

April 12, 2022

Oil prices, refining gains to drive earnings...

Oil prices at multi-year highs...

Oil prices surged sharply amid concern over supply disruption following the geopolitical conflict in Europe during Q4FY22. Brent crude oil prices peaked at ~US\$139/bbl in March. Subsequently, average crude oil prices increased by US\$20.1/bbl QoQ to US\$99.5/bbl. On a closing basis, crude oil prices increased US\$29.1/bbl QoQ to US\$106.6/bbl. Gas realisation was up 62% YoY as domestic APM gas prices were revised upwards from October. Similarly, ceiling price for gas from deepwater fields was also higher by 51% YoY in Q4FY22. Hence, net realisations of upstream companies are estimated to improve YoY as well as QoQ.

Refining segment to be saviour for OMCs

Benchmark Singapore GRMs witnessed a further recovery and were at US\$8.1/bbl in Q4FY22 vs. US\$6.1/bbl in Q3FY22. 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. Cracks for gas oil increased US\$8.3/bbl QoQ to US\$19.8/bbl while gasoline product cracks saw an increase of US\$1.8/bbl QoQ to US\$17.4/bbl. Jet fuel cracks saw a recovery of US\$6.4/bbl to US\$16.7/bbl. Overall, core GRMs for refiners are expected to improve QoQ and will be in range of US\$ 10-11/bbl. Refining segment earnings will be further supported by inventory gains. On the marketing front, marketing volumes are expected to grow in the range of 4-5% YoY. In terms of marketing margins, we estimate weaker profitability QoQ as OMCs did not pass on higher crude oil costs to customers in February and initial period of March. We expect overall profitability for OMCs to remain higher QoQ on account of refining gains.

High gas prices continue to impact CGD margins

Sales volumes of city gas distribution (CGD) companies with high CNG contribution are expected to grow ~19% YoY while companies with high PNG contribution in sales mix are expected to report sales decline YoY due to lower industrial offtake. On the cost front, CGD companies are expected to incur high gas sourcing costs as spot LNG prices continue to remain at elevated levels. In spite of price hikes taken during the quarter, gross margins are expected to decline YoY. For large gas utility companies, volumes are expected to be lower as LNG import volume is estimated to fall YoY.

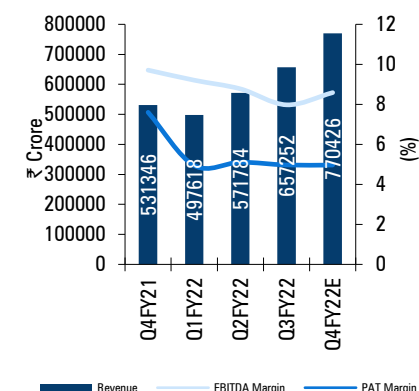
Exhibit 1: Estimates for Q4FY22E: (Oil & Gas)

(₹ crore)

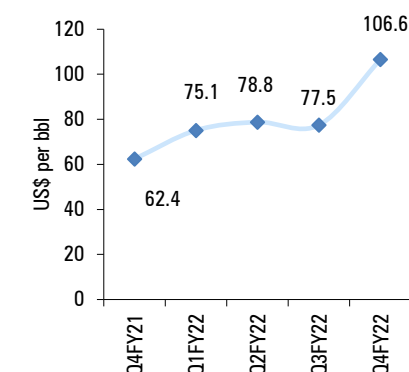
Company	Revenue		Change (%)		EBITDA		Change (%)		PAT		Change (%)	
	Q4FY22E	YoY	QoQ	Q4FY22E	YoY	QoQ	Q4FY22E	YoY	Q4FY22E	YoY	QoQ	Q4FY22E
Bharat Petroleum	1,43,815.9	45.6	21.3	5,219.4	3.2	23.9	3,261.6	-72.7	32.5			
Gail India	24,391.5	56.9	-5.3	3,869.5	50.9	-8.5	2,761.6	44.8	-16.0			
Gujarat Gas	4,798.7	39.9	-6.7	288.9	-47.9	21.6	152.5	-56.4	25.1			
HPCL	1,31,206.2	54.0	26.9	2,257.9	-51.6	20.7	1,182.6	-60.8	36.1			
IOC	2,37,521.9	45.2	20.5	14,005.8	3.7	42.0	8,067.4	-8.1	37.7			
Indraprastha Gas Ltd	2,519.6	62.5	13.7	529.4	7.6	12.7	353.6	6.8	14.6			
Mahanagar Gas Ltd	1,244.1	58.7	10.8	177.1	-44.0	71.7	112.6	-47.1	98.2			
Petronet LNG	13,096.7	72.9	4.0	979.2	-10.3	-43.5	592.8	-4.9	-48.2			
Reliance Industries	2,11,831.6	36.8	10.7	38,824.5	66.3	30.7	21,773.0	64.6	17.4			

Source: Company, ICICI Direct Research

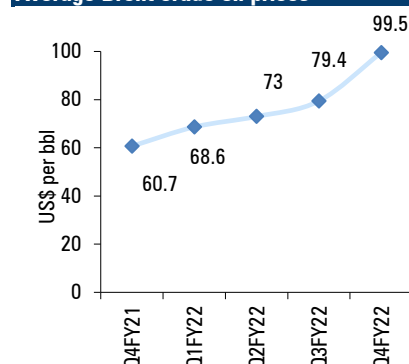
Topline & Profitability (Coverage Universe)



Closing Brent crude oil prices



Average Brent crude oil prices



Top Picks

IOC, BPCL, RIL

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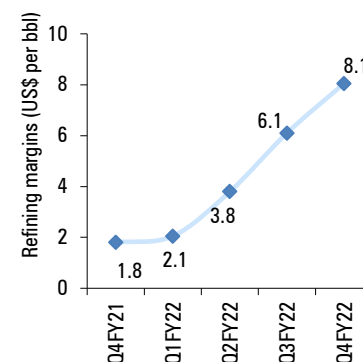
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Exhibit 2: Company Specific Views

Company	Remarks
BPCL	Crude throughput is expected at 8.1 MMT, up 1.9% QoQ. Marketing segment volumes are expected to increase 4.3% YoY and 4.5% QoQ. On the marketing margins front, we expect weaker profitability QoQ as the company did not pass on increasing crude oil costs to customers. Core GRMs are expected at \$10/bbl on account of increase in product cracks. We expect PAT of ₹ 3261.6 crore, up 32.5% QoQ
Gail	Gail's operational performance is expected to improve YoY on account of increase in realisation across gas trading and LPG segments. On the gas business front, transmission volume is expected to be flat YoY at 110 mmscmd with its EBIT at ₹ 902.2 crore. Transmission volume is expected to decline 3.7% QoQ. For the gas trading segment, we expect EBIT at ₹ 1485.3 crore against EBIT of ₹ 280.9 crore in Q4FY21 on account of a surge in spot LNG prices. On the LPG liquid hydrocarbon front, EBIT is expected to increase 82.3% YoY to ₹ 864.9 crore while petchem segment is expected to report EBIT of ₹ 325.4 crore
Gujarat Gas	We expect revenues to increase 39.9% YoY on account of higher realisation. Volume is expected to decline ~12% YoY and ~6% QoQ to 10.7 mmscmd as we expect lower offtake from industrial customers. Due to a sharp increase in gas costs, gross margins are expected to dip ₹ 1.5/scm YoY to ₹ 5.5/scm. EBITDA/scm is expected at ₹ 3/scm, down ₹ 2.1/scm YoY. Hence, we expect PAT of ₹ 152.5 crore, down 56.4% YoY
Hindustan Petroleum	Crude throughput is expected at 4.8 MMT, up 13.2% QoQ as throughput was partially impacted in Q3FY22 due to refinery shutdown. Marketing segment volumes are expected to increase 4.8% YoY and 3.5% QoQ. On the marketing margins front, we expect weaker profitability QoQ as the company did not pass on increasing crude oil costs to customers. Core GRMs are expected at \$10/bbl on account of increase in product cracks. PAT is expected at ₹ 1182.6 crore, up 36.1% QoQ
Indian Oil Corporation	Crude throughput is expected at 17.5 MMT, up ~1% QoQ. Marketing segment volumes are anticipated to increase 3.6% YoY and 4.5% QoQ. On the marketing margins front, we expect weaker profitability QoQ as the company did not pass on increasing crude oil costs to customers. Core GRMs are anticipated at \$11/bbl vs. \$8.9/bbl in Q3FY22 on account of increase in product spreads. PAT is estimated at ₹ 8067.4 crore, up 37.7% QoQ
Indraprastha Gas	IGL's volumes are expected to increase 19.3% YoY and 6.3% QoQ. Total volumes are expected at 8.1 mmscmd (CNG: 6 mmscmd, PNG: 2.1 mmscmd). Due to a surge in gas costs, we expect ₹ 1/scm YoY dip in gross margins to ₹ 12.5/scm. Increase in gas costs are expected to be partially offset by higher realisation. EBITDA/scm is expected at ₹ 7.2/scm, down ₹ 0.8/scm YoY. PAT is estimated at ₹ 353.6 crore, up 6.8% YoY
Mahanagar Gas	We expect volume growth of 19.3% YoY and 4.4% QoQ. Volumes are expected at 3.5 mmscmd (CNG: 2.5 mmscmd, PNG: 1 mmscmd). Due to a surge in gas costs, gross margins are expected to decline ₹ 6.3/scm YoY to ₹ 11.4/scm. Increase in gas costs are expected to be partially offset by higher realisation. EBITDA/scm is expected at ₹ 5.7/scm, down ₹ 6.4/scm YoY
Petronet LNG	We expect the topline to increase 72.9% YoY to ₹ 13096.7 crore. Total volumes are expected to decline 10.3% YoY to 195.5 trillion British thermal units (tbtu) (~3.8 MMT) as we estimate lower offtake due to higher LNG prices. On a QoQ basis, volumes are expected to fall 6%. Blended margins are expected at ₹ 61.3/mmbtu, up 3.3% YoY and down 32.9% QoQ from exceptionally high level witnessed in Q3FY22. PAT is expected to decline 4.9% YoY (and down 48.2% QoQ) to ₹ 592.8 crore

Source: Company, ICICI Direct Research

Singapore gross refining margins (GRMs)



Source: Reuters

Singapore benchmark product spreads (\$/bbl)

Product Cracks	Q4FY21	Q3FY22	Q4FY22
Gasoline	7.2	15.6	17.4
Naphtha	0.6	3.4	1.4
Jet Kerosene	3.3	10.3	16.7
Gas Oil	4.7	11.5	19.8
Fuel Oil	-6.4	-10.6	-12.9
LPG	-12.5	-9.0	-27.5

Source: Reuters

Exhibit 3: Company Specific Views

Reliance
Industries

RIL's consolidated EBITDA is estimated to grow 66.3% YoY to ₹ 38824.5 crore, mainly led by O2C and digital service segments. On a QoQ basis, it is expected to grow 30.7% led by O2C segment. Jio, with lowest percentage of VLR (active subscriber) on network is likely to see major impact of SIM consolidation with ~5 mn net loss during Q4. The monthly ARPU is expected to witness growth, driven by tariff hike, at ~8% QoQ at ₹ 164. Overall Jio standalone revenues are expected at ₹ 20,581 crore, up 6.4% QoQ. EBITDA at ₹ 10,288 crore, is likely to grow 8.1% QoQ. Overall EBITDA margins are expected at 50%, up 80 bps QoQ. For Reliance Retail, we believe robust store addition trajectory (~837 stores in Q3FY22) and latest acquisitions to continue to fuel revenue growth. While January was hit due to Omicron, February and March witnessed a strong surge in demand. Overall retail revenues are expected to increase 20% YoY to ₹ 56127 crore. Expect retail EBITDA margins to remain flattish YoY at 6.5% (excluding other income on investments). Growth in refining margins (partially offset by weaker petchem profitability) is expected to lead to growth of 64% QoQ (and 94.5% YoY) in O2C EBITDA to ₹ 22187.8 crore. E&P EBITDA is expected to improve 199.3% YoY to ₹ 1436.7 crore on account of growth in realisation as well as output

Source: Company, ICICI Direct Research

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 (%)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
BPCL (BHAPET)	388	450	Buy	81,205	47.8	39.8	44.2	8.1	9.7	8.8	6.1	6.4	5.7	15.8	13.1	13.7	20.6	15.8	16.0
GAIL (India) (GAIL)	164	180	Buy	72,822	23.5	17.8	18.2	7.0	9.2	9.0	5.4	6.8	6.7	19.3	13.0	12.2	19.3	13.3	12.6
Gujarat Gas (GUJGA)	538	530	Hold	37,036	14.5	16.7	21.1	37.0	32.2	25.5	22.1	19.2	15.4	22.4	22.8	25.2	19.4	19.4	21.1
HPCL (HINPET)	301	320	Hold	42,709	40.6	44.2	45.4	7.4	6.8	6.6	8.0	6.3	5.9	8.1	9.3	9.0	14.9	14.8	13.9
Indian Oil Corp (INDOIL)	129	150	Buy	1,18,435	28.6	19.2	21.9	4.5	6.7	5.9	2.6	3.2	2.9	15.5	10.5	11.1	20.1	12.7	13.3
Indraprastha Gas (INDGAS)	386	395	Buy	27,020	18.7	15.2	18.2	20.7	25.3	21.2	13.8	16.0	13.3	22.9	16.4	17.7	19.2	14.2	15.1
Mahanagar Gas (MAHGAS)	832	850	Hold	8,218	58.5	71.3	81.4	14.2	11.7	10.2	8.9	7.1	6.1	19.6	21.7	22.2	16.5	18.0	18.2
Petronet LNG (PETLNG)	201	220	Hold	30,150	21.3	19.7	22.1	9.4	10.2	9.1	5.4	5.7	5.1	26.5	22.7	23.9	25.1	21.7	22.3
Reliance Industries (RELIND)	2,573	2,950	Buy	17,39,863	98.0	106.3	115.4	26.3	24.2	22.3	16.2	13.1	11.4	8.3	9.6	10.2	9.2	9.4	9.5

Source: Company, ICICI Direct Research

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