

Oil & Gas: GST

Not much impact as major products are out of ambit

INDIA | OIL & GAS | Sector Update

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We see GST as largely neutral for the oil and gas sector, as major items (crude oil, natural gas, petrol, diesel, ATF, CNG) remain out of its ambit. For products like FO and naphtha, currently in the 27-28% tax bracket, the 28% slab would prove neutral. We see tax impact reducing in bitumen and lubricants by 2-3%; lube marketers could see room for margin improvement. Gujarat Gas is an indirect beneficiary, as taxation on key ceramic customers (Morbi) falls by 4-5% (improving both business outlook and the gas demand scenario).

GST to subsume excise, CVD, SAD, VAT and entry taxes

Major taxation heads in the oil and gas sector that would be impacted by Goods & Service Tax (GST) are excise duty, additional customs/countervailing duty (CVD), special additional customs duty (SAD), VAT, entry tax/octroi, and service tax. Basic customs duty, royalty, and OIBD cess are likely to remain outside GST. We gather that since upstream royalty and cess are not taxes in the true sense, they are unlikely to be included, even in the future.

Major items remain outside the GST ambit

Major petroleum/oil products (crude oil, natural gas and its derivatives (CGD products), petrol, diesel, aviation turbine fuel (ATF) and light diesel oil (LDO)) would remain outside GST as of now. For petrol and diesel, which form almost 50% of domestic oil products consumption, share of taxes (excise + VAT) on retail prices is ~50%; lower GST rates (in case of inclusion) would have had a significant bearing on central and state revenue collections. Not surprisingly, a consensus on these will take time. Similarly, for ATF, taxes cover 30% of the price. Even though LDO consumption is negligible, it is a 'sensitive' item used by farmers.

Domestic LPG and PDS kerosene likely to be at 5% (being essentials); others at 18-28%

Domestic LPG and PDS kerosene, which currently have nil excise duty and 0-5% VAT, are likely to continue in the same slab (since they are essential items). Other oil products generally have an excise duty of 14% on an average and VAT ranging from 5% for bitumen, 12% for naphtha/furnace oil (FO) (for non-fertiliser use), to 15% for lubricants. Total taxation is 20-30%. We believe bitumen could be placed in the 18% slab and others at 28%, which would mean neutral for naphtha/FO and lower taxes for bitumen and lubes. For regions with octroi/entry taxes (4-5%), benefits would accrue accordingly.

GST for natural gas products could have been beneficial for customers

Natural gas and its derivatives (CNG/PNG) face dual taxation due to multiple points of sale, leading to VAT payments at different locations, and taxes at input points not being offset at output points. If gas were to be included in GST, the tax impact would reduce, leading to lower retail prices – which would be beneficial for consumers. As tax contribution from gas is not as significant as oil products, there is a possibility of gas being brought under GST.

Difficult to quantify benefits as we await revised slabs, lubricant taxes may reduce

The finance minister has stated that GST would try to be largely neutral for sectors; hence, we do not see any major change in prices and margins of petroleum products and companies, especially when petrol, diesel, ATF, crude oil, and natural gas remain out of GST. Quantifying benefits is difficult now; we await product-wise slabs. We calculate tax rate for lubricants reducing to 28% from an average of 31%, which would benefit customers and marketers (depending on the pass through).

Reiterate Buy on Castrol India, Gulf Oil Lubricants, and Gujarat Gas

Buy: Castrol India (target Rs 530), and Gulf Oil Lubricants (target Rs 950) as GST implementation opens room for some price cut and/or margin improvement.

Buy: Gujarat Gas (target of Rs 700); GST would result in lower taxation for GGL's key customers like the Morbi ceramic cluster where taxes on tiles may reduce to 18% from 22-23%, thereby increasing volumes and gas usage.

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Central duties of major petroleum products

	Imported			Domestic			
	Basic customs	CVD	Additional customs	Basic customs	Basic cenvat	Special additional excise	Additional excise
Crude oil	Nil+Rs 50/mt NCCD	0.0%	na	na	20% cess+NCCD	na	na
Natural gas	5.0%	0.0%	0.0%	5.0%	0.0%	0.0%	0.0%
Petrol	2.5%	Rs 15.48/ltr	Rs 6/ltr	2.0%	Rs 9.48/ltr	Rs 6/ltr	Rs 6/ltr
Diesel	2.5%	Rs 11.33/ltr	Rs 6/ltr	2.0%	Rs 11.33/ltr	0	Rs 6/ltr
ATF	0.0%	8.0%	0.0%	0.0%	8.0%	0.0%	0.0%
PDS kerosene	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Domestic LPG	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Naphtha	5.0%	14.0%	0.0%	5.0%	14.0%	0.0%	0.0%
FO	5.0%	14.0%	0.0%	5.0%	14.0%	0.0%	0.0%
Bitumen	5.0%	14.0%	0.0%	5.0%	14.0%	0.0%	0.0%
Lube	5.0%	14.0%	0.0%	5.0%	14.0%	0.0%	0.0%
PNG	5.0%	0.0%	0.0%	5.0%	0.0%	0.0%	0.0%
CNG	5.0%	14.0%	0.0%	5.0%	14.0%	0.0%	0.0%

Source: MOPNG, PPAC, PhillipCapital India Research

VAT rates of major petroleum products

	Crude	Gas	CNG	Petrol	Diesel	ATF	PDS Kero	Dom. LPG	Naphtha	FO	Bitumen	Lube
Andhra Pradesh	5%	15%	15%	39%	31%	1%	5%	5%	15%	15%	5%	15%
Assam	5%	15%		29%	20%	22%	2%	4%	15%	5%	4%	15%
Bihar	5%	20%		26%	19%	29%	5%	1%	14%	14%	5%	14%
Chhattisgarh	5%	25%		30%	27%	5%	4%	0%	14%	5%	5%	14%
Delhi	5%	0%	0%	27%	17%	25%	5%	0%	20%	20%	5%	20%
Gujarat	5%	15%	15%	29%	29%	30%	0%	5%	16%	5%	5%	18%
Haryana	5%	13%	5%	26%	17%	21%	0%	0%	13%	13%	5%	13%
J&K	5%	5%		30%	18%	21%	5%	0%	14%	14%	5%	14%
Jharkhand	5%	14%		32%	25%	4%	2%	4%	14%	14%	5%	14%
Karnataka	5%	15%		37%	25%	28%	6%	1%	6%	15%	5%	15%
Kerala	5%	15%		34%	27%	29%	5%	4%	5%	15%	6%	15%
Madhya Pradesh	5%	13%		40%	32%	4%	5%	7%	14%	14%	5%	14%
Maharashtra	5%	3%	14%	37%	27%	25%	3%	3%	13%	13%	5%	13%
Orissa	5%	14%		27%	27%	5%	1%	1%	14%	14%	5%	14%
Punjab	5%	6%		36%	17%	14%	6%	4%	6%	6%	15%	14%
Rajasthan	5%	5%		33%	26%	20%	0%	0%	5%	5%	6%	14%
Tamil Nadu	5%	5%		27%	21%	29%	5%	0%	5%	5%	4%	15%
Telangana	5%	15%		35%	27%	16%	5%	5%	15%	15%	5%	15%
Uttar Pradesh	4%	22%	14%	33%	21%	21%	4%	0%	21%	21%	5%	21%
Uttarakhand	5%	20%		34%	22%	20%	0%	5%	14%	14%	5%	20%
West Bengal	5%	5%		27%	19%	25%	0%	0%	5%	5%		15%
Average	5%	12%	10%	32%	23%	19%	3%	2%	12%	12%	5%	15%

Source: MOPNG, PPAC, PhillipCapital India Research

Likelihood of GST implementation

	Excise	VAT	Total tax	Likely slab
PDS kerosene	0%	3%	3%	5%
Domestic LPG	0%	2%	2%	5%
Naphtha	14%	12%	28%	28%
FO	14%	12%	27%	28%
Bitumen	14%	5%	20%	18%
Lube	14%	15%	31%	28%

Source: MOPNG, PPAC, PhillipCapital India Research

Orange cells imply products to be under GST

Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year.

Rating	Criteria	Definition
BUY	>= +15%	Target price is equal to or more than 15% of current market price
NEUTRAL	-15% > to < +15%	Target price is less than +15% but more than -15%
SELL	<= -15%	Target price is less than or equal to -15%.

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