

OIL & GAS

15 July 2019

Petroleum consumption remains muted in May'19

Signs of economic slowdown

- India's total petroleum product consumption remained subdued at 18.6mmt (+1.0% YoY, +4.4% MoM) in May.
- Petrol consumption growth revived to 11.3% YoY but diesel remained tepid at 3.1% (<5% YoY every month since Feb'19), a clear sign of economic slowdown.
- LPG consumption growth has slowed significantly to 0.4% YoY (after consistently averaging in double-digits until Mar'19), mostly due to a high base effect. Kerosene offtake continued to decline (-5.3% YoY).
- Petcoke consumption saw a steep drop (-25% YoY), which likely reflects a slowdown in cement production – another key economic indicator. Offtake of lubricants (-5.5%), FO (-4.5% YoY) and bitumen (-8.4% YoY) slipped as well.
- ATF consumption growth has slowed to 2.7% YoY.

Implications

- OMCs' gross marketing margins on petrol and diesel have been trending lower due to the rising oil prices. Coupled with the recent hike in excise duties and volume growth slowdown, the earnings outlook for their marketing business remains cloudy.
- The slowdown in diesel, ATF and other industrial products points towards a sustained economic downturn.
- We prefer IOCL in the energy space considering that it has the lowest exposure to marketing business earnings (<20% of EBITDA).

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KEY RECOMMENDATIONS

Ticker	Price	Target	Rating
IOCL IN	146	205	BUY
BPCL IN	346	285	SELL
HPCL IN	286	210	SELL

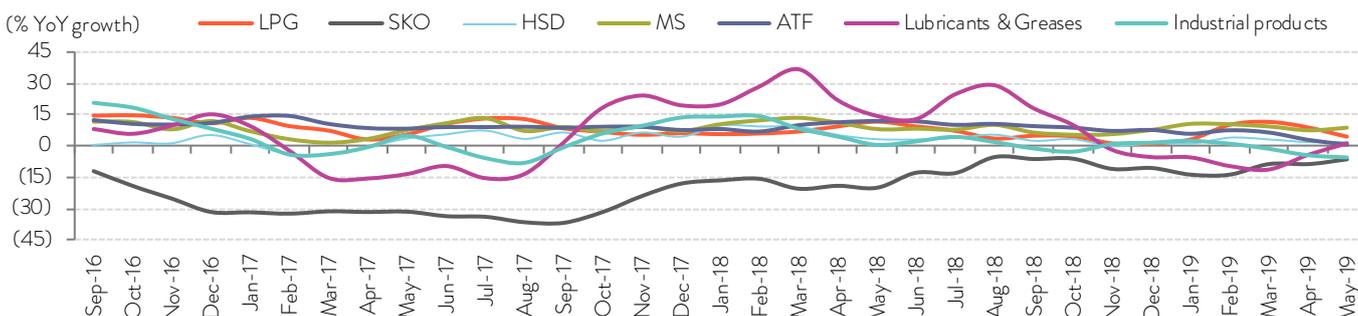
Price & Target in Rupees

PETRO PRODUCT CONSUMPTION

('000 mt)	May'19	YoY (%)	FY19	YoY (%)
LPG	2,058	0.4	24,908	6.7
SKO	268	(5.3)	3,457	(10.1)
HSD	7,781	3.1	83,391	2.9
MS	2,735	11.3	28,285	8.1
Naphtha	1,085	7.7	14,339	11.2
ATF	698	2.7	8,320	9.0
LDO	49	14.4	596	13.8
Lubes & Greases	308	(5.5)	3,959	1.9
FO & LSHS	496	(4.5)	6,512	(3.1)
Bitumen	660	(8.4)	6,747	10.9
Petcoke	1,468	(25.3)	22,086	(13.9)
Others	1,006	21.0	10,189	22.2
Total	18,614	1.0	212,788	3.2

Source: PPAC

FIG 1 – ROLLING QUARTERLY CONSUMPTION GROWTH



Source: PPAC, BOBCAPS Research

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