

## OIL &amp; GAS

03 September 2019

**Jul'19 natural gas consumption robust**

**Gas consumption robust on higher R-LNG demand...:** Natural gas consumption in Jul'19 increased 4.8% YoY to 155.1mmscmd, as offtake increased across sectors (with the exception of power) – CGD (30.3mmscmd, +19.6% YoY), other industrials (52.7mmscmd, +5.6% YoY), fertilisers (42mmscmd, +3.7% YoY) and power (30.1mmscmd, –6.6% YoY).

Price-inelastic sectors such as fertiliser and CGD constitute 47% of total gas consumption. CGD was the biggest swing factor, improving by ~5mmscmd YoY to 30mmscmd (mostly driven by small industrials in Gujarat). Our recent management interactions with Gujarat Gas (GUJGA) and Gujarat State Petronet (GUJS) indicate that these levels may be sustainable over FY20.

**...due to low spot R-LNG prices:** Spot LNG prices remain depressed at ~US\$ 4/mmbtu currently, trending well below long-term LNG contract prices of ~US\$ 8/mmbtu. The availability of new R-LNG capacities at Dahej (from Jun'19) offers more flexibility to LNG buyers for spot imports. The start-up of Mundra (from Sep'19) and restart of Dabhol terminal (post monsoons) could push up LNG volumes in H2FY20 as well.

**Domestic production stays muted:** Gas production increased a mere 0.2% YoY to 87.7mmscmd during Jul'19. Although there was a rise in production from private players/JVs (15mmscmd, +5% YoY) and Oil India (7.6mmscmd, +2.2% YoY), overall output was muted as ONGC saw a decline to 65.3mmscmd (–1.1% YoY).

**GAS CONSUMPTION BREAKDOWN**

(mmscmd)	Jul'19	YoY (%)	MoM (%)	Q1FY20	YoY (%)
Fertiliser	42.0	3.7	(0.6)	40.2	(0.8)
Power	30.1	(6.6)	(32.0)	36.7	7.0
CGD	30.3	19.6	14.9	25.8	5.1
Other Industrials:	52.7	5.6	6.9	48.6	(1.3)
Refineries	20.6	4.2	(5.9)	20.8	3.5
Petrochemicals	10.2	2.9	10.8	9.7	8.6
Miscellaneous	21.9	8.1	20.3	18.1	(10.5)
<b>Total</b>	<b>155.1</b>	<b>4.8</b>	<b>(4.4)</b>	<b>151.4</b>	<b>1.8</b>

Source: PPAC, BOBCAPS Research

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**KEY RECOMMENDATIONS**

Ticker	Price	Target	Rating
GAIL IN	128	175	BUY
PLNG IN	266	350	BUY
IGL IN	334	425	BUY
MAHGL IN	826	870	ADD
GUJS IN	219	255	BUY
GUJGA IN	176	250	BUY

Price &amp; Target in Rupees

**GAS CONSUMPTION**

(mmscmd)	Jul'19	Jul'18	YoY (%)
<b>Fertiliser</b>			
Domestic	16.7	17.0	(1.5)
R-LNG	25.3	23.5	7.5
<b>Total</b>	<b>42.0</b>	<b>40.5</b>	<b>3.7</b>
<b>Power</b>			
Domestic	20.0	24.6	(18.7)
R-LNG	10.1	7.6	32.6
<b>Total</b>	<b>30.1</b>	<b>32.2</b>	<b>(6.6)</b>
<b>CGD</b>			
Domestic	15.9	13.8	14.7
R-LNG	14.4	11.5	25.6
<b>Total</b>	<b>30.3</b>	<b>25.3</b>	<b>19.6</b>
<b>Other Industrials</b>			
Domestic	16.2	12.9	25.8
R-LNG	36.5	37.0	(1.5)
<b>Total</b>	<b>52.7</b>	<b>49.9</b>	<b>5.6</b>
<b>Total Consumption</b>	<b>155.1</b>	<b>148.0</b>	<b>4.8</b>
<b>Total Domestic gas</b>	<b>68.8</b>	<b>68.3</b>	<b>0.7</b>
<b>Total R-LNG</b>	<b>86.3</b>	<b>79.6</b>	<b>8.3</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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