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INDIAN REFINING & MARKETING INDUSTRY

Refining margins to remain under pressure

AUGUST 2021

Overview

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The core GRMs for majority of the refineries are expected to improve with demand uptick. However, any further wave of covid-19 pandemic and lockdown measures remains a key concern

- The global liquids consumption is not expected to recover to pre-Covid levels by 2022.
- About 1.5 mbd refining capacity would be added over CY2021-2022. Refinery throughput in CY2022 is expected to remain below CY2018 levels leading to utilization below long-term averages
- Singapore GRMs are expected to improve but remain muted owing to the global supply overhang
- Gasoline cracks have improved significantly owing to the increase in demand but gasoil and jet/kero cracks remain much below their long-term averages
- With diesel accounting for close to 40% of the refining product slate in India, it remains the major influencer of the GRMs of domestic refiners
- While gasoline and naphtha demand is recovering, jet/kero demand is expected to remain subdued and would recover once a large proportion of the population is globally vaccinated
- The GRMs of domestic refiners are expected to improve but remain subdued

Global Liquids Consumption

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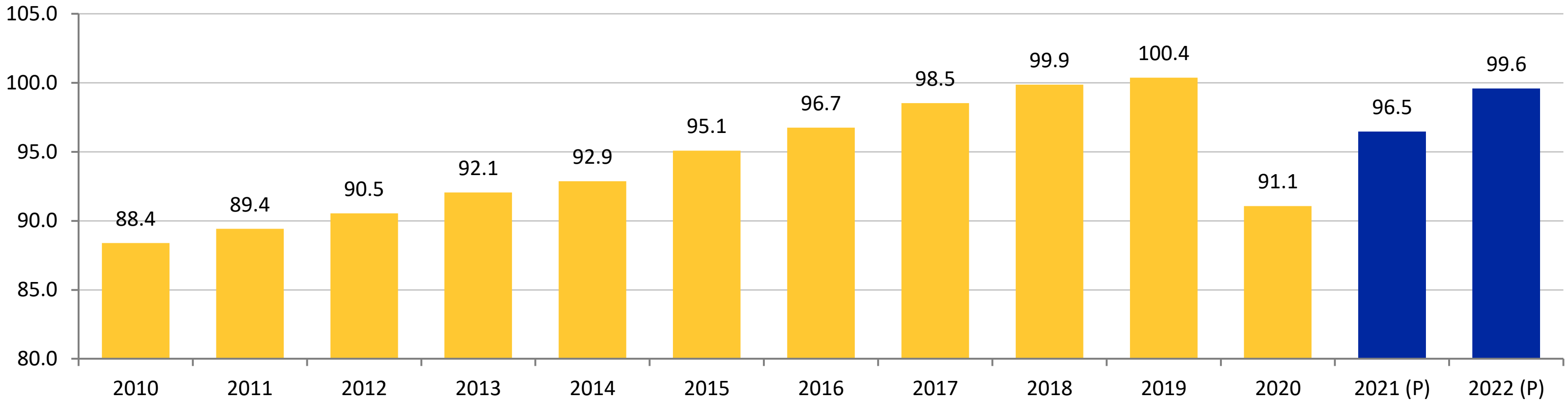
Exhibit : Global liquids consumption (mbd)



Source: BP, IEA, ICRA Research

- Global liquids consumption declined by 9.3 mbd in CY2020 owing to the impact of Covid-19
- Global consumption is expected to increase by about 5.4 mbd in 2021 owing to the vaccine-led recovery in demand and economic growth
- Global liquids demand would remain below pre-pandemic levels till 2022.

Global Refining Industry

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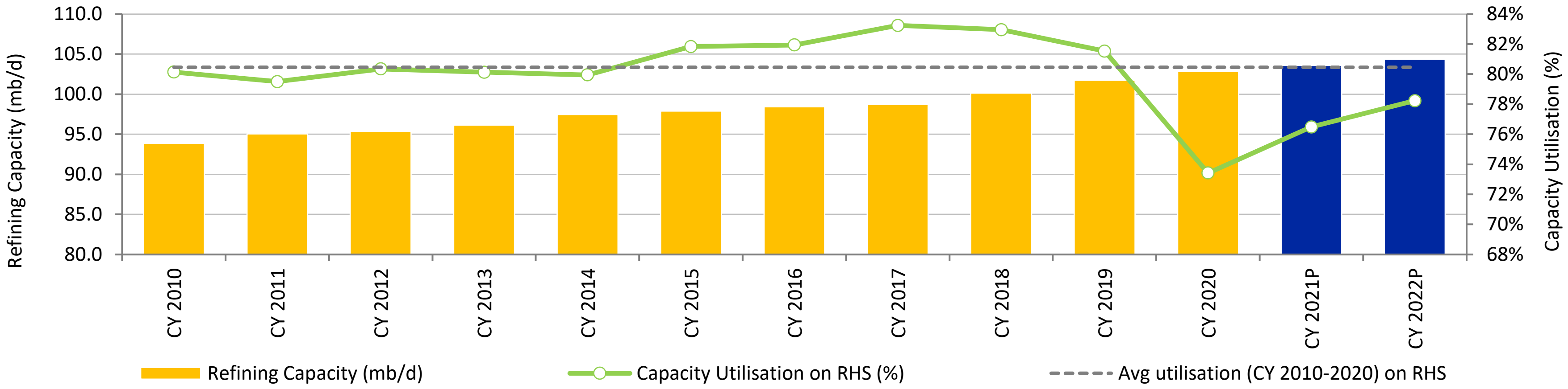
Exhibit : Global refining capacity and utilisation

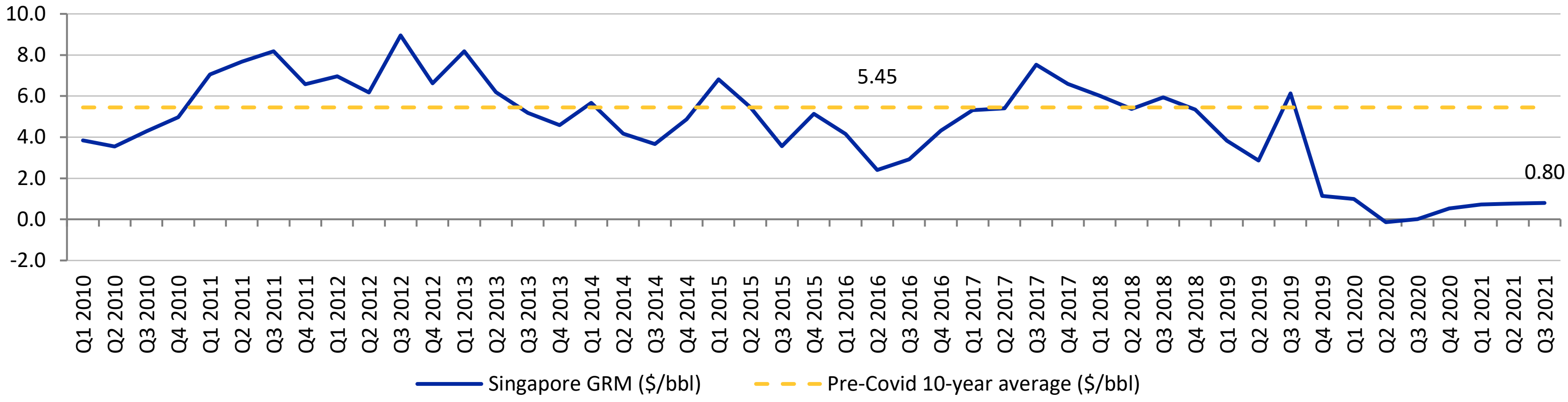


Source: BP, IEA, ICRA Research

- Global refining capacity net of closures increased from 101.8 mbd in CY2019 to 102.9 mbd in CY2020
- Global refinery runs declined in CY2020 owing to the impact of the Covid-19 pandemic, leading to a collapse in the demand for petroleum products, particularly transportation fuels
- About 1.5 mbd refining capacity would be added, net of closures already announced, over CY2021-2022. However, refinery throughput in CY2022 is expected to remain below CY2018 levels

Refining Margins

Exhibit : Singapore GRMs

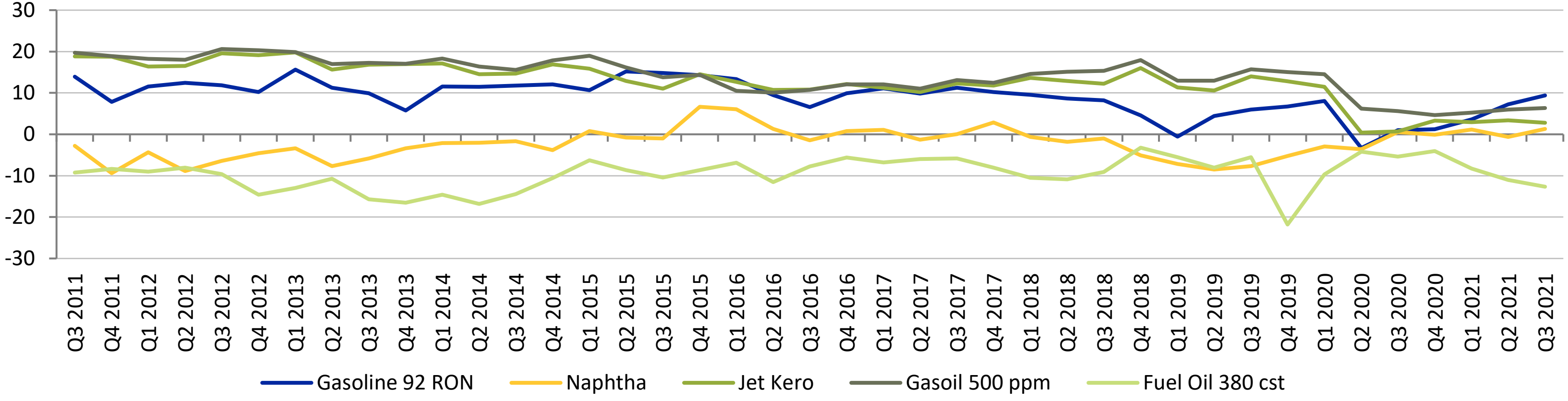


Source: Bloomberg, ICRA Research

- Singapore GRMs crashed in Q4 2019 owing to the global economic slowdown on account of the trade war between the US and China and a slump in the demand for high sulfur fuel oil due to shipping industry switching to low sulphur fuel oil from January 1, 2020. The demand for low sulphur fuel oil could not compensate for the decline in high sulphur fuel even as cracks of diesel and gasoline were subdued owing to weak demand and relatively high supply from refineries
- The weakness in GRMs continued with the outbreak of Covid-19 leading to travel restrictions and lockdowns. The GRMs are expected to improve from the current levels but remain subdued. However, any further waves of Covid-19 pandemic and lockdown measures remain a key concern

Refining Margins

Exhibit : Crack Spreads ($/bbl)



Source: Bloomberg, ICRA Research

- While gasoline cracks have improved significantly owing to increase in demand due to the US driving season, gasoil and jet/kero cracks remain much below their long-term averages.
- Naphtha cracks have reached healthy levels owing to strong petrochemical demand; the tolling margins of ethylene crackers remain healthy
- With diesel accounting for close to 40% of the refining product slate in India, it remains the major influencer of the GRMs of domestic refiners of the GRMs of domestic refiners

Outlook for Global Consumption of Major Products

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	Volumes expected to reach pre-Covid levels by	Comments
Naphtha	2022	Strong petrochemical demand and blending requirements to lead to fast recovery. Cracks are already above long-term averages owing to healthy petrochemical demand. Ethylene cracker margins remain healthy.
Gasoline	2022	Increasing vaccination coverage and personal mobility to aid volumes even as high pump prices and remote working put a drag on recovery. Cracks have recovered substantially and are close to long term averages
Jet/Kero	2024	Jet/kero demand will be the slowest to recover as travel restrictions are likely to stay in place until the pandemic is brought firmly under control. Cracks remain depressed and recovery would remain slow and prolonged
Gasoil	2023	The jet/kero cut is being partially routed to gasoil leading to high production. Also, recovery in gasoil demand is not expected to be as pronounced as gasoline. Cracks are expected to remain depressed due to oversupply and improve gradually
Fuel Oil	2022	Robust global trade supporting bunker demand recovery. Cracks are still below long-term averages

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Thank You!