

FIRST LIGHT

07 September 2020

RESEARCH

Oil & Gas

Gas consumption declines in Jul'20

SUMMARY

Oil & Gas

Natural gas consumption in July declined to 144mmscmd (-7% YoY, -16% MoM), as the reinstatement of Covid-19 lockdowns across states hampered demand. Refineries led the sharp drop in consumption (-34% MoM). The CGD segment also continued to struggle (-46% YoY), with CNG volumes being affected the most by shutdowns across major cities. Offtake from the fertiliser and power segments remains robust, driven by lower LNG prices.

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TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	4,000
Cipla	Buy	850
GAIL	Buy	155
Petronet LNG	Buy	310
Tech Mahindra	Buy	910

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,600
Chola Investment	Buy	280
Laurus Labs	Buy	1,200
Transport Corp	Buy	270
Mahanagar Gas	Sell	750

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.63	(1bps)	8bps	(92bps)
India 10Y yield (%)	5.90	(2bps)	6bps	(68bps)
USD/INR	73.48	(0.6)	2.0	(2.3)
Brent Crude (US\$/bbl)	44.07	(0.8)	(0.2)	(27.7)
Dow	28,293	(2.8)	6.1	5.9
Shanghai	3,385	(0.6)	0.5	13.4
Sensex	38,991	(0.2)	5.6	6.4
India FII (US\$ mn)	2 Sep	MTD	CYTD	FYTD
FII-D	(58.1)	(78.0)	(15,168.0)	(5,408.5)
FII-E	168.2	247.0	5,054.3	11,657.3

Source: Bank of Baroda Economics Research

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OIL & GAS

04 September 2020

Gas consumption declines in Jul'20

Intermittent lockdowns impact consumption: Natural gas consumption in July declined to 144mmscmd (-7% YoY, -16% MoM), as the reinstatement of Covid-19 lockdowns across states hampered demand. Refineries led the sharp drop in consumption (-34% MoM). The CGD segment also continued to struggle (-46% YoY), with CNG volumes being affected the most by shutdowns across major cities. Offtake from the fertiliser and power segments remains robust, driven by lower LNG prices.

B2B demand to stay robust: With low LNG prices (as oil prices remain in a narrow range around US\$ 45/bbl), price-sensitive segments such as power could sustain their high consumption of gas. Fertiliser plants, the largest consumers of natural gas, continue to report strong offtake – in keeping with our expectations. High agriculture output coupled with low spot LNG prices (gas being 75-80% of cost) would continue to fuel gas demand.

Domestic gas production remains muted: Gas production declined 10% YoY to 75mmscmd in July. ONGC and Oil India's output decreased to 62.1mmscmd (-8% YoY) and 6.5mmscmd (-14% YoY) respectively. ONGC's production ramp-up remains hampered by force majeure imposed by many of its consumers (mostly CGD). Production from domestic fields could revive by Q4FY21, once demand normalises.

GAS CONSUMPTION TREND

(mmscmd)	Jul'20	Jul'19	YoY (%)	Jun'20	MoM (%)	Q1FY21	Q1FY20	YoY (%)
Fertiliser	47.5	42.0	13.1	52.5	(9.4)	48.7	40.2	21.1
Power	32.0	30.1	6.4	35.4	(9.4)	30.2	36.7	(17.7)
CGD	16.4	30.3	(45.8)	16.9	(2.8)	16.1	25.8	(37.6)
Other Industrials:	48.0	52.7	(8.9)	66.5	(27.8)	57.8	48.6	18.9
Refineries	21.3	20.6	3.3	32.4	(34.3)	28.1	20.8	35.3
Petrochemicals	9.3	10.2	(9.1)	6.8	35.6	8.6	9.7	(11.2)
Miscellaneous	17.4	21.9	(20.4)	27.3	(36.1)	21.1	18.1	16.3
Total	144.0	155.1	(7.2)	171.2	(15.9)	152.9	151.4	1.0

Source: PPAC, BOBCAPS Research

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KEY RECOMMENDATIONS

Ticker	Target	Rating
PLNG	310	BUY
IGL	440	REDUCE
GUJGA	335	ADD
GSPL	310	BUY
MGL	750	SELL
GAIL	155	BUY

Price & Target in Rupees

GAS CONSUMPTION

(mmscmd)	Jul'20	Jul'19	YoY (%)
Fertiliser			
Domestic	16.4	16.7	(2.3)
R-LNG	31.2	25.3	23.3
Total	47.6	42.0	13.1
Power			
Domestic	20.9	20.0	4.4
R-LNG	11.2	10.1	10.5
Total	32.0	30.1	6.4
CGD			
Domestic	10.0	15.9	(37.0)
R-LNG	6.4	14.4	(55.5)
Total	16.4	30.3	(45.8)
Other Industrials			
Domestic	11.7	16.2	(27.7)
R-LNG	36.3	36.5	(0.6)
Total	47.8	52.7	(8.9)
Total Consumption	144.0	155.1	(7.2)
Total Domestic	58.9	68.8	(14.4)
Total R-LNG	85.0	86.3	26.0

Source: PPAC, BOBCAPS Research



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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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