'Buy' ONGC shares, OPaL's prospects make for a positive
financialexpress.com 2nd April 2019

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ONGC PETRO additions Ltd (OPaL) is a joint venture (JV) between ONGC (promoter – 49.36%), GAIL (co-promoter – 49.21%) and GSPC (co-promoter – 1.43%). The company has set up a 1.9-mmtpa (1.1mmtpa ethylene, 0.4mmtpa propylene and rest is chemicals) petrochemical complex in Dahej, Gujarat. The complex was commissioned in Mar'17. The plants are running at 90% utilization rates in an integrated fashion. Ebitda margin for the company stands at 18-20%, with higher domestic realization.

OPaL expects to achieve Ebitda of ~`15 bn in FY19, ~`25 bn in FY20 (with full utilization), and `35 bn after (a) the completion of the Hazira-Dahej Naphtha pipeline, (b) the exit from SEZ and
(c) the completion of other debottlenecking by FY21.

OPaL's kickoff

OPaL was created with an intention of producing value products using ONGC's naphtha from Hazira, and ethane, propane and butane from ONGC's extraction plant at Dahej. The Dahej complex has a total of eight furnaces, with flexibility of changing feedstock inputs. This gives the company the advantage of switching between gas and naphtha during periods of high gas prices (in winter), and vice versa. The company can boost its utilisation to up to 120%, with certain debottlenecking and process improvement.

OPaL's positioning

OPaL commands 13% of the domestic market share. The products are exported to 20+ countries. Around two-thirds of exports are to China. Chemicals form the majority of exports, with py-gas (via Hazira) and benzene (Pipavav) exports at 100% each and butadiene (Kandla) exports at 60%.

India's polymer story

Polyolefin demand in India stands at 13.05mmtpa, which is likely to grow at 11-12% annually (1.5x GDP). India imports around one-third (4.2mmtpa) of total demand for polyolefin. Besides, per capita consumption of polymers in India stands at just 10kg v/s global average of 32kg. Despite the huge domestic production gap, only HMEL's (HPCL-Mittal Energy's) Bhatinda Petrochemical Project is expected to come online by 2022-23.

OPaL's opportunities

OPaL is in advanced talks for a strategic sale by converting its compulsory convertible debentures (CCDs), post which ONGC's stake in the company would be in the range of 35-50%—it would still remain as the largest shareholder. The company has already applied to the Indian government to move it out of SEZ, which will help it save 8.25% of customs duty on domestic sale of polymer products. Projects like MMA/PBR/SBR could come up in the future, as > 50% of the current 5-sq-km petrochemical complex at Dahej could be used for expansion. Pipeline to carry naphtha from Hazira to OPaL Dahej is expected to be complete by Q1FY20, adding `3 bn to Ebitda. The company is in process of converting its INR loans to USD, as it can provide a natural hedge against its exports, resulting in savings of Rs 2 bn.