Oil & Gas Sector

15 December 2020

Sector Update

Channel checks on gas demand and CGD trends

Indian gas demand sustained growth across segments in Oct'20. According to PPAC's Oct'20 gas monthly, gas availability grew by 5.2% YoY to 166mmscmd, led by 16.2% YoY growth in LNG imports at 105.8mmscmd -2.45mn tonnes for the month (implies annual LNG imports of 29.4mn tonnes). Supply of domestic gas was down 9.7% YoY. Gas consumption was up 11.7% MoM at 160.55mmscmd. All segments, barring petchem (99% of normal) surpassed normal demand (based on Jan'20 trend). Our channel checks also reveal that open access for CGDs may be in operation only after 15-18 months and in full scale only by FY24.

CGD at 95% of normal run-rate at 28.35 mmscmd in Oct'20. This includes 48% of demand met from LNG. Our channel checks reveal that the Delhi CNG market has touched 92% of pre-Covid level in 3QFY21.

Delhi CNG conversion at 6000 cars per month. This compares with about 2500 per month in 1HFY21 and last year (annual run-rate of 30,000 cars). By FY22, the run-rate in Delhi could touch 10,000 per month based on petrol/diesel cars getting converted and OEM sale of CNG models, led by Maruti – reported sales of more than 50,000 CNG cars in 1HFY21, as per media reports.

Open access may take time as PNGRB awaits new Chairman. The previous incumbent has stepped down and the Government has called for new applicants for this top role at the regulator. CGD industry sources believe that further progress on notifying new GAs under open access may have to wait for the new Chairman to be appointed. The entire open access process culminating in CGD companies having to open up 20% of their network is likely to involve a lead time of 15-18 months. This includes the timeline for the following: (a) open access notification, consultation and final notification of GAs (b) subsequent submission of data to PNGRB, which shall fix as well as notify tariff and (c) the CGD entities officially offering their network for third parties under open access.

The threat from new entrants including OMCs in CNG post open access could be marginal, according to our channel checks. OMCs may find it difficult to take advantage of the open access in Delhi and Mumbai in retail outlets that are only selling liquid fuels now, as these may have limited spare space available for setting up CNG dispensers. Please note that OMC outlets already selling CNG for CGD entities cannot avail the open access.

The discussions on new dealer agreement and commission on CNG with OMCs is yet to commence. The industry view is that OMCs may have less leverage in dictating commissions as they cannot use existing pumps for their own sale of CNG.

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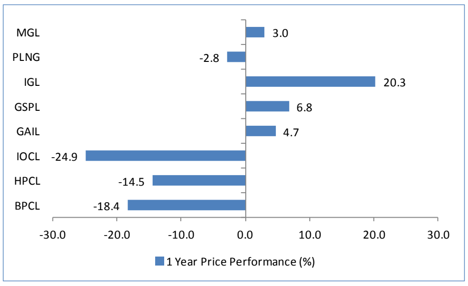


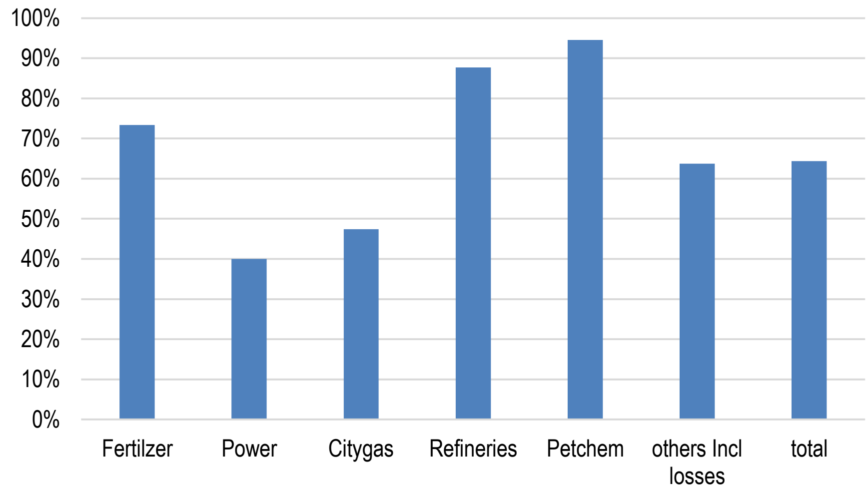
Source: Bloomberg

Exhibit 1: India natural demand trend Oct'20

Segments	Monthly offtake mmscm				Daily offtake mmscmd		
	LNG	DOM	TOTAL	LNG/total	LNG	DOM	TOTAL
Fertilizers	1141	414	1555	73.38%	36.81	13.35	50.16
Power	385	578	963	39.98%	12.42	18.65	31.06
City gas distribution	417	462	879	47.44%	13.45	14.90	28.35
Refinery	593	83	676	87.72%	19.13	2.68	21.81
Petchem	276	16	292	94.52%	8.90	0.52	9.42
Others	390	222	612	63.73%	12.58	7.16	19.74
Total	**3202**	**1775**	**4977**	**64.34%**	**103.29**	**57.26**	**160.55**

Source: PPAC, Nirmal Bang Institutional Equities Research

Exhibit 2: LNG's share of gas consumption across segments for Oct'20



Source: PPAC, Nirmal Bang Institutional Equities Research

Gas consumption trend

- Oct'20 gas consumption stood at 160.55mmscmd vs. 152.81mmscmd in January'20 and the low of 130.33mmscmd hit in April'20. Net gas consumption stood at 150.68mmscmd/154mmsmcd in 1HFY20/FY20.
- Gas consumption touched 105% of normal level in Oct'20. Our channel checks reveal that demand is likely to get tempered by seasonal reduction in gas demand post Diwali and the lower power demand in Nov-Jan period amid winter. CGD touched 94% of normal level in Oct'20; Delhi CNG volume reported at 92% of normal level.

Exhibit 3: Monthly gas demand vs normal %

Segments	Apr-20	Jul-20	Sep-20	Oct-20
Fertiliser	88%	101%	94%	107%
Power	94%	123%	108%	119%
Citygas	41%	54%	86%	94%
Refineries	113%	98%	97%	104%
Petchem	72%	94%	54%	99%
others Incl losses	92%	89%	77%	104%
Total %	**83%**	**93%**	**91%**	**105%**
Total in mmscmd	**130.3**	**142.4**	**143.4**	**160.5**

Source: PPAC, Nirmal Bang Institutional Equities Research

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