Equity Research

April 21, 2021

BSE Sensex: 47706

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Sector update

Oil & Gas and Petrochemicals

BPCL (BUY)
Target price: Rs544

IOCL (ADD)
Target price: Rs105

RIL (HOLD)
Target price: Rs2,086

INDIA

ICICI Securities

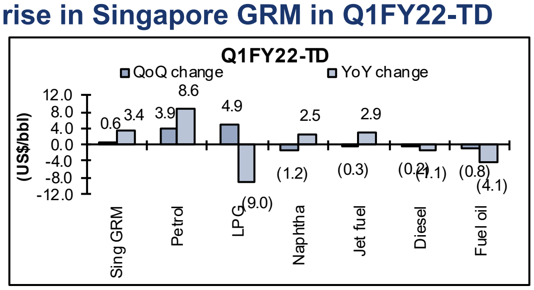
Refining & marketing

Petrol cracks boost GRM to 14-month high, but diesel weak

Reuters' Singapore GRM, though still modest, is at a 14-month high of US$2.4/bbl in Apr'21-TD driven mainly by petrol cracks, which at US$11/bbl are at a 17-month high. US snowstorms that cut utilisation and led to steep inventory fall is the main driver of petrol cracks. Diesel cracks, however, at US$4.6/bbl are well below pre-covid of US$11.0-14.3/bbl in Q4-Q3FY20. We estimate Q1FY22-TD core GRMs of BPCL, IOC and RIL at US$1.8-4.1/bbl which, though modest, are among the strongest since covid struck. Diesel cracks appear hit by demand weakness in parts of Europe and rise in refinery yields as jet fuel output is capped. Recovery in diesel cracks is key to GRM rising to our FY22E estimate of US$3.4-7.0/bbl. For OMCs, marketing margin recovery to Rs2.5/l is also key to stock performance.

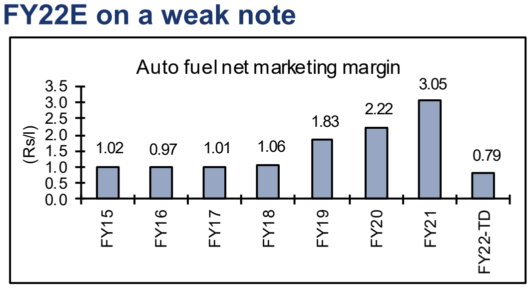
- **Petrol cracks surge drives Singapore GRM to 14-month high**: Reuters' Singapore GRM, which was at minus US$0.9/bbl in Q1FY21, is at a 14-month high of US$2.4/bbl in Apr'21-TD. Petrol cracks, at US$11/bbl in Apr'21-TD are up US$3.9/bbl QoQ and US$8.6/bbl YoY and at a 17-month high, are the main drivers of GRM rise. Petrol cracks strength appears driven by US snowstorms in mid-Feb'21 that kept US refinery utilisation rates below pre-snowstorm level for five weeks (throughput loss of 82.7m bbls). It led to fall in US inventories by 26.5m bbls to 6.8m bbls below five-year average levels (still 2.4m bbls below) and boosted petrol cracks from US$5.2/bbl in Jan'21 to US$11/bbl in Apr'21-TD. Petrol consumption is above pre-covid level in India and modestly below in the US, which accounts for 35% of global demand.
- **Diesel cracks still weak:** Diesel cracks at US$4.6/bbl in Apr'21-TD are well below pre-covid level of US$11.0-14.3/bbl in Q4-Q3FY20. US snowstorms also led to 20.2m bbls fall in US distillate inventories to 6m bbls below five-year average levels. However, diesel cracks rise was more modest and did not sustain. Diesel cracks appear hit by demand weakness due to surge in covid in parts of Europe, e.g. Germany, and rise in refinery yields as jet fuel output is capped. Europe accounted for just 7% of global petrol, but for 23% of global diesel demand in CY19, hence diesel demand weakness in Europe has bigger impact on cracks than on petrol.
- **Diesel cracks recovery key to GRM recovery:** We estimate Q1FY22-TD GRMs of BPCL, IOC and RIL at US$1.8-4.1/bbl which, though modest, are among the strongest since covid struck. However, they are lower than our FY22E estimate of US$3.4-7.0/bbl. Recovery in diesel cracks would be key to FY22E GRM rising to our estimates. Recovery in global diesel demand (as vaccines are rolled out globally) and refinery closures are likely to drive recovery in diesel cracks. IEA estimates global diesel demand to be at pre-covid level in CY22E. Global refinery utilisation is estimated at 77.8-79.2% in CY21-CY22E from 37-year low of 72.5% in CY20.

Petrol cracks main driver of YoY & QoQ rise in Singapore GRM in Q1FY22-TD



Source: Reuters, I-Sec research

Auto fuel net marketing margins start FY22E on a weak note



Source: PPAC, Reuters, I-Sec research

- **Auto fuel net marketing margin start FY22 on a weak note, but optimistic of sharp recovery**: Auto fuel net marketing margin is at Rs0.48/l on 21-Apr'21 and at Rs0.79/l in Apr'21-TD as domestic prices were not hiked adequately in line with international prices. If international and domestic prices remain at current levels, we estimate net margin at minus Rs1.36/l on 1-May'21. We are optimistic of net margin at Rs2.5/l in FY22E given the government's track record. Price hike and/or excise duty cuts that are not passed on are likely to drive up net margins.

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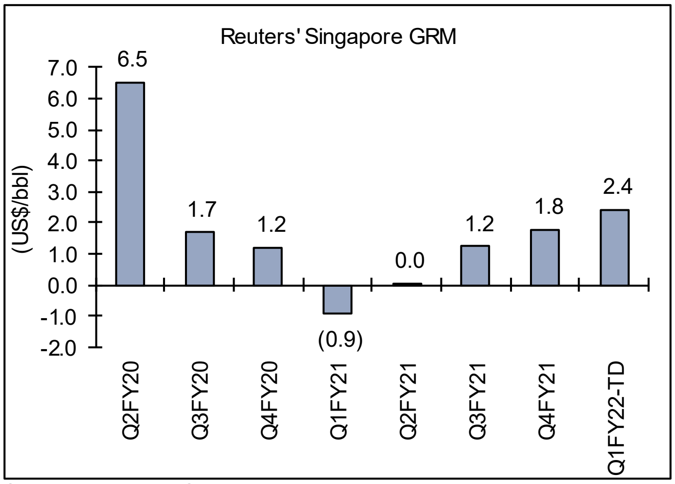
Strong petrol cracks boost GRM; diesel cracks weak

Singapore GRM at 14-month high driven by petrol cracks

Petrol cracks at 17-month high drive Singapore GRM to 14-month high

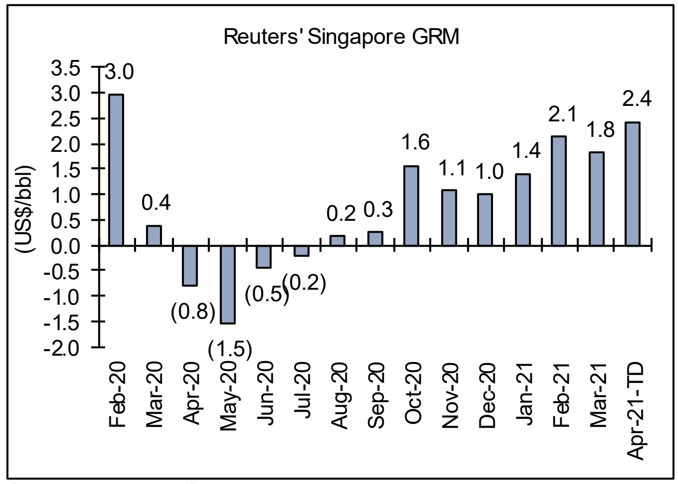
Reuters' Singapore GRM touched a low of minus US$0.93/bbl in Q1FY21 hit by lockdowns due to Covid leading to collapse in global oil demand. Singapore GRM is at a 14-month high of US$2.4/bbl in Apr'21-TD. Singapore GRM is up US$0.6/bbl QoQ and US$3.4/bbl YoY in Q1FY22-TD driven mainly by petrol cracks at 17-month high.

Chart 1: Reuters' Singapore GRM at 7-quarter high of US$2.4/bbl in Q1FY22-TD



Source: Reuters, I-Sec research

Chart 2: Reuters' Singapore GRM at 14-month high of US$2.4/bbl in Apr'21-TD



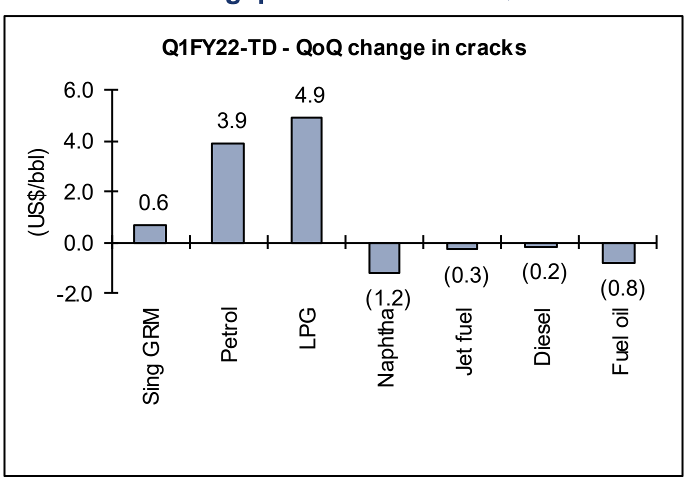
Source: Reuters, I-Sec research

Singapore GRM up QoQ & YoY in line with petrol cracks

The QoQ and YoY rise in Singapore GRM in Apr'21-TD has been driven by:

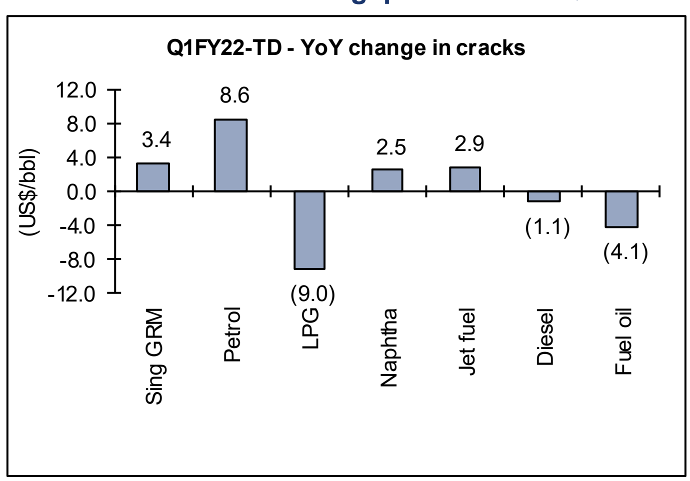
- Rise in petrol cracks by US$3.9/bbl QoQ and US$8.6/bbl YoY to US$11/bbl
- Rise in LPG cracks by US$4.9/bbl QoQ. However, they are down US$9/bbl YoY.

Chart 3: Petrol & LPG cracks US$3.9-4.9/bbl QoQ rise driver of Singapore GRM rise in Q1FY22-TD



Source: Reuters, I-Sec research

Chart 4: Naphtha, jet fuel & petrol cracks US$2.5-8.6/bbl YoY rise drove Singapore GRM in Q1-TD



Source: Reuters, I-Sec research

- Rise in naphtha cracks by US$2.5/bbl YoY. They are down US$1.2/bbl QoQ
- Rise in jet fuel cracks by US$2.9/bbl YoY. They are down US$0.3/bbl QoQ

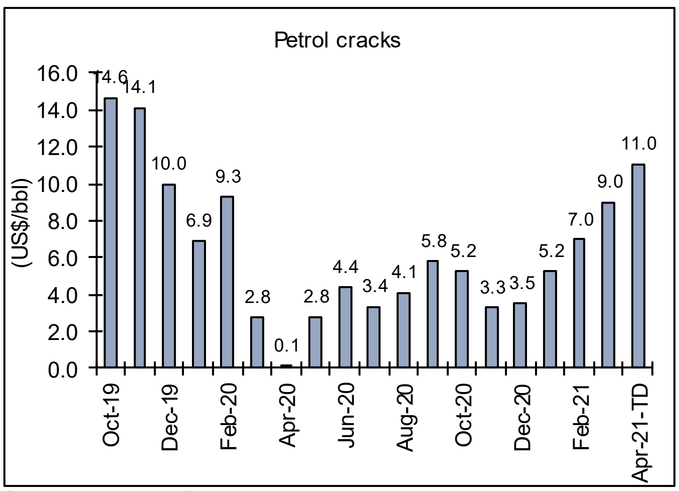
Diesel and fuel oil cracks are down US$0.2-0.8/bbl QoQ and US$1.1-4.1/bbl YoY.

Petrol cracks boosted by fall in US inventories due to snowstorms

Petrol cracks were at US$5.2/bbl in Jan'21, but up to US$7-9/bbl in Feb-Mar'21 post US snowstorms in mid-Feb'21. Petrol cracks are at a 17-month high of US$11/bbl in Apr'21-TD, and their recovery appears mainly driven by US snowstorms, which:

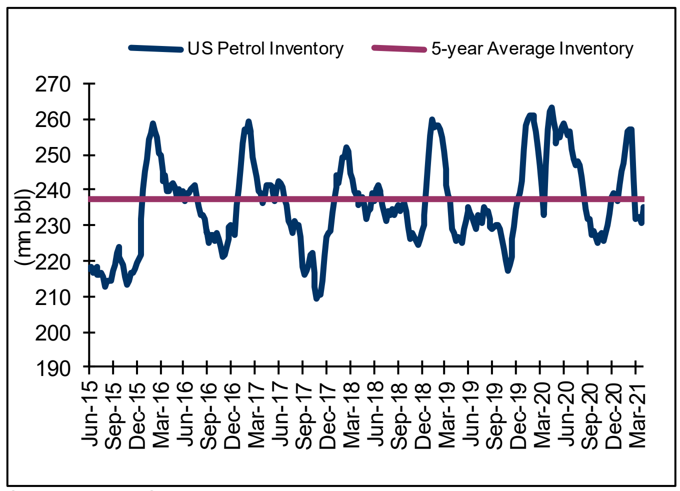
- Kept US refinery utilisation rates at 56-82%, below pre-snowstorm level of 83%, for five weeks resulting in a throughput loss of 82.7m bbls.
- Led to fall in US inventories by 26.5m bbls over six weeks to 6.8m bbls (2.9%) below five-year average levels. It is still 2.4m bbls (1.0%) below five-year average levels in the week ending 9-Apr'21.

Chart 5: Petrol cracks at 17-month high of US$11/bbl in Apr'21-TD



Source: Reuters, I-Sec research

Chart 6: US gasoline inventory 1% below 5-year average; 22.2m bbls below pre-snowstorm level



Source: EIA, I-Sec research

Petrol demand above pre-covid levels in India in Mar'21-Apr-TD

India accounted for 3% of global petrol consumption in CY19. Petrol demand in India is above pre-covid levels. Petrol consumption in the country was:

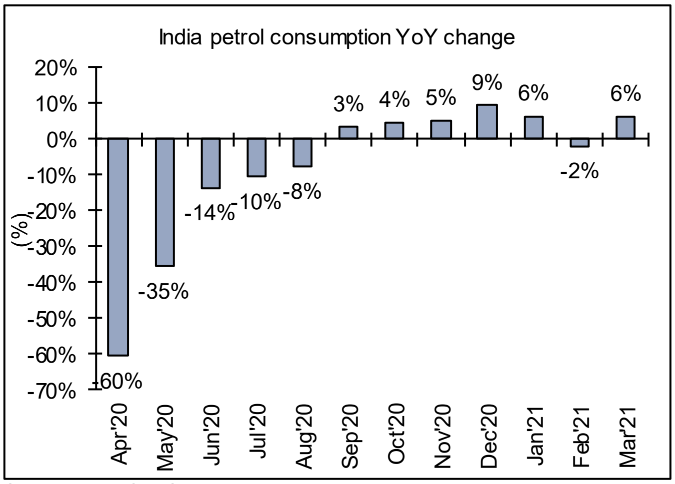
- Up 6.3% in Mar'21 over Mar'19 (pre-Covid) level. Petrol consumption was up 27.1% YoY in Mar'21 on a low base of Mar'20, when it was down 16.4% YoY.
- Up 6.4% YoY in 1-15 Apr'21 *vs* 1-15 Apr'19 as per preliminary data

Petrol demand modestly below pre-covid levels in US in Mar'21-Apr-TD

US accounted for 35% of global petrol consumption in CY19. Petrol demand in US is modestly below pre-covid levels. Petrol consumption in US was:

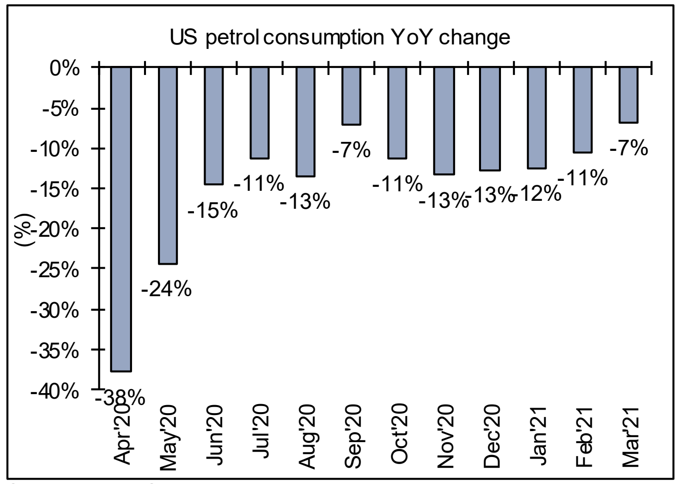
- Down 11% YoY in Feb'21
- Down 6.9% in Mar'21 over Mar'19 (pre-Covid) level. US petrol consumption was up 10% YoY in Mar'21 on a low base of Mar'20, when it was down 15.3% YoY.
- Down 5.1% in the first week of Apr'21 vs first week of Apr'19

Chart 7: Petrol consumption in India up 6.3% in Mar'21 *vs* Mar'19; 1.9% YoY fall in Feb'21



Source: PPAC, I-Sec research
*Mar'21 fall is compared to Mar'19

Chart 8: Petrol consumption in US down 6.9% in Mar'21 *vs* Mar'19; 11% YoY fall in Feb'21



Source: EIA, I-Sec research
*Mar'21 fall is compared to Mar'19

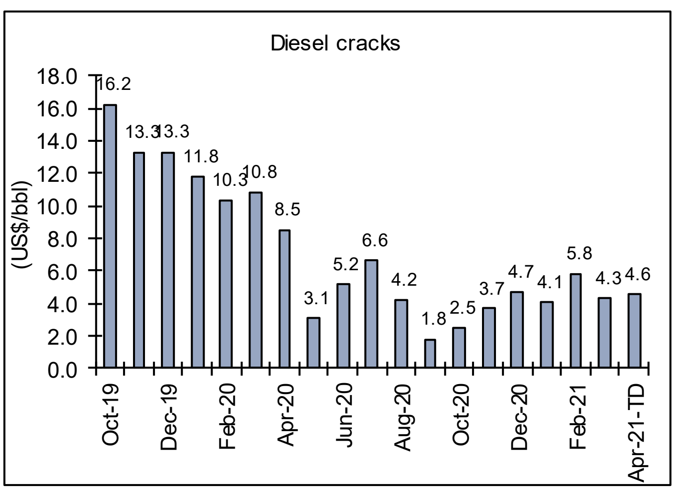
GRMs weak as diesel cracks still well below pre-covid levels

Diesel cracks still weak and well below pre-covid levels

US snowstorms also led to a plunge in US distillate inventories by 20.2m bbls over three weeks. It meant US distillate inventories from being 14m bbls (9.8%) above five-year average levels pre-snowstorms were 6m bbls (4.2%) below five-year average levels in the week ending 5-Mar'21. Diesel cracks which were at US$5.8/bbl in Feb'21 before the snowstorms, surged to US$7/bbl at peak on 23-Feb'21 and remained at US$5.4/bbl or higher until 4-Mar'21 but thereafter, are consistently below US$5/bbl. Diesel cracks were at 7-month high of US$5.8/bbl in Feb'21, but are down to US$4.6/bbl in Apr'21-TD. Diesel cracks in Apr'21-TD are:

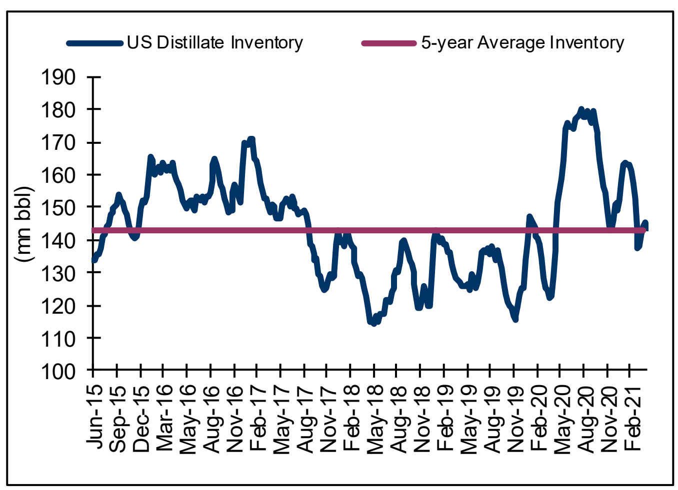
- Even below pre-Covid levels of US$11-14.3/bbl in Q4-Q3FY20.

Chart 9: Diesel cracks down to US$4.6/bbl in Apr'21-TD from recent high of US$5.8/bbl in Feb'21



Source: Reuters, I-Sec research

Chart 10: US distillate inventory 0.3% above 5-year average; 14.2m bbls below pre-snowstorm level



Source: EIA, I-Sec research

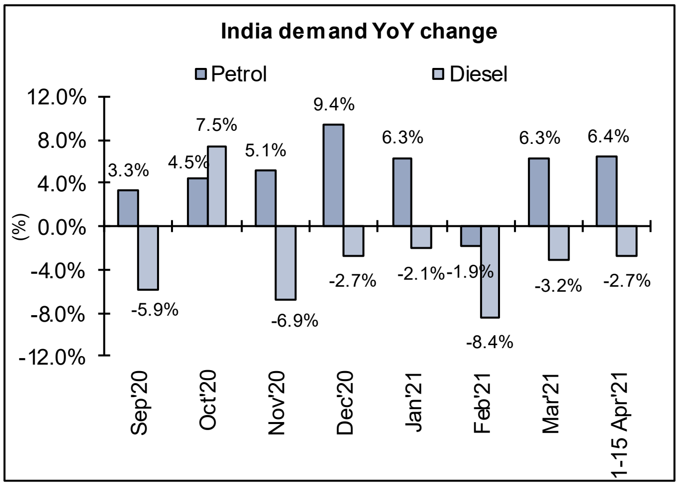
- Even below US$8.5/bbl in Apr'20 in the initial period of the pandemic.

Diesel cracks hit by weak demand in Europe and rise in refinery yields

Some factors that may be hurting diesel cracks are:

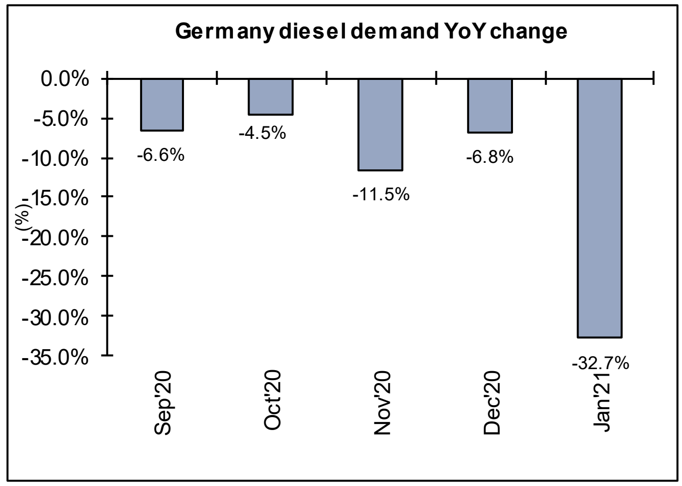
- **Slower demand recovery of diesel than petrol in India.** Indian diesel demand was down 3.2% in Mar'21 *vs* Mar'19 while petrol demand was up 6.3% in the same period. As per preliminary data, diesel demand is down 2.7% in 1-15 Apr'21 *vs* 1-15 Apr'19 while petrol demand is up 6.4% in the same period.

Chart 11: Diesel demand recovery slower than petrol in India



Source: PPAC, I-Sec research
*Mar'21 & 1-15 Apr'21 fall is compared to Mar'19 & 1-15 Apr'19

Chart 12: Diesel demand decline in Germany at 32.7% YoY in Jan'21 – steepest ever

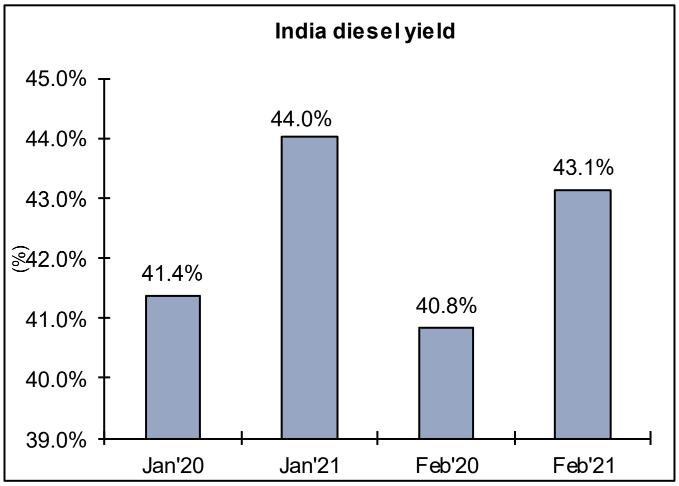


Source: JODI, I-Sec research

- **Diesel demand weakness in Germany – Europe's largest economy.** Diesel demand decline in Germany at 32.7% YoY in Jan'21 was the steepest ever since the pandemic began. Though diesel demand data of Germany is available only till Jan'21, the fact that new lockdowns were imposed in Mar'21, vaccine rollout is slow and average daily infections are high and rising, indicates that diesel demand in Germany continues to be weak in Feb-Apr'21. **Europe accounted for 23% of global diesel demand *vs* just 7% in case of petrol in CY19. Weakness in European diesel demand is therefore likely to have a bigger impact on diesel cracks than in case of petrol cracks.**

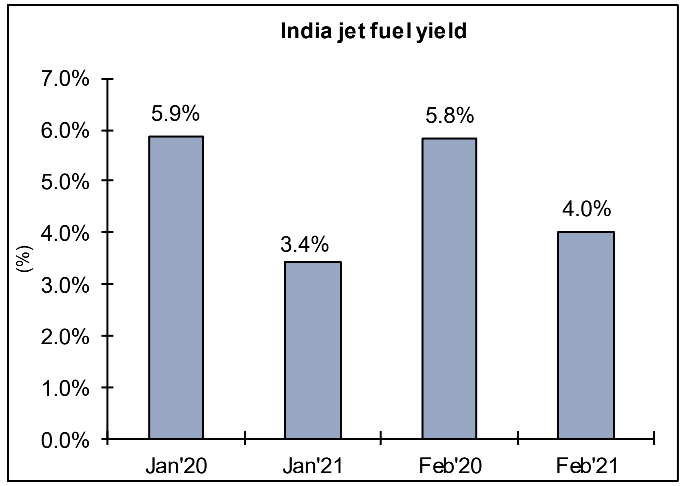
- **Continued weakness in jet fuel demand has meant rise in diesel yield of Indian refiners.** In India, jet fuel demand is down 37-41% YoY vs 2.1-8.4% YoY fall for diesel in in Dec'20-Feb'21. In Mar'21 too jet fuel demand was down 33.6% compared to Mar'19 vs 3.2% fall for diesel. This has meant diesel yield of Indian refiners was up 2.3-2.7pct points YoY to 43.1-44.0% in Feb'21 and Jan'21. Jet fuel yield in India is down 2.4-1.8pct points YoY to 3.4-4.0%% in Jan'21-Feb'21. Global jet fuel demand decline is far steeper than auto fuels at 40.2% YoY in Jan'21 and 37.1% YoY in Feb'21. Thus, diesel yield of refiners in other countries, especially those operating at high utilisation rates, may also have risen and hit diesel cracks.

Chart 13: Indian refiners' diesel yield up YoY in Jan'21 and Feb'21



Source: PPAC, I-Sec research

Chart 14: Indian refiners' jet fuel yield down YoY in Jan'21 and Feb'21



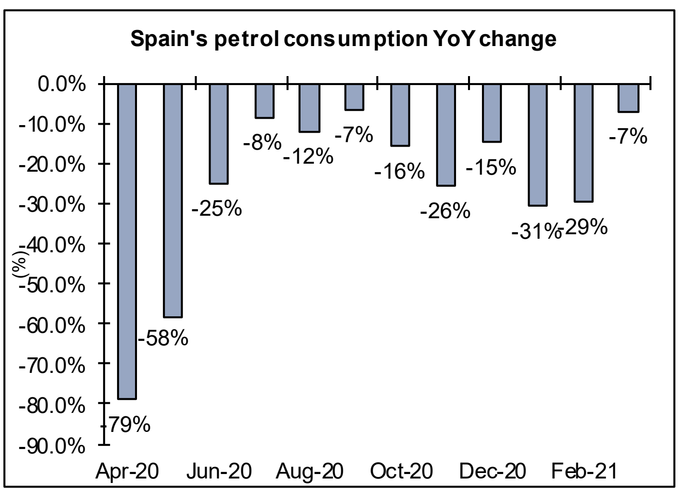
Source: PPAC, I-Sec research

Auto fuel demand in Europe showing signs of recovery

Spectacular demand recovery in Spain in Mar'21

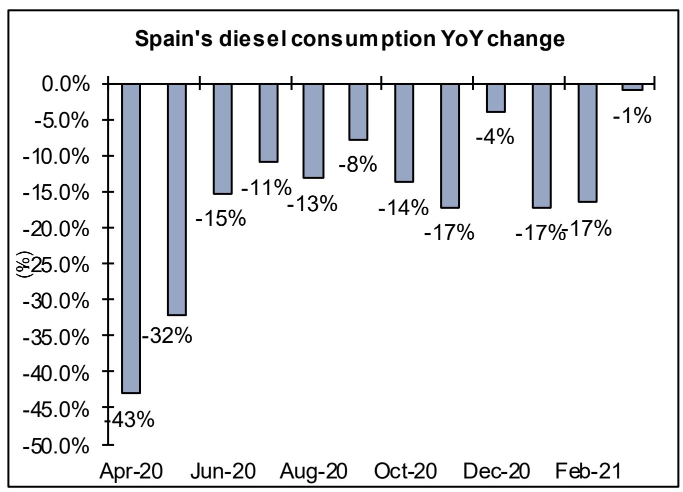
Petrol and diesel demand in Spain has shown a marked improvement in Mar'21. Diesel demand is up 16% YoY and petrol is up 44% YoY on a low base; diesel demand was down 14.7% YoY and petrol was down 35.6% YoY in Mar'20.

Chart 15: Spain's petrol consumption down 7% in Mar'21 *vs* Mar'19; down 29% YoY in Feb'21



Source: Exolum, I-Sec research
*Mar'21 fall is compared to Mar'19

Chart 16: Spain's diesel consumption down 1% in Mar'21 *vs* Mar'19; down 17% YoY in Feb'21



Source: Exolum, I-Sec research
*Mar'21 fall is compared to Mar'19

We have therefore compared diesel and petrol consumption data in Spain in Feb-Mar'21 over levels in Feb-Mar'19, which also confirms the significant improvement in consumption in Mar'21 as follows:

- Diesel and petrol consumption is up 12-23% MoM in Mar'21 adjusted for lower number of days in Feb than in Mar.
- Diesel consumption was down 1% in Mar'21 vs Mar'19 while that in Feb'21 was down 16.7% vs Feb'19.

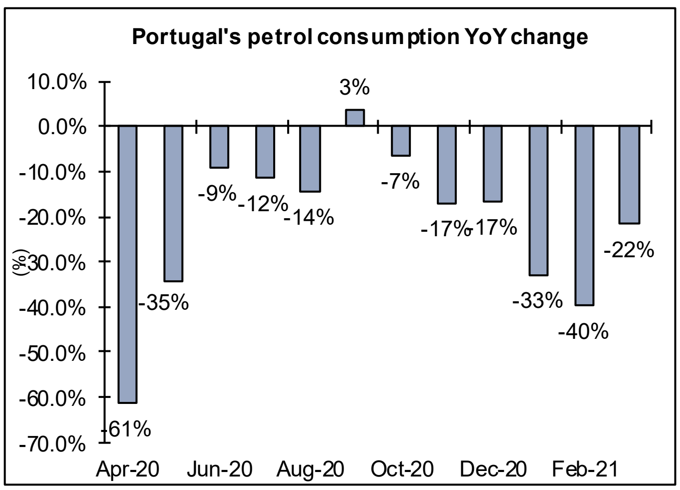
- Petrol consumption was down 7% in Mar’21 vs Mar’19 while that in Feb’21 was down 23.4% vs Feb’19.

Petrol, diesel demand recovered in Portugal in Mar’21

Petrol and diesel demand in Portugal has shown a marked improvement in Mar’21 from levels in Feb’21. Diesel demand in Portugal is up 3% YoY and petrol is down just 1% YoY in Mar’21 on a low base; diesel demand was down 12% YoY and petrol was down 21% YoY in Mar’20. We have therefore compared diesel and petrol consumption data in Portugal in Feb-Mar’21 over levels in Feb-Mar’19, which also confirms the marked improvement in consumption in Mar’21 as follows:

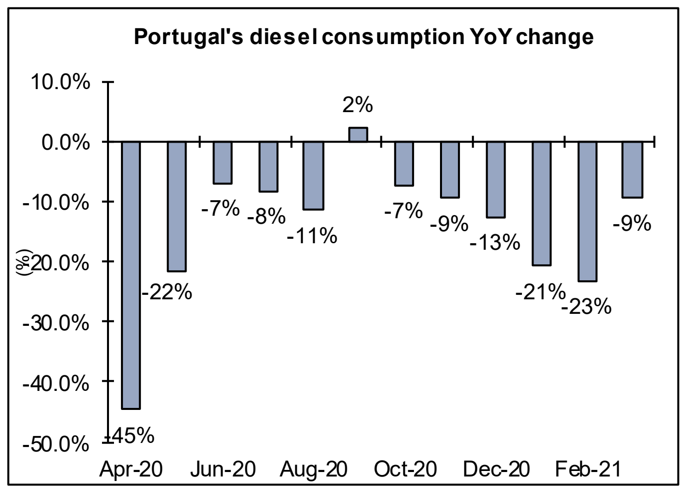
- Diesel and petrol consumption is up 12-23% MoM in Mar’21 adjusted for lower number of days in Feb than in Mar.
- Diesel consumption was down 9.4% in Mar’21 *vs* Mar’19 while that in Feb’21 was down 22.9% *vs* Feb’19.
- Petrol consumption was down 21.8% in Mar’21 *vs* Mar’19 while that in Feb’21 was down 36.9% vs Feb’19.

Chart 17: Portugal’s petrol consumption down 22% in Mar’21 *vs* Mar’19; down 40% YoY in Feb’21



Source: ENSE, I-Sec research
*Mar’21 fall is compared to Mar’19

Chart 18: Portugal’s diesel consumption down 9% in Mar’21 *vs* Mar’19; down 23% YoY in Feb’21



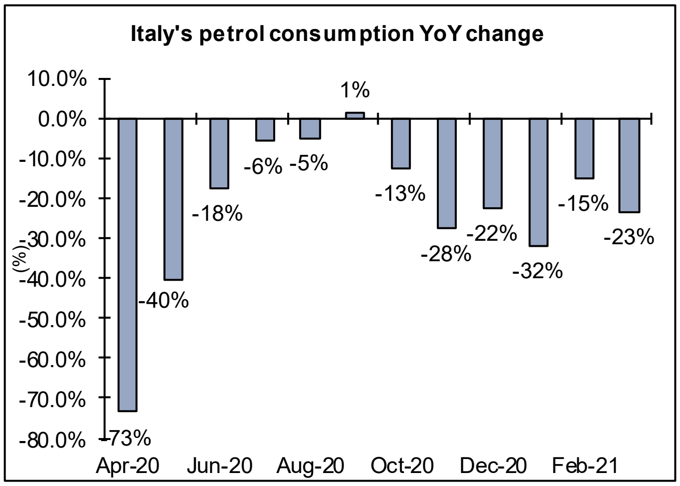
Source: ENSE, I-Sec research
*Mar’21 fall is compared to Mar’19

Petrol and diesel demand deteriorated in Italy in Mar’21 vs in Feb’21

Petrol and diesel demand in Italy deteriorated in Mar’21 from levels in Feb’21. Diesel demand in Italy is up 34% YoY and petrol is up 63% YoY in Mar’21 on a low base; diesel demand was down 34.7% YoY and petrol was down 51.9% YoY in Mar’20. We have therefore compared diesel and petrol consumption data in Italy in Feb-Mar’21 over levels in Feb-Mar’19 which also suggests that demand in Italy has deteriorated in Mar’21 as follows:

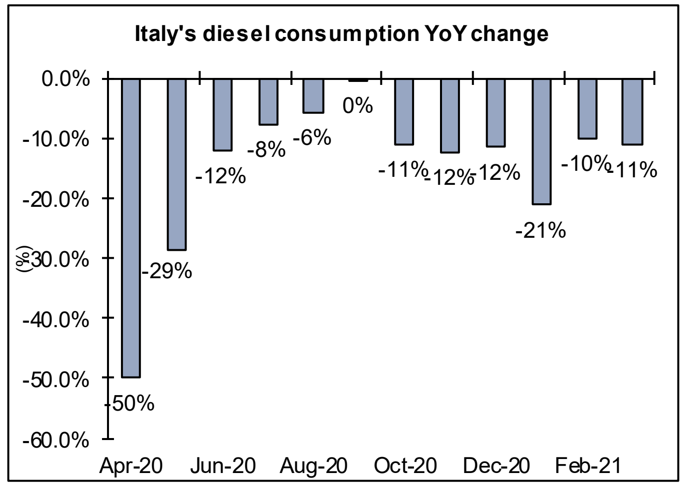
- Diesel and petrol consumption is down 1-10% MoM in Mar’21 adjusted for lower number of days in Feb than in Mar.
- Diesel consumption was down 11.1% in Mar’21 *vs* Mar’19 while that in Feb’21 was down 10.2% *vs* Feb’19.
- Petrol consumption was down 23.3% in Mar’21 *vs* Mar’19 while that in Feb’21 was down 12.7% *vs* Feb’19.

Chart 19: Italy's petrol consumption down 23% in Mar'21 *vs* Mar'19; down 15% YoY in Feb'21



Source: MoED Italy, I-Sec research
*Mar'21 fall is compared to Mar'19

Chart 20: Italy's diesel consumption down 11% in Mar'21 *vs* Mar'19; down 10% YoY in Feb'21



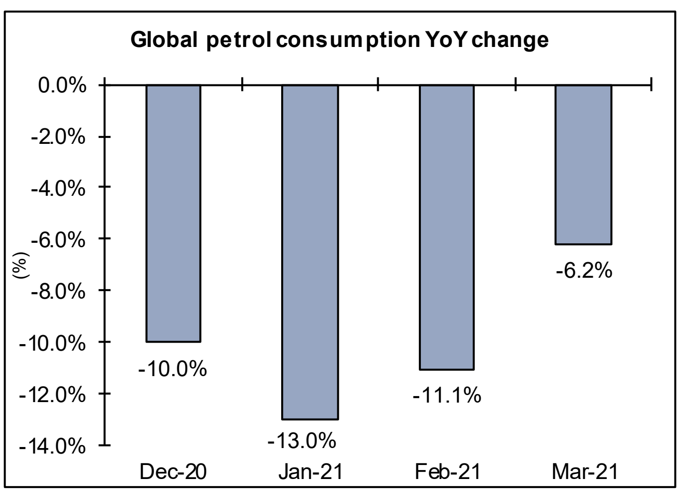
Source: MoED Italy, I-Sec research
*Mar'21 fall is compared to Mar'19

Global data also suggests auto fuel demand recovery in Mar'21

Global data also suggests that petrol and diesel demand recovered in Mar'21 *vs* that in Feb'21 as follows:

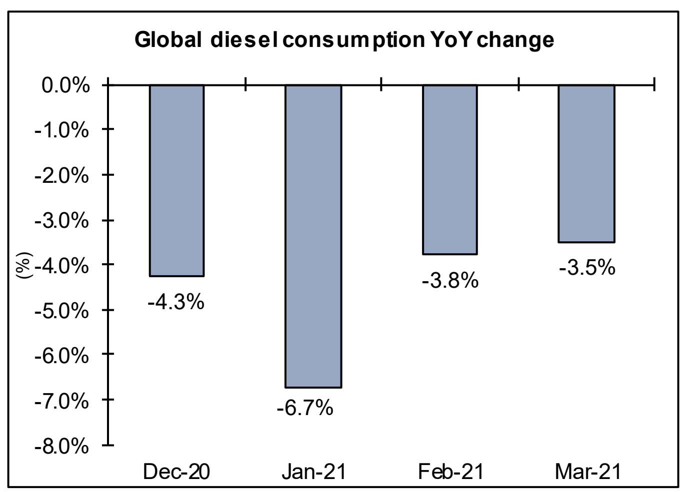
- Diesel demand in Mar'21 in five countries which account for 25% of global demand was down 3.5% in Mar'21 *vs* Mar'19 levels (up 11.8% YoY). This compares with 4.3% YoY fall in Dec'20 (based on 13 countries – 53% of global demand), 6.7% YoY fall in Jan'21 (based on 12 countries – 42% of global demand) and 3.8% YoY fall in Feb'21 (based on six countries – 27% of global demand).

Chart 21: Global petrol consumption down 6.2% in Mar'21 *vs* Mar'19; down 11.1% YoY in Feb'21



Source: JODI, I-Sec research
*Mar'21 fall is compared to Mar'19

Chart 22: Global diesel consumption down 3.5% in Mar'21 *vs* Mar'19; down 3.8% YoY in Feb'21



Source: JODI, I-Sec research
*Mar'21 fall is compared to Mar'19

- Petrol demand in Mar'21 in five countries which account for 39% of global demand was down 6.2% in Mar'21 *vs* Mar'19 levels (up 11.9% YoY). This compares with 10% YoY fall in Dec'20 (based on 13 countries – 63% of global demand), 13% YoY fall in Jan'21 (based on 12 countries – 52% of global demand) and 11.1% YoY fall in Feb'21 (based on six countries – 40% of global demand).

Diesel cracks recovery key to GRM recovery

Indian refiners' Q1FY22-TD GRM modest but strongest since pandemic

Core GRMs of BPCL, IOC and RIL, although modest in Q1FY22-TD, are among the strongest since covid struck as follows:

- BPCL's Q1FY22-TD GRM is estimated at US$1.8/bbl *vs* US$1.5-1.2/bbl in Q2-Q3FY21
- IOC's Q1FY22-TD GRM is estimated at US$2.0/bbl *vs* minus US$1.0/bbl in Q2FY21 and US$1.2/bbl in Q3FY21
- RIL's Q1FY22-TD GRM is estimated at US$4.1/bbl *vs* US$2.3-2.4/bbl in Q2-Q3FY21

BPCL and IOC's core GRMs at US$1.9/bbl and US$4.4/bbl respectively and RIL's reported GRM at US$6.3/bbl in Q1FY21 are higher than our estimate of their core GRMs in Q1FY22-TD. However, this appears entirely attributable to large crude discounts of US$4.7-6.6/bbl offered by producers in Q1FY21.

Indian refiners' Q1FY22-TD GRM lower than our FY22E estimate

Core GRMs of BPCL, IOC and RIL in Q1FY22-TD are lower than our FY22E estimates as follows:

- BPCL's Q1FY22-TD GRM is estimated at US$1.8/bbl *vs* our FY22E estimate of US$3.5/bbl
- IOC's Q1FY22-TD GRM is estimated at US$2.0/bbl *vs* our FY22E estimate of US$3.4/bbl
- RIL's Q1FY22-TD GRM is estimated at US$4.1/bbl *vs* our FY22E estimate of US$7.0/bbl

Diesel cracks recovery key to GRM recovery to levels estimated by us

As discussed, diesel cracks are languishing well below pre-covid levels though petrol cracks have recovered to above pre-covid levels. Diesel cracks recovery is key to GRM of Indian refiners recovering to levels estimated by us for FY22E as diesel accounts for 40-50% of their product slate while petrol accounts for only 17-29%.

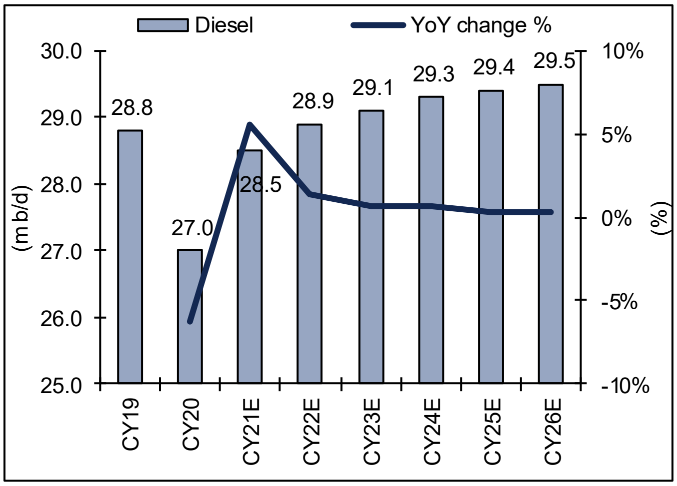
Diesel demand up 1.5m b/d in CY21E; above pre-covid level in CY22E

IEA estimates global diesel demand, which declined by 1.8m b/d (6.3%) YoY to 27m b/d in CY20, would:

- Be up 1.5m b/d (5.6%) YoY to 28.5m b/d in CY21E
- Go above pre-covid levels to 28.9m b/d (*vs* 28.8m b/d in CY19) in CY22E
- Rise by 2.5m b/d to 29.5m b/d in CY20-CY26E

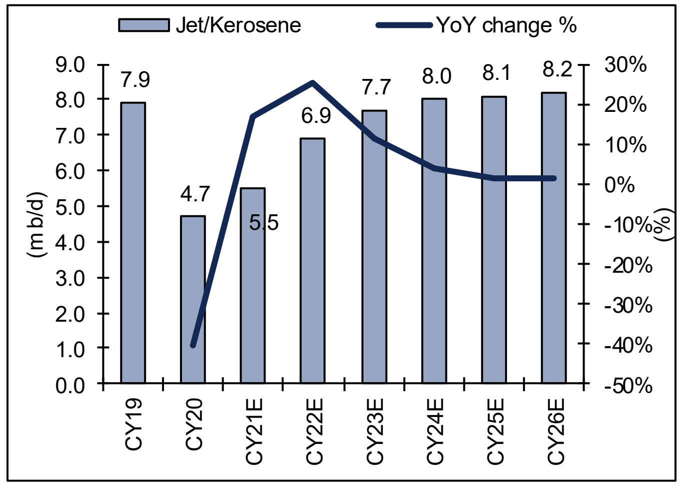
IEA estimates global jet fuel demand to rise by 0.8-1.4m b/d (17-25%) YoY in CY21E-CY22E and to rise above pre-covid levels in CY24E. Recovery in jet fuel demand is likely to help reduce diesel yield of refiners and help boost diesel cracks.

Chart 23: Global diesel demand to go above pre-covid levels in CY22E



Source: IEA, I-Sec research

Chart 24: Global jet fuel demand to go above pre-covid levels in CY24E



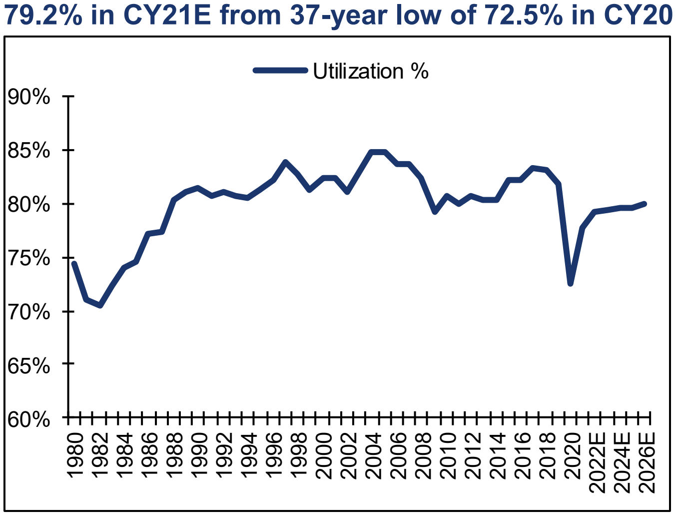
Source: IEA, I-Sec research

GRMs to be up YoY as vaccines boost demand and capacity is shut

Recovery in global oil demand, decline in bloated product inventories and closure of refineries to reduce refining overcapacity are key to GRM recovery. We expect GRM to be up YoY in CY21E/FY22E driven by:

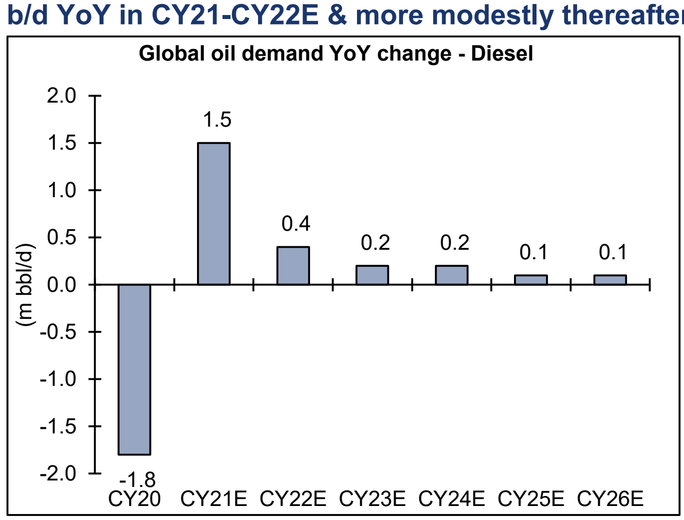
- Gradual vaccine rollout globally, which is expected to boost global refinery products demand. IEA estimates global refinery products demand, which is down 8.7m b/d YoY in CY20E, to be up 5.5m b/d YoY in CY21E.
- Permanent closure of refining capacity helps boost global refinery utilisation to 77.8-79.2% in CY21E-CY22E from 37-year low of 72.5% in CY20E. We estimate permanent closure of 1.5m b/d refining capacity globally in CY20-CY21E. Permanent closure of another 1.4m b/d of capacity is under consideration.

Chart 25: Global refinery utilisation to rise to 77.8-79.2% in CY21E from 37-year low of 72.5% in CY20



Source: EIA, IEA, Wood Mackenzie, I-Sec research

Chart 26: Global diesel demand to rise by 1.5-0.4m b/d YoY in CY21-CY22E & more modestly thereafter



Source: IEA, I-Sec research

Permanent closure of 1.5m b/d capacity likely in CY20-CY21E

GRMs in CY20E have been hit by decline in global refinery utilisation to 72.4%, which is the lowest in 38 years due to steep decline in global demand. Low GRMs and fall in demand is making it unviable for refineries to operate, as a result of which 1.5m b/d refining capacity in US, Japan, Philippines, Finland and France may be shut in CY20-CY21, out of which 0.4m b/d capacity would have been converted for biodiesel. Moreover, potential closure of another 1.4m b/d refining capacity in Europe, Australia, New Zealand and Philippines is under consideration.

Table 1: 1.5m b/d refining capacity may be shut in CY20-CY21; closure of another 1.4m b/d possible

Refinery	Country	Capacity (k b/d)
Refinery shutdowns		
Royal Dutch Shell	Philippines	110
Royal Dutch Shell	Louisiana, USA	240
Marathon Petroleum	USA	161
Marathon Petroleum	USA	26
Neste	Finland	58
JXTG	Japan	115
BP	Kwinana, Australia	146
Irving Oil	Newfoundland	135
PBF	Paulsboro, NJ	85
Sub-total		**1,076**
Shutdown and conversion to biodiesel		
Holly Frontier	USA	48
Neste	Finland	240
Total	France	101
Sub-total		**389**
Total refinery closures		**1,465**
Potential Closures		
Gunvor Group	Belgium	110
BP	Netherlands	377
Petroineos	UK	200
Viva	Australia	120
New Zealand refining NZ	New Zealand	135
Petron	Philippines	180
Phillips 66	Santa Maria, CA, USA	44.5
Calcasieu Refining	Lake Charles, LA	136
Phillips 66	Rodeo, CA, USA	120
Phillips 66	USA	19
Sub-total		**1,441**
Total closures and potential closures		**2,906**

Source: Industry data, I-Sec research

Marketing margins start FY22 on a weak note

Net auto fuel marketing margin at Rs3.05/l in FY21; Rs0.48/l now

Auto fuel net marketing margin was at a record high of Rs3.05/l in FY21. However, net margin is at 12-quarter low in Q1FY22-TD. Net marketing margin is at:

- Rs0.48/l on 21-Apr'21
- Rs0.79/l in Apr'21-TD/Q1FY22-TD

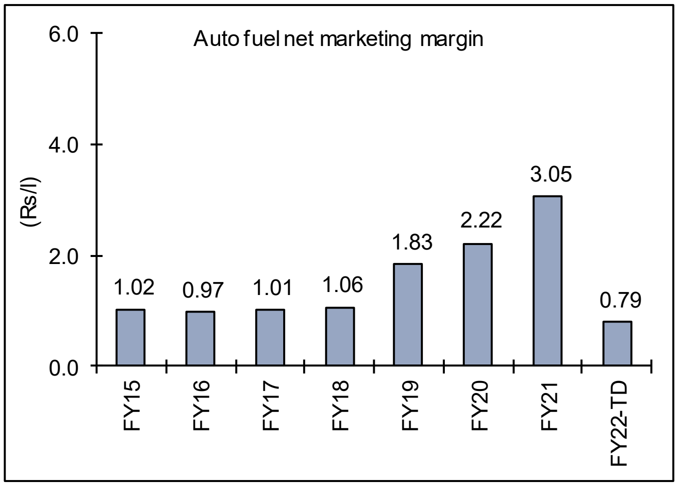
Margin at minus Rs1.36/l on 1-May if prices remain at current levels

Assuming the international and domestic prices remain at current levels, we estimate net auto fuel marketing margin at:

- Minus Rs1.36/l on 1-May'21 based on international prices in 16-20 Apr'21 and assuming prices sustain at today's level in rest of Apr'21

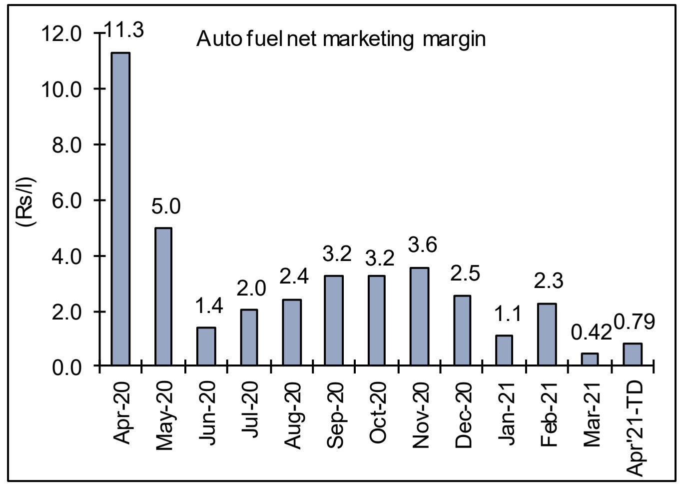
- Minus Rs1.61/l on 16-May'21 at latest international and domestic prices (20-Apr'21)

Chart 27: OMCs' auto fuel net marketing margin is Rs0.79/l in FY21-TD *vs* Rs3.05/l in FY21



Source: PPAC, Reuters, I-Sec research

Chart 28: OMCs' net margin at Rs0.79/l in Apr'21-TD *vs* Rs0.42/l in Mar'21



Source: PPAC, Reuters, I-Sec research

Expect net margin at Rs2.5/l in FY22E given GoI track record

We are optimistic that net marketing margin will rise to Rs2.5/l in FY22E given the government's track record:

- During the first four years of the current government (FY15-FY18), net marketing margin was Rs0.96-1.07/l.
- In the next two years (FY19-FY20), it was higher at Rs1.83-2.22/l.
- Net margin is YoY higher in FY21 to make up for very weak GRMs.
- Price hikes were made to keep net margins at reasonable levels even when Brent surged to US$86/bbl and INR/USD weakened to 75 in Oct'18, seven months before the 2019 elections.
- Net margin being Rs2.0-2.5/l in the initial period of FY22E may be crucial for GoI to realise a high price in BPCL privatisation.

Net margin rise will require either price hikes and/or excise duty cuts that are not passed on. We estimate that GoI is well placed to meet its excise duty collection target of FY22E even if excise duty is cut by Rs8.5/l assuming FY22 consumption is same as FY20. Even if FY22 demand is lower than FY20, some cut in excise duty certainly looks possible.

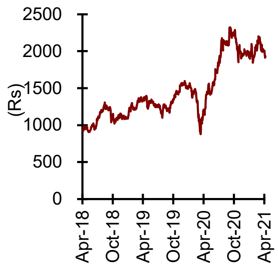
Risks to recommendation

Risks to our recommendation are:

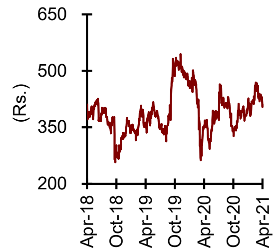
- **RIL:** 1) GRM being lower than assumed; 2) Higher/lower ARPU than estimate; 3) Petrochemical EBITDA higher/lower than estimated; 4) Net debt is significantly higher or lower than our estimate.
- **IOC:** Lower than estimated auto fuel marketing margin and GRM.
- **BPCL:** 1) Privatisation doesn't go through or bid price is sharply lower than estimated; 2) Lower than estimated auto fuel marketing margin and GRM.

Price charts

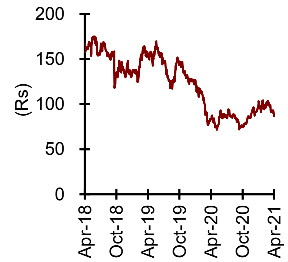
RIL



BPCL



IOCL



Source: Bloomberg

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