

January 10, 2023

Revival seen for upstream, OMCs

Revision in gas prices to lift upstream earnings...

Domestic gas prices were revised from October 1 onwards from US\$6.1/mmbtu to US\$8.57/mmbtu on a GCV basis for ONGC. Similarly, the ceiling price for Reliance Industries was increased from US\$9.92/mmbtu to US\$12.46/mmbtu (GCV basis). Thus, net gas realisations of upstream companies are estimated to improve QoQ. On the crude oil front, oil prices declined in Q3FY23 amid demand concerns from China. Average crude oil prices declined by US\$10.8/bbl QoQ to US\$88.3/bbl. On a closing basis, crude oil prices were around US\$84.97/bbl. Fall in crude prices along with windfall taxes would cap the net oil realisation of upstream companies such as ONGC at ~US\$75/bbl. However, on account of increase in gas prices, we expect ~8% QoQ increase in operating profit for ONGC. For Reliance Industries' oil & gas segment, we expect a ~14% QoQ increase in EBITDA.

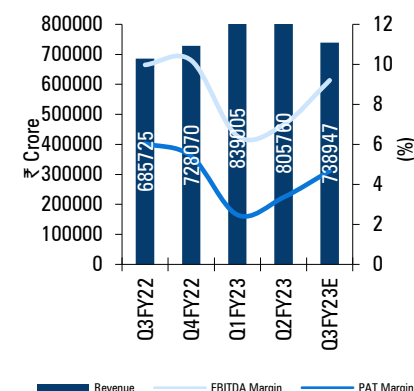
Marketing losses of OMCs to narrow down significantly

Benchmark Singapore GRMs remained range bound at US\$6.35/bbl in Q3FY23 vs. US\$7.1/bbl in Q2. Additional excise duty on export of gas oil (diesel) and jet fuel (ATF) was continued during the quarter. Average cracks for gas oil increased by US\$4.5/bbl QoQ to US\$39.57/bbl while that of jet fuel remained flat QoQ at US\$33.8/bbl. Post adjustment for excise duty, net gas oil and jet fuel cracks were US\$22.8/bbl and US\$27.2/bbl, respectively. Gasoline (petrol) product cracks declined by US\$3.5/bbl QoQ to US\$5.5/bbl. Overall, GRMs for refiners are anticipated to be around US\$12/bbl (inclusive of QoQ inventory loss on crude oil). Refining throughput is estimated to remain flat QoQ for BPCL and increase ~6-12% QoQ for HPCL and IOC. For OMCs, retail sales are expected to improve 3-6% QoQ. The marketing segment performance is likely to improve when compared to Q2FY23 as margins on petrol have turned positive and losses on diesel have narrowed down. Petchem cracks are expected to marginally decline due to general weaker demand and a recessionary environment. For RIL, we expect, 5.3% QoQ increase in O2C segment EBITDA. On account of a weak base, we expect ~116%, 182% QoQ increase in EBITDA for BPCL, IOCL, respectively.

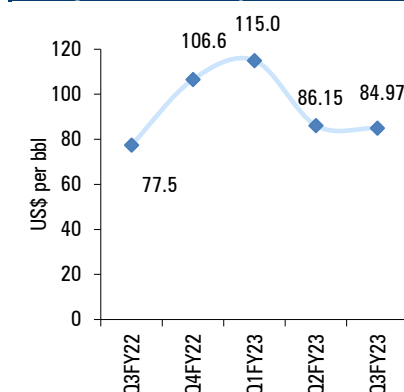
Increase in domestic gas prices to impact CGDs

Although spot LNG prices corrected in Q3FY23, they continued to stay at elevated levels with average prices being ~US\$ 31/mmbtu. For midstream companies such as Gail, mainly due to supply disruption we expect transmission and trading volumes to remain flat QoQ. Operating profit is expected to improve ~5% QoQ for Gail. The regasification volumes of Petronet LNG are expected to increase 16.9% QoQ to 90 tbtu due to likely activation of take or pay contract in Q3. Total sales volumes are expected at 211.2 tbtu, up 10% QoQ. We expect 5.8% QoQ increase in operating profit for Petronet LNG. On the CGD front, spot and long term gas prices have declined but with domestic gas prices being revised upwards, gas procurement cost for the companies rose. Although the companies have taken price hikes, to an extent, they were insufficient to pass on the increase in sourcing cost. Volumes of IGL and MGL are expected to improve 2-5% QoQ while Gujarat Gas' volumes are expected to decline ~3% QoQ (sitting already on a weak base of 22% decline) led by a further decline in industrial volumes (mainly to the Morbi area). MGL's operating profit is expected to decline ~14% QoQ while that of IGL is expected to decline by 10% QoQ. For Gujarat Gas, EBITDA is expected to decline ~28.4% QoQ.

Topline & Profitability (Coverage Universe)

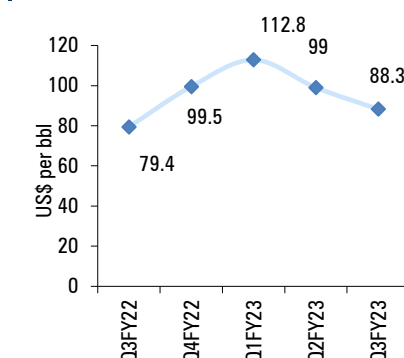


Closing Brent crude oil prices



Source: Bloomberg

Average Brent crude oil prices



Source: Bloomberg

Top Picks

Reliance Industries

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Exhibit 1: Estimates for Q3FY23E: (Oil & Gas) (₹ crore)

Company	Revenue Change (%)			EBITDA Change (%)			PAT Change (%)		
	Q3FY23E	YoY	QoQ	Q3FY23E	YoY	QoQ	Q3FY23E	YoY	QoQ
Bharat Petroleum	1,17,980.8	-0.5	-8.1	3,098.0	-26.5	116.0	1,378.5	-44.0	LP
Gail India	36,395.6	41.2	-5.4	1,849.7	-56.3	4.8	1,201.9	-63.4	-21.8
Gujarat Gas	3,620.9	-29.6	-8.9	460.4	93.9	-28.4	274.8	125.4	-32.0
HPCL	1,06,282.3	2.8	-6.9	533.6	-71.5	LP	-439.0	PL	NA
IOC	2,14,457.0	8.8	-6.1	5,527.0	-44.0	182.0	1,576.0	-73.1	LP
Indraprastha Gas Ltd	3,741.2	68.9	5.3	475.0	1.2	-10.0	296.8	-3.8	-28.7
Mahanagar Gas Ltd	1,937.9	72.6	12.8	218.5	112.0	-13.6	136.9	141.1	-16.5
ONGC	41,065.5	44.2	7.2	20,332.7	27.3	8.1	12,027.3	37.2	-6.2
Petronet LNG	12,988.5	3.1	-18.7	1,240.5	-28.4	5.8	791.9	-30.7	6.4
Reliance Industries	2,00,477.9	4.8	-13.9	34,249.2	15.3	9.7	17,267.7	-6.9	26.4
Total	7,38,947.5	7.8	-8.3	67,984.7	-0.6	20.8	34,512.8	-16.7	27.8

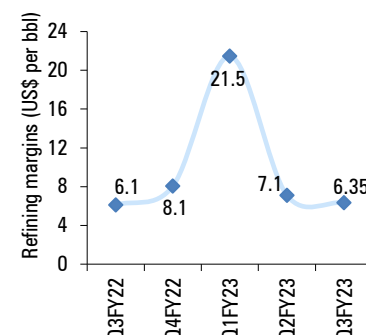
Source: Company, ICICI Direct Research

Exhibit 2: Company Specific Views

Company	Remarks
BPCL	Crude throughput is expected at 8.9 MMT, flat QoQ. Marketing segment volumes are expected to increase 3.3% QoQ. GRMs are expected at US\$12/bbl, down US\$4.8/bbl QoQ taking into account individual product crack trend and inventory losses. On the marketing front, we expect losses to narrow down due to fall in crude prices. BPCL's marketing segment(42.5 MMT) is larger than its refining segment (30.1 MMT) We estimate an EBITDA of ₹ 3098.8 crore, up 116% QoQ
Gail	On the gas business front, transmission volume is expected to remain flat QoQ due to supply disruption to 108.5 mmcmd with its EBIT at ₹ 769.8 crore. For the gas trading segment too, we expect volumes to be flat QoQ to 93 mmcmd with its EBIT at ₹ 510.4 crore. On the LPG/LHC front, EBIT is expected to decline 4% QoQ to ₹ 477.7 crore due to lower realisation while petchem segment is expected to report EBIT loss of ₹ 225.3 crore. We expect an EBITDA of ₹1849.7 crore, up 5% QoQ
Gujarat Gas	Volume is expected to decline ~3% QoQ to 7.36 mmcmd (CNG: 2.5 mmcmd, PNG: 4.86 mmcmd) due to decline in industrial volumes. Gross margins are expected to decline ₹ 3.4/scm QoQ to ₹ 9.6/scm. EBITDA/scm is expected at ₹ 6.8/scm, down ₹ 2.4/scm QoQ. Hence, we expect EBITDA of ₹ 460.4 crore, down 28.4% QoQ
Hindustan Petroleum	Crude throughput is expected at 4.75 MMT, up 5.8% QoQ. Marketing segment volumes are expected to increase ~6% QoQ. GRMs are expected to increase to US\$12/bbl from US\$8.4/bbl in Q3FY23, considering individual product crack trend and inventory loss. On the marketing front, we expect losses to narrow down due to decline in crude prices. The company's marketing segment (37.4 MMT) is more than double its refining segment (14 MMT). We expect an operating profit of ₹ 533.6 crore
Indian Oil Corporation	Crude throughput is expected at 18 MMT, up ~12% QoQ on account of commencement of operations at Paradip refinery post maintenance shutdown. Marketing segment volumes are anticipated to increase ~3% QoQ. GRMs are anticipated at US\$12/bbl vs. US\$18.5/bbl in Q3FY23 as per recent individual product cracks trend and inventory loss. On the marketing front, we expect losses to decline as crude prices have fallen. IOC's marketing segment (80.5 MMT) is slightly larger than its refining segment (67.7 MMT). We estimate operating profit of ₹ 5527 crore, up 182% QoQ (on a weak base)
Indraprastha Gas	IGL's volumes are expected to increase 1.5% QoQ. Total volumes are expected at 8.21 mmcmd (CNG: 6.14 mmcmd, PNG: 2.07 mmcmd). We expect gross margins to remain flat at ₹ 12.5/scm as the company had taken price hikes to an extent due to increase in domestic gas prices. EBITDA/scm is expected at ₹ 6.3/scm, down ₹ 0.8/scm QoQ. We expect EBITDA of ₹ 475 crore, down 10% QoQ
Mahanagar Gas	We expect volume growth of 4.7% QoQ. Volumes are expected at 3.62 mmcmd (CNG: 2.65 mmcmd, PNG: 0.97 mmcmd). Gross margins are expected to remain flat QoQ at ₹ 13.1/scm as the company had taken price hikes, to an extent. EBITDA/scm is expected at ₹ 6.6/scm, down ₹ 1.3/scm QoQ. We expect an operating profit of ₹ 218.5 crore, down 13.6% QoQ
ONGC	Oil & gas production is expected to improve ~3% QoQ and ~2% QoQ. Oil production is estimated at 5.53 MMT while gas production is expected at 5.45 BCM in the quarter. We expect oil realisations to be capped on account of windfall tax. Domestic gas realisations are expected to increase ~40 QoQ to US\$ 8.57/mmbtu post revision of APM prices. We estimate an operating profit of ₹ 20332.7 crore, up 8.1% QoQ

Source: Company, ICICI Direct Research

Singapore gross refining margins (GRMs)



Source: Reuters

Singapore benchmark product spreads (\$/bbl)

Product Cracks	Q3FY22	Q2FY23	Q3FY23
Gasoline	15.6	9.0	5.5
Naphtha	3.4	-19.5	-11.4
Jet Kerosene	10.3	33.5	33.8
Gas Oil	11.5	35.1	39.5

Source: Reuters

Exhibit 3: Company Specific Views

Petronet LNG Total volumes are expected to increase 10% QoQ to 211.2 trillion British thermal units (tbtu) (4 MMT) as we estimate higher offtake due to take or pay clause. Blended margins are expected at ₹ 69.2/mmbtu, down 6.9% QoQ due to unfavourable product mix. EBITDA is expected to increase 5.8% QoQ to ₹ 1240.5 crore

Reliance Industries RIL's consolidated EBITDA is estimated to increase 9.7% QoQ to ₹ 34249.2 crore. Reliance Jio (Jio) is expected to lead sub addition with ~6 mn net sub additions during Q3. The monthly ARPU, like peers, will witness modest growth, driven by mix improvement, at ~1.5% QoQ at ₹ 180. Overall revenues are expected at ₹ 23206 crore, up 3% QoQ. EBITDA at ₹ 11,944 crore, is likely to grow 4% QoQ. Overall EBITDA margins are expected at 51.5%, up 50 bps QoQ and net profit at ₹ 4624 crore, up 2.3% QoQ. Key monitorable: Commentary on ARPU trajectory, Jio Fiber. We expect Reliance Retail to report healthy operational performance in Q3FY23E with revenues increasing 22% YoY to ₹ 70461 crore (up 8% QoQ). Core retail revenues (excluding connectivity) is expected to increase 24% YoY led by strong recovery in fashion and grocery segment. EBITDA excluding other income (the base quarter had other income worth ₹ 300 crore) to increase by 32% YoY to ₹ 4650 crore with margins at 6.6%. Improvement in GRMs is expected to lead to growth of 5.3% QoQ in O2C EBITDA to ₹12607 crore. E&P EBITDA is expected to improve 14.4% QoQ to ₹ 3626.2 crore on account of revision in gas prices

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)	335	350	Hold	71,337	42.0	-11.2	55.3	8.0	-29.9	6.1	6.5	30.6	5.0	13.2	-2.2	15.2	17.9	-5.0	21.4
GAIL (India) (GAIL)	93	100	Hold	61,148	23.3	9.9	8.9	4.0	9.4	10.4	3.3	7.4	8.1	18.8	10.3	8.7	18.6	11.1	9.5
Gujarat Gas (GUJGA)	515	550	Hold	35,453	18.9	18.9	26.6	27.2	27.3	19.4	17.3	16.9	12.1	27.3	22.0	26.4	23.3	19.6	22.5
HPCL (HINPET)	232	250	Hold	32,919	44.9	-39.6	47.8	5.2	-5.9	4.9	7.8	-18.2	6.6	7.3	-9.9	8.3	16.5	-17.0	18.3
Indian Oil Corp (INDOIL)	77	85	Hold	1,08,734	17.1	2.8	14.0	4.5	27.1	5.5	2.5	5.8	2.6	12.9	2.4	10.1	18.4	3.2	14.9
Indraprastha Gas (INDGAS)	381	430	Hold	26,670	18.8	21.7	20.9	20.3	17.6	18.3	13.5	11.5	10.8	22.3	22.5	20.2	19.0	18.8	16.1
Mahanagar Gas (MAHGAS)	897	1,000	Hold	8,860	60.4	50.4	79.6	14.8	17.8	11.3	9.2	10.6	6.9	19.8	15.1	22.2	16.6	13.1	18.4
ONGC (ONGC)	124	135	Hold	1,59,133	8.9	32.0	41.1	13.9	3.9	3.0	5.4	2.8	1.9	4.5	14.8	22.1	5.5	17.0	18.9
Petronet LNG (PETLNG)	212	215	Hold	31,800	22.3	18.2	19.4	9.5	11.6	11.0	5.8	6.9	6.2	27.0	20.5	20.9	25.0	19.4	19.5
Reliance Industries (RELIND)	2,577	3,050	Buy	17,43,341	89.7	89.7	97.5	33.8	28.7	26.4	24.0	18.7	13.9	5.5	7.1	8.9	7.0	7.8	7.8

Source: Company, ICICI Direct Research

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