

Apr-Jun'23 Earnings Preview

Operationally strong results likely

Indian Oil sector's operating profit is expected to increase by 17.7% QoQ to Rs832bn given OMC's robust performance (EBIDTA at ~Rs383bn) led by improving marketing margins (blended margin of Rs9/ltr vs Rs3 in Q4) despite lower refining spreads. Upstream companies like ONGC and OIL India are expected to maintain production volumes and net crude realization of ~US\$76-77bbl, but gas realization will be lower at USD6.5/mmbtu (Q4: \$8.6). IGL/MGL will see QoQ earnings growth from lower input prices, while GGAS may suffer due to competition from propane despite softening input prices. We expect RIL's O2C segment to report muted result due to lower refining, partly compensated by higher petchem margins. We build in steady telecom performance (+2.9%QoQ revenue growth) as we build in 1.5%QoQ ARPU growth while retail revenue growth will be steady. HPCL, BPCL remain are our preferred result pick.

Exhibit 2: Q1FY24E sector growth due to improving OMC performance

Total (Rs m)	Q1FY24E	Q1FY23	YoY gr.	Q4FY23	QoQ gr.
Sales	66,42,265	77,36,653	-14.1%	69,50,651	-4.4%
EBITDA	8,32,302	4,05,138	105.4%	7,07,201	17.7%
PAT	5,07,531	1,80,081	181.8%	4,79,013	6.0%
Brent (USD/bbl)	79.0	113.0	-30.1%	82.0	-3.7%
USD/Rs	82.1	77.1	6.5%	82.2	-0.1%

Source: Company, PL

- **RIL results expected to be lower QoQ due to decline in refining spreads.** We estimate refining throughput of 17.0MTPA, (17.1MT in Q4). Petchem profitability will improve QoQ, due to demand recovery post China reopening. We expect Jio to show steady performance (2.9%QoQ revenue growth and 1.5% QoQ ARPU hike), while retail segment profitability should be resilient.
- **GAIL:** We expect sharp improvement in EBITDA at Rs22.9bn (Q4: Rs3.1bn) given drop in spot LNG prices to USD11/mmbtu (Q4: \$15) which will aid gas transmission and petchem volumes. We also factor gas trading EBIDTA of Rs3bn vs Rs1.5bn in Q4.
- **OMCs: Marketing margin recovery to drive PAT to Rs242.7bn:** We expect OMCs results to be operationally better owing to recovery in marketing gains of blended margins at Rs9/ltr vs Rs3/ltr in Q4, despite lower GRMs. Benchmark Singapore margins were lower at USD4.1/bbl vs USD8.2/bbl in Q4FY23, due to drop in diesel and ATF spreads by ~USD12/bbl. Lower refining spreads will be partly compensated by continued sourcing of discounted Russian crude. So while refining profits will be lower, recovery in marketing margins will drive Q1 PAT to Rs242.7bn from Rs211.2bn in Q4 (+14.9%QoQ).

July 4, 2023

Exhibit 1: PL Universe

Companies	Rating	CMP (Rs)	TP (Rs)
BPCL	BUY	375	425
GAIL (India)	BUY	106	118
Gujarat Gas	HOLD	475	450
HPCL	BUY	284	340
Indraprastha Gas	BUY	483	582
Indian Oil Corporation	BUY	95	125
Mahanagar Gas	BUY	1,084	1,260
Oil India	BUY	245	325
ONGC	BUY	163	210
Petronet LNG	BUY	223	322
Reliance Industries	BUY	2,616	2,822

Source: PL

Result Picks:

Positive: HPCL, BPCL

Negative: Gujarat Gas

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Exhibit 3: Q1FY24E marketing margin rebound to drive QoQ earnings

Total (Rs m)	Q1FY24E	Q1FY23	YoY gr.	Q4FY23	QoQ gr.
Sales	45,68,116	51,17,713	-10.7%	47,43,506	-3.7%
EBITDA	3,83,510	-1,70,006	NA	3,12,925	22.6%
PAT	2,42,705	-1,84,525	NA	2,11,191	14.9%
Singapore GRM (US\$/bbl)	4.1	21.6	-81.0%	8.2	-50.0%

Source: Company, PL

- **Upstream: Companies will improve Q1 PAT to Rs121bn vs Rs108bn in Q4FY23 (+12.3% QoQ)**, due to steady net crude price realization post windfall taxes and flat gas prices (\$8.57/mmbtu). Net crude oil realization will likely be flat at ~USD76. Production and sales volumes are likely to be flat QoQ.

Exhibit 4: Upstream earnings to be hit by lower gas prices

Total (Rs m)	Q1FY24E	Q1FY23	YoY gr.	Q4FY23	QoQ gr.
Sales	3,93,180	4,82,883	-18.6%	4,19,422	-6.3%
EBITDA	2,28,531	2,85,666	-20.0%	1,86,910	22.3%
PAT	1,21,035	1,67,613	-27.8%	1,07,757	12.3%

Source: Company, PL

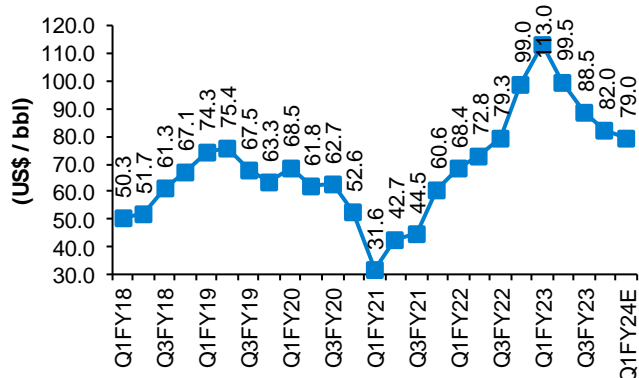
- **CGDs: IGL/MGL to benefit from lower gas prices:** CGD players like IGL/MGL will benefit from drop in domestic gas prices to USD6.5/mmbtu from USD8.6 in Q4. However, for GGAS we expect gas sales volumes to recover to 9.7mmcmd (Q4: 8.9), but margins will be under pressure due to competition from propane.

Exhibit 5: Q1FY24E IGL/MGL will report QoQ growth but GGAS will disappoint

Total (Rs m)	Q1FY24E	Q1FY23	YoY gr.	Q4FY23	QoQ gr.
Sales	86,958	1,04,268	-16.6%	99,073	-12.2%
EBITDA	13,884	15,097	-8.0%	14,163	-2.0%
PAT	8,983	9,872	-9.0%	9,677	-7.2%
CGD Volumes	1,957	1,953	0.2%	1,727	13.3%

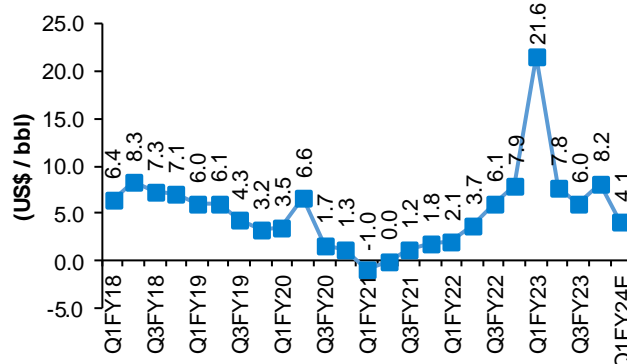
Source: Company, PL

Exhibit 6: Brent prices has been steady at USD79



Source: Company, PL

Exhibit 7: Singapore GRMs has corrected to \$4/bbl



Source: Company, PL

Exhibit 8: Q1FY24E Result Preview

Company Name		Q1FY23E	Q1FY22	YoY gr. (%)	Q4FY23	QoQ gr. (%)	Remark
Bharat Petroleum Corporation	Sales	11,08,970	12,10,469	(8.4)	11,81,121	(6.1)	BPCL is likely to report operationally strong results due to sharp recovery in marketing margins (blended margins Rs9/ltr vs Rs3 in Q4).
	EBITDA	1,29,393	-58,649	NA	1,11,537	16.0	
	Margin (%)	11.7	-4.8		9.4		
	PBT	1,10,393	-76,519	NA	94,785	16.5	
	Adj. PAT	82,574	-62,630	NA	78,378	5.4	
GAIL (India)	Sales	2,85,206	3,75,721	(24.1)	3,28,582	(13.2)	We expect sharp recovery in earnings due to improvement in petchem and transmission volumes post drop in spot LNG prices.
	EBITDA	22,902	43,657	(47.5)	3,072	645.6	
	Margin (%)	8.0	11.6		0.9		
	PBT	20,302	38,944	(47.9)	5,909	243.6	
	Adj. PAT	15,186	29,152	(47.9)	6,035	151.6	
Gujarat Gas	Sales	33,084	51,701	(36.0)	39,286	(15.8)	We expect GGL profits to be lower QoQ due to weak margins partly compensated by higher volumes.
	EBITDA	4,450	6,066	(26.6)	5,603	(20.6)	
	Margin (%)	13.5	11.7		14.3		
	PBT	3,465	5,089	(31.9)	4,766	(27.3)	
	Adj. PAT	2,582	3,811	(32.3)	3,692	(30.1)	
Hindustan Petroleum Corporation	Sales	10,81,000	11,44,547	(5.6)	10,79,278	0.2	HPCL is likely to report operationally strong results due to sharp recovery in marketing margins (blended margins Rs9/ltr vs Rs3 in Q4).
	EBITDA	75,655	-1,24,946	NA	47,986	57.7	
	Margin (%)	7.0	-10.9		4.4		
	PBT	62,955	-1,35,820	NA	43,918	43.3	
	Adj. PAT	56,659	-1,01,969	NA	32,226	75.8	
Indraprastha Gas	Sales	32,358	31,939	1.3	36,872	(12.2)	IGL's earnings will be strong due to lower gas prices.
	EBITDA	5,305	6,175	(14.1)	4,663	13.8	
	Margin (%)	16.4	19.3		12.6		
	PBT	4,825	5,602	(13.9)	4,354	10.8	
	Adj. PAT	3,609	4,209	(14.2)	3,298	9.4	
Indian Oil Corporation	Sales	19,58,144	22,42,526	(12.7)	20,29,941	(3.5)	IOCL is likely to report operationally strong results due to sharp recovery in marketing margins (blended margins Rs9/ltr vs Rs3 in Q4).
	EBITDA	1,78,462	13,589	1,213.3	1,53,403	16.3	
	Margin (%)	9.1	0.6		7.6		
	PBT	1,37,962	-25,292	NA	1,22,150	12.9	
	Adj. PAT	1,03,472	-19,925	NA	1,00,587	2.9	
Mahanagar Gas	Sales	15,459	14,548	6.3	16,105	(4.0)	MGL's earnings will be strong due to lower gas prices.
	EBITDA	4,128	2,856	44.6	3,897	5.9	
	Margin (%)	26.7	19.6		24.2		
	PBT	3,733	2,496	49.6	3,572	4.5	
	Adj. PAT	2,793	1,852	50.8	2,687	3.9	
Oil India	Sales	50,054	59,676	(16.1)	56,497	(11.4)	Lower QoQ gas realization to impact earnings partly compensated by lower expenses.
	EBITDA	22,147	26,364	(16.0)	23,510	(5.8)	
	Margin (%)	44.2	44.2		41.6		
	PBT	17,497	21,077	(17.0)	23,383	(25.2)	
	Adj. PAT	13,035	15,555	(16.2)	17,883	(27.1)	
Oil & Natural Gas Corporation	Sales	3,43,126	4,23,207	(18.9)	3,62,926	(5.5)	Lower QoQ gas realization to impact earnings partly compensated by lower expenses.
	EBITDA	2,06,384	2,59,303	(20.4)	1,63,400	26.3	
	Margin (%)	60.1	61.3		45.0		
	PBT	1,44,384	2,03,430	(29.0)	82,559	74.9	
	Adj. PAT	1,07,999	1,52,059	(29.0)	-2,477	NA	
Petronet LNG	Sales	1,39,766	1,42,638	(2.0)	1,38,739	0.7	We expect earnings to be up QoQ due to closure of competing Dabhol LNG terminal and drop in spot LNG prices.
	EBITDA	10,547	10,644	(0.9)	9,431	11.8	
	Margin (%)	7.5	7.5		6.8		
	PBT	9,197	9,371	(1.9)	8,180	12.4	
	Adj. PAT	6,879	7,009	(1.8)	6,142	12.0	



Company Name		Q1FY23E	Q1FY22	YoY gr. (%)	Q4FY23	QoQ gr. (%)	Remark
Reliance Industries	Sales	11,69,039	15,13,430	(22.8)	12,21,330	(4.3)	Earnings to decrease QoQ due to lower GRMs but recovery in petchem to make up. Jio and retail performance will be steady.
	EBITDA	1,72,928	2,20,080	(21.4)	1,80,700	(4.3)	
	Margin (%)	14.8	14.5		14.8		
	PBT	1,42,428	1,96,720	(27.6)	1,43,760	(0.9)	
	Adj. PAT	1,13,942	1,50,960	(24.5)	1,38,210	(17.6)	

Source: Company, PL

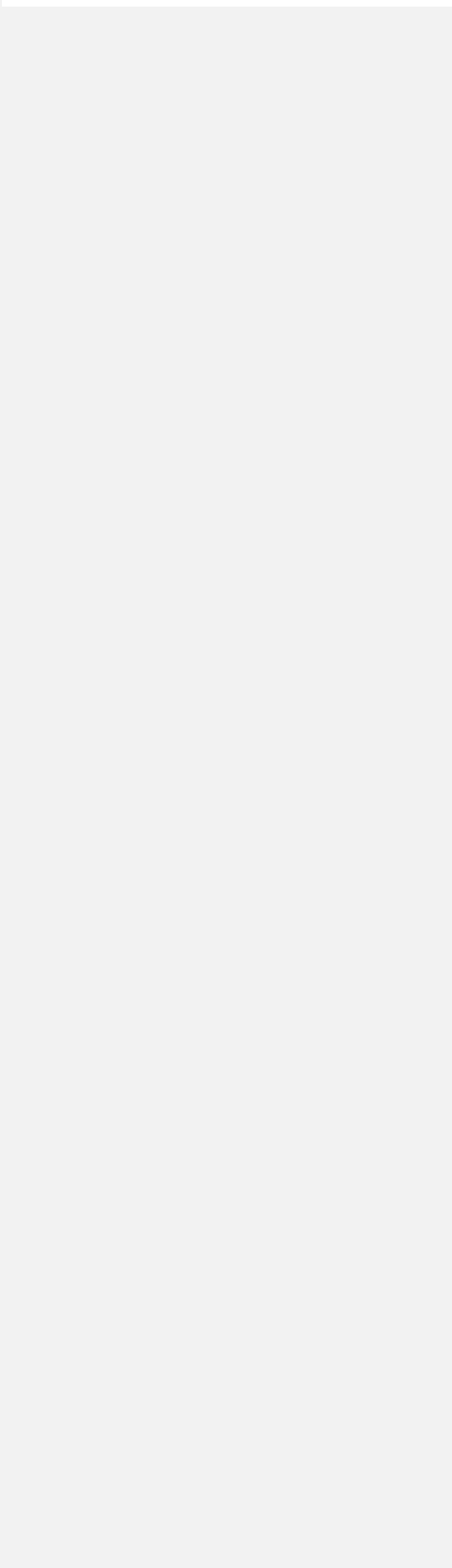




Exhibit 9: Valuation Summary

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)			
						FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E
BPCL	S	BUY	375	425	799.2	3,467.9	4,731.2	4,839.2	5,047.2	191.7	109.6	179.4	178.2	115.1	21.8	74.7	75.6	54.1	10.2	35.1	35.5	21.8	4.0	12.3	11.1	6.9	36.7	10.7	10.6
GAIL (India)	S	BUY	106	118	699.9	916.3	1,442.5	1,051.7	1,143.2	138.3	67.0	96.6	95.0	103.5	53.0	74.0	72.4	23.0	8.1	11.3	11.0	20.3	9.5	12.9	12.0	4.6	13.2	9.5	9.7
Gujarat Gas	S	HOLD	475	450	326.7	164.6	167.6	134.4	148.1	20.8	23.9	21.4	24.4	12.9	15.3	13.3	16.1	18.7	22.2	19.3	23.3	25.5	24.2	17.2	17.4	25.4	21.4	24.6	20.4
HPCL	S	BUY	284	340	402.3	3,509.7	4,404.0	3,754.4	3,599.4	114.6	-75.2	140.0	147.5	76.7	-89.7	61.5	77.9	54.0	-63.2	43.3	54.9	20.5	-27.0	20.5	22.1	5.2	-4.5	6.5	5.2
Indraprastha Gas	S	BUY	483	582	337.9	77.1	141.5	121.0	138.9	18.8	20.4	26.6	30.0	13.1	14.5	18.7	21.6	18.8	20.6	26.8	30.9	20.5	20.6	24.2	23.5	25.7	23.4	18.0	15.6
Indian Oil Corporation	S	BUY	95	125	1,311.7	5,893.4	8,417.6	7,472.2	7,074.9	477.4	307.0	479.6	480.9	232.6	99.8	235.6	235.4	25.3	7.2	17.1	17.1	19.0	7.3	16.3	14.9	3.8	13.1	5.6	5.6
Mahanagar Gas	S	BUY	1,084	1,260	107.0	35.6	63.0	51.4	55.9	9.2	11.8	14.6	15.6	5.9	7.9	9.6	10.4	60.2	80.0	97.2	105.0	17.4	20.4	21.5	20.1	18.0	13.6	11.2	10.3
Oil India	C	BUY	245	325	265.5	300.1	410.4	385.2	766.3	105.0	152.7	114.9	193.3	67.2	98.5	77.6	110.7	62.0	90.9	71.6	102.1	24.8	28.5	18.8	22.8	4.0	2.7	3.4	2.4
ONGC	S	BUY	163	210	2,049.3	5,317.6	6,848.3	6,220.3	6,225.0	857.7	850.9	998.3	1,050.5	492.9	321.6	529.0	609.6	39.2	25.6	42.1	48.5	20.5	11.9	15.8	14.8	4.2	6.4	3.9	3.4
Petronet LNG	S	BUY	223	322	335.0	442.6	598.9	760.3	863.3	52.5	48.6	56.6	68.4	33.5	32.4	37.4	45.9	22.3	21.6	24.9	30.6	27.4	23.3	24.0	26.7	10.0	10.3	9.0	7.3
Reliance Industries	S	BUY	2,616	2,822	17,695.2	4,237.0	5,432.5	4,817.5	5,015.0	523.1	671.0	782.7	719.4	390.8	442.1	543.7	523.9	57.8	65.3	80.4	77.4	8.3	9.0	10.2	9.0	45.3	40.0	32.5	33.8

Source: Company, PL

S=Standalone / C=Consolidated

Exhibit 10: Change in Estimates

	Rating		Target Price			Sales						PAT						EPS					
						FY24E			FY25E			FY24E			FY25E			FY24E			FY25E		
	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	425	425	0.0%	48,39,205	48,39,205	0.0%	50,47,150	50,47,150	0.0%	74,685	74,685	0.0%	75,597	75,597	0.0%	35.1	35.1	0.0%	35.5	35.5	0.0%
GAIL (India)	BUY	BUY	118	118	0.0%	10,51,661	10,51,661	0.0%	11,43,203	11,43,203	0.0%	74,014	77,428	-4.4%	72,389	77,391	-6.5%	11.3	11.6	-3.2%	11.0	11.6	-5.2%
Gujarat Gas	HOLD	HOLD	450	450	0.0%	1,34,395	1,34,395	0.0%	1,48,117	1,48,117	0.0%	13,261	13,261	0.0%	16,055	16,055	0.0%	19.3	19.3	0.0%	23.3	23.3	0.0%
HPCL	BUY	BUY	340	340	0.0%	37,54,375	37,54,375	0.0%	35,99,418	35,99,418	0.0%	61,490	61,490	0.0%	77,935	77,935	0.0%	43.3	43.3	0.0%	54.9	54.9	0.0%
Indraprastha Gas	BUY	BUY	582	582	0.0%	1,21,034	1,21,034	0.0%	1,38,872	1,38,872	0.0%	18,729	18,729	0.0%	21,621	21,621	0.0%	26.8	26.8	0.0%	30.9	30.9	0.0%
Indian Oil Corporation	BUY	BUY	125	125	0.0%	74,72,158	74,75,110	0.0%	70,74,937	70,77,889	0.0%	2,35,640	2,30,747	2.1%	2,35,378	2,31,032	1.9%	17.1	16.8	2.1%	17.1	16.8	1.9%
Mahanagar Gas	BUY	BUY	1,260	1,260	0.0%	51,376	51,376	0.0%	55,940	55,940	0.0%	9,601	9,601	0.0%	10,369	10,369	0.0%	97.2	97.2	0.0%	105.0	105.0	0.0%
Oil India	BUY	BUY	325	325	0.0%	3,85,199	3,90,487	-1.4%	7,66,350	7,77,455	-1.4%	77,595	79,495	-2.4%	1,10,672	1,16,751	-5.2%	71.6	73.3	-2.4%	102.1	107.7	-5.2%
ONGC	BUY	BUY	210	210	0.0%	62,20,328	65,15,594	-4.5%	62,25,000	66,90,092	-7.0%	5,29,024	5,00,136	5.8%	6,09,609	5,45,571	11.7%	42.1	39.8	5.8%	48.5	43.4	11.7%
Petronet LNG	BUY	BUY	322	322	0.0%	7,60,324	7,60,324	0.0%	8,63,293	8,63,293	0.0%	37,383	37,383	0.0%	45,893	45,893	0.0%	24.9	24.9	0.0%	30.6	30.6	0.0%
Reliance Industries	BUY	BUY	2,822	2,822	0.0%	48,17,468	48,17,468	0.0%	50,15,020	50,15,020	0.0%	5,43,747	5,43,747	0.0%	5,23,871	5,23,871	0.0%	80.4	80.4	0.0%	77.4	77.4	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	425	362
2	Bharti Airtel	BUY	874	792
3	GAIL (India)	BUY	118	105
4	Gujarat Gas	Hold	450	463
5	Hindustan Petroleum Corporation	BUY	340	261
6	Indian Oil Corporation	BUY	125	87
7	Indraprastha Gas	BUY	582	493
8	Mahanagar Gas	BUY	1,260	1,074
9	Oil & Natural Gas Corporation	BUY	210	153
10	Oil India	BUY	325	270
11	Petronet LNG	BUY	326	237
12	Reliance Industries	BUY	2,822	2,349

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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