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METAL & ENERGY
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ENERGY HEDGING

RASGAS RENEGOTIATION... NEWS CLIPPINGS

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RasGas Halves LNG Price for Petronet

Qatar's co also waives ₹12k or fine for lifting lower than contracted amount; Petronet agrees to buy additional 1 MT of LNG

By Gurdeep

New Delhi: Petronet LNG has received a long-term contract with RasGas that will halve the import price and end the penalty of \$100B crore for lifting lower than the contracted amount, a sign of deepening global energy market and the market shift of power to Asian nations.

The biggest Indian gas importer Petronet had been forced to buy gas from the expensive U.S. and other nations, as the world this year due to a 20-year contract that didn't quickly reflect the global price rise.

The spot LNG prices have fallen to \$3.7 per unit but Petronet had to purchase LNG at \$12.13 per unit under the contract.

The price of \$12.13 to \$6.7 per unit from January under a renegotiated pricing formula, will ensure Petronet's LNG cost falls to \$6.7 per unit.

India's Energy Muscle Gives a Reason to Cheer

REVISED TERMS	THE TAKEAWAYS
<ul style="list-style-type: none"> Contract will be for 2028 Petronet will have to buy 7.5 m metric tonnes of gas annually 	<ul style="list-style-type: none"> Gas will be sold to Petronet at \$6-7 per unit from \$12.13 per unit ₹4,000 crore reduction in cost ₹12-13 crore per unit savings per day

REASONS

RasGas came to the realization that it was not profitable to supply gas to India at the current price. It had to either raise the price or stop supplying gas to India.

India's energy muscle gives a reason to cheer. The country's energy demand is growing rapidly and the government is taking steps to meet this demand. The new contract with RasGas is a significant step in this direction.

Petronet is obliged to take 7.5 m metric tonnes of LNG annually. It also has to pay for the extra amount every year even if it is lifted from the contract or not.

India's Petronet (the parent of the contracted company) has been forced to buy gas from the expensive U.S. and other nations, as the world this year due to a 20-year contract that didn't quickly reflect the global price rise.

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Banks Close to Selling Stake in Gammon Arm

Lenders led by ICICI Bank may sell up to 74% in one of GIL arms to a consortium of NRIs

Investment Path

• **Going by the investments**, while one of the GIL subsidiaries could be sold for over ₹200 cr, the other could be sold for ₹110 cr.

• **The way deal is structured**, banks need to look at the equity issue GIL, while the remaining is sold by the subsidiary (GIL India), domestic and foreign investors.

• **GIL would hold 25%** while the remaining 75% would be held by investors.

Standard: London list by ICICI Bank, who recently acquired the 49.4% stake in GIL India, which is a subsidiary of Gammon India (GIL). The company is a joint venture of Gammon India and its subsidiaries in these subsidiaries.

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Petronet strikes deal with Qatar's RasGas, to get LNG at half-price

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Private Equity - Private Co Transaction Multiples, Financials & Returns. Data From '98
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₹ 12,000-cr off-take penalty too waived for country's largest LNG importer

NEW YEAR, NEW DEAL		
RasGas will now sell LNG to Petronet at	Original price, agreed upon in 1999, was	Deal to help Indian LNG consumers save
\$6-7 per mBtu	\$12-13 per mBtu	₹4,000 crore annually
What's different <ul style="list-style-type: none"> Original Sales and Purchase Agreement (SPA) did not permit flexible pricing 		
What pushed the deal <ul style="list-style-type: none"> During 2015, LNG was available in Indian spot market for \$7-8/mBtu 		

New Delhi, December 31:

Petronet LNG, India's largest LNG importer, will ring in the new year with good news. The company will get fuel from Qatar's State-owned gas producer RasGas at nearly half the cost originally agreed upon. It will also not have to pay the ₹ 12,000-crore penalty for lower off-take in 2015.

Ads by Google

Business Standard

RasGas contract revision to boost gas utility firms

For Gail India, risk of facing take or pay liability of nearly \$1 bn is now gone

Kalpna Pathak & Sudheer Pal Singh | Mumbai/New Delhi January 02, 2016 Last Updated at 00:44 IST



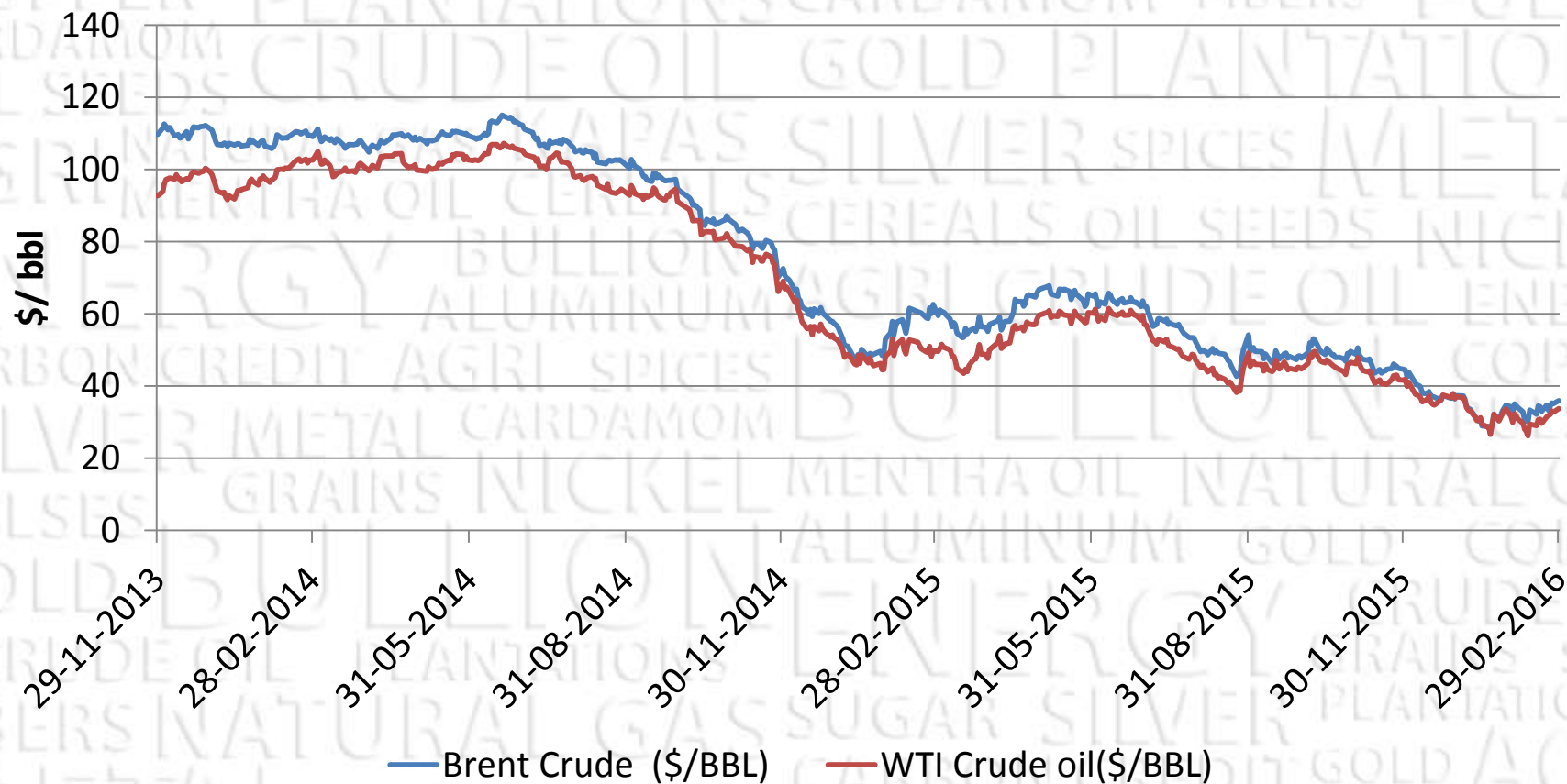
RASGAS RENEGOTIATION...

- Petronet LNG's deal with RasGas has brought down the overall cost of gas for India.
- Qatar's RasGas has renegotiated the pricing to 12.67% of 3 month moving average of Brent crude oil price.
- New contract pricing of imported LNG from 1st Jan 2016 comes down to \$6-\$7 / mmbtu v/s \$12-13 /mmbtu. Looking at the crude prices in the current scenario, LNG prices may likely be in lower range. At today's price of \$40/bbl, LNG price works out to be approx. \$ 4.40 / mmbtu
- Petronet LNG also increases the purchase commitment from 7.5 mmtpa to 8.5 mmtpa.
- The renegotiation removes uncertainties and helps Indian gas based ecosystem to post improved volumes.
- Customers to benefit : Gujarat Gas, GSPC, GIPCL, GSFC, Arvind Ltd, Torrent Power, Hindustan Sanitaryware, Kajaria Ceramics, United Phosphorus, IOCL, Force Motors, NTPC, Godrej Consumer, BHEL, Tata Chemicals, Bhushan Steel etc.. (All customers buying from RasGas)

ADDRESSING THE RISK OF VOLATILE CRUDE OIL PRICES

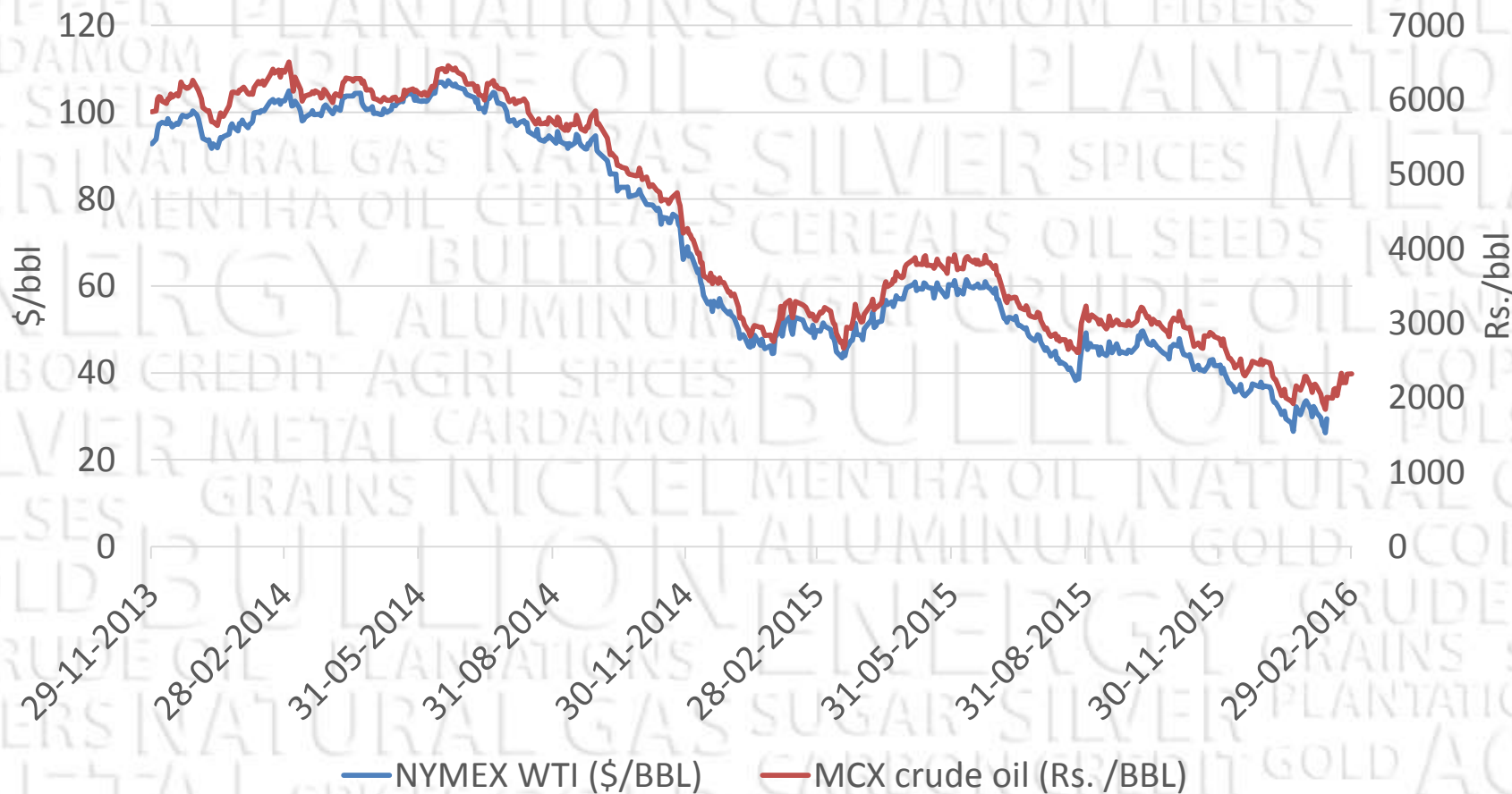
- Brent crude oil prices have ranged from \$115/bbl to \$28/bbl over past two years with average daily volatility of 2.92%.
- The recent volatility in oil prices illustrates higher exposure to price risk.
- To reduce its risk from volatility, firms can use MCX platform for hedging to mitigate its financial loss.
- LNG prices can be hedged using MCX Crude oil contract, which is one of the front running contract.
- Correlation between WTI crude and Brent crude is above 99%.
- MCX crude average daily volume in 2015 was 18.52 million barrels which provides sufficient depth & liquidity to hedge the exposure.

BRENT CRUDE-WTI CRUDE OIL PRICE CORRELATION



Brent Crude- WTI Crude oil Correlation : 99.50%

MCX-NYMEX CRUDE OIL CORRELATION



MCX-NYMEX Crude oil Correlation : 99.83%

MARKET UNCERTAINTIES TREAT EVERYONE EQUALLY !!

**Concerns of energy
consumers**

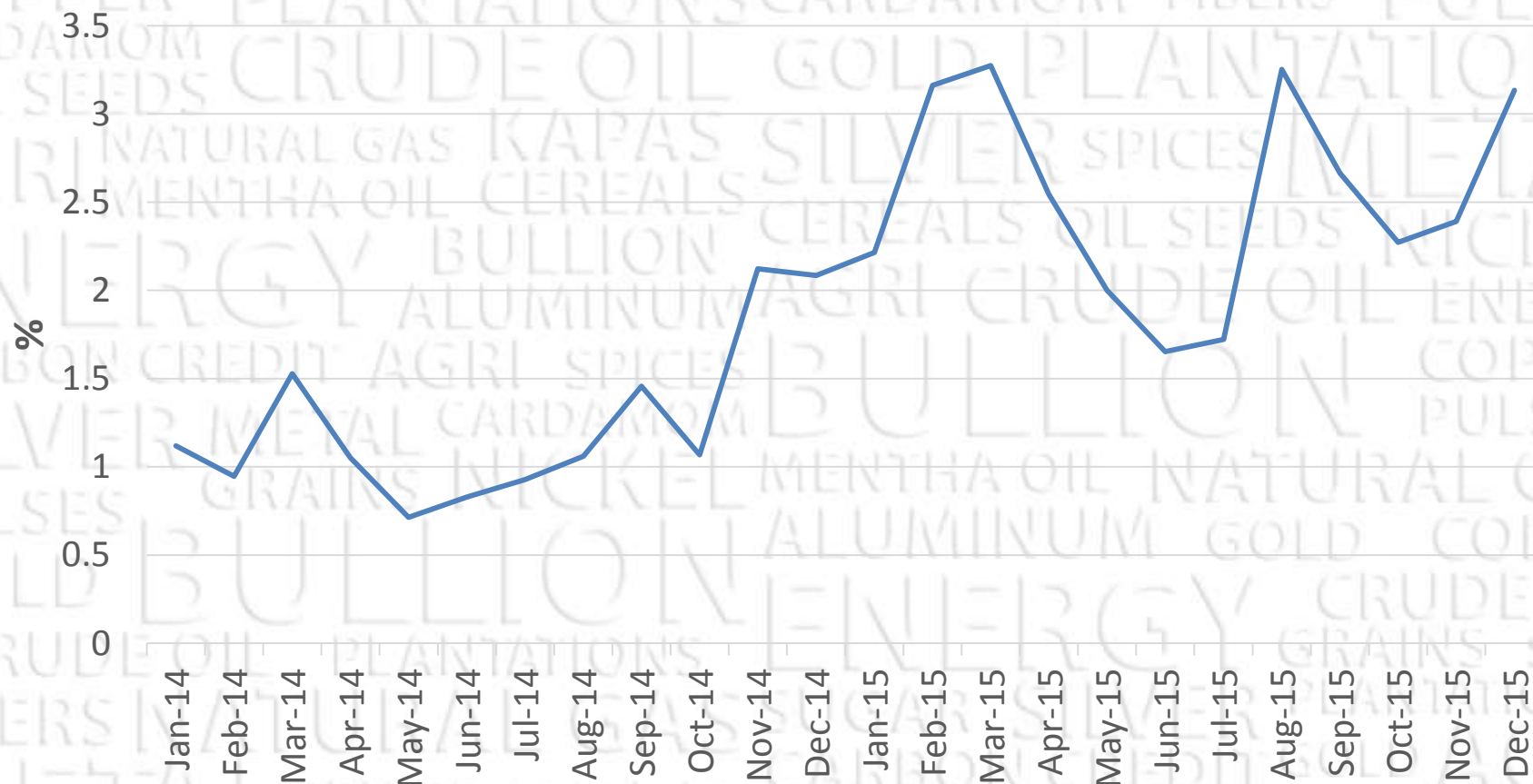
**Contractual inflexibility to
pass every price rise to end-
user**

**Safeguarding spot sales
from fall in price**

**Concerns of energy
producers**

DEVIATION FROM BUDGETS

VOLATILITY IN % OF MCX CRUDE OIL



Daily Volatility in was 2.92%

RISK

- **End Consumers**
 - **Furnace Oil**
 - **High Speed Diesel**
 - **Other by-products**
 - **Natural Gas**
- **Exposed to risk owing to price rise of energy fuels as feedstock**

WHY HEDGE?

- Hedging reduces the impact of raw material/ input price volatility
- Allows you to control costs, over which there is no control and which cannot be influenced
- Allows you to reduce the downside risk to business from catastrophic events such as the Tsunami, Hurricanes, Earthquakes, Terrorist Attacks etc.

WHAT HEDGING MEANS TO INDUSTRY

- Raw-material prices (especially metals and energy) have gone up significantly in the last decade. Even more critical is price volatility, which has accentuated the problem.
- Stiff Competition - competitive environment does not allow passing of every input price rise to customer perpetually.
- Which also means that any rise in the raw material price will erode margins

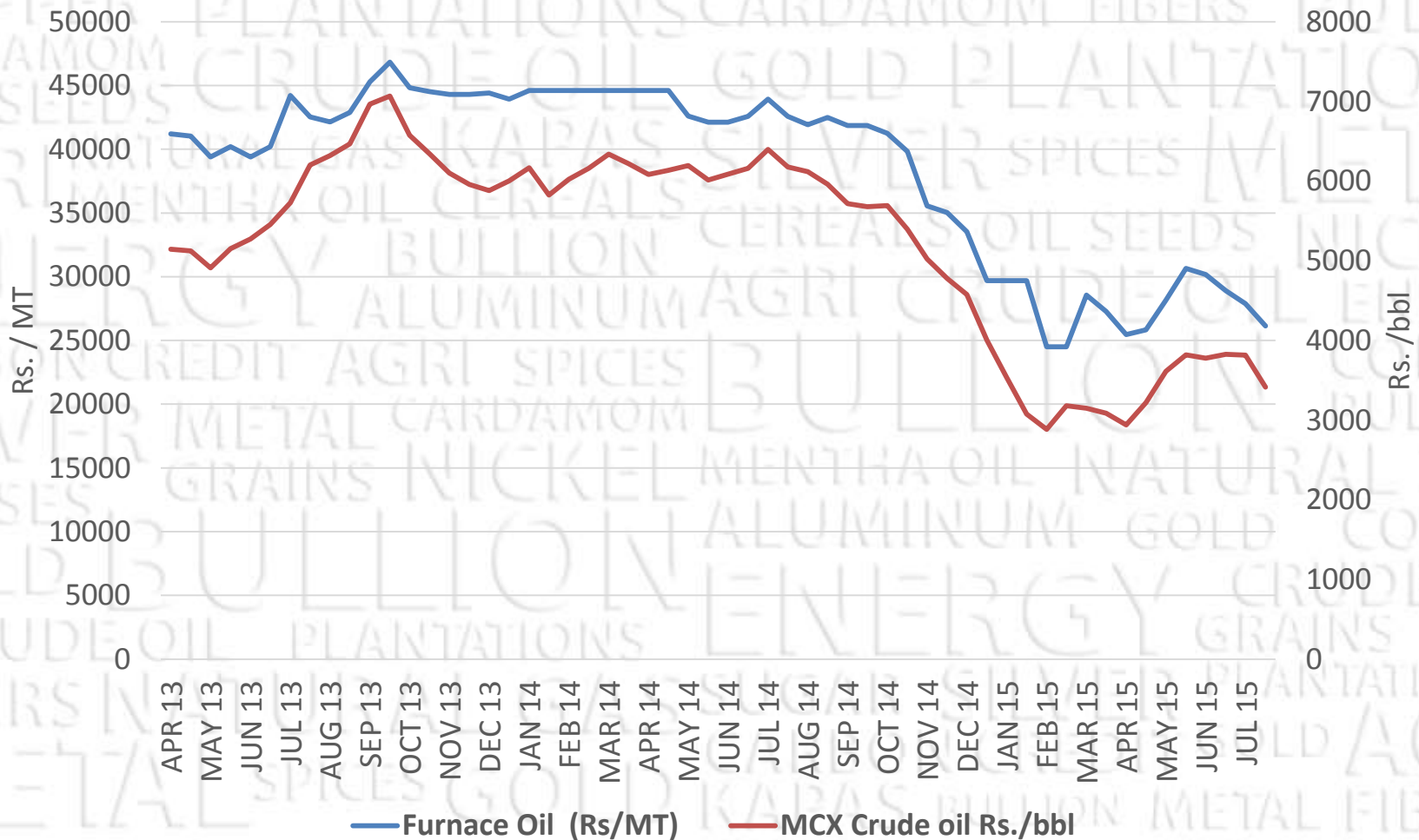
DIFFERENT INDUSTRY- DIFFERENT STRATEGY

- ☐ Any industry with energy requirement like
 - Automobile industry
 - Glass Industry
 - Food Industry
 - Textile Industry
 - Hotel Industry
 - Paint Industry
- ☐ Airline companies
- ☐ Fertilizer Industry
- ☐ Natural Gas producing & importing companies

HOW WILL HEDGING WORK?

- **No direct hedging product available for Furnace Oil, HSD, etc.**
- **We recommend ‘surrogate hedging’**
- **Why ?**
 - High correlation exists between crude oil and its distillates
 - Spot price of crude oil and futures price of crude oil moves in tandem

MCX CRUDE OIL PRICE AND FURNACE OIL CORRELATION



Correlation : 97%

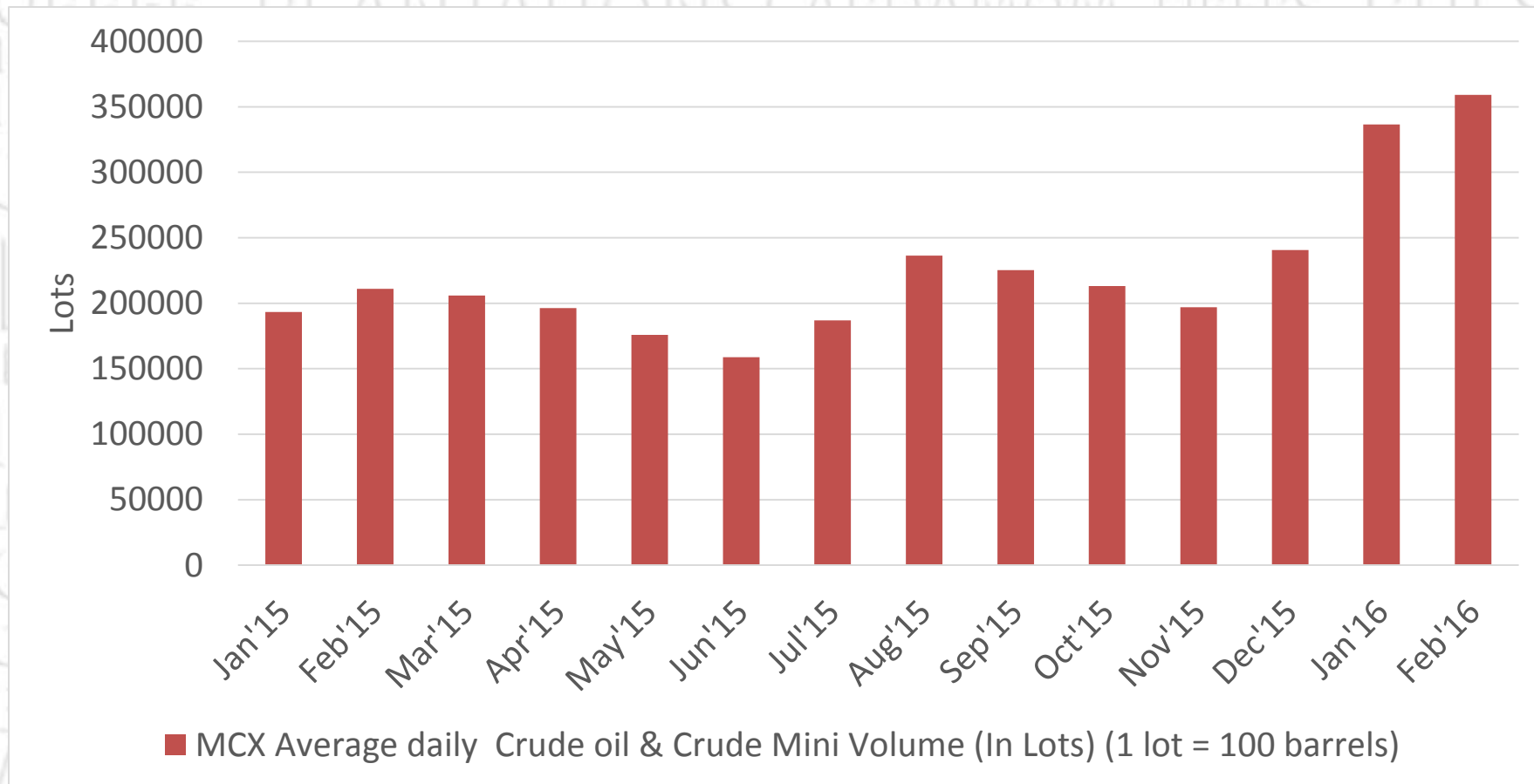
MCX CRUDE OIL CONTRACT: AN OVERVIEW

Parameters	Crude Oil
Trading Unit	100 Barrels
Price Quotation	Rs/bbl
Tick Size	Rs 1
Price Movement per Tick (in Rs.)	100
Initial Margin	5%
Contract Value in Rs.	2,50,000
Initial Margin in Value (Rs.)	12,500
Average Daily Volatility in (2015)	2.58%

CRUDE OIL PERFORMANCE

- ❑ Highest volume value wise : Rs. 23309 Crores
- ❑ Volume : 45.30 million bbls (both on 17th Nov. 2011)

MCX CRUDE OIL PERFORMANCE



KEY LIQUIDITY DIMENSIONS

DEPTH

MEASURES

- Trading volumes
- Increased Liquidity in mid-months
- Number of participants
- Impact cost

BENEFITS AT MCX

- ✓ Lot size in lieu of domestic requirement
- ✓ Cash Settled
- ✓ No Forex Risk
- ✓ Timings for trade in lieu of domestic requirement
- ✓ Fixed daily price limit
- ✓ High Liquidity ensures low impact cost (approx. 0.01%)
- ✓ Convenience of trading at an economical transaction cost of Rs. 210/- per crore only.

PROCESS FLOW FOR STARTING HEDGING ON MCX



Placing Hedging Proposal to Management

Board Approval for Hedging received

Becoming a direct member of the Exchange

OR

Opening of A/c with MCX Member / Commodity Broker *

Filling Know Your Client Form (KYC)

Margin Money deposited on start of hedging

Commencing hedging through Broker terminal

REGULATORY BOOSTS FOR HEDGERS

- **Income Tax Exemptions for Hedging:** The Finance Act, 2013 has provided for coverage of commodity derivatives transactions undertaken in recognized commodity exchanges under the ambit of Section 43(5) of the Income Tax Act, 1961, on the lines of the benefit available to transactions undertaken in recognized stock exchanges.

This effectively means that business profits/ losses can be offset by losses/ profits undertaken in the commodity derivatives transactions. This enhances the attractiveness of risk management on recognized commodity derivative exchanges and incentivizes hedging. Hedgers are no longer forced to undertake physical delivery of commodities in order to prove that their transactions are in the nature of hedging and not 'speculation'.

TRADER WORKSTATION SNAPSHOT

MCX View Terminal Ver 11.5.14.0 (Powered By FT-Engines) 04 Dec 2014 07:11:57 PM

File View Market Tools Windows Help

MCXCOMDEX 3263.72 (-2.84)

FUTCOM ALUMINI 31DEC2014

Market Watch -MCX

Symbol	Series/Expiry	Price Quo...	Buy Qty	Buy Price	Sell Price	Sell Qty	LTP	%	Net Change	U/L Product LTP	Volume	High	Value (in I
ALUMINIUM	31DEC2014	1 KGS	15 MT	122.30	122.35	30 MT	122.35	0.5754	0.70	122.20	20915 MT	122.75	
ALUMINIUM	30JAN2015	1 KGS	5 MT	122.95	123.00	5 MT	123.00	0.7371	0.90	122.20	1625 MT	123.15	
COPPER	27FEB2015	1 KGS	2 MT	404.05	404.10	1 MT	404.05	1.3546	5.40	391.85	19500 MT	405.45	
CRUDEOIL	18DEC2014	1 BBL	2800 BBL	4155.00	4156.00	600 BBL	4156.00	-0.7404	-31.00	4170.00	5628300 BBL	4237.00	2
CRUDEOIL	16JAN2015	1 BBL	100 BBL	4189.00	4191.00	1000 BBL	4190.00	-0.7344	-31.00	4170.00	280500 BBL	4262.00	
CRUDEOIL	19FEB2015	1 BBL	100 BBL	4221.00	4227.00	200 BBL	4229.00	-0.4238	-18.00	4170.00	5200 BBL	4294.00	
GOLD	05DEC2014	10 GRMS	1 KGS	26340.00	26395.00	1 KGS	26390.00	-0.3286	-87.00	26362.00	51 KGS	26472.00	
GOLD	05FEB2015	10 GRMS	2 KGS	26690.00	26696.00	2 KGS	26696.00	-0.2988	-80.00	26362.00	8876 KGS	26760.00	2
LEAD	31DEC2014	1 KGS	40 MT	126.55	126.60	20 MT	126.60	0.9167	1.15	125.60	18340 MT	126.90	
NATURALGAS	26DEC2014	1 mmBtu	500 mmBtu	233.80	233.90	45000 mmBtu	233.80	-0.6375	-1.50	235.50	23283750 mmBtu	236.40	
NATURALGAS	27JAN2015	1 mmBtu	750 mmBtu	235.80	236.00	5000 mmBtu	235.90	-0.5481	-1.30	235.50	1777500 mmBtu	238.40	
NATURALGAS	24FEB2015	1 mmBtu	250 mmBtu	235.00	235.30	1250 mmBtu	235.20	-0.3390	-0.80	235.50	85000 mmBtu	237.20	
NICKEL	31DEC2014	1 KGS	1000 KGS	1046.00	1046.40	500 KGS	1046.10	1.5927	16.40	1038.10	3043750 KGS	1051.40	
SILVER	05DEC2014	1 KGS	60 KGS	36500.00	36704.00	30 KGS	36652.00	1.0114	367.00	36441.00	8790 KGS	36657.00	
SILVER	05MAR2015	1 KGS	30 KGS	37350.00	37352.00	30 KGS	37353.00	0.8450	313.00	36441.00	383640 KGS	37500.00	1
COTTON	31DEC2014	1 BALES	25 BALES	15810.00	15820.00	50 BALES	15820.00	0.3171	50.00	15810.00	15275 BALES	15860.00	
ZINC	31DEC2014	1 KGS	10 MT	138.25	138.30	10 MT	138.30	0.8753	1.20	137.10	35820 MT	139.10	

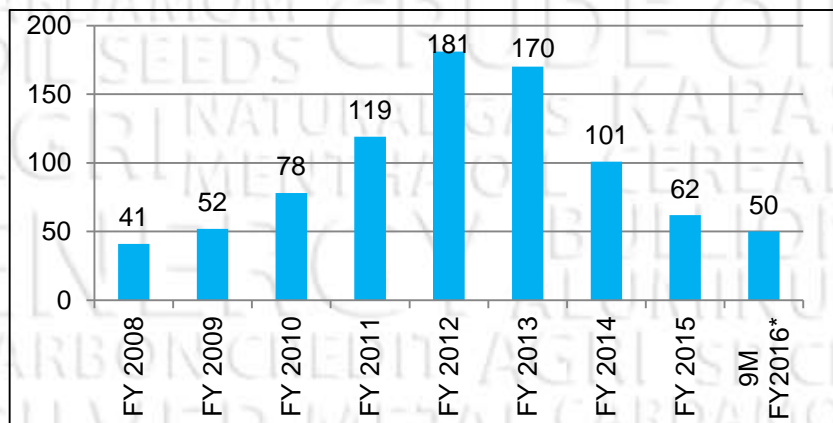
MCX OVERVIEW



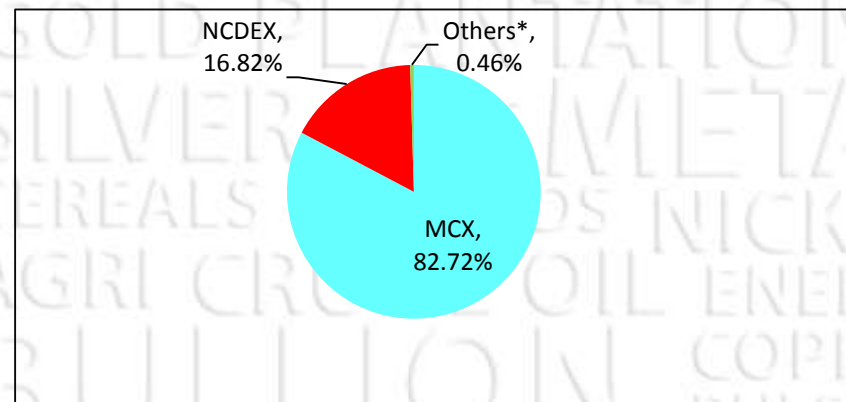
- Commenced operations on November 10, 2003
- As proposed in the Union Budget 2015, FMC (the erstwhile regulator of commodity markets) and SEBI were formally merged on September 28th, 2015. As a result, SEBI commenced regulating the commodity derivatives market under Securities Contracts Regulation Act (SCRA) 1956 with effect from 28th September, 2015 and the Forward Contracts Regulation Act (FCRA) 1952 got repealed with effect from 29th September, 2015. The Act also provides that all recognised associations under FCRA shall be deemed to be recognised stock exchanges under the SCRA.
- The Exchange offers:
 - online trading, and clearing and settlement of commodity futures transactions
 - a platform for price discovery and price risk management
 - neutral, secure and transparent trade mechanisms
 - scalable technology framework

INDIA'S LEADING EXCHANGE

GROWTH OF INDIAN COMMODITIES MARKET IN TERMS OF VALUE OF FUTURES TRADED (INR TN)



MARKET SHARE (9M FY 15-16)



* Other National Exchanges offering commodity futures only

MCX: MARKET SHARE IN KEY SEGMENTS FOR 9M FY15-16

Commodity segment	MCX Market Share in Indian Commodity Futures space	Proportion of MCX's turnover
Bullion	98.88%	35.54%
Energy	100.00%	34.53%
Base Metals	100.00%	27.78%
Agri - commodities	9.53%	2.15%

GLOBAL RANKING OF MCX's COMMODITY FUTURES CONTRACTS AMONG F&O CONTRACTS IN CY 2014**

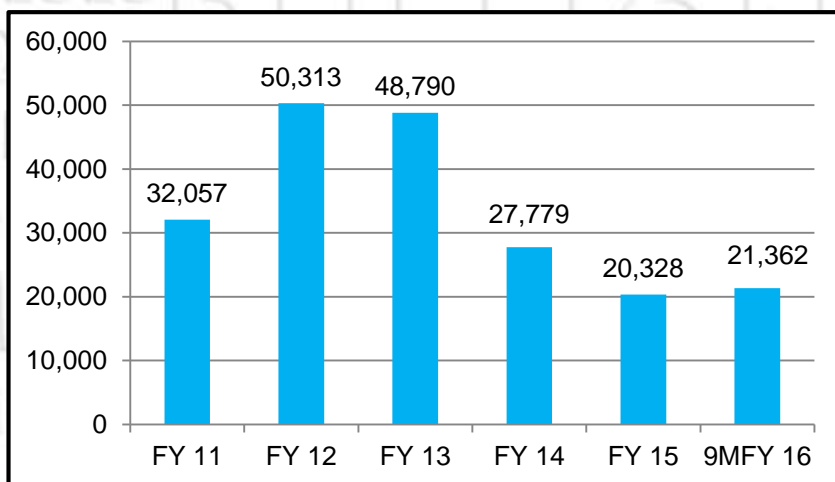
12 th	MCX Crude Oil Futures
13 th	MCX Silver Micro Futures
15 th	MCX Natural Gas Futures
20 th	MCX Silver Mini Futures

** Source: FIA Annual Volume Survey March 2015

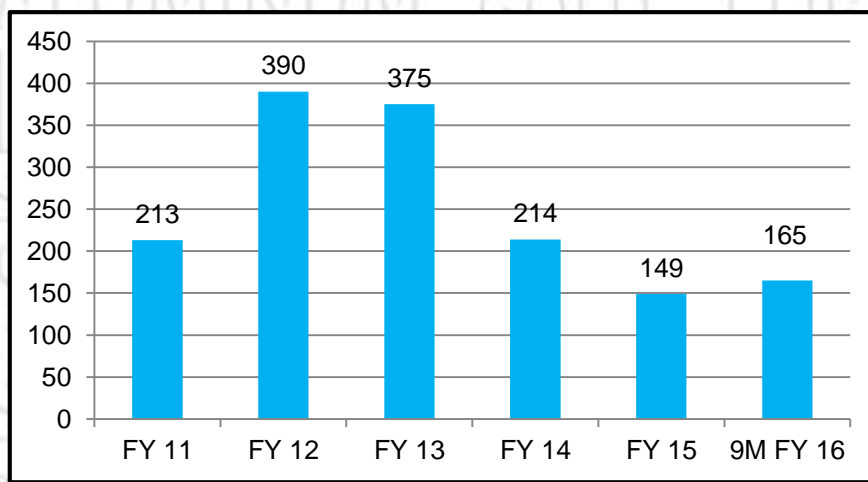
OPERATIONAL HIGHLIGHTS

- Average daily turnover (ADT) in Q3 FY2016: INR 20,374.29 crore; Market Share of 83.33%* (Corresponding Quarter Q3 FY2015 ADT INR. 21,403.95 crore; Market Share of 85.64%*)
- Average daily turnover (ADT) in 9M FY2016: INR 21,362.50 crore; Market Share of 82.72%* (Corresponding 9M FY2015 ADT INR. 19,771.66 crore; Market Share of 82.96%*)
- No. of traded contracts in 9M FY 2016 went up to 165 million from 97 million year-on-year
- Extensive reach: 708[#] members having 48,404 Authorised Persons, 6,07,331 terminals (including CTCL), over 1822 cities/towns across India
- Trading hours (IST): 10:00 hours to 23.30 hours/ 23.55 hours Day light timing (winter)

AVERAGE DAILY VOLUME - single side (INR Crore)



VOLUME OF CONTRACTS (Lots in MN)



INTEGRATED INFRASTRUCTURE AND NETWORK OF ALLIANCES

GLOBAL ALLIANCES*



- Facilitate sharing of information across regional global exchanges
- Allow penetration of new markets and increase market presence
- Enhance product offerings

**All logos used here are trademarks of respective companies | As on 30 September 2015*

INDIAN ALLIANCES

- Tie-ups with Indian trade bodies and associations, corporate, educational institutions and R&D centres enable it to engage the stakeholders, improve trade practices, create awareness and facilitate overall improvement of the Indian commodity futures market

THANK YOU

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