

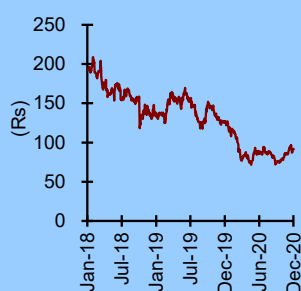
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## Sector update

## Oil &amp; Gas and Petrochemicals

IOCL (ADD)

Target price: Rs105



## INDIA

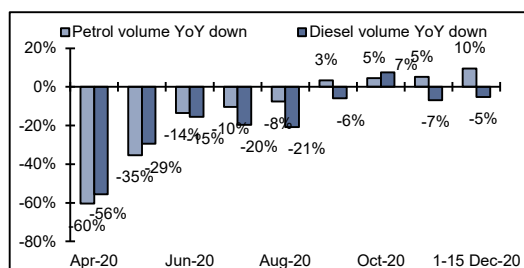
## Refining &amp; marketing

## Oil surge hit GRM &amp; marketing margins, but led to inventory gain

In Nov'20, petroleum product consumption was down 3.7% YoY. Diesel consumption too fell 6.9% YoY during the same month and 5% YoY in 1-15 Dec'20, but petrol was up 5.1% YoY in Nov and 9.5% YoY in 1-15 Dec. Refinery utilisation surged to 101% in Nov'20 vs 87% in Oct'20 with MoM output rise being 2.5mmt while consumption was flat MoM. This meant rise in product inventory. Diesel inventory was up by 0.2mmt MoM as production surplus exceeded exports. The oil price surge from end-Oct'20 lows has hit both GRMs and auto fuel net marketing margins (may fall to below Rs1/l in Jan'21). However, it would lead to large inventory gains, which would mean strong earnings growth for IOC even in Q3FY21E. We reiterate ADD on IOC given its cheap valuation and high dividend.

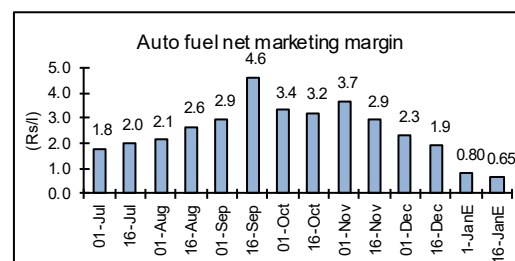
- **Auto fuel net marketing margins to slip below Rs1/l in Jan'21 as international price rise not fully passed on:** Auto fuel net marketing margin is at Rs4.03/l in FY21-TD, Rs3.12/l in Q3FY21-TD and Rs1.89/l on 29-Dec'20. However, the rise in international auto fuel prices not being fully passed on to consumers is likely to lead to net margin declining to Rs0.8/l (based on prices in 16-29 Dec) on 1-Jan'21 and Rs0.65/l (at latest prices) on 16-Jan'21. Retail price hikes of Rs2/l are required for net margins to remain above Rs2.0/l. Rise in international oil and product prices will also lead to inventory gains in Q3FY21E. **We estimate product inventory gain at Rs14.6bn and crude inventory gain at US\$0.8/bbl for IOC in Q3FY21E.**

## Diesel demand down YoY, but petrol up YoY in Nov'20 and 1-15 Dec'20



Source: PPAC, Reuters, I-Sec research

## Net marketing margin may fall to Rs0.8/l on 1-Jan'21 and Rs0.65/l on 16-Jan'21



Source: PPAC, Reuters, I-Sec research

- **GRM hit by QoQ rise in fuel and losses and fall in auto fuel cracks:** We estimate IOC's Q3FY21-TD GRM at US\$1.1/bbl including crude inventory gain of US\$0.8/bbl. IOC's GRM has been hit by QoQ fall in petrol, diesel and naphtha cracks and rise in fuel and losses (hit by rise in oil and spot LNG prices) by US\$0.5/bbl QoQ. **Diesel cracks though down QoQ are at 5-month high of US\$4.6/bbl in Dec'20-TD. Petrol cracks are at 7-month low of US\$3.3/bbl in Dec'20-TD** as lockdowns due to second wave of Covid in the US and Europe hit demand.
- **Diesel consumption down YoY, but petrol up YoY in Nov'20 and 1-15 Dec:** In Nov'20, consumption of petroleum products was down 3.7% YoY, diesel down 6.9% YoY (down 19% YoY in FY21-TD), but petrol up 5.1% YoY (down 14% in FY21-TD). Diesel consumption decline is on the high base of Nov'19, when it was up 9% YoY, while rise in Oct'20 (7.5% YoY) is on the low base of Oct'19 when it was down 7.3% YoY. Diesel consumption 2-year CAGR is 0.7% in Nov'20 vs minus 0.2% in Oct'20. Diesel consumption is also down 5% YoY, but petrol up 9.5% YoY in 1-15 Dec'20.
- **Consumption and exports not keeping pace with surge in production meant rise in inventory:** Refinery utilisation at 101% in Nov'20 is the highest in FY21-TD, which meant production was up 2.5mmt MoM. However, consumption was flat MoM. Thus, production surplus was 3.6mmt, but net exports just 0.8mmt, which meant rise in inventory. Diesel inventory was up 0.24mmt MoM as production was up 1.5mmt MoM, but consumption was flat and net exports down 0.13mmt MoM.

## Research Analysts:

Vidyadhar Ginde

vidyadhar.ginde@icicisecurities.com  
+91 22 6637 7274

Aksh Vashishth

aksh.vashishth@icicisecurities.com  
+91 22 6637 7386

## Oil jump hit margins, but will lead to inventory gain

Marketing margins set to fall in Jan as price hike inadequate

**Net marketing margin at Rs4.03/l in FY21-TD and Rs1.89/l now**

Auto fuel net marketing margin is at:

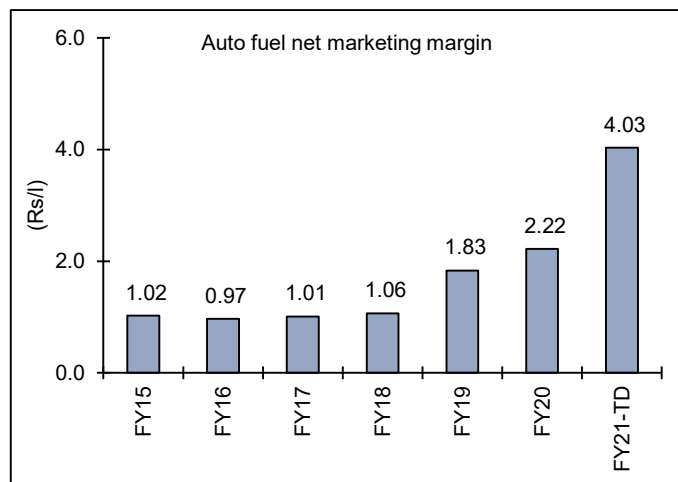
- Rs4.03/l in FY21-TD
- Rs3.12/l in Q3FY21-TD
- Rs1.89/l on 29-Dec'20.

### Net marketing margin likely to fall below Rs1/l in Jan'21

There has been no hike in domestic retail prices of auto fuels since 7-Dec'20 while their international prices continue to rise. The rise in international auto fuel prices not being fully passed on to consumers has led to decline in auto fuel net marketing margin from Rs3.47/l during 7-15 Dec'20 to Rs1.89/l since 16-Dec'20. We estimate net margin declining to:

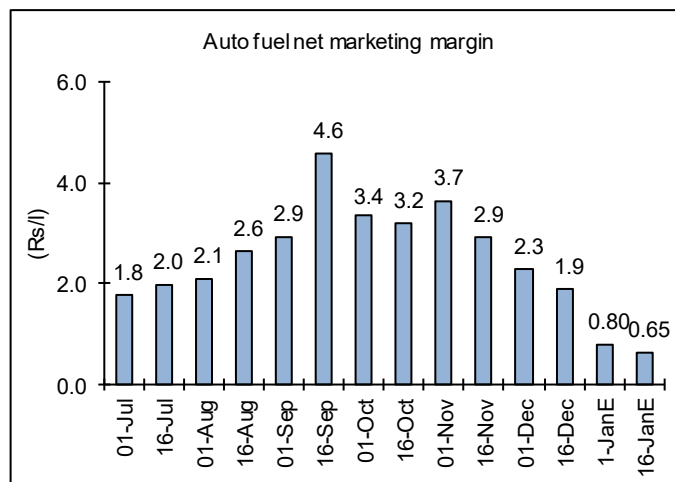
- Rs0.80/l on 1-Jan'21. Our estimate is based on international prices in 16-29 Dec'20.
- Rs0.65/l (at latest prices) on 16-Jan'21. Our estimate is based on latest international prices.

**Chart 1: OMCs' auto fuel net marketing margin is at Rs4.03/l in FY21-TD vs Rs2.22/l in FY20**



Source: PPAC, Reuters, I-Sec research

**Chart 2: OMCs' net margin to fall from Rs1.89/l to Rs0.8-0.65/l on 1-Jan & 16-Jan if no further hikes**



Source: PPAC, Reuters, I-Sec research

### Rs2/l retail price hike needed to boost net margin to over Rs2/l in Jan

Retail price hikes of Rs2/l are required to ensure net margins remain above Rs2.0/l even in Jan'21. It would also mean FY21E net margin is in line with our estimate of Rs3.3/l. If no further retail price hikes are made and international prices remain at current levels, FY21E net auto fuel marketing margin would be lower than our estimate at Rs2.88/l.

## Large inventory gains for IOC in Q3FY21E due oil/product price jump

Rise in international oil and product prices will also lead to inventory gains in Q3FY21E. For IOC we estimate in Q3FY21E:

- Product inventory gain at Rs14.6bn
- Crude inventory gain at US\$0.8/bbl.

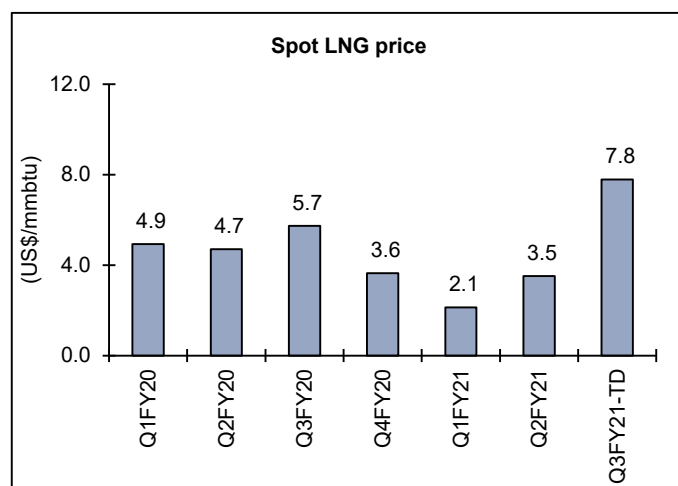
## GRM hit by rise in fuel & losses and QoQ fall in auto fuel cracks

### IOC's Q3-TD GRM hit by fuel & losses rise and weak auto fuel cracks

We estimate IOC's Q3FY21-TD GRM at US\$1.1/bbl including crude inventory gain of US\$0.8/bbl. IOC's GRM has been hit by:

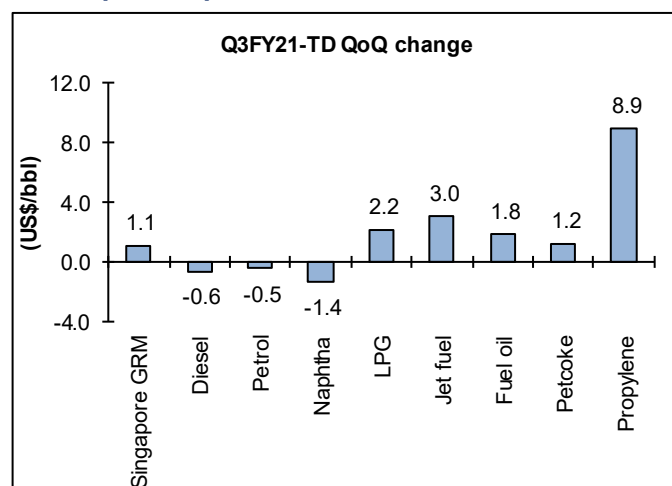
- QoQ fall in petrol, diesel, and naphtha cracks. **These products account for over 72% of IOC's product slate.**
- Rise in fuel and losses by US\$0.5/bbl QoQ hit by rise in oil and spot LNG prices. Oil price is up 4% QoQ and spot LNG is up 122% QoQ in Q3FY21-TD.

**Chart 3: Spot LNG prices up 122% QoQ to US\$7.8/mmbtu in Q3FY21-TD**



Source: Reuters, I-Sec research

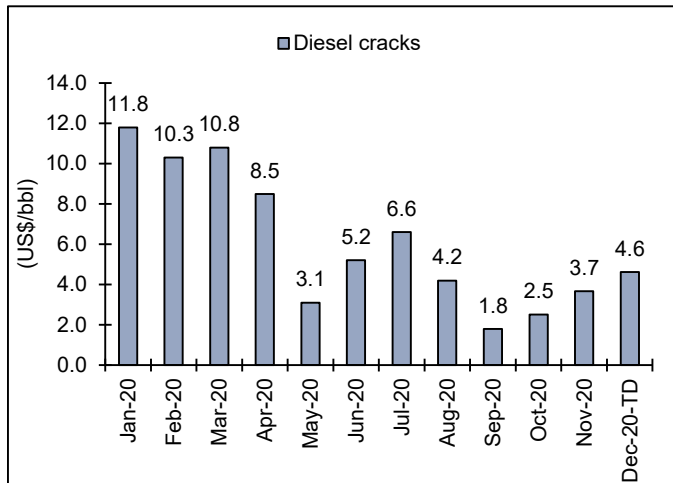
**Chart 4: All product cracks except petrol, diesel and naphtha up QoQ in Q3FY21-TD**



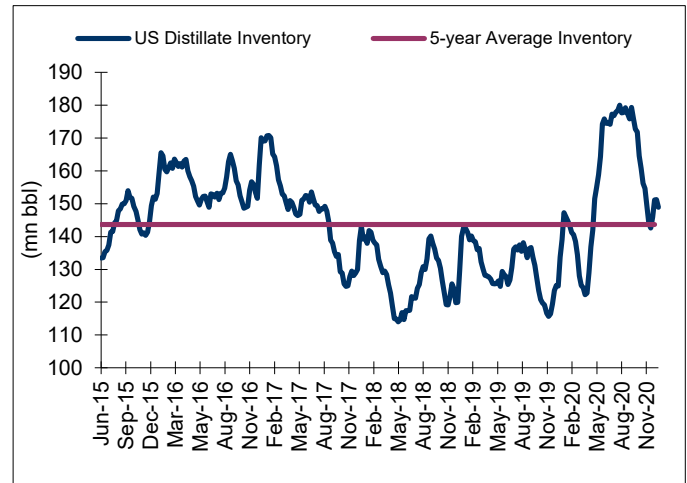
Source: Reuters, I-Sec research

## Diesel cracks down QoQ, but at 5-month high in Dec'20-TD

Diesel cracks at US\$3.56/bbl are down 15% QoQ in Q3FY21-TD. However, they have recovered to 5-month high of US\$4.6/bbl in Dec'20-TD, up 27% MoM from US\$3.7/bbl in Nov'20, and up 156% from low of US\$1.8/bbl in Sep'20. Decline in US distillate inventory by 17% from 37-year high level in end-Jul'20 to 3.7% above 5-year average level has helped improve diesel cracks.

**Chart 5: Diesel cracks are at US\$3.7-4.6/bbl in Nov-Dec'20-TD from a low of US\$1.8/bbl in Sep'20**

Source: Reuters, I-Sec research

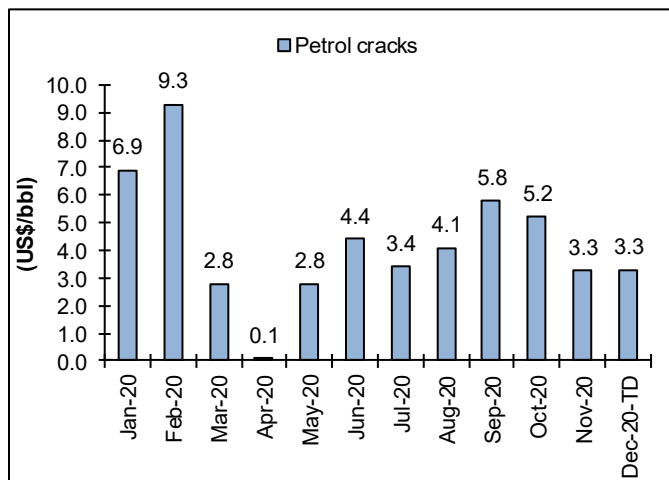
**Chart 6: US distillate inventory down 17% from recent high; 3.7% above 5-year average now**

Source: EIA, I-Sec research

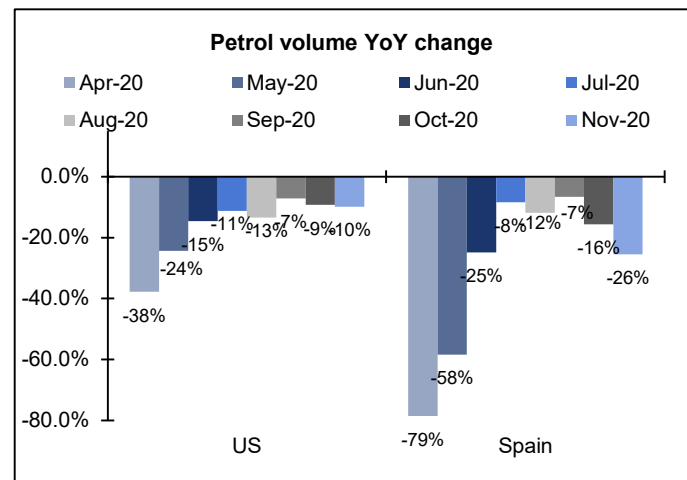
**Petrol cracks at 7-month low in Dec-TD as second wave hits demand**

Petrol cracks touched 7-month high of US\$5.8/bbl in Sep'20, but fell to US\$5.2/bbl in Oct'20 and a 6-month low of US\$3.3/bbl in Nov'20. Petrol cracks at US\$3.3/bbl in Dec'20-TD are at 7-month low, hit by the second wave of Covid infections causing demand recovery reversal in the US and Europe as is apparent from:

- US gasoline consumption fall is steeper at 14.5% YoY in Dec'20-TD and 9.9% YoY in Nov'20 vs 7.1-9.0% YoY fall in Sep-Oct'20
- In Spain, gasoline consumption decline was steeper at 15.6-25.5% YoY in Oct-Nov'20 vs 6.6% YoY in Sep'20

**Chart 7: Petrol cracks at 7-month low of US\$3.3/bbl in Dec'20-TD**

Source: Reuters, I-Sec research

**Chart 8: Petrol consumption fall in US and Spain steeper in Nov'20 vs Sep-Oct'20**

Source: EIA, CLH, I-Sec research

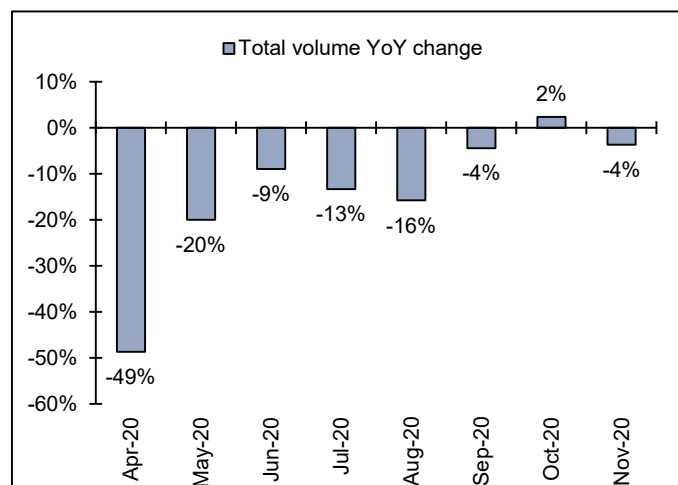
## Diesel demand down, but petrol up in Nov'20 & 1-15 Dec'20

### Petrol demand up 5.1% YoY in Nov'20; total and diesel down 3.7-6.9%

In Nov'20 consumption of:

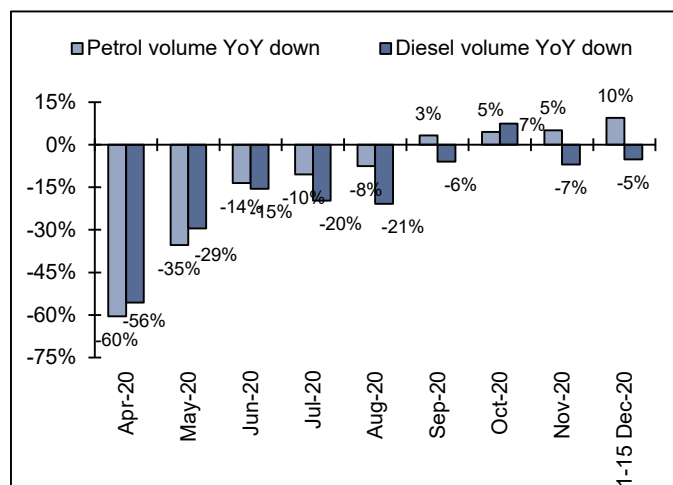
- Petroleum products was down 3.7% YoY vs 14% YoY fall in FY21-TD.
- Diesel was down 6.9% YoY vs 19% YoY decline in FY21-TD. Sharp fall in diesel consumption is on high base of Nov'19, when it was up 9% YoY.
- Petrol was up 5.1% YoY vs 14% YoY fall in FY21-TD.

**Chart 9: Total consumption down 4% YoY in Nov vs 4-49% YoY fall in Apr-Sep & 2% rise in Oct**



Source: PPAC, I-Sec research

**Chart 10: Petrol demand up 5.1-9.5% YoY while diesel down 6.9-5.2% YoY in Nov'20 & 1-15 Dec'20**



Source: PPAC, Reuters, I-Sec research

### Diesel demand down 5.2% YoY in 1-15 Dec; petrol up 9.5% YoY

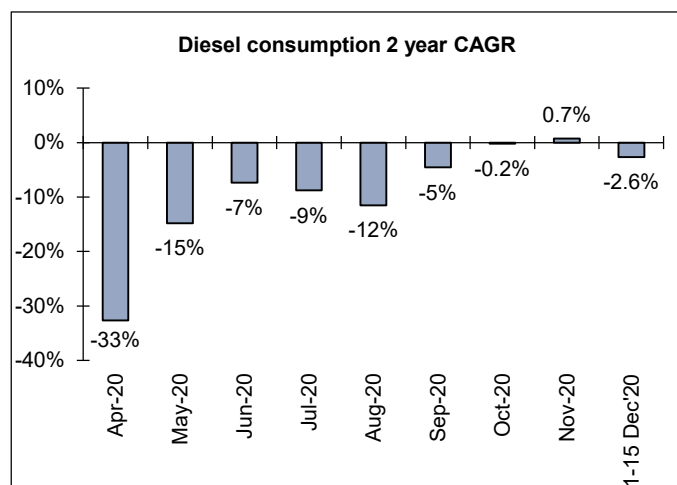
Consumption of diesel is down 5.2% YoY during 1-15 Dec'20 vs 6.9% YoY in Nov'20, which was on a high base of Nov'19 when consumption was up 9% YoY. Petrol consumption is however up 9.5% YoY during 1-15 Dec'20.

### 2-year diesel CAGR 0.7% in Nov'20 vs minus 0.2% in Oct'20

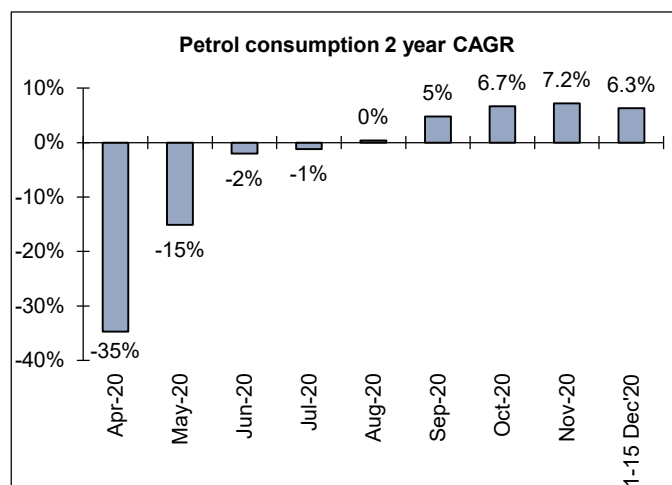
The 7.5% YoY rise in diesel consumption in Oct'20 was on a low base (down 7.3% YoY in Oct'19) and the fall of 6.9% YoY in Nov'20 is on a high base (up 9% YoY in Nov'19). Hence, one should look at 2-year consumption CAGR, which stood at 0.7% in Nov'20 vs minus 0.2% in Oct'20.

### 2-year petrol CAGR at 7.2% in Nov'20

2-year petrol consumption CAGR is at 7.2% in Nov'20. Petrol consumption growth of 5.1% YoY in Nov'20 was on a base of 9.3% YoY rise in Nov'19. Petrol consumption rise of 9.5% YoY in 1-15 Dec'20 is on a base of 3.3% YoY rise in Dec'19.

**Chart 11: Diesel consumption CAGR at minus 2.6% in 1-15 Dec'20 vs 0.7% in Nov'20**

Source: PPAC, Reuters, I-Sec research

**Chart 12: Petrol consumption CAGR 6.3% in 1-15 Dec'20 vs 7.2% in Nov'20**

Source: PPAC, Reuters, I-Sec research

### Consumption of industrial & transportation fuels down 0.2-6.7% YoY

In Nov'20 consumption of:

- Transportation fuels (petrol, diesel, jet fuel and lubes) was down 6.7% YoY with jet fuel down 47.5% YoY

**Table 1: Industrial & transportation fuel volumes down 0.2-6.7% YoY in Nov'20**

	Nov-20	Nov-19	YoY change
Transportation fuels	10.4	11.1	-6.7%
Industrial fuels	4.0	4.0	-0.2%
Subsidised fuels	2.5	2.4	2.4%
Others	0.9	0.9	2.5%
<b>Total</b>	<b>17.8</b>	<b>18.5</b>	<b>-3.7%</b>

Source: PPAC, I-Sec research

- Industrial fuels was down 0.2% YoY hit by fall in petcoke consumption by 16% YoY; naphtha, fuel oil and bitumen were up 8%, 9% and 18% YoY respectively in Nov'20.
- Other fuels were up 2.5% YoY.
- Subsidised fuels such as LPG and kerosene were up 2.4% YoY.

### Inventory up as output surge outpaced demand & exports

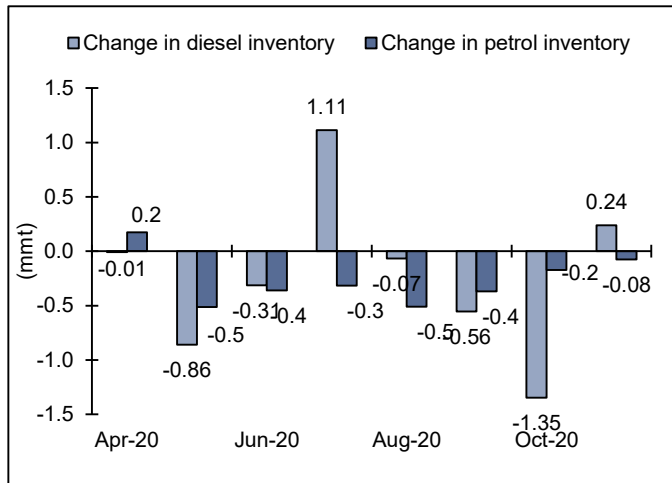
#### Diesel inventory up as large production surplus exceeded exports

Refinery utilisation hit FY21-TD high of 101% in Nov'20, which meant that production was up 2.5mmt MoM while consumption was flat MoM. Thus, production surplus stood at 3.6mmt but net exports at just 0.8mmt, which meant rise in inventory. Diesel inventory was up 0.24mmt MoM as production was higher by 1.5mmt MoM, but consumption was flat and net exports down 0.13mmt MoM.

#### Other products' inventories up in Nov'20

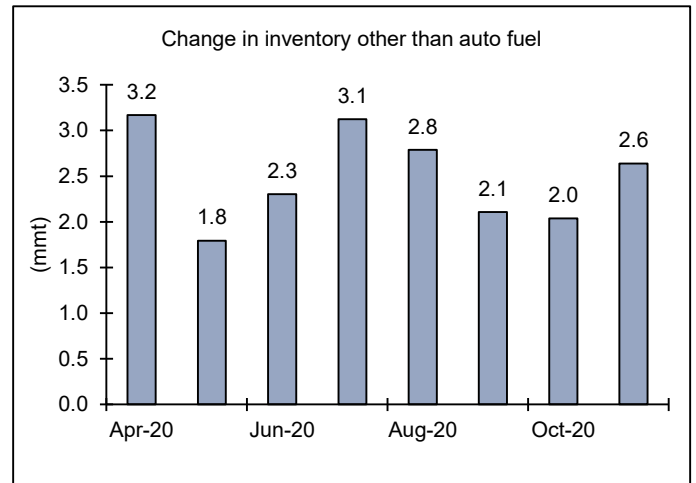
Inventories of products other than auto fuels have risen every month in FY21-TD driven mainly by rise in FO and petcoke inventories. Other products' inventories were up 2.6mmt in Nov'20, highest MoM rise since Aug'20.

**Chart 13: Diesel inventory up 0.24mmt MoM in Nov'20; petrol inventory down 0.1mmt**



Source: PPAC, I-Sec research

**Chart 14: Other products' inventories were up 2.6mmt in Nov'20, highest MoM rise since Aug'20**



Source: PPAC, I-Sec research

## Nov'20 PPAC data update

### Inventories rise as output surge outpaces demand & exports

#### Consumption down in Nov'20 after first YoY rise in FY21-TD in Oct'20

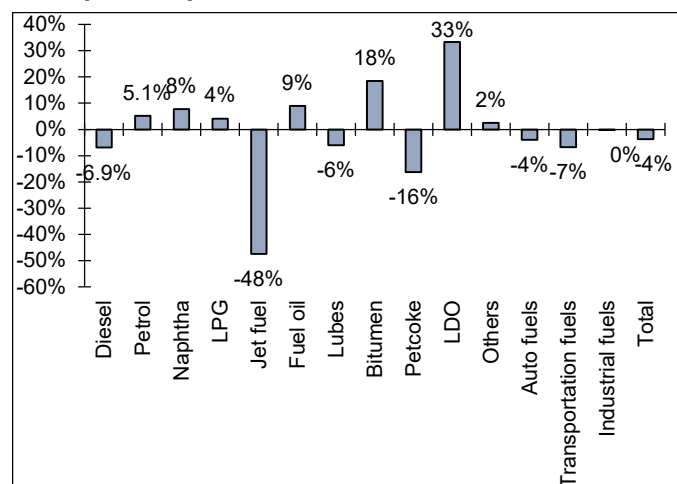
In Nov'20, total petroleum product consumption fell 3.7% YoY after the first monthly YoY rise in FY21-TD of 2.4% YoY in Oct'20. Petrol consumption was higher by 5.1% YoY while diesel lower by 6.9% YoY in Nov'20. Industrial fuel consumption was down 0.2% YoY in Nov'20 vs 5.3% YoY rise in Oct'20.

#### Total volumes down 3.7% YoY; petrol up 5.1% while diesel down 6.9%

As per data released by the Petroleum Planning & Analysis Cell (PPAC) of the Petroleum Ministry for Nov'20, Indian consumption of:

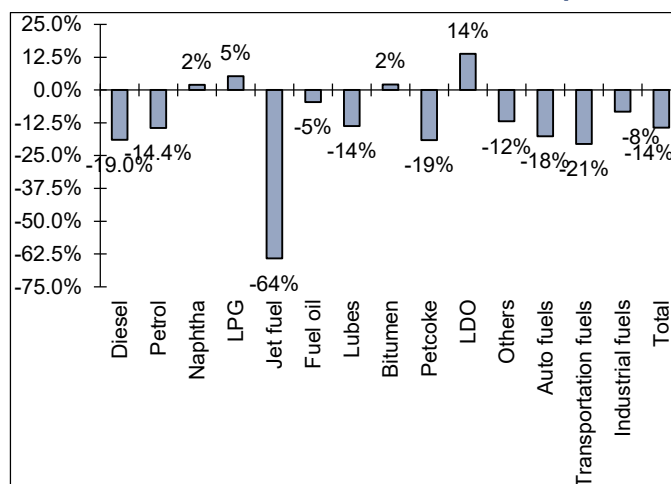
- Petroleum products was down 3.7% YoY (up 2.4% YoY in Oct'20)
- Diesel was down 6.9% YoY (up 7.5% YoY in Oct'20)
- Petrol was up 5.1% YoY (4.5% YoY in Oct'20)
- Petcoke was down 16.2% YoY (16.3% YoY in Oct'20)
- Jet fuel was down 47.5% YoY (49.1% YoY in Oct'20)
- LPG was up 4.1% YoY (3.1% YoY in Oct'20)

**Chart 15: Nov'20 total consumption down 3.7% YoY; petrol up 5.1% and diesel down 6.9% YoY**



Source: PPAC, I-Sec research

**Chart 16: FY21-TD consumption of petrol and diesel down 14-19% and total 14%; LPG up 5% YoY**



Source: PPAC, I-Sec research

#### Consumption of all products except LPG, LDO, lubes & fuel oil up MoM

Indian petroleum product consumption was up 0.4% MoM, but down 3.7% YoY in Nov'20. In Nov'20 consumption of:

- Diesel was up 1% MoM, but down 6.9% YoY.
- Petrol was up 0.4% MoM and 5.1% YoY.
- Jet fuel was up 5% MoM, but down 47.5% YoY.
- Petcoke was up 1% MoM, but down 16% YoY.



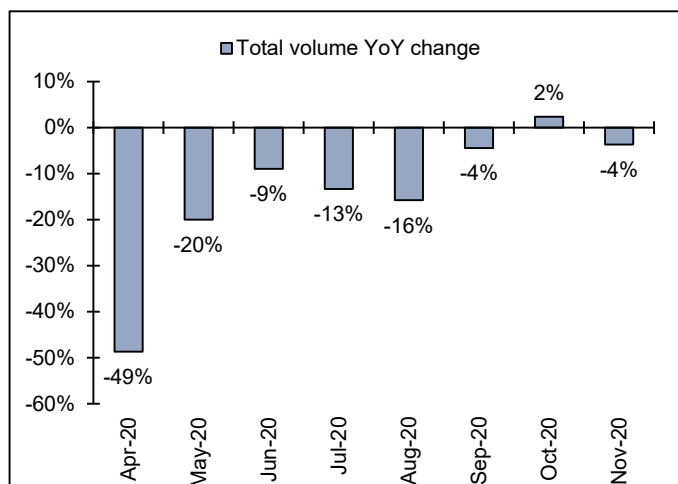
- Kerosene was up 11% MoM, but down 17.8% YoY.
- Lubes was down 0.3% MoM, and 6% YoY.
- LPG was down 3% MoM, but up 4.1% YoY.
- LDO was down 2% MoM, but up 33.3% YoY.
- Fuel oil was down 6% MoM, but up 8.9% YoY.

### Diesel consumption down 5.2% YoY in 1-15 Dec'20; petrol up 9.5% YoY

As per press reports, in 1-15 Dec'20:

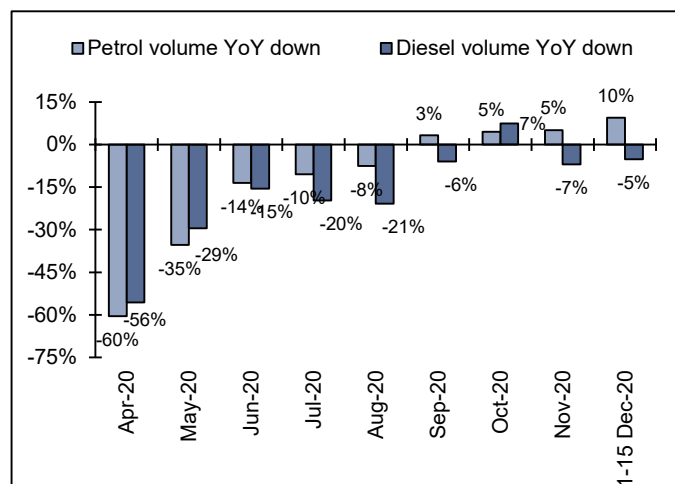
- Petrol consumption rose 9.5% YoY.
- Diesel consumption fell 5.2% YoY.

**Chart 17: Total product consumption down 4% YoY in Nov'20**



Source: PPAC, I-Sec research

**Chart 18: Petrol up 5.1-9.5% YoY while diesel down 6.9-5.2% YoY in Nov'20 & 1-15 Dec'20**



Source: PPAC, Reuters, I-Sec research

### FY21-TD total consumption down 14% and auto fuels down 14-19%

In FY21-TD, Indian consumption of:

- Petroleum products is down 14% YoY.
- Diesel is down 19% YoY
- Petrol is down 14% YoY
- Jet fuel is down 64% YoY
- LPG is up 5% YoY
- Naphtha is up 2% YoY

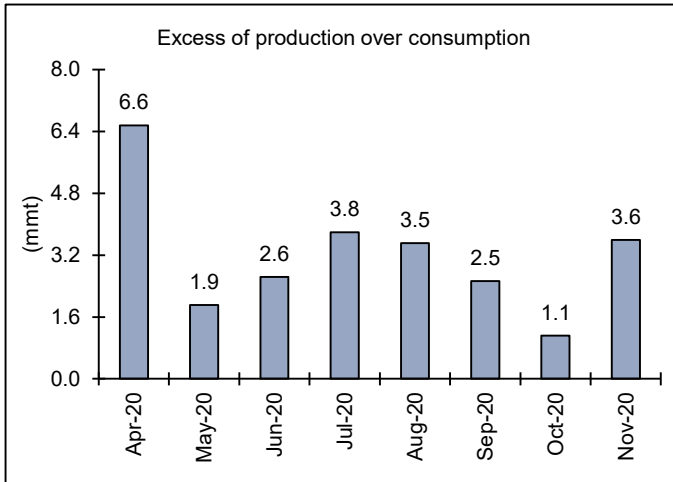
### Auto fuel production surplus exceeded net exports in Nov'20

#### Excess of production over consumption widened in Oct'20

India's petroleum product consumption declined 8.9mmt (49%) YoY in Apr'20 while production was down 5.1mmt (24%) YoY. Excess of production over consumption thus surged by 3.8mmt (141%) YoY to 6.6mmt in Apr'20. Excess of production over consumption contracted from 6.6mmt in Apr'20 to 1.9mmt in May'20, but surged to 2.6-3.8mmt in Jun-Jul'20 before narrowing marginally MoM to 3.5mmt in Aug'20. Excess of

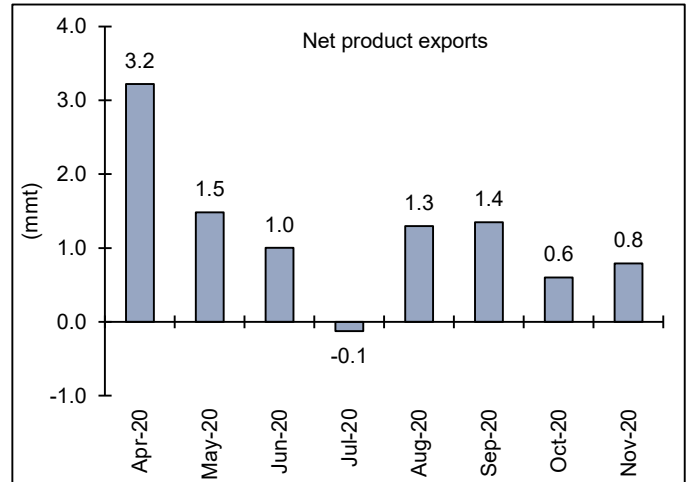
production over consumption narrowed further MoM in Sep'20 and to 1.1mmt in Oct'20. However, the excess of production over consumption widened to 3.6mmt in Nov'20.

**Chart 19: Excess of production over consumption up MoM in Nov'20 after fall in Aug-Oct'20**



Source: PPAC, I-Sec research

**Chart 20: Net exports rise in Nov'20 after falling MoM in Oct'20**

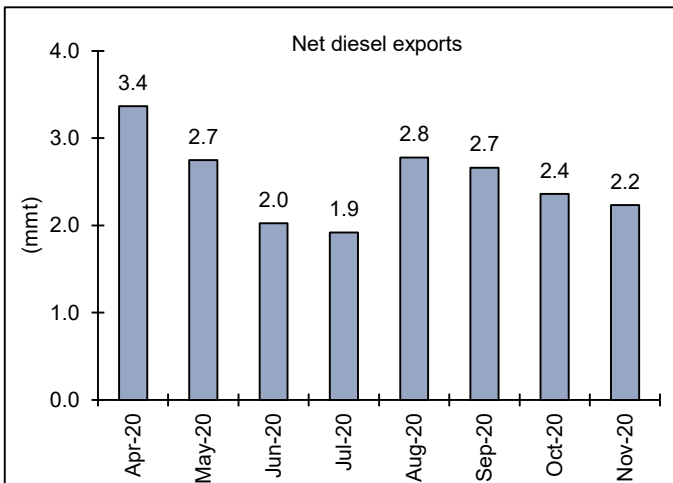


Source: PPAC, I-Sec research

### Diesel production surplus exceeded net exports in Nov

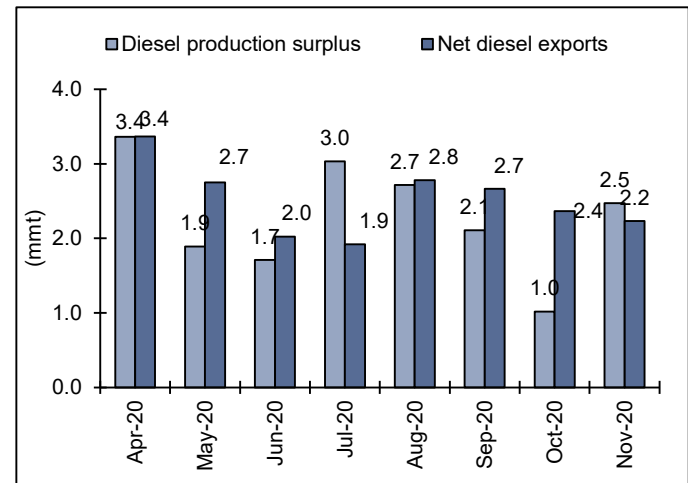
In Nov'20, diesel production exceeded consumption by 2.5mmt while net exports stood at 2.2mmt suggesting rise in diesel inventory by 0.24mmt MoM.

**Chart 21: Net diesel exports secular fall from 2.8 to 2.2mmt in Aug-Nov'20**



Source: PPAC, I-Sec research

**Chart 22: Diesel inventory up in Nov'20 with exports at 2.2mmt vs production surplus of 2.5mmt**



Source: PPAC, I-Sec research

### Petrol net exports marginally exceeded production surplus in Nov

In Nov'20, petrol production exceeded consumption by 0.66mmt while net exports stood at 0.74mmt suggesting marginal fall in petrol inventory by 0.08mmt MoM.

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