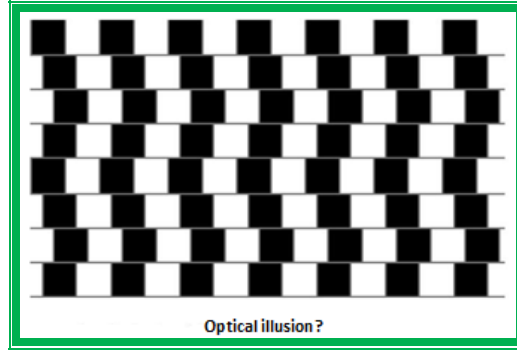


# *Industry Sales Review Report*

*October 2011*



**पेट्रोलियम योजना एवं विश्लेषण प्रकोष्ठ**

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**Analysis of Consumption of Petroleum Products in October 2011**

1. Data on product-wise consumption, import and export of petroleum products is being regularly uploaded on PPAC website. This Report analyses the trend of consumption of petroleum products in the country during the month of October 2011, based on the domestic sales by the oil companies i.e. data finalised by the industry in the Industry Performance Review meeting held on 10<sup>th</sup> November, 2011, and private imports collected and maintained by PPAC. The report highlights the emerging conditions in the domestic market and the underlying factors which might have influenced the trend.

**2 Trend of consumption of petroleum products:**

**2.1 All Products:** October 2011 growth was normal at 3.8% contributed by high growth in Naphtha and rise in consumption of HSD, ATF and PetCoke. However, products like Kerosene, FO/LSHS, Lubes, Bitumen and 'Others' recorded negative growth in the current month. Data on direct private import received from DGCIS, which are included in the consumption estimates are now updated up to March 2011. However, there is a lag of over six months in receiving data from DGCIS, hence; private imports data for the current year are projected based on the previous monthly data.

Detailed product-wise analysis of consumption in October 2011 is given in the following sections.

**2.2 Petrol / Motor Spirit (MS):** MS growth continues to be moderate. For the last five months it has remained below 6% coinciding with high retail prices. This trend continued through October 2011 when the growth rate was 5.4% with cumulative growth at 5.3% (very close to PPAC's annual projection of 5%). In view of the lingering pessimistic economic perceptions and persistent high oil prices moving in a narrow range the current trend of MS consumption is expected to continue for the remaining months of the year.

Factors impacting consumption of MS are discussed below:

- a) Despite being a festival month (as Diwali festival fell in October this year), Passenger Vehicle (PV) sales recorded negative growth of 21% this month. This negative trend continues since the last two/three months but the decline has been larger this month.

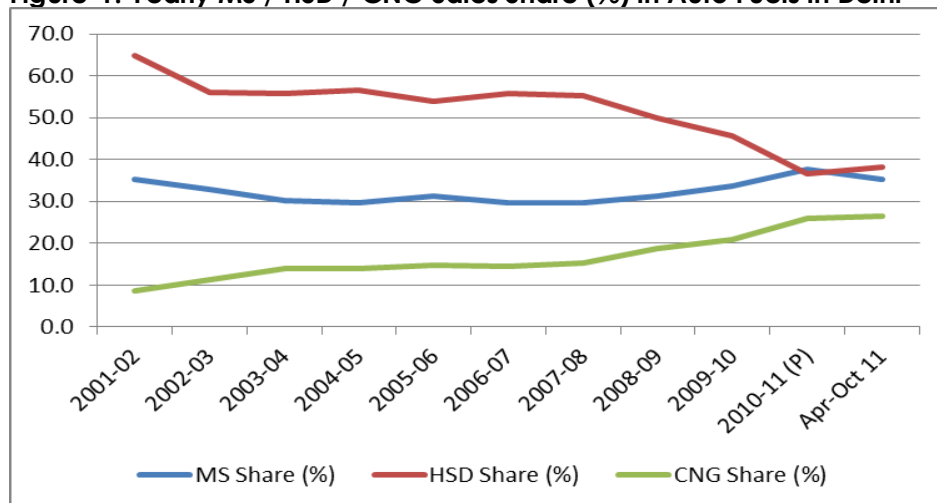
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*Note: Efforts are made for continuous improvement in the report; however, suggestions from the readers are solicited on the structure and content of the report, as also on the methods of analysis of data.*

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b) We have commented in the past that one of the reasons for preference for Utility Vehicles is that these are mostly diesel-driven, preference for which is increasing ever since MS price breached the threshold level. In order to test this hypothesis we analyzed sales trend of MS and HSD of Delhi state for the past decade, which we feel is the best sample state for this purpose with high concentration of SUVs and other diesel driven high end passenger vehicles. In order to make this analysis more revealing we have added the other competing auto fuel CNG also. The comparative trends of MS, HSD and CNG sales in Delhi are analyzed with two sets of data. Changes in the share of petrol, diesel and CNG in the total auto fuel sales can indicate change in customers choice of one fuel over the other, which can happen on account of three factors (i) purchase price of a particular fuel-driven car being relatively cheaper than the other; (ii) one fuel giving higher mileage than the other; and (iii) the price of one fuel being lower than the other. Combination of these three factors is perceived to lead to a discernible change in the share of a particular auto fuel in the total auto fuel sale in the country. This change in inter-fuel sales scenario can be seen from both short term and long term point of view. Figure 1 gives the trend of market share of MS, HSD and CNG since 2001-02 to provide a medium-to-long term view of inter-fuel preferences of consumers. Figure 2 gives the monthly data on market shares since April 2010, to provide a clearer picture in recent times.

**Figure-1: Yearly MS / HSD / CNG Sales Share (%) in Auto Fuels in Delhi**



**Observations:**

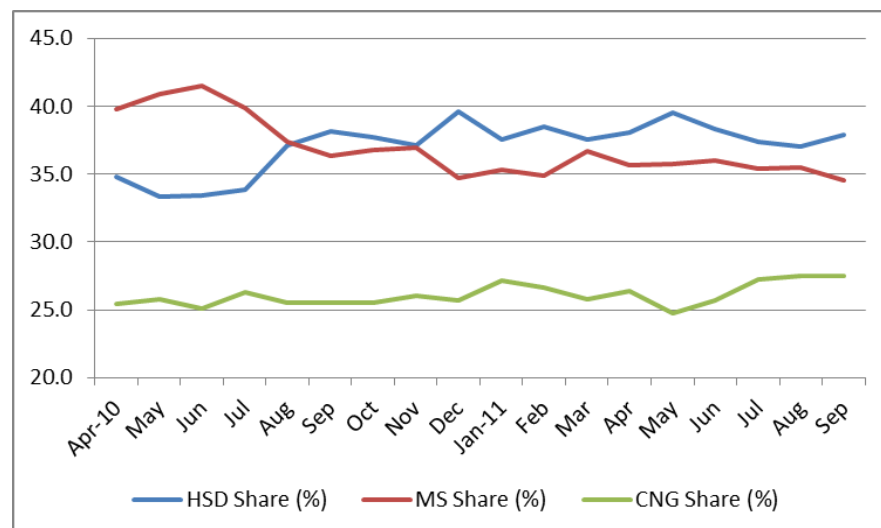
- There is very little change in the share of MS sales over the years.
- However, a drastic change in shares of HSD and CNG sales is observed. While HSD share has dropped to below 40% from around 65% a decade ago, that of CNG has substantially grown from mere 9% in 2001-02 to about 27% now mainly due to Supreme Court mandating compulsory use of this cleaner auto

fuel in commercial vehicles including Buses, Taxies and 3-wheelers.

- By 2010-11end, HSD share had actually dropped below that of MS share but again went above MS this year.
- The convergence of shares of these three fuels which culminated last year has again drifted apart in certain sense. While share of diesel is looking up, that of petrol is down and that of CNG looks flat.
- The moot question that needs to be answered is why despite being lowest priced, CNG is not overtaking the other two fuels in terms of sales share. The answer may lie in the fact that there is long waiting period for filling at CNG stations due to the serpentine queue by commercial vehicles. Private high end customers are generally loathe waiting for fuel at outlets. Besides, due to space constraints the dispensing locations for CNG are not adequate to meet demand from large number of CNG vehicles. This problem is going to be further compounded in the near future with Supreme Court lifting the ban on total number of 3-wheelers plying on Delhi roads.

c) Figure-1 does not clearly establish the magnitude and the time of convergence/divergence of shares of the three competing transport fuels in recent months. An attempt has been made to throw light on this aspect by analyzing Delhi's monthly sales data from April 2010 in Figure 2.

**Figure-2: Monthly MS / HSD / CNG Sales Share (%) in Delhi**



As can be seen from the above graph MS sales share is gradually declining and that of HSD, which was much below MS in Apr 2010, overtook MS sales in Dec 2011 (MS retail price then was Rs.55.87/liter). It has remained above MS share since then in line with high retail prices.

d) A state-wise analysis of MS consumption has been made to bring out the contribution of major states in the all-India MS growth pattern. This is illustrated in Figure- 3 and Table-1. The key findings are given below:

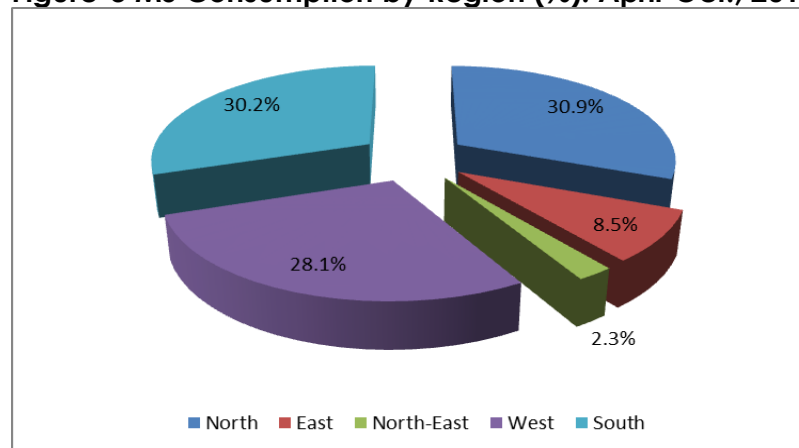
i) Analysis based on two leading states of each region reveal that just 10 states in the country contributed about 60% of MS consumption (Table-1)

**Table-1 States leading in Petroleum consumption by Region, 2011**

Region	Leading Two States	Contribution of Leading States in Petrol consumption
<b>North</b>	U.P. & Delhi	14.5%
<b>East</b>	West Bengal & Odisha	5%
<b>North East</b>	Assam & Meghalaya	1.5%
<b>West</b>	Maharashtra & Gujarat	21.3%
<b>South</b>	Tamil Nadu & Andhra Pd.	17.6%

ii) Northern region leads the pack with 30.9% share as per April-October 2011 consumption data.

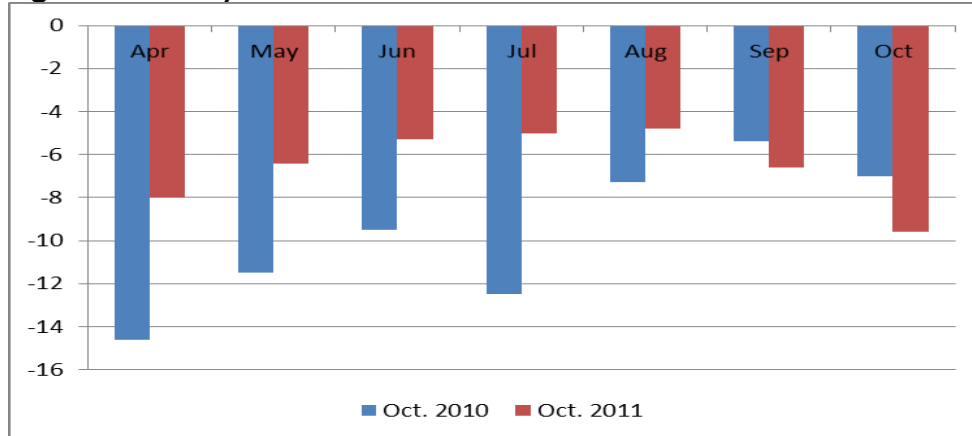
**Figure-3 MS Consumption by Region (%): April-Oct., 2011**



**2.3 HSD:** Diesel recorded a healthy growth of 7.9% in October 2011. The cumulative growth at 6.2% is also robust. Major factors impacting diesel consumption are:

- Commercial Vehicles (CV) sales are consistently showing good performance with October growth at 21.6%, adding to HSD consumption.
- Second month in a row the power deficit has increased, which is reflected in higher HSD growth of 7.9%. Power deficit in October went up to 9.6% from 7% in the corresponding month of last year. Monthly power deficit trend this year is given in Figure-4 below:

**Figure-4: Monthly Power Deficits Trend: Month-over-Month for 2010 & 2011**



It would be observed from the chart above that power deficit, which was declining month after month till August 2011, has started rising for the past two months. One of the factors contributing to this is shortage of coal availability affecting power production. Telangana agitation affected movement of coal to Western Region.

Other factors impacting HSD consumption, inter-alia, include the following:

- Analysis of sector-wise HSD consumption shows reduced consumption by Mining sector due to restriction on mining activities owing to court orders. However, higher consumption was recorded in Marine and State Transport Undertaking (STU) sector.
- Peaceful situation in J&K continues to boost tourism in the state, which is also reflected in robust growth of 17.1% in HSD consumption in J&K this year so far.

**2.4 LPG:** LPG recorded one of the lowest monthly growths of 1.6% in October 2011. However, this is not exactly due to lower consumption but lower dispatches by OMCs to their distributors due to number of holidays in the month of October. Since OMCs report their sales to LPG distributors and not actual sale of cylinders by distributors to final consumers, the sales data showed lower growth. While Domestic LPG recorded 2.4% growth, non-domestic LPG consumption showed negative growth of 3.4% this month. Release of new connections was normal at 10.39 lacs in October 2011.

**2.5 Naphtha:** Naphtha recorded the highest monthly growth in October at 39% during 2011 boosting cumulative growth to 8.2%. Factors affecting growth are:

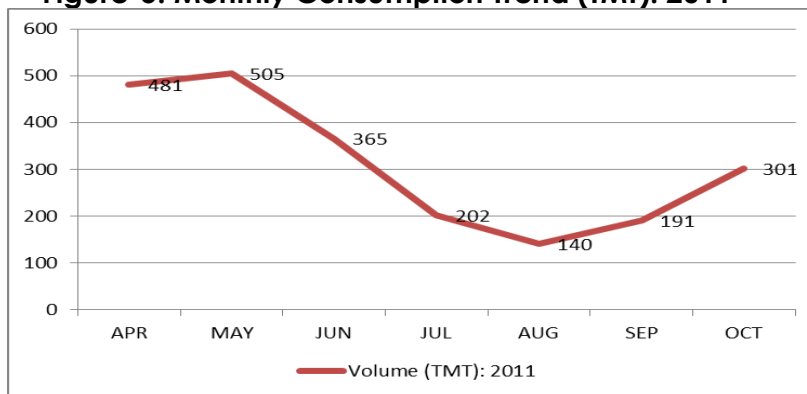
- One of the factors indicating volatility in Naphtha consumption is the unusually low base in October last year when Naphtha consumption fell by 22% mainly due to shutdown of Panipat Petrochemical plant.
- Power and Steel sectors have recorded negative growth in Naphtha consumption this year. Power sector consumption has now reached a low of 34 TMT in October 2011.

c) The growth this year is emanating from Petrochem and Fertilizer sectors which have consumed 7.6% and 35.7% respectively more Naphtha this year (Apr-Oct) than corresponding period of last year.

**2.6 ATF:** While ATF consumption growth in October was robust at 8.8%, it is still the lowest this year due to the impact of particularly high base year. The turbulence in aviation sector leading to cancellation of flights by certain airline operators may also have had some impact on fuel consumption growth.

**2.1.8 Bitumen:** Bitumen consumption volumes have started increasing with withdrawal of monsoon as can be seen from Figure-5 below. However, it recorded a minor negative growth of 2.1% in October indicating that the road construction activities are still to pick up fully.

**Figure-5: Monthly Consumption Trend (TMT): 2011**



**2.1.9 FO/LSHS:** Due to use of alternate fuels FO/LSHS has recorded high negative growth this year (April-October 2011: -17%). The negative growth trend is expected to continue in the short term. However, the negative growth level may come down in the remaining months of the year due to base impact.

**2.1.9 PetCoke:** PetCoke has recorded high growth of 17% this year till October 2011. This trend is likely to continue as Essar is expected to start selling the product in the last quarter of this year. However, it is noticed that private direct import of PetCoke declined significantly in 2010-11 due to higher availability of the product from indigenous sources.

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