

## Oil &amp; Gas

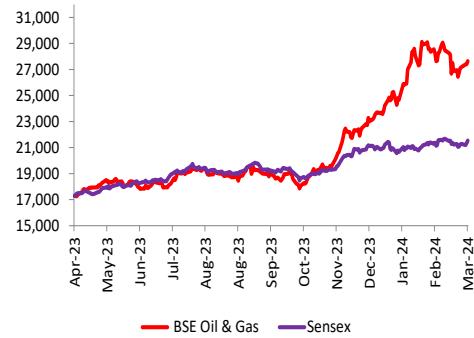
04 April 2024

## Q4FY24E RESULT PREVIEW

Industry	Oil & Gas		
Sector Recommendations			
Company	Mkt Cap (bn)	TP (Rs)	Rating
Gail India	124.3	182	HOLD
Gujarat Gas	37.5	404	SELL
Petronet LNG	42.4	280	HOLD
Indraprastha Gas	30.9	470	HOLD
Gujarat State Petronet	20.7	350	HOLD
Mahanagar Gas	13.9	1,500	HOLD
Reliance Industries	1991.4	2,745	HOLD

Source: BSE, Systematix Institutional Research

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



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## Lower gas price to boost volume and earnings

Our gas coverage universe's EBITDA is expected to rise substantially (147% YoY and EBITDA margin by 836bps YoY) while it may remain largely flattish QoQ. Total gas consumption in India increased to average 181mmscmd in Jan-Feb'24 vs 177mmscmd in Q3FY24, largely driven by higher LNG import which increased to 81mmscmd from 77mmscmd, respectively. Spot LNG price also declined sharply to average \$9.4/mmbtu in Q4FY24 from \$15.8/mmbtu in Q3FY24 (\$18.5/mmbtu in Q4FY23). Gail India, MGL and IGL's EBITDA is expected to rise 5.8%/13.4%/10.3% QoQ, respectively on the back of better volume and margin recovery owing to lower spot LNG and HP-HT prices, favourable economics with alternative fuels, and improvement in vehicle registrations. Volume growth for both PLNG and GSPL is likely to be strong on the back of higher gas consumption. PLNG's total volume is expected to rise to 240tbtu from 232tbtu QoQ, 185tbtu YoY while a 5% tariff hike at Dahej to impact positively. Though inventory loss may hurt earnings which is not factored. GSPL's volume is also likely to grow to 31mmscmd from 29mmscmd led by higher volume from power and CGD businesses.

Reliance's EBITDA is expected to grow by 11.9% YoY (5.8% QoQ): A strong profit from O2C business is likely to boost the company's EBITDA/PAT by 5.8%/3.2% QoQ. 35% increase in GRM and higher crude throughput is expected to increase O2C EBITDA by 15% QoQ to Rs162 bn (flattish YoY). We further estimate -2%/1%/2.6% QoQ growth in EBITDA in upstream/Retail/Digital Services businesses. We have kept ARPU largely unchanged at Rs181.7 in Jio telecom business and expect a healthy 250 new retail outlets addition.

**CGD: Lower gas prices and higher volume to boost profits:** MGL, IGL and Gujarat Gas are expected to post EBITDA growth of 13.4% / 10.3% / 4.8% QoQ respectively, volume performance this quarter shall slightly improve due to favourable economics with alternative fuels (even after retail price cut by IGL and MGL). EBITDA/scm is expected to grow by 10.5%/8.6%/0.6% QoQ to Rs14.7/7.6/4.8, respectively. 40% QoQ fall in spot LNG price is expected to improve Gujarat Gas's volume at Dahej. We forecast a volume of 3.8/8.8/9.7 mm scmd for MGL/IGL/Gujarat Gas in Q4FY24 vs 3.7/8.5/9.2 mm scmd in Q3FY24.

**GAIL to benefit from higher volume and better petrochem and LHC margins**

GAIL is expected to post a significant jump in YoY profits driven by a sharp recovery in profits owing to healthy volume growth in the transmission business (123mmscmd vs 121.5mmscmd QoQ) and better petrochemical and LHC profits. Lower opex at the gas transmission business to augment the bottom line.

**Valuation and Outlook**

Oil & Gas sector has seen a strong 16.3% outperformance in the last 3 months over the 3.6% return registered by Nifty. Both upstream and Refineries have seen a massive run-up while CGD stock's gain was tepid. Currently, we have a HOLD rating on GAIL, IGL, MGL, GSPL, PLNG, and Reliance while SELL on Gujarat Gas. The recent correction in CGDs offers a decent upside in IGL and MGL. We will revisit our numbers and recommendations post the result.

**Exhibit 1: Quarterly key price trend**

Key monitorable	Unit	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	% YoY	% QoQ
<b>Brent Crude</b>	<b>US\$/bbl</b>	<b>81.2</b>	<b>78.4</b>	<b>86.5</b>	<b>84.3</b>	<b>83.1</b>	<b>2.3</b>	<b>(1.4)</b>
Dubai Crude	US\$/bbl	79.6	77.5	86.6	83.8	81.7	2.6	(2.5)
<b>Henry Hub Natural Gas</b>	<b>US\$/mmbtu</b>	<b>2.7</b>	<b>2.1</b>	<b>2.6</b>	<b>2.8</b>	<b>2.4</b>	<b>(10.1)</b>	<b>(12.7)</b>
<b>Spot LNG (JKL)</b>	<b>US\$/mmbtu</b>	<b>18.5</b>	<b>11.1</b>	<b>12.6</b>	<b>15.8</b>	<b>9.4</b>	<b>(48.9)</b>	<b>(40.1)</b>
Canadian Gas price	US\$/mmbtu	2.4	1.8	1.9	1.7	1.8	(23.3)	9.5
NBP Gas price	US\$/mmbtu	13.4	10.5	10.4	12.5	8.8	(34.5)	(30.2)
AL-AH	US\$/bbl	4.1	1.9	2.1	2.1	1.8	(56.1)	(14.3)
Dubai-AH	US\$/bbl	1.2	(0.7)	(1.1)	(1.6)	(0.2)	(116.7)	(87.5)
<b>Gross Refining Margin</b>	<b>US\$/bbl</b>	<b>8.3</b>	<b>4.3</b>	<b>9.7</b>	<b>5.5</b>	<b>7.4</b>	<b>(10.8)</b>	<b>34.5</b>
Gasoline - Dubai Crude	US\$/bbl	16.9	12.7	13.4	7.4	13.1	(22.5)	77.0
Gasoil - Dubai Crude	US\$/bbl	26.5	14.6	28.1	25.6	23.0	(13.2)	(10.2)
Naphtha - Dubai Crude	US\$/bbl	(4.9)	(13.4)	(17.4)	(12.5)	(7.6)	54.3	(38.9)
Jet Kero - Dubai Crude	US\$/bbl	26.5	14.3	26.0	24.0	20.9	(21.1)	(12.9)
FO - Dubai Crude	US\$/bbl	(18.8)	(12.8)	(10.2)	(15.4)	(14.2)	(24.5)	(7.8)
<b>GMM – Petrol (15-d avg)</b>	<b>Rs/ltr</b>	<b>7.8</b>	<b>10.3</b>	<b>6.3</b>	<b>8.8</b>	<b>7.7</b>	<b>(1.3)</b>	<b>(12.5)</b>
<b>GMM – Diesel (15-d avg)</b>	<b>Rs/ltr</b>	<b>1.2</b>	<b>9.4</b>	<b>-0.6</b>	<b>-1.5</b>	<b>2.9</b>	<b>141.7</b>	<b>(293.3)</b>
Avg exchange rate (Rs/USD)	Rs/US\$	82.2	82.2	82.7	83.2	83.1	1.1	(0.2)

Source: Bloomberg, Systematix Institutional Research

## Exhibit 2: Quarterly estimates

Companies	Particulars (Rs mn)	Q4FY24E	Q3FY24	Q4FY23	QoQ (%)	YoY (%)
Reliance Industries	<b>Net Sales</b>	22,90,740	22,50,860	21,29,450	1.8	7.6
	<b>EBITDA</b>	4,30,224	4,06,560	3,84,400	5.8	11.9
	<b>Net Profit</b>	1,78,113	1,72,650	1,92,990	3.2	(7.7)
	<b>EBITDA margin (%)</b>	18.8	18.1	18.1	71.9	72.9
Gail India	<b>Net Sales</b>	3,18,013	3,42,365	3,28,432	(7.1)	(3.2)
	<b>EBITDA</b>	40,453	38,226	3,072	5.8	1,216.8
	<b>Net Profit</b>	30,831	28,426	6,035	8.5	410.9
	<b>EBITDA margin (%)</b>	12.7	11.2	0.9	155.5	1,178.5
Petronet LNG	<b>Net Sales</b>	1,22,347	1,47,472	1,38,739	(17.0)	(11.8)
	<b>EBITDA</b>	13,022	17,060	9,431	(23.7)	38.1
	<b>Net Profit</b>	8,917	11,907	6,142	(25.1)	45.2
	<b>EBITDA margin (%)</b>	10.6	11.6	6.8	-92.5	384.6
Gujarat Gas	<b>Net Sales</b>	38,639	39,291	39,286	(1.7)	(1.6)
	<b>EBITDA</b>	4,201	4,007	5,603	4.8	(25.0)
	<b>Net Profit</b>	2,398	2,203	3,692	8.9	(35.0)
	<b>EBITDA (Rs/scm)</b>	4.8	4.8	7.0	0.6	(31.7)
Indraprastha Gas	<b>Net Sales</b>	37,074	35,562	36,872	4.3	0.5
	<b>EBITDA</b>	6,222	5,641	4,663	10.3	33.4
	<b>Net Profit</b>	4,380	3,896	3,298	12.4	32.8
	<b>EBITDA (Rs/scm)</b>	7.6	7.0	6.0	8.6	26.7
GSPL	<b>Net Sales</b>	5,634	5,543	4,430	1.6	27.2
	<b>EBITDA</b>	4,164	3,796	2,947	9.7	41.3
	<b>Net Profit</b>	2,925	2,622	2,243	11.6	30.4
	<b>EBITDA margin (%)</b>	73.9	68.5	66.5	542.6	738
Mahanagar Gas	<b>Net Sales</b>	15,729	15,632	16,031	0.6	(1.9)
	<b>EBITDA</b>	5,087	4,487	3,897	13.4	30.5
	<b>Net Profit</b>	3,599	3,172	2,688	13.5	33.9
	<b>EBITDA (Rs/scm)</b>	14.7	13.3	12.8	10.5	14.8
Gas Sector	<b>Net Sales</b>	5,37,436	5,85,865	5,63,790	(8.3)	(4.7)
	<b>EBITDA</b>	73,149	73,217	29,613	(0.1)	147.0
	<b>Net Profit</b>	53,050	52,226	24,098	1.6	120.1
	<b>EBITDA margin (%)</b>	13.6	12.5	5.3	111.3	836
CGDs	<b>Net Sales</b>	91,442	90,485	92,189	1.1	(0.8)
	<b>EBITDA</b>	15,510	14,135	14,163	9.7	9.5
	<b>Net Profit</b>	10,377	9,271	9,678	11.9	7.2
	<b>EBITDA margin (%)</b>	17.0	15.6	15.4	134.0	159.9

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)	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Gail India	189	182	HOLD	124.3	1245.5	1276.0	1328.1	131.2	136.0	143.9	13.9	14.5	15.1
Gujarat Gas	544	404	SELL	37.5	158.5	143.8	155.0	17.2	19.6	21.4	14.3	16.6	18.4
Petronet LNG	283	280	HOLD	42.4	539.3	571.3	595.4	53.7	55.7	61.7	23.1	23.4	23.3
Indraprastha Gas	441	470	HOLD	30.9	146.1	158.4	166.5	24.6	27.9	29.2	25.4	28.6	29.9
Gujarat State Petronet	367	350	HOLD	20.7	20.6	21.6	22.7	15.3	16.0	16.8	22.7	23.8	27.2
Mahanagar Gas	1,405	1,500	HOLD	13.9	62.9	63.4	67.1	19.3	18.8	19.6	136.5	130.4	136.5
Reliance Industries	2,943	2,745	HOLD	1991.4	9428.4	10129.7	10293.7	1712.2	1827.1	1930.3	99.0	113.0	115.0

Source: Systematix Institutional Research

## Exhibit 4: Valuation snapshot

Companies	Market Cap	P/E			EV/EBITDA			P/BV (Rs)			RoE (%)		
	(Rs bn)	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
GAIL India	124	13.6	13.1	12.5	10.5	10.0	9.4	2.1	1.9	1.8	15.1	14.5	14.1
Gujarat Gas	37	38.0	32.7	29.6	21.3	18.5	16.5	4.8	4.2	3.8	12.6	13.0	12.8
Petronet LNG	42	12.2	12.1	12.1	6.5	6.7	6.5	2.6	2.4	2.2	21.3	19.8	18.3
Indraprastha Gas	31	17.4	15.5	14.7	11.2	9.7	9.0	3.7	3.2	2.8	21.3	20.5	18.7
Gujarat State Petronet	21	16.2	15.4	13.5	15.9	12.6	11.5	2.1	1.9	1.7	12.7	12.3	12.8
Mahanagar Gas	14	10.3	10.8	10.3	6.2	6.1	5.4	2.8	2.5	2.2	27.4	22.8	20.9
Reliance Industries	1,991	29.7	26.0	25.6	13.2	11.8	11.2	2.2	2.1	1.9	7.5	7.9	7.4

Source: Bloomberg, Systematix Institutional Research

## 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
GAIL India Ltd	189	4.8	(0.9)	15.9	55.8	79.3	16.7	76.5	62.6	176.5
Gujarat Gas Ltd	544	(0.9)	(7.7)	7.5	29.2	18.0	18.0	4.9	254.2	321.3
Petronet LNG Ltd	283	6.5	(2.9)	21.9	24.8	25.4	27.0	41.7	18.6	309.8
Indraprastha Gas Ltd	441	5.4	(1.2)	4.0	(3.6)	4.9	5.5	13.4	44.0	658.7
Gujarat State Petronet Ltd	367	5.2	(1.4)	9.9	29.4	39.9	20.0	30.2	105.4	438.9
Mahanagar Gas Ltd	1,405	3.6	(8.8)	14.4	25.2	52.6	17.1	69.6	40.3	233.8
Reliance Industries Ltd	2,943	2.1	(2.4)	13.3	27.2	38.6	13.9	23.0	140.9	590.8
S&P BSE OIL & GAS	28,340	3.5	(1.9)	19.9	52.2	64.0	23.1	43.8	91.0	195.7
NSE Nifty 50 Index	22,435	2.0	0.1	3.6	15.4	28.9	3.2	24.9	92.3	235.1

Source: Bloomberg, Systematix Institutional Research

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## 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.

Disclosure of Interest Statement	Update
Analyst holding in the stock	No
Served as an officer, director or employee	No

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