

January 2, 2024

Q3 FY25 Earnings Preview - Oil & Gas

OMCs to lead the pack with strong GRMs and adventitious gains; Gas Utilities & CGDs struggle

Overall, the Oil & Gas sector's core performance in Q3FY25 is expected to be a mixed bag, OMCs and standalone refiners to witness sequential improvement in reported refining performance on stronger core GRMs despite marginal inventory losses, and stronger marketing margins with marginal adventitious gains adding to the profitability. Reliance (RIL) would improve sequentially with O2C on better GRMs, JIO increased ARPU and Retail segment reaching its peak EBITDA. Gas utilities volumes decline on reduced CGDs APM allocation and rising gas costs which would result in a deterioration in volumes as well as spreads for CGDs.

Macros: The price of Brent crude for the quarter averaged USD74/bbl down USD4.8 QoQ and USD8.8 YoY. The benchmark Singapore GRM at USD5/bbl, was USD1.4/bbl higher than the previous quarter with an uptick in key product cracks – gasoline flat, gasoil/ATF up by USD/bbl of 1.8/1.5. The gross marketing margins for OMCs improved sharply on sequential basis due to a fall in crude prices. The spot LNG prices averaged USD13.9/mmbtu versus 13 in the previous quarter.

Upstream

The Upstream companies would report subdued operating profits given net crude realization decline. ONGC's oil production to decrease by 4.7% YoY but gas production to be flat while Oil India's oil production is expected to be flat on YoY basis and gas production to rise by 0.5% YoY. We expect a decline in net crude realizations for both the companies due to a fall in crude prices which gas remains stable.

Refineries & OMCs

The gross marketing margins for MS (petrol) and HSD (diesel) during the quarter averaged Rs10.6 and Rs8.9 a litre respectively. India's petroleum products consumption is expected to be up by 4.4% YoY. In terms of refining, the Singapore GRM had a sharp increase sequentially and Indian refiners to continue to report a premium over the benchmark on a higher share of higher cracks product - HSD. We expect companies to report improved GRMs on a stronger core and marginal inventory losses while marketing adventitious gains to add strength. Overall OMCs reported performance would be stronger QoQ with a possible aid by the government on sharing LPG subsidy burden. However, higher forex losses are also expected to affect the profitability.

Gas Utilities

For the Gas Utilities pack, PLNG volumes would decline on both YoY and QoQ basis with lower Dahej utilization (~95.5%) and a rise in spot LNG prices, a possible inventory and trading gains to add to the earnings. GAIL's performance is expected to be weaker on lower gas transmission volumes but supported by stable gas trading margins. Petchem capacity utilization stronger and stable realizations and better margins, while LPG and LHC to show an improvement. GSPL could report flat volumes YoY and a decline in volumes QoQ on a fall in demand from the fertilizer and other sector, while lower tariffs to continue impact the earnings.

City Gas Distribution (CGDs)

City Gas Distribution (CGDs) volumes would decline QoQ for MAHGL and IGL while increase for GUJGA. In terms of volume growth, GUJGA could witness a higher increase, but declining spreads to make things worse. All three leading companies took a price increase on CNG improving realizations which still would not be able to support the spreads on rising gas costs. GUJGA impacted from CNG, despite improved Morbi volumes and price hikes in Propane. IGL & MAHGL to report marginal decline in volumes and steep decline in spreads, which would result in poor profitability.

STOCK VIEW

| Stock | Rating | TP (Rs) |
|--------------|---------|---------|
| HPCL | BUY | 475 |
| BPCL | BUY | 370 |
| RIL | BUY | 1500 |
| MAHGL | BUY | 2000 |
| GAIL | BUY | 240 |
| Oil India | BUY | 710 |
| ONGC | BUY | 355 |
| CPCL | BUY | 1100 |
| IGL | ADD | 462 |
| Petronet LNG | NEUTRAL | 371 |
| IOCL | NEUTRAL | 154 |
| MRPL | NEUTRAL | 175 |
| GSPL | NEUTRAL | 434 |
| Gujarat Gas | SELL | 430 |

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KEY COMPANIES TO WATCH FOR Q3FY25 EARNINGS

Strong performance includes Reliance Industries, HPCL and BPCL.

Reliance Industries is poised to deliver a robust performance in Q3FY25, supported by a favorable operating environment across its key segments. Refining margins are expected to improve sequentially, driven by strengthening product cracks. The digital services segment remains a growth driver, with ARPU likely to trend higher as tariff hikes gain traction. Additionally, the retail segment is anticipated to achieve and reach its record-high EBITDA of Q3FY24, benefiting from sustained expansion (higher private label sales) and strong consumer demand, thereby contributing to overall better profitability. These factors coupled with the correction in stock price reaffirm our positive outlook on Reliance as a top pick in the oil and gas sector.

Strong Q3FY25 OMCs earnings likely

For Q3FY25, we estimate stronger profitability for OMCs particularly HPCL and BPCL (stronger on operational efficiency versus IOCL) with reported GRMs of USD 6/bbl and USD 6.5/bbl respectively, while gross marketing margins of HSD/MS at Rs/ltr of 8.9/10.6 and we build in some possible support from the government regarding the LPG subsidy burden. From an inventory perspective, the crude inventory levels at the end of the last quarter are flat compared to the average inventory of the current quarter. Consequently, we anticipate marginal inventory losses on refining for IOCL and no gain no loss for HPCL and BPCL while an adventitious gains in marketing operations during this span.

Top Losers: CGDs under pressure on APM supply reduction

CGDs are likely to remain under pressure in Q3FY25 due to a series of domestic APM gas allocation cuts. Effective 16th Nov'24, CGDs faced further reductions of 18-20%, building on a similar 20% cut from 16th Oct'24, culminating in a cumulative 36% reduction over two months. This development forces CGDs to rely increasingly on higher-priced New Well Gas (NWG) priced ~USD9-10/mmbtu, necessitating CNG price hikes to maintain margins. Companies like IGL, MAHGL, and GUJGA were needed to raise CNG prices by ~Rs6/kg, to offset the rising costs, potentially phased over two quarters.

MAHGL took a price hike of Rs2/kg on 22nd Nov'24 followed by a Rs1/kg hike on 26th Dec'24 to Rs78/kg, averaging Q3 prices at Rs75.98/kg. IGL announced price hikes on 25th Nov'24 in the range of Rs1.5-4/kg in different locations except Delhi (contributes ~70% of CNG volumes) where the Q3 price averaged Rs75.09/kg. GUJGA took a price hike of Rs1.5/kg on 1st Dec'24 followed by another hike of the same magnitude effective from 1st Jan'25 to Rs79.26/kg, the Q3 average price in Ahmedabad stood at Rs76.77/kg. Despite the price hikes the EBITDA/scm for Q3 is expected to witness a hit of Rs2-2.6/scm across CGDs impacting margins.

Adding to the headwinds, PPAC data indicates a sharp decline in domestic gas consumption by the CGD due to a reduced domestic gas supply and the increasing share of costlier RLNG. While these factors weigh on CGD profitability, potential policy measures such as bringing natural gas under GST could alleviate some tax burdens, partially restoring competitiveness and aiding CNG adoption over the medium term.

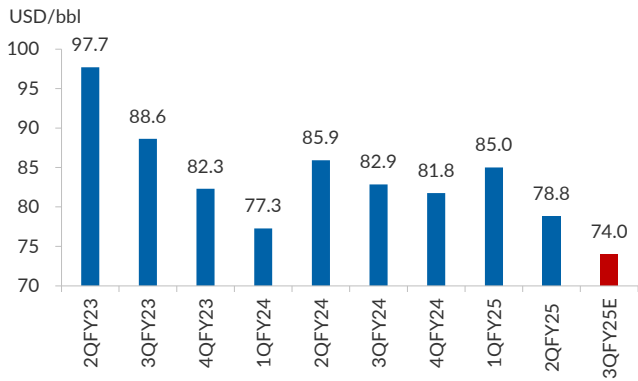
Exhibit 1: Q3 FY25 Preview

| Company | Rs mn | 3QFY24 | 2QFY25 | 3QFY25E | YoY % | QoQ % | Comments | |
|---|---------|-----------|-----------|-----------|-----------|--------|----------|---|
| Reliance Industries | | | | | | | | |
| CMP(Rs) | 1242 | Net Sales | 2,250,860 | 2,315,350 | 2,423,452 | 7.7 | 4.7 | Refining throughput to increase by 4.3% YoY but decrease 3.4% QoQ to 17.1mmt while GRM expected at USD10.8/bbl, Telecom ARPU to increase to ~Rs203 whereas the subscribers stand at 479mn. Retail revenue to dip 3.1% YoY but grow 5.4% sequentially to Rs804.5bn and EBITDA of Rs 62.75bn at its peak. |
| Reco | BUY | EBITDA | 406,560 | 390,580 | 409,683 | 0.8 | 4.9 | |
| Target Price (Rs) | 1500 | PAT | 196,410 | 193,230 | 202,010 | 2.9 | 4.5 | |
| % Upside | 20.8 | EPS (Rs) | 14.5 | 14.3 | 14.9 | 2.9 | 4.5 | |
| ONGC | | | | | | | | |
| CMP(Rs) | 292 | Net Sales | 347,881 | 338,809 | 321,586 | (7.6) | (5.1) | Expect a net crude oil realization of USD73.2/bbl, APM gas realization at USD6.5/mmbtu, while the volume for crude oil is expected to slip by 4.7%/3.6% YoY/QoQ, however gas volumes to remain flat YoY and increase by 1.2% QoQ. |
| Reco | BUY | EBITDA | 171,635 | 182,364 | 181,602 | 5.8 | (0.4) | |
| Target Price (Rs) | 355 | PAT | 95,357 | 119,840 | 90,144 | (5.5) | (24.8) | |
| % Upside | 38.6 | EPS (Rs) | 7.6 | 9.5 | 7.2 | (5.5) | (24.8) | |
| Oil India | | | | | | | | |
| CMP(Rs) | 464 | Net Sales | 53,237 | 52,462 | 53,828 | 1.1 | 2.6 | Expect a net crude oil realisation of USD73.7/bbl, APM gas realization at USD6.5/mmbtu, while the volume for crude oil is expected to be flat YoY and decline by 2.2% QoQ, gas volumes to increase by 0.5% YoY and 3.4% QoQ. |
| Reco | BUY | EBITDA | 21,058 | 21,832 | 25,304 | 20.2 | 15.9 | |
| Target Price (Rs) | 710 | PAT | 15,843 | 18,341 | 14,506 | (8.4) | (20.9) | |
| % Upside | 53.1 | EPS (Rs) | 9.7 | 11.3 | 8.9 | (8.4) | (20.9) | |
| Indian Oil Corp (IOCL) | | | | | | | | |
| CMP(Rs) | 138 | Net Sales | 1,991,040 | 1,738,476 | 1,336,722 | (40.6) | (23.1) | Expect core/reported GRM USD/bbl of 5.1/4.6 on a refining/marketing throughput of 16.3/24.3mmt; blended gross marketing margin at Rs7.3/ltr and core integrated EBITDA margin at USD5.5/bbl, up by USD0.2/bbl YoY and USD3/bbl QoQ. |
| Reco | NEUTRAL | EBITDA | 154,887 | 37,724 | 128,086 | (68.5) | 239.5 | |
| Target Price (Rs) | 154 | PAT | 80,634 | (9,773) | 61,140 | (68.9) | (725.6) | |
| % Upside | 11.6 | EPS (Rs) | 5.7 | (0.7) | 4.3 | (70.2) | (725.6) | |
| Bharat Petroleum Corp (BPCL) | | | | | | | | |
| CMP(Rs) | 297 | Net Sales | 1,154,942 | 1,027,904 | 1,131,717 | (2.0) | 10.1 | Expect core/reported GRM both at USD6.5/bbl on a refining/marketing throughput of 9.1/13.7mmt; blended gross marketing margin at Rs8.2/ltr and core integrated EBITDA margin at USD6.5/bbl, up by USD1.7/bbl YoY and USD1.9/bbl QoQ. |
| Reco | BUY | EBITDA | 62,262 | 45,464 | 94,002 | 51.0 | 106.8 | |
| Target Price (Rs) | 370 | PAT | 33,973 | 23,972 | 60,228 | 77.3 | 151.2 | |
| % Upside | 24.6 | EPS (Rs) | 8.0 | 5.6 | 14.1 | 77.3 | 151.2 | |
| Hindustan Petroleum Corp (HPCL) | | | | | | | | |
| CMP(Rs) | 412 | Net Sales | 1,108,492 | 994,132 | 1,110,127 | 0.1 | 11.7 | Expect core/reported GRM both at USD6.0/bbl on a refining/marketing throughput of 6.4/12.8mmt; blended gross marketing margin at Rs6.7/ltr and core integrated EBITDA margin at USD6.2/bbl, up by USD3.6/bbl YoY and USD2.5/bbl QoQ. |
| Reco | BUY | EBITDA | 21,636 | 27,244 | 72,507 | 235.1 | 166.1 | |
| Target Price (Rs) | 475 | PAT | 5,290 | 6,312 | 38,755 | 632.6 | 514.0 | |
| % Upside | 15.3 | EPS (Rs) | 2.5 | 3.0 | 18.2 | 632.6 | 514.0 | |
| Mangalore Refinery & Petrochemicals (MRPL) | | | | | | | | |
| CMP(Rs) | 150 | Net Sales | 246,671 | 249,679 | 217,090 | (12.0) | (13.1) | Expect core/reported GRM USD/bbl of 5.8/5.4 on a refining throughput of 4.4mmt. |
| Reco | NEUTRAL | EBITDA | 11,595 | (4,739) | 7,325 | (36.8) | (254.6) | |
| Target Price (Rs) | 175 | PAT | 3,871 | (6,823) | 1,067 | (72.4) | (115.6) | |
| % Upside | 16.7 | EPS (Rs) | 2.2 | (3.9) | 0.6 | (72.4) | (115.6) | |

| Company | Rs mn | 3QFY24 | 2QFY25 | 3QFY25E | YoY % | QoQ % | Comments |
|---------------------------------|---------|-----------|---------|---------|---------|--------|----------|
| Chennai Petroleum (CPCL) | | | | | | | |
| CMP(Rs) | 634 | Net Sales | 173,759 | 120,865 | 125,615 | (27.7) | 3.9 |
| Reco | BUY | EBITDA | 7,085 | (6,744) | 2,689 | (62.0) | (139.9) |
| Target Price (Rs) | 1100 | PAT | 3,889 | (6,295) | 532 | (86.3) | (108.4) |
| % Upside | 73.5 | EPS (Rs) | 26.1 | (42.3) | 3.6 | (86.3) | (108.4) |
| GAIL | | | | | | | |
| CMP(Rs) | 191 | Net Sales | 342,365 | 329,117 | 289,223 | (15.5) | (12.1) |
| Reco | BUY | EBITDA | 38,226 | 37,450 | 32,433 | (15.2) | (13.4) |
| Target Price (Rs) | 240 | PAT | 28,426 | 26,719 | 22,609 | (20.5) | (15.4) |
| % Upside | 25.7 | EPS (Rs) | 4.3 | 4.1 | 3.4 | (20.5) | (15.4) |
| Petronet LNG | | | | | | | |
| CMP(Rs) | 328 | Net Sales | 141,372 | 130,218 | 112,180 | (20.6) | (13.9) |
| Reco | NEUTRAL | EBITDA | 10,960 | 12,005 | 11,667 | 6.4 | (2.8) |
| Target Price (Rs) | 371 | PAT | 7,388 | 8,476 | 8,262 | 11.8 | (2.5) |
| % Upside | 13.1 | EPS (Rs) | 4.9 | 5.7 | 5.5 | 11.8 | (2.5) |
| GSPL | | | | | | | |
| CMP(Rs) | 368 | Net Sales | 5,377 | 2,580 | 2,814 | (47.7) | 9.1 |
| Reco | NEUTRAL | EBITDA | 3,796 | 1,929 | 1,910 | (49.7) | (1.0) |
| Target Price (Rs) | 434 | PAT | 2,622 | 3,893 | 1,212 | (53.8) | (68.9) |
| % Upside | 17.8 | EPS (Rs) | 4.7 | 6.9 | 2.2 | (53.8) | (68.9) |
| Indraprastha Gas | | | | | | | |
| CMP(Rs) | 427 | Net Sales | 35,562 | 36,973 | 37,753 | 6.2 | 2.1 |
| Reco | ADD | EBITDA | 5,641 | 5,359 | 3,615 | (35.9) | (32.5) |
| Target Price (Rs) | 462 | PAT | 3,921 | 4,311 | 2,214 | (43.5) | (48.6) |
| % Upside | 8.2 | EPS (Rs) | 5.6 | 6.2 | 3.2 | (43.5) | (48.6) |
| Gujarat Gas | | | | | | | |
| CMP(Rs) | 508 | Net Sales | 39,291 | 37,818 | 40,258 | 2.5 | 6.5 |
| Reco | SELL | EBITDA | 4,007 | 5,142 | 3,723 | (7.1) | (27.6) |
| Target Price (Rs) | 430 | PAT | 2,203 | 3,069 | 1,984 | (9.9) | (35.3) |
| % Upside | -25.8 | EPS (Rs) | 3.2 | 4.5 | 2.9 | (9.9) | (35.3) |
| Mahanagar Gas | | | | | | | |
| CMP(Rs) | 1296 | Net Sales | 15,688 | 17,116 | 17,155 | 9.4 | 0.2 |
| Reco | BUY | EBITDA | 4,487 | 3,985 | 2,979 | (33.6) | (25.2) |
| Target Price (Rs) | 2000 | PAT | 3,172 | 2,828 | 2,015 | (36.5) | (28.8) |
| % Upside | 54.3 | EPS (Rs) | 32.1 | 28.6 | 20.4 | (36.5) | (28.8) |

KEY INDUSTRY CHARTS

Exhibit 2: Average Brent Crude price



Source: Bloomberg, YES Sec

Exhibit 3: Average Dubai Crude price

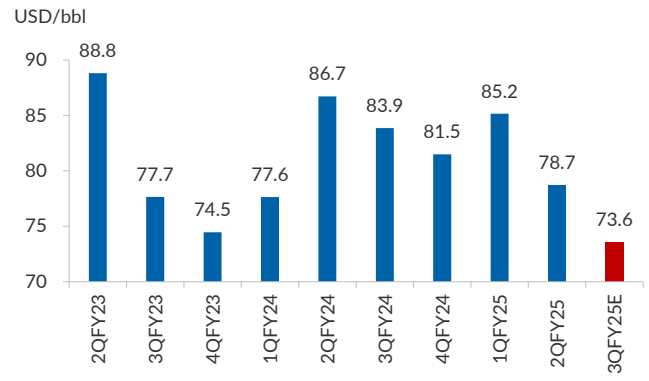
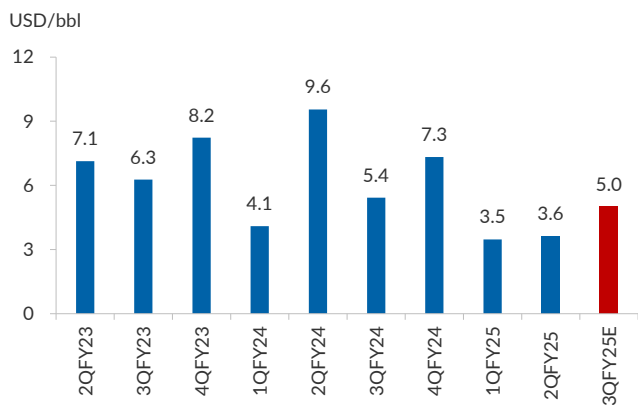


Exhibit 4: Singapore GRMs



Source: Industry, Bloomberg, YES Sec

Exhibit 5: Gasoline cracks

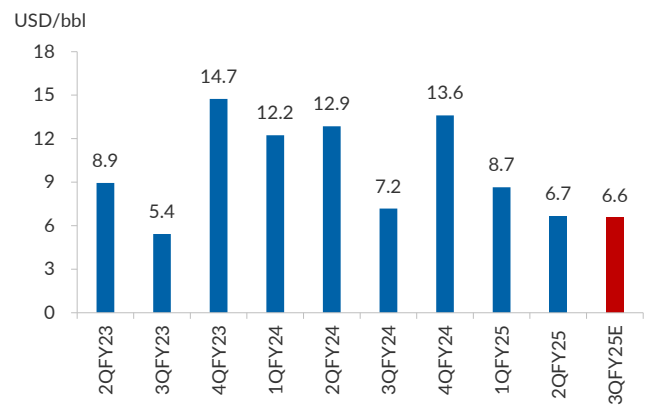
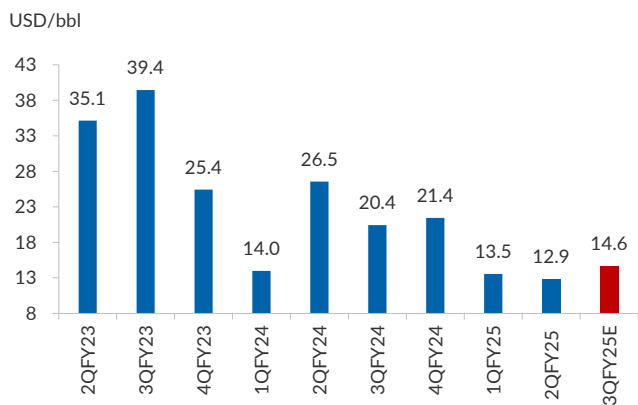


Exhibit 6: Gasoil cracks



Source: Industry, Bloomberg, YES Sec

Exhibit 7: ATF cracks

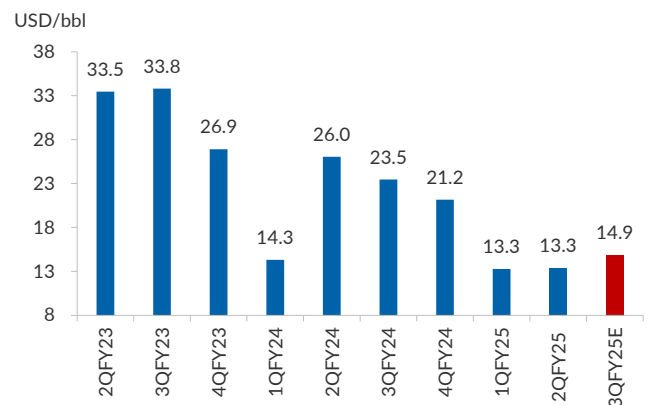
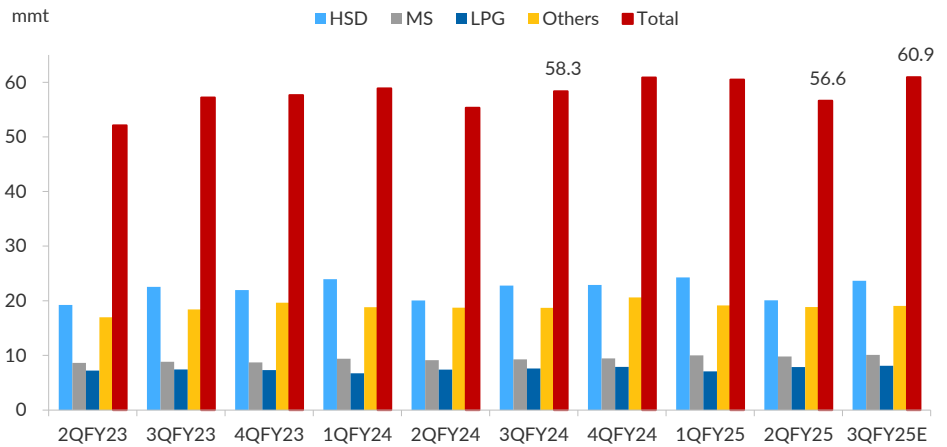
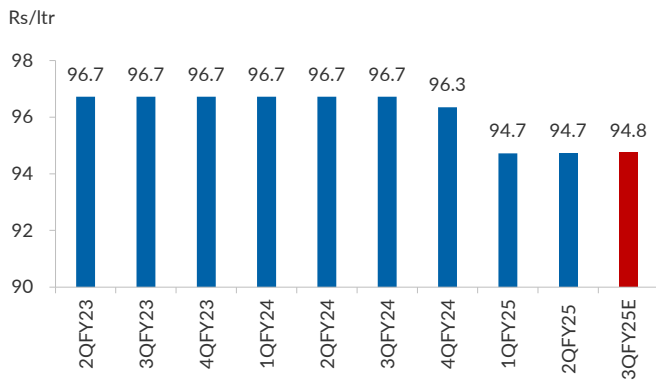


Exhibit 8: India's Petroleum product consumption



Source: PPAC, YES Sec

Exhibit 9: Petrol Retail Selling Price (RSP - Delhi)



Source: Industry, Bloomberg, YES Sec

Exhibit 10: Petrol Gross Marketing Margins

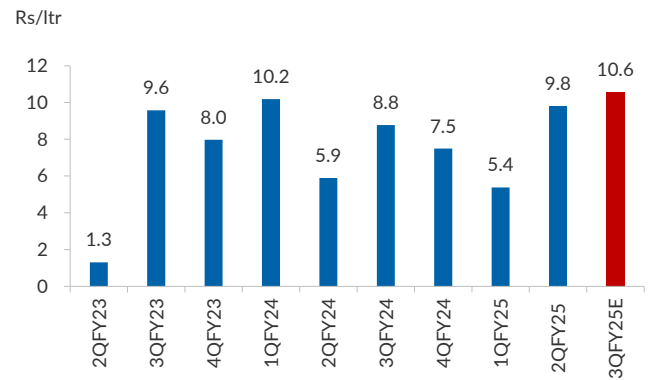
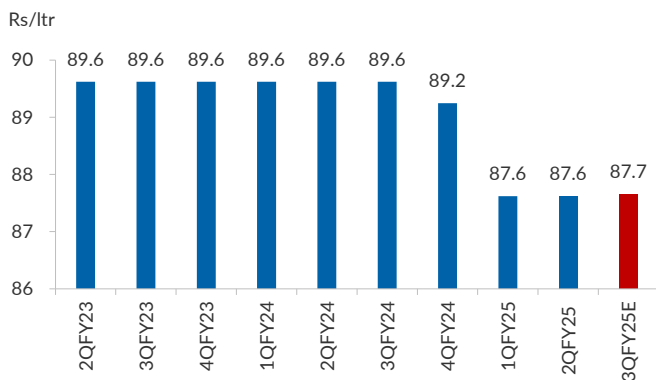


Exhibit 11: Diesel Retail Selling Price (RSP - Delhi)



Source: Industry, Bloomberg, YES Sec

Exhibit 12: Diesel Gross Marketing Margins

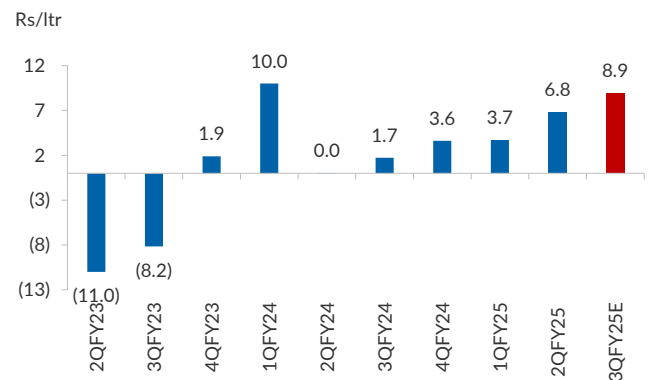
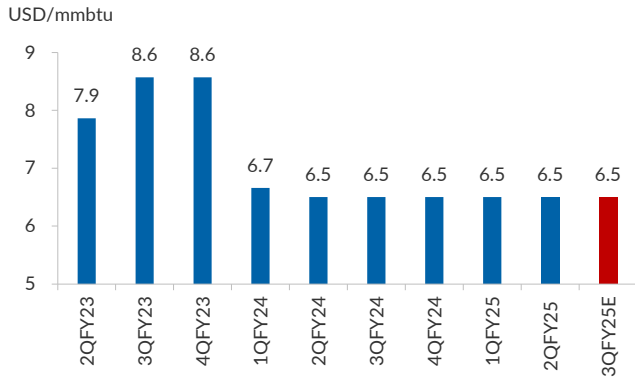


Exhibit 13: APM gas price



Source: PPAC, Industry, YES Sec

Exhibit 14: Deep water (HP/HT) gas price

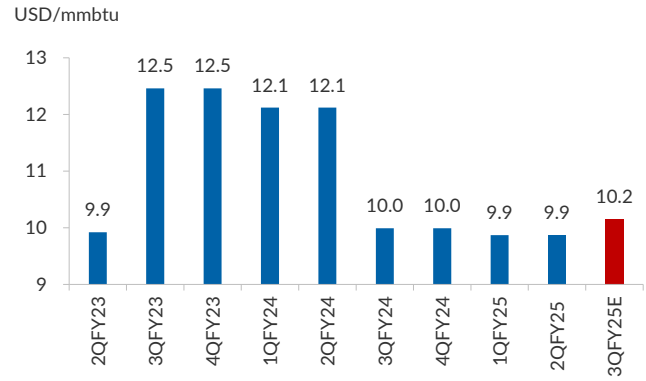
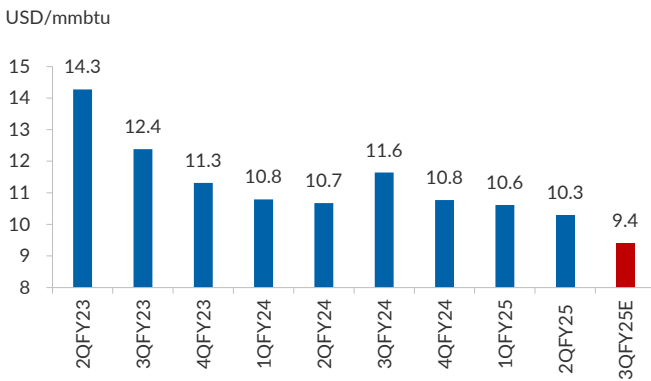


Exhibit 15: Qatar Rasgas price



Source: Bloomberg, YES Sec

Exhibit 16: Gorgon LNG price

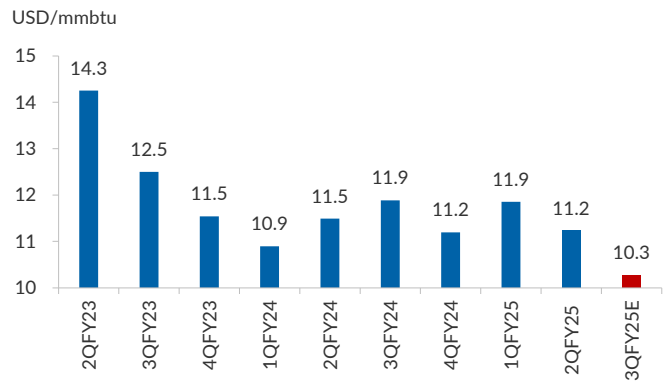
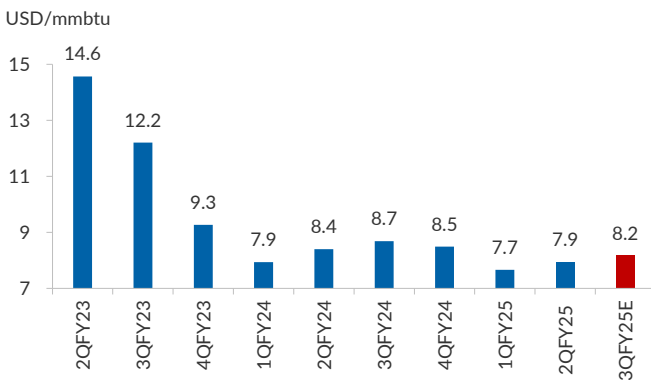


Exhibit 17: US Henry Hub (DES) price



Source: Bloomberg, YES Sec

Exhibit 18: Spot JKM price

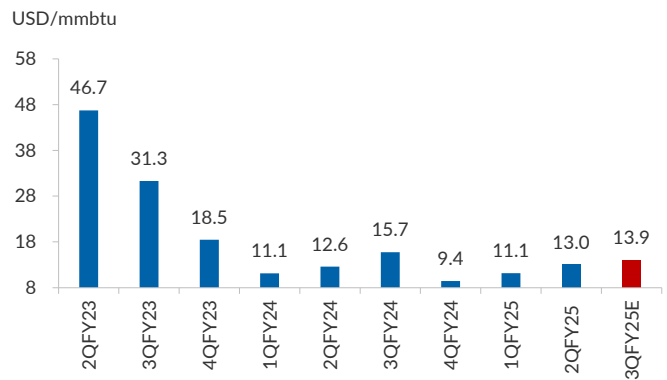
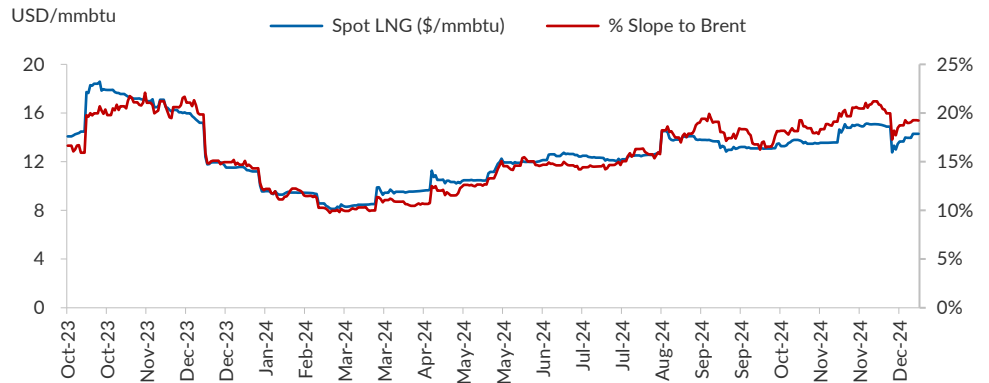
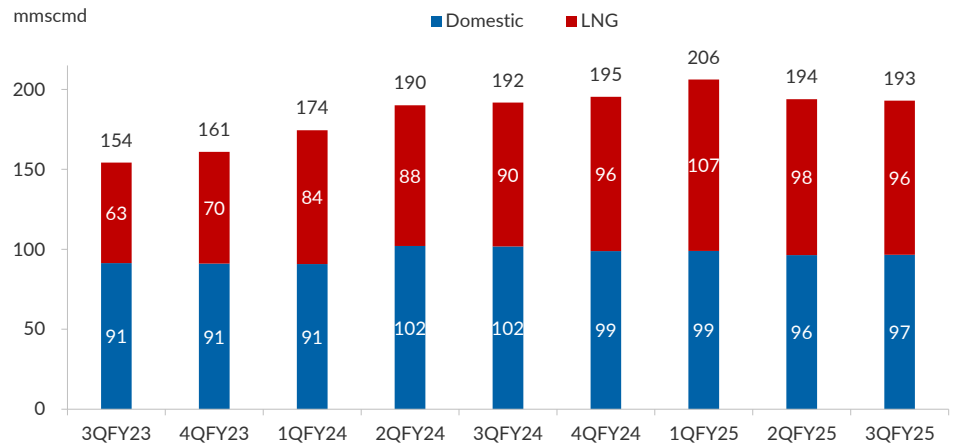


Exhibit 19: Spot JKM as % slope to Brent



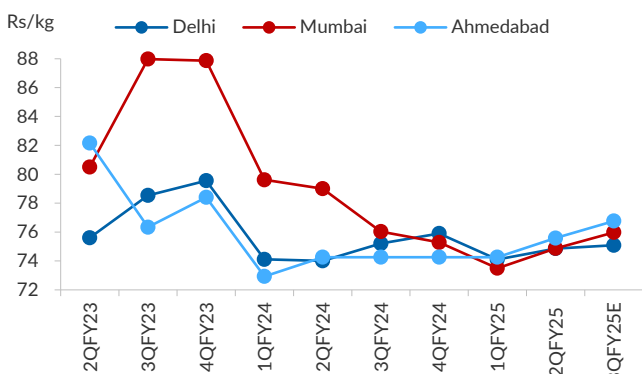
Source: Bloomberg, YES Sec

Exhibit 20: India's Gas Consumption



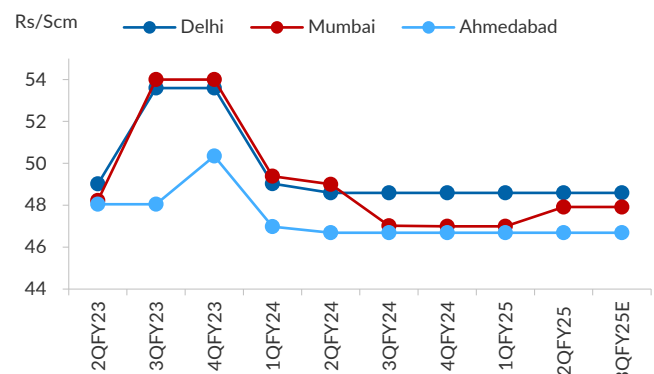
Source: Industry, PPAC, YES Sec

Exhibit 21: CNG prices



Source: Company, YES Sec

Exhibit 22: Domestic PNG prices



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