

July 14, 2022

## Marketing losses to dent OMCs' earnings...

### Supply concerns keep oil prices elevated...

Oil prices continued to trend at elevated levels in Q1FY23 amid concerns over supply disruption following the geopolitical conflict in Europe. Average crude oil prices increased by US\$13.3/bbl QoQ to US\$112.8/bbl. On a closing basis, crude oil prices increased US\$8.4/bbl QoQ to US\$115/bbl. APM gas realisation was up 110% as domestic APM gas prices were revised upwards from April. Similarly, ceiling price for gas from deepwater fields was also higher by 62% in Q1FY23. Hence, net realisations of upstream companies are estimated to improve YoY as well as QoQ.

### Strong GRMs for refiners; marketing losses a negative for OMCs

Benchmark Singapore GRMs saw a sharp rise and were at US\$21.5/bbl in Q1FY23 vs. US\$8.1/bbl in Q4FY22. Low grade fuel oil is a significant component of benchmark whereas for Indian refiners, cracks of gas oil, gasoline and jet fuel are more important. Transport fuels constitute 55-60% of refining slate. Cracks for gas oil increased US\$23.7/bbl QoQ to US\$43.8/bbl while gasoline product cracks saw an increase of US\$18.1/bbl QoQ to US\$35.6/bbl. Jet fuel cracks saw growth of US\$22.7/bbl to US\$40/bbl. Overall, GRMs for refiners are expected to improve QoQ and are anticipated to be in the range of US\$25-27/bbl. Refining segment earnings are likely to be further supported by inventory gains. On the marketing front, marketing volumes are expected to grow in the range of 19-21% YoY. In terms of marketing margins, we estimate losses as OMCs did not pass on higher crude oil costs to customers. We also note that the companies are likely to face marketing inventory losses owing to excise duty cut in May. We expect one OMC to report ~68% QoQ decline in earnings while the other two OMCs are expected to report losses.

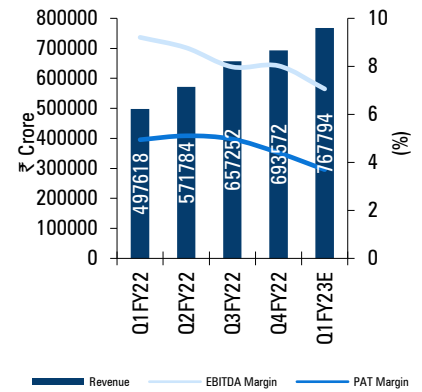
### CGD sales grow YoY; price hikes amid rise in gas sourcing costs

Sales volumes of city gas distribution (CGD) companies are expected to grow YoY (on a favourable base). Companies with high CNG contribution are expected to grow 38-49% YoY. Companies with high PNG contribution in sales mix are expected to report weaker sales growth YoY due to muted industrial offtake. On the cost front, CGD companies are expected to incur high gas sourcing costs as domestic gas prices were revised by 110%. Also, spot LNG prices continue to trend at higher level. Hence, in spite of price hikes taken during the quarter, we expect gross margins to decline YoY. For large gas utility companies, LNG import volume is estimated to fall YoY.

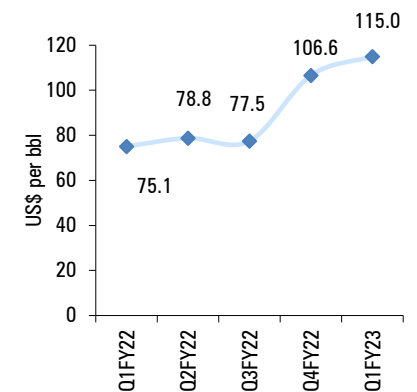
Company	Revenue		Change (%)		EBITDA		Change (%)		PAT		Change (%)	
	Q1FY23E	YoY	QoQ	Q1FY23E	YoY	QoQ	Q1FY23E	YoY	QoQ	Q1FY23E	YoY	QoQ
Bharat Petroleum	1,27,691.6	42.4	3.4	-1,005.9	PL	PL	-1,641.7	PL	PL			
Gail India	29,545.3	70.0	9.6	3,009.2	24.8	-19.0	2,017.1	31.8	-24.8			
Gujarat Gas	5,110.8	69.7	9.5	482.4	-33.3	-30.8	292.9	-38.5	-34.1			
HPCL	1,15,787.2	49.2	10.0	-3,399.2	PL	PL	-3,271.6	PL	PL			
IOC	2,40,101.8	54.8	16.3	6,191.2	-44.4	-46.8	1,936.9	-67.4	-67.8			
Indraprastha Gas Ltd	3,232.3	157.1	34.3	526.9	38.3	5.3	349.3	43.0	-3.4			
Mahanagar Gas Ltd	1,418.1	112.7	19.4	282.3	-7.1	31.0	183.0	-10.3	38.9			
Petronet LNG	13,406.4	55.9	20.1	1,009.8	-4.2	-13.6	606.4	-4.6	-19.2			
Reliance Industries	2,31,501.0	60.4	9.3	47,108.3	101.6	50.2	27,909.0	127.4	72.2			

Source: Company, ICICI Direct Research

### Topline & Profitability (Coverage Universe)

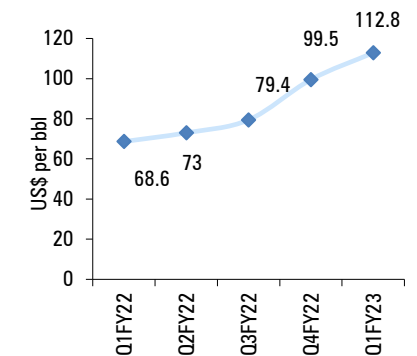


### Closing Brent crude oil prices



Source: Bloomberg

### Average Brent crude oil prices



Source: Bloomberg

### Top Picks

Reliance Industries

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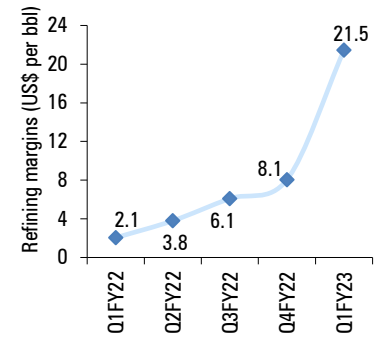
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Exhibit 2: Company Specific Views

Company	Remarks
BPCL	Crude throughput is expected at 7.5 MMT, down 7.6% QoQ amid refinery shutdown in June. Marketing segment volumes are expected to increase 20.5% YoY. GRMs are expected at \$26.5/bbl on account of increase in product cracks. On the marketing front, we expect losses as the company did not pass on increasing crude oil costs to customers. Hence, we expect net loss of ₹ 1641.7 crore
Gail	Gail's operational performance is expected to improve YoY on account of gas trading and petchem segments. On the gas business front, transmission volume is expected to grow 3% YoY to 111 mmscmd with EBIT at ₹ 903.7 crore. Transmission volume is expected to increase ~3% QoQ. For the gas trading segment, we expect EBIT at ₹ 990.8 crore against EBIT of ₹ 377.6 crore in Q1FY22 on account of higher spot LNG prices. On the LPG/LHC front, EBIT is expected to decline 16% YoY to ₹ 532.9 crore while the petchem segment is expected to report EBIT of ₹ 241.4 crore
Gujarat Gas	We expect revenues to increase 69.7% YoY, mainly on account of higher realisation. Volume is expected to increase ~2% YoY and ~3% QoQ to 10.2 mmscmd. We expect marginal increase in industrial offtake on QoQ basis. Due to a sharp increase in gas costs, gross margins are expected to dip ₹ 2.4/scm YoY to ₹ 8/scm. EBITDA/scm is expected at ₹ 5.2/scm, down ₹ 2.7/scm YoY. Hence, we expect PAT of ₹ 292.9 crore, down 38.5% YoY
Hindustan Petroleum	Crude throughput is expected at 4.8 MMT, up 2.3% QoQ. Marketing segment volumes are expected to increase 21.9% YoY. GRMs are expected at \$26.6/bbl on account of increase in product cracks. On the marketing front, we expect losses as the company did not pass on increasing crude oil costs to customers. We expect net loss of ₹ 3721.6 crore
Indian Oil Corporation	Crude throughput is expected at 19 MMT, up 4% QoQ. Marketing segment volumes are anticipated to increase 18.7% YoY. GRMs are anticipated at \$26.5/bbl vs. \$18.5/bbl in Q4FY22 on account of increase in product spreads. On the marketing front, we expect losses as the company did not pass on increasing crude oil costs to customers. PAT is estimated at ₹ 1936.9 crore, down 67.8% QoQ
Indraprastha Gas	IGL's volumes are expected to increase 49.1% YoY and 2.3% QoQ. Total volumes are expected at 7.9 mmscmd (CNG: 5.8 mmscmd, PNG: 2.1 mmscmd). Due to a surge in gas costs, we expect ₹ 1.2/scm YoY dip in gross margins to ₹ 13/scm. Increase in gas costs are expected to be partially offset by higher realisation. EBITDA/scm is expected at ₹ 7.3/scm, down ₹ 0.6/scm YoY. PAT is estimated at ₹ 349.2 crore, up 43% YoY
Mahanagar Gas	We expect volume growth of 38.4% YoY and 4.7% QoQ. Volumes are expected at 3.3 mmscmd (CNG: 2.4 mmscmd, PNG: 0.9 mmscmd). Due to a surge in gas costs, gross margins are expected to decline ₹ 4.2/scm YoY to ₹ 15.2/scm. Increase in gas costs is expected to be partially offset by higher realisation. EBITDA/scm is expected at ₹ 9.3/scm, down ₹ 4.6/scm YoY
Petronet LNG	We expect the topline to increase 55.9% YoY to ₹ 13406.4 crore. Total volumes are expected to decline 1.8% YoY to 205.2 trillion British thermal units (tbtu) (~4 MMT) as we estimate lower offtake due to higher LNG prices. On a QoQ basis, volumes are expected to increase 8%. Blended margins are expected at ₹ 60/mmbtu, flattish YoY and down 17.2% QoQ from elevated level witnessed in Q4FY22. PAT is expected to decline 4.6% YoY (down 19.2% QoQ) to ₹ 606.4 crore

Source: Company, ICICI Direct Research

Singapore gross refining margins (GRMs)



Source: Reuters

Singapore benchmark product spreads (\$/bbl)

Product Cracks	Q1FY22	Q4FY22	Q1FY23
Gasoline	9.8	17.5	35.6
Naphtha	-1.0	1.3	-13.4
Jet Kerosene	4.5	17.3	40.0
Gas Oil	5.3	20.1	43.8

Source: Reuters

**Exhibit 3: Company Specific Views**Reliance  
Industries

RIL's consolidated EBITDA is estimated to grow 102% YoY to ₹ 47108 crore, mainly led by O2C segment. On a QoQ basis, it is expected to grow 50%. Reliance Jio (Jio), after last three quarters of Sim consolidation impact, are expected to lead sub addition with ~6 mn net sub additions during Q1. The monthly ARPU, like peers, is anticipated to witness growth, driven by residual benefits of tariff hike and higher number of days, at ~4% QoQ at ₹ 174. EBITDA at ₹ 10,782 crore, is likely to grow 2.6% QoQ. Overall EBITDA margins are expected at 50%, down 30 bps QoQ with net profit at ₹ 4420 crore, up 6% QoQ. We expect Reliance Retail to report a robust operational performance in Q1FY23E with revenues on a favourable base increasing 60% YoY to ₹ 61466 crore. Core retail revenues (excluding connectivity) is expected to nearly double YoY led by strong recovery in fashion and grocery segment. Expect absolute retail EBITDA to increase 90% YoY to ₹ 3655 crore. Sharp growth in GRMs (partially offset by weaker petchem profitability) is expected to lead to growth of 106% QoQ (and 139% YoY) in O2C EBITDA to ₹ 29270 crore. E&P EBITDA is expected to improve 210% YoY to ₹ 2473 crore, mainly on account of realisation growth

Source: Company, ICICI Direct Research

Exhibit 3: ICICI Direct Coverage Universe (Oil & Gas)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
BPCL (BHAPET)	310	360	Hold	66,013	41.3	28.1	44.8	7.5	11.0	6.9	6.0	7.9	5.6	13.9	8.5	13.1	17.7	11.7	16.8
GAIL (India) (GAIL)	139	180	Buy	61,721	23.2	19.9	18.8	6.0	7.0	7.4	4.8	5.4	5.8	19.0	14.5	12.4	18.5	14.4	12.5
Gujarat Gas (GUJGA)	456	625	Buy	31,391	18.9	18.8	24.1	24.1	24.2	19.0	15.4	15.2	11.9	26.9	23.4	25.5	23.2	19.6	20.9
HPCL (HINPET)	231	255	Hold	32,778	44.9	8.0	42.8	5.1	29.0	5.4	7.8	16.4	7.1	7.3	0.8	7.3	16.5	3.0	15.0
Indian Oil Corp (INDOIL)	70	85	Hold	96,401	26.3	14.6	13.1	2.7	4.8	5.4	1.5	2.3	2.4	12.9	10.5	9.0	18.4	14.3	12.2
Indraprastha Gas (INDGAS)	366	440	Buy	25,620	18.8	20.6	23.0	19.4	17.7	15.9	12.9	11.1	9.7	22.3	22.0	21.1	19.0	18.1	17.5
Mahanagar Gas (MAHGAS)	798	850	Hold	7,882	60.4	78.5	78.1	13.2	10.2	10.2	8.1	6.2	6.0	20.1	23.4	20.8	16.9	19.3	17.2
Petronet LNG (PETLNG)	217	210	Hold	32,550	22.3	17.6	21.2	9.7	12.3	10.2	6.0	6.9	5.7	27.0	20.3	22.7	25.0	18.9	21.1
Reliance Industries (RELIND)	2,377	2,800	Buy	16,08,041	89.7	129.2	134.4	26.5	18.4	17.7	16.5	11.0	9.8	7.7	11.4	11.5	8.5	10.9	10.5

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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