

Oil Marketing companies Preview

Industry Oil & Gas

Mounting macroeconomic pressure

19-Sep-18

RATING **NEUTRAL**

Rating Change 

Throughput(MT)	FY16	FY17	FY18
IOC	56.7	65.2	69.0
HPCL	17.2	17.8	18.3
BPCL	29.8	31.2	34.7

Sales(MT)	FY16	FY17	FY18
IOC	78.3	81.0	86.5
HPCL	34.2	35.2	36.9
BPCL	36.8	37.7	41.4

GRM(USD/BBL)	FY16	FY17	FY18
IOC	5.1	7.8	8.5
HPCL	6.7	6.2	7.4
BPCL	4.3	5.3	6.8

Rising crude oil prices- a major worry

- ❑ Rising crude oil prices has extended burden on the oil marketing companies in the last few months. Crude oil prices has surged by 13% YTD to USD 68.69/bbl whereas the Brent price has risen by 17% YTD to USD 77.98/bbl. High crude oil prices could lead to inventory gain in the coming quarter which is likely to be offset by the higher forex losses.
- ❑ US Sanctions on Iran will be effect from November 4, 2018 which may act as dampener for crude oil supply globally. Iran is India's third largest oil supplier after Iraq and Saudi Arabia. Crude imports from Iran have almost doubled in last couple of years. Upcoming Sanctions may result into sharp curtailment of Iran's exports. Import of crude oil in India has grown at CAGR of 4.5% over last 3 years.
- ❑ Petrol and Diesel prices have surged by 17% YTD to Rs. 81.91/Lt. and 23.7% to Rs. 73.72/Lt. respectively in Delhi. Government's unwillingness to cut excise and VAT charged on petrol and diesel could lead to some regulation in the pricing mechanism and subsidy sharing, which could cap realization in coming quarters for OMC's.

Effect of rising crude on OMC's

- ❑ All units of BPCL are operating at almost 100% utilization implying cap on strong volume growth going ahead. Management has planned a Kochi refinery shut down in Oct-Nov 2018 for optimization. This refinery is capable of processing high Sulphur crude which improves margins for the refinery. Post maintenance at Kochi refinery, refining margins is expected to expand to the extent of ~ USD 2/bbl over the next few quarters, however lower global distillate yields could offset the benefits reaped by processing high sulphur crude oil by Kochi refinery. This will exerts pressure on performance of the company in coming quarters.
- ❑ IOC's Paradip refinery ramp up is on cards and poised to boost profitability in coming quarters while other refineries are operating at optimum levels. Further management highlighted that Paradip refinery and Haldia Coker is likely to be commissioned in Nov. 2018 to have +ve impact on GRM in coming quarters. In City Gas Distribution segment, company has participated in 9th round of bidding and has placed bid for 57 GA's out of which the company has won in 18 GA's (including 9 in JV with Adani Gas and 2 in JV with Green Gas). These all developments are likely to have positive impact on earnings in long term but due to near term un-certainties, profitability of the company is likely to be offset by the lower distillate yields led by the sharp jump in the crude oil prices.
- ❑ HPCL is underway on major brown-field expansion plans such as Visakh refinery in Andhra Pradesh from 8.33 MTPA to 15 MTPA, Mumbai refinery is being expanded to 9.5 MTPA from current 7.5 MTPA at a cost of Rs 4,199 Cr., a new 9 MTPA refinery-cum-petrochemical complex at Pachpadra in Rajasthan and a petrochemical complex at Kakinada in Andhra Pradesh. These projects are likely to be commissioned in 2020-22 at a cumulative cost of Rs. 20,000 Cr. These projects give us volume growth visibility in long run. In near term GRM is likely to be impacted by the lower cracks in MS, bitumen, higher fuel and losses.

View:

We remain cautious on Oil marketing companies' margins led by the adverse macro environment impacted by higher crude prices, lower refining margins due to falling Middle-East yields and rising fuel losses. Rising petrol and fuel prices may bring price regulation mechanism into play and could possess a significant risk for the upside revision in prices of crude products in coming months. Considering these arguments, we maintain our Neutral rating on OMC's.

Research Analyst

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Oil Marketing Companies

Exhibit: Gross Refining Margins (USD/BBL)

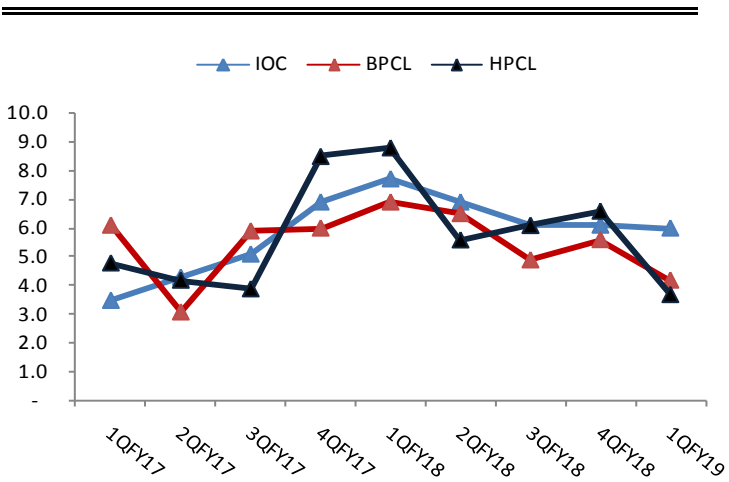


Exhibit: Debt level (Rs. Crores)

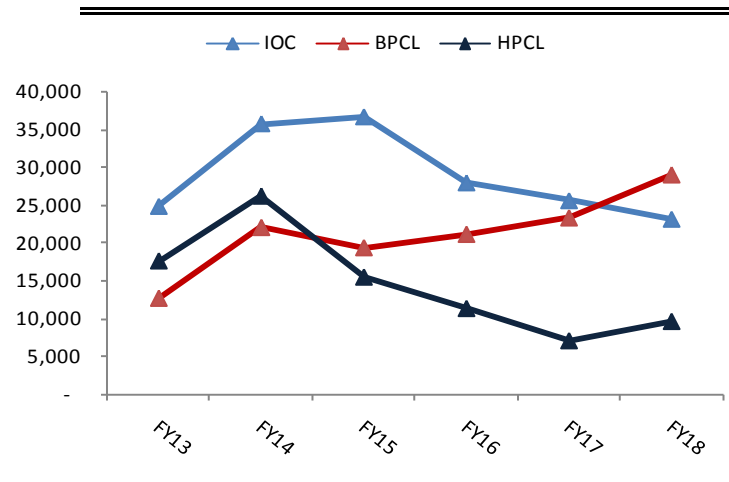


Exhibit: ROE %

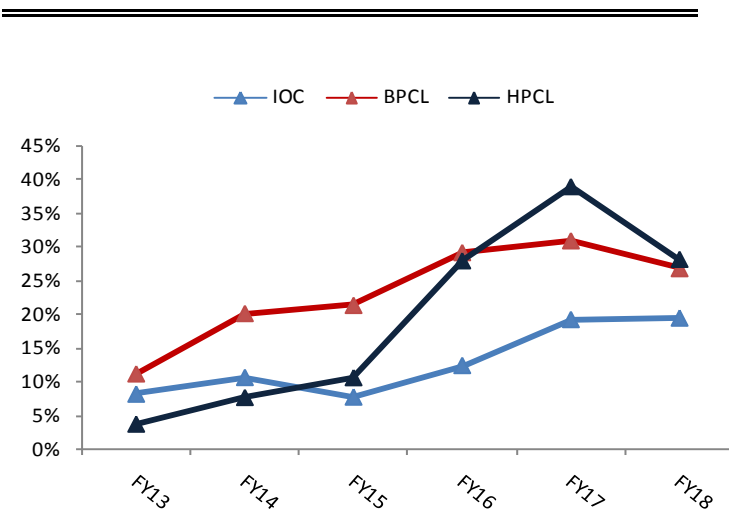


Exhibit: EV/EBITDA

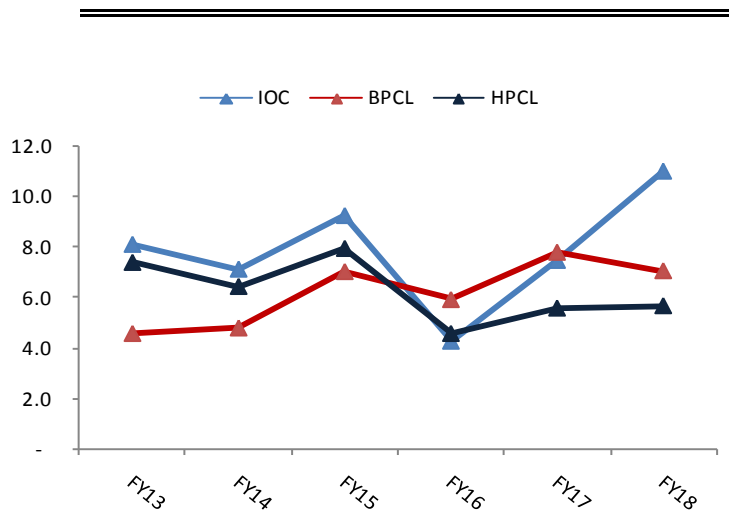


Exhibit: Price/Book Value

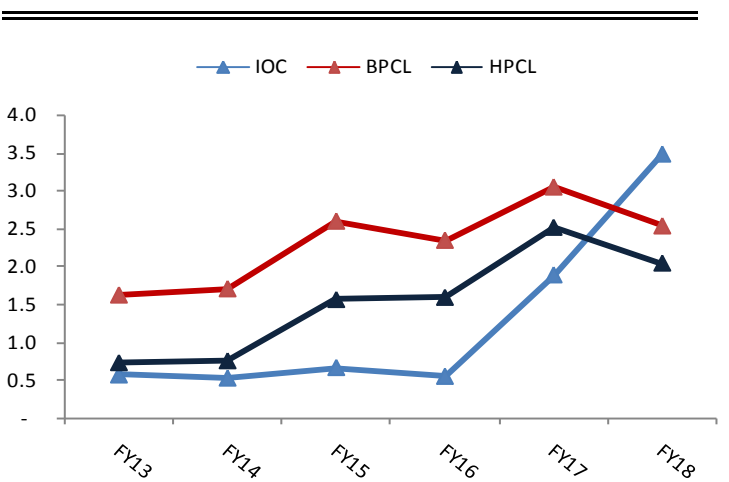
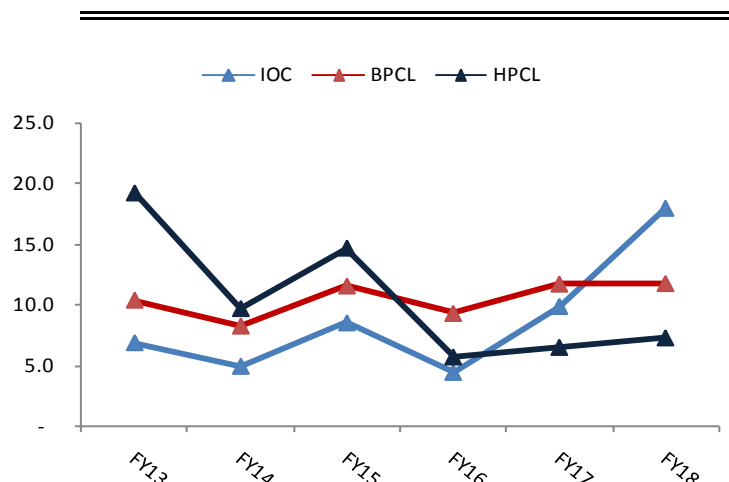


Exhibit: Price/Earnings



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