

Apr-Jun'22 Earnings Preview

July 5, 2022

Exhibit 1: PL Universe

Companies	Rating	CMP (Rs)	TP (Rs)
BPCL	BUY	313	416
GAIL (India)	BUY	134	170
Gujarat Gas	BUY	432	553
HPCL	BUY	226	368
Indraprastha Gas	BUY	361	589
Indian Oil Corporation	HOLD	74	87
Mahanagar Gas	BUY	767	1,103
Oil India	BUY	191	300
ONGC	BUY	127	160
Petronet LNG	BUY	217	315
Reliance Industries	BUY	2,433	3,277

Source: PL

IOC we will revisit our earnings and rating post Q1 results. Accordingly, we leave our rating unchanged with HOLD and PT of Rs87

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High realization to drive earnings

Q1FY23 operating profit for Indian Oil sector is expected to fall by 11% QoQ due to weak OMC performance, given high marketing losses of Rs15/11/litre for diesel and petrol. OMCs would report loss of Rs141.2bn, despite strong refining margins (GRMs up 2.7x QoQ to USD22/bbl) and inventory gains of Rs140bn. Upstream players will benefit from higher crude (+USD14/bbl QoQ). RIL's standalone earnings will grow 85% QoQ, given higher refining profitability and gas realization (+USD4/mmbtu QoQ). However, CGD earnings (-8%QoQ) may take a hit from lower volumes despite higher margins for GGAS and IGL/MGL.

RIL is our preferred pick for being a play on strong GRMs, rising gas earnings (volume + realization), rising telecom tariffs and post pandemic recovery of retail segment.

Exhibit 2: Q1FY23 sector earnings hit by weak OMCs results

Total (Rs m)	Q1FY23E	Q1FY22	% chg	Q4FY22	% chg
Sales	81,13,548	47,00,254	73%	65,50,065	24%
EBITDA	5,27,233	4,72,910	11%	5,94,013	-11%
PAT	2,73,716	2,59,501	5%	3,59,614	-24%
Brent (USD/bbl)	113.0	68.4	65%	99.0	14%
USD/Rs	77.1	73.8	4%	75.2	3%

Source: Company, PL

- **RIL:** RIL's standalone will see improvement led by refining profitability. Gasoline/diesel spreads for Q1 were at USD34/42bbl (+USD17/24bbl QoQ). We factor in refining throughput (16.8MTPA, 17.3MT in Q4) and GRMs of USD30/bbl. RIL will also benefit from access to discounted Russian crude and sales to EU markets. Petrochemicals earnings will be hit by higher input cost pressure. Also, company will benefit from higher gas realisations of USD10/mmbtu (+USD4 QoQ).
- **Downstream-staring at high losses:** We expect OMCs to report losses given pain in marketing earnings- Q1 marketing margins were at -Rs11/litre for petrol and Rs15/litre for diesel (vs loss of Rs2.5/litre in Q4 respectively). However, strong GRMs and high inventory gains will partly make up for weak marketing performance. Benchmark refining margins for Q1 were at US\$22/bbl vs USD8/bbl in Q4. Given sharp upmove in crude oil and product prices, we calculate Q1 inventory gains at Rs140bn (companies have stopped sharing inventory gains/losses).

Exhibit 3: OMCs are expected losses due to marketing losses

Total (Rs m)	Q1FY23E	Q1FY22	% chg	Q4FY22	% chg
Sales	54,86,985	32,23,289	70%	43,53,003	26%
EBITDA	(83,441)	1,75,718	NA	1,79,755	NA
PAT	(1,41,241)	94,211	NA	99,989	NA
Singapore GRM (US/bbl)	54,86,985	32,23,289	70%	43,53,003	26%

Source: Company, PL

- Upstream:** Upstream companies will see operating earnings at Rs283.3bn, due to higher crude oil realization (+USD14/bbl QoQ) while PAT will be at Rs166bn (+58%QoQ). Production and sales volumes are likely to be muted. We have not factored any subsidy burden, but expect net realization of ~US\$110/bbl.

Exhibit 4: Upstream earnings increase due to higher oil and gas realisation

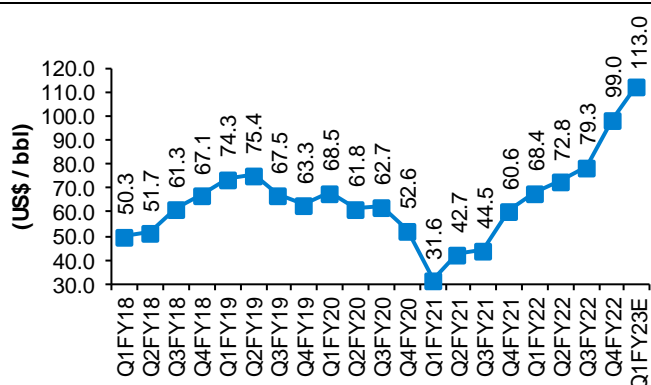
Total (Rs m)	Q1FY23E	Q1FY22	% chg	Q4FY22	% chg
Sales	4,72,072	2,60,286	81%	3,89,759	21%
EBITDA	2,83,361	1,33,860	112%	2,05,486	38%
PAT	1,65,989	48,439	243%	1,04,895	58%

Source: Company, PL

- ONGC: Cut in EPS by 14.5%/25.4% and PT to Rs160 (Rs180):** We cut our net crude oil realisations assumptions to USD73/bbl for FY23E (USD60/bbl for 9MFY23E and USD112/bbl in Q1FY23) and USD60 for FY24E post imposition of cess of USD41/bbl. We maintain our gas price assumptions for FY23/24E to USD6.1/5.0/mmbtu and leave our volume assumptions unchanged. Accordingly, our FY23/24E earnings are cut by 14.5%/25.4%. We reiterate 'BUY' on ONGC with a revised PT of Rs160 (Rs180 earlier) based on 4.0x EV/EBIDTA due to concerns on subsidy sharing in a crude inflationary environment.
- OIL INDIA- Cut in EPS by 15.6% and 27.9% and PT to Rs260 (Rs344 earlier):** We cut our net crude oil realisations assumptions to USD73/bbl for FY23E and USD60 for FY24E post imposition of cess of USD41/bbl. We maintain our gas price assumptions for FY23/24E to USD6.1/5.0/mmbtu (USD4/mmbtu earlier). We leave our volume assumptions unchanged. Accordingly, our FY23/24E earnings are cut by 15.6%/27.9%. Reiterate 'BUY' on OINL with a revised PT of Rs260 (Rs344 earlier) based on 4.5x EV/EBIDTA, due to concerns on subsidy sharing in a crude inflationary environment.

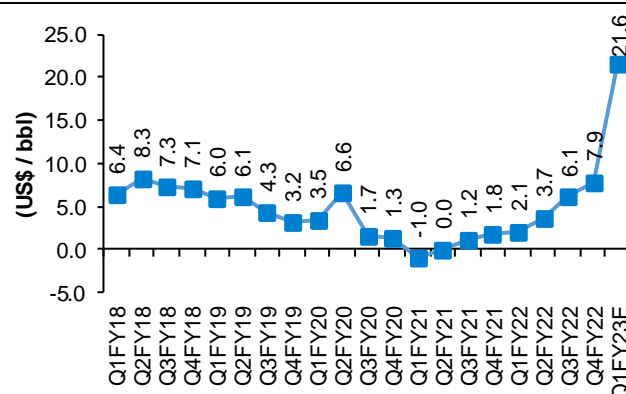
We value OIL India higher than ONGC due to better ROE profile given ~70% stake in highly profitable Numaligarh refinery.

Exhibit 5: Steady rise in Brent prices



Source: Company, PL

Exhibit 6: Singapore GRMs have increased 2.7x QoQ



Source: Company, PL

Exhibit 7: Q1FY23 Result Preview

Company Name		Q1FY23E	Q1FY22	YoY gr. (%)	Q4FY22	QoQ gr. (%)	Remark
Bharat Petroleum Corporation	Sales	11,85,821	7,09,213	67.2	10,87,736	9.0	BPCL is likely to report high losses due to marketing losses despite inventory gains and strong GRMs.
	EBITDA	-52,716	32,528	(262.1)	42,493	(224.1)	
	Margin (%)	-4.4	4.6		3.9		
	PBT	-65,016	20,732	(413.6)	30,395	(313.9)	
	Adj. PAT	-65,016	15,016	(533.0)	21,305	(405.2)	
GAIL (India)	Sales	2,84,127	1,73,866	63.4	2,69,682	5.4	We expect strong earnings due to healthy marketing margins and higher LPG profits (increased volumes).
	EBITDA	37,917	24,113	57.2	37,145	2.1	
	Margin (%)	13.3	13.9		13.8		
	PBT	36,967	20,537	80.0	35,459	4.3	
	Adj. PAT	27,651	15,299	80.7	26,831	3.1	
Gujarat Gas	Sales	43,243	30,109	43.6	46,694	(7.4)	We expect GGL profits to be strong as company partially passes on benefits of lower spot LNG prices
	EBITDA	6,511	7,229	(9.9)	6,974	(6.6)	
	Margin (%)	15.1	24.0		14.9		
	PBT	5,561	6,377	(12.8)	5,986	(7.1)	
	Adj. PAT	4,143	4,761	(13.0)	4,443	(6.8)	
Hindustan Petroleum Corporation	Sales	11,11,099	7,24,434	53.4	9,75,727	13.9	HPCL likely to report high losses due to marketing losses despite inventory gains and strong GRMs.
	EBITDA	-60,954	31,930	(290.9)	20,986	(390.4)	
	Margin (%)	-5.5	4.4		2.2		
	PBT	-70,454	23,969	(393.9)	22,850	(408.3)	
	Adj. PAT	-70,454	17,951	(492.5)	17,953	(492.4)	
Indraprastha Gas	Sales	26,648	12,574	111.9	24,059	10.8	IGL's Q1 volumes likely to be lower due to seasonal impact when schools are shut. However, margins are likely to be healthy.
	EBITDA	4,530	3,808	19.0	4,996	(9.3)	
	Margin (%)	17.0	30.3		20.8		
	PBT	4,152	3,299	25.9	4,939	(15.9)	
	Adj. PAT	3,105	2,442	27.2	3,578	(13.2)	
Indian Oil Corporation	Sales	24,00,412	11,86,705	102.3	17,72,873	35.4	IOCL likely to report high losses due to marketing losses despite inventory gains and strong GRMs.
	EBITDA	30,229	1,11,261	(72.8)	1,16,275	(74.0)	
	Margin (%)	1.3	9.4		6.6		
	PBT	-5,771	77,985	(107.4)	80,847	(107.1)	
	Adj. PAT	-5,771	59,414	(109.7)	60,219	(109.6)	
Mahanagar Gas	Sales	13,503	6,155	119.4	10,868	24.2	We expect MGL profits to be higher, given price hikes to cushion higher gas cost.
	EBITDA	2,348	3,040	(22.8)	2,155	9.0	
	Margin (%)	17.4	49.4		19.8		
	PBT	2,001	2,756	(27.4)	1,804	10.9	
	Adj. PAT	1,497	2,041	(26.7)	1,318	13.5	
Oil India	Sales	56,579	30,070	88.2	44,786	26.3	We expect healthy earnings growth for the company due to higher crude oil prices. Volume growth to be muted.
	EBITDA	28,233	12,331	129.0	19,585	44.2	
	Margin (%)	49.9	41.0		43.7		
	PBT	24,883	6,774	267.3	20,421	21.9	
	Adj. PAT	18,538	5,091	264.1	16,817	10.2	
Oil & Natural Gas Corporation	Sales	4,15,492	2,30,216	80.5	3,44,972	20.4	We expect healthy earnings growth due to higher crude oil prices. Volume growth is likely to be muted.
	EBITDA	2,55,127	1,21,528	109.9	1,85,902	37.2	
	Margin (%)	61.4	52.8		53.9		
	PBT	1,97,127	67,503	192.0	1,17,143	68.3	
	Adj. PAT	1,47,451	43,348	240.2	88,595	66.4	
Petronet LNG	Sales	1,37,787	85,979	60.3	1,11,604	23.5	We expect earnings to be higher QoQ as volumes rise due to opening up of downstream units.
	EBITDA	12,380	10,543	17.4	11,691	5.9	
	Margin (%)	9.0	12.3		10.5		
	PBT	10,530	8,512	23.7	9,844	7.0	
	Adj. PAT	7,876	6,357	23.9	7,501	5.0	

Company Name		Q4FY22E	Q4FY21	YoY gr. (%)	Q3FY22	QoQ gr. (%)	Remark
Reliance Industries	Sales	16,44,417	9,05,700	81.6	13,39,910	22.7	Earnings to improve QoQ, due to improved refining earnings and higher gas realisation.
	EBITDA	2,63,629	1,14,600	130.0	1,45,810	80.8	
	Margin (%)	16.0	12.7		10.9		
	PBT	2,49,629	1,01,880	145.0	1,32,040	89.1	
	Adj. PAT	2,04,696	85,950	138.2	1,10,940	84.5	

Source: Company, PL

Exhibit 8: Valuation Summary

Company Names	S/C Rating	CMP (Rs)	TP (Rs)	MCAp (Rs bn)	Sales (Rs bn)				EBITDA (Rs bn)				PAT (Rs bn)				EPS (Rs)				RoE (%)				PE (x)			
					FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
BPCL	S BUY	313	416	655.3	2,301.6	3,942.8	3,516.3	3,755.3	213.0	189.4	115.8	181.8	120.5	108.7	74.2	124.4	57.6	51.9	35.5	59.4	26.8	20.6	13.8	21.2	5.4	6.0	8.8	5.3
GAIL (India)	S BUY	134	170	603.5	567.3	916.3	928.7	1,061.6	64.5	138.3	104.4	109.8	48.9	103.6	77.8	84.6	10.8	23.0	17.3	18.8	10.8	20.3	13.4	13.5	12.3	5.8	7.8	7.1
Gujarat Gas	S BUY	432	553	297.1	98.7	164.6	176.7	166.5	20.8	20.8	23.0	26.0	12.7	12.9	14.9	17.8	18.4	18.7	21.6	25.8	32.6	24.5	21.7	20.5	23.4	23.1	20.0	16.7
HPCL	S BUY	226	368	321.0	2,330.0	3,509.7	3,104.7	3,312.6	159.3	114.6	67.3	142.4	106.6	76.7	30.3	79.0	73.4	54.0	21.4	55.7	32.7	20.5	7.6	18.0	3.1	4.2	10.6	4.1
Indraprastha Gas	S BUY	361	589	252.4	49.4	77.1	72.3	85.9	14.8	18.8	22.1	26.7	10.1	13.1	14.2	17.2	14.4	18.8	20.3	24.6	18.4	20.5	19.1	20.1	25.1	19.2	17.8	14.7
Indian Oil Corporation	S HOLD	74	87	675.7	3,639.5	5,893.4	5,925.6	6,268.0	405.9	477.4	329.8	415.3	193.7	232.6	139.2	191.9	21.1	25.3	15.2	20.9	18.7	19.8	10.9	13.9	3.5	2.9	4.9	3.5
Mahanagar Gas	S BUY	767	1,103	75.8	21.5	35.6	45.7	50.5	9.3	9.2	11.1	12.7	6.2	5.9	7.3	8.4	62.7	60.2	73.8	85.1	20.0	17.4	18.9	19.1	12.2	12.7	10.4	9.0
Oil India	C BUY	191	300	206.7	225.0	300.1	396.7	373.7	57.0	105.0	110.2	84.7	41.5	67.2	66.1	52.7	38.2	62.0	60.9	48.6	17.7	24.8	19.8	13.9	5.0	3.1	3.1	3.9
ONGC	S BUY	127	160	1,602.7	3,605.7	5,317.6	5,364.3	5,319.8	566.0	857.7	955.1	782.0	252.8	492.9	511.6	332.3	20.1	39.2	40.7	26.4	11.8	20.5	16.6	9.1	6.3	3.3	3.1	4.8
Petronet LNG	S BUY	217	315	325.5	260.2	442.6	502.7	559.7	47.0	52.5	58.2	63.1	29.5	33.5	38.7	42.7	19.7	22.3	25.8	28.4	27.2	25.6	24.9	24.8	11.0	9.7	8.4	7.6
Reliance Industries	S BUY	2,433	3,277	16,460.9	2,456.7	4,237.0	4,863.3	4,979.4	335.0	523.1	951.0	946.6	276.4	390.8	700.2	728.6	42.9	57.8	103.5	107.7	6.1	8.3	13.9	12.9	56.7	42.1	23.5	22.6

Source: Company, PL

S=Standalone / C=Consolidated

IOC we will revisit our earnings and rating post Q1 results. Accordingly, we leave our rating unchanged with HOLD and PT of Rs87

Exhibit 9: Change in Estimates

	Rating		Target Price			Sales						PAT						EPS					
						FY23E			FY24E			FY23E			FY24E			FY23E			FY24E		
	C	P	C	P	% Chng.	C	P	% Chng.	C	P	% Chng.	C	P	% Chng.	C	P	% Chng.	C	P	% Chng.	C	P	% Chng.
BPCL	BUY	BUY	416	416	0.0%	35,16,323	35,16,323	0.0%	37,55,265	37,55,265	0.0%	74,199	74,199	0.0%	1,24,359	1,24,359	0.0%	35.5	35.5	0.0%	59.4	59.4	0.0%
GAIL (India)	BUY	BUY	170	170	0.0%	9,28,704	9,28,704	0.0%	10,61,604	10,61,604	0.0%	77,802	77,802	0.0%	84,620	84,620	0.0%	17.3	17.3	0.0%	18.8	18.8	0.0%
Gujarat Gas	BUY	BUY	553	553	0.0%	1,76,679	1,76,679	0.0%	1,66,522	1,66,522	0.0%	14,880	14,880	0.0%	17,752	17,752	0.0%	21.6	21.6	0.0%	25.8	25.8	0.0%
HPCL	BUY	BUY	368	368	0.0%	31,04,656	31,04,656	0.0%	33,12,579	33,12,579	0.0%	30,343	30,343	0.0%	78,992	78,992	0.0%	21.4	21.4	0.0%	55.7	55.7	0.0%
Indraprastha Gas	BUY	BUY	589	589	0.0%	72,266	72,266	0.0%	85,940	85,940	0.0%	14,195	14,195	0.0%	17,211	17,211	0.0%	20.3	20.3	0.0%	24.6	24.6	0.0%
Indian Oil Corporation	HOLD	HOLD	87	131	-33.6%	59,25,627	59,25,627	0.0%	62,68,048	62,68,048	0.0%	1,39,163	1,39,163	0.0%	1,91,918	1,91,918	0.0%	15.2	15.2	0.0%	20.9	20.9	0.0%
Mahanagar Gas	BUY	BUY	1,103	1,103	0.0%	45,671	45,671	0.0%	50,476	50,476	0.0%	7,290	7,290	0.0%	8,406	8,406	0.0%	73.8	73.8	0.0%	85.1	85.1	0.0%
Oil India	BUY	BUY	300	344	-12.8%	3,96,660	4,20,609	-5.7%	3,73,651	4,13,727	-9.7%	66,059	78,238	-15.6%	52,729	73,108	-27.9%	60.9	72.1	-15.6%	48.6	67.4	-27.9%
ONGC	BUY	BUY	160	180	-11.1%	53,64,323	55,23,715	-2.9%	53,19,829	55,27,308	-3.8%	5,11,553	5,98,626	-14.5%	3,32,326	4,45,657	-25.4%	40.7	47.6	-14.5%	26.4	35.4	-25.4%
Petronet LNG	BUY	BUY	315	315	0.0%	5,02,741	5,02,741	0.0%	5,59,653	5,59,653	0.0%	38,674	38,674	0.0%	42,666	42,666	0.0%	25.8	25.8	0.0%	28.4	28.4	0.0%
Reliance Industries	BUY	BUY	3,277	3,277	0.0%	48,63,296	48,63,296	0.0%	49,79,412	49,79,412	0.0%	7,00,187	7,00,187	0.0%	7,28,569	7,28,569	0.0%	103.5	103.5	0.0%	107.7	107.7	0.0%

Source: Company, PL

C=Current / P=Previous

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bharat Petroleum Corporation	BUY	416	326
2	GAIL (India)	BUY	170	143
3	Gujarat Gas	BUY	553	421
4	Hindustan Petroleum Corporation	BUY	368	244
5	Indian Oil Corporation	Hold	131	117
6	Indraprastha Gas	BUY	589	379
7	Mahanagar Gas	BUY	1,103	761
8	Oil & Natural Gas Corporation	BUY	180	144
9	Oil India	BUY	344	251
10	Petronet LNG	BUY	315	228
11	Reliance Industries	BUY	3,277	2,596

PL's Recommendation Nomenclature

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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