

Oil & Gas and Aviation

Q3FY24 Preview: Oil sector earnings down QoQ, gas range-bound; Indigo strong

Sector Report

Quarterly Preview

January 4, 2024

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OMCs' earnings to decline due to lower GRMs & marketing margins, inventory losses, but should be in the black. Diesel marketing margins fell to negative ~Rs0.5/ltr, while petrol margins improved 20% to Rs6.8/ltr in Q3FY24. LPG margins also turned negative, at ~Rs60/cyl. Brent averaged at ~USD84/bbl in Q3FY24, down 3% QoQ, closing ~USD19/bbl lower at ~USD78/bbl between the two quarter ends, thereby resulting in refining inventory losses of USD2.5-3/bbl for OMCs. Benchmark GRMs also slumped, to USD5-6/bbl from USD9-10/bbl QoQ, due to a correction in distillate spreads. Russian crude discounts shrank, while Middle-East OSPs were slightly higher. We expect OMCs to record 70-80% decline in EBITDA QoQ. Q3FY24E PAT for IOCL is estimated at Rs26bn, while BPCL/HPCL would see PAT of Rs6/2bn, respectively.

Upstream to see higher opex; OIL to record good output. Windfall-adjusted oil realizations sustained at ~USD75/bbl. ONGC/Oil India's crude output is estimated to decline 2%/grow 7% YoY, while gas is forecast to decline 4%/grow 4%. We estimate an EBITDA decline of 14% QoQ for ONGC, on higher opex and lower output, with OIL also likely seeing a similar fall. We estimate ONGC/OIL's RPAT at Rs84/16bn during Q3FY24. OIL's consolidated earnings would remain range-bound QoQ, on stable NRL earnings amid healthy utilization.

GAIL, GSPL and PLNG's core performance to be largely range-bound. We estimate GAIL's Q3FY24E standalone PAT at Rs20.3bn, down 16% QoQ, as we expect gas marketing margins to decline 25% QoQ. Gas volumes would be slightly up QoQ, while petchem is expected to break-even on lower gas costs and ~95% plant utilization levels. LPG earnings are likely to stabilize, as Aramco's LPG OSPs have increased ~35% QoQ. GSPL's volume is likely to be up 3% QoQ, but EBITDA would decline 7% on higher opex and lower tariff. PLNG's Dahej utilization should be steady at ~96%, with Kochi at 20%. For PLNG, we estimate 3% lower APAT at Rs7.9bn, while implied marketing margin is assumed to be healthy QoQ at ~USD3.5/mmbtu, but with spot volumes being lower.

IGL's margins to decline on APM cut, but volume growth to recover from the Q2 lows; margins to be range-bound for Gujarat Gas amid some volume growth QoQ: IGL is likely to witness 7% QoQ decline in EBITDA to Rs6.1bn in Q3FY24E, as unit EBITDA would fall 9% QoQ to Rs7.8/scm owing to higher gas costs, likely due to lower APM allocation; volume growth should be 5% YoY. Morbi volumes are expected to be flattish, resulting in Gujarat Gas's volumes growing 5% QoQ to 9.8mmscmd. However, EBITDA/scm would be slightly lower, by 3% QoQ to Rs5.6, on higher gas cost. PAT is expected to improve marginally, by 2% QoQ to Rs3bn.

RIL declines marginally QoQ, as O2C weakness is largely offset by the steady consumer business growth: We estimate RIL's consolidated EBITDA to drop 2% QoQ to Rs403bn, with O2C EBITDA declining 12% to Rs144bn on lower GRMs, accentuated by sustained weakness in petchem margins and reduced volumes. We expect net subscriber addition of ~10.5mn for Jio, with a 0.5% higher ARPU at Rs182.5. Retail EBITDA should increase 7% QoQ to Rs63bn, while upstream EBITDA is expected to grow 7% QoQ to Rs51bn, as KG-D6 volumes are likely to average at ~30mmscmd in Q3. We estimate consolidated APAT (after the JPL-RRVL MI) to drop, by 3% to Rs168bn.

GOLI likely to witness ~12% YoY core volume growth, with EBITDA/ltr up 8% QoQ to Rs17, mainly on lower unit opex. We expect Q3FY24E EBITDA/PAT to grow 18%/21% QoQ to Rs1.18bn/891mn, respectively.

Robust Q3 on the cards for Indigo, supported by better load factors and strong yields. We estimate yields to jump up 15% QoQ to Rs5.1, besides a 9% hike in fuel cost/ASK, driven by rise in ATF prices. PLFs would also be seasonally strong, at ~87%, as ASK/RPK rise 25%/28% YoY (a 2%/6% QoQ rise) to 36.0/31.3bn. We estimate PBT/ASK to come in at Rs0.44, with net income at Rs15.8bn, for Q3FY24 (up 12% YoY).

Overall in the O&G sector, while we expect a neutral show from RIL, we foresee sequential decline in earnings across key oil companies. The Gas sector should be stable. In Aviation, Indigo would report strong PAT, led by healthy core metrics.

Sabri Hazarika

sabri.hazarika@emkayglobal.com
+91 22 6612 1282

Harsh Maru

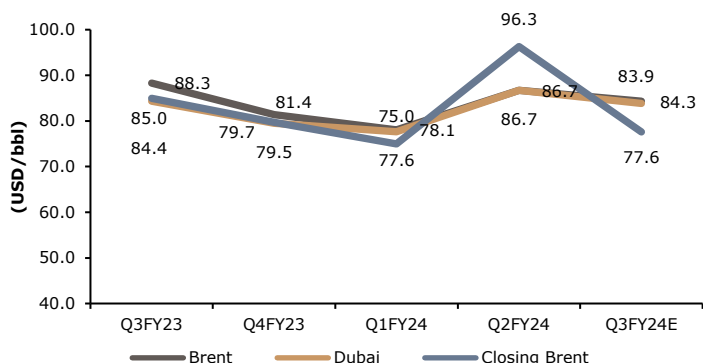
harsh.maru@emkayglobal.com
+91 22 6612 1336

Arya Patel

arya.patel@emkayglobal.com
+91 22 6612 1285

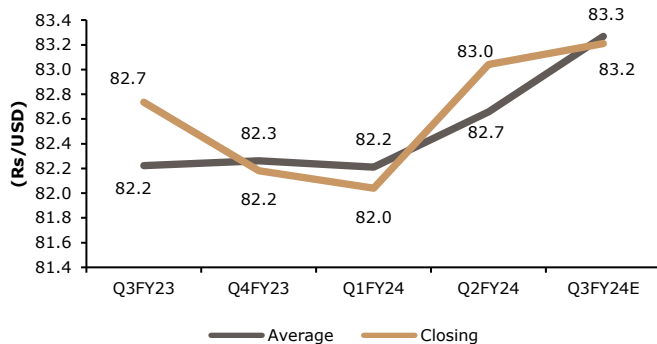
Story in Charts

Exhibit 1: Average Brent price declined 3% QoQ to USD84/bbl, closing at around USD78/bbl



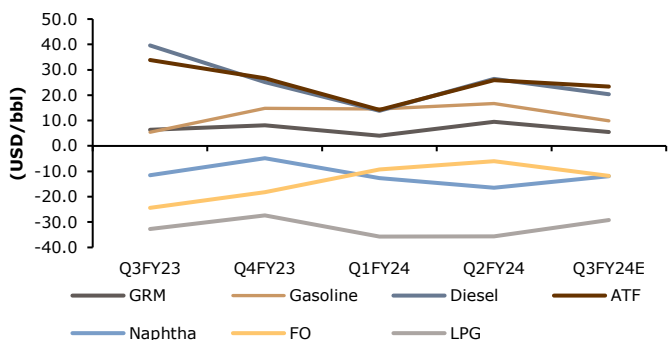
Source: Bloomberg, Emkay Research

Exhibit 2: The INR depreciated by 1% on a QoQ basis and, largely, closed a tad weaker



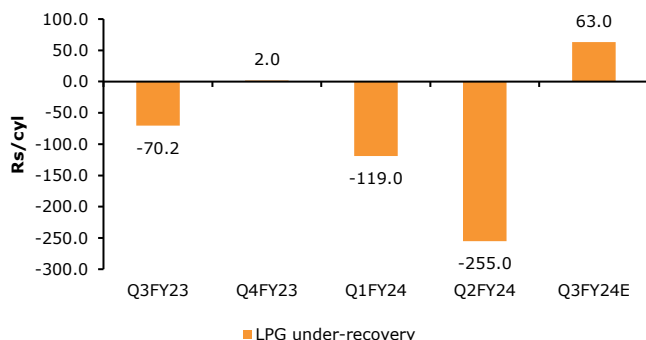
Source: Bloomberg, Emkay Research

Exhibit 3: Benchmark refining margins plummeted, as petrol & diesel spreads saw a sharp fall



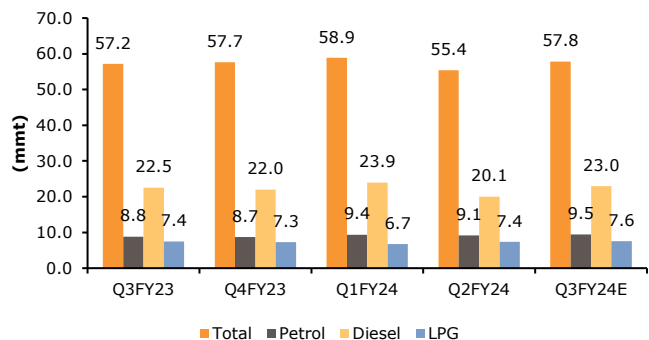
Source: Bloomberg, Media Reports, Industry, Emkay Research

Exhibit 4: LPG margins turned negative at ~Rs63/cylinder in Q3FY24, as international prices increased



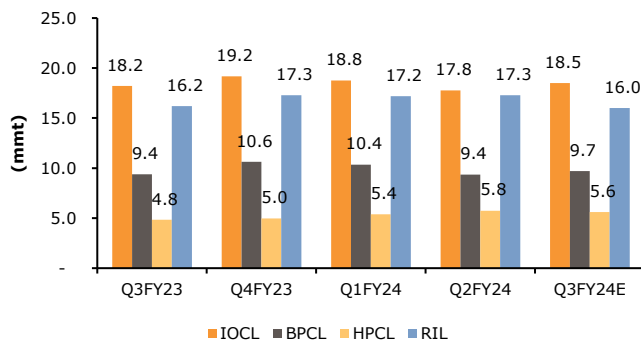
Source: Bloomberg, PPAC, IOCL, Emkay Research

Exhibit 5: Indian oil demand should grow ~1% YoY in Q3FY24E, with petrol/diesel up 7%/2%, respectively



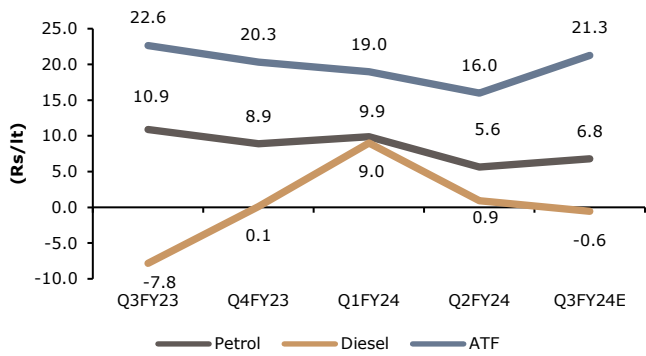
Source: PPAC, Emkay Research

Exhibit 6: Refining volumes range-bound QoQ, but RIL likely to see a decline due to maintenance



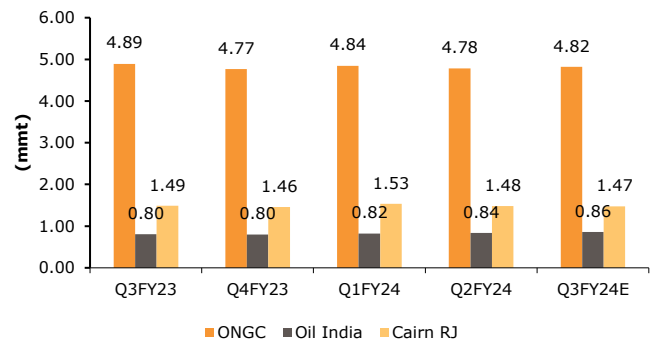
Source: Company, PPAC, Emkay Research

Exhibit 7: Petrol gross marketing margins strong, but diesel margins slightly negative; while ATF at Rs21/ltr



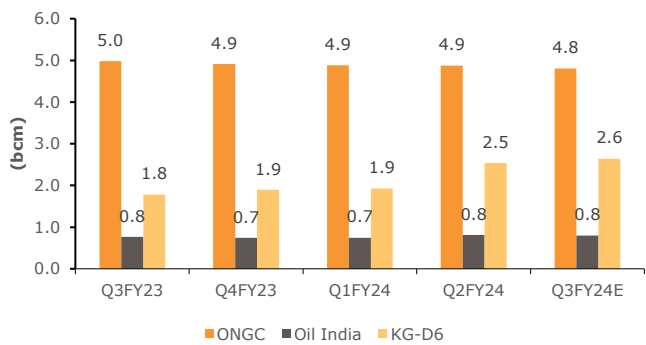
Source: Company, Bloomberg, Emkay Research

Exhibit 8: ONGC/Oil India's crude output expected to reduce 2%/improve 7% YoY



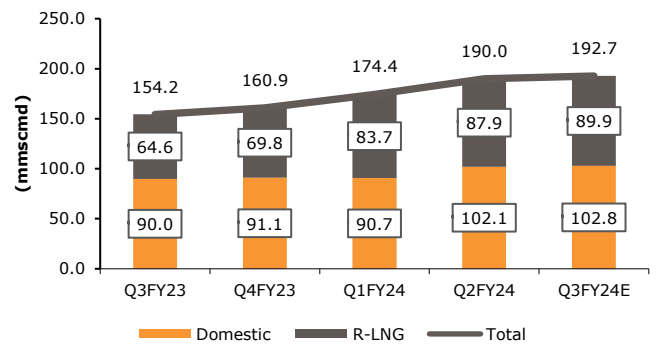
Source: Company, PPAC, MOPNG, Emkay Research

Exhibit 9: ONGC/Oil India's gas output expected to fall 4%/rise 4% YoY; RIL's KG gas to be up 4% QoQ



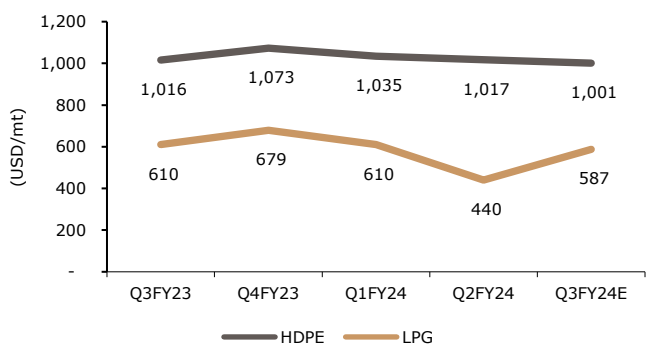
Source: Company, PPAC, MOPNG, Emkay Research

Exhibit 10: Indian gas demand expected to be better QoQ due to higher LNG offtake



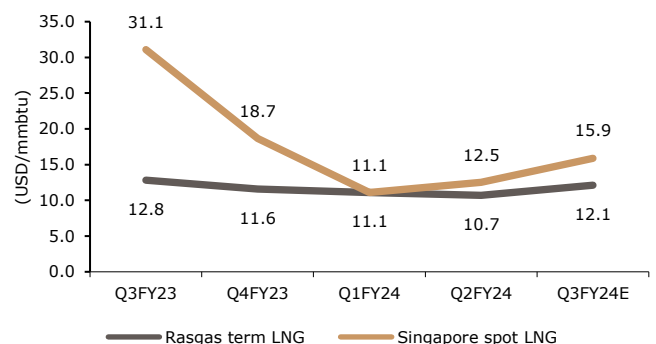
Source: PPAC, Emkay Research; Note: Q3FY24E is the Oct-Nov 2023 average

Exhibit 11: Arab Gulf LPG price was up 33% QoQ, while Korea HDPE price fell 2% QoQ



Source: Argus, Bloomberg, Emkay Research

Exhibit 12: LNG prices increased QoQ, with spot up 27% QoQ, while term was up 13% QoQ



Source: Media Reports, Bloomberg, Emkay Research

Oil & Gas

Exhibit 13: Oil & Gas companies under our coverage – Q3FY24 Preview...

Name		Dec '23	Sep '23	Dec '22	YoY chg	QoQ chg	Comments	
Reliance Industries		(Consolidated)						
CMP (Rs)	2,583	Net Sales (Rs mn)	2,302,482	2,318,860	2,171,640	6.0%	-0.7%	Q2C EBITDA down 12% QoQ to Rs143.7bn; Upstream EBITDA up 7% QoQ to Rs51bn; Retail EBITDA to increase 7% QoQ; Jio ARPU to rise 0.4% QoQ, 10.5mn sub additions in Q3FY24
Mkt Cap (Rs bn)	17,479	EBITDA (Rs mn)	403,480	409,680	352,470	14.5%	-1.5%	
Reco	Add	EBITDA Margin (%)	17.5	17.7	16.2	129 bps	-14 bps	
Target Price (Rs/sh)	2,730	PAT (Rs mn)	167,882	173,940	157,920	6.3%	-3.5%	
Upside	6%	EPS (Rs)	24.8	25.7	23.3	6.3%	-3.5%	
ONGC								
CMP (Rs)	208	Net Sales (Rs mn)	344,135	351,630	385,833	-10.8%	-2.1%	Expect crude oil realization at USD82.3/bbl, gas flat QoQ, while crude oil/gas production volumes expected to decline 2%/4% YoY
Mkt Cap (Rs bn)	2,620	EBITDA (Rs mn)	147,547	171,176	188,047	-21.5%	-13.8%	
Reco	Buy	EBITDA Margin (%)	42.9	48.7	48.7	-586 bps	-581 bps	
Target Price (Rs/sh)	250	PAT (Rs mn)	84,426	102,163	110,447	-23.6%	-17.4%	
Upside	20%	EPS (Rs)	6.7	8.1	8.8	-23.6%	-17.4%	
Oil India								
CMP (Rs)	386	Net Sales (Rs mn)	58,455	59,133	58,794	-0.6%	-1.1%	Expect crude oil realization at USD84.3/bbl, gas flat QoQ, while crude oil/gas production volumes expected to increase 7%/4% YoY
Mkt Cap (Rs bn)	418	EBITDA (Rs mn)	22,676	26,349	28,553	-20.6%	-13.9%	
Reco	Buy	EBITDA Margin (%)	38.8	44.6	48.6	-977 bps	-577 bps	
Target Price (Rs/sh)	445	PAT (Rs mn)	15,501	28,345	17,461	-11.2%	-45.3%	
Upside	15%	EPS (Rs)	14.3	26.1	16.1	-11.2%	-45.3%	
Indian Oil								
CMP (Rs)	133	Net Sales (Rs mn)	1,853,859	1,797,398	2,047,402	-9.5%	3.1%	Expect core/reported GRM of USD10/7.5 per bbl; blended marketing margin at Rs4.0/kg vs Rs4.9/kg in Q2, while total sales volumes rose 2% YoY to 24.5mmt
Mkt Cap (Rs bn)	1,874	EBITDA (Rs mn)	70,042	220,611	54,155	29.3%	-68.3%	
Reco	Add	EBITDA Margin (%)	3.8	12.3	2.6	113 bps	-850 bps	
Target Price (Rs/sh)	135	PAT (Rs mn)	25,714	128,949	5,691	351.9%	-80.1%	
Upside	1%	EPS (Rs)	1.9	9.4	0.4	351.9%	-80.1%	
BPCL								
CMP (Rs)	461	Net Sales (Rs mn)	1,058,863	1,029,856	1,191,581	-11.1%	2.8%	Expect core/reported GRM of USD9.5/6.5 per bbl; blended marketing margin at Rs4.2/kg vs Rs5.4/kg in Q2, while total sales volumes rose 1% YoY to 13.1mmt
Mkt Cap (Rs bn)	1,000	EBITDA (Rs mn)	28,108	130,358	43,758	-35.8%	-78.4%	
Reco	Buy	EBITDA Margin (%)	2.7	12.7	3.7	-102 bps	-1,000 bps	
Target Price (Rs/sh)	545	PAT (Rs mn)	6,708	85,012	19,596	-65.8%	-92.1%	
Upside	18%	EPS (Rs)	3.2	39.9	9.2	-65.8%	-92.1%	
HPCL								
CMP (Rs)	422	Net Sales (Rs mn)	1,013,415	957,011	1,096,032	-7.5%	5.9%	Expect core/reported GRM of USD7.5/4.5 per bbl; blended marketing margin at Rs4.6/kg, vs Rs6.3/kg in Q2, while total sales volumes rose 3% YoY to 11.6mmt
Mkt Cap (Rs bn)	598	EBITDA (Rs mn)	22,188	85,805	20,748	6.9%	-74.1%	
Reco	Buy	EBITDA Margin (%)	2.2	9.0	1.9	30 bps	-678 bps	
Target Price (Rs/sh)	445	PAT (Rs mn)	2,453	51,182	1,724	42.3%	-95.2%	
Upside	6%	EPS (Rs)	1.7	36.1	1.2	42.3%	-95.2%	

Source: Company, Emkay Research

(contd.) Oil & Gas companies under our coverage – Q3FY24 Preview

Name			Dec'23	Sep'23	Dec'22	YoY chg	QoQ chg	Comments
GAIL								
CMP (Rs)	162	Net Sales (Rs mn)	357,582	318,068	353,654	1.1%	12.4%	Expect transmission/marketing volumes to grow by 1%/2% QoQ, Gas marketing margins expected to decline QoQ while petchem utilization at 95%. LPG realisations is expected to increase 36% QoQ
Mkt Cap (Rs bn)	1,066	EBITDA (Rs mn)	31,147	34,913	2,613	1091.9%	-10.8%	
Reco	Reduce	EBITDA Margin (%)	8.7	11.0	0.7	797 bps	-227 bps	
Target Price (Rs/sh)	130	PAT (Rs mn)	20,304	24,049	2,457	726.3%	-15.6%	
Upside	-20%	EPS (Rs)	3.1	3.7	0.4	726.3%	-15.6%	
Gujarat State Petronet								
CMP (Rs)	326	Net Sales (Rs mn)	5,099	5,293	4,024	26.7%	-3.7%	Volumes to increase 3% QoQ at 31.0mmscmd; EBITDA/scm to decline 9% QoQ to Rs1.34/scm
Mkt Cap (Rs bn)	184	EBITDA (Rs mn)	3,818	4,103	2,699	41.4%	-6.9%	
Reco	Buy	EBITDA Margin (%)	74.9	77.5	67.1	780 bps	-263 bps	
Target Price (Rs/sh)	335	PAT (Rs mn)	2,600	5,320	1,709	52.1%	-51.1%	
Upside	3%	EPS (Rs)	4.6	9.4	3.0	52.1%	-51.1%	
Petronet LNG								
CMP (Rs)	228	Net Sales (Rs mn)	132,497	125,320	149,270	-11.2%	5.7%	96%/20% Dahej/Kochi utilization; USD3.5/mmbtu spot LNG marketing margin
Mkt Cap (Rs bn)	342	EBITDA (Rs mn)	11,718	12,147	8,264	41.8%	-3.5%	
Reco	Buy	EBITDA Margin (%)	8.8	9.7	5.5	331 bps	-85 bps	
Target Price (Rs/sh)	245	PAT (Rs mn)	7,929	8,181	4,894	62.0%	-3.1%	
Upside	7%	EPS (Rs)	5.3	5.5	3.3	62.0%	-3.1%	
Indraprastha Gas								
CMP (Rs)	422	Net Sales (Rs mn)	36,167	34,585	37,108	-2.5%	4.6%	Volumes to grow 5% YoY/2% QoQ to 8.51mmscmd; 9% QoQ decline in EBITDA/scm to Rs7.8 on higher gas costs
Mkt Cap (Rs bn)	296	EBITDA (Rs mn)	6,105	6,569	4,285	42.5%	-7.1%	
Reco	Add	EBITDA Margin (%)	16.9	19.0	11.5	533 bps	-211 bps	
Target Price (Rs/sh)	445	PAT (Rs mn)	4,275	5,348	2,783	53.6%	-20.1%	
Upside	5%	EPS (Rs)	6.1	7.6	4.0	53.6%	-20.1%	
Gujarat Gas								
CMP (Rs)	499	Net Sales (Rs mn)	43,056	38,454	36,843	16.9%	12.0%	Volumes to be up 34% YoY/5% QoQ to 9.8mmscmd; EBITDA/scm to decline 3% QoQ to Rs5.6
Mkt Cap (Rs bn)	343	EBITDA (Rs mn)	5,019	4,966	5,823	-13.8%	1.1%	
Reco	Reduce	EBITDA Margin (%)	11.7	12.9	15.8	-415 bps	-126 bps	
Target Price (Rs/sh)	440	PAT (Rs mn)	3,038	2,978	3,713	-18.2%	2.0%	
Upside	-12%	EPS (Rs)	4.4	4.3	5.4	-18.2%	2.0%	
Gulf Oil Lubricants								
CMP (Rs)	717	Net Sales (Rs mn)	8,830	8,023	7,811	13.0%	10.1%	12% QoQ rise in core volumes; 8% improvement in EBITDA/ltr QoQ led by lower raw material cost
Mkt Cap (Rs bn)	35	EBITDA (Rs mn)	1,184	1,005	900	31.5%	17.8%	
Reco	Add	EBITDA Margin (%)	13.4	12.5	11.5	189 bps	89 bps	
Target Price (Rs/sh)	750	PAT (Rs mn)	891	736	627	42.3%	21.1%	
Upside	5%	EPS (Rs)	18.2	15.0	12.8	42.1%	21.1%	

Source: Company, Emkay Research

Aviation**Aviation companies under our coverage – Q3FY24 Preview**

Name			Dec'23	Sep'23	Dec'22	YoY chg	QoQ chg	Comments
Interglobe Aviation								
CMP (Rs)	2,990	Net Sales (Rs mn)	180,885	149,439	149,330	21.1%	21.0%	2% QoQ increase in ASK to 36bn; PLF at 87%; Yield at Rs5.1, up 15% QoQ; RPBT/ASK down 11% YoY to Rs0.44
Mkt Cap (Rs bn)	1,154	EBITDA (Rs mn)	38,886	26,635	37,001	5.1%	46.0%	
Reco	Add	EBITDA Margin (%)	21.5	17.8	24.8	-328 bps	367 bps	
Target Price (Rs/sh)	3,100	PAT (Rs mn)	15,846	379	14,182	11.7%	4085.3%	
Upside	4%	EPS (Rs)	41.1	1.0	36.8	11.7%	4085.3%	

Source: Company, Emkay Research; Note: nm = not meaningful

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Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India
Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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