Oil & Gas

October 9, 2022

Weak GRMS, marketing, inventory loss to dent OMCs' earnings…

Windfall taxes cap profits of upstream PSU companies…

Oil prices declined in Q2FY23 amid concerns on a possible recessionary scenario in the west. Average crude oil prices declined by US$13.8/bbl QoQ to US$99/bbl. On a closing basis, crude oil prices sharply declined by US$28.9/bbl QoQ to US$86.1/bbl. A sharp fall in crude prices along with windfall taxes would reduce the net realisation of upstream companies like ONGC. On the natural gas front, domestic gas prices for ONGC and Reliance Industries (RIL) remained unchanged QoQ, at US$6.1/mmbtu and US$9.92/mmbtu, respectively. Net realisations of upstream companies are estimated to decline QoQ. For ONGC, we expect ~6% QoQ decline in revenue. Similarly, for RIL, for the oil & gas segment, we expect 9% QoQ decline in revenue.

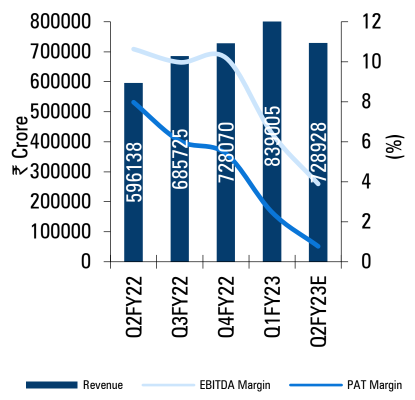
Marketing losses, decline in refining margins negative for OMCs

Benchmark Singapore GRMs saw a sharp fall and were at US$7.1/bbl in Q2FY23 vs. US$21.5/bbl in Q1FY23. 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. Additional excise duty was levied on export of gas oil, gasoline and jet fuel. Average cracks for gas oil declined US$8.7/bbl QoQ to US$35.1/bbl and after adjustment for excise duty, net gas oil cracks were US$15.4/bbl. Average gasoline product cracks saw a decline of US$26.6/bbl QoQ to US$9.02/bbl while net gasoline crack was US$7.02/bbl. Jet fuel average cracks saw a decline of US$6.5/bbl to US$33.5/bbl while net jet fuel crack after excise duty was US$26.3/bbl Overall, GRMs for refiners are expected to decline QoQ and are anticipated to be ~US$5/bbl. Refining throughput is estimated to decline 8-13% QOQ for BPCL, HPCL and IOCL. For OMCs, retail sales are expected to decline 6-9%QoQ. In terms of marketing margins, we estimate losses to narrow compared to Q1FY23 on account of softening crude prices. Petchem cracks are expected to stay range bound as realisations have declined in proportion to fall in crude oil prices. For RIL, we expect ~43% QoQ decline in O2C segment margins. We estimate ~13% QoQ decline in revenue for HPCL and ~18% QoQ decline for IOCL and BPCL.

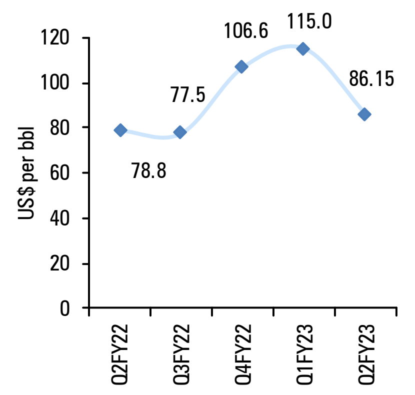
Higher spot prices to impact volumes of midstreams, CGDs

Average spot LNG prices were trading at elevated levels at ~US$47/mmbtu in Q2FY23. For midstream companies like Gail, mainly due to supply disruption we expect a decline in their transmission and trading volumes by 6-7% QoQ. LPG segment volumes would increase 9% QoQ. Revenues are expected to decline 5% QoQ for Gail. Regasification volumes of Petronet LNG are expected to decline 10% QoQ due to high spot prices. We expect ~7% QoQ decline in revenue for Petronet LNG. On the CGD front, domestic gas allocation for the priority (CNG, domestic PNG) sector had been increased to 94% from 85% earlier. However, with spot LNG prices trading at elevated levels, volumes of IGL and MGL, which have 80-86% proportion of priority sector contribution to their sales mix, are expected to grow marginally QoQ. MGL's revenue is expected to increase ~9% QoQ while that of IGL is expected to improve ~7% QoQ. For Gujarat Gas, owing to Morbi shutdown in August, volumes are expected to decline 20% QoQ. Hence, revenue is expected to decline ~25% QoQ.

Topline & Profitability (Coverage Universe)

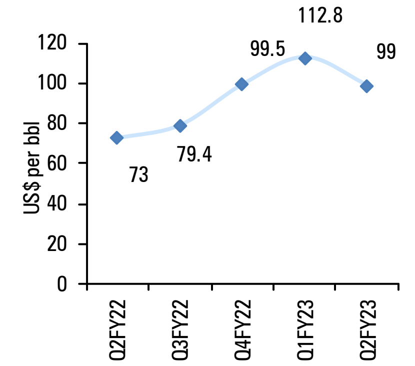


Closing Brent crude oil prices



Source: Bloomberg

Average Brent crude oil prices



Source: Bloomberg

Top Picks

Gail India

Research Analyst

Harshal Mehta
harshal.mehta@icicisecurities.com

Payal Shah
shah.payal@icicisecurities.com

Result Preview

ICICI Securities – Retail Equity Research

Exhibit 1: Estimates for Q2FY23E: (Oil & Gas) (₹ crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q2FY23E	YoY	QoQ	Q2FY23E	YoY	QoQ	Q2FY23E	YoY	QoQ
Bharat Petroleum	1,13,206.7	11.4	-18.2	-6,493.0	PL	NA	-5,755.1	PL	NA
Gail India	35,648.8	65.7	-5.1	3,245.1	-6.6	-25.7	2,544.8	-11.1	-12.7
Gujarat Gas	3,889.6	7.6	-24.8	641.4	52.3	5.7	414.5	66.4	8.8
HPCL	1,05,392.3	20.3	-13.2	-4,333.9	PL	NA	-4,077.0	PL	NA
IOC	2,05,545.3	21.1	-18.4	-12,148.3	PL	PL	-11,632.0	PL	NA
Indraprastha Gas Ltd	3,426.3	87.1	7.3	616.7	16.3	-0.1	402.6	0.5	-4.3
Mahanagar Gas Ltd	1,729.5	90.6	8.6	304.0	0.7	6.5	198.7	-2.7	7.3
ONGC	39,917.5	63.9	-5.7	14,877.4	12.5	-42.6	7,757.9	-57.7	-49.0
Petronet LNG	13,221.3	22.3	-7.3	1,009.1	-22.2	-5.2	618.4	-24.9	-11.8
Reliance Industries	2,06,951.0	18.9	-7.2	30,660.0	17.8	-19.3	15,158.1	10.8	-22.0
Total	**7,28,928.2**	**22.3**	**-13.1**	**28,378.5**	**-55.2**	**-47.3**	**5,630.7**	**-88.2**	**-72.9**

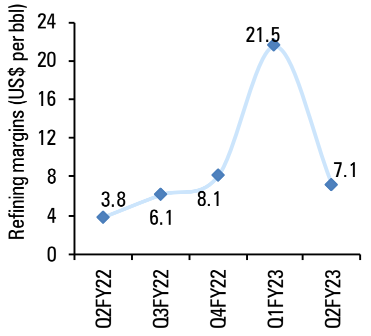
Source: Company, ICICI Direct Research

Exhibit 2: Company Specific Views

Company	Remarks
BPCL	Crude throughput is expected at 8.9 MMT, down 8.2% QoQ. Marketing segment volumes are expected to decline 5.6% QoQ due to the monsoon season. GRMs are expected at US$5.1/bbl, down US$22.4/bbl QoQ on account of declining product cracks and inventory losses. On the marketing front, we expect losses to narrow down due to fall in crude prices. Hence, we expect an operating loss of ₹ 6493 crore
Gail	Gail's operational performance is expected to decline 5% QoQ. On the gas business front, transmission volume is expected to decline 6% QoQ to 103 mmscmd with its EBIT at ₹ 711.8 crore. For the gas trading segment, we expect a decline in volume by 7% QoQ to 94 mmscmd with its EBIT at ₹ 2337.2 crore on account of higher spot LNG prices. On the LPG/LHC front, EBIT is expected to decline 79% QoQ to ₹133.8 crore due to lower realisation while petchem segment is expected to report EBIT loss of ₹ 232.2 crore. We expect an EBITDA of ₹ 3245.1 crore, down 25.7% QoQ
Gujarat Gas	We expect revenues to decline 25% QoQ mainly on account of lower volumes. Volume is expected to decline ~20% QoQ to 7.8 mmscmd due to Morbi shutdown in August. We expect 5% QoQ increase in CNG and 10% QoQ increase in domestic/commercial PNG offtake. Gross margins are expected to increase ₹ 2.3/scm QoQ to ₹ 12.1/scm. EBITDA/scm is expected at ₹ 9.3/scm, up ₹ 2.5/scm QoQ. Hence, we expect EBITDA of ₹ 641.4 crore, up 5.7% QoQ
Hindustan Petroleum	Crude throughput is expected at 4.4 MMT, down 9% QoQ. Marketing segment volumes are expected to decline 9% QoQ. GRMs are expected at to decline to US$ 5.1/bbl from US$16.7/bbl in Q1FY23 on account of a decline in product cracks and inventory loss. On the marketing front, we expect losses to narrow down due to a decline in crude prices. We expect an operating loss of ₹ 4333.9 crore
Indian Oil Corporation	Crude throughput is expected at 16.8 MMT, down 11% QoQ. Marketing segment volumes are anticipated to decline 8.6% QoQ. GRMs are anticipated at US$5.1/bbl vs. US$31.8/bbl in Q1FY23 on account of declining product spreads. On the marketing front, we expect losses decline as crude prices have fallen. We estimate operating loss of ₹ 12148.3 crore
Indraprastha Gas	IGL's volumes are expected to increase marginally QoQ. Total volumes are expected at 8.01 mmscmd (CNG: 6.04 mmscmd, PNG: 1.98 mmscmd). We expect gross margins to remain unchanged at ₹ 14.1/scm. EBITDA/scm is expected at ₹ 8.4/scm, down ₹ 0.2/scm QoQ. PAT is estimated at ₹ 402.6 crore, down 4% QoQ. We expect EBITDA of ₹ 616.7 crore, flattish QoQ
Mahanagar Gas	We expect volume growth of 2.1% QoQ. Volumes are expected at 3.52 mmscmd (CNG: 2.6 mmscmd, PNG: 0.92 mmscmd). Due to a price hike taken by the company, gross margins are expected to improve ₹ 0.5 /scm QoQ to ₹ 14.9/scm. Increase in gas costs are expected to be partially offset by higher realisation. EBITDA/scm is expected at ₹ 9.4/scm, up ₹ 0.3/scm QoQ. We expect an operating profit of ₹ 304 crore, up 6.5% QoQ
ONGC	Oil & gas production is expected to decline 3% QoQ and 2% QoQ, respectively. Oil production is estimated at 5.33 MMT while gas production is expected at 5.28 BCM in the quarter. We expect oil realisations to be capped on account of windfall tax. Domestic gas realisations are expected to remain unchanged QoQ at US$6.1/mmbtu. We expect operating profit of ₹ 14877.4 crore, down 42.6% QoQ mainly due to windfall taxes

Source: Company, ICICI Direct Research

Singapore gross refining margins (GRMs)



Source: Reuters

Singapore benchmark product spreads ($/bbl)

Product Cracks	Q2FY22	Q1FY23	Q2FY23
Gasoline	11.7	35.6	9.0
Naphtha	1.9	-13.4	-19.5
Jet Kerosene	5.4	40.0	33.5
Gas Oil	5.4	43.8	35.1

Source: Reuters

Exhibit 3: Company Specific Views

Petronet LNG	We expect the topline to decline 7% QoQ to ₹ 13221.3 crore. Total volumes are expected to decline 2% QoQ to 203.2 trillion British thermal units (tbtu) (3.9 MMT) as we estimate lower offtake due to higher spot LNG prices. Blended margins are expected at ₹ 60.9/mmbtu, down 7% QoQ. EBITDA is expected to decline 5.2% QoQ to ₹ 1009.1 crore
Reliance Industries	RIL's consolidated EBITDA is estimated to decline 20% QoQ to ₹ 31770 crore, mainly dragged by O2C segment. Reliance Jio (Jio), will lead sub addition with ~7 mn net sub additions during Q2. The monthly ARPU, like peers, will witness growth, driven by higher no. of days and residual benefits of tariff hike, at ~3% QoQ at ₹ 18. Overall revenues are expected at ₹ 22992 crore, up 5.1% QoQ. EBITDA at ₹ 11,589 crore, is likely to grow 5.7% QoQ. Overall EBITDA margins are expected at 50.4%, up 30 bps QoQ and net profit at ₹ 4598 crore, up 6.1% QoQ. We expect Reliance Retail to report strong operational performance in Q2FY23E with revenues increasing 40% YoY to ₹ 63795 crore (up 9% QoQ). Core retail revenues (excluding connectivity) is expected to increase 63% YoY (three-year CAGR: 18%) led by a strong recovery in the fashion and grocery segment. Expect absolute EBITDA to increase 38% YoY to ₹ 4019 crore (the base quarter had other income worth ₹ 477 crore). Decline in GRMs is expected to lead to de-growth of 43% QoQ in O2C EBITDA to ₹ 11309 crore. E&P EBITDA is expected to decline 12% QoQ to ₹ 2412.7 crore. Operating profit is expected to decline 19.3% QoQ to ₹ 30660 crore

Source: Company, ICICI Direct Research

Exhibit 4: ICICI Direct Coverage Universe (Oil & Gas)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
BPCL (BHAPET)	339	350	Hold	68,840	41.3	-19.3	82.3	8.2	-17.5	4.1	6.4	173.4	3.4	15.1	-2.8	24.4	17.5	-9.0	29.8
GAIL (India) (GAIL)	84	100	Buy	55,231	23.3	13.7	8.9	3.6	6.1	9.4	3.0	4.7	7.2	18.8	15.1	8.4	18.6	14.7	9.1
Gujarat Gas (GUJGA)	500	480	Hold	34,420	18.9	23.4	20.9	26.4	21.4	23.9	16.4	13.5	14.6	27.0	28.2	21.8	23.1	23.2	17.9
HPCL (HINPET)	248	260	Hold	35,190	44.9	-67.4	42.5	5.5	-3.7	5.8	8.0	-11.4	7.7	7.3	-14.4	7.8	16.5	-32.8	18.6
Indian Oil Corp (INDOIL)	73	80	Hold	1,02,803	17.1	2.3	13.9	4.3	32.0	5.3	2.4	5.5	2.5	12.9	2.4	10.1	18.4	2.6	14.8
Indraprastha Gas (INDGAS)	422	420	Hold	29,540	18.8	19.0	20.2	22.5	22.2	20.9	15.0	13.7	12.5	22.3	21.1	20.0	19.0	16.9	15.9
Mahanagar Gas (MAHGAS)	845	820	Hold	8,347	60.4	58.9	84.8	14.0	14.3	10.0	8.6	8.6	6.0	19.8	17.7	23.1	16.6	15.0	19.0
ONGC (ONGC)	124	135	Hold	1,59,133	8.9	32.0	37.1	13.9	3.9	3.3	5.4	2.8	2.0	4.5	14.8	20.9	5.5	17.0	17.3
Petronet LNG (PETLNG)	200	210	Hold	30,000	22.3	17.7	19.2	8.9	11.3	10.4	5.5	6.6	5.8	27.0	20.0	20.8	25.0	19.0	19.5
Reliance Industries (RELIND)	2,383	2,685	Hold	16,12,100	89.7	103.2	121.4	26.6	23.1	19.6	17.5	13.0	10.9	7.1	9.1	10.3	7.8	8.3	8.9

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

Pankaj Pandey | **Head – Research** | **pankaj.pandey@icicisecurities.com**

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Harshal Mehta, MTech (Biotech), Payal Shah, MMS, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.
ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.