

## Oil & Gas

### Oct-Dec'20 Earnings Preview

January 8, 2021

#### Exhibit 1: PL Universe

Companies	Rating	CMP (Rs)	TP (Rs)
Aarti Industries	Under Review	1,282	NA
BPCL	BUY	392	479
GAIL (India)	Under Review	133	NA
Gujarat Gas	BUY	387	403
HPCL	BUY	223	280
Indraprastha Gas	BUY	540	603
Indian Oil Corporation	BUY	95	114
Mahanagar Gas	BUY	1,117	1,275
NOCIL	BUY	153	169
Oil India	Accumulate	113	117
ONGC	BUY	98	114
Petronet LNG	BUY	260	399
Reliance Industries	BUY	1,911	2,232

Source: PL

#### Top Picks

Indraprastha Gas

#### Mixed bag

**Q3FY21 Oil sector earnings are likely to be impacted by lower inventory gains even though core performance is likely to improve sequentially. The OMCs results are also expected to get hit by lower inventory gains, appreciating exchange rate and muted refining margins. The upstream earnings will be hit from lower gas realization despite marginally higher crude prices. RIL's standalone earnings are likely to improve given higher petrochemicals profitability. Gas stocks are expected to report an improvement in QoQ level, as and how economic activities gather steam.**

**We put ratings of Aarti and GAIL under review post sharp rise in stock prices. IGL remains our preferred pick for Q3 given sharp improvement in volumes and healthy spreads. GAIL will also report healthy Q3 given improved fundamentals.**

#### Exhibit 2: Q3FY21 sector aggregates hit by lower inventory gains

Total (Rs m)	Q3FY21E	Q3FY20	% chg	Q2FY21	% chg
Sales	4,007,473	4,535,784	-12%	3,480,264	15%
EBITDA	372,072	417,692	-11%	377,644	-1%
PAT	193,106	211,569	-9%	256,232	-25%
Brent (USD/bbl)	44.2	62.7	-30%	42.7	4%
USD/Rs	73.8	71.2	4%	74.5	-1%

Source: Company, PL

- **RIL:** RIL's standalone earnings will see improvement in petrochemicals business. We have factored in refining margins of US\$6.5/bbl for Q3 (US\$5.7/bbl in Q2) and higher refining throughput at 16.5MTPA (Q2FY21 15.3MTPA) given moderate pick up in global demand for refined products. Petrochemicals earnings will also improve due to higher spreads.
- **Downstream:** We expect OMCs to report weak Q3 given lower inventory gains and muted refining profits. Benchmark refining margins for Q3 were at US\$1.2/bbl vs USD0.0/bbl in Q2. Gasoline and diesel spreads have been largely flat QoQ. With crude prices improving to USD50/bbl for Q3 end, we expect inventory gains of Rs59bn for Q3.

#### Exhibit 3: OMC earnings impacted by lower inventory gains

Total (Rs m)	Q3FY21E	Q3FY20	% chg	Q2FY21	% chg
Sales	2,841,389	3,047,776	-7%	2,432,645	17%
EBITDA	160,756	112,170	43%	168,822	-5%
PAT	96,428	43,468	122%	114,941	-16%
Singapore GRM (US/bbl)	1.2	1.7	-29%	0.0	

Source: Company, PL

- **Upstream:** Upstream companies will see earnings at Rs24.5bn due to higher crude oil realization but sharply lower gas prices (-25% QoQ). Production and sales volumes are likely to be muted. We have not factored in any subsidy burden and expect net realization of ~US\$44/bbl and domestic gas price of USD2.0/mmbtu

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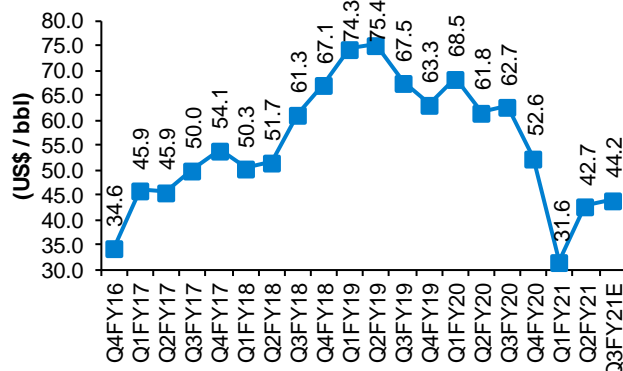
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Exhibit 4: Upstream earnings supported by higher realisation

Total (Rs m)	Q3FY21E	Q3FY20	% chg	Q2FY21	% chg
Sales	184,924	266,620	-31%	190,861	-3%
EBITDA	83,113	133,931	-38%	91,726	-9%
PAT	24,530	46,328	-47%	44,892	-45%

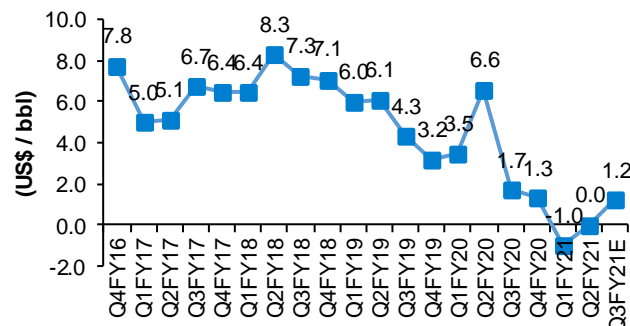
Source: Company, PL

Exhibit 5: Brent prices recovered in Q2



Source: Company, PL

Exhibit 6: Singapore GRMs also recovered from Q1 lows



Source: Company, PL

Exhibit 7: Q3FY21 Result Preview

Company Name		Q3FY21E	Q3FY20	YoY gr. (%)	Q2FY21	QoQ gr. (%)	Remark
Aarti Industries	Sales	11,871	11,767	0.9	11,261	5.4	Aarti is expected to report improvement in Q3 results especially in the speciality chemicals segment. Pharma segment will also report strong performance.
	EBITDA	2,602	2,427	7.2	2,407	8.1	
	Margin (%)	21.9	20.6		21.4		
	PBT	1,852	1,708	8.4	1,674	10.7	
	Adj. PAT	1,482	1,368	8.3	1,364	8.7	
Bharat Petroleum Corporation	Sales	6,40,861	7,47,328	(14.2)	5,01,464	27.8	BPCL is likely to report improved earnings due to inventory gains.
	EBITDA	48,656	27,034	80.0	38,512	26.3	
	Margin (%)	7.6	3.6		7.7		
	PBT	45,156	17,330	160.6	34,223	31.9	
	Adj. PAT	33,416	12,606	165.1	22,478	48.7	
GAIL (India)	Sales	1,49,876	1,77,688	(15.7)	1,36,445	9.8	We expect earnings to improve due to ramp up of transmission volumes, better marketing margins and higher LPG profits.
	EBITDA	24,460	20,724	18.0	13,381	82.8	
	Margin (%)	16.3	11.7		9.8		
	PBT	23,230	18,716	24.1	15,503	49.8	
	Adj. PAT	16,958	12,507	35.6	12,397	36.8	
Gujarat Gas	Sales	27,054	25,062	8.0	25,130	7.7	We expect GGL profits to decline from Q2 level due to lower margins despite industrial volume recovery.
	EBITDA	4,627	3,705	24.9	7,330	(36.9)	
	Margin (%)	17.1	14.8		29.2		
	PBT	3,677	2,632	39.7	6,343	(42.0)	
	Adj. PAT	2,750	1,965	39.9	4,747	(42.1)	
Hindustan Petroleum Corporation	Sales	5,72,273	7,07,496	(19.1)	5,17,733	10.5	HPCL is likely to report muted profits due to lower refining and marketing earnings.
	EBITDA	35,156	18,633	88.7	36,039	(2.5)	
	Margin (%)	6.1	2.6		7.0		
	PBT	30,356	11,508	163.8	32,920	(7.8)	
	Adj. PAT	22,463	7,472	200.6	24,774	(9.3)	

Company Name		Q3FY21E	Q3FY20	YoY gr. (%)	Q2FY21	QoQ gr. (%)	Remark
Indraprastha Gas	Sales	13,721	16,642	(17.6)	13,054	5.1	We expect IGL profits to improve from Q2 levels due to higher CNG margins.
	EBITDA	4,355	3,918	11.2	4,071	7.0	
	Margin (%)	31.7	23.5		31.2		
	PBT	4,200	3,764	11.6	3,994	5.2	
	Adj. PAT	3,150	3,156	(0.2)	3,079	2.3	
Indian Oil Corporation	Sales	9,58,746	12,46,152	(23.1)	8,56,105	12.0	IOCL is likely to report muted results due to lower inventory gains.
	EBITDA	76,944	66,503	15.7	94,272	(18.4)	
	Margin (%)	8.0	5.3		11.0		
	PBT	54,944	37,222	47.6	83,398	(34.1)	
	Adj. PAT	40,549	23,390	73.4	62,273	(34.9)	
Mahanagar Gas	Sales	6,589	7,445	(11.5)	5,068	30.0	We expect MGL profits to improve from Q2 levels as CNG volumes recover and margins remain steady.
	EBITDA	2,858	2,589	10.4	2,211	29.3	
	Margin (%)	43.4	34.8		43.6		
	PBT	2,633	2,444	7.8	1,950	35.0	
	Adj. PAT	1,970	1,861	5.9	1,443	36.5	
NOCIL	Sales	2,500	1,943	28.7	2,216	12.8	We expect earnings to recover from Q2 levels due to higher utilisation levels.
	EBITDA	425	357	19.1	312	36.2	
	Margin (%)	17.0	18.4		14.1		
	PBT	342	287	19.0	231	48.2	
	Adj. PAT	256	207	23.8	167	53.6	
Oil India	Sales	21,772	29,520	(26.2)	21,690	0.4	We expect muted earnings growth for the company. Volume growth to be muted.
	EBITDA	6,375	10,960	(41.8)	7,373	(13.5)	
	Margin (%)	29.3	37.1		34.0		
	PBT	2,855	6,853	(58.3)	3,531	(19.1)	
	Adj. PAT	2,127	4,064	(47.7)	3,731	(43.0)	
Oil & Natural Gas Corporation	Sales	1,63,152	2,37,101	(31.2)	1,69,171	(3.6)	We expect muted earnings growth for the company. Volume growth to be muted.
	EBITDA	76,738	1,22,971	(37.6)	84,353	(9.0)	
	Margin (%)	47.0	51.9		49.9		
	PBT	33,438	60,537	(44.8)	52,283	(36.0)	
	Adj. PAT	22,404	42,264	(47.0)	28,779	(22.2)	
Petronet LNG	Sales	79,729	89,102	(10.5)	62,358	27.9	We expect earnings to report steady earnings due to recovery in industrial activity.
	EBITDA	11,169	11,076	0.8	13,633	(18.1)	
	Margin (%)	14.0	12.4		21.9		
	PBT	9,384	9,017	4.1	12,426	(24.5)	
	Adj. PAT	7,019	6,752	4.0	9,274	(24.3)	
Reliance Industries	Sales	7,01,982	9,02,390	(22.2)	6,12,460	14.6	Earnings to improve QoQ due to improved petrochemicals profitability.
	EBITDA	80,734	1,29,580	(37.7)	76,470	5.6	
	Margin (%)	11.5	14.4		12.5		
	PBT	51,734	1,17,540	(56.0)	47,590	8.7	
	Adj. PAT	40,300	95,850	(58.0)	65,460	(38.4)	

Source: Company, PL

## Exhibit 8: Valuation Summary

Company Names	Rating	CMP (Rs)	TP (Rs)	Sales (Rs bn)				EBITDA (Rs bn)				PAT (Rs bn)				EPS (Rs)				RoE (%)				PE (x)			
				FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
Aarti Industries	UR	1,282	NA	39.9	35.6	52.5	71.9	9.3	8.9	12.4	21.1	5.2	5.0	7.4	14.1	30.0	28.4	42.5	80.9	19.2	16.4	21.4	31.8	42.7	45.1	30.1	15.8
BPCL	BUY	392	479	2,845.7	2,117.5	2,742.2	3,189.7	83.5	144.7	158.8	167.2	36.7	75.8	98.3	109.8	18.6	38.5	50.0	55.8	9.2	17.5	20.5	20.3	21.0	10.2	7.8	7.0
GAIL (India)	UR	133	NA	718.7	488.5	575.3	878.4	83.7	52.1	72.9	100.4	65.2	35.2	53.6	74.0	14.5	7.8	11.9	16.4	14.8	7.9	11.3	14.3	9.2	17.1	11.2	8.1
Gujarat Gas	BUY	387	403	103.0	65.4	95.2	111.5	16.3	18.6	22.9	24.6	11.9	10.9	14.5	16.4	17.3	15.8	21.0	23.8	43.6	31.0	31.7	26.1	22.3	24.4	18.4	16.3
HPCL	BUY	223	280	2,687.7	2,018.5	2,483.5	2,771.0	51.2	120.9	127.2	132.8	38.5	69.5	63.9	62.3	25.2	45.6	41.9	40.9	13.5	22.2	17.9	15.6	8.8	4.9	5.3	5.4
Indraprastha Gas	BUY	540	603	64.9	45.7	69.7	79.0	15.2	12.8	20.2	22.8	11.4	8.9	13.6	14.9	16.2	12.7	19.4	21.3	24.7	17.3	23.6	21.7	33.3	42.6	27.8	25.3
Indian Oil Corporation	BUY	95	114	4,843.6	4,104.5	5,105.7	5,634.7	164.0	282.0	354.3	364.2	67.0	131.5	161.1	162.6	7.3	14.3	17.6	17.7	6.4	13.1	14.4	13.2	13.0	6.6	5.4	5.3
Mahanagar Gas	BUY	1,117	1,275	29.7	25.3	34.6	36.9	10.5	8.6	12.5	13.4	7.9	5.8	8.7	9.4	80.3	58.8	87.9	95.1	29.7	18.4	23.7	21.9	13.9	19.0	12.7	11.7
NOCIL	BUY	153	169	8.5	7.9	10.2	13.4	1.8	1.2	1.9	2.8	1.3	0.7	1.1	1.8	7.9	4.4	6.9	10.9	11.2	6.1	8.9	13.1	19.4	34.6	22.4	14.0
Oil India	Accsc	113	117	121.3	86.6	108.4	124.3	25.9	19.0	28.3	34.3	25.8	10.1	14.9	18.2	23.8	9.4	13.8	16.8	9.9	4.1	5.9	7.0	4.7	12.1	8.2	6.7
ONGC	BUY	98	114	4,250.0	3,432.6	4,187.0	4,607.0	611.7	463.2	632.6	680.6	205.9	144.1	262.7	255.6	16.4	11.5	20.9	20.3	9.7	5.9	9.2	8.5	6.0	8.5	4.7	4.8
Petronet LNG	BUY	260	399	354.5	383.2	445.4	458.2	39.9	44.3	50.1	53.9	26.4	27.4	32.7	36.7	17.6	18.3	21.8	24.4	27.2	26.5	29.6	30.8	14.7	14.2	11.9	10.6
Reliance Industries	BUY	1,911	2,232	3,508.8	2,585.2	3,447.5	3,909.4	518.5	356.0	535.0	629.9	351.5	198.6	407.0	548.7	55.4	30.8	63.1	85.1	8.5	4.7	9.0	10.7	34.5	62.0	30.3	22.4

Source: Company, PL

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Accumulate	1,020	1,048
2	Bharat Petroleum Corporation	BUY	479	342
3	GAIL (India)	Accumulate	108	90
4	Gujarat Gas	BUY	403	386
5	Hindustan Petroleum Corporation	BUY	280	186
6	Indian Oil Corporation	BUY	118	78
7	Indraprastha Gas	BUY	603	448
8	Mahanagar Gas	BUY	1,275	872
9	NOCIL	BUY	169	143
10	Oil & Natural Gas Corporation	BUY	114	71
11	Oil India	Accumulate	110	89
12	Petronet LNG	BUY	399	241
13	Reliance Industries	BUY	2,232	2,055

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<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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