

January 13, 2021

Return to near-normalcy...

Crude oil prices in uptrend; stability crucial

Global crude oil prices were on an upward trend from November onwards in Q3FY21. Brent crude oil prices, on a closing basis, jumped US\$10.2/bbl QoQ to US\$51.2/bbl on account of a recovery in demand compared to earlier phase of Covid-19 pandemic and Opec+ decision to maintain oil output at lower levels. Average crude oil prices also increased by US\$1.8/bbl to US\$44.6/bbl. Hence, net realisations of upstream companies are expected to increase marginally QoQ.

Singapore GRMs see marginal recovery

Benchmark Singapore GRMs, while recovering from Q2 levels of US\$0.1/bbl, still remained low at US\$1.2/bbl in Q3FY21. 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. While gas oil spreads further declined to multi-quarter lows, gasoline spreads also fell in Q3 after witnessing some recovery in Q2. The spread for gas oil fell by US\$0.6/bbl from US\$4.2/bbl to US\$3.6/bbl and Gasoline product spreads declined by US\$0.4/bbl to US\$4/bbl. Jet fuel spreads saw recovery of US\$3.1/bbl to US\$2.7/bbl due to a sequential increase in demand. Due to increase in capacity utilisation, operational efficiency is expected to improve, leading to better core GRMs QoQ. However, core GRMs for refiners are expected to remain subdued during Q3FY21 compared to historical average. Fuel demand surpassed pre-Covid level in October ahead of festive season while demand in November and December was lower YoY. We expect marketing volumes to fall 1.5% YoY and marketing margins to remain steady QoQ. This is expected to lead to stable profitability for OMCs in the quarter.

Industrial PNG supports CGD growth; margins improve YoY

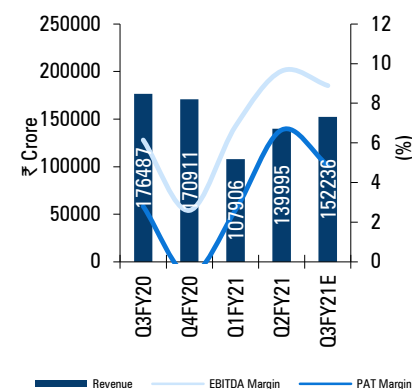
Sales volume of city gas distribution (CGD) companies with higher CNG contribution are expected to fall in the range of 4-5% YoY as demand was not fully restored. Industrial PNG segment, however, witnessed faster recovery and are expected to report YoY growth. Domestic PNG sales volume are expected to remain steady. On the margin front, we expect an improvement YoY as CGD companies have not fully passed on lower gas cost to customers. On a QoQ basis, margins are expected to decline, to some extent, on account of an increase in spot gas prices during the quarter. For large gas transmission companies, volumes are expected to be flattish YoY supported by increased demand from fertiliser sector and industrial segment. The LNG segment continued to increase its share in India's gas consumption basket.

Exhibit 1: Estimates for Q3FY21E: (Oil & Gas)

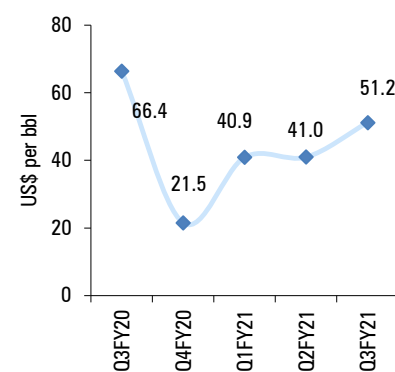
Company	Revenue Change (%)			EBITDA Change (%)			PAT Change (%)		
	Q3FY21E	YoY	QoQ	Q3FY21E	YoY	QoQ	Q3FY21E	YoY	QoQ
Gail India	17,525.7	-1.4	28.5	1,956.8	-5.6	46.2	1,275.4	2.0	2.9
Gujarat Gas	2,608.5	4.1	3.8	476.4	28.6	-35.0	280.1	42.5	-41.0
IOC	122,288.3	-15.6	5.6	9,117.9	37.1	-3.3	4,523.1	93.4	-27.4
Indraprastha Gas Ltd	1,476.2	-11.3	13.1	465.0	18.7	14.2	330.1	16.3	7.2
Mahanagar Gas Ltd	746.3	-8.9	36.0	311.5	20.3	40.9	218.7	17.5	51.5
Petronet LNG	7,591.0	-14.8	21.7	1,215.4	9.7	-10.8	761.7	12.8	-17.9
Total	152,236.0	-13.7	8.7	13,543.0	24.8	0.4	7,389.1	49.8	-20.7

Source: Company, ICICI Direct Research

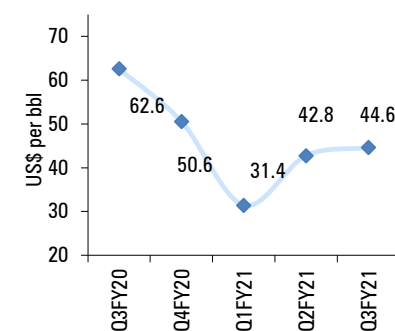
Topline & Profitability (Coverage Universe)



Closing Brent crude oil prices



Average Brent crude oil prices



Top Picks

Gujarat Gas
Petronet LNG

Research Analyst

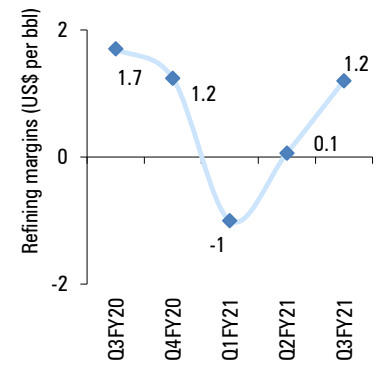
Mayur Matani
mayur.matani@icicisecurities.com
Amogh Deshpande
amogh.deshpande@icicisecurities.com

Exhibit 2: Company Specific Views

Company	Remarks
Gail	Gail's operational performance is expected to improve sequentially on account of gas trading and LPG segment. However, on a YoY basis, we expect a marginal improvement in performance. On the gas business front, gas transmission volumes are expected to be flattish YoY at 111 mmscmd with its EBIT at ₹ 863.5 crore. For the gas trading segment, we expect EBIT at ₹ 139.7 crore against EBIT loss of ₹ 364 crore in Q2 on account of increase in spot LNG prices. On the LPG liquid hydrocarbon front, EBIT is expected to increase 85% YoY to ₹ 545.5 crore due to higher realisation and lower costs while petchem segment is expected to report EBIT of ₹ 250.1 crore
Gujarat Gas	We expect revenues to increase 4.1% YoY on account of higher volumes. Volumes are expected to jump 14% YoY and 7.8% QoQ to 10.6 mmscmd mainly on account of an increase in industrial PNG segment. Gross margins are expected to increase ₹ 0.8/scm YoY to ₹ 7.3/scm. On a QoQ basis, we expect gross margins to decline by ₹ 2.9/scm due to a fall in realisations and increase in gas costs. EBITDA/scm is expected at ₹ 4.9/scm, an increase of ₹ 0.6/scm YoY and dip of ₹ 3.2/scm QoQ. Subsequently, we expect PAT at ₹ 280.1 crore, up 42.5% YoY
Indian Oil Corporation	Crude throughput is expected at 17.9 MMT, an increase of 28.1% QoQ as demand reached near normal. Marketing segment volumes are expected to decline 1.5% YoY while margins are expected to remain steady. GRMs are expected at \$4/bbl vs. \$8.6/bbl in Q2FY21 as the previous quarter saw higher inventory gains. PAT is estimated at ₹ 4523.1 crore, down 27.4% QoQ
Indraprastha Gas	IGL's volumes are expected to fall 4.6% YoY. On a QoQ basis, volumes will increase sharply by 16.1%, mainly due to an uptick in CNG sales. Total volumes are expected at 6.4 mmscmd (CNG: 4.7 mmscmd, PNG: 1.7 mmscmd). We expect gross margins to increase by ₹ 2.1/scm YoY to ₹ 13.7/scm due to lower gas prices. On a QoQ basis, margins are expected to remain flattish. EBITDA/scm is expected at ₹ 7.9 per scm, up ₹ 1.6/scm YoY. Consequently, PAT is estimated at ₹ 330.1 crore, up 16.3% YoY and 7.2%QoQ
Mahanagar Gas	We expect a volume decline of 3.7% YoY. Volumes are expected at 2.9 mmscmd (CNG: 2.1 mmscmd, PNG : 0.8 mmscmd). Gross margins are expected to increase by ₹ 2.6/scm YoY to ₹ 16.5/scm on account of low gas costs. On a QoQ basis, it is expected to decline by ₹ 0.8/scm. EBITDA/scm is expected at ₹ 11.5/scm, an increase of ₹ 2.3/scm YoY and flattish QoQ. PAT is estimated at ₹ 218.7 crore, an increase of 17.5% YoY and 51.5% QoQ
Petronet LNG	We expect the topline to decline 14.8% YoY to ₹ 7591 crore. Total volumes are expected to increase 10.4% YoY to 257 trillion British thermal units (tbtu) (~4.9 MMT) on account of higher regas volumes. On a QoQ basis, volumes are expected to increase 1.3%. Blended margins are expected at ₹ 54.8/mmbtu, down 1.1% YoY and down 8.1% QoQ as an increase in spot LNG prices would lead to a decline in trading margins. Subsequently, PAT is expected at ₹ 761.7 crore, an increase of 12.8% YoY and decline of 17.9% QoQ

Source: Company, ICICI Direct Research

Singapore gross refining margins (GRMs)



Source: Reuters

Singapore benchmark product spreads (\$/bbl)

Product	Q3FY20	Q2FY21	Q3FY21
Gasoline	15.5	4.4	4.0
Naphtha	-1.7	0.1	-1.2
Jet Kerosene	14.7	-0.7	2.4
Gas Oil	12.8	4.2	3.6
Fuel Oil	-19.6	-4.6	-2.9
LPG	-17.2	-11.5	-9.5

Source: Reuters

Gross under-recoveries of petroleum products

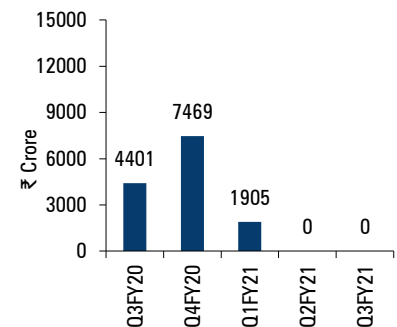


Exhibit 3: ICICI Direct Coverage Universe (Oil & Gas)

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
GAIL (India) (GAIL)	141	105	Hold	63,593	14.7	8.8	10.9	9.6	16.0	12.9	8.0	12.7	9.9	13.7	6.8	8.8	15.1	8.8	10.4
Gujarat Gas (GUJGA)	383	400	Buy	26,366	17.3	16.6	19.0	22.1	23.1	20.2	16.9	13.9	12.2	25.2	30.2	29.2	36.3	26.3	23.7
Indian Oil Corp (INDOIL)	98	85	Hold	89,928	1.4	16.1	9.1	68.5	6.1	10.7	4.8	2.9	3.3	4.8	9.7	6.9	1.4	14.5	8.1
Indraprastha Gas (INDGAS)	567	490	Hold	39,690	16.2	13.7	18.2	34.9	41.3	31.2	24.7	27.8	20.9	25.0	18.9	22.3	22.5	16.8	19.2
Mahanagar Gas (MAHGAS)	1128	1150	Hold	11,142	80.3	63.0	95.7	14.0	17.9	11.8	10.4	12.0	7.7	29.7	22.2	29.0	26.9	18.7	23.8
Petronet LNG (PETLNG)	270	275	Hold	40,500	18.0	20.3	21.9	15.0	13.3	12.3	9.9	8.0	7.4	22.3	26.8	29.3	24.6	26.3	26.8

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com



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