

April 11, 2023

## OMCs upbeat on both refining, marketing margins..

### Upstream margins to remain flat QoQ

Average crude oil prices in Q4FY23 declined 8% QoQ to US\$81.4/bbl. The steep decline was mainly seen in the second half of March due to recessionary fears surrounding the banking sector in the US and Europe. On a closing basis, crude oil prices were at around US\$79.7/bbl, down 6% QoQ. For ONGC, oil realisation net of windfall taxes would remain unchanged QoQ at ~US\$75/bbl and gas realisation would also stand unchanged QoQ at US\$8.57/mmbtu on a GCV basis. Similarly, the ceiling price for Reliance Industries (RIL) HPHT gas remained unchanged at US\$12.46/mmbtu (GCV basis). Also, ONGC and RIL's volumes are expected to remain flattish QoQ. We expect ~2% QoQ increase in operating profit for ONGC. For RIL's oil & gas segment, we expect operating profit to remain flat QoQ.

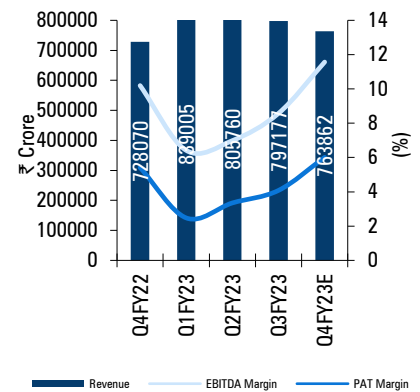
### Marketing margins turn positive for OMCs

Benchmark Singapore GRMs increased to US\$8.3/bbl in Q4FY23 vs. US\$6.4/bbl in Q3, within which average cracks for diesel declined by US\$14.6/bbl QoQ to US\$25.1/bbl while that for jet fuel declined by US\$7.34/bbl QoQ to US\$26.5/bbl. Overall, we anticipate GRMs for PSU refiners to be around US\$10/bbl (inclusive of QoQ inventory loss on crude oil). Refining throughput is estimated to remain flat QoQ for HPCL and increase ~2-4% QoQ for IOC and BPCL. For OMCs, retail sales are expected remain flat QoQ. With diesel margins turning positive we expect overall marketing margins to improve significantly this quarter when compared to Q3. Special additional excise duty (SAED) on export of diesel and jet fuel continued during the quarter. SAED is levied on petroleum exports and thereby impacts mainly RIL (33 MMT refinery in Jamnagar, outside SEZ area) and not OMCs. Post adjustment for excise duty, net gas oil and jet fuel cracks were US\$17.5/bbl and US\$21.3/bbl, respectively. On the other hand, petrol cracks increased by US\$9.5/bbl QoQ to US\$15/bbl. Also, petchem cracks are expected to remain flattish QoQ. For RIL, we expect, 10.5% QoQ increase in O2C segment EBITDA. On account of a weak base, we expect ~2.5x, 0.8x, 1.7x QoQ increase in EBITDA for IOCL, BPCL, HPCL, respectively.

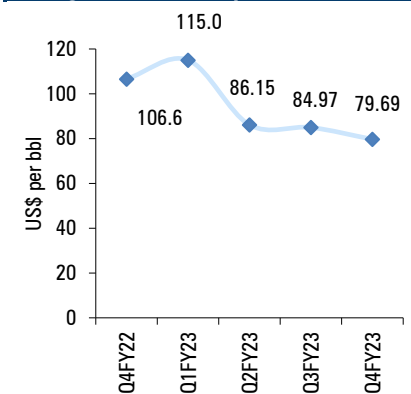
### Mixed quarter for CGDs

Average spot LNG prices declined significantly from highs of ~US\$31/mmbtu in Q3 to ~US\$18/mmbtu (current LNG price at ~US\$13/mmbtu). For midstream companies like Gail, we expect transmission and trading volumes to grow 4-5% QoQ. Operating profit is expected to improve ~9x QoQ for Gail on account of a weak base (₹ 1100 crore inventory loss). The regasification volumes of Petronet LNG are expected to increase ~49% QoQ to 70 tbtu. Total sales volumes are expected at 200.2 tbtu, up ~20% QoQ. We expect a 28% QoQ decline in operating profit of Petronet LNG. On the CGD front, although domestic gas prices remain unchanged QoQ, softening of LNG prices have cushioned their margins. In Q4, IGL did not announce any price cuts while MGL announced a price cut of ₹ 2/kg on CNG. With gas costs coming down and no major price cuts undertaken by the companies, we expect their margins to improve QoQ. IGL and MGL's sales volume are expected to improve 2-3% QoQ. Gujarat Gas' volumes are expected to grow ~16% QoQ (sitting on a weak base with Morbi volumes being impacted) as the company had cut prices in order to regain its industrial volumes. MGL's operating profit is expected to increase ~16% QoQ while that of IGL is expected to grow by 15% QoQ. For Gujarat Gas, EBITDA is expected to decline ~29% QoQ.

### Topline & Profitability (Coverage Universe)

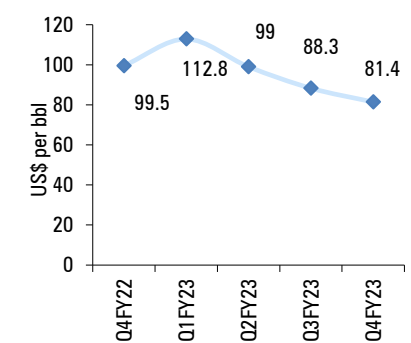


### Closing Brent crude oil prices



Source: Bloomberg

### Average Brent crude oil prices



Source: Bloomberg

### Top Picks

Reliance Industries,  
IGL, MGL

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**Exhibit 1: Estimates for Q4FY23E: (Oil & Gas) (₹ crore)**

Company	Revenue			Change (%)			EBITDA			Change (%)			PAT			Change (%)		
	Q4FY23E	YoY	QoQ	Q4FY23E	YoY	QoQ	Q4FY23E	YoY	QoQ	Q4FY23E	YoY	QoQ	Q4FY23E	YoY	QoQ	Q4FY23E	YoY	QoQ
Bharat Petroleum	1,30,262.9	5.4	-2.3	7,772.4	82.9	83.6	4,360.5	104.7	122.5									
Gail India	36,851.6	36.7	4.2	2,645.5	-28.8	912.3	2,006.6	-25.2	716.6									
Gujarat Gas	3,691.8	-20.9	0.2	413.2	-40.8	-29.0	239.5	-46.1	-35.5									
HPCL	1,09,657.7	4.1	-5.6	4,521.7	115.5	170.5	2,298.2	28.0	1,232.8									
IOC	2,25,244.4	9.1	-1.3	12,707.2	9.3	253.6	6,369.1	5.8	381.9									
Indraprastha Gas Ltd	3,741.5	55.5	0.8	494.5	-1.2	15.4	311.5	-13.9	11.9									
Mahanagar Gas Ltd	1,785.1	50.3	-2.9	296.9	37.8	15.9	191.5	45.3	11.3									
ONGC	37,825.7	9.6	-2.0	20,760.1	11.7	1.7	11,823.4	33.5	7.0									
Petronet LNG	13,555.8	21.5	-14.1	1,203.4	2.9	-28.2	764.2	1.9	-35.3									
Reliance Industries	2,01,245.7	-5.0	-8.8	37,540.6	19.7	6.5	17,544.5	8.3	11.1									
<b>Total</b>	<b>7,63,862.1</b>	<b>4.9</b>	<b>-4.2</b>	<b>88,355.4</b>	<b>19.0</b>	<b>29.2</b>	<b>45,908.8</b>	<b>16.6</b>	<b>41.1</b>									

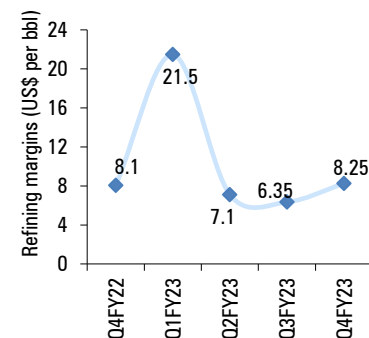
Source: Company, ICICI Direct Research

Exhibit 2: Company Specific Views

Company	Remarks
BPCL	Crude throughput is expected at 9.8 MMT, up 4% QoQ. Marketing segment volumes are expected to remain flat QoQ. GRMs are expected at US\$10/bbl, down ~US\$6/bbl QoQ taking into account individual product crack trend and inventory losses. On the marketing front, we expect margins to turn positive with diesel margins turning positive due to a 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 ₹ 7772.4 crore, up 8.4x QoQ on a weak base
Gail	On the gas business front, transmission volume is expected to rise 4% QoQ with improvement in LNG supply, to 108 mmscmd with its EBIT at ₹ 872.8 crore. For the gas trading segment also, we expect volumes to increase ~5% QoQ to 94 mmscmd with its EBIT at ₹ 758.5 crore. On the LPG/LHC front, EBIT is expected to grow to ₹ 698 crore due to higher realisation while petchem segment is expected to report EBIT loss of ₹ 3.5 crore. We expect an EBITDA of ₹ 2645.5 crore, up ~9x QoQ on weak base
Gujarat Gas	Volume is expected to rise ~16% QoQ to 8.42 mmscmd (CNG: 2.47 mmscmd, PNG: 5.95 mmscmd) due to growth in industrial volumes. Gross margins are expected to decline 25% QoQ to ₹ 9.6/scm due to unfavourable price cuts taken by the company, to maintain lucrativeness of gas compared to alternative fuels. EBITDA/scm is expected at ₹ 5.5/scm, down ₹ 3.2/scm QoQ. Hence, we expect EBITDA of ₹ 413 crore, down 29% QoQ
Hindustan Petroleum	Crude throughput is expected at 4.82 MMT, flat QoQ. Marketing segment volumes are also expected to remain flat QoQ. GRMs are expected to increase to US\$10/bbl from US\$9.1/bbl in Q4FY23, considering individual product crack trend and inventory loss. On the marketing front, we expect marketing margins to increase substantially with a 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 ₹ 4522 crore, up 1.7x QoQ on a weak base
Indian Oil Corporation	We expect crude throughput at 18.6 MMT, up ~2% QoQ with operations commencing at Panipat post maintenance shutdown. Marketing segment volumes are anticipated to remain flat QoQ. GRMs are anticipated at US\$10/bbl vs. US\$12.9/bbl in Q4FY23 factoring in individual product cracks trend and inventory loss. On the marketing front, we expect a significant improvement with margins on diesel turning positive. IOC's marketing segment (80.5 MMT) is slightly larger than its refining segment (67.7 MMT). We estimate operating profit of ₹ 12707.2 crore, up 2.5x QoQ (on a weak base)
Indraprastha Gas	IGL's volumes are expected to increase ~2% QoQ. Total volumes are expected at 8.25 mmscmd (CNG: 6.11 mmscmd, PNG: 2.14 mmscmd). We expect gross margins to grow 15% QoQ to ₹ 12.8/scm as the company has not taken any price cuts. EBITDA/scm is expected at ₹ 6.7/scm, up ₹ 1/scm QoQ. We expect EBITDA of ₹ 495 crore, up 15% QoQ
Mahanagar Gas	We expect volume growth of 3% QoQ. Volumes are expected at 3.51 mmscmd (CNG: 2.51 mmscmd, PNG: 1 mmscmd). Gross margins are expected to improve 15% QoQ to ₹ 15.7/scm as the company only undertook a price cut of ₹ 2/kg on CNG and no other major price cuts. EBITDA/scm is expected at ₹ 9.4/scm, up ₹ 1.2/scm QoQ. We expect an operating profit of ₹ 297 crore, up 16% QoQ
ONGC	Oil & gas production is expected to remain flat QoQ. Oil production is estimated at 5.46 MMT while gas production is expected at 5.38 BCM during the quarter. We expect oil realisations to be capped at ~US\$75-76/bbl on account of windfall tax. Domestic gas realisations are expected to remain unchanged QoQ at US\$8.57/mmbtu. We estimate an operating profit of ₹ 20760.1 crore, up ~2% QoQ

Source: Company, ICICI Direct Research

Singapore gross refining margins (GRMs)



Source: Reuters

Singapore benchmark product spreads (\$/bbl)

Product Cracks	Q4FY22	Q3FY23	Q4FY23
Gasoline	17.4	5.5	15.0
Naphtha	1.4	-11.4	-4.6
Jet Kerosene	16.7	33.8	26.5
Gas Oil	19.8	39.6	25.1

Source: Reuters

Exhibit 3: Company Specific Views

**Petronet LNG** Total volumes are expected to increase 20% QoQ to 200.2 trillion British thermal units (tbtu) (~4 MMT) as we estimate higher offtake with increase in LNG imports due to softening of LNG prices. Blended margins are expected at ₹ 71.9/mmbtu, down 37.4% QoQ due to normalisation in regasification services. EBITDA is expected to decline 28% QoQ to ₹ 1203.4 crore

**Reliance Industries** RIL's consolidated EBITDA is estimated to increase 6.5% QoQ to ₹ 37540.6 crore. Reliance Jio (Jio), will lead sub addition with ~6.5 mn net sub additions during Q4. The monthly ARPU, like peers, is expected to witness modest growth amid lower number of days, at ~0.6% QoQ at ₹ 179. Overall revenues are expected at ₹ 23455 crore, up 2% QoQ. EBITDA, at ₹ 12,112 crore, is likely to grow 0.9% QoQ. Overall EBITDA margins are expected at 51.6%, down 60 bps QoQ due to higher network expenses on account of 5G and net profit at ₹ 4510 crore. Key monitorable: Commentary on ARPU trajectory, Jio Fiber. On the back of robust store addition trajectory (added 2100 new outlets in 9MFY23) and favourable base, we expect Reliance Retail to register revenue growth of 20% YoY to ₹ 69415 crore. Excluding Jio connectivity, we expect core retail revenue to increase 24% YoY. We expect EBITDA margins (excluding other income) to improve 70 bps YoY to 6.9%. Improvement in GRMs is expected to lead to growth of 10.5% QoQ in O2C EBITDA to ₹15387 crore. E&P EBITDA is expected to remain flat QoQ at ₹ 3854 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)	343	380	Hold	73,040	91.0	43.7	5.2	3.8	7.9	65.8	5.8	6.3	13.0	14.8	13.9	2.7	34.9	18.5	2.2
GAIL (India) (GAIL)	96	115	Buy	63,121	11.0	23.3	9.4	8.7	4.1	10.2	7.3	3.4	8.4	8.7	18.8	9.0	10.5	18.6	10.5
Gujarat Gas (GUJGA)	465	550	Buy	32,011	18.5	18.9	20.3	25.1	24.6	22.9	15.7	15.7	14.4	31.9	27.3	23.2	28.7	23.3	20.8
HPCL (HINPET)	232	275	Buy	32,919	70.6	44.9	-66.7	3.3	5.2	-3.5	4.8	7.8	-12.8	15.6	7.3	-12.9	29.5	16.5	-32.4
Indian Oil Corp (INDOIL)	81	90	Hold	1,14,382	15.5	17.1	5.2	5.2	4.7	15.5	3.0	2.6	5.0	13.3	12.9	4.0	19.8	18.4	5.8
Indraprastha Gas (INDGAS)	463	550	Buy	32,410	14.4	18.8	20.4	32.2	24.6	22.7	21.1	16.5	15.3	20.0	22.3	23.5	17.1	19.0	20.0
Mahanagar Gas (MAHGAS)	960	1,180	Buy	9,483	62.7	60.4	70.7	15.3	15.9	13.6	9.7	9.8	8.7	23.1	19.8	20.6	19.2	16.6	17.5
ONGC (ONGC)	152	180	Buy	1,95,067	10.4	8.9	32.0	14.6	17.0	4.7	4.2	6.5	3.4	10.2	4.5	14.8	6.7	5.5	17.0
Petronet LNG (PETLNG)	225	230	Hold	33,750	19.7	22.3	22.6	11.4	10.1	10.0	7.0	6.2	6.0	26.0	27.0	24.3	25.3	25.0	23.0
Reliance Industries (RELIND)	2,443	3,050	Buy	16,52,690	89.7	89.7	100.6	32.0	27.2	24.3	22.9	17.9	13.1	5.5	7.1	9.2	7.0	7.8	8.1

Source: Company, ICICI Direct Research

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