

03 April 2024

India | Equity Research | Sector Update

## Oil & Gas

### Q4FY24 preview – strong finish to FY24

Q4FY24 results are likely to show all-round improvement both YoY and QoQ, on EBITDA and PAT fronts, for oil & gas companies under our coverage (excluding IOCL & BPCL, GOLI shown separately). We expect EBITDA / PAT to grow 17/8% YoY and 14/14% QoQ, with sharp improvement in performance by GAIL, PLNG and GSPL. That is not to say other sub-segments are weak, with upstream players (ONGC + OIL India) likely to report 8/9% YoY jump and CGDs to report 11/7% YoY jump in EBITDA/PAT, respectively. Reliance likely to show mixed performance during the quarter, with strong operational improvement (EBITDA up 11% YoY), but net income may dip 5% YoY on higher depreciation/high tax rate. Gulf Oil (GOLI) continues with its last couple of quarters' strong YoY performance trend with EBITDA/PAT likely to grow 30/33% YoY.

#### Reliance: Improvement across segments QoQ

Reliance is likely to see a sharp jump in its OTC segment earnings QoQ with an estimated USD 1/bbl QoQ improvement in GRMs, better petchem spreads and higher refining throughput (Q3 had a shutdown at some refinery units). Rjio may deliver ~2% QoQ rise in EBITDA, with RIL's retail EBITDA growing 1.4% QoQ. Overall, consolidated EBITDA may jump 5% QoQ and PAT can rise ~6% QoQ in Q4FY24E.

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#### OMCs (HPCL): Marketing momentum to continue

HPCL is likely to benefit from 20% YoY jump in refining throughput, stronger diesel retail margins, steady petrol margins and lower interest costs. This may be offset by a sharp USD 4/bbl drop YoY in GRMs, which is a function of both lower product spreads as well as our assumption that Russian crude benefit could be much lower vs Q4FY23 (we estimate ~USD 1.5/bbl benefit in crude cost for Q4FY24E). The recent price cut of INR 2/ltr in both petrol and diesel has compressed retail margins considerably in the last two weeks of Mar'24 but Q4 averages remain unaffected. Having said that, in the absence of any price correction in international prices and with remote price hike probability before general elections (in Apr-May'24), retail margins in Q1FY25E may see a sharp downturn vs Q4FY24E.

#### Upstream: Realisations improve YoY/QoQ

Due to a slight lag in windfall tax adjustments in Q4 relative to changes in Brent crude prices, net crude realisations are set to show a sharp improvement YoY/QoQ. We see limited change in effective gas realisations, with the cap of USD 6.5/MMBtu remaining in effect through FY24. Additionally, with some improvement in oil & gas production for both ONGC and OIL, EBITDA for these two upstream companies can reflect 8% improvement (+15% QoQ) with PAT growing 9% YoY/4% QoQ.

#### CGDs: Gujarat Gas could be an outlier; IGL/MGL to deliver steady growth

Lower gas costs, stronger volumes, offset by INR 4-12/kg price cut taken in CNG by IGL/MGL may drive a steady 11% YoY improvement in EBITDA and 7% YoY jump in PAT for CGDs. The improvement has been somewhat hampered by muted metrics for Gujarat Gas (GUJGA), with its EBITDA/PAT likely to reduce by 8%/15% YoY, respectively.

## Gas utilities

Stronger gas demand, driven by higher domestic supply and moderate prices, is likely to drive a strong 3.4x YoY jump in EBITDA and a 2.6x YoY jump in PAT for the three gas utilities: PLNG, GSPL and GAIL. Apart from higher transmission/trading volumes, GAIL can see the benefit of much stronger trading earnings vs a very weak Q4FY23 led by stronger margins. Petchem segment could see the benefit of lower gas costs and LPG segment may see stronger realisations supporting earnings. PLNG could see strong volume momentum and higher margins (owing to soft LNG prices) and GSPL may benefit from better volume run rate in Q4FY24E.

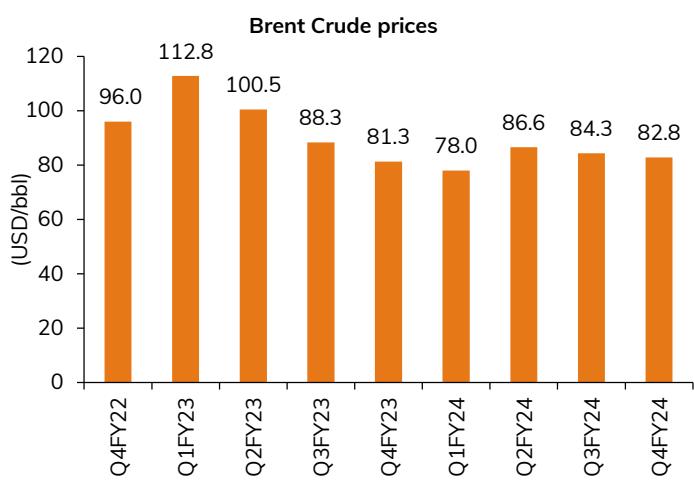
## Gulf Oil (GOLI)

GOLI's operating earnings may grow ~33%/3% YoY/QoQ, respectively, on account of healthy ~10% volume growth and 10bps likely improvement in EBITDA margin for the quarter. In the last two quarters, GOLI had delivered high double-digit EBITDA improvement YoY and we expect Q4FY24E to be no different.

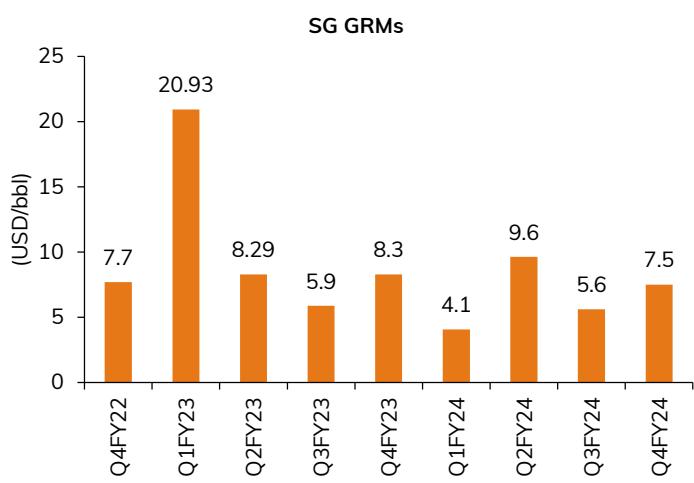
### Exhibit 1: Overall, Q4FY24E is likely to be a strong quarter YoY due to weaker base of OMCs and gas companies

INR bn	Revenue					EBITDA					PAT				
	Q4FY24E	Q4FY23	Q3FY24	YoY%	QoQ%	Q4FY24E	Q4FY23	Q3FY24	YoY%	QoQ%	Q4FY24E	Q4FY23	Q3FY24	YoY%	QoQ%
Reliance	2,611	2,129	2,251	23%	16%	428	384	407	11%	5%	184	193	173	-5%	6%
HPCL	981	1,079	1,113	-9%	-12%	59	48	22	23%	173%	33	32	5	2%	524%
ONGC	341	347	321	-2%	6%	188	175	163	8%	15%	98	88	95	11%	3%
OIL India	54	54	53	0%	1%	26	23	24	11%	10%	17	18	16	-4%	8%
GAIL	353	328	342	7%	3%	38	5	38	681%	0%	27	7	28	264%	-6%
PLNG	126	139	143	-9%	-12%	17	9	12	83%	38%	12	6	7	97%	65%
GSPL	6	4	6	27%	2%	4	3	4	38%	7%	3	2	3	25%	7%
IGL	33	37	36	-11%	-8%	6	5	6	33%	10%	4	3	4	29%	9%
GUJGA	42	39	39	6%	6%	5	6	4	-8%	29%	3	4	2	-15%	43%
MGL	15	16	16	-5%	-2%	4	4	4	10%	-4%	3	3	3	9%	-7%
<b>Total</b>	<b>4,561</b>	<b>4,174</b>	<b>4,320</b>	<b>9%</b>	<b>6%</b>	<b>776</b>	<b>662</b>	<b>684</b>	<b>17%</b>	<b>14%</b>	<b>384</b>	<b>357</b>	<b>337</b>	<b>8%</b>	<b>14%</b>
Upstream	394	401	375	-2%	5%	215	198	187	8%	15%	115	106	111	9%	4%
CGDs	90	92	90	-3%	-1%	16	14	14	11%	11%	10	10	9	7%	11%
Gas Utilities	485	472	491	3%	-1%	59	17	55	244%	9%	42	16	38	165%	9%
GOLI	8	8	8	5%	2%	1	1	1	30%	2%	1	1	1	33%	3%

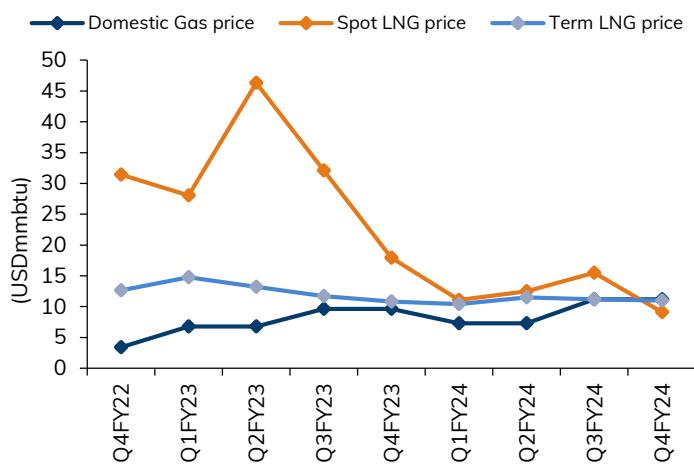
Source: Company data, I-Sec research

**Exhibit 2: Brent crude prices decreased in Q4FY24**


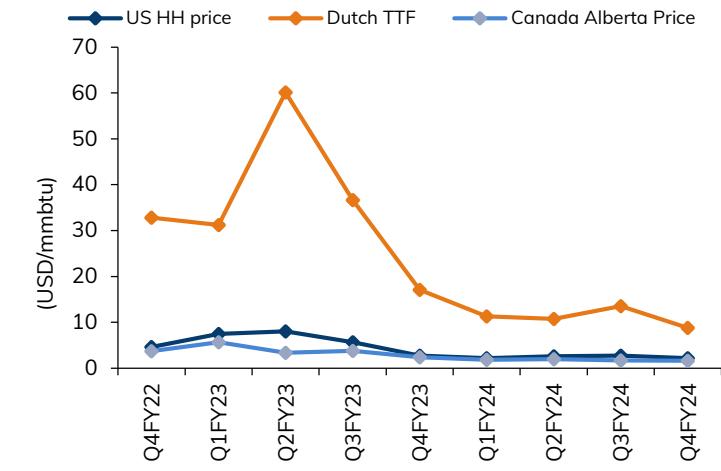
Source: Bloomberg, I-Sec research

**Exhibit 3: Improvement in Singapore GRMs QoQ in Q4FY24**


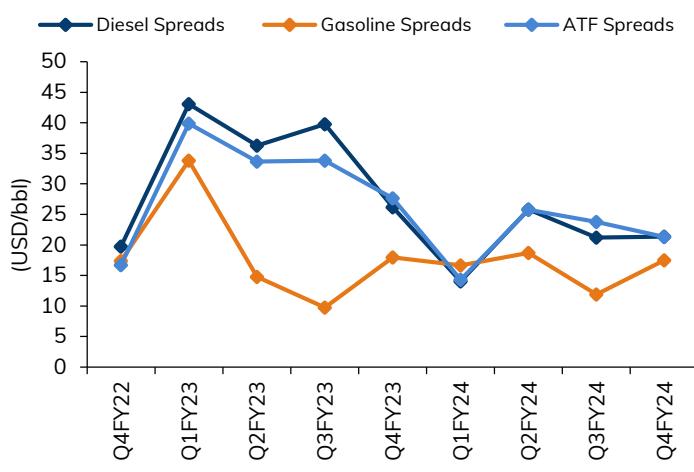
Source: Reuters, I-Sec research

**Exhibit 4: Spot LNG prices decreased in Q4FY24**


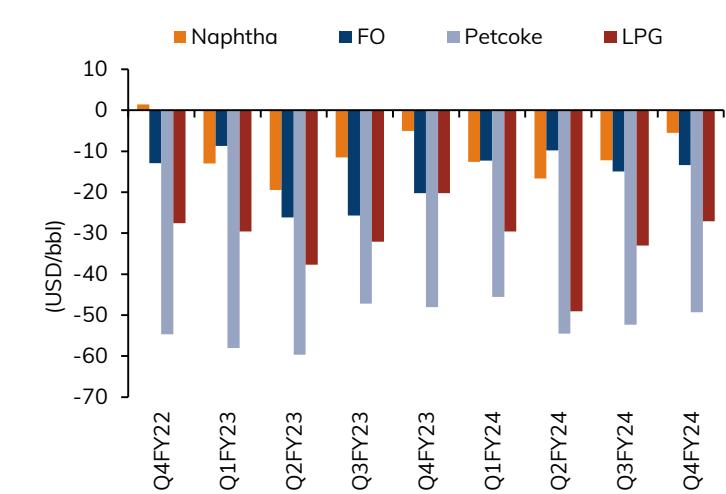
Source: Bloomberg, Reuters, I-Sec research

**Exhibit 5: Key components of domestic gas prices remain muted in Q4FY24**


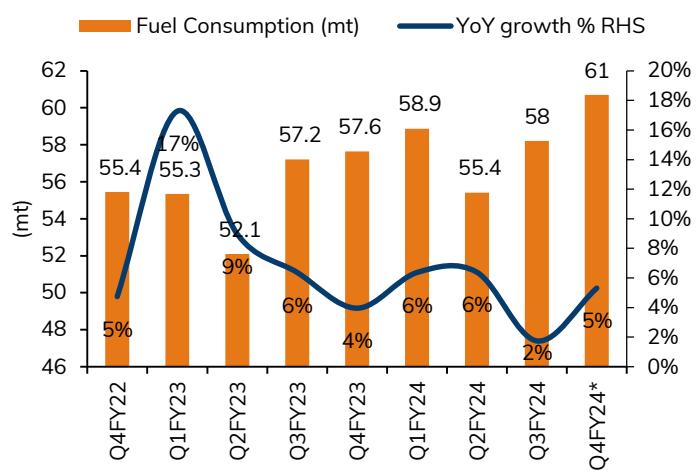
Source: Bloomberg, I-Sec research

**Exhibit 6: Diesel and gasoline spreads improved QoQ in Q4FY24**


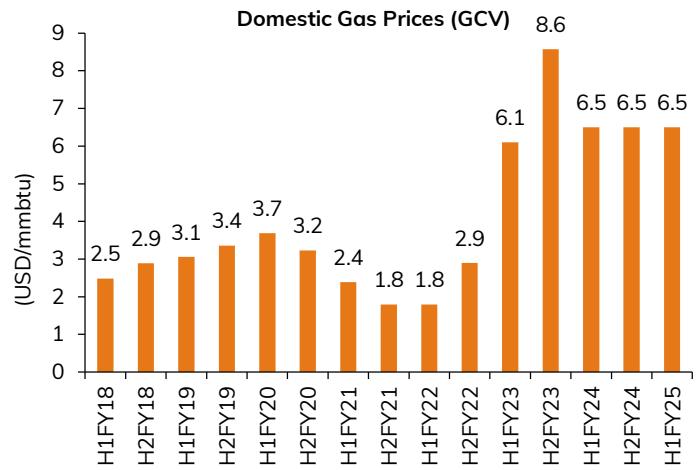
Source: Reuters, I-Sec research

**Exhibit 7: Other products' spreads also improved QoQ**


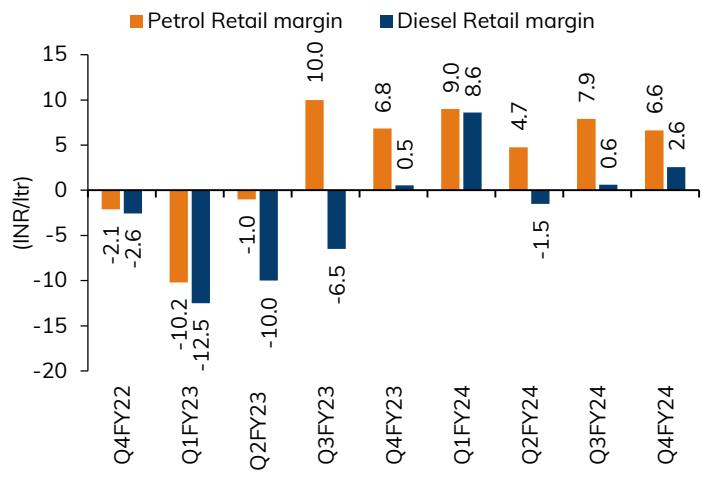
Source: Reuters, I-Sec research

**Exhibit 8: Fuel consumption continues to grow YoY**


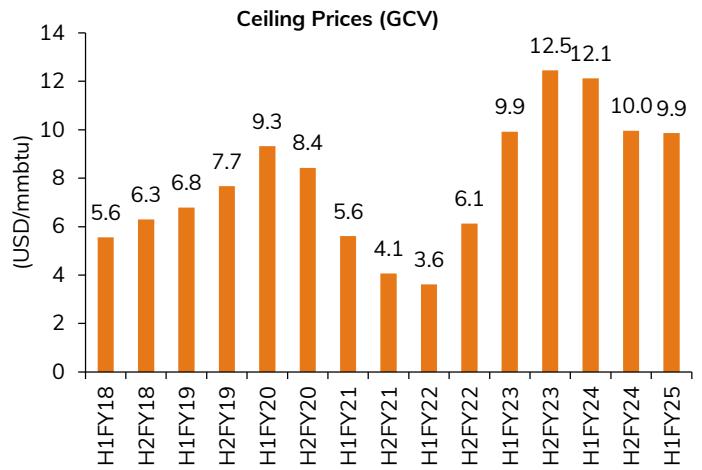
Source: PPAC, I-Sec research ; Note \* on basis of Jan-Feb 24 actual and Mar'24 estimates

**Exhibit 10: APM domestic gas prices remain capped at USD 6.5/mmbtu**


Source: PPAC, I-Sec research

**Exhibit 9: Retail margins for petrol and diesel improved QoQ/YoY in Q4FY24**


Source: PPAC, Reuters, I-Sec research

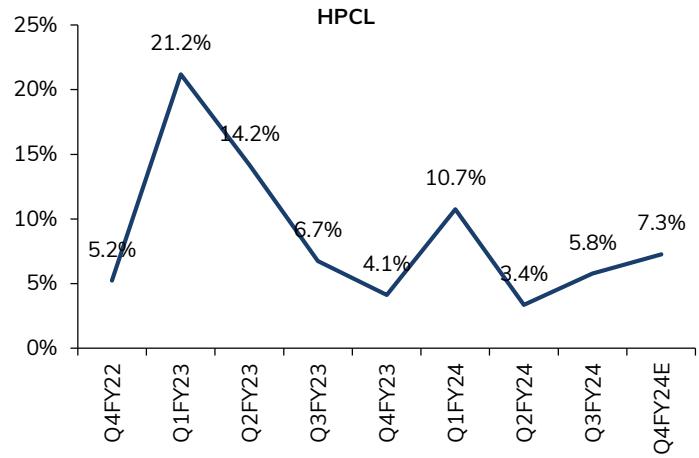
**Exhibit 11: HP/HT gas/ ceiling gas price remains muted for H1FY25**


Source: PPAC, I-Sec research

## Key focus charts for companies

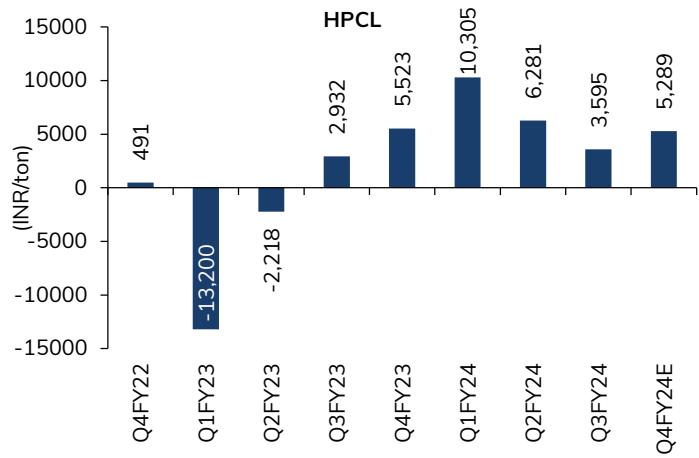
HPCL to see improvement in marketing and refining; RIL's OTC segment to improve with better CGD margins/ volumes QoQ, sharp surge in utilities' performance YoY due to weak base.

### Exhibit 12: HPCL's marketing volumes may surge YoY



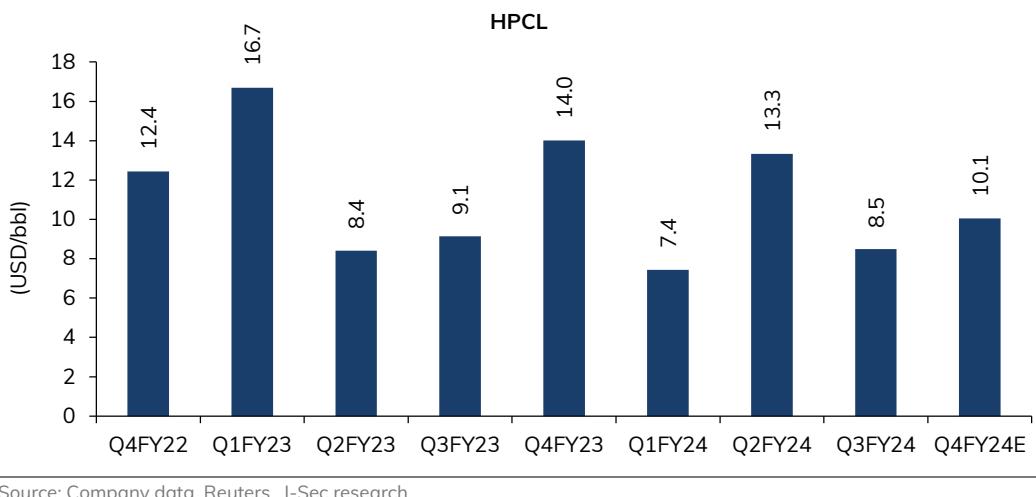
Source: Company data, PPAC, I-Sec research

### Exhibit 13: HPCL's marketing margin may improve QoQ



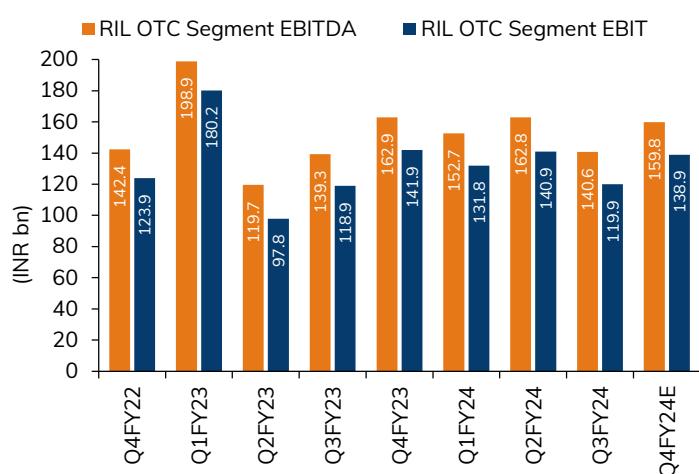
Source: Company data, I-Sec research

### Exhibit 14: HPCL's GRMs (USD/bbl) could improve on rise in product cracks



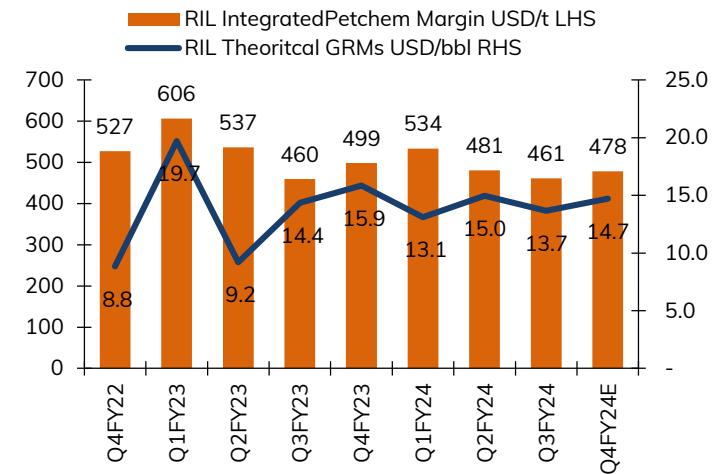
Source: Company data, Reuters, I-Sec research

### Exhibit 15: RIL – OTC segment may improve QoQ, but decline YoY

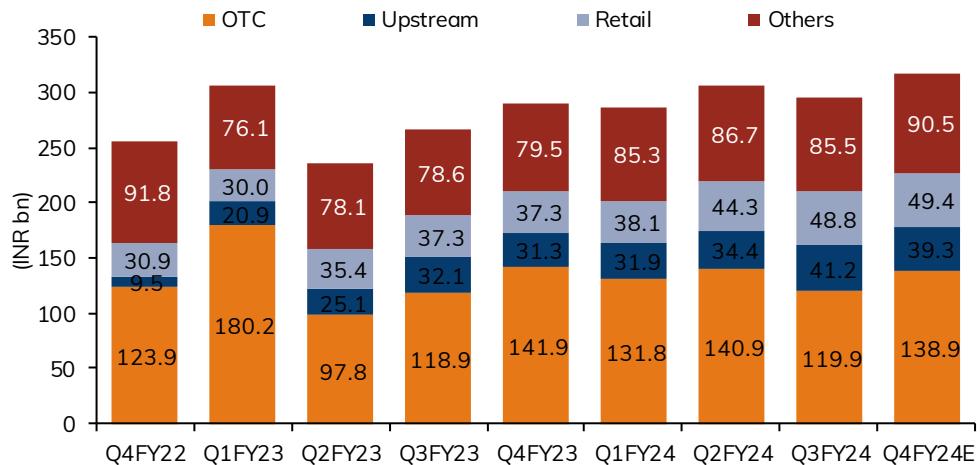


Source: Company data, I-Sec research

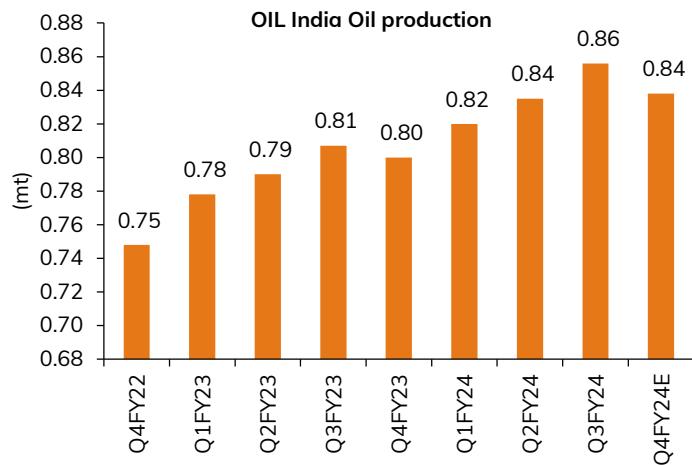
### Exhibit 16: RIL – theoretical GRM could increase to USD 14.7/bbl QoQ, along with improvement in petchem spreads



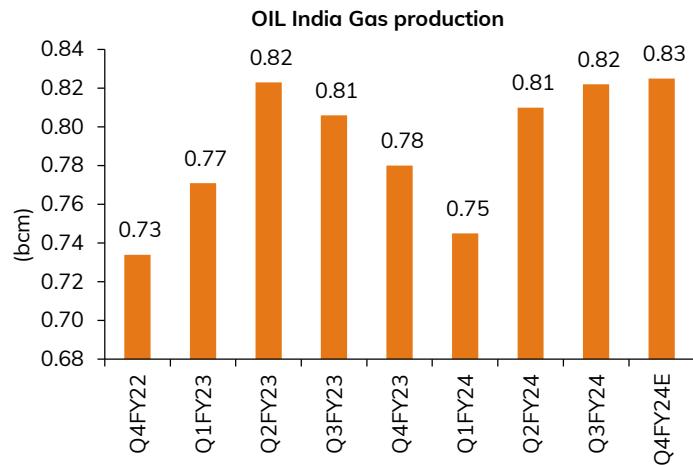
Source: Company data, Bloomberg, Reuters, I-Sec research

**Exhibit 17: RIL – OTC segment EBIT contribution may improve QoQ**


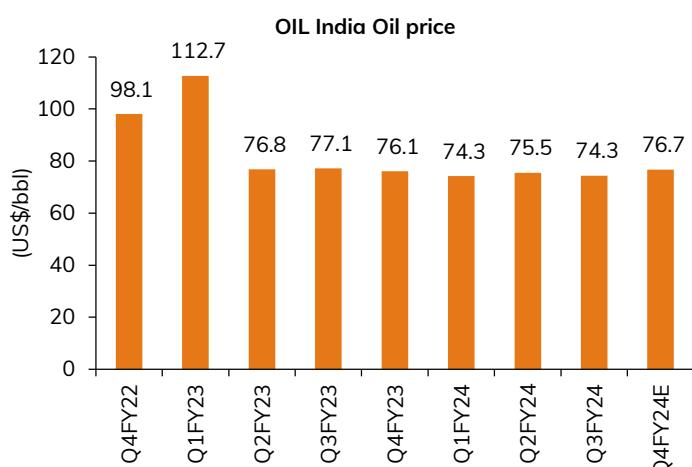
Source: I-Sec research, Company data

**Exhibit 18: OIL India – crude oil production is likely to increase YoY**


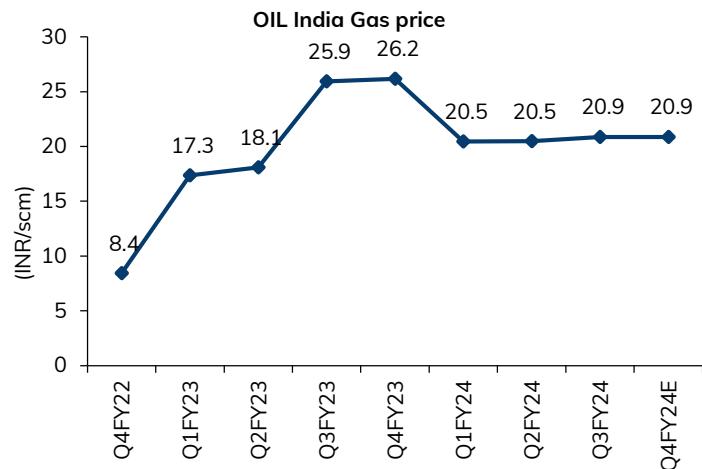
Source: Company data, I-Sec research

**Exhibit 19: OIL India – gas production may improve QoQ and YoY**


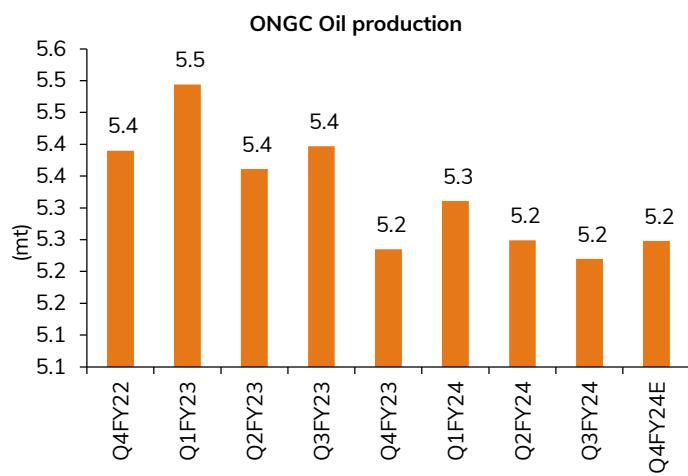
Source: Company data, I-Sec research

**Exhibit 20: OIL India – oil price realisation to improve QoQ**


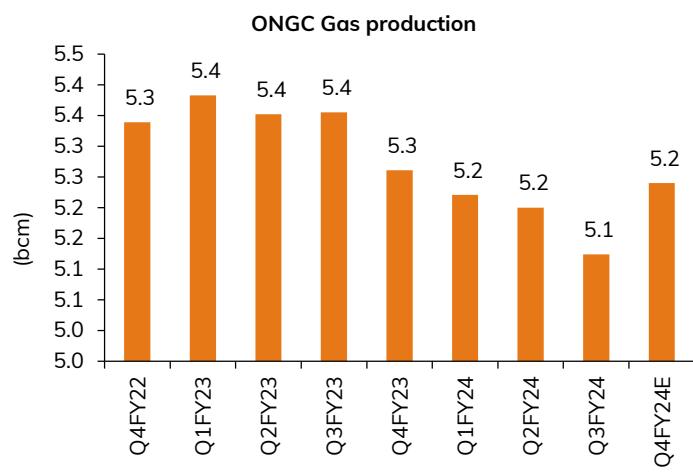
Source: Company data, I-Sec research

**Exhibit 21: OIL India – gas pricing could remain flattish QoQ**


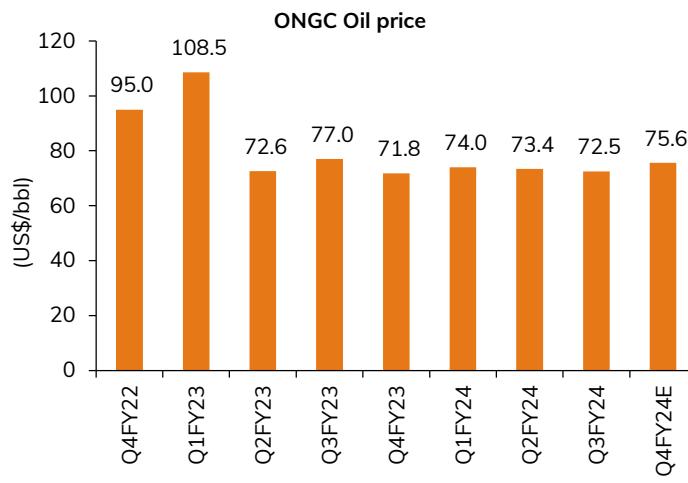
Source: Company data, I-Sec research

**Exhibit 22: ONGC – crude oil production may increase QoQ**


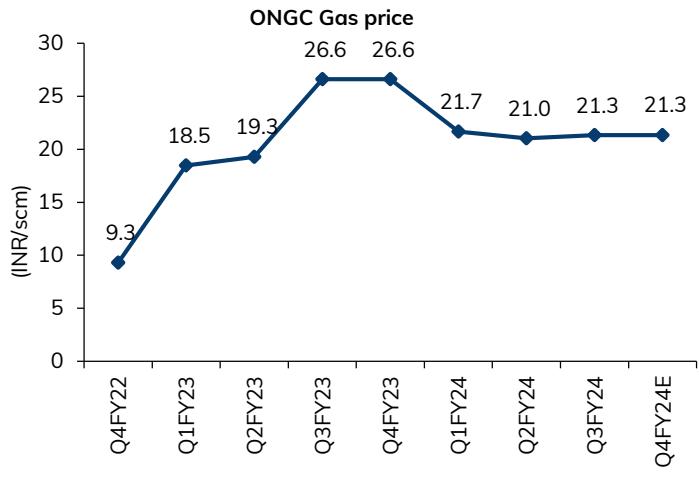
Source: Company data, I-Sec research

**Exhibit 23: ONGC – gas production may increase QoQ**


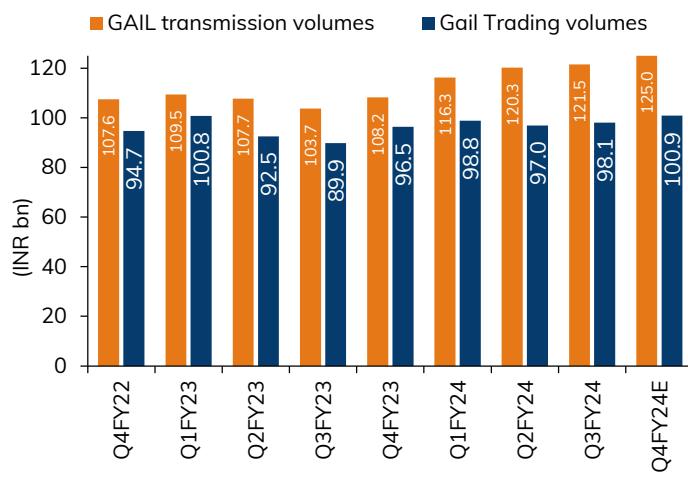
Source: Company data, I-Sec research

**Exhibit 24: ONGC – oil price realisation to improve QoQ**


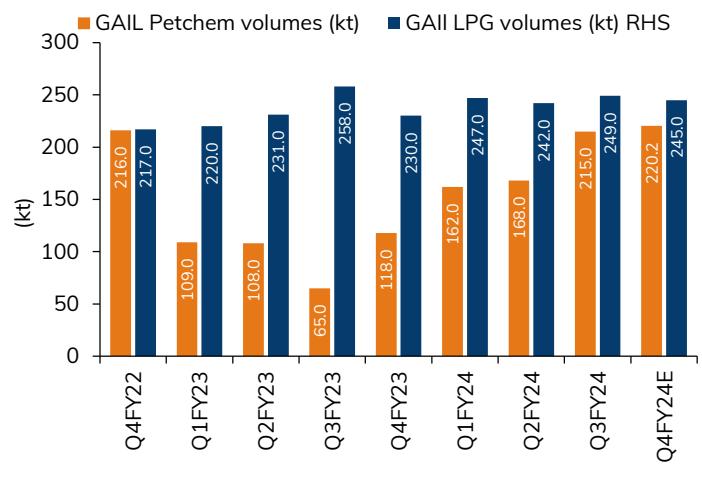
Source: Company data, I-Sec research

**Exhibit 25: ONGC – gas pricing may remain flattish QoQ**


Source: Company data, I-Sec research

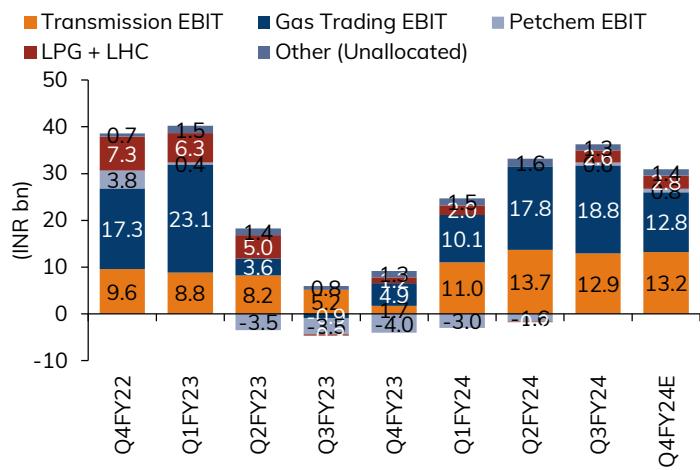
**Exhibit 26: GAIL – transmission and trading volumes set to improve QoQ/YoY**


Source: Company data, I-Sec research

**Exhibit 27: GAIL – petchem volumes may continue to recover and LPG volumes may remain flattish QoQ**


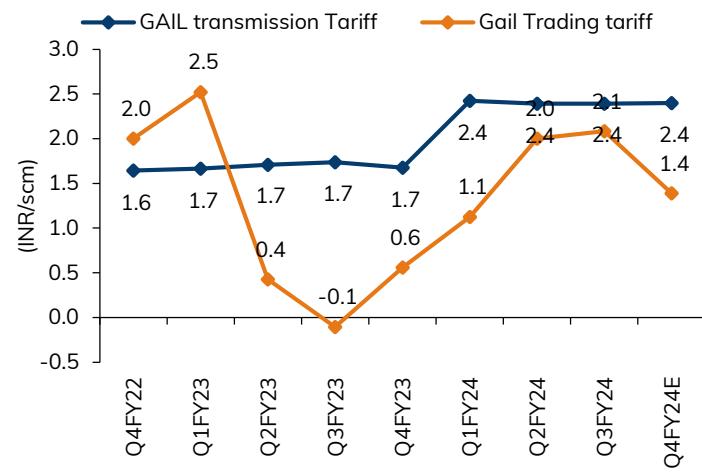
Source: Company data, I-Sec research

### Exhibit 28: GAIL – segmental EBIT trends may show strength YoY, albeit muted on QoQ basis



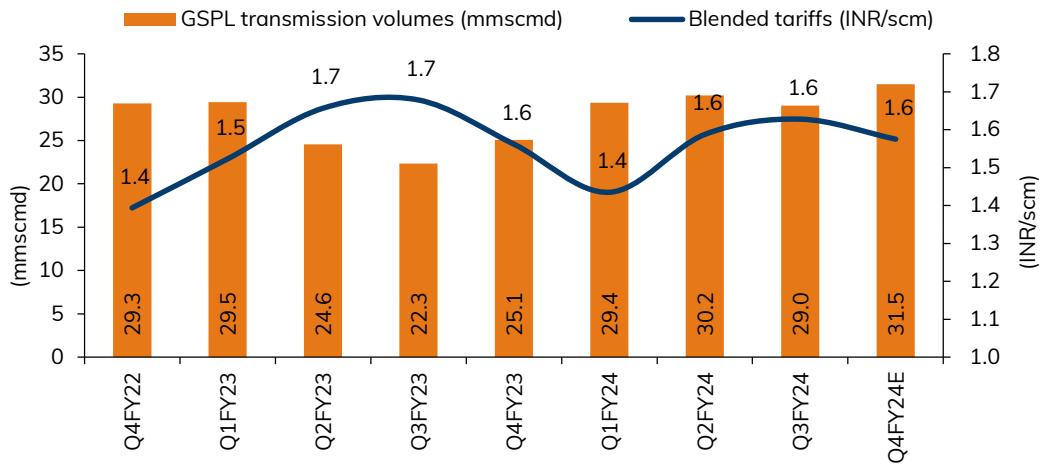
Source: Company data, I-Sec research

### Exhibit 29: GAIL – blended trading tariffs to decline QoQ in Q4FY24E



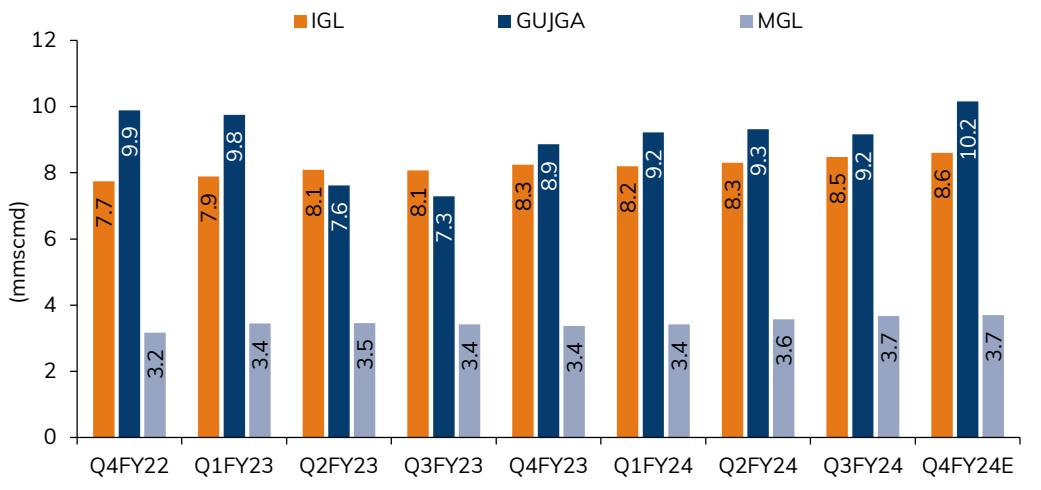
Source: Company data, I-Sec research

### Exhibit 30: GSPL – lower gas prices could keep volumes strong QoQ/YoY



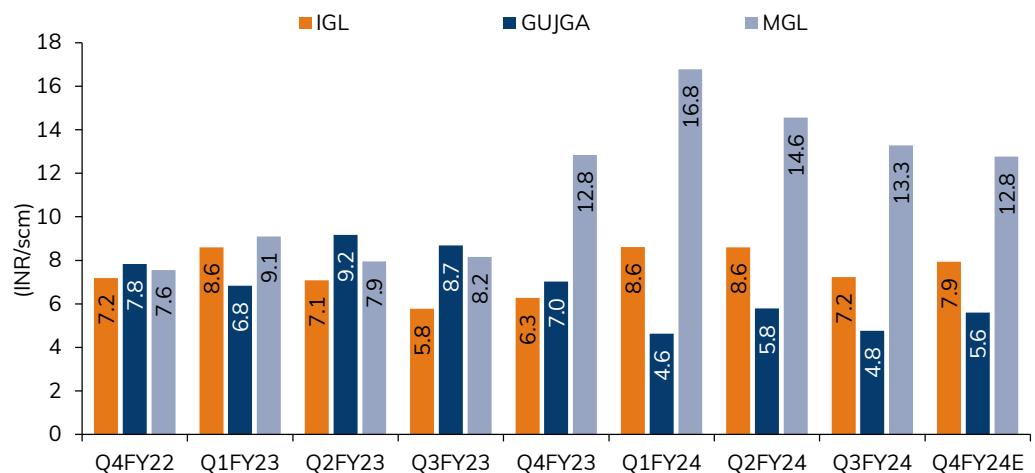
Source: Company data, I-Sec research

### Exhibit 31: CGDs – YoY and QoQ improvement likely in IGL, MGL and GUJGA volumes



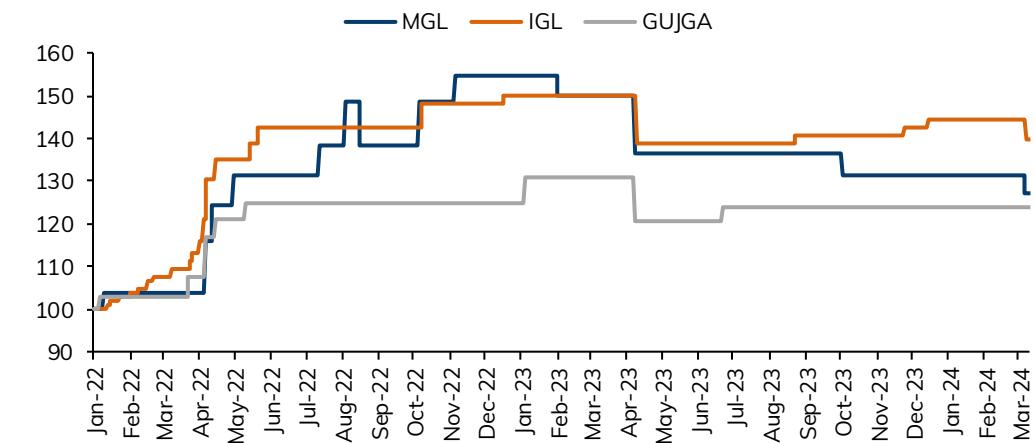
Source: Company data, I-Sec research

**Exhibit 32: CGDs – improvement in likely for IGL, while for MGL it may remain flattish; GUJGA' EBITDA/scm is likely to remain weak YoY**



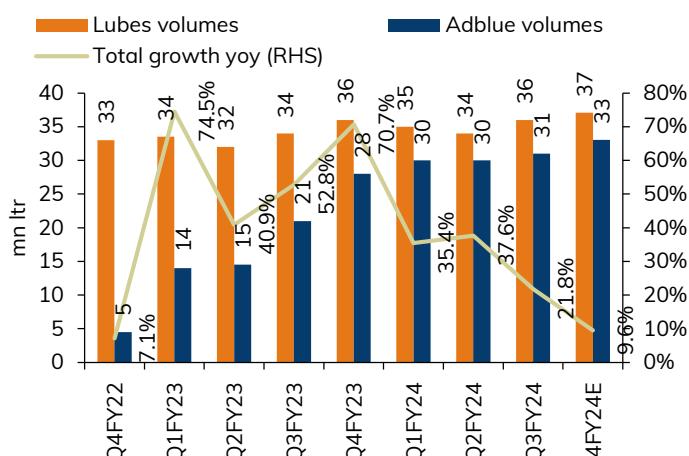
Source: Company data, I-Sec research

**Exhibit 33: Indexed CNG price movement**



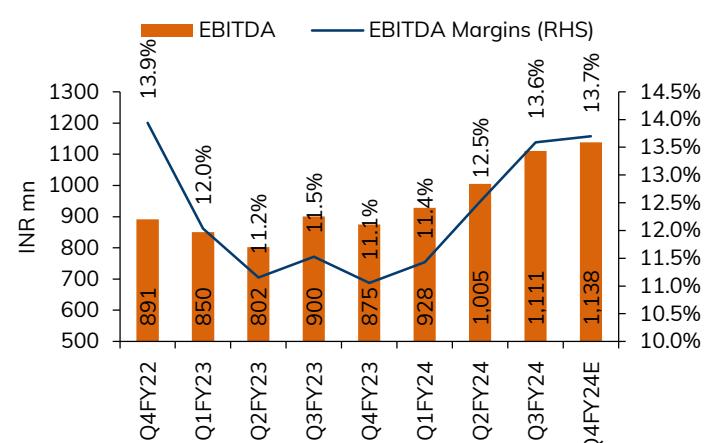
Source: Company data, I-Sec research

**Exhibit 34: GOLI-Strong volume growth YoY..**



Source: Company data, I-Sec research

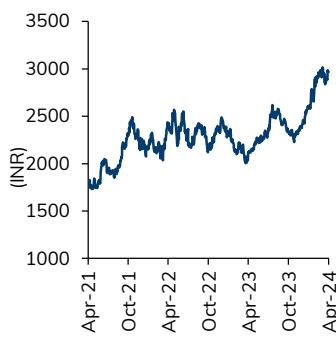
**Exhibit 35: ..with improvement in margins**



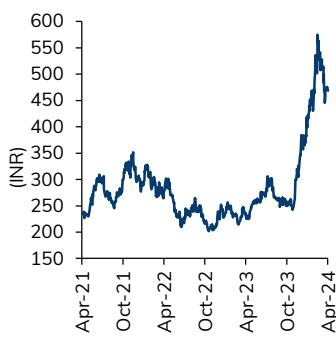
Source: Company data, I-Sec research

## Price chart

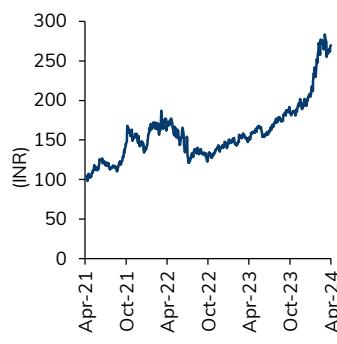
Reliance Industries



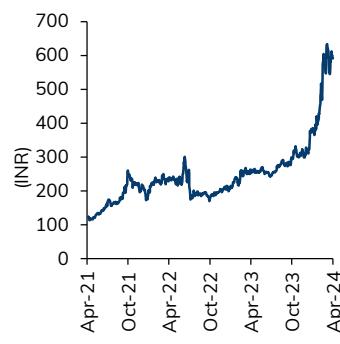
HPCL



ONGC



Oil India



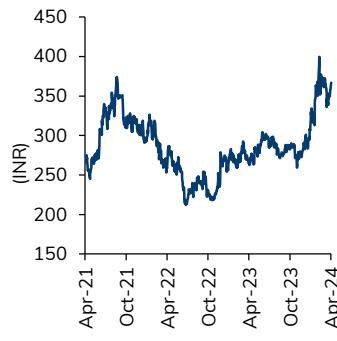
GAIL



Petronet LNG



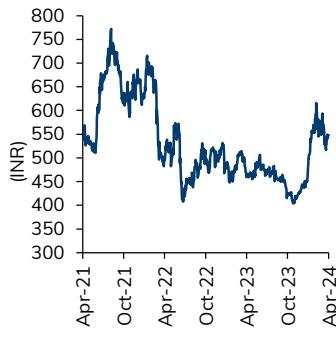
Gujarat State Petronet



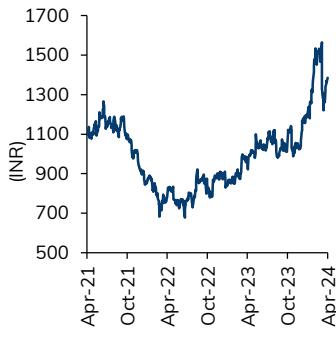
Indraprastha Gas



Gujarat Gas



Mahanagar Gas



Gulf Oil



Source: Bloomberg

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