October 17, 2020

Sales volume in recovery mode…

Crude oil prices stable, realisations up QoQ

Global crude oil prices remained range bound in Q2FY21E as Brent oil prices were in the range of US$40-45/bbl. Average crude oil prices recovered from Q1FY21 lows significantly. While economic activities picked up pace, rise in Covid-19 infections and subsequent concerns on demand outlook kept prices under pressure. As a result, Brent crude oil prices on a closing basis were flattish QoQ at US$41/bbl at end of Q2FY21. However, average Brent crude oil prices increased to US$42.8/bbl, a sharp increase of US$11.4/bbl QoQ. Hence, net realisations of upstream companies are expected to increase considerably QoQ.

Singapore GRMs near zero; marketing segment to provide relief

Benchmark Singapore GRMs, while recovering from Q1 levels of -US$1/bbl, still remained low at US$0.1/bbl in Q2FY21. Singapore GRMs are less relevant now as low grade fuel oil is a significant component of benchmark. For Indian refiners, spreads of gas oil, gasoline and jet fuel are more important. While gas oil spreads further declined to multi-quarter lows, gasoline spreads recovered from Q1 levels but remained low. The spread for gas oil fell by US$1.5/bbl from US$5.7/bbl to US$4.2/bbl, which will negatively impact core GRMs QoQ. Increase in product spreads for gasoline by US$2/bbl QoQ from US$2.5/bbl to US$4.4/bbl will support core GRMs QoQ. Covid-19 led localised lockdown will continue to impact marketing segment volumes but fall in volumes will be lower compared to Q1FY21 owing to unlock initiatives, which lifted restrictions on vehicular movements. Consequently, marketing volumes are expected to fall 11-12% YoY. Marketing margins will fall QoQ as OMCs had taken a price hike in the previous quarter post increase in VAT and also did not pass on low oil costs. Margins will continue to remain stable YoY. This will lead to healthy profitability for OMCs in the quarter.

CGD sales improve, industrial PNG sees faster recovery

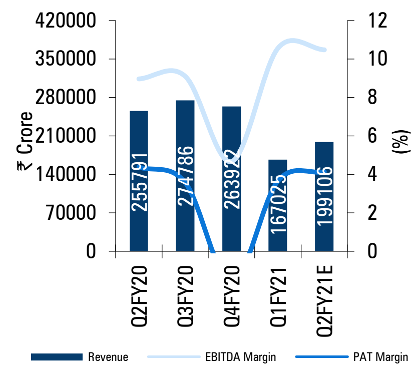
City gas distribution (CGD) companies' sales volume will fall in the range of 3-36% YoY on account of the localised lockdown. While industrial PNG sales volume witnessed a faster recovery to reach near normal, CNG sales were still down YoY but sharply increased QoQ. Domestic PNG sales volume will remain steady. Gross margins will remain higher YoY due to low gas prices. For large gas utility companies, volumes are expected to decline YoY. However, fall in sales volume will be lower compared to CGD companies.

Exhibit 1: Estimates for Q2FY21E: (Oil & Gas) (₹ crore)

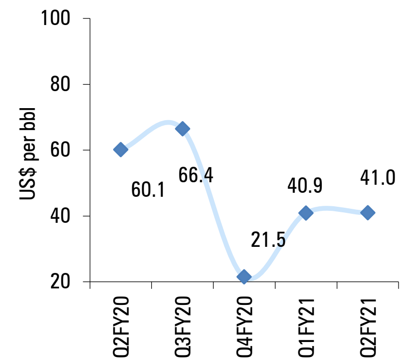
Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q2FY21E	YoY	QoQ	Q2FY21E	YoY	QoQ	Q2FY21E	YoY	QoQ
Gail India	14,762.8	-18.2	22.1	1,153.2	-26.2	85.2	756.6	-28.9	196.1
Gujarat Gas	2,231.6	-11.2	106	427.7	15.4	130.3	234.9	-54.6	300.5
HPCL	56,777.3	-14.6	23.1	2,873.8	23.9	-34.0	1,586.8	50.8	-43.6
IOC	100,044.5	-24.4	12.5	7,123.3	99.4	29.2	2,404.2	326.7	25.8
Indraprastha Gas Ltd	1,182.5	-30.1	85.2	310.1	-21.0	271.6	206.0	-45.9	547.1
Mahanagar Gas Ltd	495.2	-42.5	78.5	162.0	-40.7	102.5	105.6	-61.0	133.3
ONGC	17,107.8	-30.2	31.5	7,691.0	-42.1	30.2	2,270.6	-63.7	357.8
Petronet LNG	6,504.2	-30.5	33.2	1,133.4	-2.3	24.6	678.8	-38.5	30.5

Source: Company, ICICI Direct Research

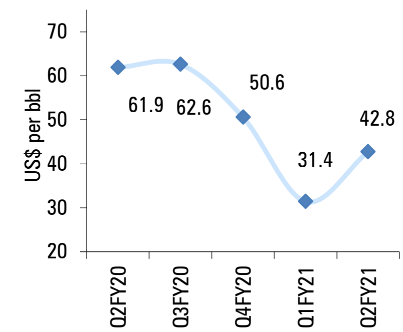
Topline & Profitability (Coverage Universe)



Closing Brent crude oil prices



Average Brent crude oil prices



Top Pick

Petronet LNG

Gujarat Gas

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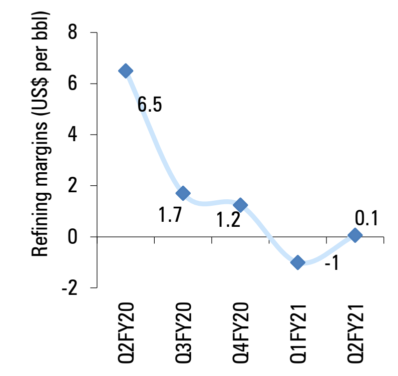
Exhibit 2: Company Specific Views

Company	Remarks
Gail	Gail's operational performance is expected to remain weak mainly on account of the gas trading segment. On the gas business front, gas transmission volumes are expected to decline 3.4% YoY to 105 mmscmd with its EBIT at ₹ 730.2 crore. We expect EBIT loss from the gas trading segment at ₹46.8 crore on account of US LNG volumes. On the LPG liquid hydrocarbon front, EBIT is expected to increase 9% YoY to ₹267.7 crore while the petchem segment is expected to report EBIT at ₹38.4 crore
Gujarat Gas	We expect revenues to fall 11.2% YoY on account of lower volumes as well as realisations. Volumes are expected to decline 2.5% YoY to 9.1 mmscmd. On a QoQ basis, volumes are expected to increase sharply by 119.7% as industrial PNG segment witnessed faster recovery. Gross margins will increase ₹1.1/scm YoY to ₹7.6/scm. On a QoQ basis, we expect gross margins to decline by ₹1.8/scm. EBITDA/scm is expected at ₹5.1/scm, an increase of ₹1.8/scm YoY and ₹0.2/scm QoQ. Subsequently, we expect PAT at ₹234.9 crore, down 54.6% YoY as company availed option of tax write-back in Q2FY20
Hindustan Petroleum	Crude throughput is expected at 4 MMT, an increase of 0.8% QoQ. Marketing segment volumes are expected to decline 11% YoY as demand remained lower while margins are expected to remain stable. GRMs are expected at $2/bbl vs. nil GRMs in Q1FY21. Hence, PAT is expected at ₹1586.8 crore
Indian Oil Corporation	Crude throughput is expected at 14 MMT, an increase of 8.3% QoQ as demand improved in unlock phases. Marketing segment volumes are expected to decline 12% YoY while margins are expected to remain stable. GRMs are expected at $4/bbl vs. -$2/bbl in Q1FY21 on account of inventory gains. Hence, PAT is estimated at ₹2404.2 crore, up 25.8% QoQ
Indraprastha Gas	IGL's volumes are expected to decline 24% YoY. On a QoQ basis, volumes may increase sharply by 84.2% due to uptick in CNG sales. Total volumes are expected at 5 mmscmd (CNG: 3.7 mmscmd, PNG: 1.3 mmscmd). We expect gross margins to increase by ₹1.5/scm YoY to ₹13.5/scm due to lower gas prices. However, on a QoQ basis, margins are expected to be down ₹ 0.5/scm. EBITDA/scm is expected at ₹6.7 per scm, up ₹0.3/scm YoY. Consequently, PAT is estimated at ₹206 crore, down 45.9% YoY but up 5.5x QoQ
Mahanagar Gas	We expect volume decline of 35.7% YoY due to lower demand amid localised lockdown. Volumes are expected at 1.9 mmscmd (CNG: 1.2 mmscmd, PNG : 0.7 mmscmd). Gross margins are expected to increase by ₹0.8/scm YoY to ₹ 15.5/scm on better pricing power. EBITDA/scm is expected to decline to ₹ 9.1/scm, a decline of ₹0.8/scm YoY impacted by negative operating leverage
ONGC	Oil production is expected to decline 2.8% YoY and flattish QoQ. Gas production is estimated to fall 5.9% YoY but increase 6.4% QoQ due to better offtake. Oil production is estimated at 5.7 MMT, with gas output expected at 5.9 MMT in the quarter. We expect sharp increase in realisations QoQ at $41.3/bbl due to higher average crude oil prices. Hence, we expect the company to report PAT at ₹2270.6 crore
Petronet LNG	We expect the topline to decline 30.5% YoY to ₹6509.3 crore. Total volumes are expected to fall 3.2% YoY to 242 trillion British thermal units (tbtu) (~4.6 MMT). However, on a QoQ basis, volumes are expected to increase 27.4% as volume offtake was impacted in Q1FY21 due to lockdown. Blended margins are expected at ₹53.9/mmbtu, up 0.6% YoY and down 2.3% QoQ. PAT is expected to decline 38.5% YoY to ₹678.8 crore. However, on a QoQ basis, profitability is expected to improve 30.5%

Source: Company, ICICI Direct Research

Singapore gross refining margins (GRMs)



Source: Reuters

Singapore benchmark product spreads ($/bbl)

Product Spreads	Q2FY20	Q1FY21	Q2FY21
Gasoline	13.7	2.5	4.4
Naphtha	-7.4	-3.1	0.1
Jet Kerosene	16.2	0.0	-0.7
Gas Oil	14.4	5.7	4.2
Fuel Oil	-0.7	-3.1	-4.6
LPG	-25.9	1.4	-11.5

Source: Reuters

Gross under-recoveries of petroleum products

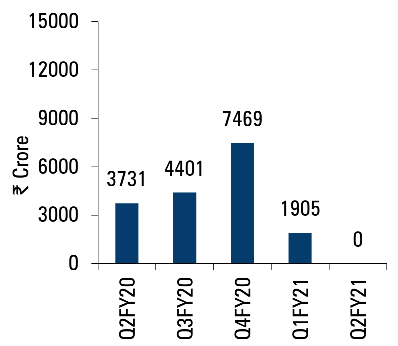


Exhibit 3: ICICI Direct Coverage Universe (Oil & Gas)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
GAIL (India) (GAIL)	84	90	Reduce	37,885	14.7	6.7	9.3	5.7	12.6	9.0	4.9	10.1	7.6	13.7	5.5	7.7	15.1	6.8	9.2
Gujarat Gas (GUJGA)	292	350	Buy	20,101	17.3	12.7	18.2	16.8	23.0	16.1	13.1	13.0	9.5	25.2	23.1	29.3	36.3	21.4	24.2
HPCL (HINPET)	170	220	Hold	25,934	17.3	41.1	24.1	9.8	4.1	7.1	13.4	5.9	6.9	2.5	9.5	5.9	9.1	19.0	10.9
Indian Oil Corp (INDOIL)	74	90	Hold	67,940	1.4	8.8	8.7	51.7	8.4	8.5	3.6	2.7	2.5	4.8	7.1	7.4	1.4	8.5	8.6
Indraprastha Gas (INDGAS)	376	410	Hold	26,320	16.2	11.4	18.0	23.2	33.0	20.8	15.9	20.9	13.7	25.0	16.2	22.7	22.5	14.3	19.5
Mahanagar Gas (MAHGAS)	821	1145	Hold	8,110	80.3	53.4	87.0	10.2	15.4	9.4	7.5	10.4	6.1	29.7	18.8	27.3	26.9	16.3	22.7
ONGC (ONGC)	67	80	Hold	85,983	10.5	5.8	11.5	6.4	11.5	5.8	2.1	3.9	3.0	10.2	2.7	6.2	6.8	3.7	7.0
Petronet LNG (PETLNG)	228	300	Buy	34,200	18.0	17.6	20.0	12.7	13.0	11.4	8.3	7.4	6.6	22.3	24.9	28.9	24.6	23.7	26.0

Source: Company, ICICI Direct Research

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