As KG-D6 output falls, gas pipeline cos look east coast

Govt firms cash in on shortage, build LNG terminals & import gas

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CONSULTANTS SAY PSL HAS A SUPPLIER ADVANTAGE AS ITS MILLS ARE CLOSER TO PIPELINES IN EASTERN COAST, WHICH CAN CUT LOGISTIC COST

Gas pipeline firms are flooded with orders as gas marketing companies start building up liquified natural gas (LNG) terminals in eastern India after production from Reliance Industries' KG-D6 gas field in Andhra Pradesh slowed down.

Gas output from KG-D6 block declined by roughly half to 38.66 million metric standard cubic metres a day (mmscmd) from 60 mmscmd estimated in December 2011, hitting many fertiliser and steel makers, and power generators. Fertiliser maker Iffco, soda ash and salt maker Tata Chemicals, and steel companies like Welspun Maxsteel, JSW Ispat and Essar Steel are among the few to take a hit who relied on gas. But, government owned companies are stepping in to encash the shortage by building LNG terminals, importing gas from Australia and Middle East and connecting customers through pipeline.

"There is a lot of talk of companies setting up LNG receiving stations," said Ashok Punj, the managing director of PSL, in a telephonic interaction with FE on Friday. "State-run gas company GAIL, gas infrastructure provider Petronet LNG, and oil refiner and marketer Indian Oil Corporation are building terminals. PSL won ₹924 crore fresh orders on January 4, and hopes additional orders of same size by January end, primarily to supply gas pipelines on the East coast.

PSL's rivals are also seeing rise in demand. Man Industries, with a capacity to make one million tonnes of steel pipes every year, says demand is rising. The company, with an order book of ₹1,500 crore, has put in bids called by many companies planning to build LNG terminals, said JC Mansukhani, the vice-chairman and managing director of Man Industries.

Welspun Corporation said though it is primarily focused on the exports market, the growth in orders from domestic oil and gas pipeline could change its order book.

"We are hardly present in the domestic market," said a company spokesperson. "Nearly 80-85% of our products are exported," he added. He also said as and when Reliance and GAIL pipeline projects kick-off, the company will bid for them.

In August 2011, the government cleared a proposal allowing London-based British Petroleum to purchase 30% stakes in RIL's 23 gasfields in KG basin for $20 billion signalling a revival in gas production. "The pipelines can be used to transport other kinds of gas as and when this happens," said Punj. "Since these pipelines are blind to the type of gas they are being fed, it will be useful even after three to five years when KG-D6 production revives," Punj added.

Consultants say PSL had a supplier advantage as its mills are closer to pipeline grids in eastern coast that cuts logistic costs and can source from domestic steel makers rather than imports.

"For secondary steel-makers like PSL, the advantage is that they can price their products competitively as they can source from domestic market than imports," says an analyst from a domestic brokerage. "Even gas companies are looking at sourcing pipelines locally as it brings down logistics costs."

The new terminals are pushing demand for steel pipes after 18 months of poor demand. "There is a perception of growth, but we have to see how it spans over next six to nine months," says Punj of PSL.

The Mumbai-based steel pipe-maker had earlier won ₹753 crore order from Gas Authority of India (GAIL) to supply for its Kochi-Koottanad-Mangalore-Bangalore pipeline until March 2012. The company can make 1.775 million tonnes of pipes and other construction material every year at its plant in Vizag.

Imports are fuelled by domestic gas shortage, experts say. "Major players like GAIL, Reliance and Gujarat State Petroleum Corproation or GSPC are putting up gas pipelines," said R Ravichandran, senior vice-president at Icra, a ratings agency. "These projects can be fed by domestic gas, LNG or coal-bed methane (CBM) and since there is a shortage of domestic gas, at the moment the companies are depending upon imported LNG." Imported LNG is, however, dearer than domestic natural gas, at $18-19 per million British Thermal Units or mmbtu and $4.20 per mmbtu, respectively.

"Firms setting up LNG terminals on the East coast would be looking to import from Australia, which is poised to be the biggest LNG supplier in next five years," said a senior executive with an MNC oil company in India, on condition of anonymity. "The east is still underdeveloped in terms of adequate infrastructure to handle gas, so it makes business sense." He cannot be quoted as he is not authorised to speak to the media.

PSL's shares ended 1.3% lower at ₹59.70 on the BSE on Thursday, Welspun Corporation's shares ended 2.09% higher at ₹104.85, while Man Industries' closed 1.95% lower at ₹106.10.