

INDIAN UPSTREAM OIL & GAS INDUSTRY

Oil prices fall owing to weak demand

SEPTEMBER 2024



1 Perspective on Crude Oil Prices



2 Windfall Gains Tax



3 Regulatory and Policy Developments



4 Oil and Gas Production



5 Oil Imports



6 ESG Risks in Upstream Oil & Gas



7 Industry Projections



8 Industry Performance



9 Industry Peer Comparison



10 ICRA Ratings on Upstream Companies





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Oil prices decreased to \$70-72/bbl in mid-September, owing to lower demand despite the extension of supply cuts by OPEC+. International gas prices are expected to remain range-bound amid healthy inventories globally.

The profitability of upstream companies is likely to remain healthy with capex plans remaining intact.



- **Crude oil price** decreased to ~\$70-72/bbl in mid- September 2024 owing to weak demand despite OPEC+ caps on output.
- **Domestic crude oil production has been steadily declining** owing to maturing oilfields with the trend continuing in FY2024 as well. This has resulted in increasing import dependence to the extent of 87.8% during FY2024. Oil production is expected to remain in the range of 29-31 million tonnes in the medium term, while gas production is likely to witness growth, going forward.
- **The Gov imposed a Special Additional Excise Duty (SAED)** of ~\$40 per barrel on crude oil production w.e.f. July 1, 2022. Since then, there have been multiple revisions with changes in international crude oil prices. The same stood at nil as per the latest revision w.e.f. September 18, 2024.
- **Domestic gas prices** from nominated fields are expected to remain at the ceiling level in the near term amid firm crude oil prices, as it is pegged at a 10% slope to the monthly average of the India Crude Basket, with a floor and ceiling of \$4.0/mmbtu and \$6.5/mmbtu, respectively.
- **Crude oil prices, despite the SAED impact, are likely to remain remunerative** for upstream companies, which would incentivise capex. Moreover, domestic gas prices also remain remunerative since production costs for the nomination fields are low.
- **Industry debt levels are likely to remain stable in FY2025** and, accordingly, the leverage and debt coverage metrics are also expected to be stable and healthy.



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