September 2022
Equity Research
Sri Lanka

A joint venture of DFCC Bank and HNB

Lanka IOC PLC

Amidst record revenues/ earnings and reforms within the sector which could catalyse future growth prospects; we recommend to hold at current price levels based on our medium term outlook.

Energy | Reiterate Rating

LIOC

Target price (12M. LKR) N/A

Neutral

Acuity: Stock Ratings Scale

Acuity rating	Sell	Underweight	Neutral	Overweight	Buy
Equivalent ratings	Strong Sell	Underperform Moderate Sell Weak Hold Reduce	Hold	Outperform Moderate Buy Accumulate Add	Strong Buy

Acuity: Industry View

Industry outlook	Cautious	In-Line	Attractive
	We view the performance of the industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.	We expect the performance of the industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.	We expect the performance of the industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

Executive Summary

Lanka IOC PLC	
1- week trading range (LKR)	197.25 to 234.75
Bloomberg Ticker	LIOC SL Equity
Market Cap (LKR Bn)	139.91
Market Cap (USD Bn)	0.38
Issued Quantity (Shares Mn)	532.47
52-week High (LKR)	239.75
52-week Low (LKR)	19.20
Financial Year End	31st March

Financial year	FY2019	FY2020	FY2021	FY2022	3M 2022
Revenue (LKR Mn)	86,322	81,947	66,686	89,951	49,934
YoY Growth (%)	-5%	-5%	-19%	35%	196%
Operating profit (LKR Mn)	854	635	161	5,410	13,252
YoY Growth (%)	-162%	-26%	-75%	3251%	16,890%
Net profit (LKR Mn)	403	422	883	4,818	9,927
YoY Growth (%)	-154%	5%	109%	446%	3,536%
EPS (LKR)	0.76	0.79	1.66	9.05	18.64

Source: annual reports

In our Strategy Report for 2022 we identified LIOC as one of our picks based on its inflation hedging potential in the context of high inflation and exchange rate depreciation that we expected for the current year. With the recent run up in the LIOC share price, the stock seems fully valued at the current price levels under our base case forecast assumptions. However, given the possibility of capturing further market share from the proposed liberalisation of the local fuel retail sector and/ or elevated margins continuing into the future, we would recommend to hold for the time being. Furthermore, based on prevailing interest rates, the high discount rates we have used also dampen the current valuations. Therefore a gradual tapering off of interest rates in the short term would also lead to a re-rating for the stock. Higher than anticipated oil prices and LKR depreciation are also possible tailwinds for the stock.

Market structure

Sri Lanka currently operates mostly a duopolistic market for the import, distribution and retail of petroleum products, the two incumbents being the state-owned Ceylon Petroleum Corporation (CPC) and LIOC, a locally listed and majority owned subsidiary of the Indian Oil Corporation. Partial reforms introduced in the early 2000's saw the bunkering and lubricants market opened up to greater competition with multiple players currently active in the sector. The CPC retains a monopoly on aviation fuel and kerosene. The CPC also retains a monopoly on the sale of heavy fuel oil, which is used mostly in the power generation sector.

Table 1: Market structure

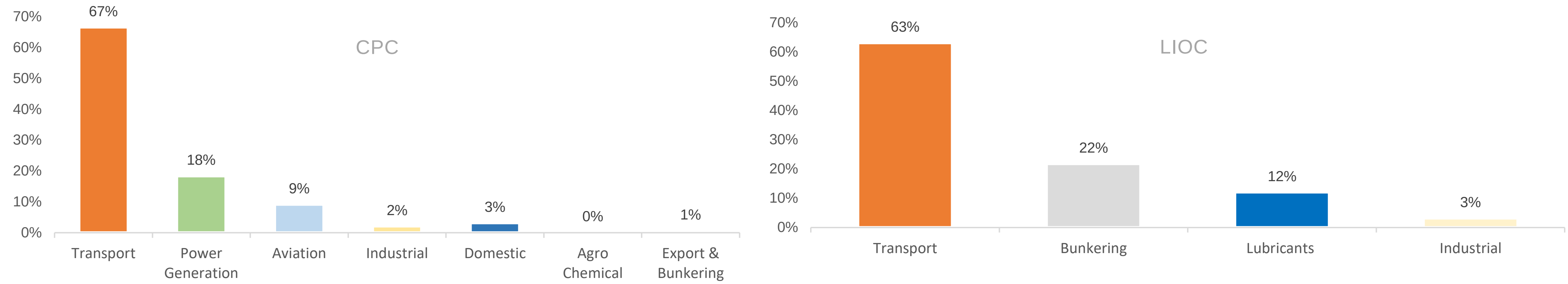
Product	Market Structure	Players	New Developments
Petrol, Diesel	Duopoly	CPC, LIOC	EOI's called for new entrants
Aviation Fuel	Monopoly	CPC	EOI's called for new entrants
Kerosene, Heavy Fuel oil	Monopoly	CPC	
Bitumen	Duopoly	CPC, LIOC	
Bunkering	Oligopoly	LIOC, CPC, Sinopec, LMS and others	
Lubricants	Oligopoly	Chevron, LIOC, CPC and multiple others	
Liquid Petroleum Gas	Oligopoly	CPC, Litro, Laugfs	

Source: annual reports, CBSL, industry sources

Efforts are underway to open up the petrol, diesel and aviation fuel markets to new entrants, with expressions of interest called from potential new entrants. Limited direct imports of fuel have also been permitted for export industries that earn foreign currency revenue, for their internal consumption for power generators/ furnaces used in their factories.

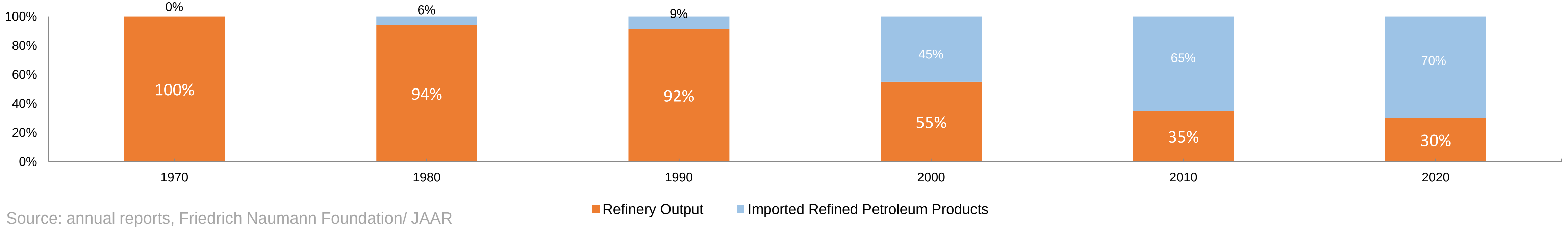
The transportation segment accounts for the bulk of the petroleum products usage within the country, followed by the power generation sector.

Chart 1: Petroleum product sales by sector



Whilst CPC imports both petroleum distillates and crude oil for processing at its sole refinery, LIOC solely imports refined petroleum products for sale in the domestic market. CPC's antiquated refinery built in the 1960's, the sole refinery operating in the country, had an annual capacity of c. 652,000 MT of auto diesel and c. 186,000 MT of 92 octane petrol in 2019, inadequate to meet the local demand for petroleum products which amounted to c. 2,139,000 MT auto diesel and 1,269,000 MT of 92 octane petrol in that year. Sri Lanka is therefore heavily dependent on imported petroleum distillates. The financial viability of CPC's refinery operation is hampered by age of the plant and underinvestment. Statements by authoritative sources have indicated that only c. 40% of the refinery output consist of refined products whilst the balance is furnace oil, aviation fuel and kerosene. CPC also produces a small amount of LP gas as a by-product of refining which is sold to the local LP gas vendors.

Chart 2: Domestic refining capacity and imported petroleum distillates



Source: annual reports, Friedrich Naumann Foundation/ JAAR

Industry Overview Cont'd

The details of the significant petroleum infrastructural assets in Sri Lanka (excluding infrastructure used for petroleum gas and lubricants) are given below.

CPC

Refining


Sapugaskanda Refinery

Storage, Distribution, B2B


Kollonawa Tank Farm


Trincomalee Tank Farm*

Retail, B2C

1,302 Petrol Stations

CPSTL

Common User Facilities

Storage, Distribution, B2B


Single Point Mooring Buoy


Muthurajawela Tank Farm

LIOC

Storage, Distribution, B2B

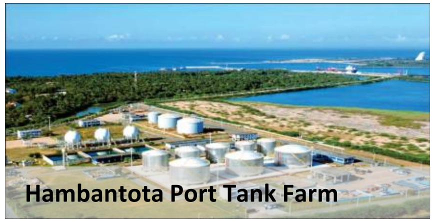

Trincomalee Tank Farm

Retail, B2C

213 Petrol Stations

Sinopec

Storage, Distribution, B2B


Hambantota Port Tank Farm

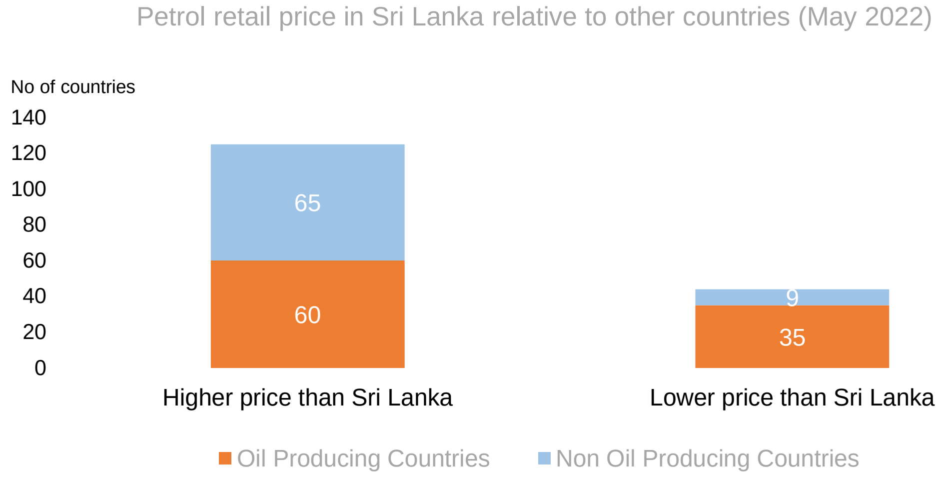
Source: Acuity, industry sources

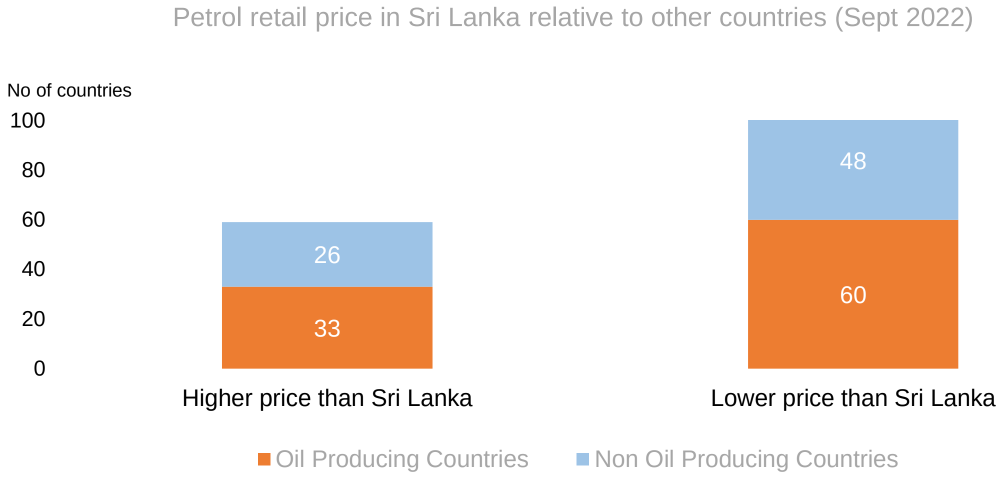
* The Trincomalee tank farm consists of 99 tanks of which 14 tanks are leased to LIOC, 24 are to be managed by CPC and the balance 61 are proposed to be jointly developed by CPC and LIOC.

The country experienced a severe scarcity of fuel from March through July of 2022, precipitated by a lack of USD liquidity in the domestic banking system which impacted fuel imports by both LIOC and the CPC. A digital fuel quota system was introduced by the government as a remedial measure to control the scarcity, whilst efforts were initiated to end the current government mandated duopoly in petroleum imports/ retail by opening up the sector to greater competition through the issue of licenses to prospective new entrants.

The fuel pricing mechanism in the domestic market was revised to a more market based pricing policy in an effort to contain the adverse macroeconomic impact from the previous practice of controlled prices and periodic price revisions which fixed retail prices at artificially low levels and contributed significantly to the current economic challenges through losses incurred by CPC. Although international comparisons of fuel retail prices is made difficult by the different levels of taxes/ subsidies on fuel prevailing in various countries, it can be seen as depicted below that the few countries which had fuel retail prices lower than Sri Lanka are mostly petroleum producing countries. The recent price revisions and the transition to a more market based price mechanism with bi-monthly price adjustments has somewhat lowered this disparity. However, pricing is still not fully determined by market forces. Price revisions are presently based around CPC's current cost structure and the need to minimise losses for the entity (refer Annex I).

Chart 3: Comparison of fuel retail prices in Sri Lanka with global peers

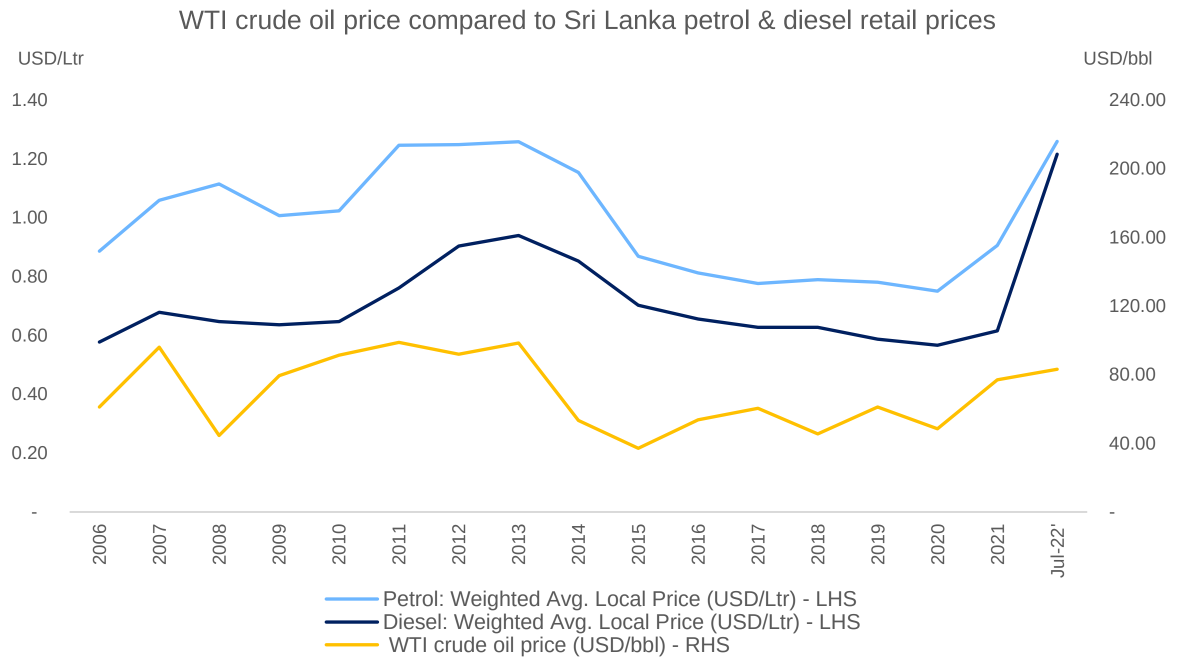


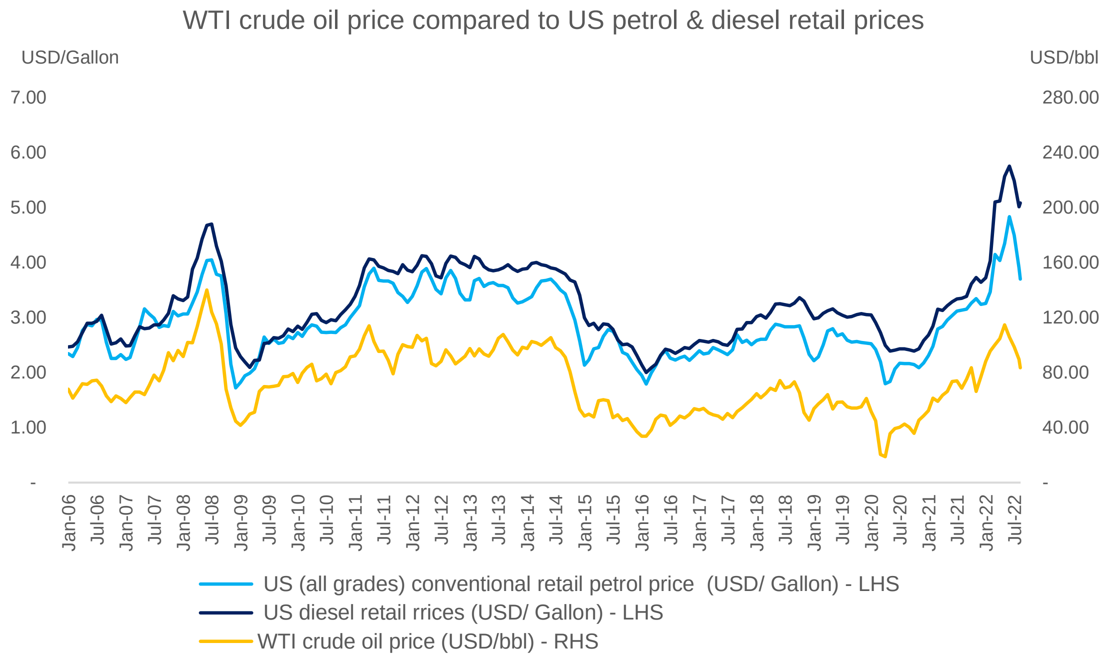


Source: Acuity, globalpetrolprices.com

The previous fuel pricing mechanism which prevented the timely adjustment of petrol and diesel prices based on global price movements in crude oil and refined distillates, resulted in prolonged deviations in the prices of fuel locally, compared to peers where fuel prices are determined by market forces. In addition to price controls on fuel prices, Sri Lanka also had a cross subsidy on diesel, whereby a higher price was charged on petrol in order to subsidise the price of diesel. Diesel is generally priced higher in most countries where market based pricing is prevalent. Given that the domestic consumption of diesel is much higher than that of petrol, the cross subsidy contributed to the structural losses at CPC as the largest player in the industry. Sri Lanka's past policy of regulated prices is visible from the correlation of the retail petrol and diesel prices with the global oil prices. Correlation of the local diesel price with global oil price was a low 0.42 and petrol 0.66, compared with correlation of over 0.9 for both in competitive markets such as the US.

Chart 4: Comparison/ correlation of regulated petrol and diesel prices in Sri Lanka with market based pricing in other markets





	Petrol: weighted avg. local price (USD/Ltr)	Diesel: weighted avg. local price (USD/Ltr)
WTI crude oil price (USD/bbl)	0.66	0.42

	US (all grades) conventional retail petrol price (USD/ Gallon)	US diesel retail prices (USD/ Gallon)
WTI crude oil price (USD/bbl)	0.94	0.90

In addition to the import and distribution of petroleum distillates, LIOC is also active in the lubricants market and operates a fuel blending plant for the production of lubricants. LIOC has also leased 14 fuel tanks from the government in Trincomalee from a larger dilapidated state-owned fuel tank farm which was originally built by the British in the early part of the 20th century during the colonial period. LIOC also has a 33.3% shareholding in Ceylon Petroleum Storage Terminals Limited ("CPSTL"), a common user fuel storage facility in Colombo. LIOC has also formed a JV with CPC (Trinco Petroleum Terminal (Pvt) Ltd.), to jointly develop 61 storage tanks in the upper tank farm area in Trincomalee.

LIOC currently has a market share of 18% of the fuel retail market in terms of the number of retail locations consisting of both its own operations and its dealer franchisees and c. 20% market share of the domestic lubricants market.

Chart 5a: LIOC and CPC Market Shares

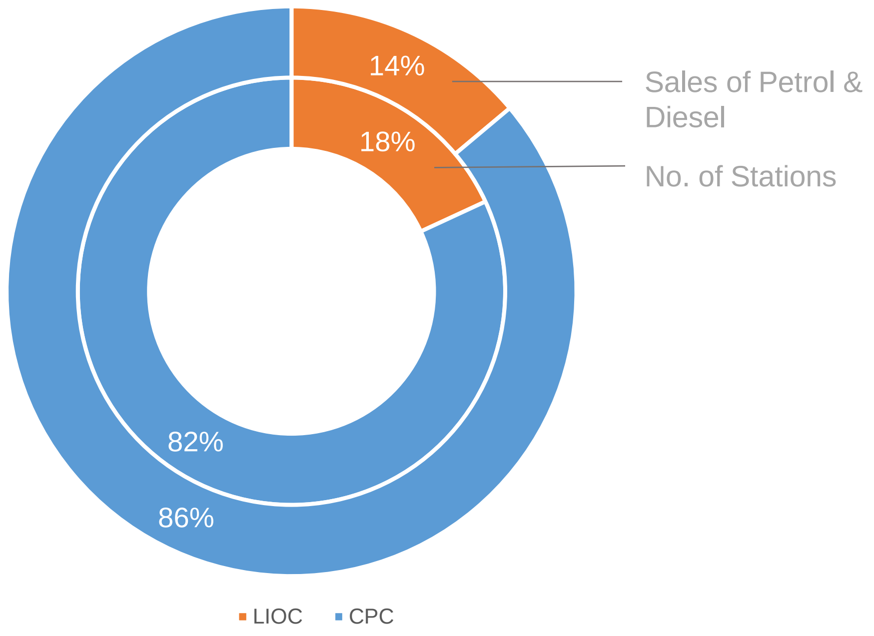
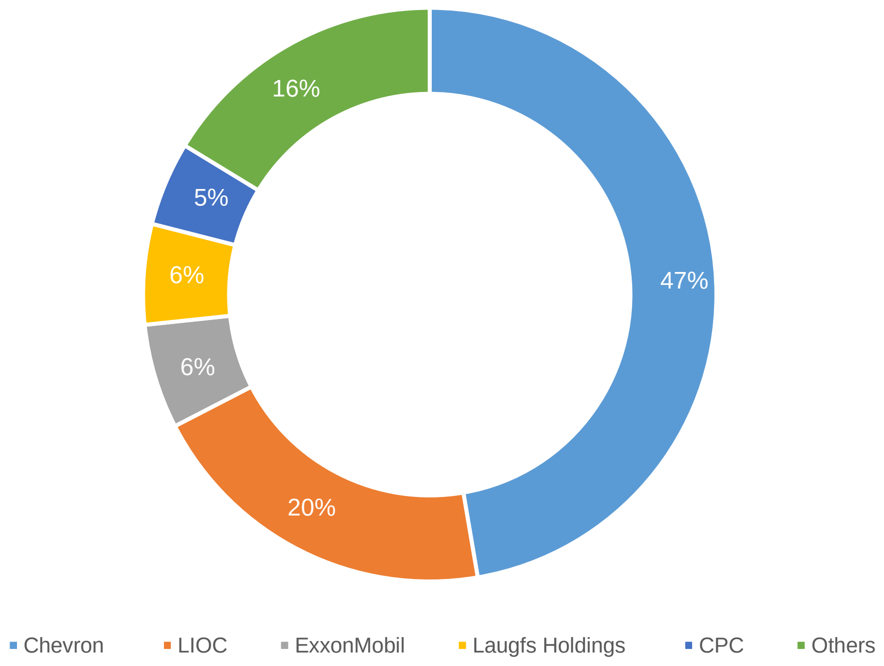


Chart 5b: Lubricants Market Share (Q3 2021)



LIOC’s Global Peer Set

Globally the largest fuel retailers, including LIOC’s parent company, are integrated energy companies involved in all upstream, midstream and downstream segments of the value chain, spanning from exploration, extraction of hydrocarbons, refining, distribution and retail of fuel distillates and natural gas. Given the limited scope of LIOC’s activities in Sri Lanka the entity is not directly comparable with integrated energy companies. We believe its more comparable with a small number of specialised fuel retailers which have different business and financial characteristics compared to larger integrated energy players. We have identified Murphy USA Inc and Sunoco as somewhat comparable listed peers. It should be noted that these players follow a convenience store format, where although fuel retail would account for the bulk of revenue, they would earn additional margin from sales of other items.

Chart 6: Largest fuel retailers globally (No. of stations)

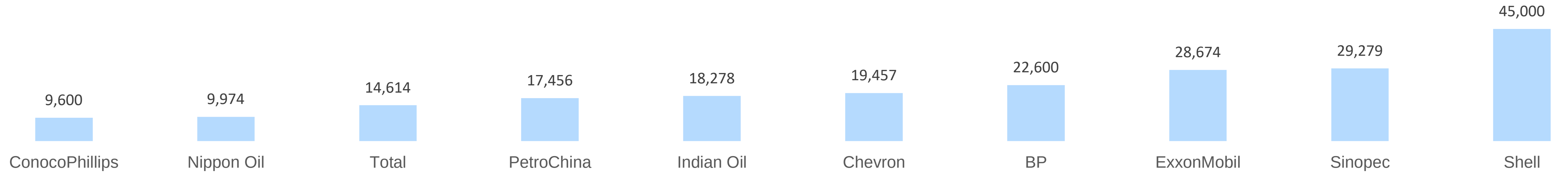
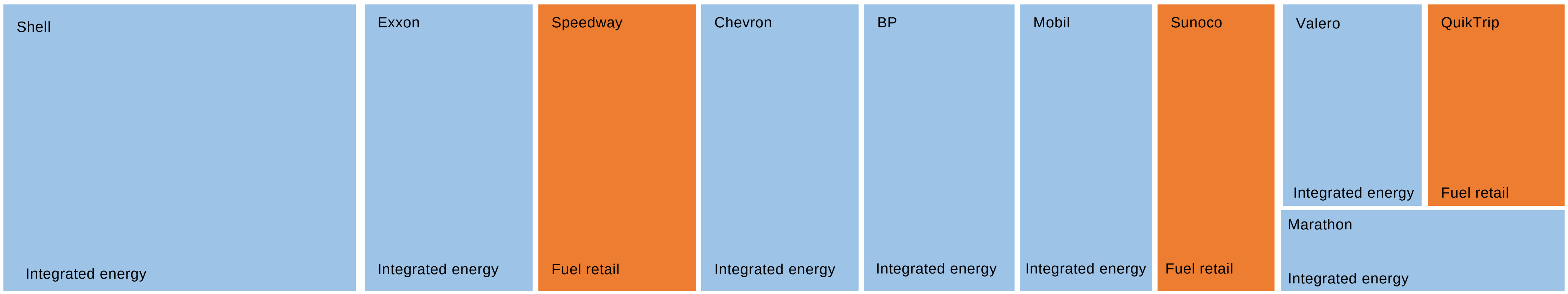


Chart 7: Top 10 fuel retailers in the US, integrated energy companies and standalone/ convenience store retailers



LIOC reported record earnings in the last few quarters in the midst of significant changes in the domestic petroleum retailing industry. LIOC's multiple revenue drivers include volume growth for petroleum distillates in the domestic market, market share and factors affecting pricing including the global pricing of crude oil/ petroleum distillates and the prevailing LKR/ USD exchange rate.

LIOC's earnings is primarily a function of gross margins given its leaner overhead structure compared to the state owned CPC. Gross profit growth and margin expansion is historically positively correlated with rising retail prices. In a normalised environment assuming market based pricing, factors affecting stabilised gross margins would be the degree of competition in the domestic petroleum market.

Table 2: Visualisation of LIOC's historical revenue and earnings drivers

(Correlation of log value of LIOC's revenue, gross profits, domestic market growth, global crude prices, LKR/ USD exchange ra*te and domestic fuel prices)*

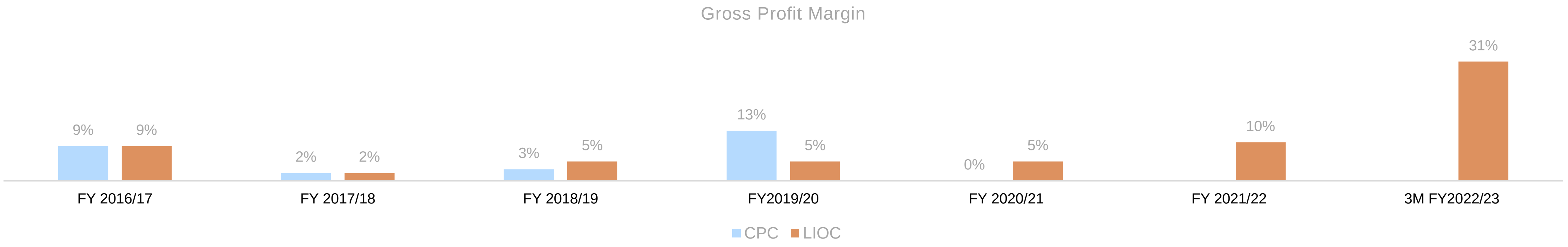
	Ln LIOC revenue	Ln LIOC GP	Ln Local fuel sales quanity	Ln Crude oil price	Ln Petrol price	Ln Diesel price	Ln Exchange rate
Ln LIOC revenue	1.00						
Ln LIOC GP	0.49	1.00					
Ln Local fuel sales quanity	0.83	0.34	1.00				
Ln Crude oil price	-0.07	0.25	-0.39	1.00			
Ln Petrol price	0.47	0.58	0.19	0.58	1.00		
Ln Diesel price	0.85	0.65	0.65	0.10	0.79	1.00	
Ln Exchange rate	0.71	0.17	0.86	-0.55	0.20	0.63	1.00

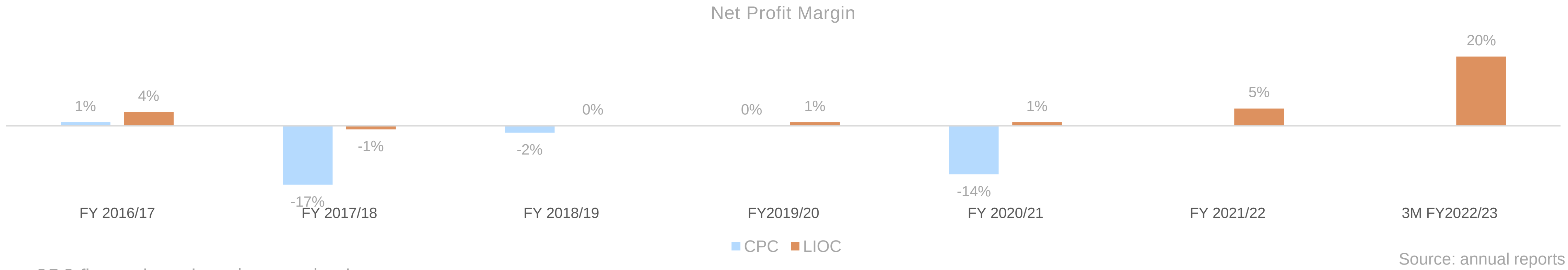
Source: Acuity, annual reports

LIOC Comparative Performance Cont'd

Since its entry to the Sri Lankan market, LIOC has operated under a regulated fuel pricing system. Although the resulting losses from mispricing of fuel have largely been borne by the state owned CPC given its larger market share and higher cost structure, LIOC's past margins have also been impacted by regulated fuel prices, which is evident from low historic margins compared to current year margins. LIOC has consistently reported higher net margins due to its leaner overhead structure even when gross margins have been close to CPC's gross margin levels based on the past regulated fuel pricing practises.

Chart 8: Historical margin comparison





Source: annual reports

Note: CPC figures based on closest calendar year

Given CPC's heavier cost structure and accumulated debt burden from its past losses, we expect that fuel pricing revisions going forward (in the absence of political considerations) would continue to allow for significant margins in order for CPC to cover its overhead and finance expenses (refer Annex I) and recover past losses. CPC's high cost structure is based on a number of factors including high levels of accumulated debt to fund past losses, high interest costs on the debt, lack of adequate storage and dilapidated infrastructure, inability to collect receivables in a timely manner from other loss making SOE's including Ceylon Electricity Board ("CEB") and Sri Lankan Airlines, and past losses arising from controlled fuel prices, particularly of diesel and kerosene which were sold at below cost until recently. We expect that this scenario would work to the benefit of LIOC and potential new entrants who would enjoy comfortable gross margins and lower pricing pressure in the medium term. Game theory dictates that given the oligopolistic nature of the industry we should not expect any significant price based competition between incumbent and potential new entrants. Moreover, Sri Lanka's efforts to obtain IMF funding will also be conditional on market based pricing of fuel and electricity, cost recovery at CPC and other SOE's, and lower fiscal support for loss making SOE's through the national budget.

Table 3: LIOC, CPC and global peers; margin and cost structure comparison

(Based on 2017 to 2021 annual reported financials of CPC, LIOC and global peers*)

	CPC	LIOC	Global Peers*
Revenue	100.0%	100.0%	100.0%
Cost of Sales	94.9%	95.0%	93.8%
Gross Profit	5.1%	5.0%	6.7%
Admin., Sales & Distribution Cost	4.0%	4.4%	3.4%
Operational Profit	1.2%	0.9%	3.4%
Financial Cost	3.0%	0.2%	0.8%
Exchange Rate Loss	4.6%	0.2%	
Profit/Loss	-6.5%	1.1%	2.2%

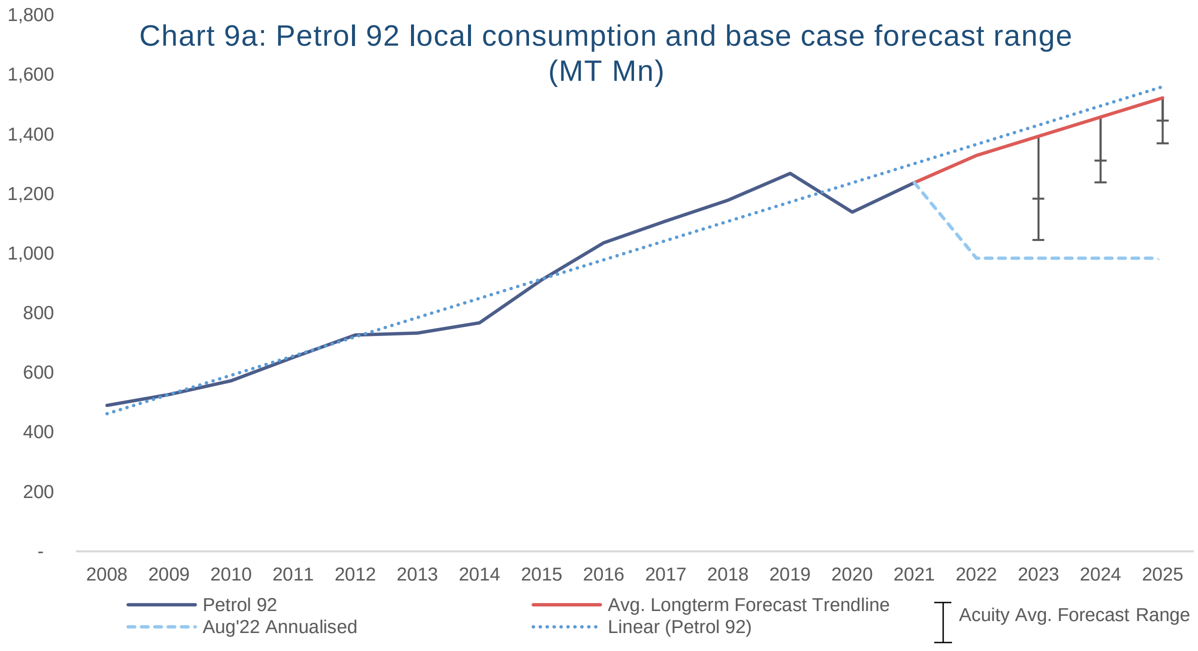
* We have taken Murphy Inc and Sunoco as comparative global peers

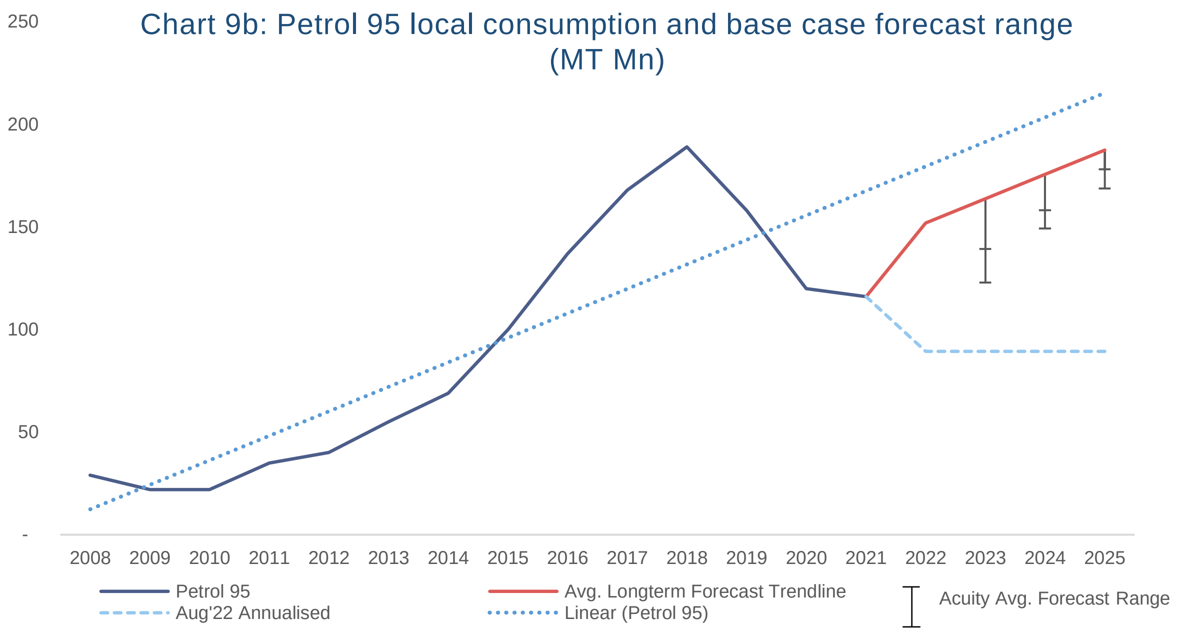
Source: annual reports, Bloomberg

Comparisons show that gross margins in the Sri Lankan context which have average c. 5% are lower by c. 1.7 percentage points compared to markets where fuel pricing is market determined. **CPC's** finance and foreign exchange costs have averaged 7.6 percentage points. Therefore in order for CPC to recover costs, we expect that fuel pricing would need to allow for minimum gross margins of over 10% of revenue. Gross margins would need to be much higher in the short term for CPC to recover past losses and pay down its accumulated debt burden.

LIOC's revenue is the function of multiple variables including growth in domestic consumption of petrol and diesel, LIOC's market share in the domestic market, the global prices for crude oil, the crack spread (the premium earned by oil refiners) and the LKR/ USD exchange rate. Stabilised gross margins, the primary determinant of overall profitability is also a function of the level of competition which can be expected in the future. We have used Monte Carlo simulations to model some of the multivariate inputs used in the revenue forecast for LIOC. The key forecast assumptions/ dispersion ranges taken into our financial model are discussed in further detail below.

The current market volumes are below the average long-term forecast trendline as a result of the foreign exchange shortage and resulting fuel shortages. Reversion to trendline volumes would depend on improvements in the economy including the availability of sufficient USD liquidity post an IMF bailout and foreign debt restructuring. We have assumed that volumes will gradually revert to the trendline over a 3 year period. Valuations are also highly sensitive to the discount rates used, given the high prevailing risk free rates. We have split our valuation into a base case, a bull case and high market share scenario. The bull case assumes faster reversion to the average trendline volumes and higher margins in the terminal year. In both the base case and bull case we have assumed some market share gains and that gross margins will gradually compress to 12-13% (which is well above the global peer average). The high market share scenario builds on the bull case and assumes further market share gains, possibly as a consequence of the fuel sector liberalisation process.





The charts depict the long-term average forecast trendline for petrol consumption and our adjusted average forecast range and reversion to mean over the next three years.

Methodology and Data Cont'd

Chart 10a: Diesel local consumption and base case forecast range (MT Mn)

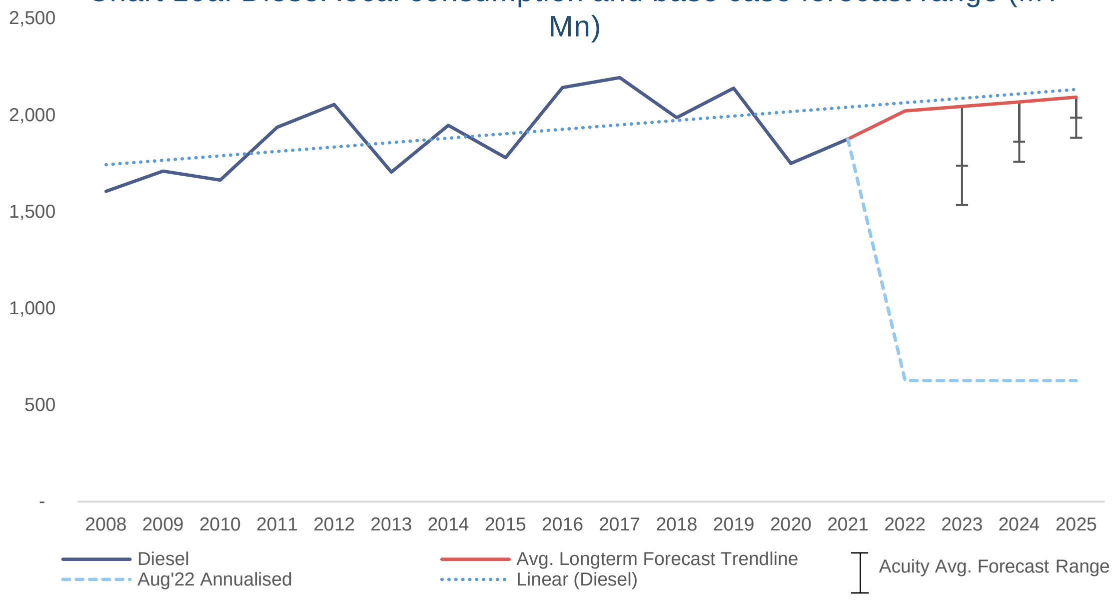
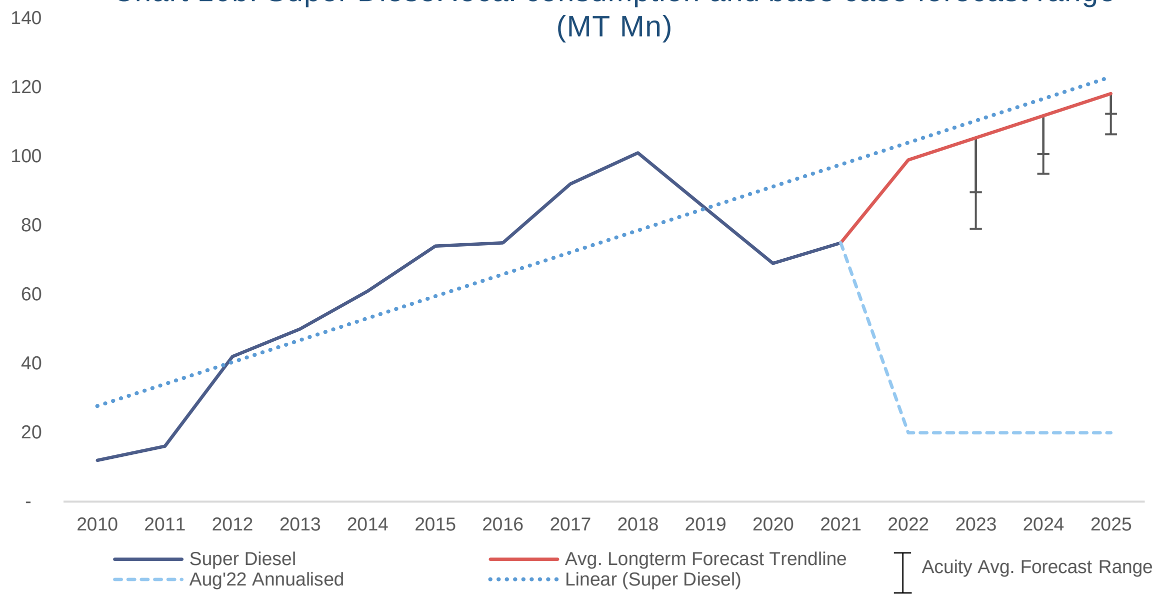
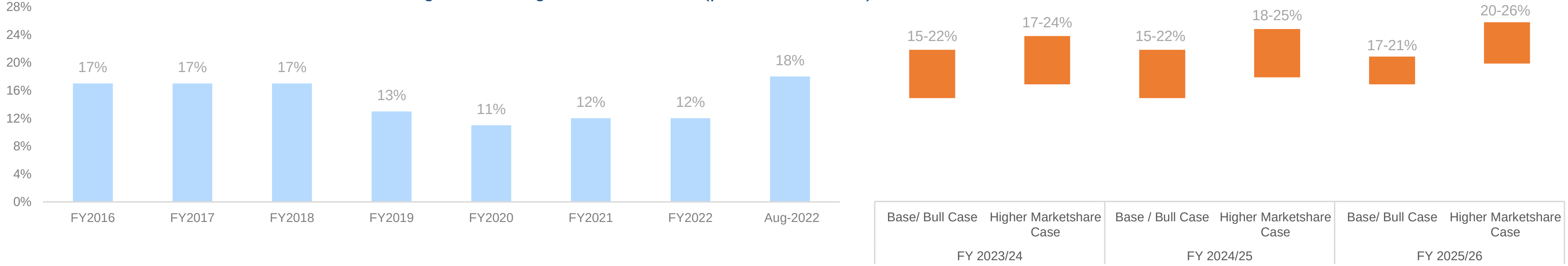


Chart 10b: Super Diesel local consumption and base case forecast range (MT Mn)



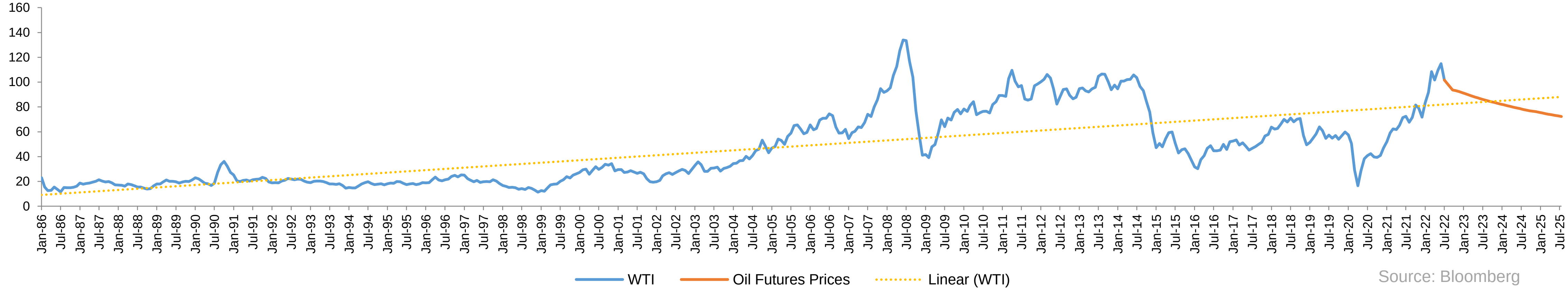
The charts depict the long-term average forecast trendline for diesel consumption and our adjusted average forecast range and reversion to mean over the next three years.

Chart 11: Historical and forecast weighted average market shares (petrol and diesel)



Methodology and Data Cont'd

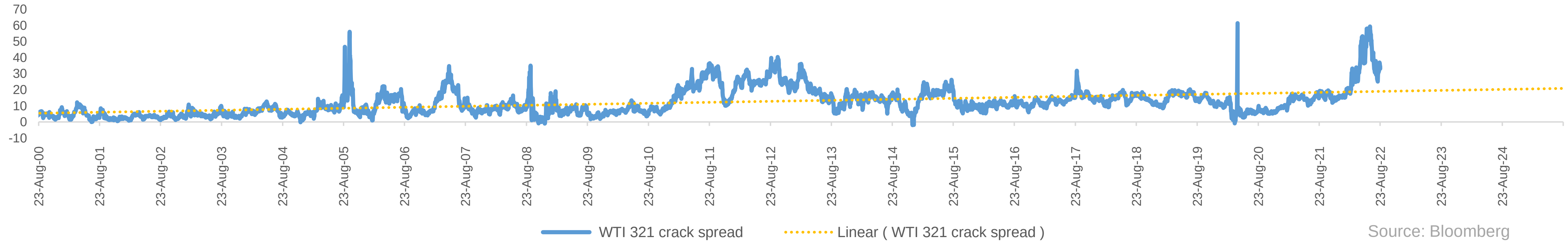
Chart 12: Global crude prices and base case forecast (USD/ bbl)



Source: Bloomberg

Our crude oil price forecast assumption is at USD 90/bbl, USD 82/bbl and USD 95/bbl for the next three years respectively based on avg. of futures prices and trendline, with a standard deviation of USD 27/bbl based on historical volatility.

Chart 13: Global crack spreads and forecast (USD/ bbl)



Source: Bloomberg

The avg. crack spread forecast is taken at USD 20/bbl with a standard deviation of USD 8.5/bbl based on historical volatility.

Table 4: Summarised forecast financials

Summarized P&L (in LKR Mn) as at 31st March	Historical			Forecast									
	FY2021	FY2022	3M 2022	FY2023F	Base case			Bull case			High Market Share Case		
					FY2024F	FY2025F	FY2026F	FY2024F	FY2025F	FY2026F	FY2024F	FY2025F	FY2026F
Revenue	66,686	89,951	49,934	178,844	256,653	269,945	345,824	259,199	286,532	375,199	282,647	341,733	474,898
YoY Change	-19%	35%		99%	47%	7%	29%	45%	11%	31%	58%	21%	39%
Operating Profit	161	5,410	13,252	42,608	42,126	28,381	21,372	42,506	30,752	33,965	45,192	36,569	43,346
YoY Change	-75%	3251%	145%	688%	-1%	-33%	-25%	0%	-28%	10%	6%	-19%	19%
Net Profit	883	4,818	9,927	30,335	28,688	18,203	12,270	28,930	19,759	22,029	30,477	23,227	27,797
YoY Change	109%	446%	106%	530%	-5%	-37%	-33%	-5%	-32%	11%	0%	-24%	20%
Gross Margin	5%	10%	31%	28%	20%	15%	11%	20%	15%	13%	20%	15%	13%
EBIT Margin	0%	6%	27%	24%	16%	11%	6%	16%	11%	9%	16%	11%	9%
Net Margin	1%	5%	20%	17%	11%	7%	4%	11%	7%	6%	11%	7%	6%
EPS (LKR)	1.66	9.05	18.64	56.97	53.88	34.19	23.04	54.33	37.11	41.37	57.24	43.62	52.20
DPS (LKR)	0.75	2.25		45.58	43.10	13.67	9.22	43.47	14.84	16.55	45.79	17.45	20.88

Table 5: Exit multiple based valuation

Bull case As at 31st March (in LKR)	Base case				Bull case				High market share case			
	2023F	2024F	2025F	2026F	2023F	2024F	2025F	2026F	2023F	2024F	2025F	2026F
EPS	56.97	53.88	34.19	23.04	56.97	54.33	37.11	41.37	56.97	57.24	43.62	52.20
DPS	45.58	43.10	13.67	9.22	45.58	43.47	14.84	16.55	45.58	45.79	17.45	20.88
Dividend payout (%)	80%	80%	40%	40%	80%	80%	40%	40%	80%	80%	40%	40%
Discount rate				33%				33%				33%
Discounted value of DPS	36.82	26.20	6.25	3.17	36.82	26.42	6.79	5.70	36.82	27.84	7.98	7.19
Total Discounted value of DPS (A)				72.45				75.73				79.83
Exit PER Multiple (X)				9.00				9.00				9.00
Exit year (2026F) EPS				23.04				41.37				52.20
Exit value per share				207.39				372.34				469.83
PV of Exit value (B)				66.48				119.35				150.61
Current (per share) value of LIOC (A+B)				138.93				195.08				230.43

Sensitivity analysis - value per share (LKR)				
		Discount Rate		
		27%	30%	33%
PER (x)	8.00	148.18	139.31	131.54
	9.00	157.03	147.37	138.93
	10.00	165.89	155.44	146.32

Sensitivity analysis – value per share (LKR)				
		Discount Rate		
		27%	30%	33%
PER (x)	8.00	208.37	194.18	181.82
	9.00	224.28	208.66	195.08
	10.00	240.18	223.15	208.34

Sensitivity analysis value per share (LKR)				
		Discount Rate		
		27%	30%	33%
PER (x)	8.00	246.34	228.88	213.70
	9.00	266.40	247.16	230.43
	10.00	286.47	265.43	247.17

Table 6: Discounted Cash Flow (DCF) valuation

Base case valuation: Sensitivity analysis – DCF value of LIOC per share (LKR)

		WACC				
		18.2%	23.2%	28.2%	33.2%	38.2%
Terminal growth	4.50%	154.00	146.86	140.62	135.12	130.24
	4.75%	154.77	147.63	141.38	135.88	131.01
	5.00%	155.55	148.41	142.16	136.66	131.79
	5.25%	156.36	149.22	142.97	137.47	132.60
	5.50%	157.18	150.04	143.80	138.30	133.42

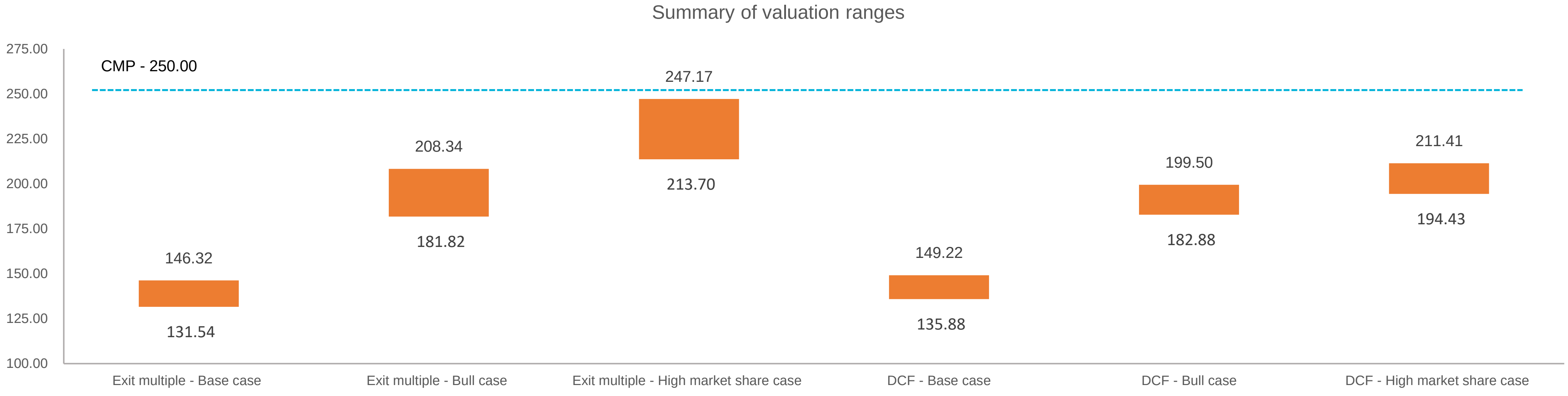
Bull case valuation: Sensitivity analysis – DCF value of LIOC per share (LKR)

		WACC				
		18.2%	23.2%	28.2%	33.2%	38.2%
Terminal growth	4.50%	203.64	195.20	187.87	181.48	175.87
	4.75%	205.04	196.59	189.27	182.88	177.26
	5.00%	206.47	198.02	190.70	184.31	178.69
	5.25%	207.94	199.50	192.17	185.78	180.17
	5.50%	209.46	201.01	193.69	187.29	181.68

High market share case valuation: Sensitivity analysis – DCF value of LIOC per share (LKR)

		WACC				
		18.2%	23.2%	28.2%	33.2%	38.2%
Terminal growth	4.50%	214.92	206.48	199.18	192.83	187.25
	4.75%	216.52	208.08	200.78	194.43	188.85
	5.00%	218.16	209.72	202.42	196.07	190.50
	5.25%	219.85	211.41	204.11	197.75	192.18
	5.50%	221.58	213.14	205.84	199.49	193.91

Chart 14: Valuation summary



Based on our forecast and valuation methodologies we find that the stock is mostly fully valued. To arrive at a valuation higher than the current share price levels we would need to assume a significantly higher market share going forward and/ or very high sustained margins relative to historical levels. Since the current process of opening up and unbundling the local petroleum retail sector is still ongoing, we would recommend to hold at these price levels until there is more clarity on the likely outcome and the nature of the competitive scenario that might prevail in the future. Significant risk factors remain in terms of the regulatory environment for the sector and political considerations influencing both market based pricing of fuel and further deregulation of the sector. Our ratings on the stock, valuations and future price targets will be periodically revised based on the outcome of the ongoing process referred to above and evidence of sustained market share gains and margin expansion. Other positive tailwinds for the stock include higher than anticipated global oil prices and/ or LKR depreciation in addition to declining market interest rates in the short to medium term allowing for lower discount rates and correspondingly higher valuations.

CPC: Current cost of imported refined products and margins

	Type of Product				
	Petrol 92	Petrol 95	Lanka Auto Diesel	Lanka Super Diesel	Kerosene
Cost Per Bbl/USD	133.11	114.74	153.13	162.67	137.09
Losses due to evaporation of products-0.3% Per Barrel in USD	0.40	0.34	0.46	0.49	0.41
Landed Cost Per Litre (LKR)	309.76	267.01	356.36	378.54	319.02
Taxation	55.23	73.03	32.73	56.39	-
Taxation (as a % of landed cost)	18%	27%	9%	15%	0%
Processing Cost Per Litre in Rs	20.43	23.99	17.34	20.24	11.73
Processing Cost (as a % of landed cost)	6.6%	9.0%	4.9%	5.3%	3.7%
Jetty and Pipeline Charges (Local port charges)	0.28	0.74	0.30	0.83	0.73
Throughput Charges	2.97	2.97	2.63	2.63	2.52
Transport Cost	1.68	1.68	1.68	1.68	1.68
Evaporation Loss given to Dealer	2.18	2.62	-	-	-
Dealer Margin	13.32	15.98	12.73	15.10	6.80
Other Operational & Administration Cost	12.35	12.43	12.33	13.77	9.16
Ops & Admin (as a % of landed cost)	4.0%	4.7%	3.5%	3.6%	2.9%
L/C opening charges	-	-	-	-	-
Bill Acceptance Charges	-	-	-	-	-
Supplie's Interest	-	-	-	-	-
Finance Cost	11.27	11.36	11.23	12.63	8.02
Fire, insurance and inspection, etc.	0.08	0.07	0.10	0.14	0.04
Administrative & other cost	1.00	1.00	1.00	1.00	1.10
Exchange variation					
Total Cost without dealer margin	329.22	287.45	373.30	397.45	333.11
Total Cost without dealer margin, Ops & admin cost	316.87	275.02	360.97	383.68	323.95
Profit Margin Per Litre in Rs					
Contribution to price stabilization fund Per Litre in Rs					
Maximum Retail Price Per Litre in Rs	397.77	376.46	418.75	468.93	339.91
Current Reatail Price Per Litre in Rs	450.00	540.00	430.00	510.00	340.00
Profit/(Loss) Per Litre in Rs	52.23	163.54	11.25	41.07	0.09

Source: CPC

Annex II: Forecast assumptions

Table 4: Summary of forecast variables assumptions and dispersion ranges

	Base Case			Bull Case			Higher Market Share Scenario		
	FY 2023/24	FY 2024/25	FY 2025/26	FY 2023/24	FY 2024/25	FY 2025/26	FY 2023/24	FY 2024/25	FY 2025/26
WTI Crude, mean price $/bbl/ standard deviation $/bbl	90/ 27	82/ 27	95/ 27	90/ 27	82/ 27	95/ 27	90/ 27	82/ 27	95/ 27
Crack spread, mean $/bbl/ standard deviation $/ bbl	20/ 8.5	20/ 8.5	20/ 8.5	20/ 8.5	20/ 8.5	20/ 8.5	20/ 8.5	20/ 8.5	20/ 8.5
Petrol 92, trend forecast demand Mn L/ standard deviation Mn L +/- % adjustment range to trend	1,393/ 82 -15%/ -25%	1,458/ 82 -10%/ -15%	1,522/ 82 -5%/ -10%	1,393/ 82 -15%/ -25%	1,458/ 82 -5%/ -10%	1,522/ 82 0%/ -5%	1,393/ 82 -15%/ -25%	1,458/ 82 -5%/ -10%	1,522/ 82 0%/ -5%
Petrol 95, trend forecast demand Mn L/ standard deviation Mn L +/- % adjustment range to trend	164/ 38 -15%/ -25%	176/ 38 -10%/ -15%	187/ 38 -5%/ -10%	164/ 38 -15%/ -25%	176/ 38 -5%/ -10%	187/ 38 0%/ -5%	164/ 38 -15%/ -25%	176/ 38 -5%/ -10%	187/ 38 0%/ -5%
Diesel, trend forecast demand Mn L/ standard deviation Mn L +/- % adjustment range to trend	2,045/ 195 -15%/ -25%	2,069/ 195 -10%/ -15%	2,092/ 195 -5%/ -10%	2,045/ 195 -15%/ -25%	2,069/ 195 -5%/ -10%	2,092/ 195 0%/ -5%	2,045/ 195 -15%/ -25%	2,069/ 195 -5%/ -10%	2,092/ 195 0%/ -5%
Super Diesel, trend forecast demand Mn L/ standard deviation Mn L +/- % adjustment range to trend	105/ 18 -15%/ -25%	112/ 18 -10%/ -15%	118/ 18 -5%/ -10%	105/ 18 -15%/ -25%	112/ 18 -5%/ -10%	118/ 18 0%/ -5%	105/ 18 -15%/ -25%	112/ 18 -5%/ -10%	118/ 18 0%/ -5%
Evaporation loss	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
Processing cost % of landed cost for petrol/ petrol 95/ diesel/ super diesel	1.93%/ 2.11%, 1.10%/ 1.19%	1.93%/ 2.11%, 1.10%/ 1.19%	1.93%/ 2.11%, 1.10%/ 1.19%	1.93%/ 2.11%, 1.10%/ 1.19%	1.93%/ 2.11%, 1.10%/ 1.19%	1.93%/ 2.11%, 1.10%/ 1.19%	1.93%/ 2.11%, 1.10%/ 1.19%	1.93%/ 2.11%, 1.10%/ 1.19%	1.93%/ 2.11%, 1.10%/ 1.19%
PAL %	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
Other taxes LKR/ L for petrol/ petrol 95/ diesel/ super diesel	32/ 53/ 6/ 28	32/ 53/ 6/ 28	32/ 53/ 6/ 28	32/ 53/ 6/ 28	32/ 53/ 6/ 28	32/ 53/ 6/ 28	32/ 53/ 6/ 28	32/ 53/ 6/ 28	32/ 53/ 6/ 28

Annex II: Forecast Assumptions Cont'd

Table 4: Summary of forecast variables assumptions and dispersion ranges

	Base Case			Bull Case			Higher Market Share Scenario		
	FY 2023/24	FY 2024/25	FY 2025/26	FY 2023/24	FY 2024/25	FY 2025/26	FY 2023/24	FY 2024/25	FY 2025/26
LIOC market share Petrol 92, high/ low range %	22% / 20%	22% / 17%	21% / 17%	22% / 20%	22% / 17%	21% / 17%	24% / 22%	25% / 23%	26% / 24%
LIOC market share Petrol 95, high/ low range %	22% / 20%	22% / 17%	21% / 17%	22% / 20%	22% / 17%	21% / 17%	24% / 22%	25% / 23%	26% / 24%
LIOC market share Diesel, high/ low rage %	21% / 15%	21% / 15%	20% / 17%	21% / 15%	21% / 15%	20% / 17%	23% / 17%	24% / 18%	25% / 20%
LIOC market share Super Diesel, high/ low range %	21% / 15%	21% / 15%	20% / 17%	21% / 15%	21% / 15%	20% / 17%	23% / 17%	24% / 18%	25% / 20%
Petrol 92, spot price premium over crack spread %	0%	0%	0%	0%	0%	0%	0%	0%	0%
Petrol 95, spot price premium over crack spread %	4%	4%	4%	4%	4%	4%	4%	4%	4%
Diesel, spot price premium over crack spread %	10%	10%	10%	10%	10%	10%	10%	10%	10%
Super Diesel, spot price premium over crack spread %	15%	15%	15%	15%	15%	15%	15%	15%	15%
LIOC blended gross margin % (petrol, diesel & other products)	20%	15%	12%	20%	15%	13%	20%	15%	13%
LKR/ USD exchange rate change, high/ low range % change p.a.	5%/ -5%	5%/ -2%	10%/ -2%	5%/ -5%	5%/ -2%	10%/ -2%	5%/ -5%	5%/ -2%	10%/ -2%

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