



COVID-19 Crisis Management – Challenges in Oil Marketing

Webinar

Friday, 15 May, 2020

Preface

Over the long history of oil, the market has endured multiple shocks, but none comes closer in ferocity and severity to what it is facing today. The market has been hit by a double whammy of falling prices and shrinking demand. Early in the month of March, crude oil prices nosedived due to a fallout between Russia and OPEC over production cuts. In any otherwise situation, falling oil prices would have spurred a rise in demand and the market would have stabilized. However, March 2020 was different. The increasing number of COVID'19 cases and the mounting death toll led to sweeping lockdowns and travel bans across all major demand centers, resulting in an unprecedented shrinkage in demand of crude oil and products.

In India, the nationwide lockdown that came into effect on 24 March, 2020 brought the entire economy to a standstill. Due to strict restrictions on travel and industrial activity, the fuel demand in the country fell by over 60 per cent in the month of April. As a result of an over-night fall in fuel demand, OMCs did not just miss out on the opportunity to earn attractive margins but were also faced with the challenge of drying revenue streams and ensuring employee safety. The fact that Indian OMCs maintained uninterrupted supply in spite of the threat of the pandemic and nationwide lockdown, stands testament to the sector's commitment to the larger objective of national welfare.

With this background, the Federation of Indian Petroleum Industry (FIPI) joined hands with I-ten Media to organize the webinar on 'COVID-19 Crisis Management – Challenges in Oil Marketing'. The objective of the webinar was to provide the India's Oil Marketing Companies (OMCs) with a unique platform to share their experiences towards ensuring uninterrupted supply; to highlight bottlenecks and future challenges; and to cull out areas, where Government support will be imperative for OMCs to successfully tide over the COVID inflicted crisis.

The webinar received an overwhelming response and was attended live by over 500 participants. The webinar was attended by a wide spectrum of participants. The panel discussion proved extremely engaging and witnessed some very insightful replies to the questions raised by the participants. Going forward, FIPI will take up some of the major industry issues highlighted during the discussion and seek favourable interventions from the Government.

Panel Introduction

The panel for the webinar was carefully selected to represent the vibrant mix of PSUs and private sector OMCs in the country. The esteemed panelists, owing to their years of experience in fuel marketing, possessed a deep understanding of the product markets and the supporting supply chain in the country and shared their insights on the challenges that the industry will face due to COVID-19 and the resulting lockdown.

FIPI is also thankful to Mr. Anish De , National Head –Energy and National Resources , KPMG for gracefully accepting the invitation to moderate the session and ensuring rich takeaways from the webinar

MODERATOR



Mr Anish De

National Head – Energy &
natural Resources
KPMG

SPEAKERS



Mr Sunil Mathur

Executive Director (LPG)
IndianOil



Mr P S Ravi

Executive Director - Retail
BPCL



Mr Madhur Taneja

CEO – Oil Retail
Nayara Energy



Mr Raj Bhan

Senior Vice President
RIL

Opening Address



Dr. R K Malhotra
Director General
FIPI

- Lockdowns due to COVID-19 have created havoc for the global economy. India is no different. Some recent estimates by agencies indicate zero to negative growth in 2020 as well but majority find it within positive scale.
- Government is taking all measures to support the economy . We hope Oil & Gas sector will also get due attention for which FIPI has been making representations.
- There is a sharp demand destruction and supply chain disruption for the Indian oil and gas sector in a very short period.
- Liquidity has emerged as a major issue for Indian Oil Marketing Companies (OMCs) as they continued to incur expenses during the lockdown while the revenue witnessed a sharp fall
- Increase in excise duty on MS and Diesel have further squeezed the OMCs margins beside sharp fall in international oil prices and loss due to inventories.
- OMCs have large bills stuck with many bulk consumers including government dept. like railways, defence etc. beside spending to maintain subsidised LPG to PMUY beneficiaries. On the other side bills of MSMEs and small contractors have to be cleared in time bound manner as per the directives.
- Taking account of the situation, Federation of Indian Petroleum Industry (FIPI) has requested the Government for deferment of excise duty, bonds for the sector with sovereign guarantee and fast track clearing of under-recoveries stuck with Government departments .

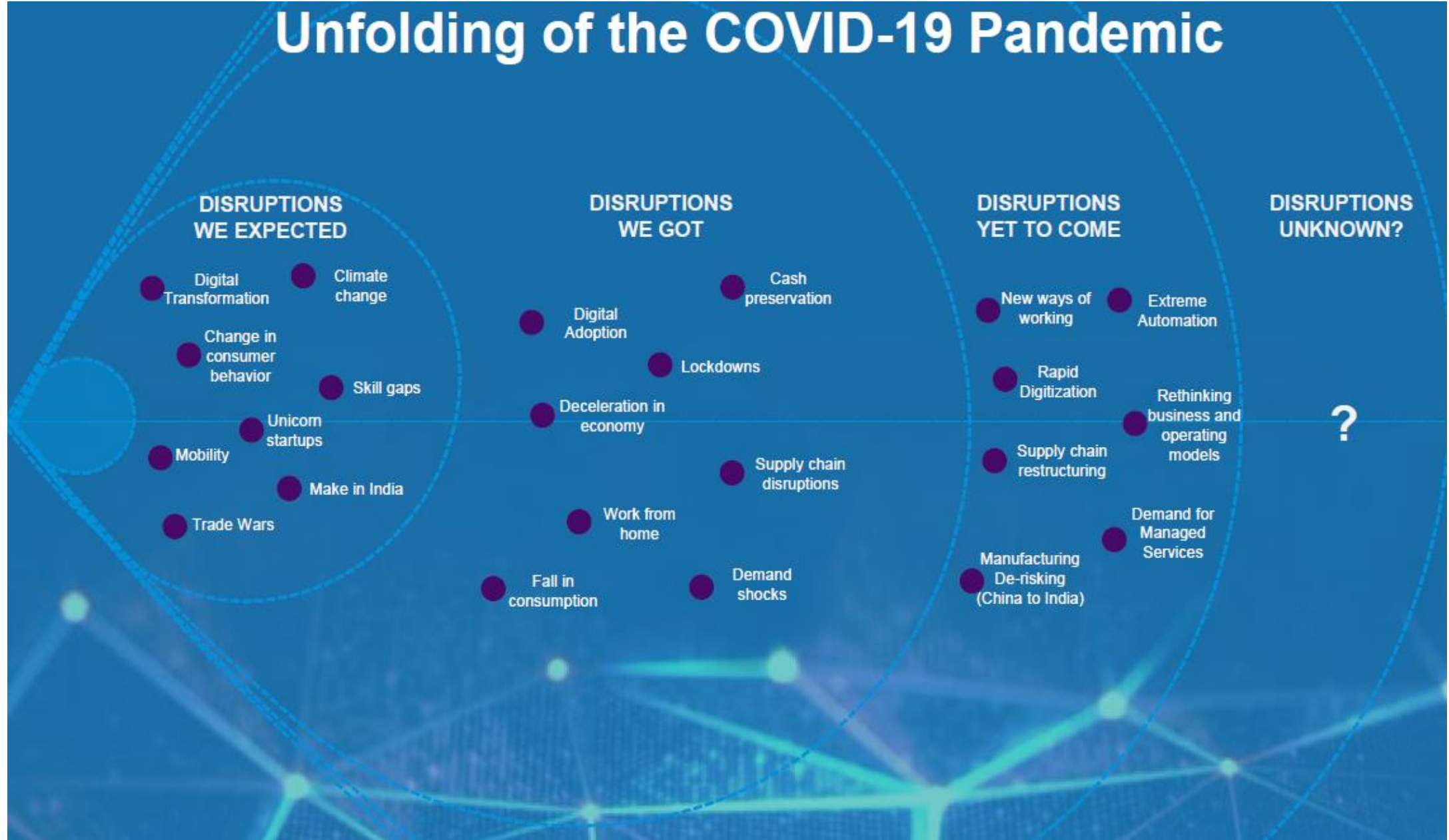
Agenda



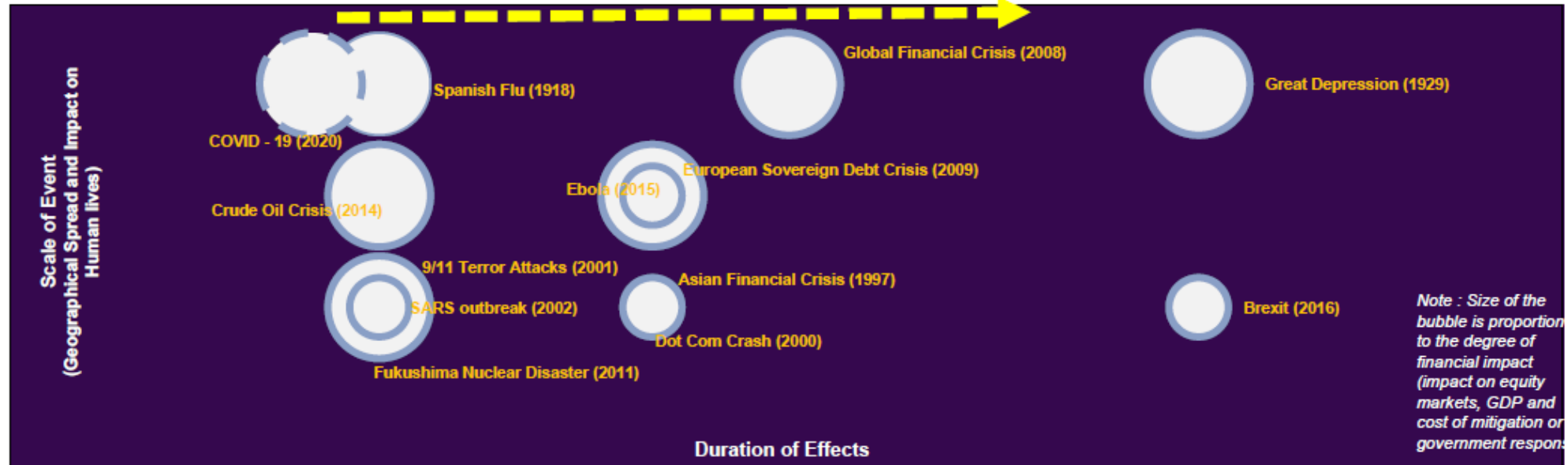
1	Presentation on COVID impacts
2	Opening responses from panelists
3	Moderated discussion among panelists
4	Q&A from audience
5	Concluding remarks



Impact of COVID-19



COVID-19 is akin to one of the worst historical black swan events and is having widespread impact on various sectors

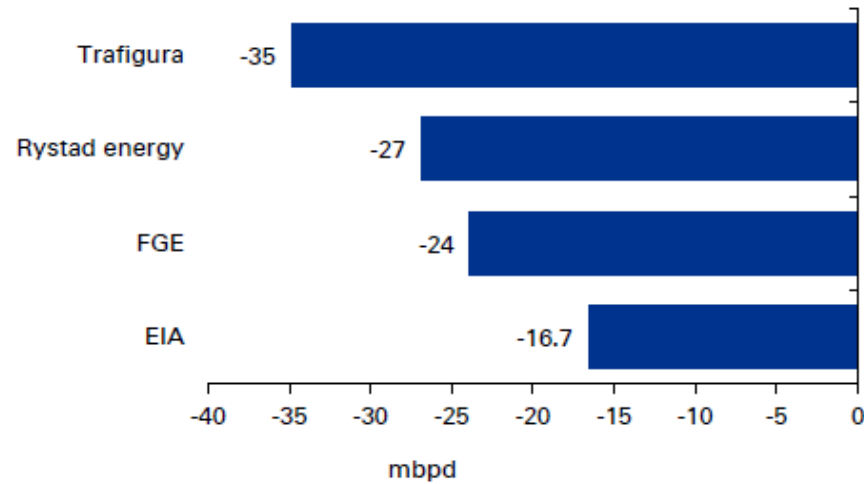


Worst Hit

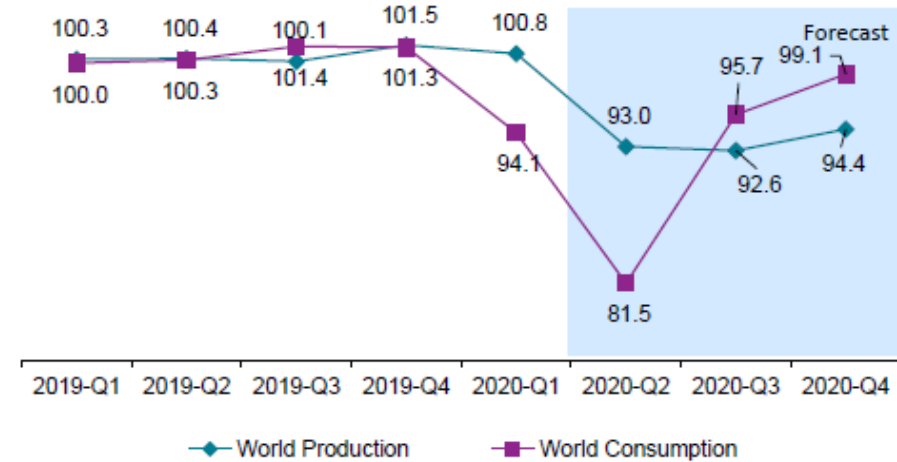
Airlines	Tourism	Supply Chain	Manufacturing	Jobs
~1/3 rd of the global passenger fleet has been placed into storage according to IATA & WEF	International tourist arrivals are expected to drop by 30% in 2020 as per UNWTO	~75% of US based companies reported doubling of lead times for raw materials as per ISM	~1.9 mn units of lost automobile production with an average shutdown of ~24 days in Europe as per ACEA	COVID-19 could lead to job losses to the tune of ~195 million across the globe according to ILO

Global oil market is beset with twin shocks of unprecedented demand slowdown due to COVID-19, in tandem with supply surplus

Global Oil Demand Destruction – COVID-19 (Apr'20-F)



World liquid fuels demand & Supply imbalance (quarterly average nos.)- mbpd



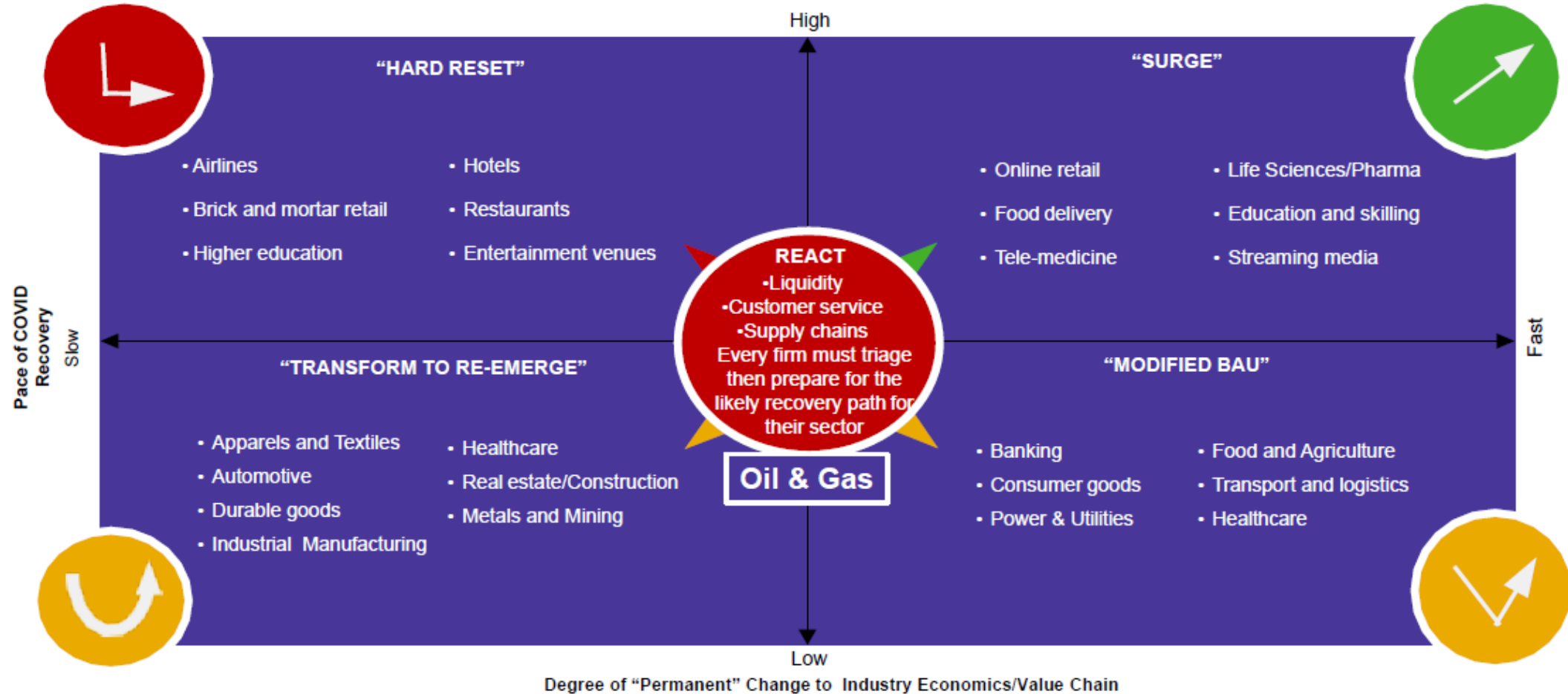
Demand shocks

- Global oil demand is expected to fall by **more than 10 mb/d** year-on-year in 2020.
- Decline in demand is leading **inventories to fill up**, supertankers acting as floating storage – Nearly a **billion barrels** in inventory globally. Product fuel storages are full
- Many countries looking to route crude into Strategic oil reserves (e.g. ~20M barrel in US SPR)

Supply shocks

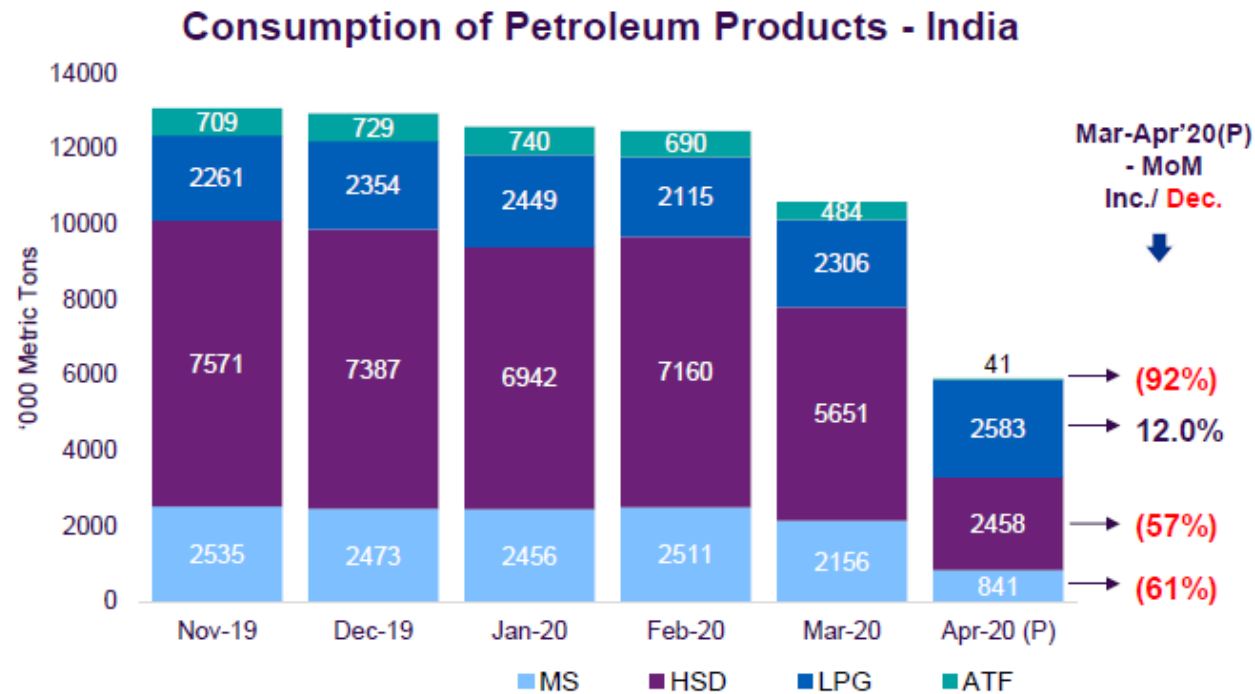
Source: Bloomberg, EIA, short term energy outlook, May'20, EIA USA, KPMG Analysis

Varying degrees of risk exposure to COVID-19-driven shifts will result in an "alphabet soup" of recovery patterns



In India demand decline has led to 40-50% lower refinery utilization

Significant falls in demand forecast for the year. Will require cost cutting and optimization



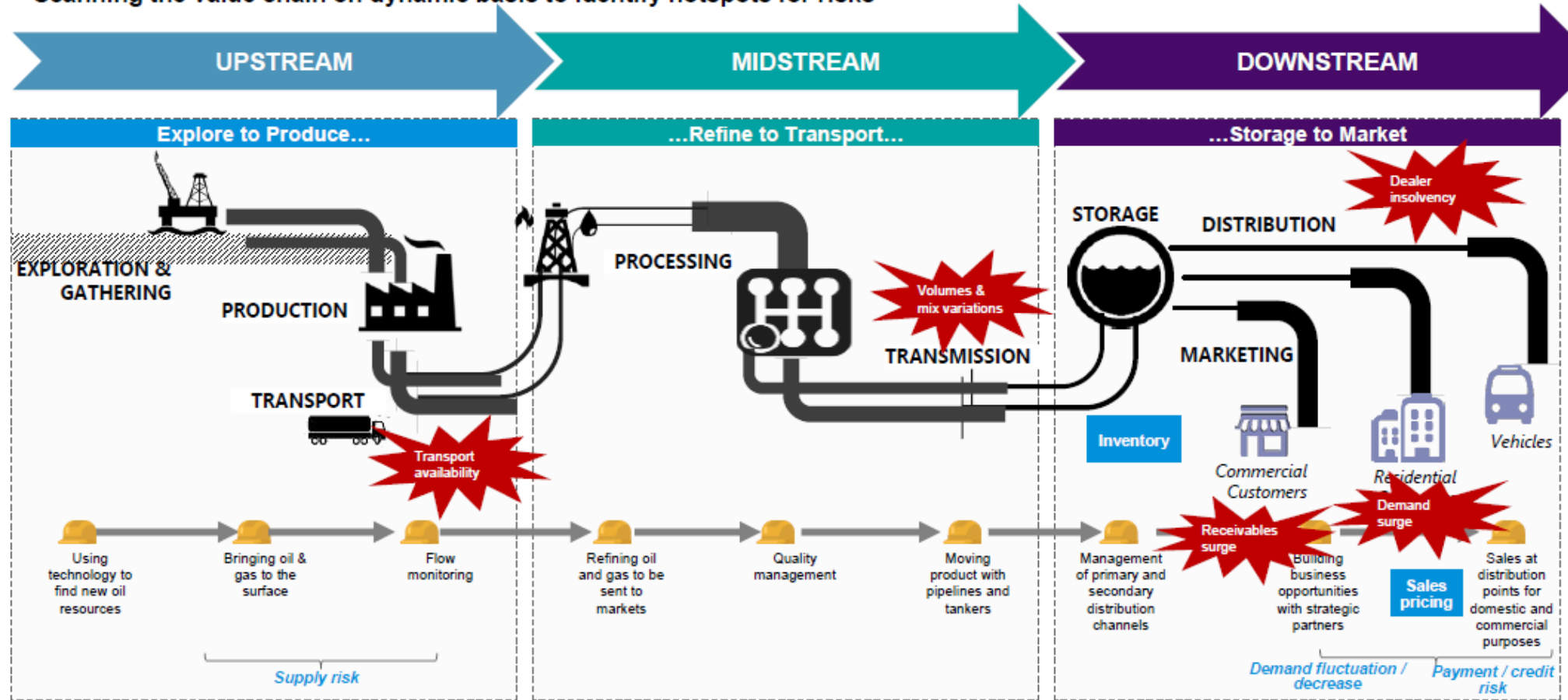
Key Demand – Supply trends

- Fall in demand of petroleum products has led to significant adjustment in refinery utilization to 50-60% level in April 2020. Outlook is however improving. Refiners are increasing their production run-rates.
- In addition, downstream petchem processing has been impacted due to shortage of specialty imports from China – also prices are 10-20% higher
- Annual sales expected to be 7-9% lower; bottom lines will plunge

Source: PPAC, MoPNG, Edelweiss report, KPMG research and analysis

Supply chains face considerable uncertainties

Scanning the value chain on dynamic basis to identify hotspots for risks



Panel Discussion – Agenda Points

1

Liquefied Petroleum Gas (LPG)

Rising demand and ensuring uninterrupted supply

2

Liquid Fuels

Tiding over the challenging times

3

Impact on Private Sector Refiners

4

Liquidity and Cash Flow Situation

5

Maintaining Business Continuity

Operational safety, de-risking supply chain, employee engagement and digitization

6

Rising Popularity of E-Commerce

Emerging trend of on-door fuel delivery

7

Refinery Expansion

Do we need to reconsider future plans

8

Future of Crude Prices and Product Cracks

Panel Discussion – Key Takeaways

Liquefied Petroleum Gas (LPG) – Rising demand and ensuring uninterrupted supply

- The LPG consumption in India has been witnessing an unprecedented rise over the last five years due to the PMUY scheme introduced by the Government
- In the third week of March, even before the declaration of lockdown, there was an increase in consumption due to panic booking. The Government announcement to provide three free LPG cylinders under the PMUY scheme further increased consumption. As a result, against an annual growth of 6.6 per cent in FY'20, LPG consumption grew by over 12 per cent in the month of April, 2020 alone
- In April, the domestic LPG consumption witnessed an increase of around 25 per cent, presenting a problem of plenty. As a result there were significant challenges of maintain the supply chain during the nationwide lockdown
- While maximising indigenous LPG production , industry imported about 10 VLCC of LPG in April to make up the deficit , making import capacity a constraint
- To ensure uninterrupted supply and build confidence, OMCs offered insurance and ex-gratia payments to the frontline workers of channel partners
- Digital technologies are enabling OMCs in providing contactless delivery and documentation.

Panel Discussion – Key Takeaways

Liquid Fuels – Tiding over the challenging times

- Petrol and diesel have recorded a continuous growth over the last decade and the sudden fall in demand due to the COVID-19 induced lockdown happened in very short time.
- The nationwide lockdown resulted in a significant demand destruction for the liquid fuels. The overall consumption of liquid fuels fall by as much as 60 per cent in April. Industry has witnessed a demand destruction of over 12-14 KL per day.
- However, the fall in demand was not been uniform across the States. In the Northern part of the country where April is the month of harvest, OMCs ensured uninterrupted supply of liquid fuels
- The urban demand took a significant hit due to the lockdown. The impact on this segment was as high as – 90 per cent
- The objective of the OMCs during this period was to ensure short-term business continuity while ensuring ensure safety across the entire value chain
- In the month of May, recovery in the sale of liquid fuel was recorded in both urban and rural markets

Panel Discussion – Key Takeaways

Impact on Private Refiners

- The greatest challenge faced by the private refiners was that of erosion of business. This further led to challenges regarding high inventory cost, supply disruption and ensuring operations at retail outlets while ensuring safety for staff
- Companies witnessed a fall of over 60 per cent in their profitability. Choking of cash flow resulted in cutting down of CAPEX and OPEX budgets.
- Attracting and retaining the best talent is another major challenge faced by the private OMCs. Even during these difficult times, private companies have to ensure that performance is incentivized.
- Private OMCs are working closely with the franchisees to ensure uninterrupted supply for the customers in a safe and secure environment
- Faced with such difficult times, it is a key responsibility for the OMCs to take care of the franchisee partners by bringing in the right standards and procedures

Panel Discussion – Key Takeaways

Liquidity and Cash Flow Situation

- To deal with the increasingly difficult cash flow situation, many Indian OMCs adopted the cash and carry approach
- OMCs encouraged franchisee partners, whose profitability has also been impacted due to reduced sales, to ensure that the cash flows remain intact for them
- OMCs facilitated the franchisee network in terms of working capital management.
- Monetizing their tie ups with banks, OMCs helped extending the payback time for their channel partners
- In these difficult times, critical management of cash flows is important for all OMCs. Marketing companies are ensuring that they are not widely of the mark as far as cash flows are concerned

Panel Discussion – Key Takeaways

Maintaining Business Continuity

- During these challenging times, it is of utmost importance to ensure that the entire set of resources at all levels are safe and available for business activities.
- Companies are coming up with Standard Operating Procedures (SOPs) to ensure safety of employees and customers at all points. Many OMCs have marked their various businesses in zones based on their interaction with outsiders
- Many marketing companies are making use of this time to train and reskill their employees to better tackle the future challenges and operate in a changing business environment
- Country is presently witnessing a mass exodus of migrant labourers. OMCs along with their channel partners are actively trying to engage these migrant labourers
- Since many migrant labourers have already left, OMCs are also working towards skilling the local labourers to maintain operations. Effective training is being provided to these labourers by making use of the virtual platforms
- Many OMCs are also focussing on process improvement and investing in cutting edge digital technologies. Digital initiatives are being deployed at a faster pace so that by the end of this period they could significantly reduce the dependence on man power
- Many companies are deploying progressive tools that will end to end digitalize the entire value chain

Panel Discussion – Key Takeaways

Rising Popularity of E-Commerce

- Post COVID-19, the consumer behaviour is expected to change significantly. Consumers will prefer least interaction /interface to fulfil their fuelling needs
- Taking account of the changing business environment, many industry participants have already started door delivery of fuels while observing prescribed norms in various sectors
- Many State Governments and District administrations are already making use of the facility during the ongoing harvest season to ensure safe availability of fuel to the farmers
- In the foreseeable future, door delivery will constitute an integral part of fuel retailing business

Panel Discussion – Key Takeaways

Refinery Expansion – Is there need to reconsider our plans?

Mr. Sunil Mathur , IndianOil

- India's projected growth and consumption levels justify the planned expansion in Indian refineries
- LPG demand in the country is expected to grow at a robust rate. The country is yet to monetize the demand from non-domestic sector.
- Globally the non-domestic sector accounts for 50-60 per cent of the LPG consumption. Non-domestic sectors such as industrial, agriculture and chemical drive LPG demand globally
- To tap this potential market, the country needs to increase its refining capacity. However, in light of the present challenges arising due to COVID-19, the timing of the expansion plan may change. No certain comments can be made at this time with lots of uncertainties.

Mr Raj Bhan , RIL

- India is at a stage today where its demand for petroleum products almost matches its refining capacity levels. In the coming decade emerging technologies such as EVs are expected to replace a sizeable share of conventional fuels such as petrol and diesel
- In light of these development, India needs to revisit its refinery expansion plans.

Panel Discussion – Key Takeaways

Future of Crude Prices and Product Cracks

- As the global economy returns to normalcy, the demand for fuels is expected to recover. The recovery for retail fuels is expected to be U-shaped.
- Recovery in transport fuels especially diesel may take a longer time. Petrol is expected to have a faster V-shaped recovery as more people will opt for private vehicles in the post-Corona world
- It is expected that riding on the Government impetus, the demand from manufacturing sector in the country may soon return to normal
- Crude prices are not a factor of single country and is a factor of world economy and its performance plays a large part in deciding the crude prices
- With slow-downs in some of the largest consuming economies, coupled with imbalance of supply and demand, the crude oil prices are expected to remain low in the near term
- Given today's geo-political climate, the crude oil prices are not expected to surpass USD 50/Bbl in 2020

THANK YOU