

## High oil prices, inventory gains and volume recovery to drive earnings

- Improvement in commodity prices and demand continued in Q4FY21, driven by the post-Covid recovery in the global economy. GRMs inched up but due to election-led constraints in auto fuel pricing and spike in spot LNG prices, relevant marketing margins were hit.
- Average Brent price rose 36% qoq to USD60.7/bbl in Q4, closing over USD10/bbl higher at USD62.4/bbl. Average rupee appreciated 1% but closed flat. We estimate OMCs to see sizeable inventory gains and decent volumes, though core margins would be weak.
- Upstream earnings would be driven by high crude realizations with no change in domestic gas prices. GAIL would benefit from higher LPG-petchem prices and improved US LNG margins. PLNG and GSPL should see a volume decline qoq due to a spike in spot LNG.
- IGL is expected to report yoy volume growth, while Gujarat Gas may see margin pressure due to spot. We estimate improved O2C and retail performance for RIL. The lube sector would see strong growth yoy due to the base effect. We are OW on BPCL, HPCL and IGL.

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### OMCs to see inventory gains, core to be weaker; higher oil prices to drive upstream:

OMCs are expected to see around flat marketing volumes yoy, strong refinery utilization and sizeable refining/marketing inventory gains. Against this, core GRMs would remain muted due to higher oil prices and Middle East OSPs at a premium. Auto fuel margins were also down 35-45% qoq at ~Rs3/ltr, denting overall marketing margins. Due to higher inventory gains, we expect reported PAT of IOCL to increase qoq to Rs63bn, while that of BPCL/HPCL would fall to Rs21bn/Rs15bn. We estimate Q4 PAT of ONGC/Oil India at Rs30bn/Rs8bn, driven by oil prices and dividend income, though partly offset by higher expenditure. Overall production is expected to be down 7%/up 3% yoy (day unadjusted).

### Gas sector volumes near pre-Covid levels, spot LNG spike to impact PLNG and GSPL:

We estimate GAIL's standalone PAT to rise 8% qoq to Rs16.1bn (ETR 25% assumed vs. 20% in Q3), driven by higher LPG-petchem prices and better US LNG margins. We expect 2-3% increase in transmission-marketing volumes qoq and 110% petchem utilization. GSPL's volumes/PAT should fall 6%/16% qoq to 37.0mmscmd/Rs2.1bn due to Jan'21 spot LNG hit and higher opex. We estimate IGL's PAT to be flat qoq at Rs3.3bn, assuming a 6% decline in EBITDA/scm at Rs8.2. Volumes are expected to be up 7% each yoy and qoq. Gujarat Gas' PAT would drop 35% qoq to Rs2.6bn on a sharp 32% decline in EBITDA/scm to Rs4.0, partly offset by 3% volume growth to 11.8mmscmd. For PLNG, we estimate PAT to decline 23% qoq to Rs6.7bn, with Dahej/Kochi utilization at 88%/21% and spot margin of USD1.5/mmbtu.

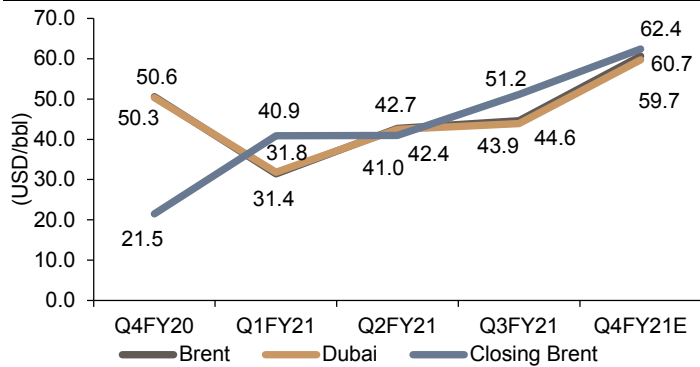
### RIL earnings to improve qoq on better O2C-retail; GOL I volumes to rise 30% yoy due to base effect:

We estimate RIL's consolidated EBITDA to rise 7% qoq to Rs230bn on the back of a recovery in retail and O2C income (driven by margins). Retail EBITDA is estimated at Rs26bn, up 3% yoy/13% qoq (adjusted). For Jio, we expect ~8mn net subscriber additions and Rs141.9 ARPU due to IUC adjustment. We estimate consolidated APAT post JPL-RRVL minority interest to rise 8% qoq to Rs143bn. We assume an effective tax rate of 3%. For GOL I, we expect a 30% yoy rise in volumes due to the base effect (Mar'20), while EBITDA/ltr should decline 5% qoq to Rs23.9 amid high base oil prices. We expect EBITDA/PAT of Rs782mn/Rs602mn. **ONGC, Oil India and GAIL would lead the pack in terms of earnings recovery in Q4.**

Please see our sector model portfolio (Emkay Alpha Portfolio): [Oil & Gas \(Page 6\)](#)

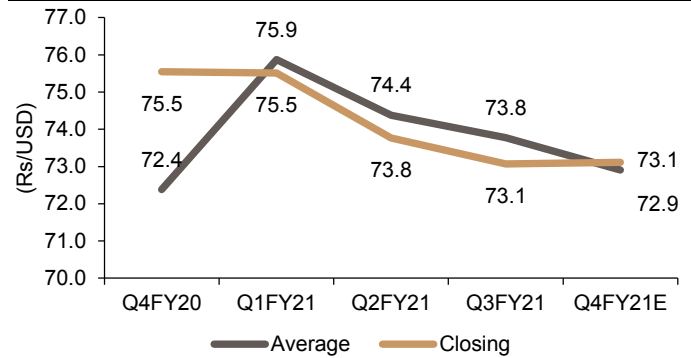
# Story in Charts

**Exhibit 1: Brent prices up 36% qoq to USD60.7/bbl and closed higher at USD62.4/bbl vs. USD51.2/bbl as of Q3FY21-end**



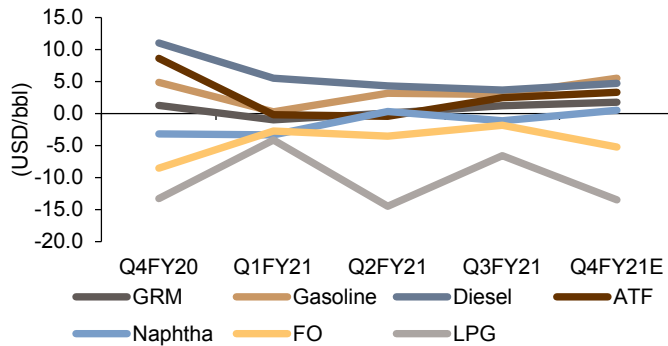
Source: Bloomberg, Emkay Research

**Exhibit 2: Average rupee appreciated from 73.8 to 72.9 vs. USD but closed flat at 73.1 qoq**



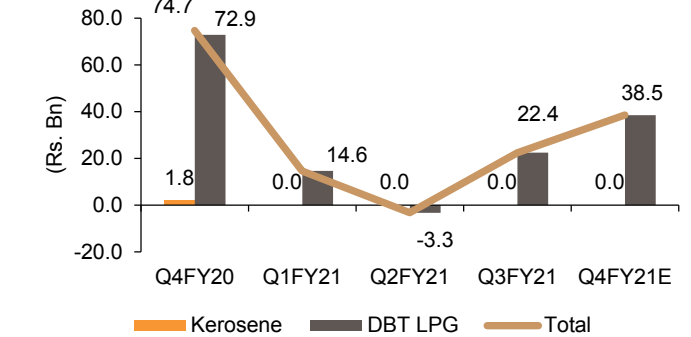
Source: Bloomberg, Emkay Research

**Exhibit 3: Benchmark GRMs were at USD1.8/bbl with all product cracks improving qoq except FO & LPG**



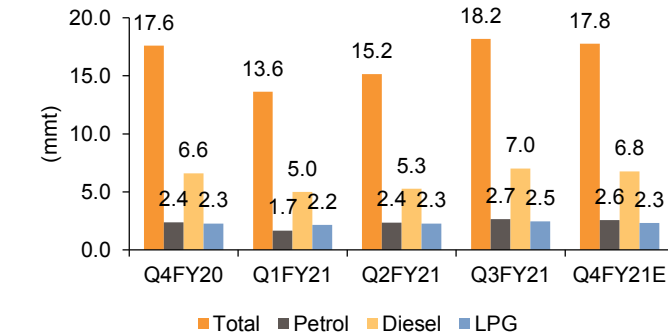
Source: Bloomberg, Media Reports, Emkay Research

**Exhibit 4: DBTL under-recoveries may rise to Rs38.5bn in Q4FY21, kerosene under-recovery is likely to be nil**



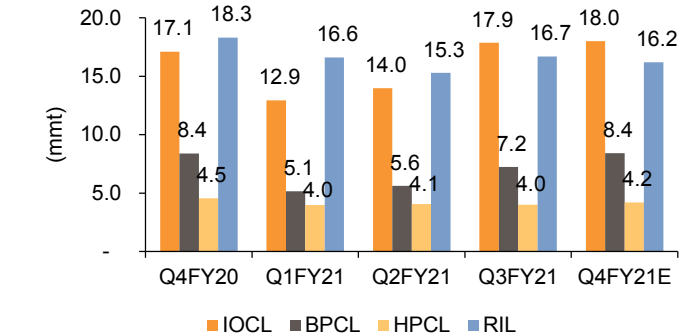
Source: Bloomberg, PPAC, Emkay Research

**Exhibit 5: Consumption of Indian oil products likely to grow ~1% yoy, with strong growth in petrol**



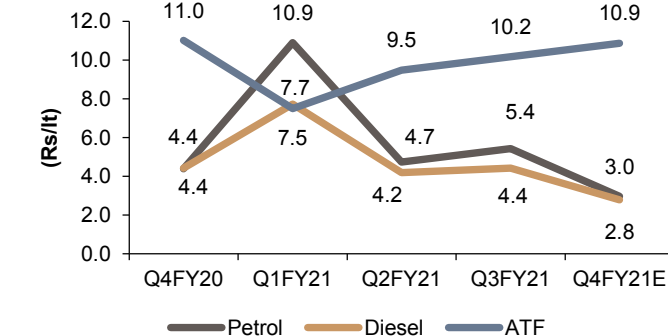
Source: PPAC, Emkay Research

**Exhibit 6: OMC refining volumes up in Q4; BPCL/IOCL/RIL/HPCL up 16%/up 1%/down 8%/up 5% qoq and utilization at 122/103/105/106%**



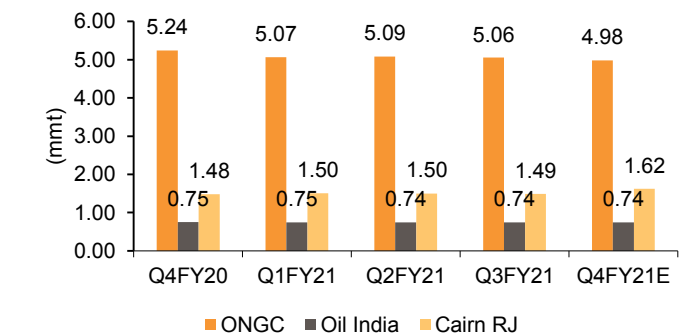
Source: Company, PPAC, Emkay Research

**Exhibit 7: Daily gross marketing margins for petrol/diesel declined sharply to Rs3.0/2.8 per ltr, while ATF estimated to improve qoq**



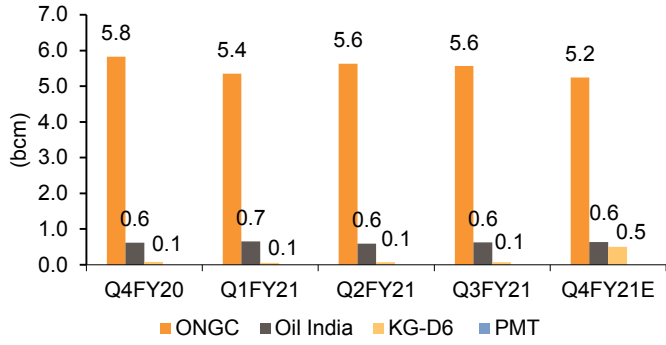
Source: Bloomberg, Company, Emkay Research

**Exhibit 8: ONGC/Oil India NB oil production down 5%/1% yoy and down 2%/flat qoq; Cairn to be up 9% qoq**



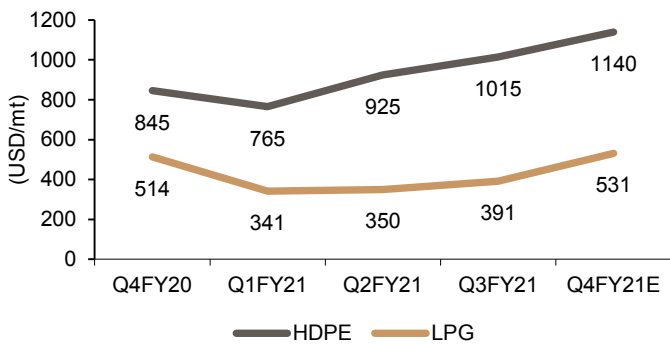
Source: Company, PPAC, Emkay Research

**Exhibit 9: ONGC/Oil India nom. Block (NB) gas production expected to be down 10%/up 3% yoy and down by 6%/up 2% qoq**



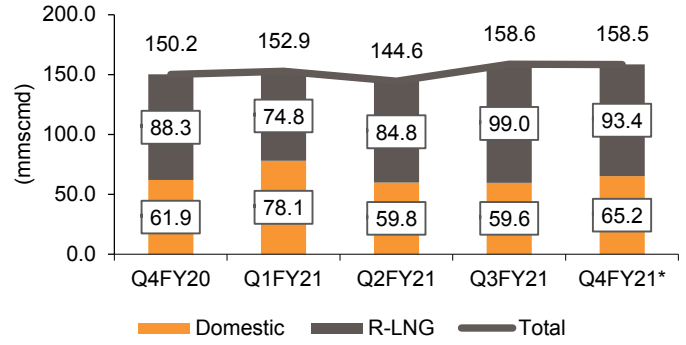
Source: Company, PPAC, Emkay Research

**Exhibit 11: Benchmark PE prices and LPG were up 12%/36% qoq on the back of higher crude**



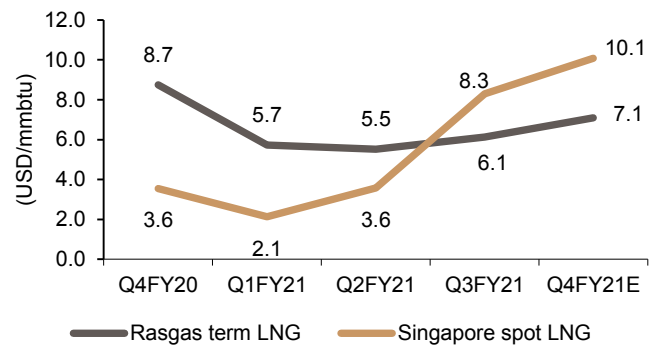
Source: Bloomberg, Company, Emkay Research

**Exhibit 10: Indian gas consumption in 2MQ4FY21 was flat qoq at 158.5mmscmd due to higher domestic offset by lower R-LNG offtake**



Source: PPAC, Emkay Research \*Jan-Feb only

**Exhibit 12: Term LNG prices rose 16%, while spot LNG prices were up by 22% qoq in Q4FY21 due to Jan'21 spike**



Source: Bloomberg, Media Reports, Emkay Research

# Oil and Gas

Name			Q4FY21E	Q3FY21	Q4FY20	yoy chg	qoq chg	Comments
<b>Reliance Industries</b>								
		<b>(Consolidated)</b>						
CMP (Rs)	2,022	Net Sales (Rs mn)	1,415,441	1,178,600	1,364,920	3.7	20.1	Higher O2C margins offset by lower refining volumes; Retail EBITDA up 13% qoq (adj.); Jio ARPU down 6% qoq, with ~8mn sub additions; Consolidated ETR at 3%
Mkt Cap (Rs bn)	13,031	EBITDA (Rs mn)	230,143	215,660	220,340	4.4	6.7	
Reco	HOLD	EBITDA Margin (%)	16%	18%	16%	11.6	-203.9	
		PAT (Rs mn)	142,617	132,220	106,150	34.4	7.9	
		EPS (Rs)	23.7	21.9	17.6	34.4	7.9	
<b>ONGC</b>								
CMP (Rs)	104	Net Sales (Rs mn)	220,671	170,238	214,562	2.8	29.6	Oil realization up 37% qoq, while rupee gas realization down 1% qoq; Overall volumes down 7% yoy and 4% qoq; ETR of 33% assumed
Mkt Cap (Rs bn)	1,313	EBITDA (Rs mn)	77,519	65,076	55,495	39.7	19.1	
Reco	BUY	EBITDA Margin (%)	35%	38%	26%	926.4	-309.8	
		PAT (Rs mn)	30,240	18,902	8,017	277.2	60.0	
		EPS (Rs)	2.4	1.5	0.6	277.2	60.0	
<b>Oil India</b>								
CMP (Rs)	124	Net Sales (Rs mn)	28,088	21,260	25,896	8.5	32.1	Oil realization up 39% qoq, while rupee gas realization down 3% qoq; Overall volumes up 3% yoy and 1% qoq
Mkt Cap (Rs bn)	135	EBITDA (Rs mn)	10,442	-938	-11,014			
Reco	HOLD	EBITDA Margin (%)	37%	-4%	-43%			
		PAT (Rs mn)	8,251	9,037	5,348	54.3	-8.7	
		EPS (Rs)	7.6	8.3	4.9	54.3	-8.7	
<b>Indian Oil</b>								
CMP (Rs)	93	Net Sales (Rs mn)	1,384,295	1,063,365	1,184,391	16.9	30.2	Core/reported GRM of USD0.8/6.0/bbl; Refining utilization of 103%; Marketing sales flat yoy; Marketing margin down 20% qoq
Mkt Cap (Rs bn)	855	EBITDA (Rs mn)	104,189	96,226	29,348	255.0	8.3	
Reco	BUY	EBITDA Margin (%)	8%	9%	2%	504.9	-152.3	
		PAT (Rs mn)	62,740	49,170	32,730	91.7	27.6	
		EPS (Rs)	6.8	5.4	3.6	91.7	27.6	
<b>BPCL</b>								
CMP (Rs)	437	Net Sales (Rs mn)	876,304	667,314	689,914	27.0	31.3	Core/reported GRM of USD1.5/4.0/bbl; Refining utilization of 122%; Marketing sales down 1% yoy; Marketing margin down 28% qoq; ETR of 34% assumed
Mkt Cap (Rs bn)	880	EBITDA (Rs mn)	36,716	43,782	5,923	519.9	-16.1	
Reco	BUY	EBITDA Margin (%)	4%	7%	1%	333.1	-237.1	
		PAT (Rs mn)	20,820	31,064	-6,500		-33.0	
		EPS (Rs)	9.8	15.8	-3.3		-38.1	
<b>HPCL</b>								
CMP (Rs)	237	Net Sales (Rs mn)	869,225	686,592	661,549	31.4	26.6	Core/reported GRM of USD1.3/4.3/bbl; Refining utilization of 106%; Marketing sales up 2% yoy; Marketing margin down 22% qoq
Mkt Cap (Rs bn)	336	EBITDA (Rs mn)	26,039	33,015	2,686	869.3	-21.1	
Reco	BUY	EBITDA Margin (%)	3%	5%	0%	259.0	-181.3	
		PAT (Rs mn)	14,595	23,546	-6,017		-38.0	
		EPS (Rs)	9.9	15.7	-3.9		-37.0	

## Oil and Gas

Name			Q4FY21E	Q3FY21	Q4FY20	yoy chg	qoq chg	Comments
<b>GAIL</b>								
CMP (Rs)	140	Net Sales (Rs mn)	192,363	154,543	177,531	8.4	24.5	2-3% qoq rise in gas volumes; Trading margins to turn positive; Petchem EBIT driven by higher prices and lower opex; 34% qoq improvement in LPG realizations
Mkt Cap (Rs bn)	629	EBITDA (Rs mn)	22,241	19,195	24,754	-10.2	15.9	
Reco	BUY	EBITDA Margin (%)	12%	12%	14%	-238.1	-85.9	
		PAT (Rs mn)	16,100	14,873	18,356	-12.3	8.3	
		EPS (Rs)	3.6	3.3	4.1	-10.9	10.0	
<b>Gujarat State Petronet</b>								
CMP (Rs)	276	Net Sales (Rs mn)	5,380	5,800	5,950	-9.6	-7.2	Volumes to fall 6% qoq to 37.0mmscmd; Opex/mscm to jump by 56% qoq
Mkt Cap (Rs bn)	156	EBITDA (Rs mn)	3,390	3,984	3,557	-4.7	-14.9	
Reco	BUY	EBITDA Margin (%)	63%	69%	60%	322.3	-567.1	
		PAT (Rs mn)	2,071	2,475	2,256	-8.2	-16.3	
		EPS (Rs)	3.7	4.4	4.0	-8.2	-16.3	
<b>Petronet LNG</b>								
CMP (Rs)	228	Net Sales (Rs mn)	82,058	73,282	85,672	-4.2	12.0	88%/21% Dahej/Kochi utilization; USD1.5/mmbtu spot LNG marketing margin
Mkt Cap (Rs bn)	342	EBITDA (Rs mn)	10,550	13,353	6,975	51.3	-21.0	
Reco	BUY	EBITDA Margin (%)	13%	18%	8%	471.5	-536.4	
		PAT (Rs mn)	6,742	8,785	5,643	19.5	-23.3	
		EPS (Rs)	4.5	5.9	3.8	19.5	-23.3	
<b>Indraprastha Gas</b>								
CMP (Rs)	526	Net Sales (Rs mn)	15,333	14,462	15,525	-1.2	6.0	7% yoy volume growth to 6.67mmscmd; 6% qoq decline in EBITDA/scm to Rs8.2
Mkt Cap (Rs bn)	369	EBITDA (Rs mn)	4,923	5,007	3,767	30.7	-1.7	
Reco	BUY	EBITDA Margin (%)	32%	35%	24%	784.5	-251.0	
		PAT (Rs mn)	3,337	3,349	2,534	31.7	-0.3	
		EPS (Rs)	4.8	4.8	3.6	31.7	-0.3	
<b>Gujarat Gas</b>								
CMP (Rs)	547	Net Sales (Rs mn)	33,984	28,294	26,666	27.4	20.1	Volume up 3% qoq at 11.8mmscmd; 32% qoq fall in EBITDA/scm to Rs4.0
Mkt Cap (Rs bn)	377	EBITDA (Rs mn)	4,221	6,148	4,267	-1.1	-31.3	
Reco	HOLD	EBITDA Margin (%)	12%	22%	16%	-357.9	-930.8	
		PAT (Rs mn)	2,566	3,922	2,459	4.4	-34.6	
		EPS (Rs)	3.7	5.7	3.6	4.4	-34.6	
<b>Gulf Oil Lubricants</b>								
CMP (Rs)	742	Net Sales (Rs mn)	4,982	4,819	3,597	38.5	3.4	30% yoy rise in volumes; 5% fall in EBITDA/ltr qoq
Mkt Cap (Rs bn)	37	EBITDA (Rs mn)	782	834	554	41.2	-6.1	
Reco	BUY	EBITDA Margin (%)	16%	17%	15%	30.2	-159.2	
		PAT (Rs mn)	602	640	359	67.4	-6.0	
		EPS (Rs)	12.0	12.7	7.2	66.8	-6.0	

## Emkay Alpha Portfolio – Oil & Gas



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#### Sector

Oil & Gas

#### Analyst bio

Sabri Hazarika holds an MBA and comes with 11 years of research experience. His team currently covers 12 stocks in the Indian Oil & Gas space.

#### EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
<b>Oil &amp; Gas</b>	<b>10.13</b>	<b>10.13</b>	<b>0%</b>	<b>0</b>	<b>100.00</b>
BPCL	0.42	0.46	10%	4	4.54
GAIL	0.30	0.33	9%	3	3.24
Gujarat Gas	0.11	0.00	-100%	-11	0.00
Gujarat State Petronet	0.09	0.05	-52%	-5	0.45
Gulf Oil Lubricants	0.00	0.05	NA	5	0.52
HPCL	0.21	0.23	13%	3	2.29
Indian Oil	0.28	0.28	0%	0	2.78
Indraprastha Gas	0.22	0.25	14%	3	2.46
Petronet LNG	0.20	0.20	-2%	0	1.97
Oil India	0.05	0.05	-3%	0	0.51
ONGC	0.45	0.48	5%	2	4.71
Reliance Industries	7.79	7.75	0%	-4	76.52
<b>Cash</b>	<b>0.00</b>	<b>0.00</b>	<b>NA</b>	<b>0</b>	<b>0.01</b>

Source: Emkay Research

\* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

#### Sector portfolio NAV

	Base					Latest
	01-Apr-19	01-Apr-20	01-Oct-20	30-Dec-20	02-Mar-21	01-Apr-21
EAP - Oil & Gas	100.0	71.0	130.0	123.7	133.5	127.6
BSE200 Neutral Weighted Portfolio (ETF)	100.0	71.8	129.0	122.9	132.5	126.8

\*Performance measurement base date 1<sup>st</sup> April 2019

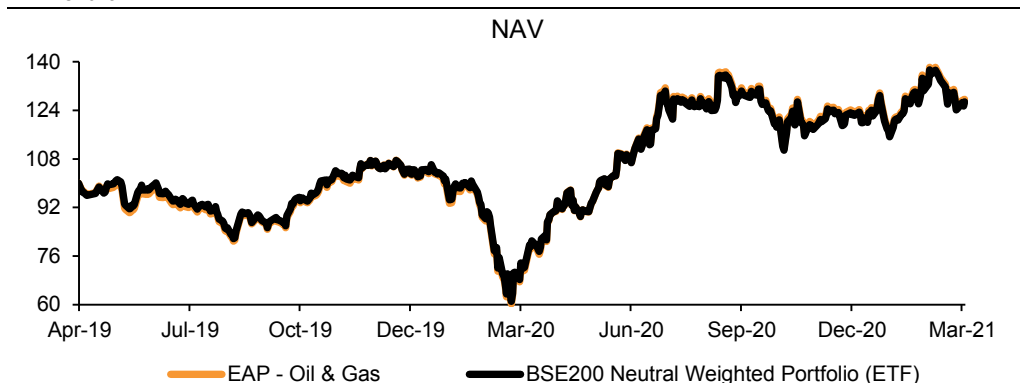
Source: Emkay Research

#### Price Performance (%)

	1m	3m	6m	12m
EAP - Oil & Gas	-4.4%	3.1%	-1.8%	79.7%
BSE200 Neutral Weighted Portfolio (ETF)	-4.3%	3.2%	-1.7%	76.6%

Source: Emkay Research

#### NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”



## Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 03 Apr 2021 21:51:20 (SGT)

Dissemination Date: 03 Apr 2021 21:52:20 (SGT)

Sources for all charts and tables are Emkay Research unless otherwise specified.

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