

Oil & Gas and Petrochemicals

RIL (ADD)
IOCL (BUY)
BPCL (BUY)
HPCL (BUY)
ONGC (BUY)
OIL (BUY)
GAIL (BUY)
GSPL (BUY)
PLNG (HOLD)
IGL (BUY)
MGL (BUY)
Gujarat Gas (BUY)

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INDIA



Oil & gas

Q4FY23 review: Some misses, but FY24E likely to be a blockbuster year

Q4FY23 EBITDA/PAT for our oil & gas coverage universe was much stronger than in the preceding quarter. EBITDA grew 22% and PAT 29% YoY in Q4FY23 vs a flat EBITDA and 17% YoY decline in PAT in Q3FY23. Robust improvement in the results of RIL and the OMCs were primarily responsible for the aggregate earnings jump. This was despite muted results for the gas companies owing to a stronger base and sharp deceleration in GAIL's earnings momentum. QoQ trends were uniformly stronger with all sub-segments, barring upstream, reporting QoQ growth in both EBITDA and PAT (up 33% and 62% QoQ respectively). Going forward, with moderate gas prices, crude at <US\$75/bbl and improving infra/gas supplies, we expect FY24E EPS to trend materially higher than in FY23.

- ▶ **OMCs – Strong rebound:** Earnings for the 3 OMCs recovered sharply after a very weak 9MFY23. Refining margins beat our estimates by US\$3-4/bbl (likely due to Russian crude cost impact) and marketing margins stood strong (blended retail margins improved to Rs2.4/ltr vs a loss of Rs1.6/ltr in Q3). With blended margins having expanded to near all-time highs of Rs8/ltr in Q1FY24 (till 26th May) and GRMs likely to stay at US\$5-6/bbl (i.e. close to historical averages), we expect FY24E to be a blockbuster year for the 3 OMCs, underpinning our **BUY** rating on all of them. BPCL-IOCL-HPCL is our preferred pecking order.
- ▶ **CGD – MGL the standout in Q4; prospects strong for all 3 CGD players:** The 3 CGD companies delivered flat EBITDA and 2% YoY higher PAT during Q4. However, their YoY performance was driven entirely by massive 81%/104% YoY jump in EBITDA/PAT for MGL. However, IGL and GUJGA both saw the high base of Q4FY22 and stronger gas costs impact earnings for Q4FY23 (IGL reported 7%/9% decline YoY in EBITDA/PAT; GUJGA -20/-19% YoY). FY24E should see stronger tidings, helped by a US\$2.1/mmbtu dip in priority sector gas costs and sharply lower LNG prices to drive demand and margin improvement. We have a **BUY** rating on all 3 CGD names with IGL-MGL-GUJGA our preferred pecking order.
- ▶ **RIL – Strong operational rebound:** RIL's operational rebound, which commenced in Q3FY23 continued into Q4FY23 as well. EBITDA/PAT for Q4 jumped 23%/19% YoY helped by strong OTC/upstream and retail segments, even as RJio was relatively muted. However, our **ADD** rating on RIL remains unchanged due to stronger-than-estimated capex, lower return ratios and limited return of cash to shareholders.
- ▶ **Upstream – ONGC delivers a weak Q4FY23:** ONGC and Oil India (OIL) reported YoY flat EBITDA and only 1% jump in PAT in aggregate for Q4. Operating performance was disappointing for ONGC with a 2% YoY dip in oil+gas output while OIL saw a 7% jump under the same parameter. With the start-up of KG98/2 (ONGC) and the higher monetisation potential of OIL's gas reserves via the North-East gas grid, we see earnings remaining at strong levels over FY24E-FY25E. We have a BUY rating on both ONGC and OIL.
- ▶ **Gas utilities – GAIL slumps in Q4:** The three gas utilities (GAIL, PLNG, GSPL) together delivered a 67% YoY dip in EBITDA and 57% YoY decline in PAT, even as QoQ EBITDA/PAT improved 20%/90%. GAIL saw continued cost pressures in petchem/LPG impact earnings while PLNG and GSPL saw lower volumes. FY24E should see stronger prospects with moderate costs driving stronger volumes. We have a **BUY** rating on GAIL and GSPL, and **HOLD** on PLNG.

Table 1: Summary of revenue, operating profit and net earnings

(Rs bn)	Revenue					EBITDA					PAT				
	Q4 FY23	Q4 FY22	Q3 FY23	% YoY chg	% QoQ chg	Q4 FY23	Q4 FY22	Q3 FY23	% YoY chg	% QoQ chg	Q4 FY23	Q4 FY22	Q3 FY23	% YoY chg	% QoQ chg
RIL	2,129	2,074	2,172	3%	-2%	384	314	352	23%	9%	193	162	158	19%	22%
IOCL	2,030	1,657	2,047	23%	-1%	153	116	36	32%	327%	101	60	4	67%	2145%
BPCL	1,181	1,088	1,192	9%	-1%	112	42	42	162%	163%	75	21	20	252%	283%
HPCL	1,079	976	1,096	11%	-2%	48	21	17	129%	187%	32	18	2	80%	1769%
ONGC	347	345	356	1%	-3%	175	179	192	-2%	-9%	88	89	110	-1%	-20%
OIL	54	45	54	21%	0%	23	19	29	21%	-18%	18	16	17	10%	2%
GAIL	328	270	354	22%	-7%	5	37	3	-87%	86%	7	27	2	-72%	200%
PLNG	139	112	150	24%	-8%	9	12	9	-19%	4%	6	8	4	-24%	48%
GSPL	4	4	4	2%	10%	3	3	3	-4%	9%	2	2	2	11%	31%
IGL	37	24	37	53%	-1%	5	5	4	-7%	9%	3	4	3	-9%	19%
GGL	39	47	37	-16%	7%	6	7	6	-20%	-4%	4	5	4	-19%	0%
MGL	16	11	17	48%	-4%	4	2	3	81%	52%	3	1	2	104%	56%
Total	7,385	6,651	7,515	11%	-2%	927	757	695	22%	33%	532	413	328	29%	62%
OMCs	4,290	3,720	4,335	15%	-1%	313	180	95	74%	229%	208	99	26	109%	705%
Upstream	401	390	410	3%	-2%	198	198	221	0%	-10%	106	105	128	1%	-17%
CGDs	92	82	91	13%	2%	14	14	13	0%	12%	10	9	8	2%	18%
Gas Utilities	472	386	508	22%	-7%	17	52	14	-67%	20%	16	37	8	-57%	90%

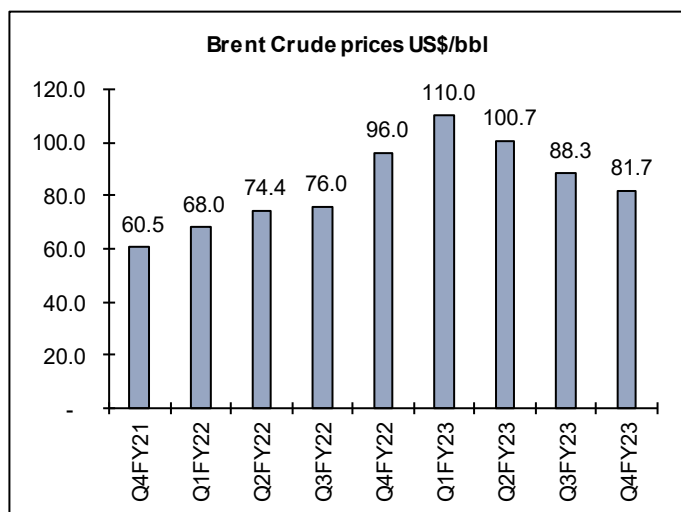
Source: Company data, I-Sec research

Table 2: Summary of earnings, target prices and changes post Q4FY23 results

	Revenue		EBITDA		PAT		EPS		Target Price	New Reco	Old Reco
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E			
Reliance Industries	0.2%	0.6%	-1.9%	-1.8%	-15.9%	-13.2%	-15.9%	-13.2%	2,650	ADD	ADD
IOCL	-8.6%	-7.2%	-1.3%	9.8%	-2.9%	14.0%	-2.9%	14.0%	115	BUY	BUY
BPCL	-9.8%	-2.5%	18.3%	16.8%	15.5%	10.6%	15.5%	10.6%	445	BUY	BUY
HPCL	-19.0%	-15.6%	9.0%	0.1%	7.9%	-8.6%	7.9%	-8.6%	315	BUY	BUY
ONGC	-14.0%	-10.8%	2.5%	3.0%	-10.7%	-8.4%	-10.7%	-8.4%	218	BUY	BUY
OIL	-0.9%	2.4%	-2.4%	-2.4%	-5.3%	-7.4%	-5.3%	-7.4%	370	BUY	BUY
GAIL	-8.8%	-4.1%	-10.7%	-12.0%	-5.0%	-7.2%	-5.0%	-7.2%	124	BUY	BUY
PLNG	21.3%	19.7%	1.1%	2.2%	5.2%	4.7%	5.2%	4.7%	235	HOLD	HOLD
GSPL	-6.6%	-2.3%	1.5%	1.7%	4.6%	0.7%	4.6%	0.7%	400	BUY	BUY
IGL	0.2%	0.1%	2.6%	0.4%	0.8%	-0.3%	0.8%	-0.3%	630	BUY	BUY
GGL	-0.9%	-2.6%	-4.4%	0.4%	-2.6%	2.7%	-2.6%	2.7%	585	BUY	BUY
MGL	-5.9%	-5.1%	0.7%	-1.3%	-0.6%	-2.6%	-0.6%	-2.6%	1,290	BUY	BUY

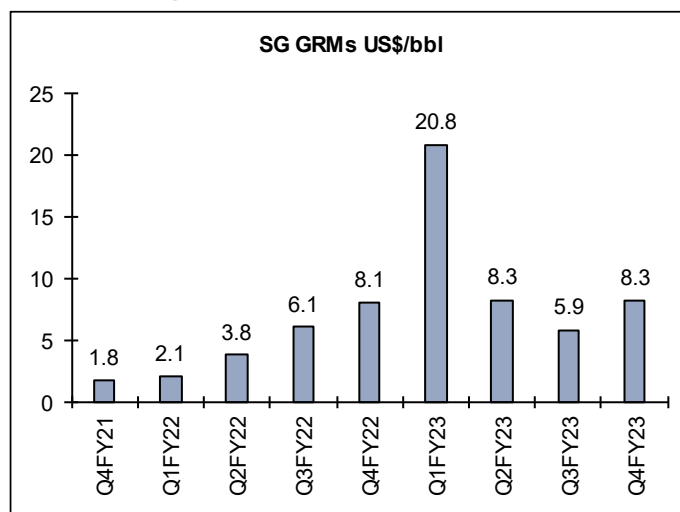
Source: Company data, I-Sec research

Chart 1: Brent crude price moderated in Q4FY23

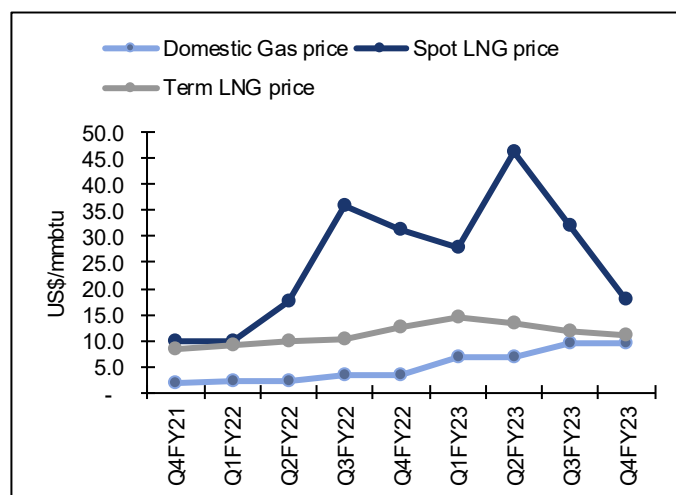


Source: Reuters, I-Sec research

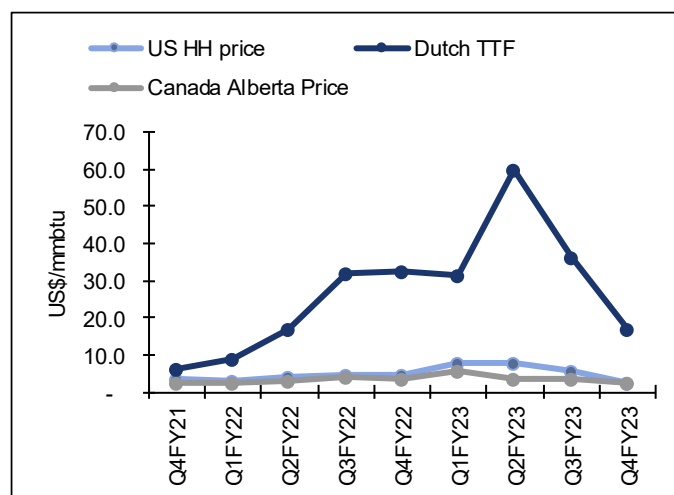
Chart 2: Singapore GRMs improved QOQ



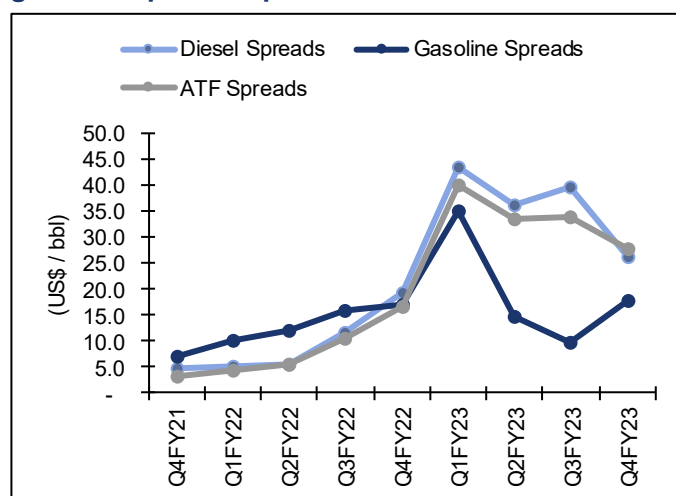
Source: Reuters, I-Sec research

Chart 3: Gas prices have softened further in Q4FY23

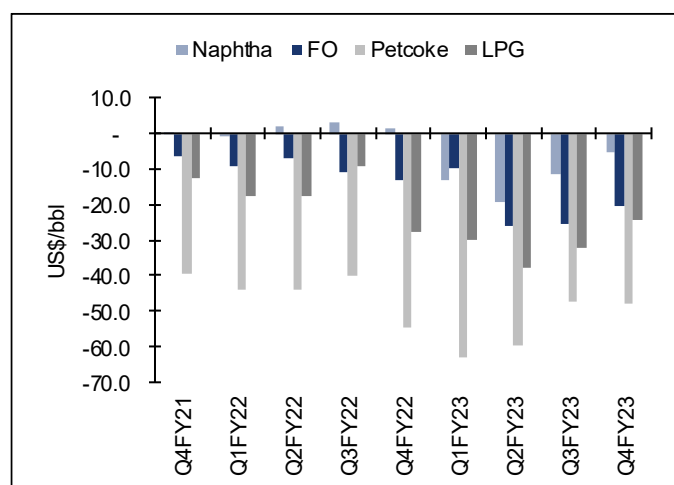
Source: PPAC, Reuters, I-Sec research

Chart 4: Decline seen in international gas prices as well

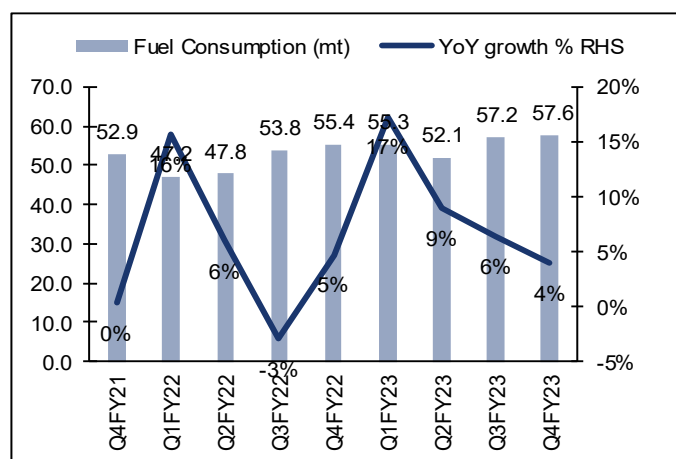
Source: Bloomberg, CME, EIA, I-Sec research

Chart 5: Diesel and ATF spreads contracted; gasoline spread expanded in Q4FY23

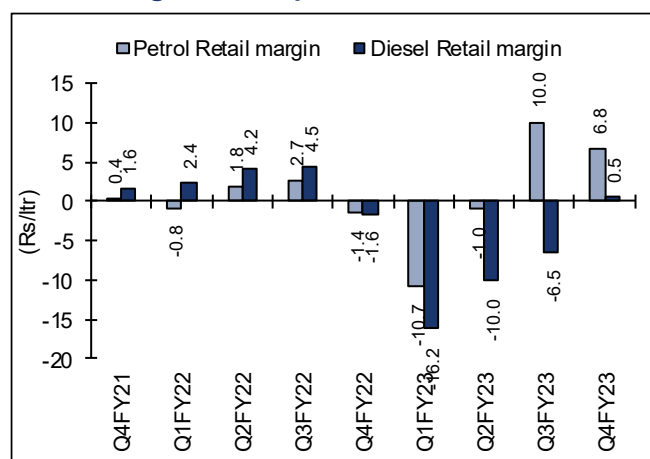
Source: Reuters, I-Sec research

Chart 6: Other spreads improved QoQ

Source: Reuters, I-Sec research

Chart 7: Fuel consumption shows decent growth

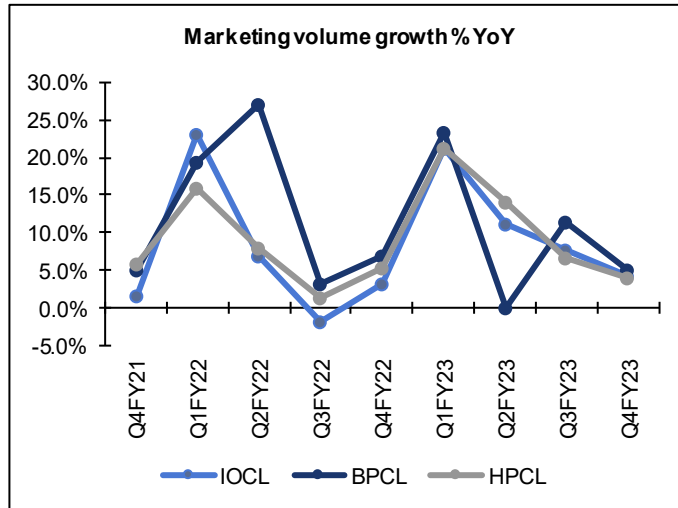
Source: PPAC, I-Sec research

Chart 8: Petrol margin moderated QOQ though diesel margin turned positive

Source: PPAC, Reuters, I-Sec research

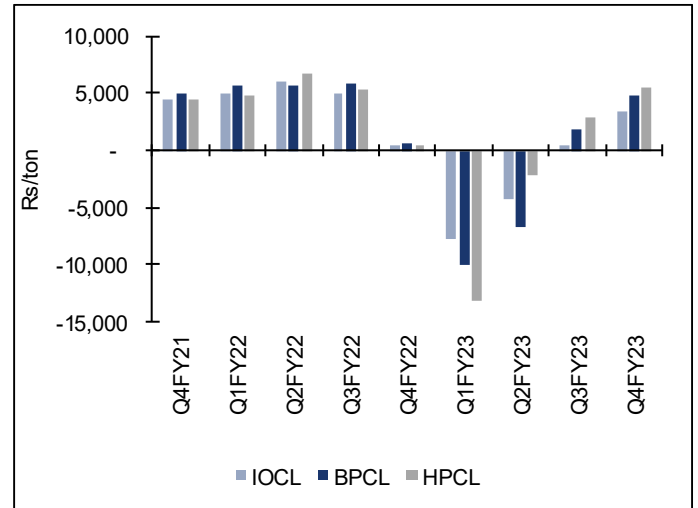
Key focus charts for companies: Recovery in OTC (Oil to Chemical segment) and OMCs' marketing segment; weakness in GAIL transmission and Petchem margins

Chart 9: OMCs' marketing volumes surged in Q4FY23



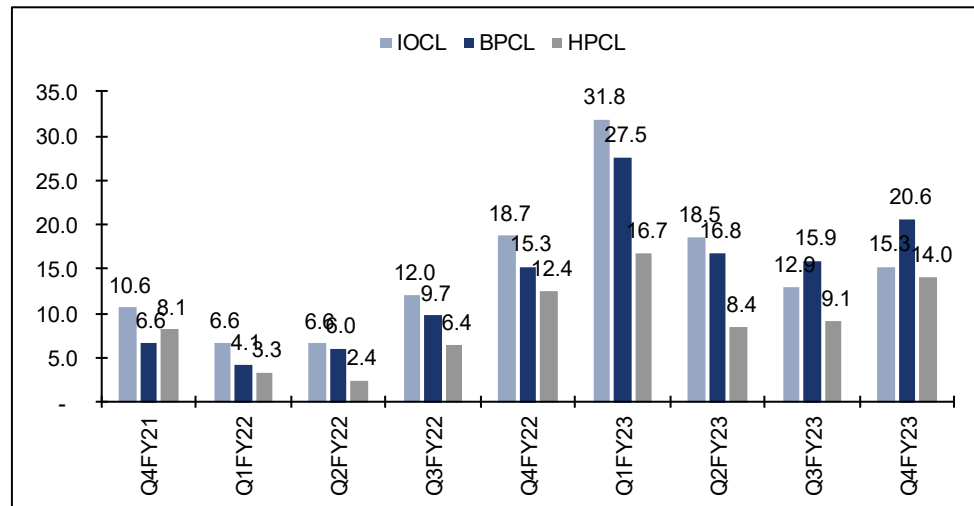
Source: Company data, I-Sec research

Chart 10: Overall marketing margin recovered sharply during the quarter

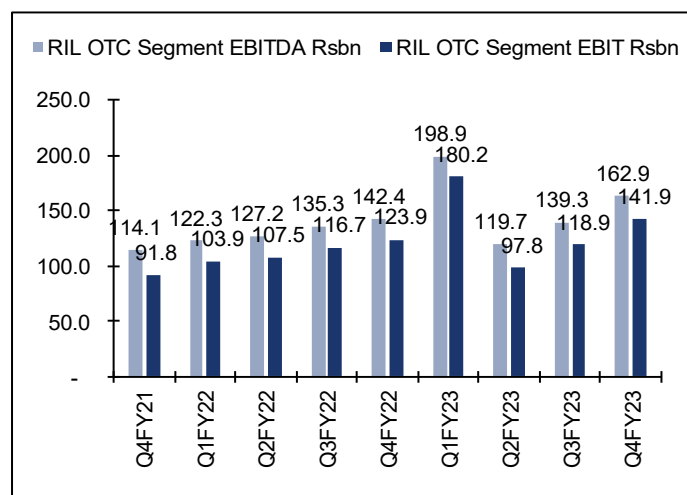


Source: Company data, Reuters, I-Sec research

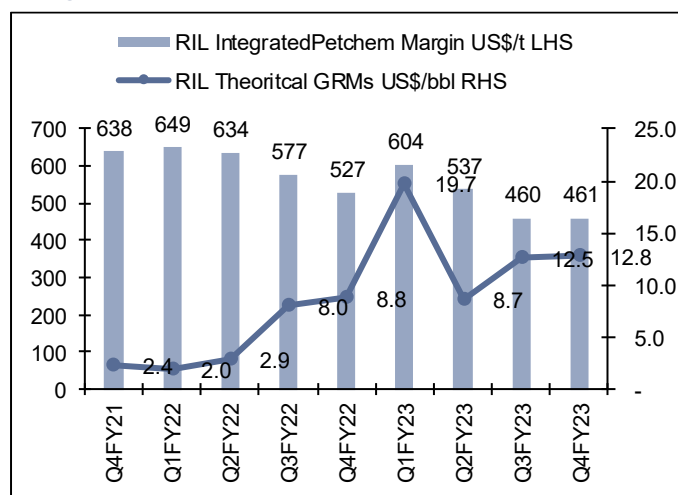
Chart 11: Impressive QoQ jump in GRMs in Q4FY23



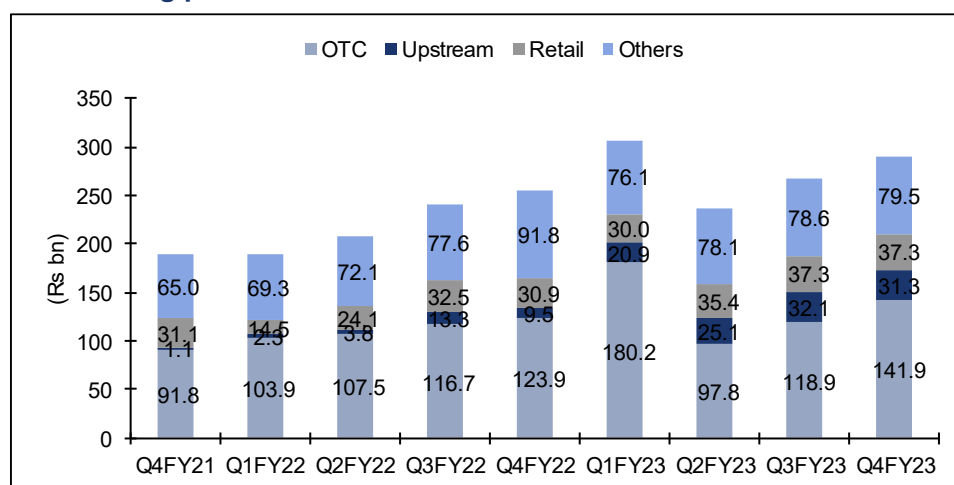
Source: Company data, I-Sec research

Chart 12: RIL – OTC segment saw recovery QoQ

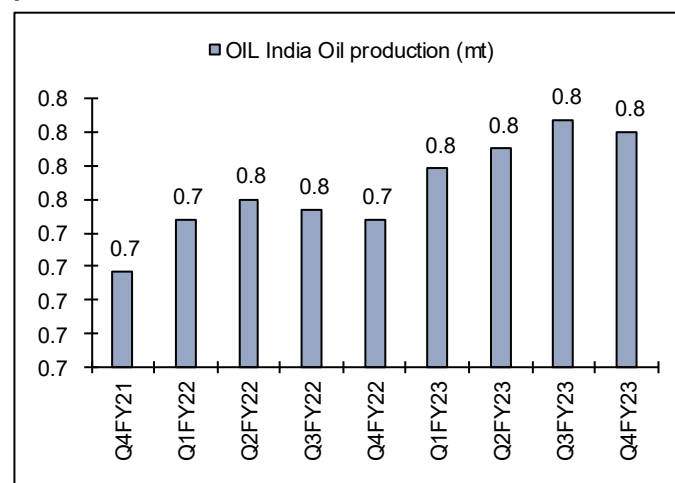
Source: Company data, I-Sec research

Chart 13: GRMs improved QoQ and petchem margins remained muted QoQ

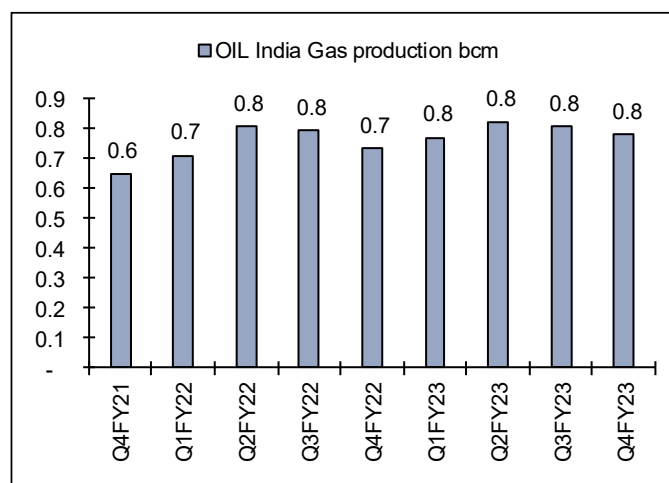
Source: Company data, Reuters, I-Sec research

Chart 14: RIL – OTC segment EBIT improved sharply QoQ; retail continued to show strong performance

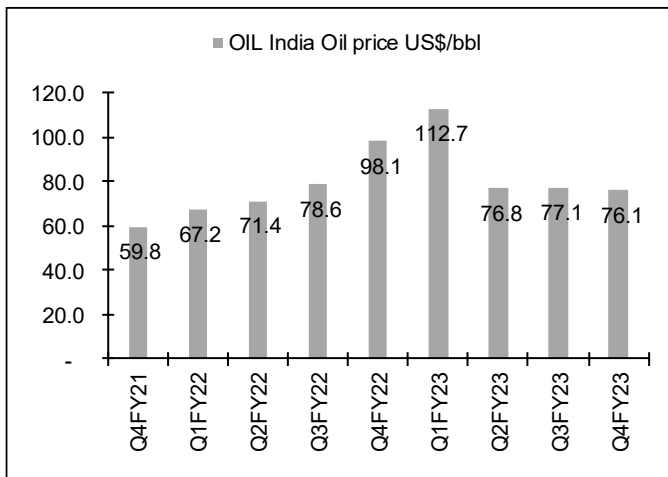
Source: Company data, I-Sec research

Chart 15: Oil India – weakness seen in crude oil production QoQ

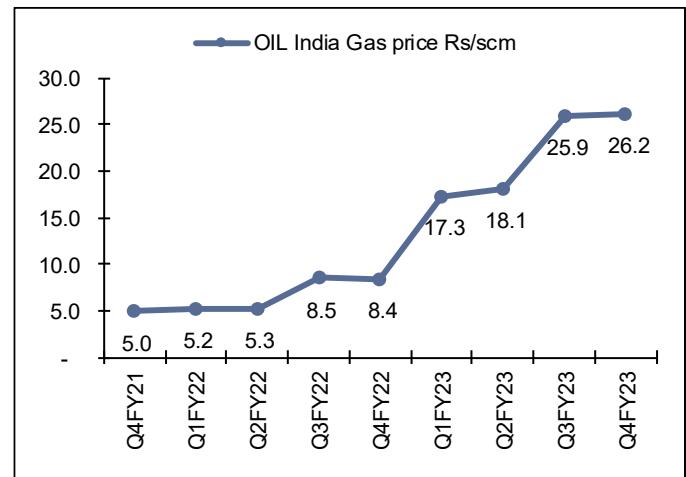
Source: Company data, I-Sec research

Chart 16: Oil India – gas production also declined QoQ

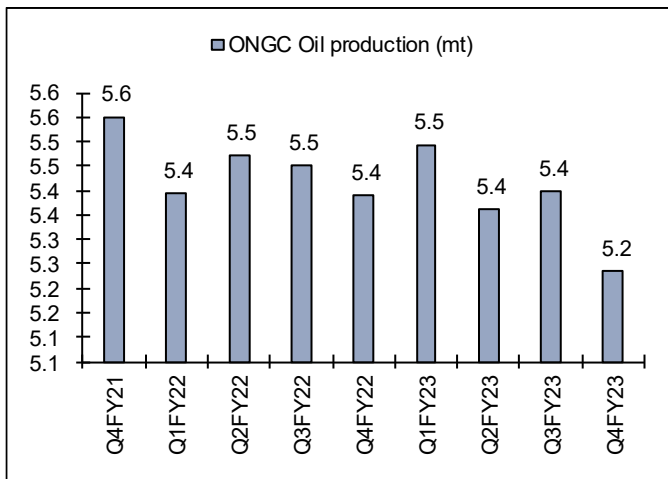
Source: Company data, I-Sec research

Chart 17: Oil India –windfall tax impacted realisation

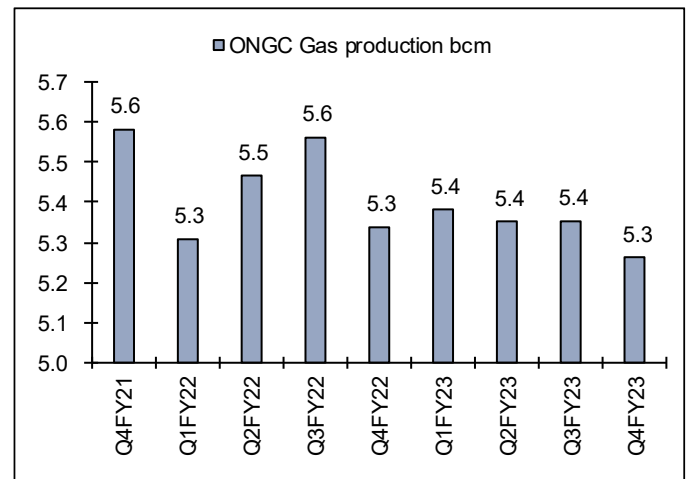
Source: Company data, I-Sec research

Chart 18: Oil India – gas pricing on an uptrend

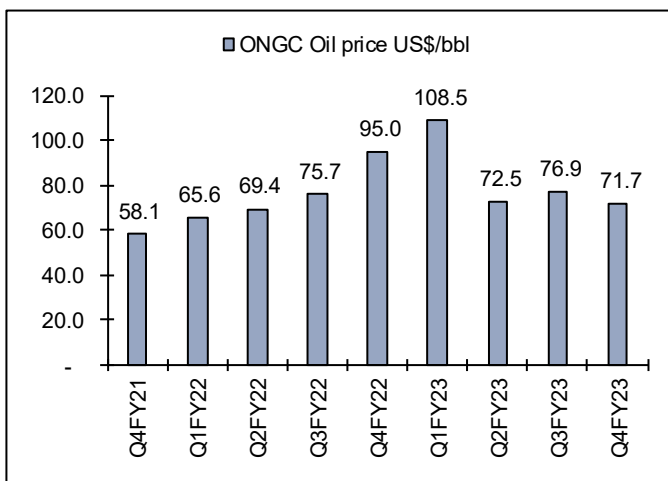
Source: Company data, I-Sec research

Chart 19: ONGC – crude oil production declined QoQ/YoY

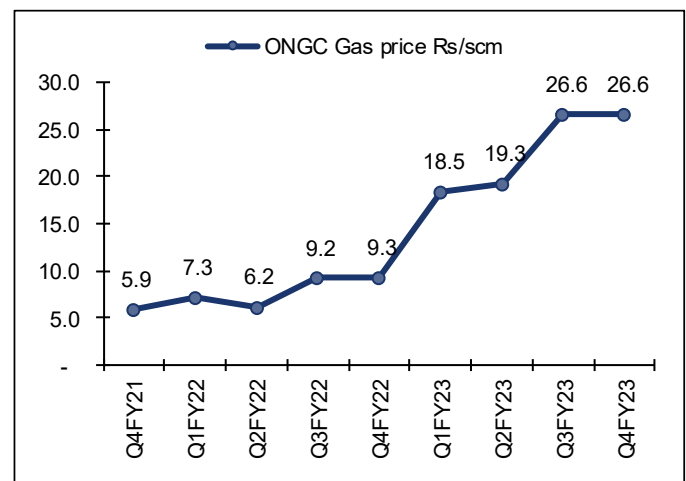
Source: Company data, I-Sec research

Chart 20: ONGC – gas production also declined QoQ/YoY

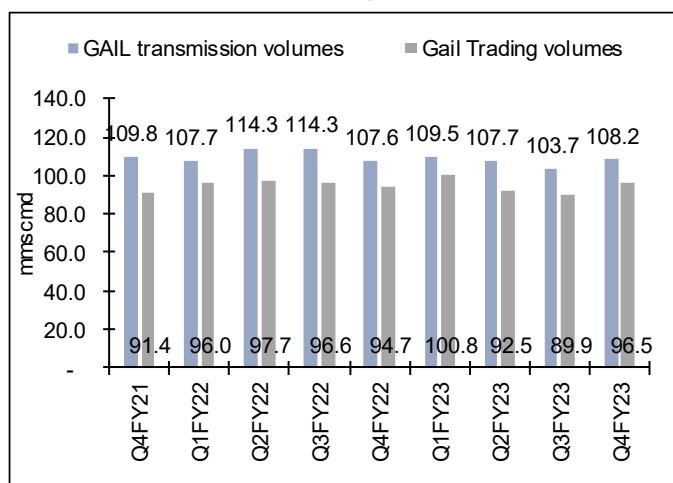
Source: Company data, I-Sec research

Chart 21: ONGC – windfall tax impacted net realisation

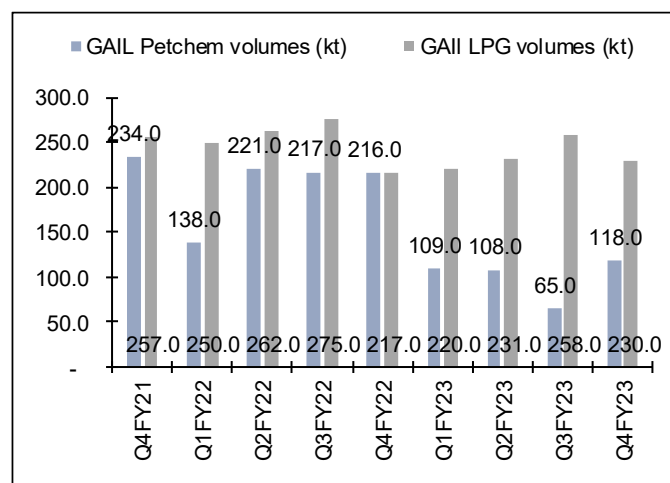
Source: Company data, I-Sec research

Chart 22: ONGC – gas pricing on an uptrend

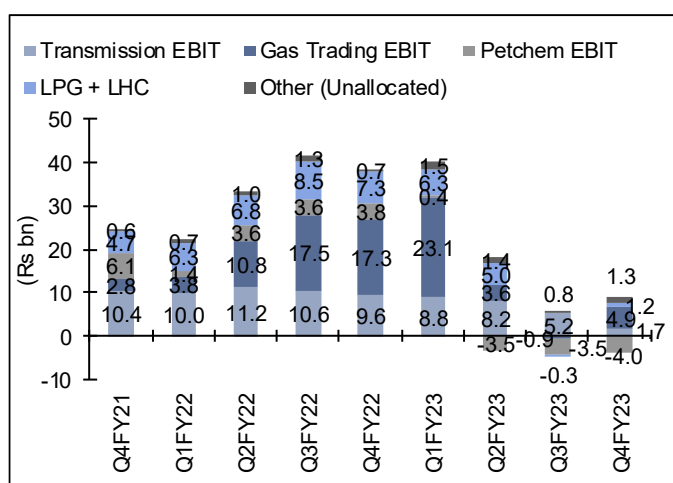
Source: Company data, I-Sec research

Chart 23: GAIL – transmission and trading volumes improved QoQ on softening of LNG prices

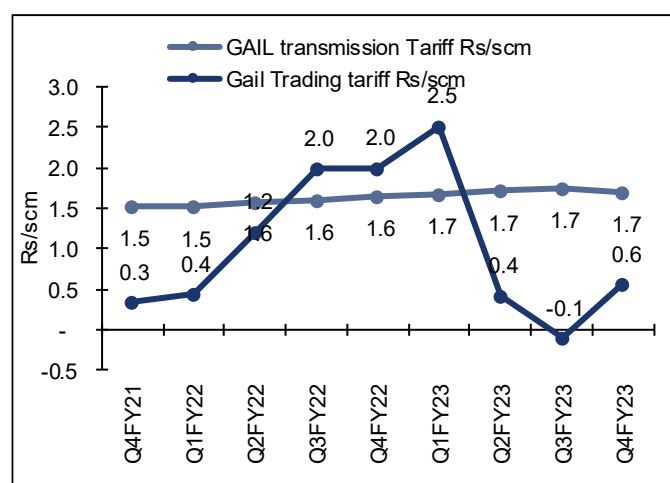
Source: Company data, I-Sec research

Chart 24: GAIL – petchem improve sharply while LPG volumes declined, QoQ

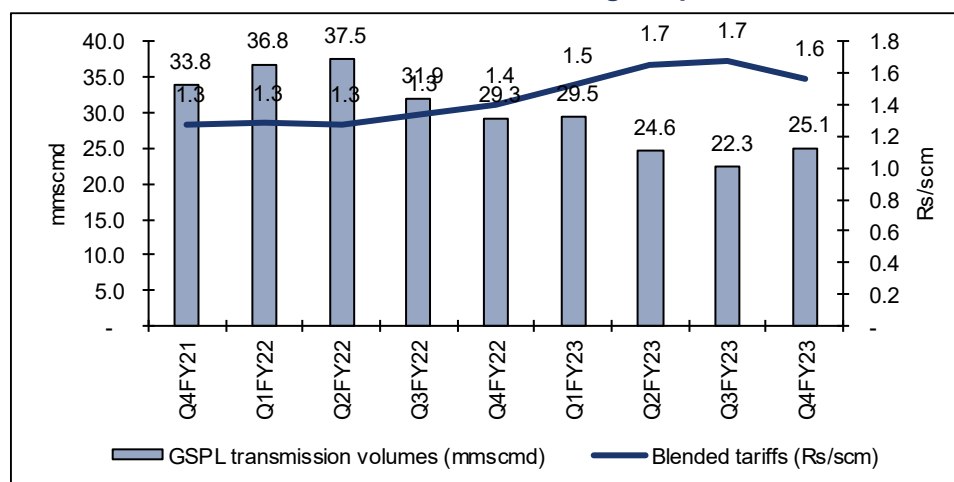
Source: Company data, I-Sec research

Chart 25: GAIL – segmental EBIT trends show loss in petchem and sharp dip in transmission in Q4FY23

Source: Company data, I-Sec research

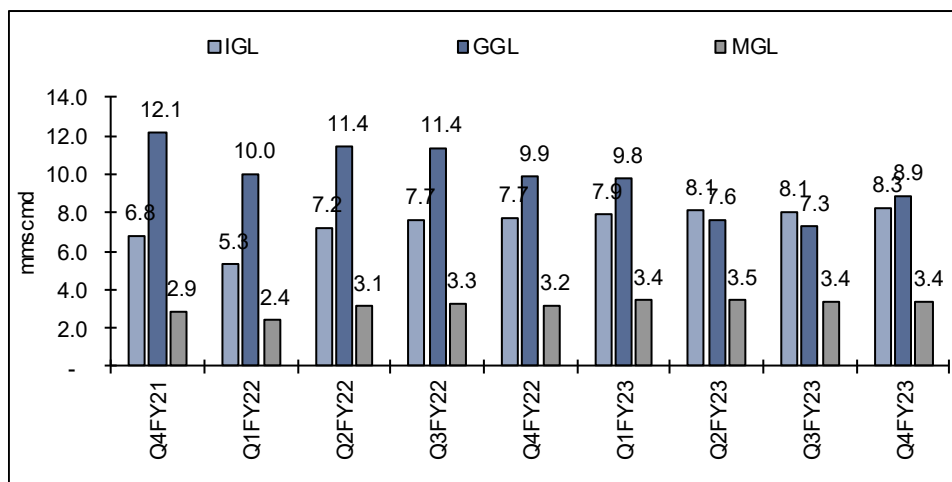
Chart 26: GAIL – blended trading tariffs improved sharply in Q4FY23

Source: Company data, I-Sec research

Chart 27: GSPL – volumes remain weak though improved on QoQ basis

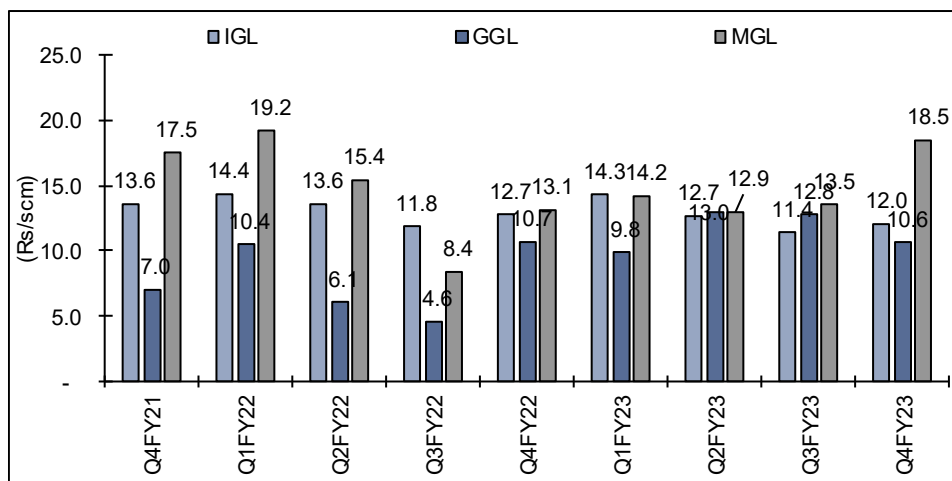
Source: Company data, I-Sec research

Chart 28: CGDs – Volumes improved sharply for GGL though IGL and MGL volumes remained muted, QoQ



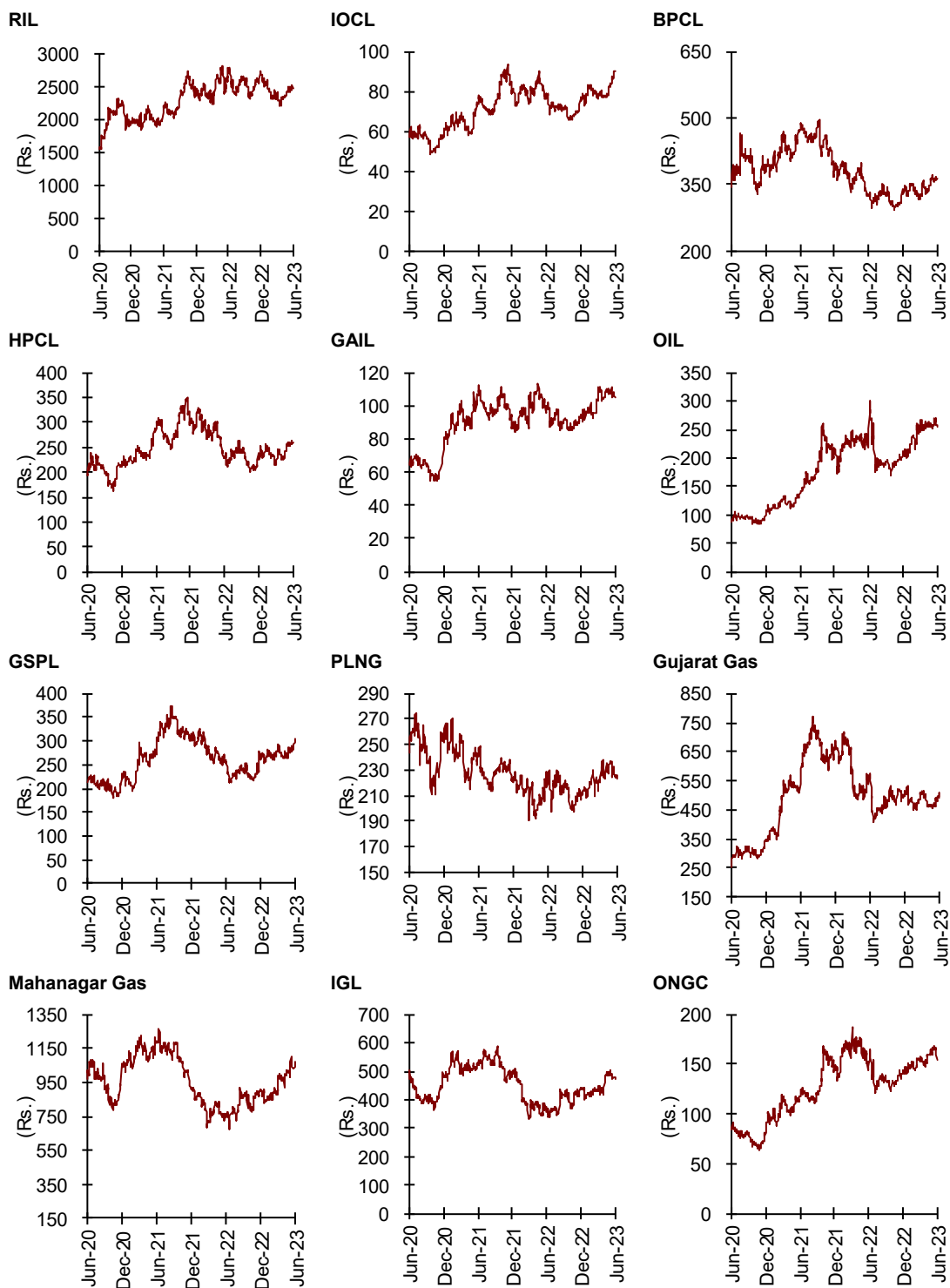
Source: Company data, I-Sec research

Chart 29: CGDs –EBITDA/scm for IGL and MGL improved QoQ



Source: Company data, I-Sec research

Price charts



Source: Bloomberg

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