption and import in India

- Natural gas constitutes for 6.2% of total energy primary mix of India
- Natural gas consumption in India has grown at a very slow pace in the past 3 – 4 years, with share of LNG imports increasing in the overall consumption mix

**Figure 10: Domestic natural gas consumption, domestic production and LNG import in BCM**




*Source: PPAC*

Sale by producing companies includes internal consumption

# Special Articles

## COVID 19: Risks for Global Oil and Gas Industry

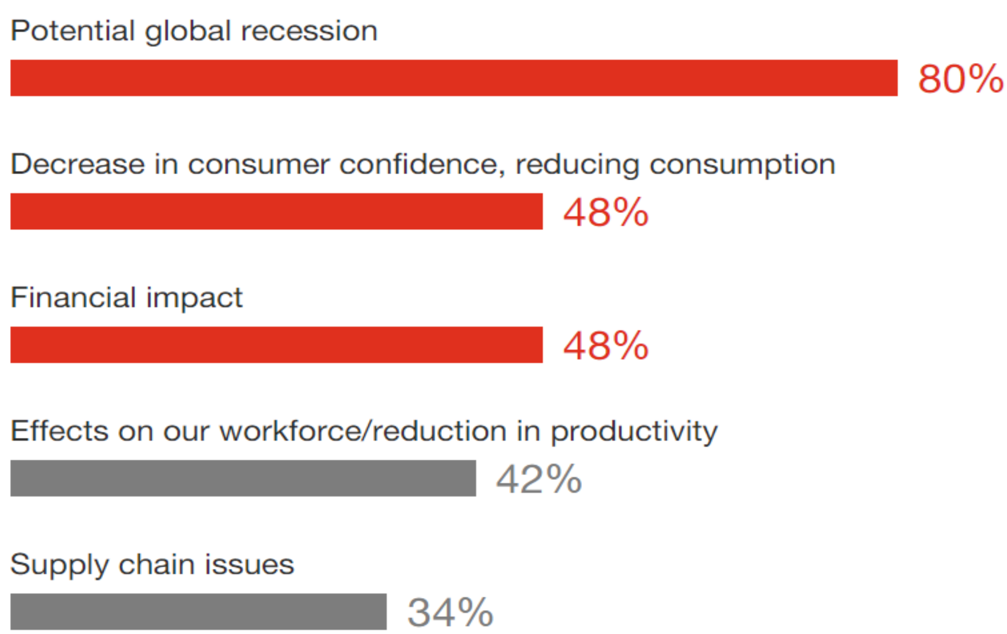
The International oil and gas industry has been hit by a double whammy of falling oil and gas prices and shrinking demand. Under normal circumstances, a drop in retail fuel prices would not witness a matching fall in consumption as it used to encourage higher consumption and equilibrium used to return soon. March 2020 is different from this. Oil marketing companies across the world are also witnessing a drop of over 10 per cent in fuel consumption in the first half of March 2020. With the impact of coronavirus further intensifying, the industry experts are of the view that the next quarter will be even worse for the sector.

In the foreseeable future, the oil and gas companies are facing two major headwinds: managing the issues of the health emergency that all sectors face; and coping with a low oil-price scenario, lower demand and the need to shore up revenue and manage debt obligations.

A typical contingency plans enable operational effectiveness following events like natural disasters, cyber incidents and power outages, among others. These are generally confined to a limited space or region. However, they don't generally take into account the widespread global quarantines and travel restrictions of extreme order resulting from COVID-19. Faced with such difficult times, a recent survey explores the major challenges the energy industry will have to withstand due to the COVID-19 outbreak.

**Top Energy industry CFO concerns about Covid-19**

Figure 11 Impacts of Corona




Source: PWC

In light of the COVID-19 pandemic and the ongoing price war between Russia and OPEC, depressed oil prices and revenue, and production declines will likely continue to present major challenges for oil and gas companies, especially for those at risk of being unable to refinance debt or meet existing debt covenants. As a result, the industry could well face potential bankruptcies.

Even in the scenario in which the market rebalances from Saudi Arabia's decision to add production, and demand bounces back following a COVID-19 containment, the industry may still be looking at a prolonged recovery period lasting as long as two years. Some analyst expect that with containment of pandemic, re-bouncing will be with more steep in the initial stage till it achieve balance. However, the counter view is that current situation may change the society differently and changes may impact economy and its pace. If, however, OPEC and Russia come together on joint energy policies, the recovery could likely be shorter.

To tackle the ongoing crisis, the Global oil and gas companies may consider one of the below mentioned steps:

a. Assess how profitability and cash flow generation can support ongoing operations in a low oil-price climate — including current (and forecasted) cash operating expenses, taxes and other cash expense items. Analyze at the field or well level as cash forecasts will be dependent on this "cash margin" against the decline curve.

b. Review of capital and corporate cost budgets to identify not only marginal investments, but also discretionary items that can be culled.

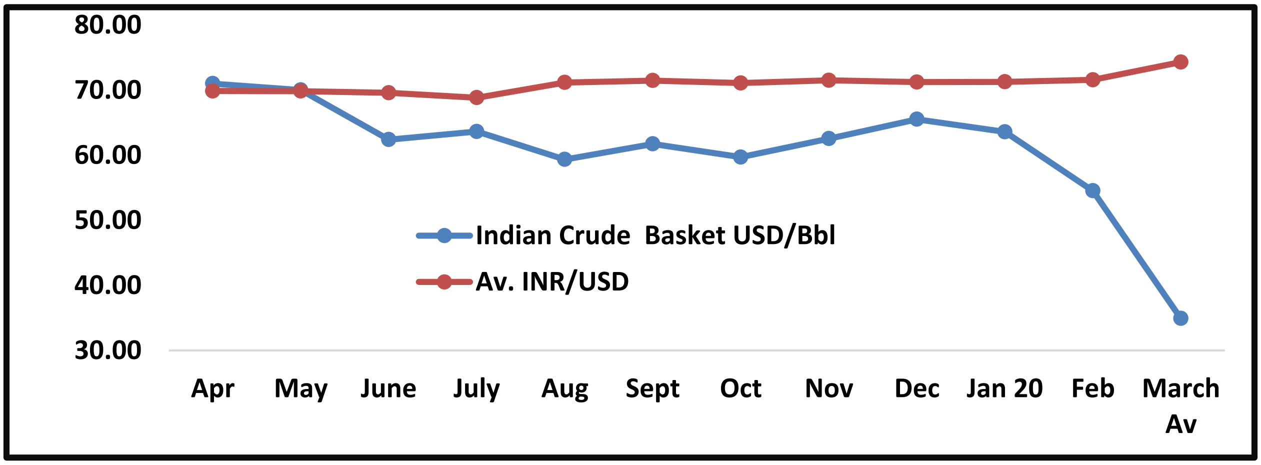
c. In case the company is faced with debt risk, it may consider diversifying or divesting non-core or underperforming assets.

d. Stay open for M&A opportunities, as distressed assets or non-core assets may be a potential source of cash for embattled companies.

## Importance of Crude Oil Price and USD Exchange in India's import bill

Crude oil import and USD exchange rate plays a vital role in India's overall import bill. Crude oil imports constitute about 25-30% of India's import bill. India imported 226.50 MMT of crude oil during the year 2018-19. In terms of monetary value, it stood as USD 111.92 Billion or Rs. 7,83,1280 crores

**Figure 12 Indian Crude Import and INR/USD exchange Rate**




**Source : PPAC**

For 2019-20, India's crude oil import is estimated to be 225.00 MMT. Even though import has gone down only by 1 MMT, the monetary value has changed a lot due to decline in crude oil prices. Value of crude oil imports for 2019-20 stands as USD 101.02 Billion or Rs 7,13,680 Crores.

In March 2020, crude oil price declined further after OPES-Russia talks failed to find any resolution to cut production. Impact of Coronavirus also impacted the crude price and the demand for crude declined due to lockdown and travel restrictions across different nations.

**Table 8 Crude Price and INR/USD Exchange rate**

| Week | INR/USD Exchange rate | Oil Price USD/Bbl | |
|---|---|---|---|
| 1st Week | 73.25 | 50.58 | Actual |
| 2nd Week | 74.36 | 33.13 | Actual |
| 3rd Week | 74.60 | 27.93 | Actual |
| 4th Week | 75.00 | 28.00 | Estimates |

By end of 1st week of March, crude prices stood around USD 42.16/barrel. Exchange rate stood as 1 USD = Rs 73.521. Considering this situation, for every USD 1 decline per crude oil barrel, India's crude import bill gets reduced by Rs. 965 crores. However, for every increase in INR-USD exchange rate, the import bill increases by Rs 553 crores.

When oil prices further decline from USD 42.16/bbl to USD 34.91/bbl, the import bill reduced further and the scenario is given below.

**Table 9 Crude Oil Different Price Scenario**

| | March - End of 1st week | Mid of March | Difference USD/Bbl | Impact on Imp Bill Rs. In Crores |
|---|---|---|---|---|
| Crude Price USD / BBL | 42.16 | 34.91 | -7.25 | -6993.84 |
| Exchange Rate INR / USD | 73.51 | 74.30 | 0.79 | 438.25 |

**Key Takeaway-**

Crude oil being one of the key imports of India , plays a vital role in meeting India's energy demand .For a country like India, where the crude import is more than 80% of the total consumption, lower crude oil price can lead to higher savings in import bill. As the World is witnessing economic slowdown, lower oil price can contribute significantly in improving the forex reserve and country's economy.

## Key developments in Oil & Gas sector and other announcements during March 2020

- **Monthly Production Report for February, 2020**

Crude oil production during February,2020 was2399.51 TMT which is16.99% lower than target and6.41% lower when compared with February2019.Cumulative crude oil production during April-February, 2019-20 was 29471.85 TMT which is 7.63% and 5.99% lower than target for the period and production during corresponding period of last year respectively.

Natural gas production during February, 2020 was 2340.51 MMSCM which is 17.02% lower than the monthly target and 8.78% lower when compared with February, 2019. Cumulative natural gas production during April-February, 2019-20 was 28769.42MMSCM which is 8.57% and 4.29% lower than target for the period and production during corresponding period of last year respectively.

Refinery production during February, 2020 was 21118.17TMT which is 2.45% higher than the target for the month and5.15% higher when compared with February, 2019. Cumulative production during April-February, 2019-20 was233182.24 TMT which is0.71% higher than the target for the period but0.65% lower than production during corresponding period of last year respectively.

- **Streamlining Grant of Approvals for Oil Exploration**

A Committee headed by Vice-chairman, NITI Aayog and comprising of Cabinet Secretary, Chief Executive Officer, NITI Aayog, Secretary, Ministry of Petroleum and Natural Gas, Secretary, Department of Economic Affairs and Chairman & Managing Director of Oil and Natural Gas Corporation was constituted in October, 2018 for suggesting reforms in Exploration & Production (E&P) Sector to enhance domestic Oil & Gas Exploration and Production. The Committee, in its report inter-alia recommended constitution of an Empowered Coordination Committee (ECC) under the chairmanship of Cabinet Secretary for streamlining and expediting grant of approval/clearances.

Empowered Coordination Committee (ECC) was constituted in May, 2019 under the Chairmanship of Cabinet Secretary, for considering matters relating to delay in granting various clearances, approvals etc. Three meetings of the committee have been held so far and issues related to delay/non-grant of Petroleum Exploration Licenses, environmental clearance issues and defence clearance issues have been taken up with other Ministries/departments and State Governments for expeditious resolution of the pending issues. Pursuant to the ECC meetings, following steps have been taken:-

- Petroleum Exploration Licenses (PELs) have been granted in all Blocks awarded under Open Acreage Licensing Policy Round-I in the states of Assam, Madhya Pradesh, Gujarat & some blocks of Arunachal Pradesh,
- Petroleum Mining Leases have been granted for many Discovered Small Fields and Nomination blocks in Assam, Tripura, Gujarat and Andhra Pradesh,
- Ministry of Defence and Department of Space have agreed to grant additional area for exploration,
- Notification of Eco Sensitive Zone (ESZ) has already been issued around 16 protected areas.

- ## Share of Gas in the Energy Basket

Natural Gas being an alternative cleaner fossil fuel has a major role in catering the growing energy demand in a sustainable manner. To increase the share of gas in the primary energy mix of the country, Government is progressively taking steps to enhance domestic gas production and develop requisite gas infrastructure including gas pipelines, city gas distribution networks and import Liquefied Natural Gas (LNG) terminals. The initiatives to develop eco-system of gas infrastructure across the country have a potential of investment of about Rs. 2.00 lakh crore in Gas Grid, LNG Terminal and City Gas Distribution (CGD) networks in next 5-8 years.

As per the present policy, Government is meeting the entire requirement of CNG (Transport) and PNG (Domestic) segment of CGD networks by supplying domestic gas, which is cheaper than imported gas. Government has taken several policy measures/initiatives to enhance exploration & production of oil and gas in the country which include:

i. Policy for Relaxations, Extensions and Clarifications under Production Sharing Contract (PSC) regime for early monetization of hydrocarbon discoveries, 2014
ii. Discovered Small Field Policy, 2015
iii. Hydrocarbon Exploration and Licensing Policy, 2016
iv. Policy for Extension of Production Sharing Contracts, 2016 and 2017
v. Policy for early monetization of Coal Bed Methane, 2017
vi. Setting up of National Data Repository, 2017
vii. of Unapprised areas in Sedimentary Basins
viii. Re-assessment of Hydrocarbon Resources
ix. Policy framework to streamline the working of Production Sharing Contracts in Pre-NELP and NELP Blocks, 2018
x. Policy to Promote and Incentivize Enhanced Recovery Methods for Oil and Gas Policy framework for exploration and exploitation of Unconventional Hydrocarbons under existing Production Sharing Contracts, Coal Bed Methane contracts and Nomination fields, 2018.

Grant of Marketing including pricing freedom, on natural gas production from High Pressure-High Temperature (HP-HT) reservoirs and deepwater and ultra deepwater areas (with ceiling), gas produced from CBM blocks, blocks awarded under Hydrocarbon Exploration and Licensing Policy (HELP) and Discovered Small Fields (DSF) Policy, commercial gas produced from North-Eastern Region (NER) on or after July 01, 2018 and also in those new gas discoveries whose Field Development Plan (FDP) has been approved after February, 2019. To incentivize additional gas production from Administered Price Mechanism (APM) fields, reduction in royalty by 10% of the applicable royalty has also been granted on the additional production over and above business-as-usual scenario.

In addition, Government in February, 2019 approved major reforms in exploration and licensing policy to enhance exploration activities, attract domestic and foreign investment in unexplored/unallocated areas of sedimentary basins and accelerate domestic production of oil and gas from existing fields. The policy reforms inter alia aim to boost exploration activities with greater weightage to work programme, simplified fiscal and contractual terms, bidding of exploration blocks under Category II and III sedimentary basins without any production or revenue sharing to Government. Further, reforms envisage simplified fiscal incentives and incentivizing gas production including marketing and pricing freedom. The policy also provides more functional freedom to National Oil Companies for collaboration and private sector participation for production enhancement methods in nomination fields. Streamlining approval processes and promoting ease of doing business including electronic single window mechanism is also an important aspect of policy reforms.

- **Finance Ministry issues Taxation and other Laws (Relaxation of Certain Provisions) Ordinance, 2020**

In order to give effect to the announcements made by the Union Finance Minister vide Press Release dated 24.03.2020, regarding several relief measures relating to statutory and regulatory compliance matters across sectors in view of COVID-19 outbreak, the govt has brought in an Ordinance on 31.03.2020 which provides for extension of various time limits under the Taxation and Benami Acts. It also provides for extension of time limits contained in the Rules or Notification which are prescribed/ issued under these Acts.

It may be noted that the outbreak of Novel Corona Virus (COVID-19) across many countries of the world has caused immense loss to the lives of people, and accordingly, it has been termed as pandemic by the World Health Organisation and various Governments including Government of India. Social distancing has been unequivocally accepted to be the best way to contain its spread, leading to announcement of complete lockdown in the country. Keeping in view the challenges faced by taxpayers in meeting the compliance requirements under such conditions, the Union Finance Minister had announced several relief measures relating to statutory and regulatory compliance matters across sectors in view of COVID-19 outbreak on 24.03.2020 vide a press release.

**Some of the important features and time limits which get extended by this Ordinance are as under:-**

**Direct Taxes & Benami:**

i. Extension of last date of filing of original as well as revised income-tax returns for the FY 2018-19 (AY 2019-20) to 30th June, 2020.

ii. Extension of Aadhaar-PAN linking date to 30th June, 2020.

iii. The date for making various investment/payment for claiming deduction under Chapter-VIA-B of IT Act which includes Section 80C (LIC, PPF, NSC etc.), 80D (Mediclaim), 80G (Donations), etc. has been extended to 30th June, 2020. Hence the investment/payment can be made up to 30.06.2020 for claiming the deduction under these sections for FY 2019-20.

iv. The date for making investment/construction/purchase for claiming roll over benefit/deduction in respect of capital gains under sections 54 to 54GB of the IT Act has also been extended to 30th June 2020. Therefore, the investment/ construction/ purchase made up to 30.06.2020 shall be eligible for claiming deduction from capital gains arising during FY 2019-20.

v. The date for commencement of operation for the SEZ units for claiming deduction under deduction 10AA of the IT Act has also extended to 30.06.2020 for the units which received necessary approval by 31.03.2020.

vi. The date for passing of order or issuance of notice by the authorities under various direct taxes& Benami Law has also been extended to 30.06.2020.

vii. It has provided that reduced rate of interest of 9% shall be charged for non-payment of Income-tax (e.g. advance tax, TDS, TCS) Equalization Levy, Securities Transaction Tax (STT), Commodities

Transaction Tax (CTT) which are due for payment from 20.03.2020 to 29.06.2020 if they are paid by 30.06.2020. Further, no penalty/ prosecution shall be initiated for these non-payments.

viii. Under Vivad se Vishwas Scheme, the date has also been extended up to 30.06.2020. Hence, declaration and payment under the Scheme can be made up to 30.06.2020 without additional payment.

**Indirect Taxes:**

i. Last date of furnishing of the Central Excise returns due in March, April and May 2020 has been extended to 30th June,2020.

ii. Wherever the last date for filing of appeal, refund applications etc., under the Central Excise Act, 1944 and rules made thereunder is from 20th March 2020 to 29th June 2020, the same has been extended to30th June 2020.

iii. Wherever the last date for filing of appeal, refund applications etc., under the Customs Act, 1962 and rules made thereunder is from 20th March 2020 to 29th June 2020, the same has been extended to30th June 2020.

iv. Wherever the last date for filing of appeal etc., relating to Service Tax is from 20th March 2020 to 29th June 2020, the same has been extended to30th June 2020

v. The date for making payment to avail of the benefit under Sabka Vishwas Legal Dispute Resolution Scheme 2019 has been extended to 30th June 2020 thus giving more time to taxpayers to get their disputes resolved.

In addition to the extension of time limits under the Taxation and Benami Acts as above, an enabling section has got inserted in the CGST Act, 2017 empowering the Government to extend due dates for various compliances inter-alia including statement of outward supplies, filing refund claims, filing appeals, etc. specified, prescribed or notified under the Act, on recommendations of the GST Council.

**PM CARES FUND**

4. A special fund "Prime Minister's Citizen Assistance and Relief in Emergency Situations Fund (PM CARES FUND)" has been set up for providing relief to the persons affected from the outbreak of Corona virus. The Ordinance also amended the provisions of the Income-tax Act to provide the same tax treatment to PM CARES Fund as available to Prime Minister National Relief Fund. Therefore, the donation made to the PM CARES Fund shall be eligible for 100% deduction under section 80G of the IT Act. Further, the limit on deduction of 10% of gross income shall also not be applicable for donation made to PM CARES Fund.

As the date for claiming deduction u/s 80G under IT Act has been extended up to 30.06.2020, the donation made up to 30.06.2020 shall also be eligible for deduction from income of FY 2019-20. Hence, any person including corporate paying concessional tax on income of FY 2020-21 under new regime can make donation to PM CARES Fund up to 30.06.2020 and can claim deduction u/s 80G against income of FY 2019-20 and shall also not lose his eligibility to pay tax in concessional taxation regime for income of FY 2020-21.

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