Oil & Gas - Q2FY24 Earnings Preview

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Sharp improvement OMCs YoY a major driver for sector

Our Oil and gas coverage shows strong growth on YoY in Q2FY24, with operating profit likely to be up by 119% YoY to Rs826bn and net profit up 202% YoY to Rs438 bn. The majority of improvement is likely to be driven by a sharp turnaround in OMCs, which should see a sharp recovery in GRM with crude & product inventory gains, and marketing margins on auto fuel retailing in Q2. We expect RIL's consolidated EBITDA to rise 31% YoY, driven by a) O2C likely to be better on lower impact of export duty & higher GRM; b) E&P to benefit from KG basin gas price rise; and c) Jio's EBITDA to rise by 16% YoY with subscriber addition and rise in ARPU. CGDs are expected to report mix set of earnings, CNG heavy companies like IGL and MAHGL to report earnings growth backed by a sharp cut down in APM gas price which will lead to improvement in gross margins YoY. Further, CNG volume growth would be backed by higher discounts on CNG compared to alternate fuels. Gujarat Gas earnings will be impacted with the decline in the gross margins. Gas utilities (GAIL, GUJS) are beneficiaries of peak gas demand in India. GAIL/GUJS transmission volume would be at 120/33 mmscmd but GAIL's commodity segment is likely to disappoint. India's LNG demand is strong despite rising domestic gas production. We expect PLNG's Dahej/Kochi terminal utilization of 98%/15% in Q2FY24. Our Top Picks – MAHGL and IGL.

CNG heavy CGD volume growth picks up; challenging for GUJGA

MAHGL's all 3 GAs have added more than 15K/quarter CNG vehicle in Q2 vs. 14K/quarter in Q1, higher CNG vehicle conversions are backed by a tie-up with auto OEMs, and more discounts on CNG vs. auto fuel. IGL management has indicated that CNG vehicle addition of 15K/16.8k in July/August 2023 respectively, sharply improved from the Q1 average of 14.5k/month. Hence we expect IGL's sales volume to grow at 1% QoQ & 3% YoY. GUJGA continues to face tough competition from propane at Morbi to its PNG (I) volume. Further, the rise in crude-linked LNG & spot LNG prices is unable to provide enough discounts to PNG (I) consumers at Morbi vs. propane. Hence, GUJGA's total sales volume is to inch up 2% QoQ on account of CNG volume growth.

RELIANCE IN: KG-D6 production ramp up + higher refining margins

As indicated in the Q1, RIL's KG gas has ramped up to ~28mmscmd with a peak price realization of US$12.12/mmbtu. In addition, RIL's GRM improvement drives O2C earnings. Further, Russian discounted crude processed >30% which will definitely boost the overall GRM. However, we expect. RIL's O2C gross profit will be impacted due to the temporary shutdown of CDU (580KBPD) in SEZ refinery and FCC (180KBPD) in DTA refinery with a refinery off-gas cracker for a period of 4 to 6 weeks from mid of sept'23 to impact on refinery throughput. Petrochemical margins are deteriorating in Asia as supply overweight demand, and petrochemical producers find it hard to pass on the rise in the feedstock cost to the downstream sector mainly due to a weak economic outlook and surplus capacity. Feedstock cost (naphtha & LPG) for petrochemicals rose in Q2FY23 mainly due to Saudi Arabia + Russia's voluntary oil product cuts. In addition, US Ethane price jumped more than 30% QoQ. Jio EBITDA growth will be driven by 8mn net subscriber addition and APRU improvement by 2% QoQ.

Company	Rating	CMP	TP(Rs)
GAIL	Accumulate	124	130
GSPL	Accumulate	285	325
GUJ GAS	Reduce	424	490
IGL	Buy	464	609
MAH GAS	Buy	1,143	1,325
PLNG	Accumulate	237	270
RIL	Accumulate	2,306	2,802
BPCL	Accumulate	345	440
HPCL	Accumulate	253	312
IOC	Accumulate	90	106

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October 04, 2023

DOLAT CAPITAL

Exhibit 1: RIL's drivers = KG Gas volume + Higher GRM+ Jio subscriber with ARPU

(Rs Mn)	Q2FY24E	Q1FY24	Q2FY23	QoQ(%)	YoY(%)
RIL					
Revenue	23,46,507	20,75,590	23,00,550	13.1	2.0
EBITDA	4,08,617	3,80,930	3,12,240	7.3	30.9
PAT	1,81,070	1,60,110	1,36,560	13.1	32.6
EPS	26.8	23.7	20.2	13.1	32.6
Operating metrics - assumption					
Refinery Throughput - MMT	15.5	16.4	15.3	-5.6	1.4
Jio Subscriber addition net (mn)	8.0	9.2	7.7	-13.0	3.9
Jio ARPU (Rs)	184.0	180.5	177.2	1.9	3.8

Source: Company, DART

BPCL IN: GRM + inventory gains Russian crude discounts to aid earnings;

BPCL's refinery throughput is impacted mainly due to maintenance shutdown at Bina/Mumbai/Kochi units @ of 35 days/15 days/12 days during the Q2FY24. These refinery units' planned shutdown happened when light and middle distillate cracks sharply improved QoQ. Further, lower refinery throughput will lead to a higher marketing-to-refinery ratio (1.32x vs. 1.26x in Q1). However, rising crude prices attributed to crude inventory/product inventory gains of US$2.8/US$1.5 per bbl in Q2FY24. Blended Gross Marketing Margins (GMM) on auto fuel are Rs4.3/lt vs. Rs12/lt in Q1FY24, sharp QoQ decline in GMM will lead to an overall fall in EBITDA to Rs114.6bn.

Exhibit 2: BPCL's = GRM + inventory gains Russian crude discounts to aid earnings

(Rs Mn)	Q2FY24E	Q1FY24	Q2FY23	QoQ(%)	YoY(%)
BPCL					
Revenue	11,52,378	11,29,782	11,48,076	2.0	0.4
EBITDA	1,14,621	1,58,098	14,340	(27.5)	699.3
PAT	72,594	1,05,509	(3,042)	(31.2)	NM
EPS	34.0	49.4	(1.4)	(31.2)	NM
Operating metrics - assumption					
GRM - US$/bbl (Incl. invt gain)	18.8	12.6	16.8	49.0	12.1
Refinery Throughput - MMT	9.5	10.4	8.8	(8.3)	7.7
Oil Product Sales volume - MMT	12.3	13.1	11.7	(5.9)	5.3
Auto fuel gross margins (Rs/lt)	4.3	11.9	(6.1)	(63.8)	NM

Source: Company, DART

HPCL IN: Improved throughput at Vizag + higher GRM to aid earnings

Rising throughput from Vizag refinery suggests the stabilization of the plant and most likely to enhance GRM. Further, in Q2FY24, sharp improvement in Gasoline/diesel/ATF cracks to aid the overall HPCL GRM. Increasing the throughput of HPCL refineries to improve the marketing-to-refining ratio. However, rising crude prices attributed to crude inventory/product inventory gains of US$2.7/US$1.4 per bbl in Q2FY24. Blended Gross Marketing Margins (GMM) on auto fuel are Rs4.3/lt vs. Rs12/lt in Q1FY24, sharp QoQ decline in GMM will lead to an overall fall in EBITDA to Rs61.1bn.

Exhibit 3: HPCL's drivers improved throughput at Vizag + higher GRM to aid earnings

(Rs Mn)	Q2FY24E	Q1FY24	Q2FY23	QoQ (%)	YoY (%)
HPCL					
Revenue	12,06,187	11,15,674	10,80,562	8.1	11.6
EBITDA	61,136	96,548	(14,979)	(36.7)	308.2
PAT	36,330	62,039	(21,721)	(41.4)	NM
EPS	25.6	43.7	(15.3)	(41.4)	NM
Operating metrics - assumption					
GRM - US$/bbl (Incl. invt gain)	14.8	7.4	8.4	99.4	76.4
Refinery Throughput - MMT	5.8	5.4	4.5	7.4	29.2
Oil Product Sales volume - MMT	11.4	11.9	10.4	(4.1)	9.4
Auto fuel gross margins (Rs/lt)	4.3	11.9	(6.1)	(63.8)	NM

Source: Company, DART

IOCL IN: Highest crude inventory gain + Russian Crude to aid earnings

Inland refineries and bigger crude pipeline network will be attributable to higher inventory gains for IOCL. No major refinery maintenance shutdown, a rising share of Russian discounted crude, and sharp improvement in Gasoline/diesel/ATF cracks on QoQ to aid the IOCL GRM. Petrochemical margins are deteriorating in Asia as supply overweight demand, and petrochemical producers find it hard to pass on the rise in the feedstock cost to the downstream sector mainly due to a weak economic outlook and surplus capacity. Feedstock cost (naphtha & LPG) for petrochemicals rose in Q2FY23 mainly due to Saudi Arabia + Russia's voluntary oil product cuts. Blended Gross Marketing Margins (GMM) on auto fuel are Rs4.3/lt vs. Rs12/lt in Q1FY24, sharp QoQ decline in GMM will lead to an overall fall in EBITDA to Rs192bn.

Exhibit 4: IOC's drivers Highest crude inventory gain + Russian Crude to aid earnings

(Rs Mn)	Q2FY24E	Q1FY24	Q2FY23	QoQ (%)	YoY (%)
IOC					
Revenue	21,93,614	19,75,266	20,74,853	11.1	5.7
EBITDA	1,91,794	2,21,639	19,600	(13.5)	878.5
PAT	1,12,913	1,37,504	(2,724)	(17.9)	NM
EPS	8.0	9.7	(0.2)	(17.9)	NM
Operating metrics - assumption					
GRM - US$/bbl (Incl. invt gain)	17.7	8.3	18.5	112.5	(4.2)
Refinery Throughput - MMT	18.6	18.8	16.1	(0.9)	15.5
Oil Product Sales volume - MMT	22.0	22.4	20.8	(2.1)	5.8
Auto fuel gross margins (Rs/lt)	4.3	11.9	(6.1)	(63.8)	NM

Source: Company, DART

MAHGL IN: Volume growth on the back of healthy vehicle addition

Overall sales volume is expected to grow 2% YoY & 3% QoQ backed by the CNG vehicle addition or conversion improvement in Q2 and along with this MAHGL has tied up with OEM. We expect sequentially gross & EBITDA margins to moderate as the cost of non-APM gas increases due to (1) US HH gas prices up 20% QoQ; (2) ~65% of non-APM gas linked to US HH; (3) INR depreciated QoQ; and (4) an increase in marketing cost. We expect MAHGL's EBITDA/scm of Rs15.5 for Q2FY24.

Exhibit 5: MAHG drivers Volume growth on the back of healthy vehicle addition

(Rs Mn)	Q2FY24E	Q1FY24	Q2FY23	QoQ (%)	YoY (%)
MAH GAS					
INR Revenue	15,525.1	15,377.9	15,626.6	1.0	(0.6)
EBITDA	4,923.4	5,212.7	2,528.4	(5.6)	94.7
PAT	3,420.7	3,684.0	1,639.7	(7.1)	108.6
EPS	34.6	37.3	16.6	(7.1)	108.6
Operating metrics - assumption					
Total Sales volume- mmscmd	3.5	3.4	3.5	2.5	1.1
EBITDA per unit - Rs/scm	15.5	16.8	7.9	(7.9)	94.7

Source: Company, DART

IGL IN: CNG Vehicle conversion touching peak volume will likely to pick up

Management indicated that in July/Aug 2023 – the CNG vehicle addition rate was 14.8K/16.8k a sharp jump is August will most likely to be sustained in Sept'23. Considering this, we expect IGL's CNG volume to grow at 3% YoY & 1% QoQ. We expect sequentially gross margins to moderate from the record level mainly due to (1) crude price up 11% QoQ; (2) 35% of IGL's non-APM gas linked to crude prices; (3) US HH gas prices up 20% QoQ; and (4) ~60% non-APM gas linked to USHH. We expect IGL gross margins should be Rs13.3/scm and EBITDA should be Rs7.7/scm.

Exhibit 6: IGL - CNG Vehicle conversion touching peak volume will likely to pick up

(Rs Mn)	Q2FY24E	Q1FY24	Q2FY23	QoQ (%)	YoY (%)
IGL					
Revenue	34,943.4	34,069.9	35,540.1	2.6	(1.7)
EBITDA	5,936.0	6,423.8	5,275.2	(7.6)	12.5
PAT	4,478.5	4,384.0	4,161.5	2.2	7.6
EPS	6.4	6.3	5.9	2.2	7.6
Operating metrics - assumption					
Total Sales volume- mmscmd	8.3	8.2	8.1	1.6	3.0
EBITDA per unit - Rs/scm	7.7	8.6	7.1	(10.1)	9.2

Source: Company, DART

GUJGA IN: Tough competition from propane to PNG (I) to drag margins

Our calculation suggests that tough competition from propane to PNG (I) at Morbi is likely to lead PNG (I) gross margins near to negative in Q2FY24. We expect GUJGA's overall EBITDA margins to decline sharply to Rs3/scm (vs. Rs4.6 in Q1FY24). GUJGA sales volume to grow 2% QoQ and 23% YoY to 9.36mmscmd mainly due to an increase in CNG sales volume. Sharp fall in EBITDA and earnings can -not be ruled out mainly due to 1) a sharp jump in the cost of gas which is linked to crude prices; 2) Lower PNG (I) realization QoQ; 3) an increase in spot LNG prices.

Exhibit 7: GUJGA - tough competition from propane to PNG (I) to drag margins

(Rs Mn)	Q2FY24E	Q1FY24	Q2FY23	QoQ (%)	YoY (%)
GUJ GAS					
Revenue	36,071.4	37,815.1	39,764.6	(4.6)	(9.3)
EBITDA	2,535.9	3,880.0	6,427.4	(34.6)	(60.5)
PAT	1,308.3	2,150.9	4,039.3	(39.2)	(67.6)
EPS	1.9	3.1	5.9	(39.2)	(67.6)
Operating metrics - assumption					
Total Sales volume- mmscmd	9.4	9.2	7.6	1.5	22.8
PNG Industrial volume - mmscmd	5.9	5.9	4.5	0.3	32.0
EBITDA per unit - Rs/scm	2.9	4.6	9.2	(36.3)	(67.9)

Source: Company, DART

GAIL IN: Record tra volume but commodity segment likely to disappoint

India's gas demand touched to decade high of 198mmscmd in Aug'23, further, LNG import is near to record high in Sept'23. We believe GAIL will be the biggest beneficiary and likely to report a jump in gas transmission volume to ~120mmscmd in Q2FY24. The trading segment will continue to post better margins in Q2. However, considering the spot LNG prices at ~US$13/mmbtu, GAIL's petrochemical unit is unlikely to post gross profit in Q2FY24, management highlighted in Q1 call, gas cost should be < US$11/mmbtu for positive gross profit in petrochemical segment. Decline in LPG prices will also impact on profitability. GAIL's EBITDA should grow by 22% YoY but decline 11.5% QoQ to Rs21.5bn.

Exhibit 8: GAIL - Record tra volume but commodity segment likely to disappoint

(Rs Mn)	Q2FY24E	Q1FY24	Q2FY23	QoQ(%)	YoY(%)
GAIL					
Revenue	3,40,147.9	3,22,274.7	3,84,908.9	5.5	(11.6)
EBITDA	21,532.0	24,327.1	17,647.2	(11.5)	22.0
PAT	15,003.8	14,120.0	15,370.7	6.3	(2.4)
EPS	2.3	2.1	2.3	6.3	(2.4)
Operating metrics - assumption					
Gas Transmission volume - mmscmd	120.0	116.3	107.7	3.2	11.4
Gas Trading Volume - mmscmd	100.0	98.8	92.5	1.2	8.1
Petrochemical sales - KT	200.0	162.0	108.0	23.5	85.2

Source: Company, DART

GUJS IN: Spot LNG + gas power plant consumption to drive volume up

We expect GUJS to post a transmission volume of 33mmscmd (+34% YoY & +12% QoQ). Softer spot LNG prices lead to higher gas consumption by gas power plants. PNGRB has not finalized tariffs on GUJS pipelines yet. GUJS EBITDA will improve 9% YoY & 8% QoQ to Rs3.6bn.

Exhibit 9: GUJS spot LNG + gas power plant consumption to drive volume up

(Rs Mn)	Q2FY24E	Q1FY24	Q2FY23	QoQ(%)	YoY(%)
GSPL					
Revenue	4,752.0	4,411.7	4,346.4	7.7	9.3
EBITDA	3,641.7	3,364.3	3,338.5	8.2	9.1
PAT	2,710.7	2,292.9	3,142.1	18.2	(13.7)
EPS	4.8	4.1	5.6	18.2	(13.7)
Operating metrics - assumption					
Gas Transmission volume -mmscmd	33.0	29.4	24.6	12.4	34.3
Transmission tariffs - Rs/scm	1.6	1.6	1.8	0.0	(12.3)

Source: Company, DART

PLNG IN: India' LNG demand intact on softer LNG price despite rise in domestic gas production

Despite the increase in domestic gas production, Petronet LNG is likely to report a total re-gas volume of 227tbtu (+18% YoY but -1% QoQ). As per Bloomberg data, the re-gas volume of the Dahej terminal would be 217tbu (+19% YoY). In Spet'23 Dahej terminal utilisation was 103%. We expect Kochi terminal to post lower utilization (15%) on the fall in LNG consumption at Mangalore base industries. We expect Dahej/Kochi terminal utilization of 98%/15% in Q2FY24.

Exhibit 10: PLNG's growth drivers

(Rs Mn)	Q2FY24E	Q1FY24	Q2FY23	QoQ(%)	YoY(%)
PLNG					
INR Revenue	1,25,198.4	1,16,560.5	1,59,857.3	7.4	(21.7)
EBITDA	11,532.4	11,817.8	11,729.5	(2.4)	(1.7)
PAT	7,734.3	7,898.5	7,442.3	(2.1)	3.9
EPS	5.2	5.3	5.0	(2.1)	3.9
Operating metrics - assumption					
Total Re-gas Volume - tbtu	227.0	230.0	192.0	(1.3)	18.2
Dahej volume - tbtu	217.0	217.0	182.0	0.0	19.2
Kochi Volume - Tbtu	10.0	13.0	10.0	(23.1)	0.0

Source: Company, DART

Oil & Gas Sector Preview

(Rs bn)	Revenue			EBITDA			EBITDA Margin (%)			PAT		
Company	Q2FY24E	YoY (%)	QoQ (%)	Q2FY24E	YoY (%)	QoQ(%)	Q2FY24E	YoY (bps)	QoQ (bps)	Q2FY24E	YoY (%)	QoQ (%)
GAIL	340.1	(11.6)	5.5	21.5	22.0	(11.5)	6.3	175	(122)	15.0	(2.4)	6.3
GSPL	4.8	9.3	7.7	3.6	9.1	8.2	76.6	(18)	38	2.7	(13.7)	18.2
GUJ GAS	36.1	(9.3)	(4.6)	2.5	(60.5)	(34.6)	7.0	(913)	(323)	1.3	(67.6)	(39.2)
IGL	34.9	(1.7)	2.6	5.9	12.5	(7.6)	17.0	214	(187)	4.5	7.6	2.2
MAH GAS	15.5	(0.6)	1.0	4.9	94.7	(5.6)	31.7	1553	(219)	3.4	108.6	(7.1)
PLNG	125.2	(21.7)	7.4	11.5	(1.7)	(2.4)	9.2	187	(93)	7.7	3.9	(2.1)
RIL	2346.5	2.0	13.1	408.6	30.9	7.3	17.4	384	(94)	181.1	32.6	13.1
BPCL	1152.4	0.4	2.0	114.6	699.3	(27.5)	9.9	870	(405)	72.6	2486.6	(31.2)
HPCL	1206.2	11.6	8.1	61.1	508.2	(36.7)	5.1	645	(359)	36.3	267.3	(41.4)
IOC	2193.6	5.7	11.1	191.8	191.8	(13.5)	8.7	780	(248)	112.9	4245.9	(17.9)

Source: Company, DART

Valuation Matrix

Company	CMP	TP	Rating	EPS (Rs)			PE (x)			ROE (%)			ROCE (%)		
	(Rs)	(Rs)		FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
GAIL	124	130	Accumulate	8.2	12.0	14.0	15.1	10.4	8.9	8.4	11.7	12.8	5.3	7.8	8.9
GSPL	285	325	Accumulate	16.7	15.8	19.1	17.0	18.0	14.9	10.7	9.3	10.5	13.0	11.5	12.9
GUJ GAS	424	490	Reduce	22.2	16.7	23.2	19.1	25.4	18.3	24.1	15.5	19.0	27.0	17.9	22.3
IGL	464	609	BUY	20.6	26.6	29.7	22.5	17.5	15.6	20.6	25.0	25.5	20.3	23.6	24.0
MAH GAS	1,143	1,325	BUY	80.0	98.9	102.9	14.3	11.6	11.1	20.4	22.1	20.3	25.3	27.3	25.3
PLNG	237	270	Accumulate	21.6	22.5	25.7	11.0	10.5	9.2	23.6	21.4	21.9	25.3	22.7	22.9
RIL	2,306	2,802	Accumulate	98.6	115.6	137.5	23.4	19.9	16.8	8.3	8.6	9.1	7.4	7.6	8.2
BPCL	345	440	Accumulate	15.1	53.1	32.2	22.8	6.5	10.7	6.2	20.8	11.7	6.4	13.4	8.4
HPCL	253	312	Accumulate	(63.3)	65.6	44.7	NM	3.9	5.7	(27.0)	30.1	17.5	(8.1)	11.1	7.6
IOC	90	106	Accumulate	6.3	14.7	13.1	14.2	6.1	6.9	7.2	14.3	11.9	7.2	11.4	9.7

Source: Company, DART

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

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