



TM

09 January 2025

## Oil & Gas

### Earnings to remain under pressure

For Q3FY25, our gas sector coverage universe's EBITDA is expected to decline sharply 17% YoY (-7.9% QoQ) to Rs60.7bn largely led by lower margin for CGDs and weaker profit from GAIL owing to lower trading profit. On CGDs, IGL and MGL are expected to report a volume growth of 9%-11% YoY while Gujarat Gas's volume is estimated to remain flattish. However, lower allocation of APM gas would lead to lower gross margin despite price hikes taken during the quarter. Higher Henry Hub gas price and lower spread over Brent are likely to hurt GAIL's earnings. Reliance is expected to benefit from higher GRM, better petrochem spread and higher telecom tariff while Retail business to see a modest growth. Gulf Oil, however, is expected to report a healthy growth owing to higher volume and lower base oil price. Further, PLNG is also estimated to report healthy numbers on the back of higher volumes at Dahej. We keep RIL, GAIL, PLNG and Gulf Oil as our top picks in the sector.

**O2C to boost RIL's earnings:** The company is expected to report healthy 6.2% sequential growth in EBITDA owing to 12% jump in O2C while Jio/Retail/Upstream is expected to report an EBITDA growth of 4%/7%/2% QoQ. 38% QoQ jump in GRM and better petrochemical spread would lead to higher O2C profits. Further, the festive and wedding season is also expected to help the retail business to grow at a decent pace during the quarter. We expect JIO's ARPU to rise by 5% QoQ (13% YoY) to Rs205 in Q3FY25. Also, we expect Jio to continue to see a subscriber addition of ~6mn during the quarter which is expected to support the earnings growth. Also, we expect gas production to remain strong at ~29mmscmd which would lead to a flattish growth at upstream.

**CGD's margin to contract sharply:** In Q3FY25, CGDs are expected to see a sharp dip in earnings, despite higher volume, owing to de-allocation of APM gas. Further, higher spot LNG and auction price are expected to result in contraction in EBITDA/scm to Rs4.1/8.0/4.4 for IGL/MGL/Gujarat Gas. However, increased penetration in new GAs and higher CNG vehicle sales are expected to benefit the volume for these companies and expect a growth of 2.7%/1%/4.1% QoQ, respectively.

**Lower trading earnings to dent GAIL's EBITDA:** GAIL's EBITDA is anticipated to see a decline of 14.1% YoY/-12.3% QoQ to Rs 32.8bn owing to lower profit from the trading business due to higher HH and spot LNG price. However, both transmission and trading volume is expected to grow by 2%/4% sequentially owing to higher LNG import to 133mmscmd/100mmscmd, respectively. Petchem division is expected to see a sequential dip in profits due to higher input cost while higher LPG prices to benefit LHC segment's earnings.

**Valuation and Outlook:** Oil & Gas sector has significantly underperformed the Nifty index by 550bps over the past three months following 330bps underperformance in last quarter. This is largely driven by 9% dip in RIL while most of the companies under coverage has seen a decline of 6%-24% in the last three months. However, we expect spot LNG price to decline sharply post winter which would benefit gas utility companies. We keep RIL, GAIL, PLNG and Gulf Oil as our preferred pick.

### Q3FY25E RESULT PREVIEW

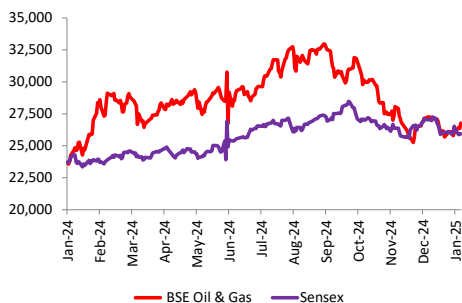
Industry Oil & Gas

#### Sector Recommendations

Company	Mkt Cap (bn)	TP (Rs)	Rating
<a href="#">Reliance Ind.</a>	17,126	1,573	BUY
<a href="#">Gulf Oil Lub.</a>	56	1,700	BUY
<a href="#">Gail India</a>	1,253	230	BUY
<a href="#">Petronet LNG</a>	497	425	BUY
<a href="#">IGL</a>	285	481	BUY
<a href="#">GSPL</a>	198	353	HOLD
<a href="#">MGL</a>	124	1,680	HOLD
<a href="#">Gujarat Gas</a>	345	582	HOLD

Source: BSE, Systematix Institutional Research

#### BSE Oil & Gas v/s BSE Sensex



Source: BSE, Systematix Institutional Research

#### Sudeep Anand

sudeepanand@systematixgroup.in  
+91 22 6704 8085

#### Prathmesh Kamath

prathmeshkamath@systematixgroup.in  
+91 22 6704 8022

#### Jennisa Popat

jennisapopat@systematixgroup.in  
+91 22 6704 8066

## Exhibit 1: Quarterly key price trend

Key monitorable	Unit	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	% YoY	% QoQ
<b>Brent Crude</b>	<b>US\$/bbl</b>	<b>82.9</b>	<b>81.9</b>	<b>85.0</b>	<b>78.6</b>	<b>74.1</b>	<b>(10.6)</b>	<b>(5.7)</b>
Dubai Crude	US\$/bbl	83.8	81.7	85.1	78.7	73.7	(12.1)	(6.4)
<b>Henry Hub Natural Gas</b>	<b>US\$/mmbtu</b>	<b>2.8</b>	<b>2.4</b>	<b>2.1</b>	<b>2.1</b>	<b>2.4</b>	<b>(11.3)</b>	<b>16.2</b>
<b>Spot LNG (JKL)</b>	<b>US\$/mmbtu</b>	<b>15.8</b>	<b>9.4</b>	<b>11.1</b>	<b>13.0</b>	<b>13.9</b>	<b>(11.5)</b>	<b>7.0</b>
Canadian Gas price	US\$/mmbtu	1.7	1.8	0.9	0.5	1.1	(37.5)	114.3
NBP Gas price	US\$/mmbtu	12.3	8.8	9.7	10.8	13.7	11.5	27.3
AL-AH	US\$/bbl	2.1	1.8	1.5	1.3	1.9	(9.5)	46.2
Dubai-AH	US\$/bbl	(1.6)	(0.2)	(0.7)	(0.6)	0.2	-	-
<b>Gross Refining Margin</b>	<b>US\$/bbl</b>	<b>5.5</b>	<b>7.4</b>	<b>3.2</b>	<b>3.7</b>	<b>5.1</b>	<b>(7.3)</b>	<b>37.8</b>
Gasoline - Dubai Crude	US\$/bbl	7.4	13.1	8.8	6.6	6.4	(13.5)	(3.0)
Gasoil - Dubai Crude	US\$/bbl	25.6	23.0	16.9	12.2	13.9	(45.7)	13.9
Naphtha - Dubai Crude	US\$/bbl	(12.4)	(7.6)	(9.3)	(3.0)	(0.8)	(93.4)	(72.8)
Jet Kero - Dubai Crude	US\$/bbl	24.0	20.9	13.4	13.2	14.9	(37.9)	12.9
FO - Dubai Crude	US\$/bbl	(15.4)	(14.2)	(9.6)	(9.7)	(7.1)	(53.9)	(26.8)
<b>GMM – Petrol (15-d avg)</b>	<b>Rs/ltr</b>	<b>8.8</b>	<b>7.7</b>	<b>5.7</b>	<b>10.1</b>	<b>12.2</b>	<b>38.6</b>	<b>20.8</b>
<b>GMM – Diesel (15-d avg)</b>	<b>Rs/ltr</b>	<b>(1.5)</b>	<b>2.9</b>	<b>2.5</b>	<b>7.5</b>	<b>10.0</b>	<b>-</b>	<b>33.3</b>
Avg exchange rate (Rs/USD)	Rs/US\$	83.3	83.1	83.4	83.8	84.5	1.4	0.8

Source: Bloomberg, Systematix Institutional Research

## Exhibit 2: Quarterly estimates

Companies	Particulars (Rs mn)	Q3FY25E	Q2FY25	Q3FY24	QoQ (%)	YoY (%)
Reliance Industries	Net Sales	23,33,378	23,15,350	22,50,860	0.8	3.7
	EBITDA	4,14,816	3,90,580	4,06,560	6.2	2.0
	Net Profit	2,02,752	1,91,010	1,94,880	6.1	4.0
	EBITDA margin (%)	17.8	16.9	18.1	90.8	(28.5)
Gail India	Net Sales	3,82,292	3,29,117	3,42,365	16.2	11.7
	EBITDA	32,851	37,450	38,226	(12.3)	(14.1)
	Net Profit	24,399	26,719	28,426	(8.7)	(14.2)
	EBITDA margin (%)	8.6	11.4	11.2	(278.6)	(257.2)
Petronet LNG	Net Sales	1,19,571	1,30,218	1,47,472	(8.2)	(18.9)
	EBITDA	15,042	12,005	17,060	25.3	(11.8)
	Net Profit	10,494	8,476	11,907	23.8	(11.9)
	EBITDA margin (%)	12.6	9.2	11.6	336.0	101.1
Gujarat Gas	Net Sales	43,243	37,818	39,291	14.3	10.1
	EBITDA	4,007	5,142	4,007	(22.1)	0.0
	Net Profit	2,241	3,069	2,203	(27.0)	1.7
	EBITDA (Rs/scm)	4.4	6.4	4.8	(30.4)	(6.4)
Indraprastha Gas	Net Sales	38,864	36,973	35,504	5.1	9.5
	EBITDA	3,631	5,359	5,582	(32.2)	(34.9)
	Net Profit	2,269	4,311	3,921	(47.4)	(42.1)
	EBITDA (Rs/scm)	4.1	6.2	6.9	(34.0)	(40.4)
GSPL	Net Sales	2,790	2,580	5,543	8.2	(49.7)
	EBITDA	2,150	1,929	3,796	11.5	(43.3)
	Net Profit	1,384	3,893	2,622	(64.5)	(47.2)
	EBITDA margin (%)	77.1	74.8	68.5	226.8	857.5
Mahanagar Gas	Net Sales	17,732	17,116	15,688	3.6	13.0
	EBITDA	2,995	3,986	4,487	(24.9)	(33.2)
	Net Profit	2,005	2,829	3,172	(29.1)	(36.8)
	EBITDA (Rs/scm)	8.0	10.7	13.3	(25.6)	(40.0)
Gulf Oil Lubricants India	Net Sales	8,926	8,493	8,173	5.1	9.2
	EBITDA	1,183	1,072	1,111	10.4	6.5
	Net Profit	900	844	807	6.6	11.5
	EBITDA margin (%)	13.3	12.6	13.6	63.8	(33.6)
Gas Sector	Net Sales	6,04,493	5,53,822	5,85,862	9.1	3.2
	EBITDA	60,677	65,871	73,157	(7.9)	(17.1)
	Net Profit	42,792	49,297	52,251	(13.2)	(18.1)
	EBITDA margin (%)	10.0	11.9	12.5	(185.6)	(244.9)
CGDs	Net Sales	99,839	91,907	90,483	8.6	10.3
	EBITDA	10,634	14,487	14,075	(26.6)	(24.5)
	Net Profit	6,515	10,209	9,296	(36.2)	(29.9)
	EBITDA margin (%)	10.7	15.8	15.6	(511.2)	(490.5)

Source: Company, Systematix Institutional Research

Exhibit 3: Estimates of companies within our universe

Companies	CMP	TP	Reco	Mkt Cap	Revenue (Rs bn)			Ebitda (Rs bn)			EPS (Rs)		
	(Rs)	(Rs)		(Rs bn)	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Reliance Ind.	1,266	1,573	BUY	17,126	9,010.6	10,147.8	10,519.1	1,622.3	1,769.7	1,924.4	102.9	113.1	125.0
Gail India	191	230	BUY	1,253	1,305.7	1,352.3	1,365.3	133.7	148.3	161.0	13.4	15.3	16.5
Petronet LNG	331	425	BUY	497	527.3	471.1	538.9	52.1	54.1	65.2	23.6	25.9	30.4
Gujarat Gas	501	582	HOLD	345	156.9	156.8	167.2	18.8	23.1	24.0	15.8	20.5	21.4
IGL	407	481	BUY	285	140.0	146.5	159.1	23.7	21.8	24.9	25.0	23.1	26.5
GSPL	351	353	HOLD	198	20.3	12.4	12.4	15.0	10.1	10.0	22.8	15.7	16.5
MGL	1,253	1,680	HOLD	124	62.4	68.2	71.6	18.4	16.4	17.5	130.5	112.1	120.0
Gulf Oil Lub.	1,137	1,700	BUY	56	35.9	39.6	43.4	4.8	5.3	6.0	73.5	82.2	94.4

Source: Systematix Institutional Research, Bloomberg

Exhibit 4: Valuation snapshot

Companies	Market Cap	P/E			EV/EBITDA			P/BV (Rs)			RoE (%)		
	(Rs bn)	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Reliance Ind.	17,126	12.3	11.2	10.1	6.0	5.6	5.2	1.1	1.0	0.9	8.8	8.8	8.8
Gail India	1,253	14.2	12.5	11.6	10.6	9.5	8.7	2.0	1.8	1.7	13.8	14.5	14.4
Petronet LNG	497	14.0	12.8	10.9	8.1	7.6	6.8	2.9	2.6	2.4	20.8	20.6	21.6
Gujarat Gas	345	31.7	24.4	23.4	18.0	14.3	13.5	4.5	4.0	3.7	14.9	16.6	15.7
IGL	285	16.3	17.6	15.4	10.8	11.6	10.0	3.3	2.9	2.6	20.4	16.7	16.9
GSPL	198	15.4	22.3	21.3	15.2	12.9	18.7	1.9	1.8	1.7	12.5	8.2	8.1
MGL	124	9.6	11.2	10.4	6.0	6.3	5.5	2.4	2.1	1.9	25.1	19.1	18.3
Gulf Oil Lub.	56	15.5	13.8	12.0	9.6	8.1	6.5	3.9	3.5	3.1	26.4	26.6	27.4

Source: Systematix Institutional Research, Bloomberg

Exhibit 5: Stock performance over a decade

Name	CMP (Rs)	% Price Change Week	% Price Change Month	% Price Change 3 Months	% Price Change 6 Months	% Price Change 1 Yr	% Price Change YTD	% Price Change 2 Yr	% Price Change 5 Yr	% Price Change 10 Yr
Reliance Industries Ltd	1,266	3.6	(3.5)	(9.4)	(21.0)	(2.2)	4.1	7.0	81.2	552.0
GAIL India Ltd	191	(0.3)	(9.4)	(15.2)	(17.3)	18.6	(0.2)	93.6	128.1	133.5
Petronet LNG Ltd	331	(4.8)	(1.4)	(6.3)	(1.8)	46.4	(4.4)	50.9	22.9	209.5
Gujarat Gas Ltd	501	(0.6)	(2.3)	(16.9)	(23.3)	(1.5)	0.4	3.5	90.9	287.7
Indraprastha Gas Ltd	407	(0.7)	6.1	(23.5)	(22.4)	(4.2)	(2.0)	(3.6)	(2.7)	351.1
Gujarat State Petronet Ltd	351	(3.8)	(8.0)	(14.3)	12.6	7.5	(2.9)	25.7	48.8	181.0
Mahanagar Gas Ltd	1,253	(2.3)	(2.5)	(31.5)	(25.0)	4.1	(2.5)	44.1	24.6	197.5
Gulf Oil Lubricants India Ltd	1,137	(5.5)	(1.8)	(11.5)	(10.3)	60.0	(6.5)	166.6	41.4	121.1
BSE OIL & GAS	26,773	2.5	(1.7)	(10.7)	(12.0)	13.0	2.7	29.1	83.1	172.1
NSE Nifty 50 Index	23,689	(0.2)	(3.8)	(5.2)	(3.0)	10.0	0.2	30.9	93.3	185.9

Source: Bloomberg, Systematix Institutional Research

## Institutional Equities Team

<b>Nikhil Khandelwal</b>	<b>Managing Director</b>	<b>+91-22-6704 8001</b>	<b>nikhil@systematixgroup.in</b>
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### Equity Research

Analysts	Industry Sectors	Desk-Phone	E-mail
Dhananjay Sinha	Co Head of Equities & Head of Research - Strategy & Economics	+91-22-6704 8095	dhananjaysinha@systematixgroup.in
Abhishek Mathur	Consumer Staples	+91-22-6704 8059	abhishekmathur@systematixgroup.in
Ashish Poddar	Consumer Durables, EMS, Building Materials, Small-Mid Caps	+91-22-6704 8039	ashishpoddar@systematixgroup.in
Amrish Shah	IT & ITES	+91-22-6704 8041	amrishshah@systematixgroup.in
Chetan Mahadik	Consumer Discretionary	+91-22-6704 8091	chetanmahadik@systematixgroup.in
Manjith Nair	Banking, Insurance	+91-22-6704 8065	manjithnair@systematixgroup.in
Pradeep Agrawal	NBFCs & Diversified Financials	+91-22-6704 8024	pradeepagrawal@systematixgroup.in
Pratik Tholiya	Specialty & Agro Chem, Fertilisers, Sugar, Textiles and Select Midcaps	+91-22-6704 8028	pratiktholiya@systematixgroup.in
Shweta Dikshit	Metals & Mining	+91-22-6704 8042	shwetadikshit@systematixgroup.in
Sudeep Anand	Oil & Gas, Logistics, Cement, Wagons	+91-22-6704 8085	sudeepanand@systematixgroup.in
Vishal Manchanda	Pharmaceuticals and Healthcare	+91-22-6704 8064	vishalmanchanda@systematixgroup.in
Deeksha Bhardwaj	Strategy & Economics	+91-22-6704 8017	deekshabhardwaj@systematixgroup.in
Devanshi Kamdar	IT & ITES	+91-22-6704 8098	devanshikamdar@systematixgroup.in
Hinal Kothari	Metals & Mining	+91-22-6704 8076	hinalkothari@systematixgroup.in
Jennisa Popat	Oil & Gas, Logistics, Cement, Wagons	+91-22-6704 8066	jennisapopat@systematixgroup.in
Krishna Zaveri	Consumer Durables, EMS, Building Materials, Small-Mid Caps	+91-22-6704 8023	krishnazaveri@systematixgroup.in
Mahek Shah	Consumer Durables, EMS, Building Materials, Small-Mid Caps	+91-22-6704 8040	mahekshah@systematixgroup.in
Nirali Chheda	Banking, Insurance	+91-22-6704 8019	niralichheda@systematixgroup.in
Pashmi Chheda	Banking, Insurance	+91-22-6704 8063	pashmichheda@systematixgroup.in
Pravin Mule	NBFCs & Diversified Financials	+91-22-6704 8034	pravinmule@systematixgroup.in
Pratik Oza	Midcaps	+91-22-6704 8038	pratikoza@systematixgroup.in
Prathmesh Kamath	Oil & Gas, Logistics, Cement, Wagons	+91-22-6704 8022	prathmeshkamath@systematixgroup.in
Purvi Mundhra	Macro-Strategy	+91-22-6704 8078	purvimundhra@systematixgroup.in
Rajesh Mudaliar	Consumer Staples & Discretionary	+91-22-6704 8084	rajeshmudaliar@systematixgroup.in
Rushank Mody	Pharmaceuticals and Healthcare	+91-22-6704 8046	rushankmody@systematixgroup.in
Swati Saboo	Midcaps	+91-22-6704 8043	swatisaboo@systematixgroup.in
Vijay Jangir	FMCG	+91-22-6704 8029	vijayjangir@systematixgroup.in
Vamsi Hota	Pharmaceuticals and Healthcare	+91-22-6704 8099	vamsihota@systematixgroup.in
Yash Mehta	NBFCs & Diversified Financials	+91-22-6704 8036	yashmehta@systematixgroup.in
Yogeeta Rathod	Midcaps	+91-22-6704 8081	yogeetarathod@systematixgroup.in

### Equity Sales & Trading

Name		Desk-Phone	E-mail
Vipul Sanghvi	Co Head of Equities & Head of Sales	+91-22-6704 8062	vipulsanghvi@systematixgroup.in
Sidharth Agrawal	Sales	+91-22-6704 8090	sidharthagrawal@systematixgroup.in
Shreya Chaudhary	Sales	+91-22-6704 8033	shreyachaudhary@systematixgroup.in
Rahul Khandelwal	Sales	+91-22-6704 8003	rahul@systematixgroup.in
Abhinav Barjatiya	Sales	+91-22-6704 8068	abhinavbarjatiya@systematixgroup.in
Chintan Shah	Sales	+91-22-6704 8061	chintanshah@systematixgroup.in
Pawan Sharma	Director and Head - Sales Trading	+91-22-6704 8067	pawansharma@systematixgroup.in
Mukesh Chaturvedi	Vice President and Co Head - Sales Trading	+91-22-6704 8074	mukeshchaturvedi@systematixgroup.in
Vinod Bhuwad	Sales Trading	+91-22-6704 8051	vinodbhuwad@systematixgroup.in
Rashmi Solanki	Sales Trading	+91-22-6704 8097	rashmisolanki@systematixgroup.in
Karan Damani	Sales Trading	+91-22-6704 8053	karandamani@systematixgroup.in
Vipul Chheda	Dealer	+91-22-6704 8087	vipulchheda@systematixgroup.in
Paras Shah	Dealer	+91-22-6704 8047	parasshah@systematixgroup.in
Rahul Singh	Dealer	+91-22-6704 8054	rahulsingh@systematixgroup.in
Niraj Singh	Dealer	+91-22-6704 8096	nirajsingh@systematixgroup.in

### Corporate Access

<b>Mrunal Pawar</b>	<b>Vice President &amp; Head Corporate Access</b>	<b>+91-22-6704 8088</b>	<b>mrunalpawar@systematixgroup.in</b>
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### Production

<b>Madhu Narayanan</b>	<b>Editor</b>	<b>+91-22-6704 8071</b>	<b>madhunarayanan@systematixgroup.in</b>
<b>Mrunali Pagdhare</b>	<b>Production</b>	<b>+91-22-6704 8057</b>	<b>mrunalip@systematixgroup.in</b>
<b>Vijayendra Achrekar</b>	<b>Production</b>	<b>+91-22-6704 8089</b>	<b>vijayendraachrekar@systematixgroup.in</b>

### Operations

<b>Sachin Malusare</b>	<b>Vice President</b>	<b>+91-22-6704 8055</b>	<b>sachinmalusare@systematixgroup.in</b>
<b>Jignesh Mistry</b>	<b>Manager</b>	<b>+91-22-6704 8049</b>	<b>jigneshmistry@systematixgroup.in</b>
<b>Hiren Patel</b>	<b>Assistant Manager</b>	<b>+91-22-6704 8056</b>	<b>hirenpatel@systematixgroup.in</b>

## DISCLOSURES/APPENDIX

## I. ANALYST CERTIFICATION

I, **Sudeep Anand, Prathmesh Kamath, Jennisa Popat**, hereby certify that (1) views expressed in this research report accurately reflect my/our personal views about any or all of the subject securities or issuers referred to in this research report, (2) no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report by **Systematix Shares and Stocks (India) Limited (SSSIL)** or its group/associate companies, (3) reasonable care is taken to achieve and maintain independence and objectivity in making any recommendations.

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Analyst holding in the stock	No
Served as an officer, director or employee	No

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#### **Systematix Shares and Stocks (India) Limited:**

Registered and Corporate address: The Capital, A-wing, No. 603 – 606, 6th Floor, Plot No. C-70, G Block, Bandra Kurla Complex, Bandra (East), Mumbai – 400 051

Tel no. 022-66198000/40358000 Fax no. 022-66198029/40358029 Email id [contactus@systematixgroup.in](mailto:contactus@systematixgroup.in). Visit us at: [www.systematixgroup.in](http://www.systematixgroup.in)

Details of Compliance officer: Ms Nipa Savla, Compliance officer Tel no. 022-66198092/4035808092 Email id [compliance@systematixgroup.in](mailto:compliance@systematixgroup.in)

Details of Email id grievance redressal cell : [grievance@systematixgroup.in](mailto:grievance@systematixgroup.in)

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