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Oil & Refineries

Inventory gains

GRMs of Indian players are expected to moderate in the next fiscal year

Public sector oil marketing companies (OMCs) Hindustan Petroleum Corporation (HPCL) and Indian Oil Corporation (IOCL) reported strong numbers in the December 2017 quarter on account of inventory gains in the marketing and refining segments. However, Bharat Petroleum Corporation (BPCL) reported weak numbers due to lower core margins because of ongoing stabilization and integration of expanded capacity at its Kochi refinery.

While strong inventory gains went hand in hand for IOCL and HPCL due to healthy core refining and marketing margins, inventory gains could not offset BPCL's weaker core margins.

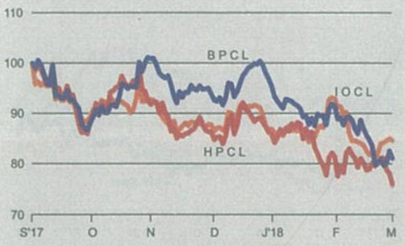
Brent crude oil prices increased 17.9% to US$ 61.4 per barrel in Q3 of the fiscal ending March 2018 (FY 2018) compared with the immediate previous quarter. It was up 24% compared with Q3 of FY 2017. The benchmark Singapore gross refining margins (GRMs) rose to US$ 7.2 per barrel in Q3 of FY 2018 from US$ 6.7 per barrel in Q3 of FY 2017 but fell from US$ 8.3 per barrel in Q2 of FY 2018.

Aggregate net sales of the eight oil refiners increased 18% to Rs 324457 crore in the quarter ended December 2017 over a year ago. An expansion of 150 basis points (bps) in the operating profit margins (OPM) to 11.1% resulted in 36% jump in operating profit (OP) to Rs 35940 crore. Other income (OI) fell 10% to Rs. 4273 crore. Profit after tax (Pat) spurted 30% to Rs 21785 crore.

Subsidized kerosene oil under-recovery stood at Rs 1209.34 crore in Q3 of FY 2018 compared with Rs 1599.32 crore a year ago and was fully compensated to PSU OMCs as budgetary support, leading to nil upstream (oil exploration) discount and nil net under-recovery. Under-recovery on diesel was only up to 18 October 2014. LPG under-recoveries are part of direct benefit transfer from Q1 of FY2016.

A mixed show

HPCL and IOCL reported strong numbers but BPCL saw weak performance due to lower core margins in the December 2017 quarter



Base=100 as on 1 September 2017

Consolidated net sales of Reliance Industries (RIL) rose 22% to Rs 102500 crore, while Pat increased 25% to Rs 9423 crore compared with Q3 of FY 2017. The increase in revenues was primarily on account of higher volumes due to the commencement of petrochemicals projects and increase in prices in the refining and petrochemical businesses. Exports of refined products from India jumped 21.3% to Rs 46151 crore compared with Rs 38038 crore in Q3 FY 2017. GRMs remained strong at US$ 11.6 per barrel, higher than US$ 10.8 in Q3 of FY2017, while quarterly crude throughput was 17.7 million tonnes (mt) in Q3 of FY 2018 compared with 17.8 mt in Q3 of FY2017.

IOCL's net sales were up 19% to Rs 109832.64 crore in Q3 of FY 2018. Refining throughput increased 11% to 18.232 mt over Q3 of FY 2017 and 13% over the previous quarter as Paradip refinery ramped up operations and capacity utilization of other refineries surged to 105% compared to 94% in Q3 of FY 2017. The GRMs were higher at US $ 8.28 per barrel compared with US$ 7.36 per barrel in Q3 of FY 2017. Pat surged 97% to Rs. 7883.22 crore. Paradip refinery's capacity utilization in Odisha stood at 93% compared with 97% in Q2 of FY2018

BPCL, unlike peers, reported weak profit in Q3 of FY 2018, driven by lower-than-expected GRMs despite strong crude throughput and sales volume growth. Standalone net sales grew 13% to Rs 60616.36 crore. Crude throughput increased 7% to 7.27 mt, led by higher utilization of the Kochi refinery (93% utilisation in Q3 of FY2018 from 86.5% in Q2 of FY2018), while sales volumes were 9% higher at 10.65 mt. As the OPM slipped 90 bps to 5.3%, OP fell 4% to 3188.24 crore. Interest cost was 48% higher at Rs 200.2 crore. Pat decreased 6% to Rs 2143.74 crore. The GRMs were higher at US$ 7.89 a barrel as against US$ 5.9 in Q3 of FY 2017. The Kochi refinery has stabilized now and is poised for improvement in GRMs from Q4 of FY 2018.

HPCL's Pat jumped 23% to Rs 1949.69 crore, led by higher GRMs at US$ 9 per barrel in Q3 of FY 2018 (including inventory gain of US$ 3.4 per barrel) compared with GRMs of US$ 6.4 per barrel in Q3 of FY2017 (including inventory loss of US$ 3.4 per barrel). Net sales increased 18% to Rs 57474.25 crore. Crude throughput was down 3% to 4.52 mt, while petroleum product sales volumes rose 2% to 9.44 mt.

Higher margins

Refinery Sector Aggregates

	201712(3)	201612(3)	VAR (%)
Sales	324457	275678	18
OPM (%)	11.1	9.6	
Operating Profit	35940	26423	36
Other Income	4273	4733	-10
PBDIT	40213	31156	29
Interest	2256	2397	-6
PBDT	37957	28759	32
Depreciation	5804	4984	16
Profit before Tax	32153	23775	35
Tax	10368	7041	47
Net Profit	21785	16734	30

Figures in Rs crore.
Source: Capitaline Databases

Outlook

The GRMs of Indian refiners are expected to moderate in FY2019 from the firm levels in H1 of FY2018 and FY2017, primarily driven by lower inventory gains as oil price rally subsides. The crack spreads on light distillates are likely to see a downward bias, considering the rising proportion of the US shale production that is more favorable for the production of light distillates. Thus, the supply of light distillates is likely to increase.

Nonetheless, Indian refiners are unlikely to witness a sharp fall in GRMs, considering their improved refinery complexity that will continue to lead to better distillate yields, higher energy efficiency and optimization of product slate. Stable demand for the bulk of petroleum products in India such as petrol and diesel is likely to provide a cushion to the pressure on the GRMs. ■