

Energy

Higher oil price and lower GRM

Summary

Crude oil price improved: Crude oil prices improved in the month of November on demand recovery and hopes on Covid-19 vaccine. Brent crude oil price rose by 6.8% MoM to average US\$43.2/bbl in Nov'20. US total rig counts which touched a low of 244 rigs at mid-Aug'20 now increased to 320 at the end of Nov'20, though significantly lower compared to 830 rigs in same period last year. Though demand for crude oil has improved but still significantly lower vs its peak of ~100mbpd. Also, OPEC+ may look to extend production cut of 7.7mbpd in 2021 as well but higher supply from US, Iraq and Libya may keep prices low. We expect crude oil price to average to US\$40/bbl in FY21, US\$45 in FY22 and US\$50/bbl in FY23.

OPEC production rises led by Libya: OPEC's production improved by 2.2% MoM in Nov'20 to 25.2mbpd (24.3mbpd in Sept'20) as forecasted last month. Production from Libya increased to 1.05mbpd in November from 450kbpd in October. However, Saudi Arabia and Iraq outputs were largely flattish MoM. There are initial signs that OPEC+ may roll over current production cut of 7.7mbpd for another 3 months to Mar'21 as well compared to earlier guidance of 5.5mbpd from Jan'21.

GRM faltered: Singapore GRM remained in a very narrow range and fell to average US\$1.1/bbl in Nov'20 compared to US\$1.6/bbl in Oct'20. Cracks also fell during the month across all products with Gasoline and Naphtha cracks falling to negative US\$0.8/1.8/bbl in Nov'20 vs positive US\$3.5/2.5/bbl in Oct'20 on the back of rising Covid cases in US. Fuel Oil and Jet Kero cracks fell to US\$ -3.1/+2.5/bbl vs US\$ -1.74/+3.1/bbl. Gas Oil improved during the month to US\$4.6/bbl vs US\$3.7/bbl in Oct'20. US refinery utilization improved to 77% in November vs 75% in October much lower than five year average of 91.1%. Resurgence in Covid-19 cases in Europe and United States along with local lockdowns led to weakening of GRM.

RIL, HPCL and GSPL remain top picks: Recent PNGRB's notification on open access on CGD business is seen positive for CGD players as concern on immediate volume loss to OMCs is now out as current outlets would not be classified as third party. Further, unified tariff also came as revenue neutral for GAIL and GSPL. Marketing margin for petrol and diesel remained flattish on a MoM basis but it remains higher compared to its long term average. As per the news reports, three companies have submitted EOI for BPCL disinvestment where Apollo Global and Vedanta have given their confirmation. However, this is still lower compared to our earlier estimates and may have an impact on its valuation. On natural gas front, spot LNG has moved up and crossed US\$6/mmbtu on supply concern from Australia and higher demand which is positive for GAIL. Further, LNG volume remained higher which had touched at all-time high in Oct'20. Recently, we have seen strong uptick in PSU Company's valuation and GAIL, ONGC and Oil India achieved our target price. Our top-picks remain as GSPL, RIL and HPCL.

Exhibit 1: Recommendation snapshot

Companies	CMP (Rs)	TP (Rs)	Recommendation	Mkt Cap (Rs mn)	Revenue (Rs mn)		EPS (Rs)		P/E (x)		EV/EBITDA (x)		RoE (%)	RoCE (%)
					FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY22E	FY22E
Reliance Industries Ltd	1,954	2,468	BUY	12,389,170	4,884,500	5,824,059	58.5	87.3	33.4	22.4	15.6	10.4	8.2	8.5
Oil & Natural Gas Corp	82	85	BUY	1,025,293	634,364	724,611	6.8	7.5	12.0	10.9	4.6	4.3	4.7	3.3
Bharat Petroleum Corp	379	412	BUY	822,472	1,840,966	2,411,289	30.1	33.6	11.8	10.5	9.1	8.0	17.2	9.7
Indian Oil Corporation	86	87	ACCUMULATE	807,735	3,187,814	4,231,243	10.8	12.8	8.0	6.7	8.0	7.2	11.7	7.9
Gail India	111	109	BUY	499,724	543,481	644,697	9.5	12.2	11.7	9.1	8.4	6.4	11.4	9.2
Petronet LNG	254	282	BUY	381,300	306,442	368,147	17.0	19.8	15.0	12.8	8.0	7.1	25.6	22.4
Hindustan Petroleum Corp	212	253	BUY	322,289	1,829,009	2,384,011	48.4	39.0	4.4	5.4	5.2	6.4	17.3	6.7
Gujarat State Petronet Ltd	228	306	BUY	128,556	24,883	28,613	19.5	24.0	11.7	9.5	7.8	6.1	16.6	18.7
Oil India	100	90	HOLD	108,332	80,604	91,554	8.3	10.3	12.0	9.7	9.0	7.5	4.5	1.6

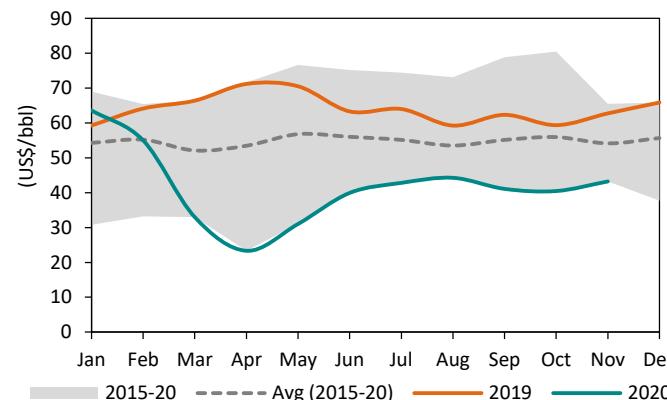
Source: IDBI Capital Research

Key Highlights

■ Crude oil price rises in Nov '20 by 6.8% MoM

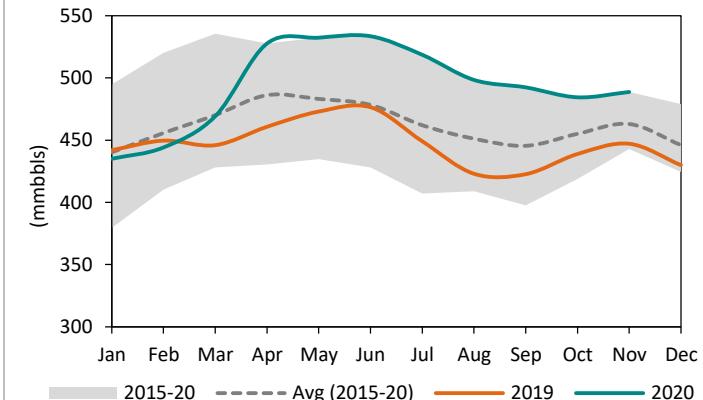
Crude oil prices saw a rise of 6.8% to US\$43.2 in November as demand recovers along with hopes of Covid-19 vaccine. OPEC+ has been due to ease existing production cuts by 2mbpd to 5.7mbpd from January 2021, But with demand still under pressure amid the coronavirus pandemic, OPEC+ is considering extending existing cuts of 7.7 mbpd, into the first 3-months of 2021, backed by Saudi Arabia. We expect crude oil price to remain in a range of US\$45-50/bbl in near term gradually improving to ~US\$55/bbl later in FY22.

Exhibit 2: Crude rises in November by 6.8% MoM



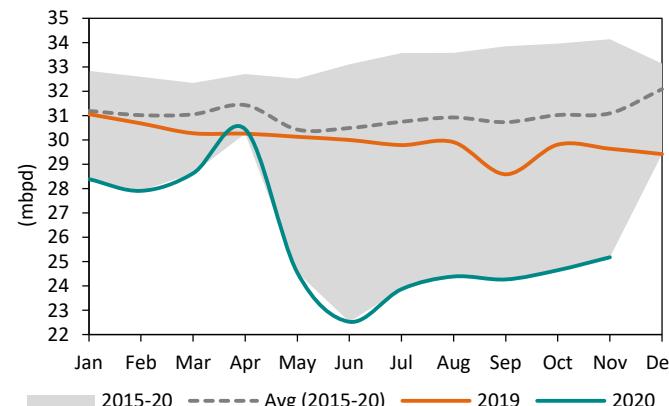
Source: Industry; IDBI Capital Research

Exhibit 3: US crude oil inventory rises



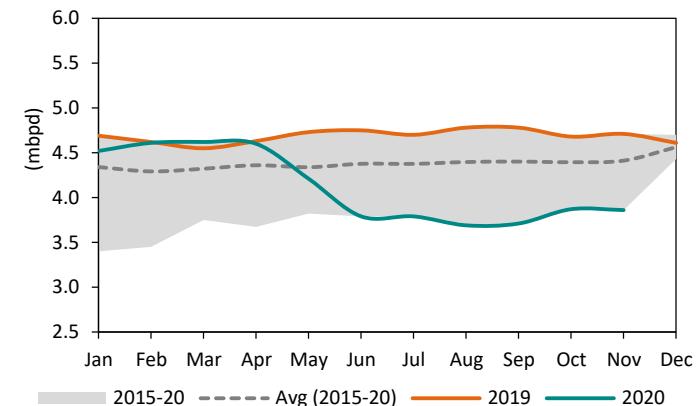
Source: Industry; IDBI Capital Research

Exhibit 4: OPEC Production: Rises, led by Libya



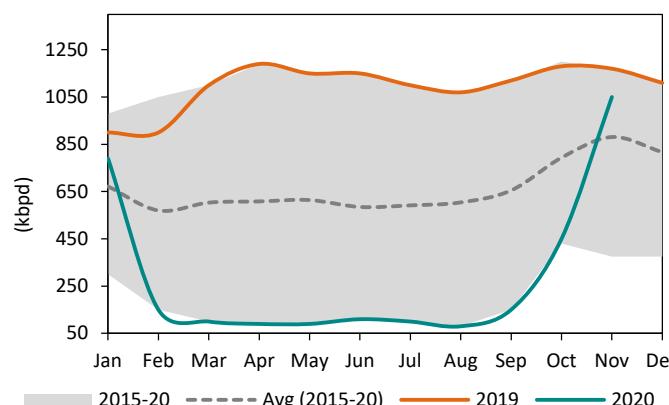
Source: Industry; IDBI Capital Research

Exhibit 5: OPEC Production : Iraq



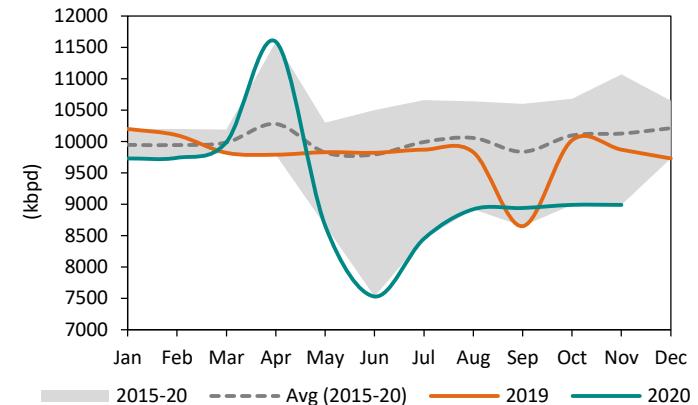
Source: Industry; IDBI Capital Research

Exhibit 6: OPEC Production : Libya



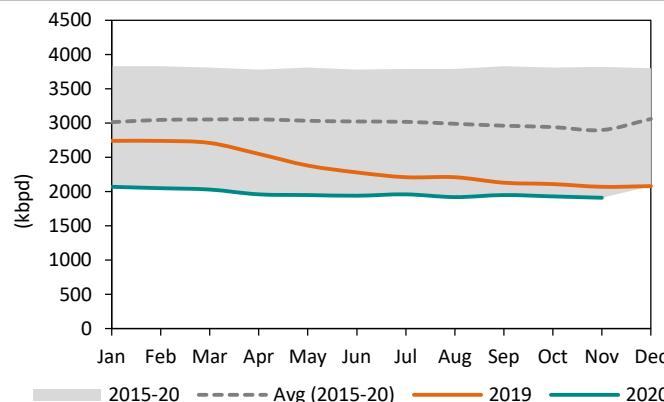
Source: Industry; IDBI Capital Research

Exhibit 7: OPEC Production: Saudi Arabia



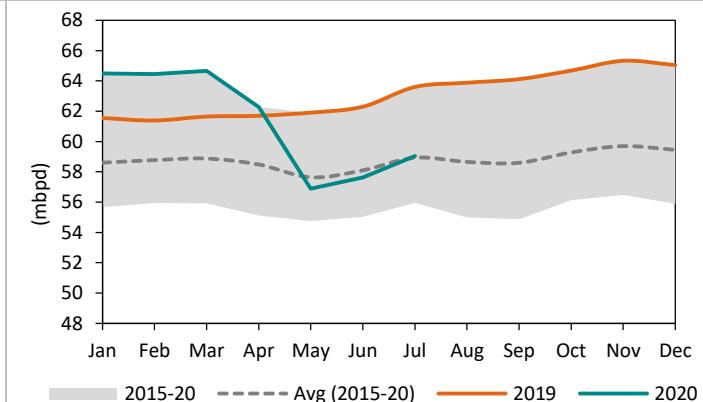
Source: Industry; IDBI Capital Research

Exhibit 8: OPEC Production : Iran



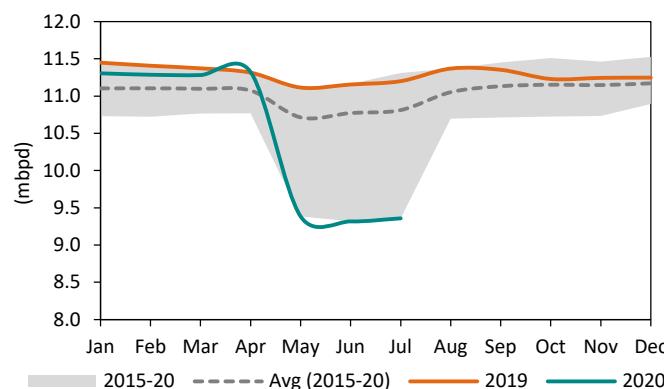
Source: Industry; IDBI Capital Research

Exhibit 9: Non-OPEC Production



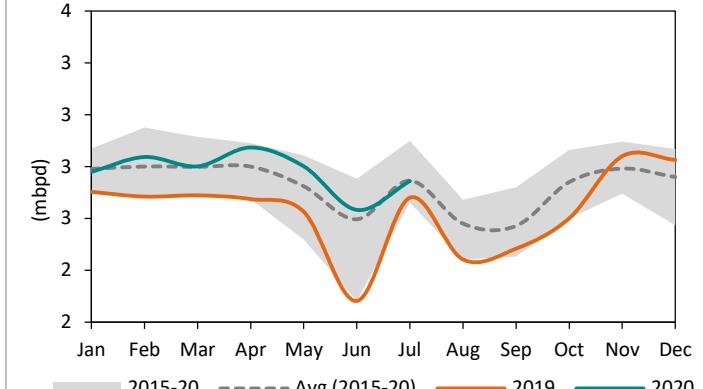
Source: Industry; IDBI Capital Research

Exhibit 10: Non-OPEC Production : Russia



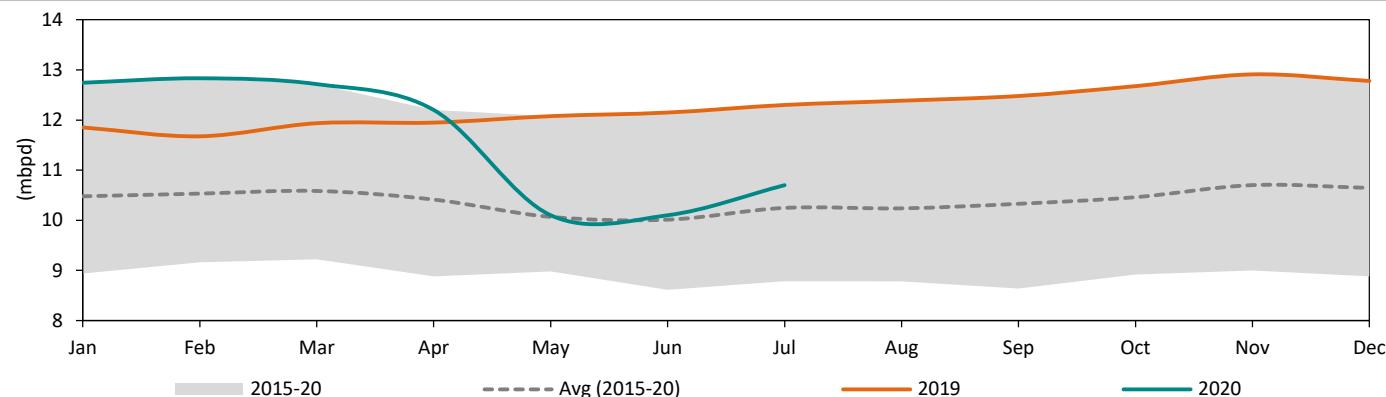
Source: Industry; IDBI Capital Research

Exhibit 11: Non-OPEC Production : North Sea



Source: Industry; IDBI Capital Research

Exhibit 12: Non-OPEC Production : US production

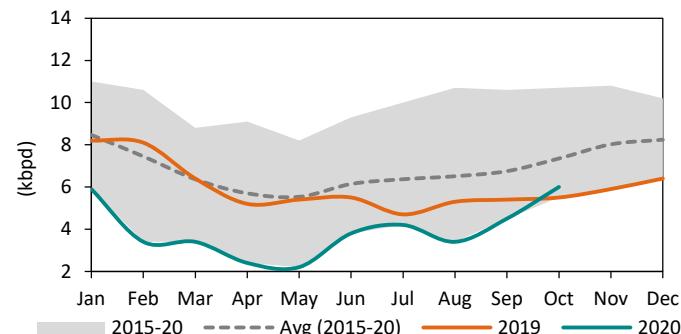


Source: Industry; IDBI Capital Research

■ **Spot LNG price rises sharply as demand improves**

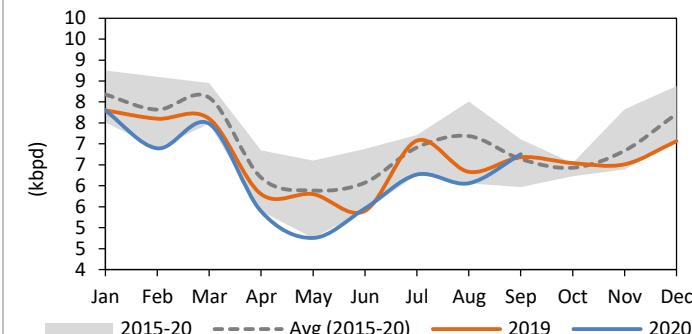
On natural gas space, LNG price (Japan spot LNG) improves by 33% in October to an average of US\$6/mmbtu and reached 8-month high amid supply concern at Australia Gorgon projects and rising demand from Asian countries. Further, 42.5mtpa of new liquefaction capacity got added in 2019 while 123.3mtpa of new liquefaction capacity was under construction and Final Investment Decision (FID) was sanctioned for 70.9mtpa. At the same time, 23.4mtpa of new regasification terminal was added in 2019 while 120.4mtpa of new regasification terminal was under construction. We expect gas glut situation to remain there for some time which would continue to keep spot LNG price on a lower side.

Exhibit 13: Spot LNG prices – Japan contracted improves

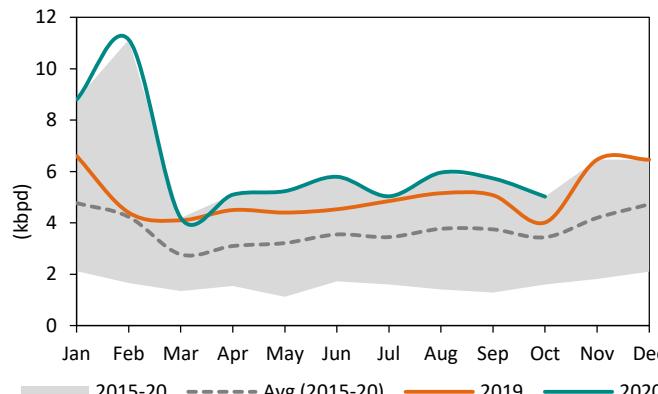


Source: Industry; IDBI Capital Research

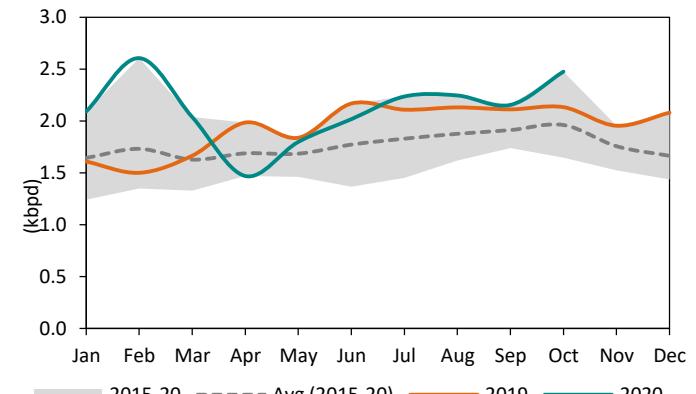
Exhibit 14: Japan Imports: rises 11% MoM



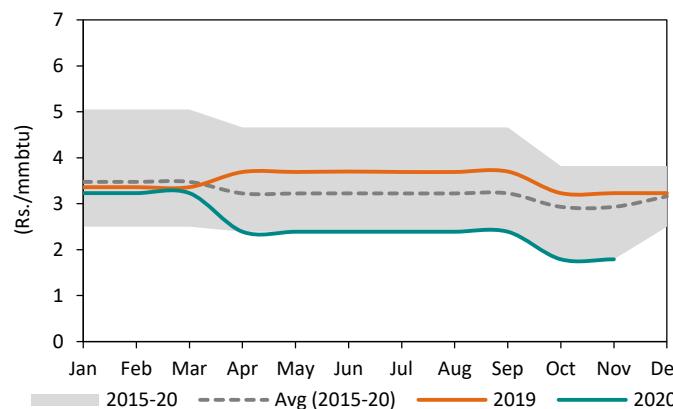
Source: Industry; IDBI Capital Research

Exhibit 15: China Imports: Falls 12.4% MoM


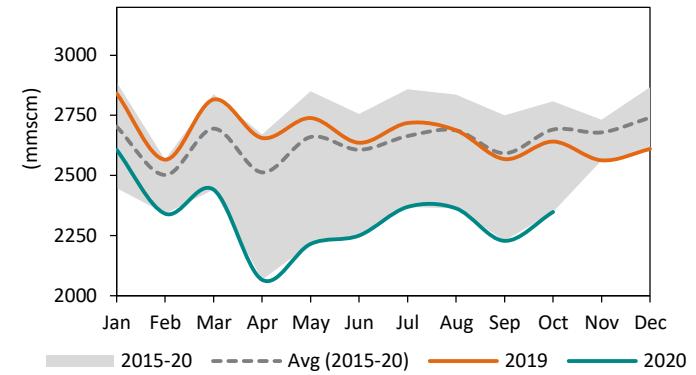
Source: Industry; IDBI Capital Research

Exhibit 16: India Imports: Rises 15% MoM


Source: Industry; IDBI Capital Research

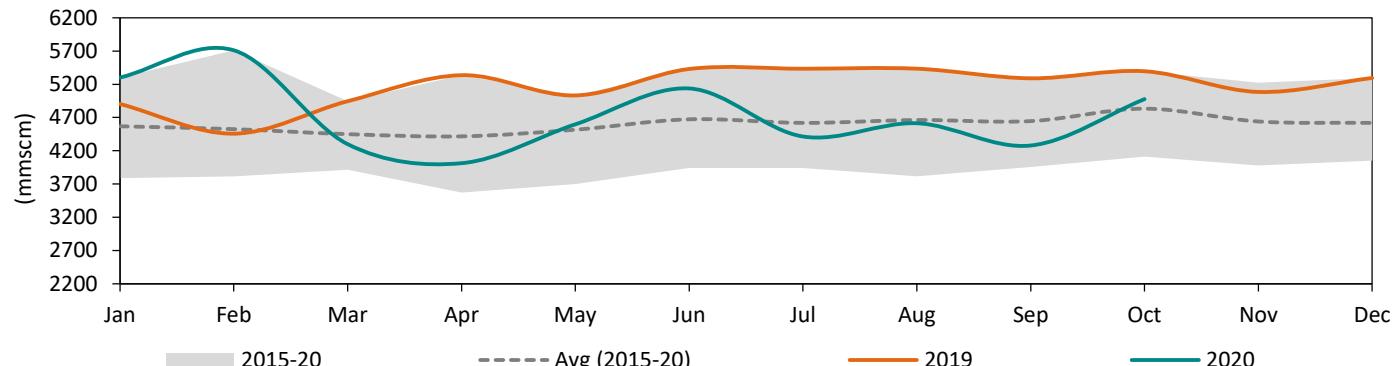
Exhibit 17: Gas Prices in India


Source: Industry; IDBI Capital Research

Exhibit 18: Domestic gas production: Improves 5.4% MoM


Source: Industry; IDBI Capital Research

Exhibit 19: Gas Consumption in India: Improves 16% MoM

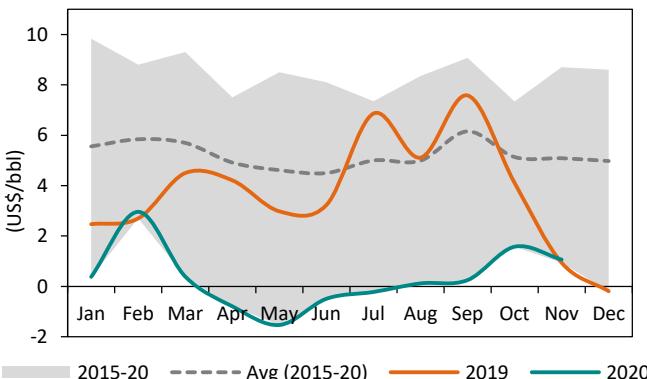


Source: Industry; IDBI Capital Research

- GRM falls to US\$1.1/bbl and breaks 5-months recovery streak; US refinery utilization level flattish

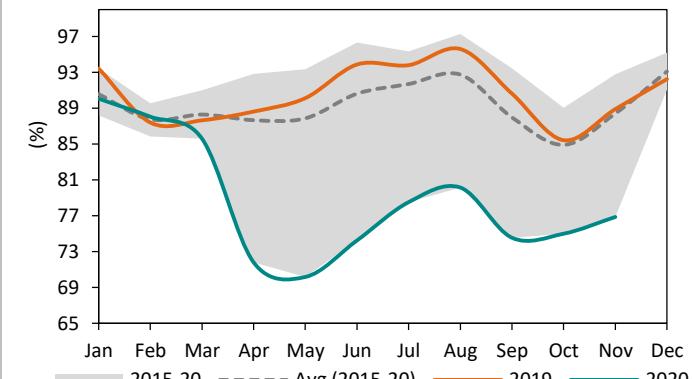
Singapore GRM fell during the month and averaged to US\$1.07/bbl compared to US\$1.58/bbl in Oct'20. Cracks also fell during the month across all products with Gasoline and Naphtha cracks falling to negative US\$0.77/1.79/bbl in Nov'20 vs positive US\$3.46/2.52/bbl in Oct'20. Fuel Oil and Jet Kero cracks fell to US\$ -3.1/+2.5/bbl vs US\$ -1.74/+3.1/bbl. Gas Oil improved during the month to US\$4.6/bbl vs US\$3.7/bbl in Oct'20. US refinery utilization improved to 77% in November vs 75% in October.

Exhibit 20: GRM falls to US\$1.07/bbl

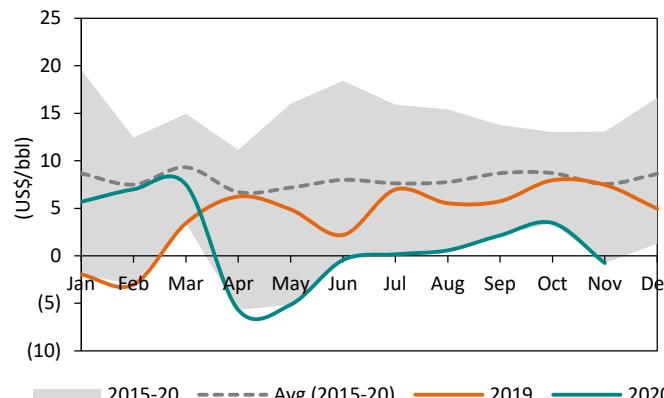
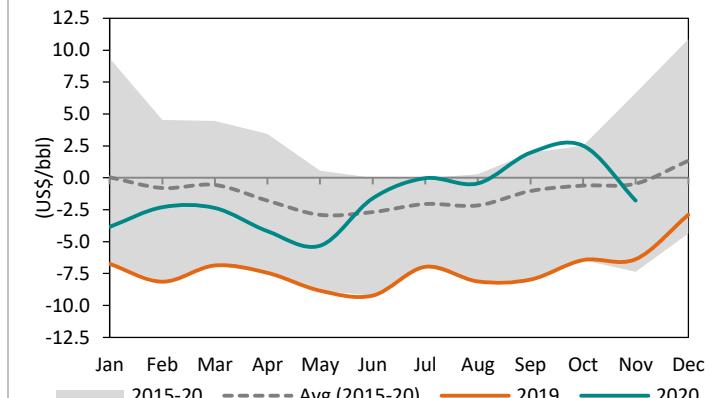
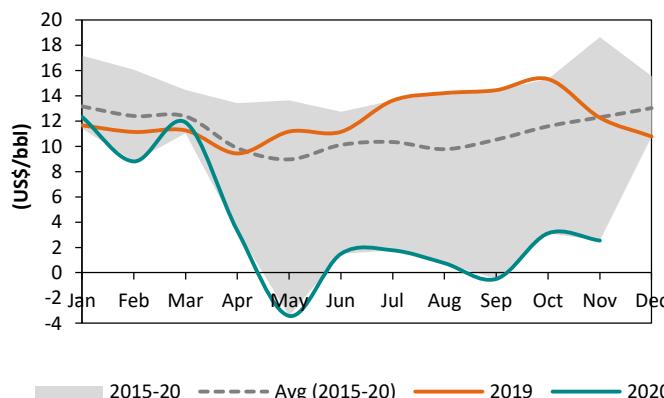
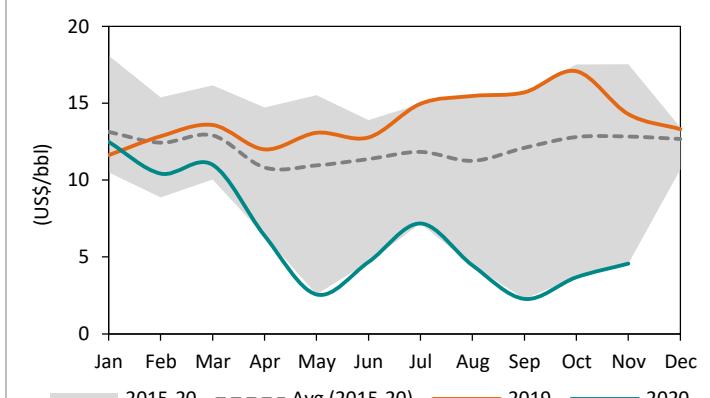


Source: Industry; IDBI Capital Research

Exhibit 21: US Refinery Utilization Improves



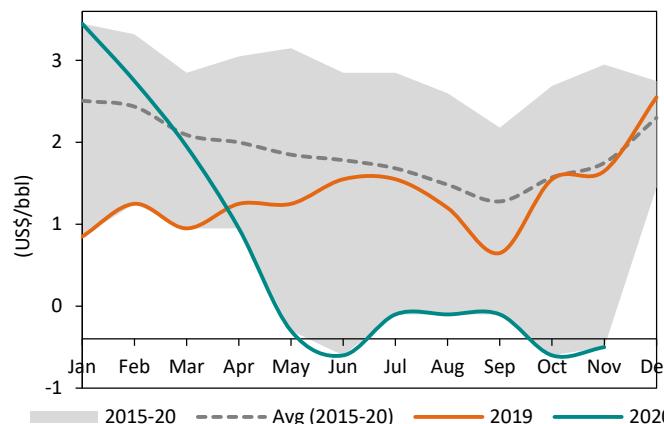
Source: Industry; IDBI Capital Research

Exhibit 22: Gasoline spread: Falls back to negative

Exhibit 23: Naphtha Spread: Deteriorates

Exhibit 24: Jet Kero Spread: Falls again after strong recovery

Exhibit 25: Gasoil Spread: Improves further


■ **L-H differential in negative territory, Dubai-Arab Heavy differential falls back to Zero**

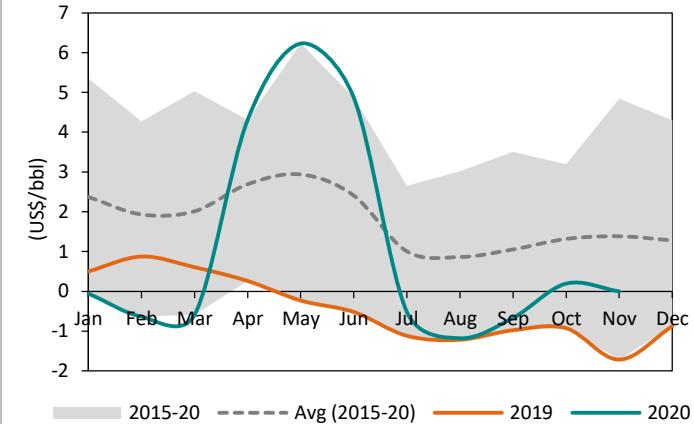
Arab Light-Arab Heavy differential remained in negative territory and averaged at negative US\$0.1/bbl in November from a negative US\$0.2/bbl MoM, while Dubai-Arab Heavy differential falls back to Zero against positive US\$0.19/bbl. Further, INR exchange rate weakened MoM to Rs74.3/US\$ in November vs Rs73.5/US\$ MoM.

Exhibit 26: Arab Light-Arab Heavy differential remains negative



Source: Industry; IDBI Capital Research

Exhibit 27: Dubai-Arab Heavy falls back to zero



Source: Industry; IDBI Capital Research

■ Petroleum products consumption improves by 14.8% MoM led by HSD and MS

Total consumption rose by 14.8% MoM to 17.78mmt and 2.7% above Oct'19 consumption. This was led by rise in HSD/MS by 27.4%/8.3%MoM. LPG sales rose 6.8% MoM. Petcoke rose by 3.6% MoM while Naphtha rose by 13.7%. ATF/Bitumen rose by 13%/49% to 355/662 tmt MoM respectively.

Exhibit 28: LPG Consumption: Improves 6.8% MoM

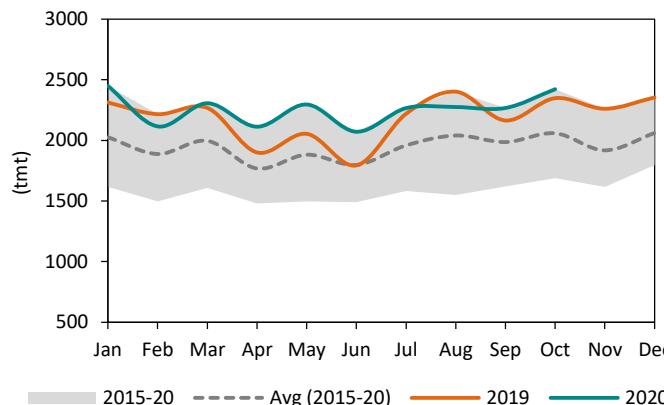


Exhibit 29: MS Consumption: Rises 8.3% MoM

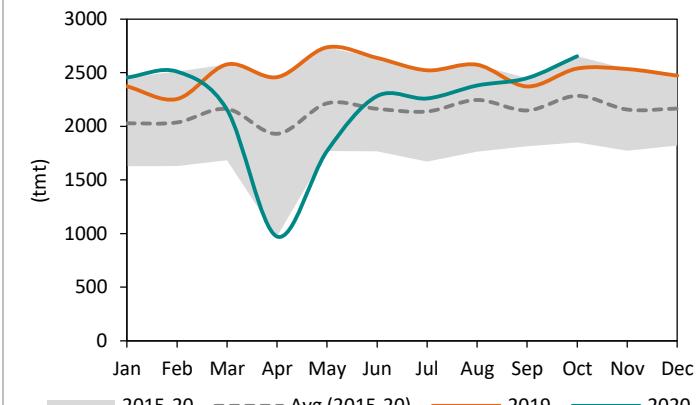


Exhibit 30: HSD Consumption: Sharply rises 27% MoM

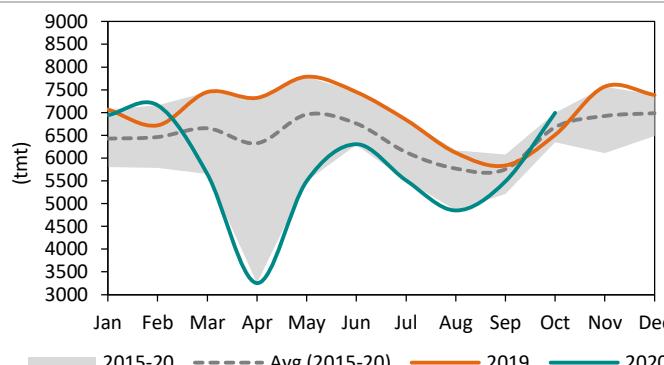


Exhibit 31: SKO Consumption

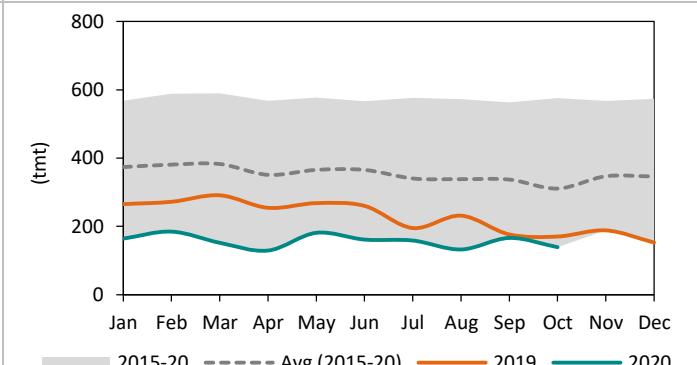
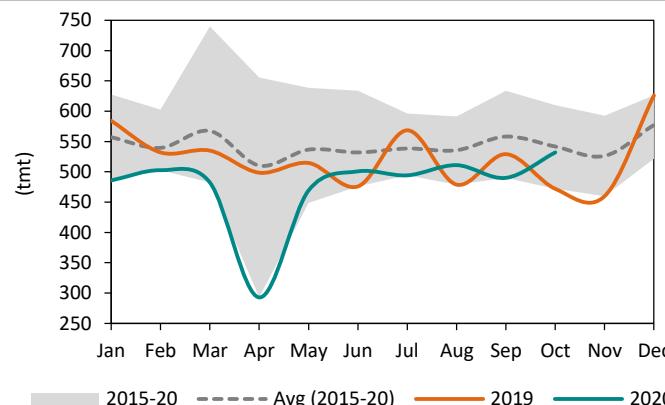
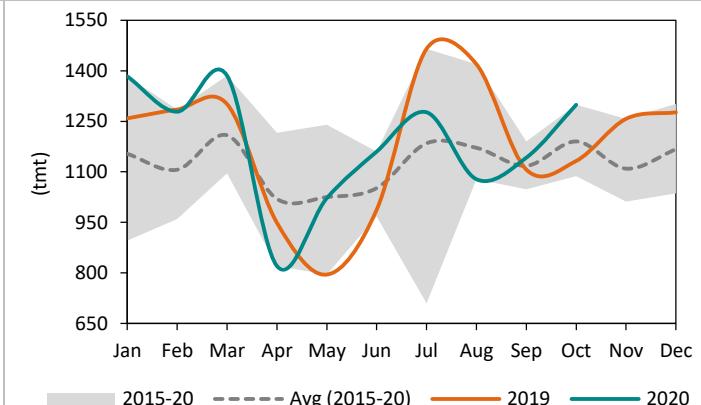
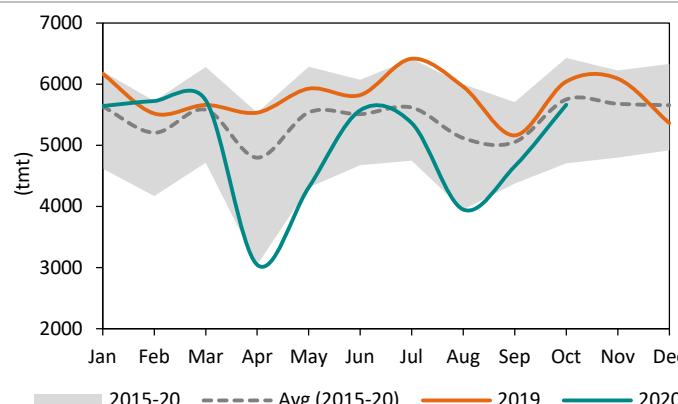


Exhibit 32: FO Consumption


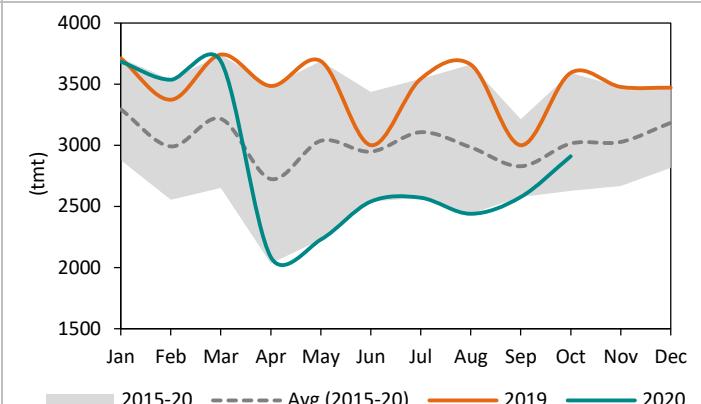
Source: Industry; IDBI Capital Research

Exhibit 33: Naphtha Consumption: Improves 14% MoM


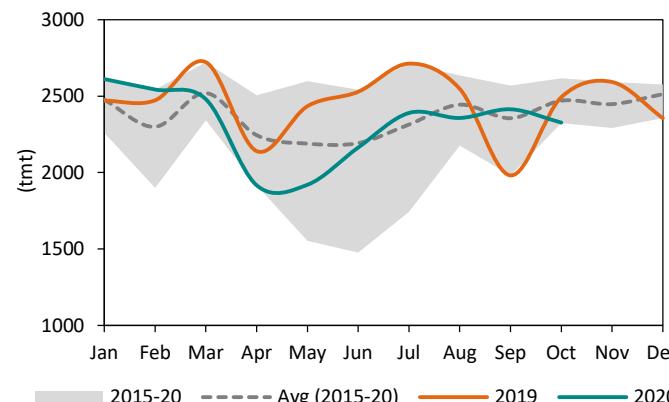
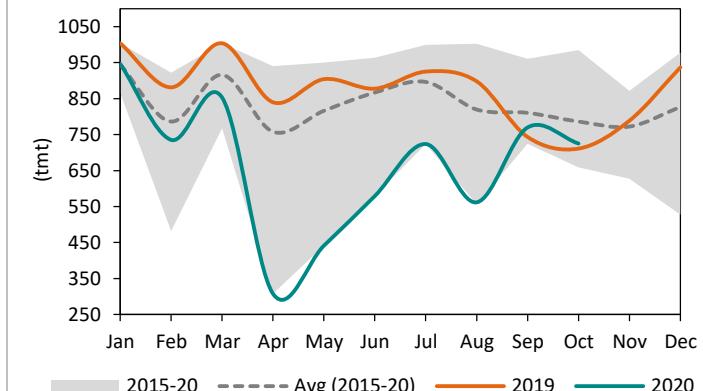
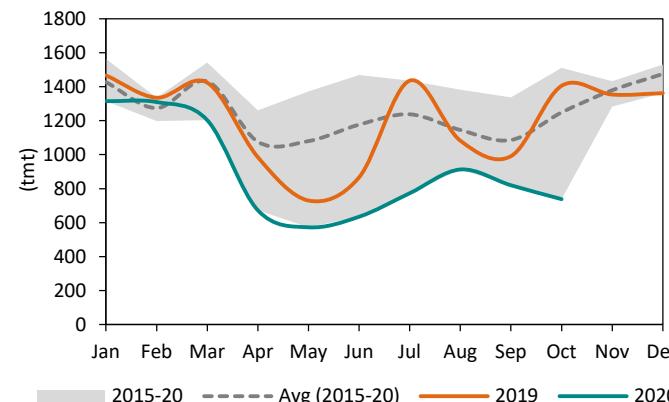
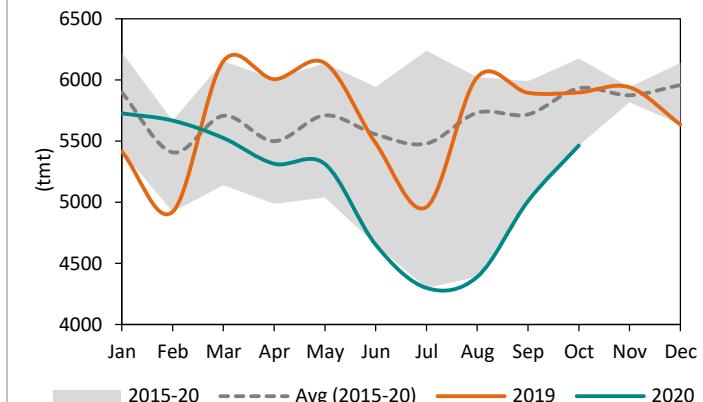
Source: Industry; IDBI Capital Research

Exhibit 34: IOCL Crude Throughput


Source: Industry; IDBI Capital Research

Exhibit 35: BPCL Crude Throughput


Source: Industry; IDBI Capital Research

Exhibit 36: HPCL Crude Throughput

Exhibit 37: CPCL Crude Throughput

Exhibit 38: MRPL Crude Throughput

Exhibit 39: RIL Crude Throughput




Notes

Dealing

(91-22) 6836 1111

dealing@idbic平.com

Key to Ratings Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto ±5%; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

IDBI Capital Markets & Securities Ltd.

Equity Research Desk

6th Floor, IDBI Tower, WTC Complex, Cuffe Parade, Colaba, Mumbai – 400 005. Phones: (91-22) 2217 1700; Fax: (91-22) 2215 1787; Email: info@idbic平.com

SEBI Registration: BSE & NSE (Cash & FO) – INZ000007237, NSDL – IN-DP-NSDL-12-96, Research – INH000002459, CIN – U65990MH1993GOI075578

Compliance Officer: Christina D'souza; Email: compliance@idbic平.com; Telephone: (91-22) 2217 1907

Disclaimer

This report has been published by IDBI Capital Markets & Securities Ltd. (hereinafter referred to as "IDBI Capital") for private circulation. This report should not be reproduced or copied or made available to others. No person associated with IDBI Capital is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this report. The information contained herein is strictly confidential and meant for solely for the selected recipient and may not be altered in any way, transmitted to copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without the prior written consent of IDBI Capital.

Recipients may not receive this report at the same time as other recipients. IDBI Capital will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is from the public domain or sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up-to-date and it should not be relied upon as such. While reasonable care has been taken to ensure that information given is at the time believed to be fair and correct and opinions based thereupon are reasonable, due to the very nature of research it cannot be warranted or represented that it is accurate or complete and it should not be relied upon as such. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Opinions expressed are current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis, the information discussed in this material, IDBI Capital, its directors, employees are under no obligation to update or keep the information current. Further there may be regulatory, compliance, or other reasons that prevent us from doing so.

Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

IDBI Capital, its directors and employees and any person connected with it, will not in any way be responsible for the contents of this report or for any losses, costs, expenses, charges, including notional losses/lost opportunities incurred by a recipient as a result of acting or non-acting on any information/material contained in the report.

This is not an offer to sell or a solicitation to buy any securities or an attempt to influence the opinion or behavior of investors or recipients or provide any investment/tax advice.

This report is for information only and has not been prepared based on specific investment objectives. The securities discussed in this report may not be suitable for all investors. Investors must make their own investment decision based on their own investment objectives, goals and financial position and based on their own analysis.

Trading in stocks, stock derivatives, and other securities is inherently risky and the recipient agrees to assume complete and full responsibility for the outcomes of all trading decisions that the recipient makes, including but not limited to loss of capital.

Opinions, projections and estimates in this report solely constitute the current judgment of the author of this report as of the date of this report and do not in any way reflect the views of IDBI Capital, its directors, officers, or employees.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IDBI Capital and associates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this report may come are required to inform themselves of and to observe such restriction.

E-mail is not a secure method of communication. IDBI Capital cannot accept responsibility for the accuracy or completeness of any e-mail message or any attachment(s).

This transmission could contain viruses, be corrupted, destroyed, incomplete, intercepted, lost or arrived late. IDBI Capital, its directors or employees or associates accept no liability for any damage caused, directly or indirectly, by this email.

Analyst Disclosures

We, Sudeep Anand and Viral Shah, hereby certify that the views expressed in this report accurately reflect our personal views about the subject companies and / or securities. We also certify that no part of our compensation were, are or would be directly or indirectly related to the specific recommendations or views expressed in this report. Principally, We will be responsible for the preparation of this research report and have taken reasonable care to achieve and maintain independence and objectivity in making any recommendations herein.

Other Disclosure

IDBI Capital Markets & Securities Ltd. (hereinafter referred to as "IDBI Capital") was incorporated in the year 1993 under Companies Act, 1956 and is a wholly owned subsidiary of IDBI Bank Limited. IDBI Capital is one of India's leading securities firm which offers a full suite of products and services to individual, institutional and corporate clients namely Stock broking (Institutional and Retail), Distribution of financial products, Merchant Banking, Corporate Advisory Services, Debt Arranging & Underwriting, Portfolio Manager Services and providing Depository Services. IDBI Capital is a registered trading and clearing member of BSE Ltd. (BSE) and National Stock Exchange of India Limited (NSE). IDBI Capital is also a SEBI registered Merchant Banker, Portfolio Manager and Research Analyst. IDBI Capital is also a SEBI registered depository participant with National Securities Depository Limited (NSDL) and is also a Mutual Fund Advisor registered with Association of Mutual Funds in India (AMFI).

IDBI Capital and its associates IDBI Bank Ltd. (Holding Company), IDBI Intech Ltd. (Fellow Subsidiary), IDBI Asset Management Ltd. (Fellow Subsidiary) and IDBI Trusteeship Services Ltd. (Fellow Subsidiary).

IDBI Group is a full-serviced banking, integrated investment banking, investment management, brokerage and financing group. Details in respect of which are available on www.idbic平臺.com IDBI Capital along with its associates are leading underwriter of securities and participants in virtually all securities trading markets in India. We and our associates have investment banking and other business relationships with a significant percentage of the companies covered by our Research Department. Investors should assume that IDBI Capital and/or its associates are seeking or will seek investment banking or other business from the company or companies that are the subject of this material. IDBI Capital generally prohibits its analysts, persons reporting to analysts, and their dependent family members having a financial conflict of interest in the securities or derivatives of any companies that the analysts cover. Additionally, IDBI Capital generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our sales people, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Directors of IDBI Capital or its associates may have interest in the Companies under recommendation in this report either as Director or shareholder. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of clients of IDBI Capital. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. We and our associates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. For the purpose of calculating whether IDBI Capital and its associates holds beneficially owns or controls, including the right to vote for directors, 1% of more of the equity shares of the subject issuer of a research report, the holdings does not include accounts managed by IDBI Asset Management Company/ IDBI Mutual Fund.

IDBI Capital hereby declares that our activities were neither suspended nor we have materially defaulted with any Stock Exchange authority with whom we are registered in last five years. However SEBI, Exchanges and Depositories have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on IDBI Capital for certain operational deviations. We have not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has our certificate of registration been cancelled by SEBI at any point of time. IDBI Capital, its directors or employees or associates, may from time to time, have positions in, or options on, and buy and sell securities referred to herein. IDBI Capital or its associates, during the normal course of business, from time to time, may solicit from or perform investment banking or other services for any company mentioned in this document or their connected persons or be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or their affiliate companies or act as advisor or lender / borrower to such company(ies)/associates companies or have other potential conflict of interest. This report may provide hyperlinks to other websites. Except to the extent to which the report refers to the website of IDBI Capital, IDBI Capital states that it has not reviewed the linked site and takes no responsibility for the content contained in such other websites. Accessing such websites shall be at recipient's own risk. IDBI Capital encourages the practice of giving independent opinion in research report preparation by the analyst and thus strives to minimize the conflict in preparation of research report. Accordingly, neither IDBI Capital nor Research Analysts have any material conflict of interest at the time of publication of this report. We offer our research services to primarily institutional investors and their employees, directors, fund managers, advisors who are registered with us. The Research Analyst has not served as an officer, director or employee of Subject Company. We or our associates may have received compensation from the subject company in the past 12 months. We or our associates may have managed or co-managed public offering of securities for the subject company in the past 12 months. We or our associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months. We or our associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months. We or our associates may have received any compensation or other benefits from the Subject Company or third party in connection with the research report. Research Analyst or his/her relatives may have financial interest in the subject company. IDBI Capital or its associates may have financial interest in the subject company. Research Analyst or his/her relatives does not have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report. IDBI Capital or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report. The Subject Company may have been a client during twelve months preceding the date of distribution of the research report. Price history of the daily closing price of the securities covered in this note is available at www.bseindia.com; www.nseindia.com and www.economictimes.indiatimes.com/markets/stocks/stock-quotes.