

Industry Performance Review Report

June 2011



Analysis • Knowledge • Information

पेट्रोलियम योजना एवं विश्लेषण प्रकोष्ठ

पेट्रोलियम एवं प्राकृतिक गैस मंत्रालय, भारत सरकार

Petroleum Planning & Analysis Cell

Ministry of Petroleum & Natural Gas, Govt. of India

Subject: Industry Performance Review Report of PPAC: June 2011

1. Data on product-wise consumption, import and export of petroleum products is being uploaded on PPAC website.
2. Comments on industry performance are given below:

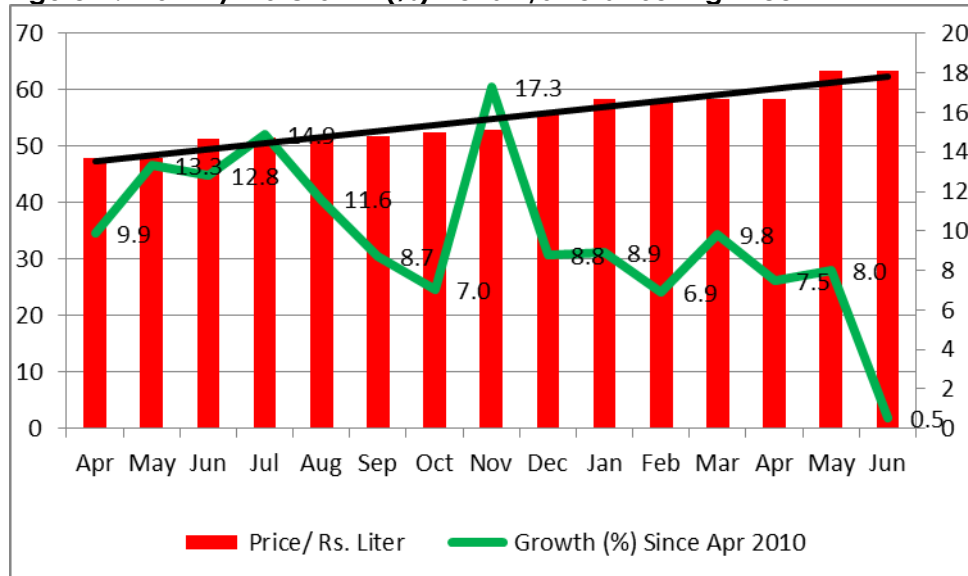
2.1 CONSUMPTION:

2.1.1 All Products: June recorded an overall consumption growth of merely 1.9%. The low growth was mainly due to lower growth in major products like MS, HSD and negative growth in Naphtha, FO/LSHS, SKO and Bitumen. Consumption figures, which include direct private import collected from DGCIS is available only up to July 2010 and is therefore, projected for the balance period based on preceding year's figures.

Detailed product-wise analysis of growth for June 2011 is given in the following sections.

2.1.3 Petrol / Motor Spirit (MS): MS consumption growth was marginal at 0.5% in June 2011. Data analysis of last three years shows that this is the lowest monthly growth since July 2008. Apart from other reasons price increase is also moderating MS growth as can be seen in Figure-1 below, which gives last 15 months' data for all India MS growth vis-a-vis retail selling price of MS in Delhi:

Figure-1: Monthly MS Growth (%) Trend v/s Retail Selling Price



Factors impacting consumption of MS are:

- a) As reported earlier also the data on sales reported to PPAC by companies are sales to their dealers and not sales to the final consumer. Generally it has been found in recent past that petrol and diesel dealers have kept

larger amount of inventory prior to actual price revision with the intention of making adventitious gains post price revision. Under such condition the sales growth for the month prior to price revision remains higher. This tendency can be identified in the data since 2008 given in the table below:

Table: 1

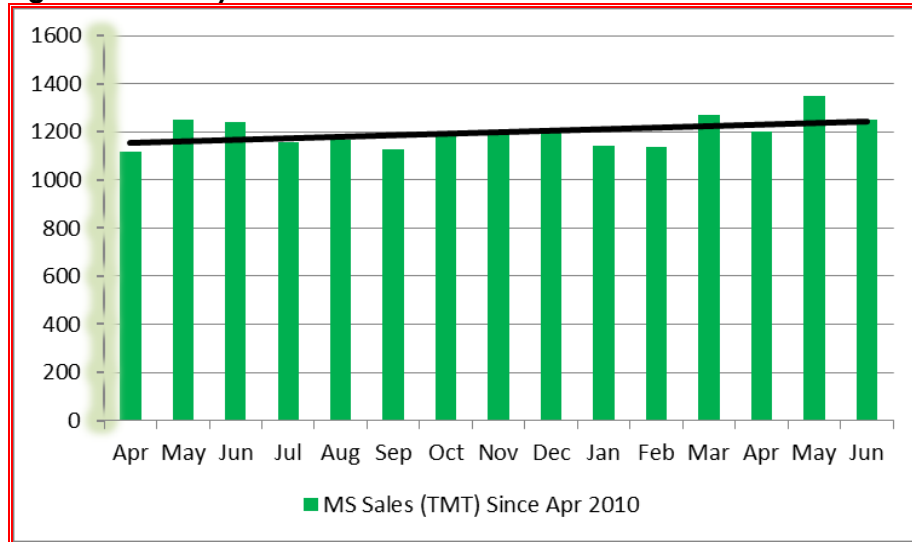
June Month Only	2008-09	2009-10	2010-11	2011-12
MS Growth (%)	-6.1	37.3	12.7	0.5
Date of Price Change	5.6.2008	2.7.2009	26.6.2010	15.5.2011
Increase Rs./liter (Delhi)	5.00	4.00	3.50	5.00
CARG (%)		4 Years	3 Years	2 Years
		9.9	15.9	6.4

If the price increase happens in early part of the month it affects previous month's inventory. On the other hand if price increase happens in the middle or late in the month it affects inventory in the same month. Since inventory build up is not real sales to final consumer it is liquidated by dealers in the succeeding months. As a result the company sales to the dealers in the month after price increase are comparatively lower. These fluctuations in sales generate unusually high or low growth rates whereas actual final consumption might have remained normal. The above growth pattern can be explained as under:

- **June 2008:** Since price increase in 2008 happened in first week of June 2008, it affected May 2008 sales (growth 15.2%). Since the inventory was liquidated in next month, sales to dealers by companies were lower in June (negative growth -6.1%).
- **June 2009:** Price increase happened on 2.7.2009, hence, dealers' inventory levels remained high in June 2009. Coupled with lower base of previous year (June 2008 negative growth -6.1%), this resulted in unusual growth of 37.3% in June 2009.
- **June 2010:** Price increase was effected at month end i.e. 26.6.2010, hence, this led to higher inventories by dealers in June 2010 resulting in higher sales (growth 12.7%) despite high base.
- **June 2011:** Since price increase happened in previous month (May 2011) June saw liquidation of inventory and thus lower upliftments by dealers. Besides, MS is now deregulated product which coupled with impact of high base of two successive years resulted in unusually lower growth (0.5%). Besides, other two factors i.e., price rise of MS beyond the threshold level and pressure on disposable personal income on account of rising cost of finance (i.e. rising interest on home loans/ personal finance by banks) might have been working on the petrol consumers, although impact of these factors could be ascertained in the coming months. So, in a way June can be seen as a technical correction over the higher dealer holdings in previous years.

- The above can be further corroborated from the monthly MS sales volume given in Figure-2 below:

Figure-2: Monthly MS Sales Trend in TMT



As can be seen in Figure-2 MS sales volume is normal for June and is in line with trend despite growth being very low, which supports the above contention.

- Liquidation of stocks built up in May by dealers also dampened upliftments in June resulting in poor growth.
- As mentioned in our previous reports, Passenger Vehicles (PV) sales growth has significantly moderated from over 29% in 2010-11 to just 3.3% in June 2011. Strike for 13 days in Maruti's Haryana plant also affected car sales as Maruti accounts for over 50% of car sales in the country.
- Though two wheeler (2-W) growth was robust at 14.8% in June it is a far cry from 2010-11 annual growth of 25.8%.
- Other factors impacting performance include heavy rains / floods in East, partial dry outs due to product availability constraints in M.P. and Maharashtra, early onset of monsoon in many states and expanding metro rail network in Delhi/NCR.

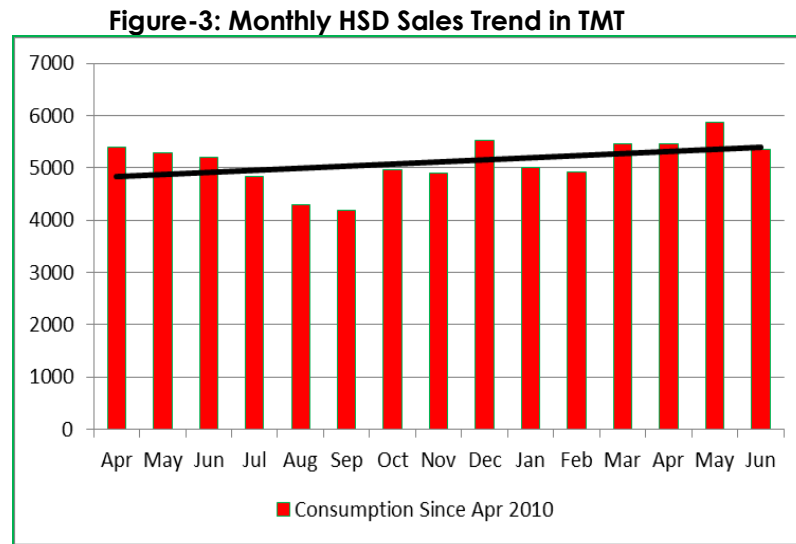
2.1.4 HSD: HSD also recorded low growth of 2.9% in June 2011. Major factors affecting consumption are:

- As in case of MS, low growth in HSD is also due to high base of two successive years in June month due to price increase as can be seen from figures given in the table below:

Table: 2

June Month Only	2008-09	2009-10	2010-11	2011-12
HSD Growth (%)	3.5	19.5	7.0	2.9
CARG (%)	2 Years	3 Years	4 Years	
	4.9	9.6	8.0	

Besides, sales volume of HSD in June 2011 also indicates that sales are in line with trend as can be seen from Figure-3 below:



- b) Commercial Vehicles (CV) sales recorded robust monthly growth of 21.2% in June 2011 led by LCVs.
- c) Price increase of Rs.3/- liter in basic price (Delhi).
- d) During June also there was significant improvement in power availability. On all India level power deficits declined to 5.3% in June 2011 against 9.5% in the corresponding month of last year. This is suitably reflected in low growth of HSD this month. Region-wise power deficit position and HSD growth is give in Table-2 below:

Table-3: Region-wise Power Deficits & HSD Growth

Month	Power Deficit (%)		HSD Gr. (%)
	June 2010	June 2011	June 2011
North	7.9	3.6	-2.0
East	4.7	4.0	1.8
West	15.7	7.9	8.5
South	6.7	4.5	3.8
North East	11.3	11.3	12.8
All India	9.5	5.3	2.9

- e) Other factors impacting HSD consumption include:
- i. Poor rain across AP including Telangana and coastal AP and North Karnataka has impacted planting of cotton and oil seeds in current kharif season.

- ii. Truck rentals have gone up by 5.6% on diesel price hike (Source: IFTRT BL dated 2/7/2011).
- iii. Reduced demand from agriculture sector due to early onset of monsoon

2.1.5 LPG: LPG continued with robust growth of 8.9% in June 2011. Expansion to rural areas and release of large number of connections is generating consumption growth in LPG. About 9.81 lac new connections and 4.53 lacs DBCs were released during June 2011. Cumulatively 28.2 lacs new connections have been released this year, which is 24.1% higher than corresponding period of previous year.

2.1.6 Naphtha: Naphtha growth dipped to negative (-0.2%) in June. However, cumulatively, it is still showing positive growth of 3.7%. Factors affecting growth are:

- a) IOC Panipat Petro-chemical plant, which had consumed 190 TMT of Naphtha in April this year slipped to below optimum operation and consumed only 113 TMT during June.
- b) However, imports were higher this month compared to corresponding month of previous year by all major customers like RIL, HPL & MCFL.
- c) Both Petrochemical and Power sectors put together have recorded lower consumption of Naphtha by 76 TMT this month.

2.1.7 ATF: Good run in ATF consumption continued in June too, which recorded healthy growth of 10.3% over the corresponding month of last year. This is expected to continue in the short term.

2.1.8 Bitumen: With the onset of monsoon Bitumen consumption is likely to remain subdued, which recorded -6.8% growth in June 2011. There is absence of any major NHAI project except 4-laning project in parts of Orissa. As per reports upgradation of air bases is in progress in North East.

2.1.9 FO/LSHS: Due to price disadvantage with HSD, FO consumption had comedown as a result of substitution. However, with recent price increase in HSD late June 2011, substitution of FO with HSD is likely to come down and logically should improve sales in the coming months.

2.1.10 General:

- a) Demand of branded HSD has declined considerably and is now less than 1% of total HSD sales.
- b) BPC is more aggressive this year in commissioning new outlets. It accounts for over 35% share of new commissioning of outlets this year.

Demand & Economic Studies Division, PPAC
