

## RESEARCH

### Oil & Gas

Govt. opens up fuel retailing to non-oil companies

## SUMMARY

### Oil & Gas

The government has eased fuel retailing norms, allowing non-oil companies to set up petrol pumps in India to increase investment and competition in the sector. While this appears to threaten the dominance of OMCs – owners of ~90% of India's 64,600+ retail fuel outlets – it will be an uphill task for a new entrant to dent OMC retail market share given their deep reach. This apart, a key positive from the policy shift is that it alleviates concerns over rollback of fuel price deregulation by the government (should oil prices breach US\$ 80/bbl).

[Click here for the full report.](#)

## TOP PICKS

### LARGE-CAP IDEAS

Company	Rating	Target
<a href="#">Cipla</a>	Buy	555
<a href="#">GAIL</a>	Buy	200
<a href="#">HPCL</a>	Buy	400
<a href="#">ONGC</a>	Buy	200
<a href="#">TCS</a>	Add	2,230

### MID-CAP IDEAS

Company	Rating	Target
<a href="#">Alkem Labs</a>	Buy	2,230
<a href="#">Future Supply</a>	Buy	730
<a href="#">Greenply Industries</a>	Buy	200
<a href="#">Laurus Labs</a>	Buy	480
<a href="#">PNC Infratech</a>	Buy	250

Source: BOBCAPS Research

## DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.76	0bps	4bps	(134bps)
India 10Y yield (%)*	6.69	(2bps)	(10bps)	(118bps)
USD/INR	70.90	0.1	0.1	3.1
Brent Crude (US\$/bbl)	61.17	2.5	(4.8)	(19.7)
Dow	26,834	0.2	(0.4)	9.2
Shanghai	2,942	(0.4)	(2.2)	13.0
Sensex	39,059	0.2	2.7	14.8
India FII (US\$ mn)	22 Oct	MTD	CYTD	FYTD
FII-D	44.9	150.5	4,123.9	3,579.3
FII-E	(151.5)	602.2	8,762.9	1,917.7

Source: Bank of Baroda Economics Research | \*7.26% GS 2029

## BOBCAPS Research

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## OIL &amp; GAS

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## Govt. opens up fuel retailing to non-oil companies

The government has eased fuel retailing norms, allowing non-oil companies to set up petrol pumps in India to increase investment and competition in the sector. While this appears to threaten the dominance of OMCs – owners of ~90% of India's 64,600+ retail fuel outlets – it will be an uphill task for a new entrant to dent OMC retail market share given their deep reach. This apart, a key positive from the policy shift is that it alleviates concerns over rollback of fuel price deregulation by the government (should oil prices breach US\$ 80/bbl).

**Fuel retailing norms eased:** The government has relaxed the requirement of prior investment in India's oil and gas sector (E&P, refining, pipelines) for a new entrant looking to set up a fuel retail outlet in India. Key revised criteria: (a) minimum net worth of Rs 2.5bn from Rs 20bn earlier; (b) companies must offer an alternate fuel option (CNG, electric charging, etc.); and (c) minimum 5% of outlets to be in remote areas within five years of authorisation. This opens up fuel retailing to multiple entities across sectors – retail, auto, logistics, CGD.

**Competition for OMCs:** The threat to OMC dominance in fuel retailing from increased competition may take a while to materialise considering the deep penetration of their retail outlets. Further, the policy move lends credence to the government's serious intent to sustain fuel price deregulation. Private operators such as RIL (~1,400 retail outlets) and Nayara Energy (~5,000) may take a cue from this and aggressively expand their presence in fuel retail. Private CGD companies, such as Adani Gas that recently tied up with oil major Total, may also take advantage of the revised policy to set up outlets.

**BPCL deal valuation could be diluted:** The scarcity premium of owning a fuel retailing licence now stands diluted for BPCL (~15,000 outlets). However, out of the ~58,000 outlets under OMCs, 45,000-50,000 are company-owned, giving them the necessary protection against competition. This leaves their dealer-owned outlets (~10,000) open for aggressive renegotiation with private companies such as RIL-BP that are well equipped financially. We thus see a high probability of dilution in the expected valuation premium for BPCL's stake sale, especially for its marketing business.

**Infrastructure edge for IOCL, HPCL:** IOCL's pipeline network (spanning crude and products) and HPCL have a significant advantage for marketing products. These companies should be the least affected by the policy shift.

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### KEY RECOMMENDATIONS

Ticker	Price	Target	Rating
RIL IN	1,398	1,670	BUY
IOCL IN	142	265	BUY
BPCL IN	508	535	ADD
HPCL IN	302	400	BUY

Price &amp; Target in Rupees

### RETAIL OUTLET DISTRIBUTION

<b>OMCs</b>	<b>58,125</b>
OMC owned	~48,000
Dealer owned	~10,125
<b>Private</b>	<b>6,500</b>
Nayara	~5,000
RIL	~1,400
Others	~100
<b>Total</b>	<b>64,625</b>

Source: Industry, Company, BOBCAPS Research

[Click here](#) for our Sector Report: GRM surge on IMO may sustain for long



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### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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