

April 19, 2021

Profitability to improve YoY on inventory gains, steady margins...

Crude oil prices at higher levels post output cuts

Global crude oil prices have risen from February onwards in Q4FY21 and reached pre-Covid levels. Brent crude oil prices, on a closing basis, also jumped US\$11.2 QoQ to US\$62.4/bbl on account of extended output cuts by Opec+. Subsequently, even average crude oil prices sharply increased by US\$16.1/bbl to US\$60.7/bbl. Hence, net realisations of upstream companies are expected to increase sharply QoQ.

Refining margins recover slightly; still remain at lower level

Benchmark Singapore GRMs, have increased from low levels of initial phase of Covid-19 spread and were at US\$1.8/bbl in Q4FY21. Singapore GRMs are less relevant now as low grade fuel oil is a significant component of benchmark. For Indian refiners, spreads of gas oil, gasoline and jet fuel are more important. Spreads of all three products saw recovery QoQ during the quarter. The spread for gas oil increased by US\$1.1/bbl from US\$3.6/bbl to US\$4.7/bbl while gasoline product spreads increased by US\$3.2/bbl to US\$7.2/bbl. Jet fuel spreads saw recovery of US\$0.9/bbl to US\$3.3/bbl. Overall, core GRMs for refiners are expected to remain subdued during Q4FY21. GRMs will be supported by strong inventory gains during the quarter. Overall fuel demand surpassed pre-Covid level in Q4FY21 on a lower base. We expect marketing volumes to increase 2-4% YoY. We expect marketing margins to decline QoQ as increased costs were not fully passed on to customers. This will lead to lower profitability QoQ for OMCs in the quarter. However, on a YoY basis, OMCs will report strong profitability as inventory losses dented profits in the base quarter.

CGD volumes to grow YoY, albeit on lower base

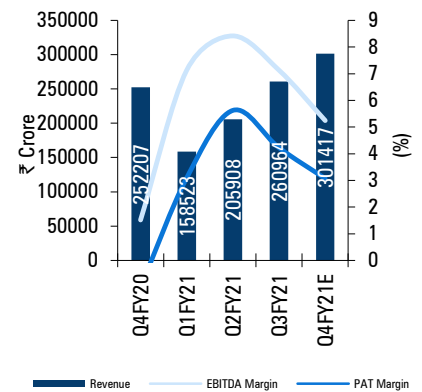
Sales volume of city gas distribution (CGD) companies with higher CNG contribution is expected to increase in the range of 5-6% YoY on a lower base as demand in last week of March 2020 was affected by nationwide lockdown. CGD companies with higher industrial PNG contribution recovered faster and will report stronger growth. Domestic PNG sales volume will remain steady. CGD companies' realisation is expected to increase QoQ as all companies hiked prices to pass on increase in costs. Gross margins for CNG-heavy companies are expected to remain higher YoY due to low gas prices. On a QoQ basis, margins are expected to remain flattish. For large gas utility companies, volumes are expected to be flattish/slightly lower YoY given reduced LNG imports during the quarter.

Exhibit 1: Estimates for Q4FY21E: (Oil & Gas)

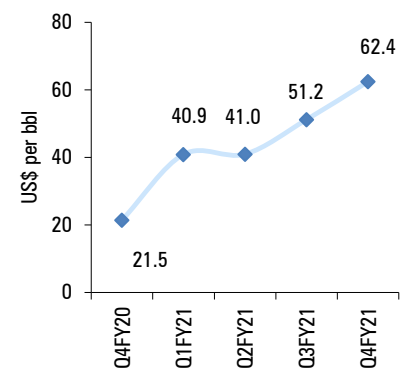
Company	₹ crore								
	Revenue Change (%)			EBITDA Change (%)			PAT Change (%)		
	Q4FY21E	YoY	QoQ	Q4FY21E	YoY	QoQ	Q4FY21E	YoY	QoQ
Bharat Petroleum	100,817.7	24.0	16.4	3,006.1	LP	-30.2	1,881.8	LP	-32.3
Gail India	16,418.4	-7.5	6.2	2,621.3	5.9	36.6	1,883.1	-37.6	26.6
Gujarat Gas	3,465.1	29.9	22.5	507.3	18.9	-17.5	302.0	22.9	-23.0
IOC	170,484.7	22.1	16.3	7,738.4	3,547.1	-19.6	3,908.9	LP	-20.5
Indraprastha Gas Ltd	1,538.0	-0.9	6.4	504.0	33.8	0.7	350.1	38.2	4.6
Mahanagar Gas Ltd	772.6	2.7	6.2	321.0	31.7	1.4	225.8	35.5	3.9
Petronet LNG	7,920.2	-7.6	8.1	1,107.7	58.8	-17.0	685.1	90.8	-22.0

Source: Company, ICICI Direct Research

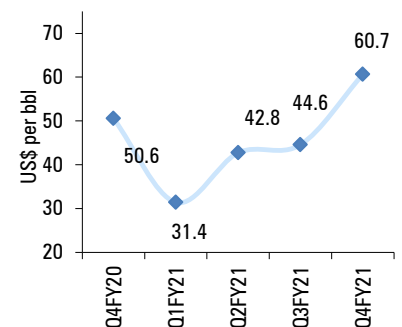
Topline & Profitability (Coverage Universe)



Closing Brent crude oil prices



Average Brent crude oil prices



Top Picks

Gujarat Gas

Mahanagar Gas

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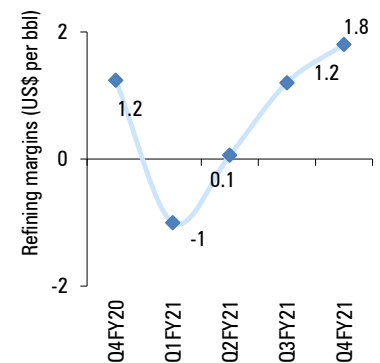
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Exhibit 2: Company Specific Views

Company	Remarks
BPCL	Crude throughput is expected at 8.1 MMT, an increase of 11.9% QoQ. Marketing segment volumes are expected to increase 2.5% YoY on a lower base as demand was affected in last week of March 2020 due to lockdown. Marketing margins are expected to decline QoQ as increased costs were not fully passed on to the customers. GRMs are expected at \$4/bbl vs. \$0.8/bbl in Q4FY20 on account of inventory gains. We expect the company to report PAT at ₹ 1881.8 crore against net loss of ₹ 1361 crore in Q4FY20
Gail	Gail's operational performance is expected to improve on account of petchem and LPG segment. On the gas business front, gas transmission volumes are expected to be flattish YoY at 110 mmscmd with its EBIT at ₹ 831.9 crore. For gas trading segment, we expect EBIT at ₹ 228 crore against EBIT loss of ₹ 73.7 crore in Q3 on account of increase in spot LNG prices. On the LPG liquid hydrocarbon front, EBIT is expected to increase 54% YoY to ₹ 814.9 crore due to higher realisation while petchem segment is expected to report EBIT of ₹ 561.4 crore
Gujarat Gas	We expect revenues to increase 29.9% YoY on account of higher volumes as well as realisation. Volumes are expected to jump 17.6% YoY to 11.7 mmscmd mainly on account of industrial PNG segment. On a QoQ basis, volumes are expected to increase 2.2%. Gross margins are expected to be flat YoY at ₹ 7/scm. On a QoQ basis, we expect gross margins to decline by ₹ 0.8/scm due to increase in gas costs. EBITDA/scm is expected at ₹ 4.8/scm, flattish YoY with a dip of ₹ 1/scm QoQ. Subsequently, we expect PAT at ₹ 302 crore, up 22.9% YoY
Indian Oil Corporation	Crude throughput is expected at 17.5 MMT, down 2% QoQ. Marketing segment volumes are expected to increase 3.9% YoY on a lower base as demand was affected in the last week of March 2020 due to lockdown. Marketing margins are expected to decline QoQ as increased costs were not fully passed on to customers. GRMs are expected at \$4.5/bbl vs. -\$9.6/bbl in Q4FY20 on account of inventory gains. PAT is estimated at ₹ 3908.9 crore against net loss of ₹ 5185.3 crore in Q4FY20
Indraprastha Gas	IGL's volumes are expected to increase 5.7% YoY and 5.2% QoQ. Total volumes are expected at 6.6 mmscmd (CNG: 4.7 mmscmd, PNG: 1.9 mmscmd). We expect gross margins to increase by ₹ 1.9/scm YoY to ₹ 14.5/scm due to lower gas prices. On QoQ basis, margins will remain flattish. EBITDA/scm is expected at ₹ 8.5 per scm, up ₹ 1.9/scm YoY. Consequently, PAT is estimated at ₹ 350.1 crore, up 38.2% YoY and 4.6% QoQ
Mahanagar Gas	We expect volume growth of 4.5% YoY. Volumes are expected at 2.9 mmscmd (CNG: 2 mmscmd, PNG: 0.9 mmscmd). Gross margins are expected to increase by ₹ 2.1/scm YoY to ₹ 17.5/scm on account of low gas costs. Margins are expected to remain flattish QoQ. EBITDA/scm is expected at ₹ 12.3/scm, an increase of ₹ 2.6/scm YoY and flattish QoQ
Petronet LNG	We expect the topline to decline 7.6% YoY to ₹ 7920.2 crore. Total volumes are expected to be 1.3% lower YoY to 216.2 trillion British thermal units (tbtu) (~4.2 MMT) on account of lower regas volumes. On a QoQ basis, volumes are expected to decline 8%. Blended margins are expected at ₹ 59/mmbtu, up 14.2% YoY and down 6.6% QoQ. PAT is expected to increase 90.8% YoY to ₹ 685.1 crore as inventory loss and certain one-offs denting profits in Q4FY20. However, on QoQ basis, profitability is expected to decline 22% as the company reported exceptionally high blended margins in Q3FY21

Source: Company, ICICI Direct Research

Singapore gross refining margins (GRMs)



Source: Reuters

Singapore benchmark product spreads (\$/bbl)

Product	Q4FY20	Q3FY21	Q4FY21
Gasoline	6.8	4.0	7.2
Naphtha	-3.1	-1.2	0.6
Jet Kerosene	8.7	2.4	3.3
Gas Oil	10.9	3.6	4.7
Fuel Oil	-9.9	-2.9	-6.4
LPG	-4.6	-9.5	-12.5

Source: Reuters

Gross under-recoveries of petroleum products

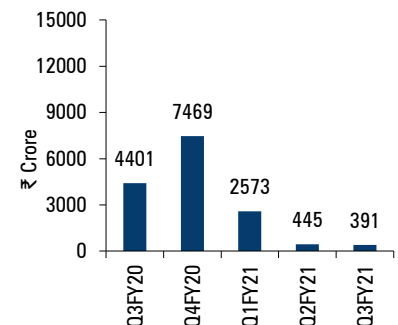


Exhibit 3: ICICI Direct Coverage Universe (Oil & Gas)

Sector / Company	CMP (?)	TP (?)	Rating	M Cap (? Cr)	EPS (?)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
BPCL (BHAPET)	403	350	Hold	67,267	36.3	13.6	48.4	11.1	29.5	8.3	9.1	19.1	7.5	13.1	3.5	12.2	19.4	8.1	24.2
GAIL (India) (GAIL)	135	150	Hold	60,887	14.7	10.8	14.6	9.2	12.5	9.3	7.6	10.7	7.2	13.7	7.8	12.4	15.1	10.5	13.2
Gujarat Gas (GUJGA)	522	505	Buy	35,934	17.3	17.8	21.2	30.1	29.3	24.6	22.8	17.8	15.1	25.2	32.1	31.8	36.3	28.2	25.8
Indian Oil Corp (INDOIL)	88	105	Hold	80,793	1.4	18.5	11.3	61.5	4.8	7.8	4.3	2.5	2.9	4.8	11.4	8.1	1.4	16.3	9.6
Indraprastha Gas (INDGAS)	494	595	Hold	34,580	16.2	14.6	20.9	30.4	33.7	23.6	21.3	22.0	15.7	25.0	20.8	25.2	22.5	17.7	21.2
Mahanagar Gas (MAHGAS)	1071	1340	Buy	10,579	80.3	64.0	96.6	13.3	16.7	11.1	9.9	11.1	7.2	29.7	22.7	29.3	26.9	19.0	23.9
Petronet LNG (PETLNG)	217	275	Hold	32,550	18.0	20.1	21.5	12.1	10.8	10.1	7.9	6.5	5.9	22.3	26.3	29.0	24.6	26.1	26.6

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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