Oil & Gas - Q4FY25 Earnings Preview

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Weak earnings with rising LPG under-recovery

In Q4, Our Oil & Gas coverage experienced a sharp decline, with EBITDA likely down by 15% YoY/12% QoQ to Rs 762 bn and PAT down by 32% YoY/24% QoQ to Rs 319bn. Key factors impacting growth include (1) A weak GRM of US$3.1/bbl (Sing.), coupled with moderation of super normal Gross marketing margins (GMM) on Auto fuel to Rs8.2/lt and rising burden of LPG under-recovery (Rs15.6/kg vs. Rs13.2/kg in Q3) that may drag OMCs earnings; (2) Reliance's cons. EBITDA expected to decline on the back of weak O2C, while the rebound in Retail & telecom to support earnings; (3) Despite a partial restoration of APM allocation for CNG, overall gas cost for CGDs stands pressurized mainly due to 3% INR depreciation, sharp jump of 74% QoQ in HH gas price and elevated spot LNG price, thereby leading to expected declines in EBITDA/PAT of 21%/25% YoY for CGDs (however, sequentially, there may be an improvement in earnings mainly due to price hikes). Furthermore, in Q4FY25, India's LNG imports declined 9% YoY, and PLNG's re-gasification volume growth slowed primarily due to a loss in market share. PLNG witnessed a 7% decline in market share over the past year due to competition from other LNG terminals. <u>Our Top Picks are HPCL and RELIANCE</u>, while we also see potential for a positive surprise from GAIL, particularly on gas trading margins.

OMCs: Weak Q4FY25; Govt aid would be a positive surprise

OMCs EBITDA is expected to decline 58% YoY and 51% QoQ mainly due to (1) weak GRM; (2) rising burden of LPG under-recovery; (3) crude & product inventory loss; (4) potential forex losses from INR depreciation against the USD; and (5) moderation in super normal marketing margins on auto fuel. We believe OMCs can only post a positive surprise with the help of Govt aid/supplement on LPG under-recovery.

CGD: Volume growth intact in CNG but margins under pressure

We expect CGDs to post a decline in EBITDA/PAT by 21%/25% YoY, mainly due to a sharp rise in gas cost, that they were unable to fully pass on to CNG consumers. However, there may be sequential earnings growth due to a partial CNG price hike. **<u>IGL:</u>** As per VAHAN, IGL GA registered >15k/m CNG vehicles in Q4FY25; We expect modest CNG volume growth of 4% QoQ, with an estimated unit EBITDA of Rs5.2/scm. **<u>MAHGL:</u>** As per VAHAN, CNG registrations run rate of 10k/m at +21% YoY was much better in Q4FY25. Thus, we expect CNG volume of 2.97mmscmd (+11% YoY, and +2% QoQ) with an expected unit EBITDA of Rs8.8/scm. **<u>GUJGA</u>:** >11% QoQ decline in Morbi volumes should drag GUJGA's overall volume to 9.15mmscmd (-6% YoY, -4% QoQ). We expect unit EBITDA to improve to Rs5.1/scm, due to CNG APM allocation improvement and fall in spot LNG share.

RELIANCE: Slightly weak O2C but Retail & Telecom to drive earnings

In Q4, Ethane price jumped 28% QoQ, while Naphtha (Sing/Arab) prices remained stable, leading to high feedstock prices coupled with declining/stable Petrochemical product prices, which will likely pressure margins and negatively impact EBITDA. Weaker oil product cracks are expected to drag refining margins; however, Reliance continued to process discounted Russia/Iraq/Venezuelan crude @ 34%/18%/6%, which should aid the GRM. A higher share of foreign borrowings could show forex loss/interest cost. As guided, the Retail segment is projected to grow in the mid-teens with EBITDA growth of ~8% YoY.

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Exhibit 1: RELIANCE- Retail and Telecom to support earnings

(Rs Mn)	Q4FY25E	Q3FY25	Q4FY24	QoQ(%)	YoY(%)
RELIANCE					
Revenue	23,02,811	23,99,860	23,65,330	(4.0)	(2.6)
EBITDA	4,21,440	4,37,890	4,25,160	(3.8)	(0.9)
PAT	1,73,592	1,85,400	1,89,510	(6.4)	(8.4)
EPS	12.8	13.7	14.0	(6.4)	(8.4)
Operating metrics - assumption					
Refinery Throughput - MMT	16.7	16.1	16.0	3.6	3.9

Source: Company, Dolat Capital

HPCL: Soft GRM + moderation in super normal GMM + LPG under-recovery = decline in EBITDA

We expect HPCL's EBITDA to reach Rs24bn (-60% YoY, -50% QoQ) reflecting several impacts mainly due to (1) crude inventory + product inventory loss; (2) a 38% QoQ decline in Sing Benchmark GRM on account of softer cracks of Jet Kero, Naphtha & LPG; and (4) decline in auto fuel GMM margins to Rs8.2/lt (-28% QoQ). Additionally, with HPCL holding a 28% market share in LPG distribution, it is anticipated to incur ~Rs36 bn in under-recovery (at Rs15.7/kg) in Q4, with an estimated total for FY25 of ~Rs112 bn. Therefore, any Govt. support to offset these losses could significantly benefit OMCs, potentially lifting HPCL's equity value by Rs35/share through a reduction in net debt.

Exhibit 2: HPCL- Biggest beneficiary of Super normal GMM among OMCs

(Rs Mn)	Q4FY25E	Q3FY25	Q4FY24	QoQ(%)	YoY(%)
HPCL					
Revenue	9,58,656	11,05,054	11,45,569	(13.2)	(16.3)
EBITDA	23,876	59,702	48,038	(60.0)	(50.3)
PAT	3,202	30,229	28,427	(89.4)	(88.7)
Operating metrics - assumption					
GRM - US$/bbl	5.5	6.0	7.0	(8.5)	(20.9)
Refinery Throughput - MMT	6.7	6.5	5.8	4.2	15.5
Oil Product Sales volume - MMT	13.2	12.9	12.3	2.7	7.2
Auto fuel gross margins (Rs/lt)	8.2	11.4	4.6	(28.3)	77.4

Source: Company, Dolat Capital

BPCL: Sequential improvement in refining throughput to aid EBITDA

A sequential jump of 10% in refining throughput to aid overall EBITDA, however, this will be offset by (1) soft GRM and decline in auto fuel GMM to Rs8.2/lt; and (2) LPG under-recovery of Rs35.3bn(15.7/kg). Additionally, potential forex losses due to INR depreciation against the USD could further impact financials. Based on our estimates BPCL is expected to lose Rs107.6bn in FY25, if no government compensation is provided. But if provided, then it could lift the equity value of BPCL by Rs20/share (fall in net debt).

Exhibit 3: BPCL- Improvement in refining throughput to aid earnings

Particulars (Rs Mn)	Q4FY25E	Q3FY25	Q4FY24	QoQ(%)	YoY(%)
BPCL					
Revenue	11,15,076	11,31,358	11,65,551	(1.4)	(4.3)
EBITDA	33,244	75,804	92,131	(56.1)	(63.9)
PAT	12,947	46,492	60,222	(72.2)	(78.5)
Operating metrics - assumption					
GRM - US$/bbl	5.5	5.6	12.5	(1.8)	(55.9)
Refinery Throughput - MMT	10.5	9.5	10.4	10.0	1.3
Oil Product Sales volume - MMT	14.2	13.7	13.4	3.4	5.6
Auto fuel gross margins (Rs/lt)	8.2	11.4	4.6	(28.3)	77.4

Source: Company, Dolat Capital

IOCL: Perplexed inventory valuation methods can surprise on earnings

Perplexed inventory valuation methods can surprise earnings. Petrochemical margins are under pressure to drag down overall EBITDA. IOCL's EBITDA should be impacted by LPG under-recovery of Rs60bn (Rs15.7/kg). Based on our estimates, IOCL is expected to lose Rs.204 bn in FY25 if there is no compensation from the Govt. If compensation is provided, it could lift the equity value of IOCL by Rs.11/share through a reduction in net debt.

Exhibit 4: IOCL- LPG under-recovery to drag earnings

Particulars (Rs Mn)	Q4FY25E	Q3FY25	Q4FY24	QoQ(%)	YoY(%)
IOC					
Revenue	18,68,597	19,38,995	19,79,782	(3.6)	(5.6)
EBITDA	44,885	71,166	1,04,352	(36.9)	(57.0)
PAT	1,214	21,939	48,377	(94.5)	(97.5)
Operating metrics - assumption					
GRM - US$/bbl	5.4	3.0	8.5	82.7	(36.3)
Refinery Throughput - MMT	18.6	18.1	18.3	2.8	1.8
Oil Product Sales volume - MMT	23.5	23.4	22.8	0.6	3.2
Auto fuel gross margins (Rs/lt)	8.2	11.4	4.6	(28.3)	77.4

Source: Company, Dolat Capital

GAIL: Expecting gas trading weak but +ve surprise can not be ruled out

India's gas consumption declined 3% YoY & 2% QoQ in Q4FY25. Thus, we expect GAIL's transmission volume to be 127 mmscmd. While GIGL has taken 1.5 mmscmd, this volume has not yet returned to GAIL. Although Petrochemical plant utilization is >100%, margins are weak. Additionally, LPG is expected to take a profitability hit mainly due to a management-guided drop of ~75 TMT in LPG production in Q4FY25. Previously receiving 1.75 mmscmd, GAIL now has only 1.13 mmscmd available due to a reduction of 0.62 mmscmd. Furthermore, gas trading may face challenges due to declining oil prices and higher HH prices.

Exhibit 5: GAIL- Surprise on gas trading can not be ruled out

Particulars (Rs Mn)	Q4FY25E	Q3FY25	Q4FY24	QoQ(%)	YoY(%)
GAIL					
Revenue	3,10,347	3,49,578	3,23,345	(11.2)	(4.0)
EBITDA	29,414	28,378	35,578	3.7	(17.3)
PAT	19,352	38,674	21,770	(50.0)	(11.1)
Operating metrics - assumption					
Gas Transmission volume - mmscmd	127.0	125.9	123.7	0.8	2.7
Gas Trading Volume - mmscmd	103.5	103.5	99.9	0.0	3.6
Petrochemical sales - KT	221.0	221.0	242.0	0.0	(8.7)

Source: Company, Dolat Capital

IGL: Insufficient CNG price hike a cause of concern for margins

As per VAHAN, IGL GA registered >15k/m CNG vehicles in Q4FY25, and thus we expect modest CNG volume growth of 4% QoQ. The company also increased CNG prices in the "non-Delhi" region, which should enhance realizations by Rs 0.8/scm. Despite restoration of CNG APM allocation at 51%, IGL's overall gas cost is unlikely to decline mainly due to (1) Sharp jump 74% QoQ in HH gas price which is 31% of IGL's gas sourcing; (2) 3% QoQ INR depreciation against USD; and (3) spot LNG prices increased 1% QoQ. Therefore, we project a unit EBITDA of Rs5.2/scm.

Exhibit 6: IGL- No CNG price hike a cause of concern for earnings

Particulars (Rs Mn)	Q4FY25E	Q3FY25	Q4FY24	QoQ(%)	YoY(%)
IGL					
Revenue	38,485	37,591	35,968	2.4	7.0
EBITDA	4,381	3,636	5,225	20.5	(16.2)
PAT	3,339	2,858	3,828	16.8	(12.8)
EPS	4.8	4.1	5.5	16.8	(12.8)
Operating metrics - assumption					
Total Sales volume- mmscmd	9.3	9.1	8.7	2.6	7.1
EBITDA per unit - Rs/scm	5.2	4.3	6.6	20.0	(20.9)

Source: Company, Dolat Capital

MAHGL: Volume growth intact with slight improvement of margins on CNG price hike

As per VAHAN, the CNG registrations run rate of 10k/m at +21% YoY was much better in Q4FY25. Thus, we expect MAHGL to post a CNG volume of 2.97 mmscmd (+11% YoY, and +2% QoQ). Full benefit of the Rs 3/kg CNG price hike will likely improve realization by 3% QoQ. However, a sharp jump in HH gas cost (35% of the total gas sourcing) will likely offset the gains of higher CNG APM allocation from Jan'25. Thus, we expect MAHGL's unit EBITDA of Rs8.8/scm.

Exhibit 7: MAHGL- Healthy CNG volume to support earnings

Particulars (Rs Mn)	Q4FY25E	Q3FY25	Q4FY24	QoQ(%)	YoY(%)
MAHGL					
Revenue	18,070.8	17,575.8	15,670.5	2.8	15.3
EBITDA	3,312.2	3,144.2	3,937.9	5.3	(15.9)
PAT	2,238.5	2,253.7	2,649.9	(0.7)	(15.5)
EPS	22.7	22.8	26.8	(0.7)	(15.5)
Operating metrics - assumption					
Total Sales volume- mmscmd	4.2	4.1	3.8	1.3	10.1
EBITDA per unit - Rs/scm	8.8	8.3	11.4	6.3	(22.8)

Source: Company, Dolat Capital

GUJGA: Margins to improve but Morbi volume under pressure

>11% QoQ decline in Morbi volume should drag GUJGA's overall volume to 9.15 mmscmd (-6% YoY, -4% QoQ). We expect unit EBITDA to improve to Rs5.1/scm, mainly due to CNG APM allocation improvement and fall in spot LNG share.

Exhibit 8: GUJGA- Morbi slowdown to drag volume

Particulars (Rs Mn)	Q4FY25E	Q3FY25	Q4FY24	QoQ(%)	YoY(%)
GUJGA					
Revenue	39,809	41,529	41,342	(4.1)	(3.7)
EBITDA	4,198	3,805	5,911	10.3	(29.0)
PAT	2,396	2,216	4,095	8.1	(41.5)
Operating metrics - assumption					
Total Sales volume- mmscmd	9.2	9.5	9.7	-3.4	-5.6
PNG Industrial volume - mmscmd	5.0	5.5	5.8	-7.8	-13.2
EBITDA per unit - Rs/scm	5.1	4.4	6.7	16.7	-24.0

Source: Company, Dolat Capital

PLNG: Continues to lose market share

In Q4FY25, India's LNG imports declined 9% YoY, and the PLNG re-gas volume pace slowed mainly due to market share loss. PLNG lost 7% market share over the past year to other LNG terminals. In Q4FY25, PLNG total re-gas volume will be 204 tbtu (-13% YoY). We expect Dahej/Kochi terminal utilisation to be 82%/32%. Earnings will be impacted due to the provision of Rs 1.3 bn for "Use or Pay".

Exhibit 9: PLNG - re-gas volume pace is slowed with decline in LNG import

Particulars (Rs Mn)	Q4FY25E	Q3FY25	Q4FY24	QoQ(%)	YoY(%)
PETRONET LNG					
Revenue	1,04,091.9	1,22,268.6	1,37,931.6	(14.9)	(24.5)
EBITDA	10,828.2	12,476.7	11,040.2	(13.2)	(1.9)
PAT	7,555.7	8,669.9	7,375.8	(12.9)	2.4
Operating metrics - assumption					
Total Re-gas Volume - tbtu	204.0	228.0	234.0	(10.5)	(12.8)
Dahej volume - tbtu	184.0	213.0	219.0	(13.6)	(16.0)
Kochi Volume - Tbtu	20.0	15.0	15.0	33.3	33.3

Source: Company, Dolat Capital

Exhibit 10: GSPL- Slight improvement in volume to drive eranings

Particulars (Rs Mn)	Q4FY25E	Q3FY25	Q4FY24	QoQ(%)	YoY(%)
GSPL					
Revenue	2,661	2,604	5,068	2.2	(47.5)
EBITDA	2,021	1,925	3,780	5.0	(46.5)
PAT	1,431	1,356	2,611	5.5	(45.2)
EPS	2.5	2.4	4.6	5.5	(45.2)

Source: Company, Dolat Capital

Exhibit 11: ONGC- Improvement in earnings on INR depreciation

Particulars (Rs Mn)	Q4FY25E	Q3FY25	Q4FY24	QoQ(%)	YoY(%)
ONGC					
Revenue	3,36,401	3,37,168	3,46,367	(0.2)	(2.9)
EBITDA	1,84,258	1,70,430	1,58,907	8.1	16.0
PAT	92,014	82,399	98,694	11.7	(6.8)

Source: Company, Dolat Capital

Exhibit 12: Oil & Gas sector Preview

(Rs bn)	Revenue			EBITDA			EBITDA Margin (%)			PAT		
Company	Q4FY25E	YoY(%)	QoQ(%)	Q4FY25E	YoY(%)	QoQ(%)	Q4FY25E	YoY(bps)	QoQ(bps)	Q4FY25E	YoY(%)	QoQ(%)
GAIL	310.3	(4.0)	(11.2)	29.4	(17.3)	3.7	9.5	(153)	136	19.4	(11.1)	(50.0)
GSPL	2.7	(47.5)	2.2	2.0	(46.5)	5.0	75.9	136	202	1.4	(45.2)	5.5
GUJ GAS	39.8	(3.7)	(4.1)	4.2	(29.0)	10.3	10.5	(375)	138	2.4	(41.5)	8.1
IGL	38.5	7.0	2.4	4.4	(16.2)	20.5	11.4	(314)	171	3.3	(12.8)	16.8
MAH GAS	18.1	15.3	2.8	3.3	(15.9)	5.3	18.3	(680)	44	2.2	(15.5)	(0.7)
PLNG	104.1	(24.5)	(14.9)	10.8	(1.9)	(13.2)	10.4	240	20	7.6	2.4	(12.9)
RELIANCE	2302.8	(2.6)	(4.0)	421.4	(0.9)	(3.8)	18.3	33	5	173.6	(8.4)	(6.4)
BPCL	1115.1	(4.3)	(1.4)	33.2	(63.9)	(56.1)	3.0	(492)	(372)	12.9	(78.5)	(72.2)
HPCL	958.7	(16.3)	(13.2)	23.9	(50.3)	(60.0)	2.5	(170)	(291)	3.2	(88.7)	(89.4)
IOC	1868.6	(5.6)	(3.6)	44.9	(57.0)	(36.9)	2.4	(287)	(127)	1.2	(97.5)	(94.5)
ONGC	336.4	(2.9)	(0.2)	184.3	16.0	8.1	54.8	890	423	92.0	(6.8)	11.7

Source: Company, Dolat Capital

Dolat Rating Matrix

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

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I. Analyst(s) and Associate (S) holding in the Stock(s): (Nil)

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