

Oil & Gas and Petrochemicals

HPCL (BUY)
Target price: Rs278

BPCL (BUY)
Target price: Rs423

IOCL (ADD)
Target price: Rs98

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INDIA

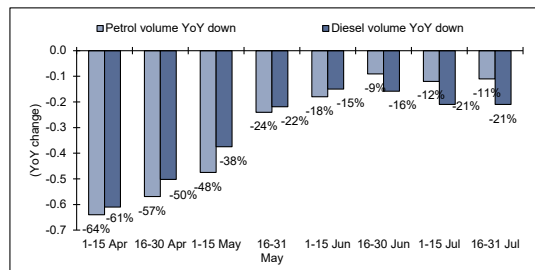
Refining & marketing

Refiners cut throughput as demand recovery reverses & GRMs weaken

As per petroleum ministry's data for Jun'20 and the recent press reports, 1) excess of production over consumption is down from 6mmt in Apr'20 to 2.6mmt in May'20 and further to 2.4mmt in Jun'20; 2) product net exports are down sharply from 2.7mmt in Apr'20 to 0.8mmt in Jun'20 (2.3mmt in May'20); 3) diesel net exports are down from 3.4mmt in Apr'20 to 2mmt in Jun'20 (2.7mmt in May'20); 4) consumption recovery has reversed in case of auto fuels in general and diesel in particular in Jul'20; 5) refiners have cut utilisation rate in Jul'20 from levels in Jun'20 and maintenance shutdowns were also resorted to in Jul'20 and are planned in Aug'20 probably due to reversal of demand recovery, weak export markets and GRM. It, therefore, appears HPCL is likely to outperform peers on utilisation rate even in Q2FY21 like it did in Q1; we reiterate HPCL as our top pick among OMCs.

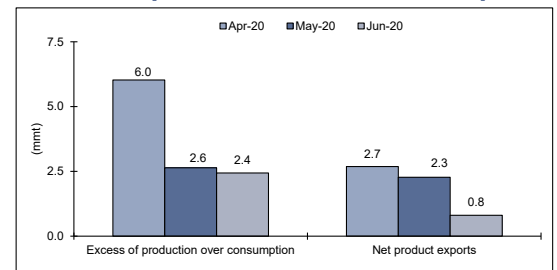
- **Consumption recovery reversal in Jul'20:** There are indications that the trend of secular recovery in auto fuel consumption from the lows in 1-15 Apr'20 has reversed in Jul'20 probably due to re-imposition of lockdowns in some cities. As per press reports, consumption decline was steeper at 21% YoY in Jul'20 vs 16% YoY from 16-30 June for diesel and 11.5% YoY in Jul'20 vs 9% YoY from 16-30 June for petrol.

India's auto fuel consumption down 11.5-21% in Jul vs 9-16% in 16-30 Jun



Source: PPAC, Reuters, I-Sec research

Secular fall in net product exports & excess of production over consumption



Source: PPAC, I-Sec research

- **Net product exports contracted further in Jun'20:** India's petroleum product consumption declined by 8.4mmt (46%) YoY in Apr'20 while production was down 5.1mmt (24%) YoY. Excess of production over consumption thus surged 3.3mmt (121%) YoY to 6mmt in Apr'20. Excess of production over consumption contracted from 6mmt in Apr'20 to 2.6mmt in May'20 and further to 2.4mmt on Jun'20. Net product exports surged 227% YoY to 2.7mmt in Apr'20. Net product exports contraction was modest from 2.7mmt in Apr'20 to 2.3mmt in May'20 but steep to just 0.8mmt in Jun'20. Net diesel exports dwindled from 3.4mmt in Apr'20 to 2.7mmt in May'20 and further to 2mmt in Jun'20. Utilisation of private export-oriented refineries declined to 82-84% in Jun'20 from 89-93% in Apr-May'20.
- **Refiners cut utilisation rates & announced maintenance shutdowns in Jul'20:** Refiners have reacted to reversal in demand recovery, slowdown in exports and further weakening of GRM, as crude discounts vanished in Jul'20, by cutting utilisation rates and resorting to maintenance shutdowns. As per press reports: 1) IOC operated its refineries at 80-85% capacity in Jul'20 vs 96% utilisation in Jun'20 and utilisation rate was down to 75% by end-Jul'20 from 93% at the beginning of the month; 2) IOC's subsidiary Chennai Petroleum operated at just 50% utilisation in Jul'20 vs 66% in Jun'20; 3) IOC is taking maintenance shutdown from 25-Jul'20 to 15-Aug'20 at its 15mmt capacity Paradip refinery; 4) BPCL has cut down utilisation rate at its refineries to 70% in Jul'20 from 83% in Jun'20 and 5) BPCL had shutdown for maintenance for three weeks its 10mmt capacity distillation unit at Kochi refinery in Jul'20.

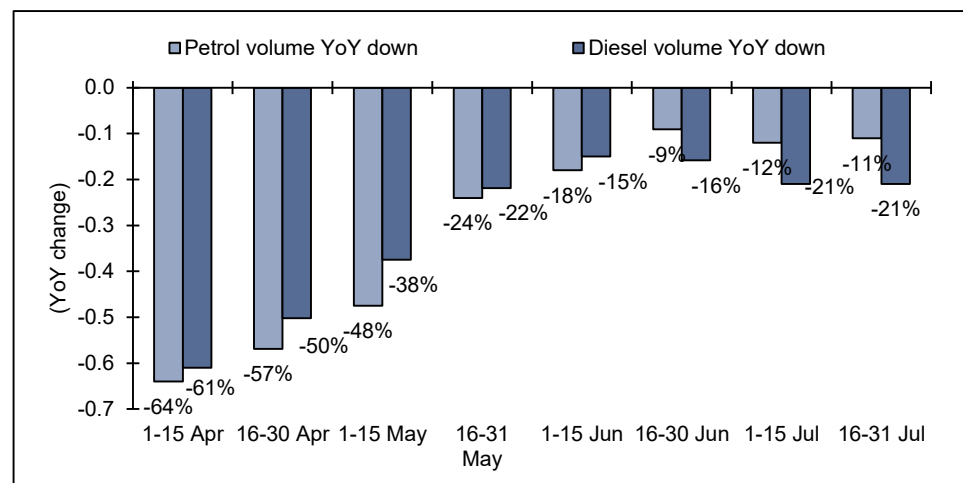
Weak GRM & demand recovery reversal drive throughput cuts

Auto fuels demand recovery reverses in Jul'20

Diesel & petrol demand recovery reverses in Jul'20

There are indications that the trend of secular recovery in auto fuel consumption from the lows in 1-15 Apr'20 has reversed in Jul'20 probably due to re-imposition of lockdowns in some cities. Diesel and petrol consumption, which was down 61-64% YoY during 1-15 Apr, was down 9-16% YoY during 16-30 Jun'20 as per press reports and petroleum ministry data. As per press reports consumption decline was steeper at 21% YoY in Jul'20 vs 16% YoY in 16-30 June for diesel and 11.5% YoY in Jul'20 vs 9% YoY in 16-30 June for petrol.

Chart 1: Diesel & petrol volume recovered until 1-15 Jun but recovery has reversed in Jul'20



Source: PPAC, Reuters, I-Sec research

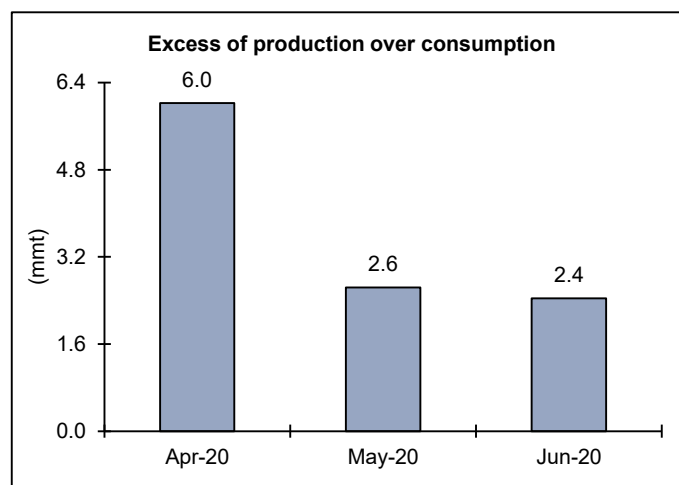
Net product exports contracted further in Jun'20

Excess of production over consumption contracted MoM in May-Jun

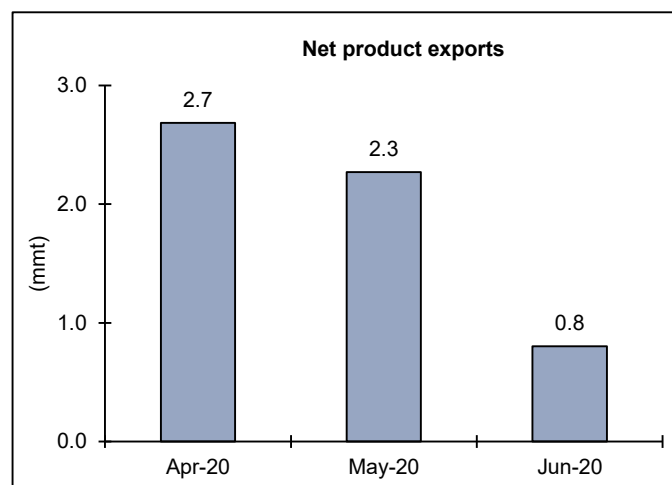
India's petroleum product consumption declined by 8.4mmt (46%) YoY in Apr'20 while production was down 5.1mmt (24%) YoY. Excess of production over consumption thus surged by 3.3mmt (121%) YoY to 6mmt in Apr'20. Excess of production over consumption contracted from 6mmt in Apr'20 to 2.6mmt in May'20 and further to 2.4mmt on Jun'20.

Modest net product export MoM fall in May & steep fall in Jun'20

Net product exports surged by 227% YoY to 2.7mmt. Net product exports contraction was modest from 2.7mmt in Apr'20 to 2.3mmt in May'20 but steep to just 0.8mmt in Jun'20. Utilisation of private export oriented refineries declined to 82-84% in Jun'20 from 89-93% in Apr-May'20.

Chart 2: Excess of production over consumption down from 6mmt in Apr'20 to 2.4mmt in Jun'20

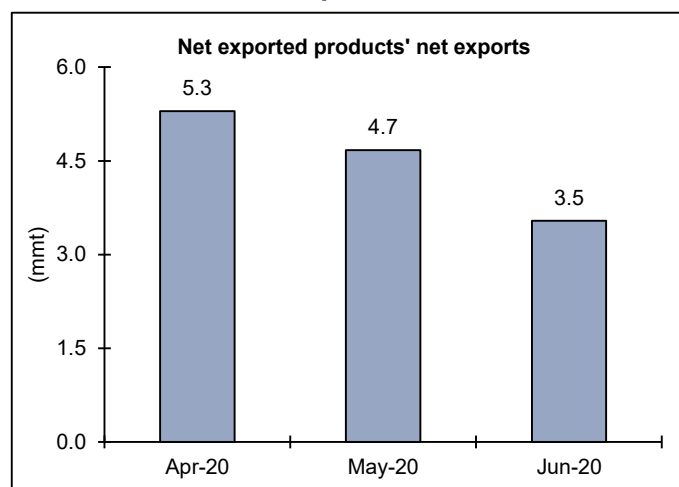
Source: PPAC, I-Sec research

Chart 3: Net product exports down from 2.7mmt in Apr'20 to 0.8mmt in Jun'20

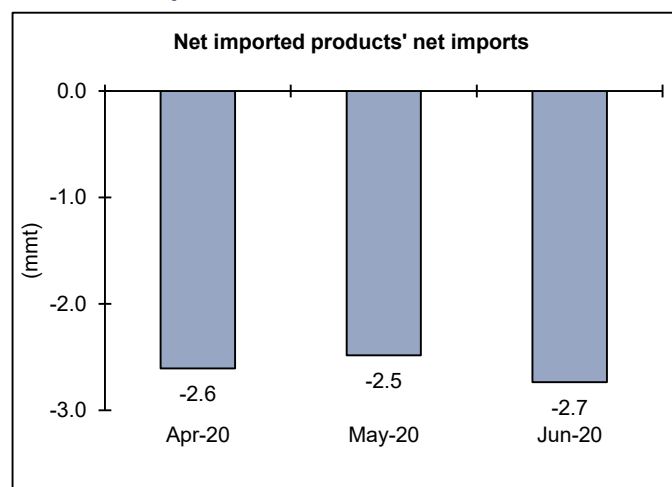
Source: PPAC, I-Sec research

Net export of net exported products down from 5.3mmt in Apr to 3.5mmt in Jun

India is a net exporter at most times of petrol, diesel, jet fuel and naphtha and net importer of LPG, lubes and petcoke. The net export of net exported products has dwindled from 5.3mmt to in Apr'20 to 4.7mmt in May'20 to 3.5mmt in Jun'20. The net import of net imported products has been steady at 2.5-2.7mmt in Apr-Jun'20.

Chart 4: Net exports of net exported products down from 5.3mmt in Apr to 3.5mmt in Jun'20

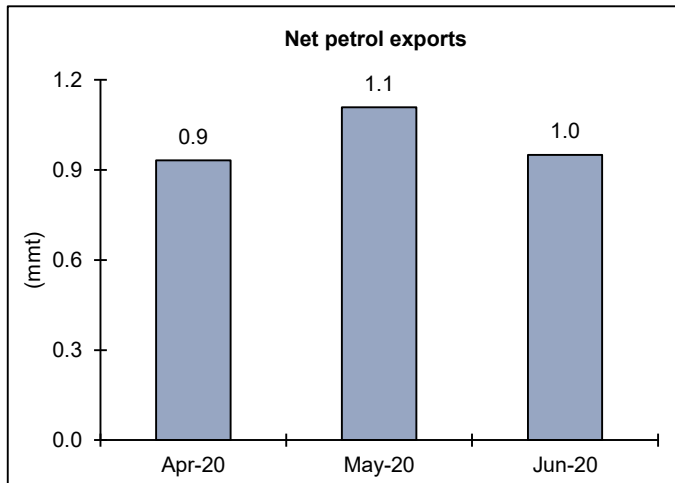
Source: PPAC, I-Sec research

Chart 5: Net import of net imported product at 2.5-2.7mmt in Apr-Jun'20

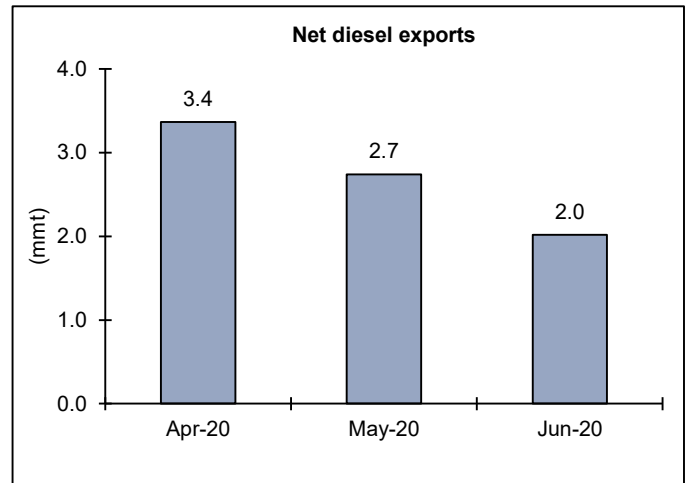
Source: PPAC, I-Sec research

Secular fall in net diesel exports in Apr-Jun; petrol export trend mixed

Net diesel exports dwindled from 3.4mm in Apr'20 to 2.7mmt in May'20 and further to 2mmt in Jun'20. Net diesel exports were up 79% YoY in Apr'20 but up 44% YoY in May'20 and just 14% YoY in Jun'20. Net petrol exports were 0.9-1.1mmt in Apr-Jun'20. Net petrol exports were up 6% YoY in Apr'20 and 45% YoY in Jun'20 but down 11% YoY in May'20.

Chart 6: Net diesel exports down from 3.4mmt in Apr'20 to 2mmt in Jun'20

Source: PPAC, I-Sec research

Chart 7: Net petrol exports in a range of 0.9-1.1mmt in Apr-Jun'20

Source: PPAC, I-Sec research

Refiners cut runs on weak GRM & demand recovery reversal

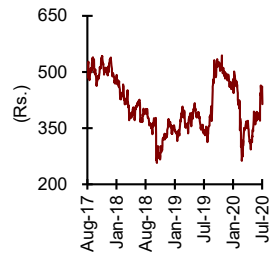
Refiners cut utilisation rates and shut for maintenance in Jul-Aug'20

Refiners have reacted to reversal in demand recovery, slow down in exports and further weakening of GRM, as crude discounts vanished in Jul'20, by cutting utilisation rates and resorting to maintenance shutdowns. As per press reports:

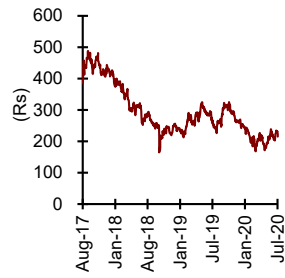
- IOC operated its refineries at 80-85% of their capacity in Jul'20 vs 96% utilisation in Jun'20 and utilisation rate was down to 75% by end-Jul'20 from 93% at the beginning of the month.
- IOC's subsidiary Chennai Petroleum operated at just 50% utilisation in Jul'20 vs 66% in Jun'20.
- IOC is taking maintenance shutdown from 25-Jul'20 to 15-Aug'20 at its 15mmtpa capacity Paradip refinery.
- BPCL has cut down utilisation rate at its refineries to 70% in Jul'20 from 83% in Jun'20.
- BPCL had shutdown for maintenance for three-week its 10mmtpa capacity distillation unit at its Kochi refinery in Jul'20.
- A private refiner has announced 3-4 weeks shutdown of half of the distillation capacity at one of its two refineries starting the fourth week of Jul'20.

Price charts

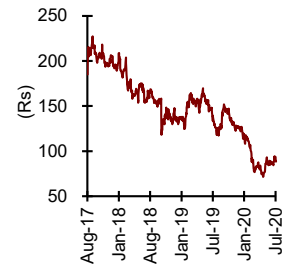
BPCL



HPCL



IOC



Source: Bloomberg

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