

## OIL &amp; GAS

03 November 2020

## Gas consumption from power sector hits record high

**Third consecutive fall in overall gas demand this year...:** Natural gas consumption declined to 142.6mmscmd (-8% YoY, -4% MoM) in September as lockdowns across states hampered demand. Barring power (47.5mmscmd, +55% YoY) and refineries (21.3mmscmd, +14% YoY), offtake plunged across sectors, viz. fertiliser (26.9mmscmd, -41% YoY), CGD (26.1mmscmd, -13% YoY), petrochemicals (5.7mmscmd, -44% YoY) and others (15.1mmscmd, -23% YoY).

**...but power sector consumption hits record high:** Power sector offtake has increased 54% MoM as record-low gas prices made the fuel more attractive than coal. We expect this trend to continue for the rest of the year. The change in demand pattern may give some relief to LNG gas importers who had otherwise witnessed a drop in consumption from other sectors as Covid-19 prompted a countrywide lockdown for several months.

LNG imports have remained largely stable for the third consecutive month whereas volatility in domestic consumption has continued with a 16% YoY decline in September.

**Domestic gas production continues to fall:** Gas production continued its declining trajectory to 76.5mmscmd (-11% YoY) in September. ONGC and Oil India's output declined to 59.4mmscmd (-7% YoY) and 6.7mmscmd (-13% YoY) respectively. ONGC's production ramp-up remains hampered by force majeure imposed by many of its consumers (mostly CGD). Exploration and production prospects look bleak as producers are likely to refrain from increasing output in the current low-price regime (aggravated by a 25% cut in domestic gas price from Oct'20).

### GAS CONSUMPTION TREND

(mmscmd)	Sep'20	Sep'19	YoY (%)	Aug'20	MoM (%)	H1FY21	H1FY20	YoY (%)
Fertiliser	26.9	45.3	(40.6)	47.6	(43.5)	44.7	42.2	5.9
Power	47.5	30.6	55.1	30.9	53.9	33.5	33.4	0.3
CGD	26.1	30.0	(13.0)	20.8	25.6	18.6	28.0	(33.5)
Other Industrials:	42.1	48.6	(13.4)	49.5	(15.0)	52.2	50.6	3.1
Refineries	21.3	18.8	13.5	21.2	0.8	24.7	20.5	20.4
Petrochemicals	5.7	10.1	(44.1)	9.7	(41.6)	8.4	10.0	(15.6)
Miscellaneous	15.1	19.6	(23.3)	18.6	(19.2)	19.1	20.1	(5.2)
<b>Total</b>	<b>142.6</b>	<b>154.5</b>	<b>(7.7)</b>	<b>148.8</b>	<b>(4.2)</b>	<b>149.0</b>	<b>154.2</b>	<b>(3.4)</b>

Source: PPAC, BOBCAPS Research

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### KEY RECOMMENDATIONS

Ticker	Target	Rating
PLNG IN	310	BUY
IGL IN	440	REDUCE
GUJGA IN	335	ADD
GUJS IN	310	BUY
MAHGL IN	750	SELL
GAIL IN	155	BUY

Target in Rupees

### GAS CONSUMPTION

(mmscmd)	Sep'20	Sep'19	YoY (%)
<b>Fertiliser</b>			
Domestic	17.0	19.1	(11.3)
R-LNG	9.9	26.1	(62.0)
<b>Total</b>	<b>26.9</b>	<b>45.3</b>	<b>(40.6)</b>
<b>Power</b>			
Domestic	19.9	19.9	(0.2)
R-LNG	27.6	10.7	157.9
<b>Total</b>	<b>47.5</b>	<b>30.6</b>	<b>55.1</b>
<b>CGD</b>			
Domestic	14.5	15.9	(9.2)
R-LNG	11.7	14.1	(17.3)
<b>Total</b>	<b>26.1</b>	<b>30.0</b>	<b>(13.0)</b>
<b>Other Industrials</b>			
Domestic	7.2	15.0	(51.7)
R-LNG	34.8	33.6	3.7
<b>Total</b>	<b>42.1</b>	<b>48.6</b>	<b>(13.4)</b>
<b>Total Consumption</b>	<b>142.6</b>	<b>154.5</b>	<b>(7.7)</b>
<b>Total Domestic</b>	<b>58.6</b>	<b>70.0</b>	<b>(16.3)</b>
<b>Total R-LNG</b>	<b>84.0</b>	<b>84.5</b>	<b>(0.6)</b>

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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