

Oil & Gas Sector

Sector Update

August 24, 2023

Buy Gas stocks as Refining sees mixed trend

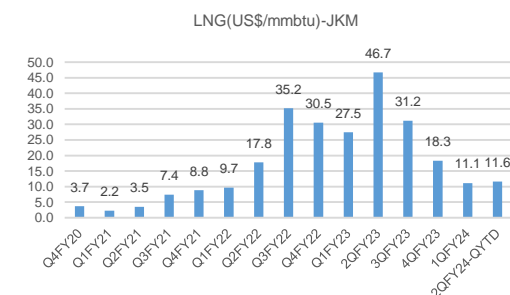
Key Points

- We prefer Gas sector stocks with gas major GAIL as our top pick (BUY - TP Rs139). Other 'Buys' include Gujarat Gas (BUY - TP Rs528), GSPL (BUY - TP Rs423) and MGL (BUY - TP Rs1,253). The Gas sector still enjoys YoY growth in volume, spurred by (a) increased supply of cheaper APM gas for CNG/Domestic PNG (b) higher share of domestic gas vs LNG – which has seen a decline in imports. We remain cautious on OMCs.
- The average diesel spreads have again surged above US\$20/bbl in July-Aug'23 after the steep correction seen in 4QFY23/1QFY24 (from multi-year highs seen in 1HFY23). This has further spiked in Aug'23-to-date from US\$29.5/bbl to US\$35.8/bbl.
- The average retail fuel margin has crashed to (-) Rs3.7/litre in Aug'23 first fortnight vs ~(+)Rs7.2/litre in 1QFY24 and ~(+)Rs2.5-3/litre in 4QFY23 – petrol/diesel retail margin per litre is estimated at (-)Rs1.4/(-)Rs4.5. The hit on earnings has been mitigated due to MoM decline of 5.3%/12.9% in MS/HSD consumption in July'23 and MoM decline of 5.2%/9.5% in the first fortnight of Aug'23.
- The 2QTDFY24 petrol/diesel/jet fuel spread per bbl is at US\$15.2/US\$22.6/US\$20.9 vs US\$15.5/US\$15.1/US\$15 in 1QFY24. More striking is the HSFO spread, which has increased (turned less negative) to (-)US\$4.4/bbl in 2QTDFY24 vs (-)US\$9.8/bbl in 1QFY24 and (-)US\$19.5/bbl in 2QFY23. As a result, we have seen the Singapore complex GRM (on Dubai crude) touching US\$8.8/bbl in 2QFY24 vs US\$4.7/bbl/US\$6.9/bbl in 1QFY24/2QFY23. Indicative Indian GRM (which varies depending on crude and product mix) has touched US\$5/bbl in 2QFY24 vs US\$2.9/bbl in 1QFY24 and US\$10.9/bbl in 2QFY23. Based on the latest spreads, the Indian GRM has surged further to US\$10.2/bbl.

Trend in Brent and crack spreads

US\$/bbl	1QFY24	2QFY24 (To date)	2QFY23	FY23
Brent	77.5	83.3	95.3	95.3
Dubai Fateh	77.6	83	98	91.9
MS spread	15.5	15.2	17.0	17.0
HSD spread	15.1	22.6	36.1	36.1

Source: Bloomberg; Nirmal Bang Institutional Equities Research



Stock	RATING	TP Rs
GAIL	BUY	139
GGL	BUY	528
GSPL	BUY	423
MGL	BUY	1253

LNG prices choppy pending resolution of labour dispute in Australia

The unions attached to LNG plants run by Woodside and Chevron in Australia have issued a strike notice; we understand talks are on. Any breakdown of talks could lead to a strike from next week, which puts ~10% of global LNG trade at risk. Asian and European LNG prices have rallied in the last one month on this news while the heat-wave has increased power demand. Winter demand, especially in Europe, could be managed based on the EU gas storage touching 90% well ahead of schedule. But some industry watchers believe that a colder-than-expected winter could deplete the EU LNG stocks and pose an upside risk to spot LNG prices. At the same time, sluggish demand in China and the global economic slowdown could cap any rally in spot LNG prices well below the peaks touched last winter. For the Indian Gas sector, this is unlikely to be a major concern on account of: the likely increase in offshore gas supply from RIL/ONGC's KG fields in the interim and the eventual ramp-up in Bio Gas (based on contracts awarded as per "SATAT" scheme) in the longer term.

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Russian crude impact may be waning until the following pans out: (a) Russia has surplus oil to boost exports and (b) the discount for Russian oil vs benchmarks, which has dwindled lately, widens again.

Exhibit 1: Retail margins under pressure of late

	1QFY24	June 2 nd Fortnight	July 1 st Fortnight	July 2 nd Fortnight	August 1 st Fortnight	Latest as on 21-08-2023
	US\$/bbl	US\$/bbl	US\$/bbl	US\$/bbl	US\$/bbl	US\$/bbl
Oil price	78.1	75.4	78.2	82.5	87.2	85.5
MS Crack spread	15.5	13.8	11.4	17	18.3	18.8
HSD Crack spread	15.1	18.2	17	25.6	29.7	35.8
MS/HSD retail margin Rs/litre						
MS	5.2	7.7	7.3	2.3	-1.4	-1
HSD	7.9	7.8	6.9	0.5	-4.5	-7
Blended margin Rs/litre	7.2	7.8	7	0.9	-3.7	-5.5

Source: Bloomberg, Nirmal Bang Institutional Equities Research

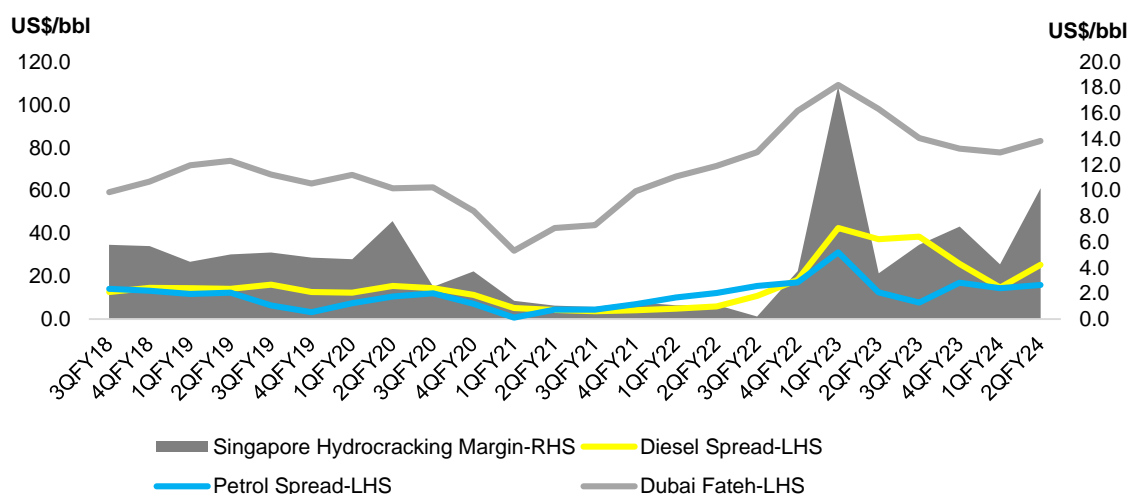
Exhibit 2: Retail margin scenario vs pump price hike

	Latest	Price hike -1	Price hike -2	Price hike -3	Price hike -4	Price hike -5	Price hike -6
	US\$/bbl	US\$/bbl	US\$/bbl	US\$/bbl	US\$/bbl	US\$/bbl	US\$/bbl
Oil price	85.5	85.5	85.5	85.5	85.5	85.5	85.5
MS crack spread	18.8	18.8	18.8	18.8	18.8	18.8	18.8
HSD crack spread	35.8	35.8	35.8	35.8	35.8	35.8	35.8
MS/HSD retail margin Rs/litre							
MS	-1.0	0.0	1.0	2.0	3.0	4.0	5.0
HSD	-7.0	-6.0	-5.0	-4.0	-3.0	-2.0	-1.0
Change in price Rs/litre							
MS	0.0	1.0	2.0	3.0	4.0	5.0	6.0
HSD	0.0	1.0	2.0	3.0	4.0	5.0	6.0
Blended margin Rs/litre	-5.5	-4.5	-3.5	-2.5	-1.5	-0.5	0.5

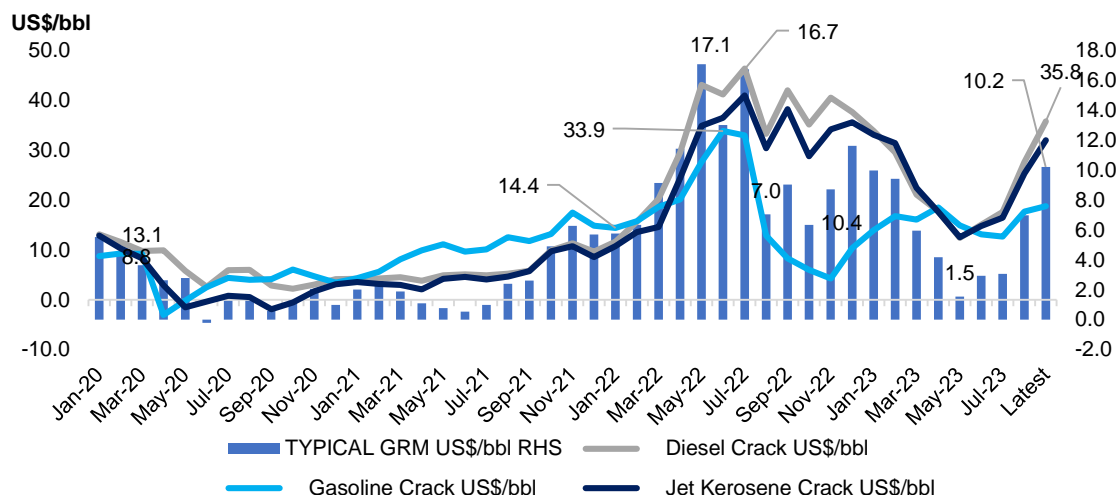
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Hit on pump margins under rising crude and product spread:

- (1) US\$1/bbl increase in crude implies – Rs0.52/litre hit
- (2) US\$1/bbl increase in MS/HSD spread implies - Rs0.52/litre hit. Both 1 and 2 taken together lead to a larger hit of Rs1.04/litre
- (3) USD-INR depreciation impact: Rs1 depreciation implies Rs0.76 hit on pump margins. 1, 2 and 3 taken together imply an even larger hit of Rs1.81/litre

Exhibit 3: Singapore complex refining margin and fuel spread trend


Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 4: Indicative Indian GRMs chart


Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 5: India's segment-wise monthly gas consumption trend – mmscmd

Segment	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23
Fertiliser	55.3	54.3	55.8	56.7	56.5	51.9	54.1	57.4	53.3	53.7	57.4	53.8	53.7
Power	21.3	21.2	20.5	19.5	21.6	21.8	21.2	21.1	21.0	24.4	26.5	27.6	23.3
City gas	34.8	34.8	32.0	30.4	31.9	32.3	32.0	34.4	35.4	34.7	34.6	34.8	35.6
Refinery	12.2	11.5	8.9	8.0	10.0	9.5	9.8	9.9	10.1	11.2	15.3	14.4	15.9
Petchem	6.2	4.0	4.9	3.3	4.4	6.1	5.6	5.5	8.0	8.5	8.0	5.6	7.1
Other+ losses	35.4	34.5	33.6	33.8	32.9	32.2	35.4	32.7	35.9	34.9	34.6	43.3	44.0
Total	165.1	160.2	155.7	151.7	157.3	153.8	158.1	161.0	163.7	167.4	176.4	179.5	179.5

Source: PPAC, Nirmal Bang Institutional Equities Research

Exhibit 6: India's segment-wise monthly gas consumption growth rate YoY (%)

Segment Growth YoY %	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23
Fertiliser	10.4	6.3	16.7	12.4	8.0	-2.0	13.0	30.7	5.6	5.4	3.3	2.6	-2.7
Power	-20.6	-33.6	-26.6	-32.0	-0.9	8.3	12.3	8.4	4.5	31.8	31.5	35.7	9.2
City gas	8.9	25.9	-9.8	-11.5	-11.7	-13.7	-11.0	-8.4	-7.7	1.1	2.7	-1.6	2.4
Refinery	-33.7	-14.4	-36.0	-40.8	-19.0	-17.6	-3.2	-19.0	-20.1	-12.7	27.8	12.8	30.5
Petchem	-25.2	8.8	-37.7	-57.4	-43.4	-27.1	-29.4	-29.9	43.6	197.7	30.0	90.9	13.5
Other+ losses	0.9	0.8	-7.0	-5.4	-5.3	-5.3	4.4	-2.2	15.1	15.1	4.4	41.5	24.4
Total	-4.3	-1.9	-7.9	-11.0	-4.7	-6.4	2.2	4.2	3.4	11.8	9.8	16.2	8.8

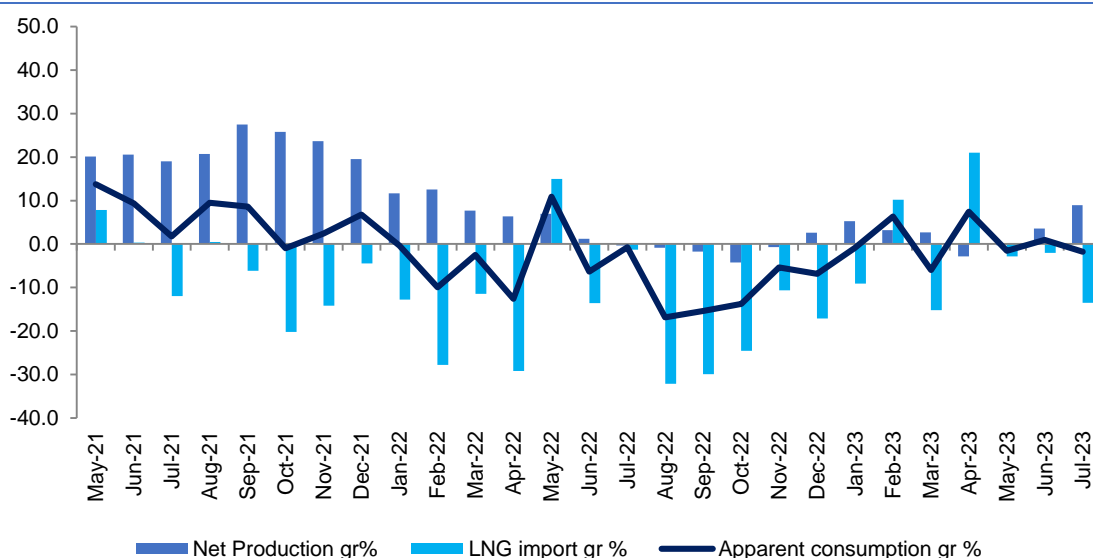
Source: PPAC, Nirmal Bang Institutional Equities Research

Exhibit 7: Trend in Indian gas demand across segments

Segment	Vol. (mmscmd)		Growth YoY (%)	Vol. (mmscmd)		Growth YoY (%)	Segment share %			
	FY22	FY23		1QFY23	1QFY24		FY22	FY23	1QFY23	1QFY24
Fertilizer	49.5	53.2	7.3	53.0	55.0	3.8	30.0	33.0	34.2	31.5
Power	24.5	22.3	-8.7	19.7	26.2	33.0	14.8	13.9	12.7	15.0
Citygas	33.4	33.0	-1.2	34.5	34.7	0.7	20.2	20.5	22.2	19.9
Refinery	14.6	10.7	-26.4	12.5	13.6	9.0	8.8	6.7	8.1	7.8
Petchem	7.8	5.4	-31.6	4.0	7.4	84.3	4.8	3.3	2.6	4.2
Other+ losses	35.4	36.3	2.7	31.4	37.6	19.7	21.4	22.6	20.2	21.5
Total	165.1	160.8	-2.6	155.0	174.5	12.5	100.0	100.0	100.0	100.0

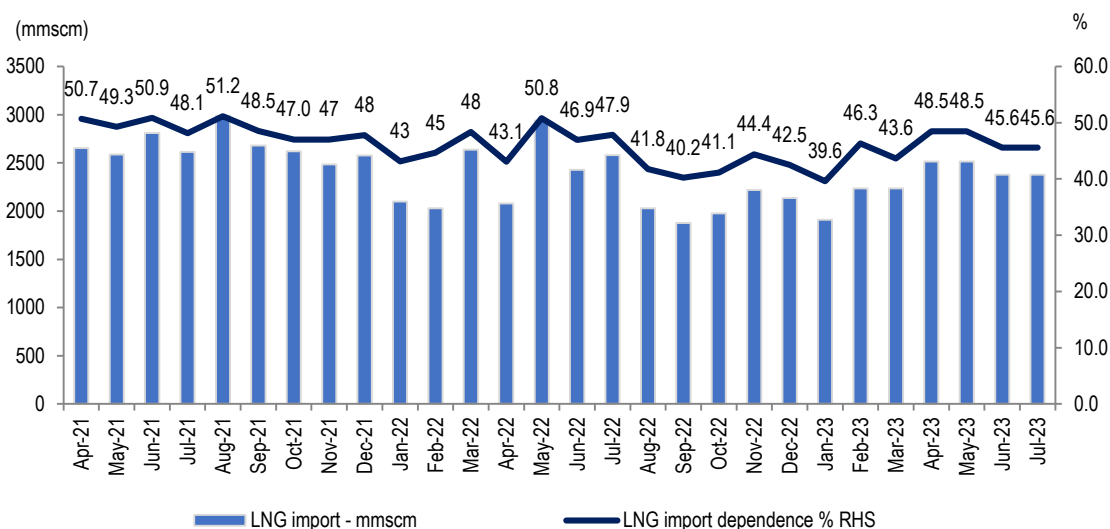
Source: PLNG, Nirmal Bang Institutional Equities Research

Exhibit 8: YoY growth in India's monthly gas production, consumption and LNG imports



Source: PPAC, Nirmal Bang Institutional Equities Research

Exhibit 9: Trend in India's LNG import dependence



Source: PPAC, Nirmal Bang Institutional Equities Research;

Note: based on gross imports data- this is different from the total LNG used as per segment consumption detail from PPAC

Exhibit 10: LNG share in Indian gas consumption across sectors

LNG Share (%)	1QFY23	1QFY24	Jul-22	Jul-23	FY22	FY23
Fertilizer	72.15	85.47	75.07	84.93	68.4	78.9
Power	27.11	31.36	13.46	29.78	29.9	15.1
Citygas	41.08	21.13	42.12	24.00	43.0	26.3
Refineries	62.42	66.75	57.82	56.50	73.9	62.3
Petchem	75.82	55.29	67.88	40.18	88.3	57.0
others Incl losses	28.20	21.30	22.99	17.61	25.4	18.9
India gas consumption	49.94	47.99	47.48	44.93	49.8	43.9

Source: PPAC, Nirmal Bang Institutional Equities Research

Petroleum data

Exhibit 11: Indian petroleum demand trend – latest month and YTD

Products (‘000 tonnes)	Jul-23	Chg YoY %	Chg MoM %	Chg/Jul-20	YTD FY24	Chg YoY %	Chg vs YTD FY 20 %
LPG	2,389	-0.6	7	5.5	9,123	2	4.4
Naphtha	1,067	-7.3	9.4	-16.7	4,312	10.5	-1
MS	2,985	6.3	-5.3	32	12,363	6.7	69.7
ATF	664	14.7	3.4	184.5	2,633	13.7	324.1
SKO	50	116.8	-2.4	-68.5	173	-16.9	-72.6
HSD	6,893	3.9	-12.9	25.1	30,835	7.1	50
LDO	63	4.6	-1.7	6.8	256	14.1	17.1
Lubricants & Greases	307	-1.3	-4.2	-7.6	1,224	0.2	35.1
FO & LSHS	569	2	9.4	12.5	2,273	4.3	27
Bitumen	531	55.7	-29.7	36	3,027	18	57.8
Petroleum coke	1,568	-6.1	-3.2	-4	6,379	3.5	0.9
Others	1,001	-17.5	-10.5	2.8	4,239	-15.1	35.5
TOTAL	18,088	1.9	-6.6	15.9	76,836	5.1	36.1

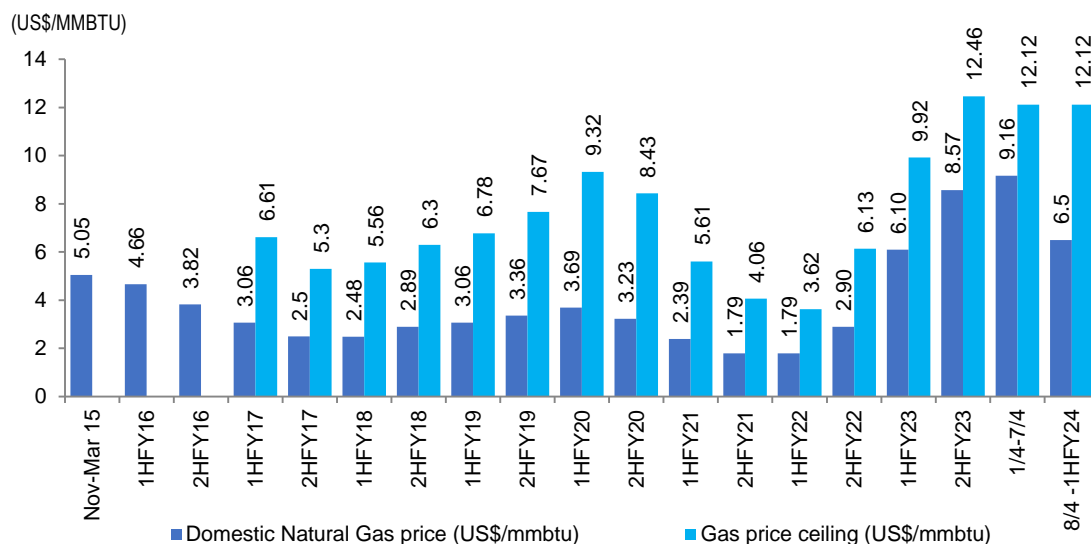
Source: PPAC, Nirmal Bang Institutional Equities Research

Exhibit 12: Indian petroleum demand trend – YTD and quarterly trend

		Ch YoY%							
	1QFY24 (000'tonne)	2QFY24 (QTD)	Q1FY24	FY23 ch YoY%	FY22 ch YoY%	FY21 ch YoY%	FY20 ch YoY%	CAGR % FY18-23	CAGR % FY10-20
LPG	6,734	-0.6	3.0	0.6	2.7	3.5	7.1	4.1	7.3
Naphtha	3,244	-7.3	18.0	-14.2	-0.7	0.3	1.0	-1.1	3.5
MS	9,377	6.3	6.8	13.4	10.5	-6.8	6.0	6.0	8.9
ATF	1,969	14.7	13.3	47.1	35.1	-53.7	-3.6	-0.7	5.6
SKO	123	116.8	-33.5	-67.3	-16.8	-25.1	-30.7	-33.8	-12.7
HSD	23,942	3.9	8.0	12.0	5.4	-12.0	-1.1	1.2	3.9
LDO	193	4.6	17.6	-29.1	21.1	34.3	5.0	6.7	3.2
Lubricants & Greases	917	-1.3	0.8	-15.5	28.0	-7.8	4.5	-0.3	4.2
FO & LSHS	1,703	2.0	5.2	12.5	3.0	-4.9	-4.0	0.7	-5.9
Bitumen	2,496	55.7	12.2	-0.7	10.5	5.7	0.2	5.1	3.1
Petroleum coke	4,811	-6.1	7.0	23.7	-21.0	-15.7	1.7	-7.0	12.7
Others	3,238	-17.5	-14.3	20.2	20.9	-4.8	-3.1	13.5	7.7
TOTAL	58,748	1.9	6.1	9.2	4.6	-9.2	0.6	1.5	4.5

Source: PPAC, Nirmal Bang Institutional Equities Research

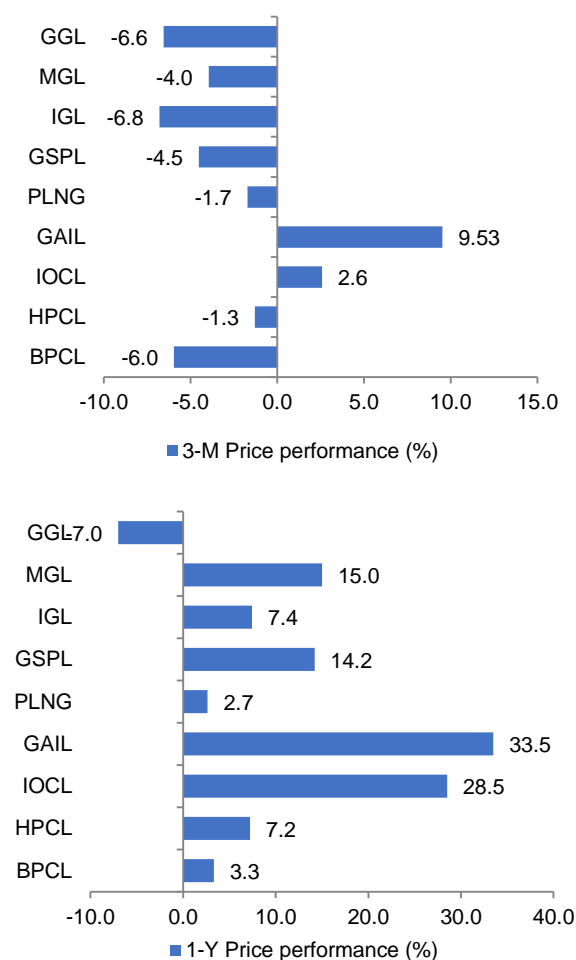
Exhibit 13: Trend in domestic natural gas price and gas price ceiling for HT/DW



Source: PPAC, Nirmal Bang Institutional Equities Research.

Note: DW- Deep Water, HT- High Temperature. HTHP gas ceiling price has been fixed at US\$12.12/mmbtu for the entire 1HFY24. With respect to Domestic APM gas the prices till 7th April, 2023 were notified at US\$9.16/mmbtu. After which new gas policy norm became applicable. As per this norm APM gas price will be 10% average of last months slope of Indian basket crude oil subject to ceiling of US\$6.5/mmbtu. At current crude prices ceiling is applicable. Also as per our crude assumption this ceiling should be applicable for the entire 1H FY24.

Exhibit 14: Stock price performance



Source: Money Control, Nirmal Bang Institutional Equities Research

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