Oil, Gas & Consumable Fuels

India

ATTRACTIVE

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4QFY19E preview—a mixed bag. We expect (1) RIL to report a marginal increase in consolidated profits as lower standalone profits, due to weaker refining margins and stronger Rupee, will be offset by higher contribution from Jio and retail, (2) OMCs to deliver robust results led by elevated marketing margins and large adventitious gains, (3) upstream profitability to be impacted by lower crude realizations including kerosene subsidies, (4) GAIL's profits to decline sequentially amid lower gas marketing and LPG contribution, (5) other gas utilities to report relatively steady EBITDA amid sustained trends in volumes from the previous quarter and stable margins.

RIL: higher contribution from Jio and retail to offset lower underlying refining margins

We expect RIL to report 3% qoq decline in standalone net income at ₹86.2 bn (EPS of ₹13.6) led by sharply lower refining margins, which will be partly mitigated by improvement in LLDPE, PVC and polyester margins. We estimate RIL's refining margins to decline to US$7/bbl from US$8.8/bbl in 3QFY19 due to (1) a sharp fall in spreads for gasoline and diesel and (2) lower light-heavy crude differentials. We model RIL's consolidated net income to increase modestly by 1% qoq to ₹103.4 bn (EPS of ₹17.4) in 4QFY19 led by an increase in EBITDA from Jio (+₹6 bn) and retail (+₹2 bn), which will offset lower standalone contribution.

OMCs: robust EBITDA boosted by elevated auto fuels marketing margins and adventitious gains

We expect downstream PSUs to report sharply higher EBITDA led by (1) ~₹3.75/liter of increase in marketing margins for auto fuels amid qoq decline in global product prices and (2) large adventitious gains amid a sharp ~US$14/bbl increase in end-period crude price, which will be partly offset by lower underlying refining margins. We expect (1) BPCL to report net income of ₹38.9 bn, (2) HPCL's net income at ₹30.3 bn and (3) IOCL's net income at ₹76.2 bn, all up 8-12X qoq from a low base of the previous quarter, which was impacted by significant inventory and forex losses. We raise FY2019 EPS estimates for (1) BPCL to ₹40.1 (+34%), (2) HPCL to ₹40 (+29%) and (3) IOCL to ₹19.5 (+21%), factoring in a sharp rise in marketing margins on auto fuels and large adventitious gains during 4QFY19. Our fair values for OMCs remain unchanged, as we broadly retain our FY2020-21 assumptions and estimates. We expect Castrol to report 27% yoy jump in EPS to ₹2.3 driven by (1) robust expansion in margins amid a sharp decline in RM costs and stronger Rupee and (2) moderate growth in volumes.

Upstream: qoq decline in EBITDA due to lower oil price and likely sharing of kerosene subsidy

We expect a sharp sequential decline in EBITDA for OIL and ONGC, led by (1) ~US$5/bbl fall in global crude prices and (2) ~US$8-8.5/bbl of subsidy discount pertaining to shortfall in budget provision for kerosene subsidies; the government will likely manage LPG subsidies using higher provision for FY2020. We expect ONGC's net income to decline 42% qoq to ₹47.7 bn (EPS of ₹3.7) in 4QFY19, led by (1) lower net crude realization at US$53/bbl (-US$13/bbl qoq) including US$8.5/bbl of subsidy and (2) lower dividends receipts. We expect OIL's net income to decline 62% qoq to ₹4.7 bn (EPS of ₹3.9) due to (1) lower net realization at US$54/bbl (-US$12/bbl qoq) including US$8/bbl of subsidy and (2) 7-8% qoq decline in oil and gas volumes.

Gas utilities: weaker results for GAIL; steady performance for PLNG and CGDs

We expect GAIL to report 12% qoq decline in net income to ₹14.8 bn (EPS of ₹6.6), led by (1) lower gas marketing contribution due to weaker economics of the US LNG volumes and (2) lower profitability for the LPG segment amid lower prices, which will be partially offset by recovery in petchem contribution; marketing and transmission volumes may rise marginally to 97-108 mcm/d. We expect PLNG's net income to remain steady qoq at ₹5.7 bn (EPS of ₹3.8), as (1) modest 2% qoq increase in volumes and (2) 5% escalation in Dahej tariffs, may be offset by higher operating costs. We expect IGL and MGL to report robust 17-35% yoy jump in EBITDA, driven by healthy 9-13% growth in volumes and expansion in unit margins by 4% for IGL and 23% for MGL. We expect GSPL to report 5% qoq rise in EBITDA amid moderation in operating costs, which will be offset by 2% qoq decline in volumes.

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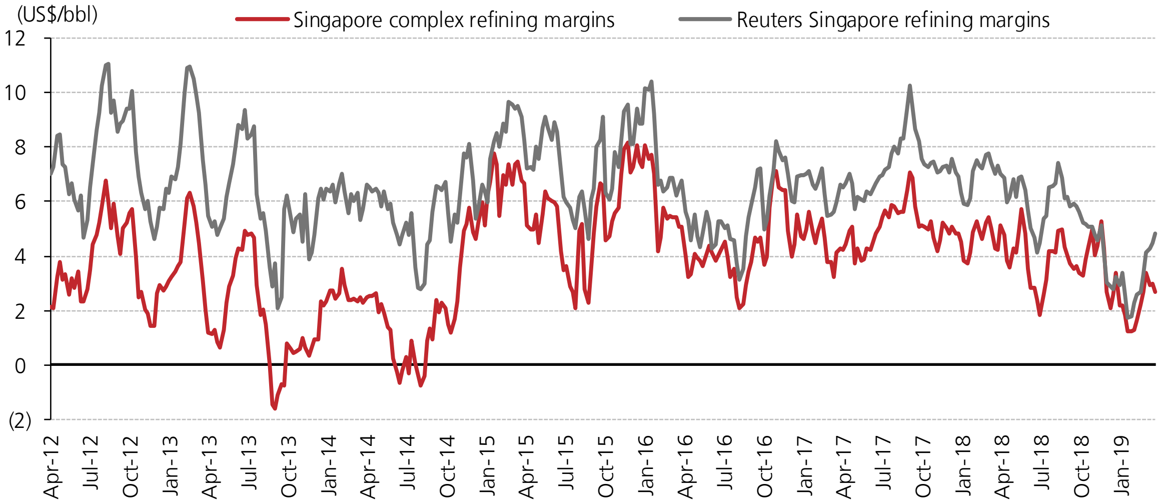
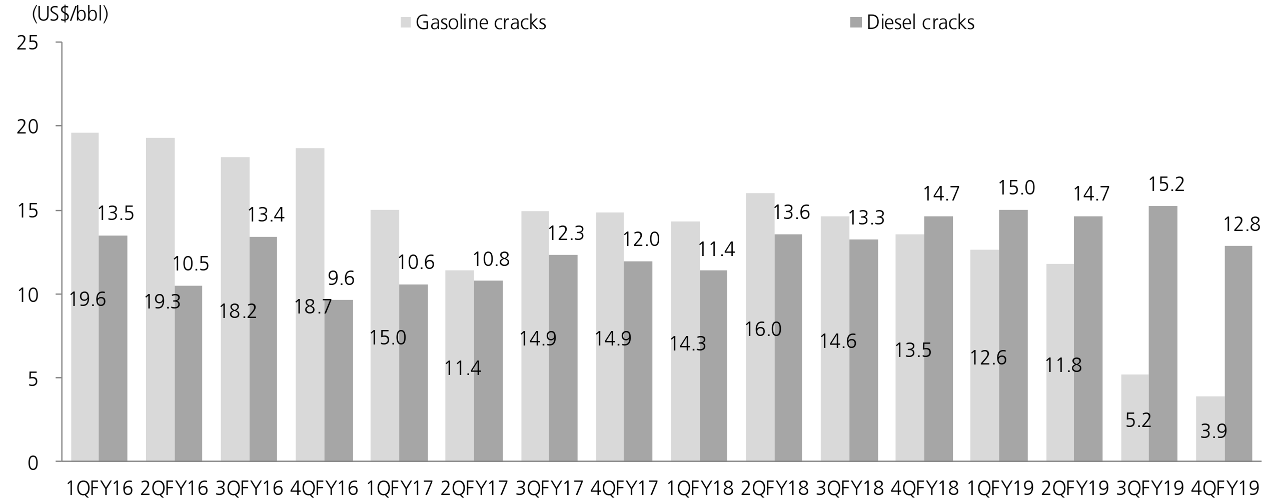
Exhibit 1: Singapore complex refining margins declined sharply in 4QFY19
Weekly Singapore refining margins, April 2012 onwards (US$/bbl)



Reuters Singapore refining margins, March fiscal year-ends (US$/bbl)								
	2012	2013	2014	2015	2016	2017	2018	2019
1Q	8.2	6.7	6.6	5.8	8.1	5.1	6.4	6.1
2Q	8.9	9.1	5.2	4.8	6.2	5.1	8.3	6.1
3Q	6.4	6.6	5.4	6.3	8.0	6.7	7.3	4.3
4Q	7.5	8.5	6.2	8.6	7.8	6.4	7.0	3.2
Average	7.8	7.7	5.9	6.3	7.5	5.8	7.2	4.9

Source: Reuters, Kotak Institutional Equities estimates

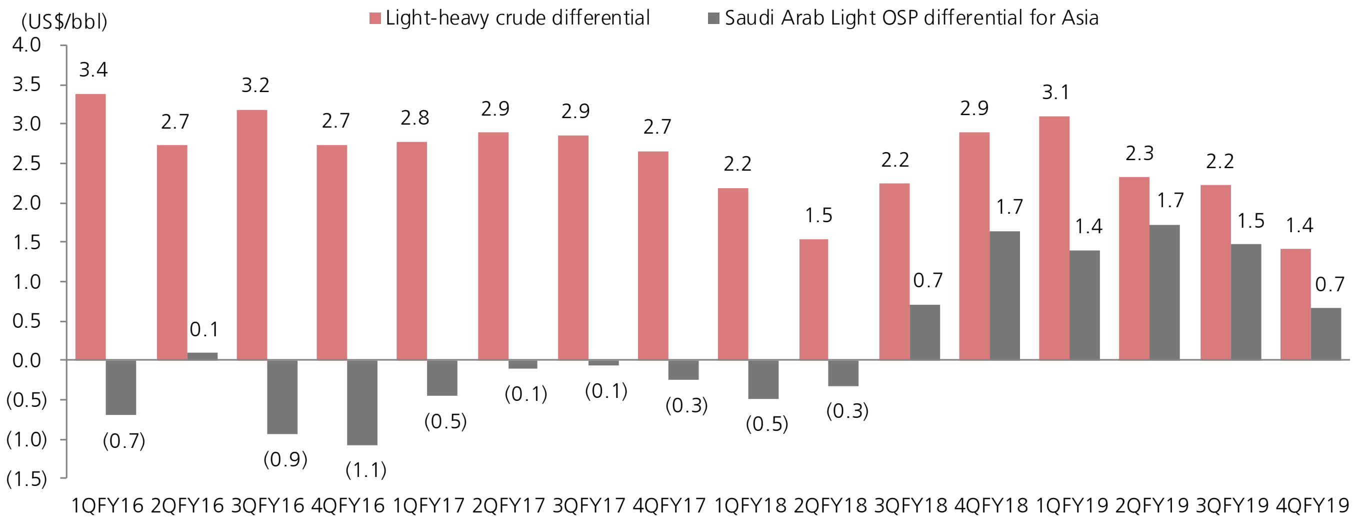
Exhibit 2: Product cracks for gasoline and diesel over crude prices declined qoq in 4QFY19
Product spreads for diesel and gasoline, 1QFY16 onwards (US$/bbl)



Source: Bloomberg, Kotak Institutional Equities

Exhibit 3: Differential between light and heavy crudes reduced sharply in 4QFY19

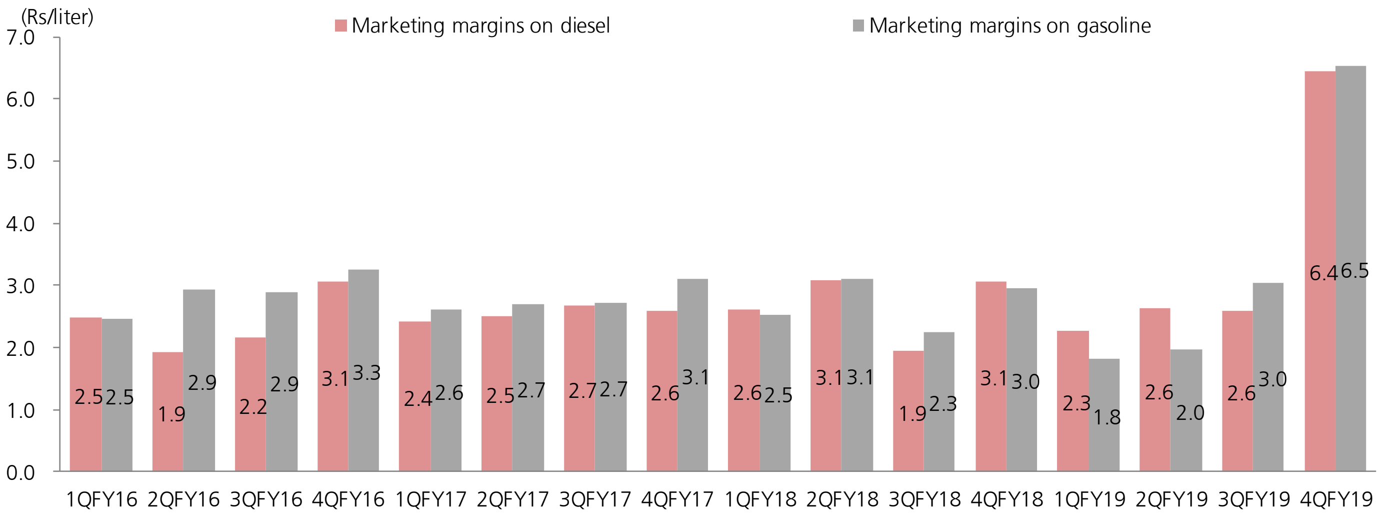
Light-heavy crude differential, 1QFY16 onwards (US$/bbl)



Source: Bloomberg, Kotak Institutional Equities

Exhibit 4: Auto fuel marketing margins increased sharply during 4QFY19

Gross margins on diesel and gasoline, 1QFY16 onwards (Rs/liter)



Source: PPAC, Kotak Institutional Equities estimates

Exhibit 5: Volume growth in petroleum consumption recovered in 4QFY19
Petroleum consumption volumes and growth, 1QFY17 onwards

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	Jan-Feb'19
Consumption (mn tons)												
MS	5.9	5.9	6.1	5.8	6.6	6.5	6.5	6.6	7.1	6.9	7.0	4.6
HSD	20.1	17.2	20.0	18.8	21.3	18.3	20.9	20.5	22.0	18.8	21.3	13.8
LPG	4.8	5.4	5.7	5.7	5.3	5.9	6.0	6.1	5.8	6.2	6.1	4.5
SKO	1.6	1.5	1.2	1.2	1.0	0.9	1.0	0.9	0.9	0.9	0.8	0.5
ATF	1.7	1.7	1.8	1.8	1.8	1.8	1.9	2.0	2.1	2.0	2.1	1.4
FO & LSHS	1.9	1.8	1.8	1.6	1.8	1.6	1.6	1.6	1.6	1.6	1.6	1.1
Others	13.9	13.7	12.6	13.4	13.9	13.8	14.8	14.9	14.6	13.1	15.0	9.7
Domestic consumption	49.9	47.3	49.2	48.2	51.8	48.9	52.8	52.6	54.2	49.6	54.0	35.7
Growth (%)												
MS	10.0	11.7	12.0	1.8	10.9	9.1	7.2	13.5	8.4	6.6	7.8	10.6
HSD	4.7	0.8	5.6	(3.7)	5.9	6.7	4.7	9.5	3.4	2.8	1.7	4.5
LPG	7.8	14.5	11.2	7.1	10.7	8.6	6.1	7.0	9.6	5.1	0.9	12.6
SKO	(7.7)	(12.4)	(32.1)	(31.7)	(34.1)	(37.2)	(18.5)	(20.9)	(13.2)	(6.6)	(11.0)	(14.4)
ATF	11.5	12.6	11.2	11.8	9.3	8.9	7.9	10.1	12.0	11.1	7.9	7.1
FO & LSHS	33.5	9.0	14.8	(17.5)	(6.5)	(9.2)	(8.3)	0.6	(11.5)	(0.2)	0.1	1.5
Others	23.3	19.2	7.4	(6.2)	(0.0)	0.8	17.0	11.0	5.4	(5.0)	1.5	1.5
Domestic consumption	11.0	8.7	6.5	(3.6)	3.7	3.6	7.4	9.1	4.7	1.4	2.2	5.0

Source: PPAC, Kotak Institutional Equities

Exhibit 6: Margins for LLDPE, PVC and polyester increased in 4QFY19
Asia petchem margins and prices, 1QFY18 onwards (US$/ton)

									Change (%)	
	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	yoy	qoq
Global margins										
HDPE – naphtha	666	618	626	626	595	544	509	501	(20.1)	(1.7)
LLDPE – naphtha	661	649	636	601	564	479	444	510	(15.0)	15.0
PP – naphtha	541	564	575	598	593	577	573	556	(6.9)	(2.9)
PVC – naphtha	441	454	370	326	329	293	237	389	19.4	64.3
PSF – naphtha	801	820	691	686	673	639	771	766	11.7	(0.7)
PFY – naphtha	921	1,001	956	997	991	941	1,049	1,075	7.7	2.4
PX – naphtha	365	351	303	339	338	389	592	539	59.2	(8.9)
Global prices										
HDPE	1,128	1,053	1,169	1,214	1,216	1,196	1,143	1,000	(17.7)	(12.6)
LLDPE	1,123	1,084	1,179	1,188	1,184	1,132	1,078	1,009	(15.1)	(6.4)
PP	1,003	999	1,117	1,185	1,213	1,230	1,207	1,055	(11.0)	(12.6)
PVC	903	889	912	913	949	946	871	887	(2.8)	1.9
PSF	1,263	1,255	1,233	1,273	1,293	1,292	1,405	1,264	(0.7)	(10.0)
PFY	1,383	1,437	1,498	1,585	1,612	1,593	1,683	1,573	(0.7)	(6.5)
PX	828	787	845	926	958	1,042	1,226	1,038	12.1	(15.3)

Source: Platt's, Kotak Institutional Equities

Exhibit 7: Lower standalone profits may be offset by rising contribution from Jio and retail segments
4QFY19E preview for RIL (Rs mn)

	Mar-18	Dec-18	Mar-19E	Change (%) yoy	Change (%) qoq	Comments
Reliance Industries (Standalone)						
Net sales	840,370	1,000,960	1,006,554	20	1	We expect 3% qoq decline in standalone EBITDA led by sharp decline in refining margins to US$7/bbl (-US$1.8/bbl qoq) amid lower spreads, L-H differential and throughput, which will be partly offset by modest improvement in overall margins for petchem segment.
EBITDA	134,250	145,070	140,052	4	(3)	
EBIT	107,460	119,210	112,873	5	(5)	
PBT	119,070	119,720	114,865	(4)	(4)	
Reported PAT	86,970	89,280	86,160	(1)	(3)	
EPS (Rs/share)	13.7	14.1	13.6	(1)	(3)	
Jio						
Net sales	71,280	103,830	114,651	61	10	We estimate Jio's reported EBITDA and net profits to increase sharply qoq supported by robust 32 mn addition to subscriber base to 312 mn by end-March 2019; we assume marginal 1% decline in ARPU to Rs129/month.
EBITDA	26,931	40,520	46,555	73	15	
EBIT	14,943	23,680	28,091	88	19	
PBT	7,836	12,780	15,879	103	24	
Reported PAT	5,104	8,310	10,350	103	25	
EPS (Rs/share)	0.9	1.4	1.7	103	25	
Reliance Industries (Consolidated)						
Net sales	1,169,150	1,563,970	1,580,576	35	1	We expect modest 1% qoq increase in consolidated EBITDA as a decline in standalone contribution due to weak refining margins will be more than offset by likely increase in contribution from Jio (+Rs6 bn) and retail (+Rs2 bn).
EBITDA	184,690	213,170	215,853	17	1	
EBIT	136,170	160,800	161,529	19	0	
PBT	132,540	144,210	143,372	8	(1)	
Tax	37,870	40,690	40,131	6	(1)	
Reported PAT	94,350	102,510	103,380	10	1	
EPS (Rs/share)	15.9	17.3	17.4	9	1	
Refining assumptions						
Exchange rate (Rs/US$)	64.4	72.1	70.4	9	(2)	
Refining throughput (mn tons)	16.7	18.0	17.0	2	(6)	
Refining margin (US$/bbl)	11.0	8.8	7.0	(37)	(21)	
Petchem assumptions						
Polymer volumes ('000 tons)	1,466	1,489	1,470	0	(1)	
Polyester volumes ('000 tons)	702	697	695	(1)	(0)	
Fiber intermediates ('000 tons)	2,527	2,854	2,765	9	(3)	
HDPE margins over naphtha (US$/ton)	626	509	501	(20)	(2)	
LLDPE margins over naphtha (US$/ton)	601	444	510	(15)	15	
PP margins over naphtha (US$/ton)	598	573	556	(7)	(3)	
PSF margins over naphtha (US$/ton)	686	771	766	12	(1)	
PFY margins over naphtha (US$/ton)	997	1,049	1,075	8	2	
Telecom assumptions						
End-period subscriber base (# mn)	187	280	312	67	11	
Average subscriber base (# mn)	173	266	296	71	11	
ARPU (Rs/month)	137	130	129	(6)	(1)	

Source: Company, Kotak Institutional Equities estimates

Exhibit 8: Elevated marketing margins and adventitious gains to boost results for OMCs
4QFY19E preview for downstream companies (Rs mn)

	Mar-18	Dec-18	Mar-19E	Change (%) yoy	Change (%) qoq	Comments
BPCL						
Net sales	652,393	791,688	844,366	29	7	
EBITDA	37,216	7,374	60,838	63	725	We expect BPCL to report strong EBITDA driven by (1) elevated marketing margins (+Rs3.75/liter qoq) on auto fuels and (2) adventitious gains of Rs12 bn.
EBIT	29,803	(408)	52,459	76	NM	
PBT	35,939	5,895	58,843	64	898	
Tax	9,202	944	20,007	117	2,020	
Reported PAT	26,736	4,951	38,836	45	684	We assume (1) 5% qoq increase in crude throughput to 7.9 mn tons, (2) 6% yoy increase in sales volumes to 11.4 mn tons and (3) lower normalized refining margins at US$2.4/bbl (-US$3.6/bbl qoq).
EPS (Rs/share)	13.6	2.5	19.7	45	684	
Assumptions						
Crude throughput (mn tons)	8.0	7.5	7.9	(1)	5	
Domestic sales (mn tons)	10.5	10.7	11.4	8	7	
Reported refining margin (US$/bbl)	6.5	2.8	4.5	(31)	62	
Normalized refining margin (US$/bbl)	5.5	6.0	2.4	(57)	(60)	
Marketing margin (Rs/ton)	4,293	5,097	7,570	76	49	
Adventitious gain/(loss) - refining	3,888	(12,920)	8,590	121	NM	
Adventitious gain/(loss) - marketing	3,831	(20,410)	3,185	(17)	NM	
Forex gain/(loss)	(3,456)	6,590	444	NM	(93)	
HPCL						
Net sales	608,101	721,118	776,632	28	8	
EBITDA	29,226	9,632	51,456	76	434	We expect HPCL to report strong EBITDA driven by (1) elevated marketing margins (+Rs3.75/liter qoq) on auto fuels and (2) adventitious gains of Rs12 bn, which will be partly offset by lower underlying refining margins.
EBIT	21,973	2,239	43,670	99	1,851	
PBT	23,624	4,704	45,973	95	877	
Tax	6,145	2,228	15,631	154	601	
Reported PAT	17,479	2,476	30,342	74	1,126	We assume (1) 1% qoq decline in crude throughput to 4.5 mn tons, (2) 7% yoy increase in sales volumes to 10 mn tons and (3) lower normalized refining margins at US$2.1/bbl (-US$7.9/bbl qoq).
EPS (Rs/share)	11.5	1.6	19.9	74	1,126	
Assumptions						
Crude throughput (mn tons)	4.6	4.6	4.5	(2)	(1)	
Domestic sales (mn tons)	9.4	9.4	10.0	7	6	
Reported refining margin (US$/bbl)	7.1	3.7	4.8	(32)	28	
Normalized refining margin (US$/bbl)	6.6	10.0	4.8	(28)	(52)	
Marketing margin (Rs/ton)	5,782	5,016	7,729	34	54	
Adventitious gain/(loss) - refining	1,040	(15,350)	6,239	500	NM	
Adventitious gain/(loss) - marketing	530	(19,300)	5,836	1,001	NM	
Forex gain/(loss)	(840)	5,970	402	NM	(93)	
IOCL						
Net sales	1,173,685	1,399,689	1,410,932	20	1	
EBITDA	106,542	36,101	133,634	25	270	We expect IOCL to report strong EBITDA driven by (1) elevated marketing margins (+Rs3.75/liter qoq) on auto fuels and (2) adventitious gains of Rs32 bn, which will be partly offset by lower underlying refining margins.
EBIT	87,206	17,495	113,325	30	548	
PBT	79,516	13,446	116,365	46	765	
Reported PAT	52,181	7,168	76,219	46	963	We assume (1) 8% qoq decline in crude throughput to 17.5 mn tons amid shutdowns, (2) 5% yoy increase in sales volumes to 21.8 mn tons and (3) lower normalized refining margins at US$2.2/bbl (-US$7/bbl qoq).
EPS (Rs/share)	5.4	0.8	8.0	48	963	
Assumptions						
Crude throughput (mn tons)	17.2	19.0	17.5	2	(8)	
Domestic sales (mn tons)	20.8	20.3	21.8	5	7	
Reported refining margin (US$/bbl)	9.1	1.2	5.2	(43)	349	
Normalized refining margin (US$/bbl)	6.1	9.2	2.2	(64)	(77)	
Marketing margin-EBITDA (Rs/ton)	885	1,050	3,475	293	231	
Adventitious gain/(loss) - refining	24,480	(80,820)	26,959	10	NM	
Adventitious gain/(loss) - marketing	9,940	(26,620)	4,700	(53)	NM	
Forex gain/(loss)	(6,760)	20,841	1,403	NM	(93)	
Castrol India						
Net sales	9,271	10,334	10,473	13	1	
EBITDA	2,743	3,174	3,537	29	11	We expect Castrol to report 29% yoy jump in EBITDA driven by (1) robust expansion in margins amid a sharp decline in RM costs and stronger Rupee and (2) moderate growth in volumes.
EBIT	2,600	3,028	3,375	30	11	
PBT	2,821	3,281	3,567	26	9	
Reported PAT	1,818	2,119	2,300	27	9	We assume (1) 6% yoy growth in volumes to 54.6 mn liters and (2) ~420 bps yoy expansion in EBITDA margins to 33.8%.
EPS (Rs/share)	1.8	2.1	2.3	27	9	
Assumptions						
EBITDA margin (%)	29.6	30.7	33.8	419 bps	306 bps	
Volumes (mn liters)	51.5	54.0	54.6	6	1	
Gross realizations (Rs/liter)	180.0	191.4	191.8	7	0	
Net realizations (Rs/liter)	96.6	101.2	107.4	11	6	

Source: Company, Kotak Institutional Equities estimates

Exhibit 9: Upstream may report qoq decline in EBITDA impacted by lower crude realization, stronger Rupee and kerosene subsidies
4QFY19E preview for upstream companies (Rs mn)

	Mar-18	Dec-18	Mar-19E	Change (%) yoy	Change (%) qoq	Comments
ONGC						
Net sales	239,698	276,941	253,407	6	(8)	We expect qoq decline in EBITDA led by (1) lower net crude realization at US$53/bbl (-US$13/bbl qoq) including US$8.5/bbl of subsidy pertaining to a shortfall in budgeted kerosene subsidies, (2) stronger Rupee and (3) lower LPG prices.
EBITDA	113,822	165,708	130,669	15	(21)	
EBIT	51,009	104,191	70,401	38	(32)	
PBT	82,405	120,630	73,512	(11)	(39)	
Reported PAT	59,151	82,627	47,741	(19)	(42)	We model (1) 1% qoq decline in oil sales to 5.3 mn tons (yoy numbers are not comparable due to adjustment in JV entitlement) and (2) 9% growth in gas sales to 5.2 bcm.
EPS (Rs/share)	4.6	6.4	3.7	(19)	(42)	
Assumptions						
Total crude sales (mn tons)	5.9	5.4	5.3	(10)	(1)	
Total gas sales (bcm)	4.8	5.3	5.2	9	(2)	
Gross crude realization (US$/bbl)	64.3	66.4	61.8	(4)	(7)	
Net crude realization (US$/bbl)	64.3	66.4	53.2	(17)	(20)	
Gas price realization (US$/mn BTU)	3.2	3.7	3.7	16	—	
Subsidy burden (Rs bn)	—	—	20			
Oil India						
Net sales	29,984	35,140	26,569	(11)	(24)	We expect qoq decline in EBITDA led by (1) lower net crude realization at US$54/bbl (-US$12/bbl qoq) including US$8/bbl of subsidy pertaining to shortfall in budgeted kerosene subsidies and (2) 7-8% qoq decline in oil and gas volumes.
EBITDA	10,598	15,647	9,270	(13)	(41)	
EBIT	6,907	11,521	5,134	(26)	(55)	
PBT	13,695	16,317	6,948	(49)	(57)	
Reported PAT	8,665	12,335	4,671	(46)	(62)	We model 10% yoy decline in crude oil sales volumes to 0.75 mn tons and 4% yoy growth in natural gas sales volumes to 0.6 bcm, reflecting production in recent months.
EPS (Rs/share)	8.4	10.3	3.9	(54)	(62)	
Assumptions						
Total crude sales ('000 tons)	828	814	745	(10)	(8)	
Total gas sales (mcm)	583	646	604	4	(7)	
Gross crude realization (US$/bbl)	64.9	66.7	62.3	(4)	(7)	
Net crude realization (US$/bbl)	64.9	66.7	54.4	(16)	(18)	
Gas price realization (US$/mn BTU)	3.2	3.7	3.7	16	—	
Subsidy burden (Rs bn)	—	—	3			

Source: Company, Kotak Institutional Equities estimates

Exhibit 10: Weaker results from GAIL amid lower gas marketing and LPG profitability; steady performance from PLNG and other CGDs
4QFY19E preview for gas sector companies (Rs mn)

	Mar-18	Dec-18	Mar-19E	Change (%) yoy	Change (%) qoq	Comments
GAIL (India)						
Net sales	155,111	197,890	195,114	26	(1)	
EBITDA	16,953	26,735	22,927	35	(14)	We expect GAIL to report a sharp sequential decline in EBITDA led by lower profitability of gas marketing and LPG segments amid adverse prices, which will be partly offset by a recovery in petchem contribution.
EBIT	13,344	23,101	19,047	43	(18)	
PBT	15,767	25,075	21,874	39	(13)	
Reported PAT	10,209	16,812	14,838	45	(12)	
EPS (Rs/share)	4.4	7.5	6.6	49	(12)	We assume (1) marginal improvement in gas transmission and marketing volumes to 108 mcm/d and 97 mcm/d and (2) 13% qoq increase in petchem volumes to 195 ktons post planned shutdown in the previous quarter.
Assumptions						
Transmission volumes (mcm/d)	106.1	107.7	108.4	2	1	
Gas sales volumes (mcm/d)	89.2	96.0	96.6	8	1	
Polymers volumes ('000 tons)	191.0	173.0	195.0	2	13	
LPG volumes ('000 tons)	237.0	246.0	233.0	(2)	(5)	
Other liquids ('000 tons)	87.0	96.0	89.5	3	(7)	
Transmission tariff (Rs/cu. m)	1.33	1.49	1.50	13	1	
GSPL						
Net sales	3,504	4,747	4,615	32	(3)	
EBITDA	2,892	3,741	3,931	36	5	We expect sequential increase in EBITDA led by moderation in operating costs from a high base, which will be offset by a modest decline in volumes.
EBIT	2,452	3,301	3,484	42	6	
PBT	2,520	2,827	3,087	22	9	
Reported PAT	1,574	1,735	2,022	28	17	
EPS (Rs/share)	2.8	3.3	3.6	28	8	We assume (1) 2% qoq decline in gas transmission volumes to 33.7 mcm/d and (2) steady regulated tariffs at Rs1.5/scm.
Assumptions						
Volumes (mcm/d)	34.1	34.5	33.7	(1)	(2)	
Transmission tariff (Rs/cu. m)	1.13	1.49	1.50	33	1	
Petronet LNG						
Net sales	86,362	100,977	98,282	14	(3)	
EBITDA	8,221	8,481	8,589	4	1	We expect modest qoq improvement in EBITDA and net income led by 5% escalation in Dahej tariffs and marginal recovery in volumes, which will be partially offset by higher operating costs.
EBIT	7,208	7,444	7,546	5	1	
PBT	7,908	8,113	8,692	10	7	
Reported PAT	5,227	5,653	5,711	9	1	
EPS (Rs/share)	3.5	3.8	3.8	9	1	We assume LNG re-gasification volumes at 205 tn BTUs as compared to 202 tn BTUs in 3QFY19 and 213 tn BTUs in 4QFY18.
Assumptions						
Total volumes (tn BTUs)	212.7	202.0	205.1	(4)	2	
Blended regas tariff (Rs/mn BTU)	46.6	49.4	50.5	8	2	
Indraprastha Gas						
Net sales	12,169	15,084	15,230	25	1	
EBITDA	2,754	3,179	3,231	17	2	We expect IGL's EBITDA to increase by 17% yoy led by 13% growth in volumes and moderate expansion in gross margins, which will be partly offset by the seasonal increase in operating costs.
EBIT	2,283	2,666	2,705	18	1	
PBT	2,545	3,060	3,092	22	1	
Reported PAT	1,900	2,223	2,063	9	(7)	
EPS (Rs/share)	2.6	3.2	2.9	15	(7)	We assume (1) volumes at 6 mcm/d versus 5.4 mcm/d in 4QFY18 and (2) 2% qoq improvement in unit EBITDA to Rs5.9/scm.
Assumptions						
Volumes (mcm/d)	5.4	5.9	6.0	13	2	
CNG sales (mn kgs.)	256	291	291	14	0	
PNG sales (mscm)	124	138	139	12	1	
Operating profit (Rs/scm)	5.7	5.9	5.9	4	2	
Mahanagar Gas						
Net sales	5,870	7,527	7,558	29	0	
EBITDA	1,762	2,391	2,370	35	(1)	We expect strong growth in EBITDA from a low base, led by 9% growth in volumes and a sharp expansion in unit margins based on favorable pricing changes.
EBIT	1,422	2,063	2,037	43	(1)	
PBT	1,595	2,266	2,236	40	(1)	
Reported PAT	1,048	1,483	1,474	41	(1)	We assume (1) overall volumes at 3.1 mcm/d versus 2.8 mcm/d in 4QFY18 and (2) unit EBITDA at Rs8.6/scm as compared to Rs8.8/scm in 3QFY19 and Rs7 in 4QFY18.
EPS (Rs/share)	10.6	15.0	14.9	41	(1)	
Assumptions						
Volumes (mcm/d)	2.8	3.0	3.1	9	3	
CNG sales (mn kgs.)	185	200	201	9	1	
PNG sales (mscm)	67	73	74	10	1	
Operating profit (Rs/scm)	7.0	8.8	8.6	23	(2)	

Source: Company, Kotak Institutional Equities estimates

Exhibit 11: Profit model, balance sheet, cash model of BPCL, March fiscal year-ends, 2014-21E (Rs mn)

	2014	2015	2016	2017	2018	2019E	2020E	2021E
Profit model (Rs mn)								
Net sales	2,600,605	2,380,869	1,884,046	2,022,106	2,363,131	3,075,940	3,111,068	3,264,893
EBITDA	80,862	76,567	110,246	113,193	116,689	131,158	109,356	117,276
Other income	14,687	22,000	17,762	26,007	30,109	30,670	32,020	32,370
Interest	(13,591)	(5,831)	(5,652)	(4,959)	(8,333)	(13,417)	(11,908)	(11,869)
Depreciation	(22,468)	(25,160)	(18,446)	(18,913)	(26,485)	(31,123)	(32,885)	(34,812)
Pretax profits	59,490	67,576	103,910	115,328	111,980	117,288	96,583	102,964
Extraordinary items	—	6,579	—	(4,900)	—	—	—	—
Current tax	(21,829)	(19,836)	(26,987)	(20,988)	(18,468)	(30,959)	(24,712)	(27,798)
Deferred tax	2,948	(3,474)	(6,360)	(9,047)	(14,318)	(7,421)	(6,616)	(5,700)
Adjusted net profits	40,609	46,334	70,564	83,960	79,194	78,907	65,254	69,467
Adjusted EPS (Rs)	20.6	23.6	35.9	42.7	40.3	40.1	33.2	35.3
Balance sheet (Rs mn)								
Total equity	194,588	224,675	273,230	296,684	341,520	382,439	416,278	452,301
Deferred taxation liability	13,609	17,083	35,118	36,182	50,924	58,346	64,962	70,662
Total borrowings	203,298	130,976	158,575	231,592	233,507	253,007	260,507	265,007
Currrent liabilities	312,780	324,555	286,651	355,439	376,274	427,452	439,722	453,178
Total liabilities and equity	724,274	697,289	753,574	919,896	1,002,225	1,121,243	1,181,468	1,241,147
Cash	2,038	13,602	20,674	647	881	3,729	12,318	12,775
Current assets	382,722	279,968	246,069	342,637	369,285	442,081	448,730	464,223
Total fixed assets	221,046	279,807	358,721	430,598	473,852	515,225	558,212	599,941
Investments	118,469	123,911	128,110	146,015	158,208	160,208	162,208	164,208
Total assets	724,274	697,289	753,574	919,896	1,002,225	1,121,243	1,181,468	1,241,147
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	62,232	58,016	86,450	79,658	92,074	85,877	71,586	76,142
Working capital changes	7,086	117,160	7,522	(8,441)	(10,640)	(21,619)	5,621	(2,036)
Capital expenditure	(47,439)	(80,349)	(93,246)	(89,824)	(69,154)	(71,592)	(74,721)	(75,075)
Investments	(6,527)	(9,092)	26	(29,314)	(59)	(2,000)	(2,000)	(2,000)
Other income	11,107	10,351	13,338	17,836	21,718	30,670	32,020	32,370
Free cash flow	26,459	96,085	14,090	(30,086)	33,938	21,336	32,505	29,400
Ratios (%)								
Debt/equity	104.5	58.3	58.0	78.1	68.4	66.2	62.6	58.6
Net debt/equity	103.4	52.2	50.5	77.8	68.1	65.2	59.6	55.8
RoAE	20.8	22.6	25.7	25.1	21.8	18.9	14.2	13.8
RoACE	12.0	12.8	17.7	17.0	14.3	13.3	10.2	10.1
Key assumptions								
Crude throughput (mn tons)	23.4	23.4	24.1	25.4	28.5	30.7	31.0	31.4
Effective tariff protection (%)	2.3	2.4	2.4	2.4	2.3	2.5	2.6	2.6
Net refining margin (US$/bbl)	4.3	3.6	6.6	5.3	6.9	5.1	5.6	5.9
Sales volume (mn tons)	37.0	36.7	38.4	40.2	43.2	45.2	47.1	49.1
Marketing margin on auto fuels (Rs/liter)	0.0	0.0	1.9	1.8	1.8	2.8	1.8	1.8
Subsidy under-recoveries (Rs mn)	(5,115)	(4,874)	—	—	—	—	—	—
Adventitious gain/(loss) (Rs mn)	15,770	(31,420)	(23,710)	19,872	1,210	2,205	—	—

Source: Company, Kotak Institutional Equities estimates

Exhibit 12: Profit model, balance sheet, cash model of HPCL, March fiscal year-ends, 2014-21E (Rs mn)

	2014	2015	2016	2017	2018	2019E	2020E	2021E
Profit model (Rs mn)								
Net sales	2,232,448	2,055,868	1,777,006	1,870,237	2,193,326	2,849,079	2,791,050	2,922,410
EBITDA	**52,377**	**56,666**	**79,393**	**110,990**	**106,719**	**114,214**	**84,751**	**90,822**
Other income	9,745	11,684	11,442	15,147	18,495	15,377	15,917	16,189
Interest	(13,364)	(7,066)	(6,536)	(5,357)	(5,667)	(7,334)	(7,237)	(6,837)
Depreciation	(22,019)	(19,788)	(26,532)	(25,353)	(27,528)	(29,628)	(30,723)	(32,886)
Pretax profits	**26,739**	**41,497**	**57,766**	**95,428**	**92,019**	**92,629**	**62,707**	**67,288**
Extraordinary items	—	—	—	(5,219)	—	—	—	—
Current tax	(7,640)	(12,257)	(14,336)	(22,362)	(25,710)	(25,651)	(16,307)	(18,842)
Deferred tax	(1,178)	(1,952)	(7,373)	(6,283)	(2,739)	(6,048)	(5,007)	(4,029)
Prior-period adjustment	(584)	45	1,204	525	—	—	—	—
Adjusted net profits	**17,338**	**27,333**	**37,262**	**65,650**	**63,571**	**60,930**	**41,393**	**44,417**
Earnings per share (Rs)	**11.4**	**17.9**	**24.4**	**43.1**	**41.7**	**40.0**	**27.2**	**29.1**
Balance sheet (Rs mn)								
Total equity	150,122	160,221	179,698	203,474	239,482	270,521	291,607	314,234
Deferred tax liability	39,084	41,036	49,194	58,956	65,692	71,740	76,747	80,776
Total borrowings	321,646	203,353	211,675	212,497	209,909	289,909	338,409	386,909
Currrent liabilities	264,930	270,896	255,227	309,712	352,989	362,011	360,688	360,052
Total liabilities and equity	**775,781**	**675,506**	**695,793**	**784,639**	**868,072**	**994,181**	**1,067,451**	**1,141,971**
Cash	347	171	238	337	11,941	598	10,385	10,231
Current assets	361,857	237,549	240,166	295,693	325,509	409,707	404,282	409,509
Total fixed assets	304,978	325,373	349,603	379,424	419,571	476,075	548,233	620,931
Investments	108,599	112,415	105,786	109,186	111,051	107,801	104,551	101,301
Total assets	**775,781**	**675,506**	**695,793**	**784,639**	**868,072**	**994,181**	**1,067,451**	**1,141,971**
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	39,134	46,279	75,478	88,488	95,781	78,428	55,988	57,585
Working capital changes	21,121	124,486	(14,397)	6,120	9,817	(75,176)	4,102	(5,862)
Capital expenditure	(41,358)	(41,762)	(47,100)	(58,890)	(66,901)	(83,331)	(97,663)	(98,026)
Investments	(1,581)	3,063	1,484	1,368	(14,170)	3,250	3,250	3,250
Other income	4,906	4,688	4,715	4,473	7,159	15,377	15,917	16,189
Free cash flow	**22,223**	**136,753**	**20,180**	**41,560**	**31,686**	**(61,453)**	**(18,406)**	**(26,864)**
Ratios (%)								
Debt/equity	170.0	101.0	92.5	81.0	68.8	84.7	91.9	97.9
Net debt/equity	169.8	101.0	92.4	80.8	64.9	84.5	89.1	95.4
RoAE	**9.6**	**14.0**	**17.3**	**25.3**	**22.4**	**18.8**	**11.6**	**11.6**
RoACE	**5.3**	**7.0**	**9.5**	**15.0**	**13.6**	**11.5**	**6.9**	**6.6**
Key assumptions								
Crude throughput (mn tons)	15.5	16.2	17.2	17.8	18.3	18.4	18.3	18.3
Effective tariff protection (%)	2.6	2.5	2.6	2.6	2.6	2.7	2.8	2.8
Net refining margin (US$/bbl)	**3.4**	**2.8**	**6.7**	**6.2**	**7.4**	**5.1**	**4.9**	**5.1**
Sales volume (mn tons)	31.4	32.6	34.0	35.2	38.2	39.3	40.9	42.6
Marketing margin on auto fuels (Rs/liter)	—	—	**1.9**	**1.8**	**1.8**	**2.8**	**1.8**	**1.8**
Subsidy under-recoveries (Rs mn)	(4,818)	(4,958)	(78)	—	—	—	—	—
Adventitious gain/(loss) (Rs mn)	7,770	(20,090)	(12,300)	23,000	2,720	8,636	—	—

Source: Company, Kotak Institutional Equities estimates

Exhibit 13: Consolidated profit model, balance sheet, cash model of IOCL, March fiscal year-ends, 2014-21E (Rs mn)

	2014	2015	2016	2017	2018	2019E	2020E	2021E
Profit model (Rs mn)								
Net sales	4,732,101	4,375,261	3,471,764	3,599,422	4,212,247	5,414,168	5,641,903	5,990,975
EBITDA	**162,880**	**100,099**	**223,963**	**423,280**	**385,690**	**371,017**	**323,363**	**349,194**
Other income	34,446	41,808	23,586	42,407	34,534	34,454	36,257	37,339
Interest	(56,524)	(38,390)	(34,416)	(29,913)	(34,756)	(45,290)	(51,075)	(54,155)
Depreciation	(61,497)	(47,548)	(50,923)	(65,016)	(74,072)	(79,142)	(82,661)	(85,501)
Pretax profits	**79,306**	**55,968**	**162,210**	**370,758**	**311,396**	**281,039**	**225,883**	**246,877**
Extraordinary items	17,468	16,681	13,643	(93,277)	28,873	(1,115)	—	—
Current tax	(28,029)	(12,630)	(37,479)	(77,683)	(76,431)	(74,754)	(53,650)	(63,107)
Deferred tax	(998)	(7,559)	(18,532)	2,182	(41,204)	(21,896)	(24,524)	(22,333)
Net profits	67,152	52,340	119,841	201,362	222,590	183,274	147,709	161,438
Adjusted net profits after minority interests	**56,388**	**40,483**	**106,969**	**264,296**	**199,300**	**184,433**	**146,516**	**159,749**
Adjusted earnings per share (Rs)	**5.8**	**4.2**	**11.0**	**27.9**	**21.0**	**19.5**	**15.5**	**16.9**
Balance sheet (Rs mn)								
Total equity	672,052	691,157	899,864	1,015,332	1,125,182	1,219,794	1,297,285	1,382,267
Deferred tax liability	63,196	67,202	68,590	68,585	122,258	144,154	168,678	191,011
Total borrowings	918,172	606,441	574,440	603,172	624,188	797,858	859,733	913,108
Currrent liabilities	1,005,047	938,148	760,371	1,004,906	1,062,333	1,224,972	1,254,017	1,274,663
Total liabilities and equity	**2,658,467**	**2,302,948**	**2,303,265**	**2,691,995**	**2,933,961**	**3,386,778**	**3,579,713**	**3,761,049**
Cash	26,546	1,518	5,518	1,034	901	21,736	27,817	29,355
Current assets	1,386,185	992,932	749,201	979,837	1,115,772	1,396,985	1,433,266	1,463,685
Total fixed assets	1,014,640	1,074,342	1,181,706	1,253,051	1,357,380	1,505,648	1,653,721	1,800,600
Investments	231,097	234,156	366,840	458,072	459,909	462,409	464,909	467,409
Total assets	**2,658,467**	**2,302,948**	**2,303,265**	**2,691,995**	**2,933,961**	**3,386,778**	**3,579,713**	**3,761,049**
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	113,893	56,818	182,457	327,660	297,003	246,517	214,686	226,994
Working capital changes	51,750	350,039	32,023	(71,558)	(32,353)	(118,574)	(7,237)	(9,772)
Capital expenditure	(151,548)	(116,658)	(151,324)	(151,507)	(181,767)	(224,068)	(226,783)	(227,442)
Investments	(64,573)	(2,869)	(16,283)	(46,057)	(18,696)	(2,500)	(2,500)	(2,500)
Other Income	19,290	18,434	22,862	29,133	29,090	34,454	36,257	37,339
Free cash flow	**(31,188)**	**305,765**	**69,735**	**87,670**	**93,277**	**(64,172)**	**14,423**	**24,619**
Ratios (%)								
Debt/equity	124.9	80.0	59.3	55.6	50.0	58.5	58.6	58.0
Net debt/equity	121.3	79.8	58.7	55.6	50.0	56.9	56.7	56.2
RoAE	**8.0**	**5.5**	**12.5**	**26.1**	**17.4**	**14.3**	**10.5**	**10.7**
RoACE	**5.9**	**4.5**	**9.2**	**18.1**	**12.7**	**10.6**	**8.1**	**8.2**
Key assumptions (IOC standalone)								
Crude throughput (mn tons)	53.1	53.6	57.2	65.2	69.0	71.9	73.0	73.0
Effective tariff protection (%)	2.3	2.3	2.0	2.1	2.0	2.1	2.3	2.3
Net refining margin (US$/bbl)	**4.2**	**0.3**	**5.0**	**7.8**	**8.5**	**5.7**	**5.1**	**5.6**
Sales volume (mn tons)	68.8	70.3	74.4	75.9	78.9	82.1	85.4	88.9
Marketing margin on auto fuels (Rs/liter)	**—**	**—**	**1.9**	**1.8**	**1.7**	**2.7**	**1.9**	**1.9**
Subsidy under-recoveries (Rs mn)	(10,826)	(12,005)	(91)	—	—	—	—	—
Adventitious gain/(loss) (Rs mn)	7,800	(22,220)	(30,710)	35,210	9,900	11,480	—	—

Source: Company, Kotak Institutional Equities estimates

"Each of the analysts named below hereby certifies that, with respect to each subject company and its securities for which the analyst is responsible in this report, (1) all of the views expressed in this report accurately reflect his or her personal views about the subject companies and securities, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report: Tarun Lakhotia, Hemang Khanna."

Kotak Institutional Equities Research coverage universe

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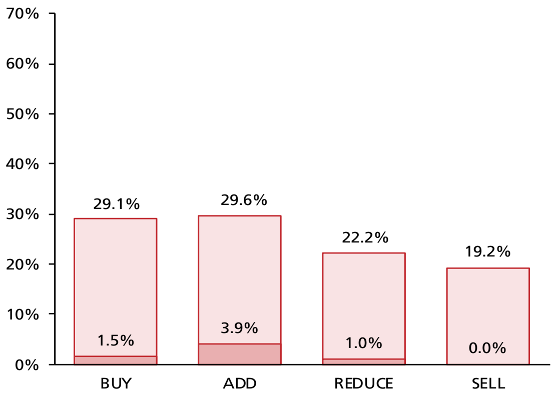

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* The above categories are defined as follows: Buy = We expect this stock to deliver more than 15% returns over the next 12 months; Add = We expect this stock to deliver 5-15% returns over the next 12 months; Reduce = We expect this stock to deliver -5-+5% returns over the next 12 months; Sell = We expect this stock to deliver less than -5% returns over the next 12 months. Our target prices are also on a 12-month horizon basis. These ratings are used illustratively to comply with applicable regulations. As of 31/12/2018 Kotak Institutional Equities Investment Research had investment ratings on 203 equity securities.

Source: Kotak Institutional Equities

As of December 31, 2018

Ratings and other definitions/identifiers

Definitions of ratings

BUY. We expect this stock to deliver more than 15% returns over the next 12 months.

ADD. We expect this stock to deliver 5-15% returns over the next 12 months.

REDUCE. We expect this stock to deliver -5-+5% returns over the next 12 months.

SELL. We expect this stock to deliver <-5% returns over the next 12 months.

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