

Oil & Gas and
PetrochemicalsGSPL (BUY)
Target price: Rs297IOC (ADD)
Target price: Rs105GAIL (HOLD)
Target price: Rs145

INDIA

Oil & Gas

Budget estimates leave room to cut excise by Rs4.75/l

Auto fuels' excise estimate achievable even if it is cut by Rs4.75/l

Budget estimate of FY22E excise duty on auto fuels down 8% YoY

Budget estimate of excise duty on auto fuels in FY22E at Rs3.2trn is down 8% YoY vs FY21 revised estimate of Rs3.46trn. FY22E budget estimate of road and infrastructure cess on auto fuels at Rs1.98trn is down 12% YoY vs FY21 revised estimate of Rs2.24trn. Basic excise duty in FY22 budget estimate at Rs475bn is down 1% YoY.

Budget estimate of FY22E excise duty including AIDC up 7% YoY

Agriculture infrastructure and development cess (AIDC) of Rs2.5-4.0/l has been imposed on petrol and diesel, respectively in the budget while road & infrastructure cess and perhaps even basic excise duty appears to have been cut to keep total excise duty on auto fuels unchanged. We estimate AIDC to boost FY22E excise revenue by Rs505bn assuming FY22E auto fuel volumes are back to FY20 level, implying 11% YoY rise. FY22E excise duty on auto fuels including AIDC is estimated at Rs3.7trn, implying 7% YoY rise.

Table 1: FY22E excise duty budget estimate including AIDC up 7% YoY

Rs bn	FY20	FY21 BE	FY21 RE	FY22 BE	YoY chg
Basic excise duties	618	824	478	475	-1%
Additional duty of excise on petrol	148	-	-	-	-
Additional duty of excise on diesel	407	-	-	-	-
Special additional excise duty on petrol	382	405	744	744	0%
Road & infrastructure cess	674	1,256	2,240	1,980	-12%
Excise duty before AIDC	2,228	2,485	3,461	3,199	-8%
Agriculture infra & development cess (AIDC)	-	-	-	505	
Excise duty including AIDC	2,228	2,485	3,461	3,704	7%

Source: Ministry of Finance, I-Sec research

FY22 auto fuel excise budget estimate leaves scope to cut it by Rs4.75/l

We estimate excise duty on auto fuels at Rs4.35trn in FY22E to be 17% higher than budget estimate if FY22E auto fuel volumes are back to FY20 levels. It also means that excise on auto fuels would be in-line with FY22 budget estimate of Rs3.7trn even if excise duty is cut by Rs4.75/l from 1-Apr'21. Thus, excise duty cuts cannot be ruled out.

Table 2: FY22E excise duty on auto fuels to be 17% higher than budget estimate if no cut; same as budget estimate if excise cut by Rs4.75/l on 1-Apr'21

	FY22E auto fuel sales	FY22E excise duty (Rs/l)		FY22E excise duty (Rs-bn)	
	m kl	If no cut	Rs4.75/l cut	If not cut	Rs-bn
Petrol	42.3	32.98	28.23	1,325	1,134
Diesel	99.9	31.83	27.08	3,021	2,571
Auto fuels	142.2			4,347	3,705
FY22E budget estimate of excise duty on auto fuels				3,704	3,704
FY22E excise duty on auto fuels vs budget estimate				17%	0%

Source: Ministry of Finance, I-Sec research

Auto fuel net marketing margin is at Rs1.04/l on 1-Feb'21 vs Rs1.83-2.22/l in FY19-FY20 and Rs3.01/l in FY21E even if there are no further price hikes. We remain optimistic that auto fuel net margin would recover to average Rs2.0-2.5/l in FY22E given GoI's track record and impending privatisation. Marketing margin recovery is key to IOC's share price not correcting, and GRM recovery to share price rising.

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Subsidy provided in budget down 56% YoY

Subsidy provision in budget for FY22E down 56% YoY at Rs124.8bn

FY22E LPG subsidy provision in Budget 2021 at Rs124.8bn is down 56% YoY vs FY21 revised estimate of LPG and kerosene subsidy of Rs282bn.

Table 3: FY22E budgeted subsidy provision down 56% YoY

Rs-bn	FY22 BE	FY21 RE	YoY change
LPG DBT	125	255	-51%
Kerosene (DBT and other subsidies)	-	27	NM
Total	125	282	-56%

Source: Ministry of Finance, I-Sec research

Monetising oil & gas pipelines of OMCs and GAIL

In the budget speech, the Finance Minister has talked of monetising oil pipelines of OMCs and gas pipelines of GAIL though the time frame/roadmap thereof has not been revealed.

Monetising OMCs' pipelines via InvIT format may be difficult

We believe monetising OMCs' product pipelines via InvIT format is difficult as the tariffs on these pipelines are not regulated and are linked to an outside benchmark (railway freight). There could be other issues, too, such as stamp duty that may have to be paid to state governments on InvIT, which will limit the extent to which Gol can monetise these assets; Gol expects to monetise by way of dividend OMCs would pay on profit from sale of pipelines to InvIT.

Monetising oil & gas pipelines of OMCs & GAIL to reduce debt

Any such monetisation would help reduce debt of OMCs and GAIL. However, OMCs trying to convince Gol against monetising their pipelines cannot be ruled out as pipelines provide some stability to their earnings and have strategic importance for their marketing operations.

Other Budget 2021 provisions

Other Budget provisions and their implications

Other Budget provisions relevant to the oil sector and their implications are as follows:

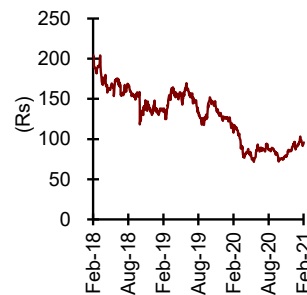
- Setting up an independent Gas Transport System Operator may hurt GAIL's gas marketing/trading volumes in the long term:** Gol proposes to set up an independent Gas Transport System Operator for facilitation and coordination of booking of common carrier capacity in all-natural gas pipelines on a non-discriminatory open access basis. Having presence both in transmission and marketing/trading of gas may have helped boost GAIL's marketing/trading volumes. Setting up an independent operator may thus hurt GAIL's marketing/trading volumes or its growth in the long term.
- Addition of 100 more districts to CGD network in next three years will boost gas demand:** 9th and 10th round of CGD bidding in 2018 increased districts covered by CGD to 407 and population covered to 70% from 20% earlier. Adding 100 more districts over three years will further boost gas demand in the long term.

Implications on the financials of listed CGD players may not be significant in the near term. New CGD areas take 3-4 years for breakeven.

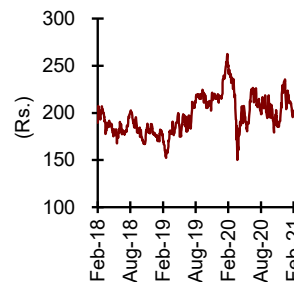
- **Gas pipeline network in J&K will also boost gas demand:** A joint venture of GSPL with the three OMCs had won the bid for Mehsana-Bhatinda-Jammu-Srinagar gas pipeline. The Mehsana-Bhatinda segment is set to be completed soon. Extending the pipeline to Jammu and Kashmir (J&K) will boost gas demand. Heating demand will be significant in the state of J&K.
- **Extension of PMUY scheme to another 10mn beneficiaries will give impetus to PG demand growth:** Free LPG connections have been given to 80mn poor households under the Prime Minister Ujjwala Yojana (PMUY). The decision to extend this scheme to another 10mn beneficiaries will boost LPG consumption and further increase LPG penetration, which is already believed to be well above 90%.

Price charts

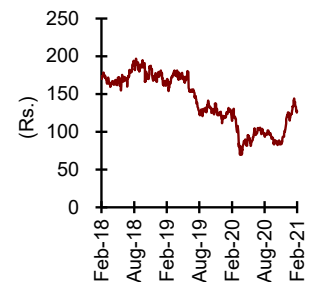
IOC



GSPL



GAIL



Source: Bloomberg

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