



OIL & GAS

Sunny prospects for
Refiners and OMCs; gas
consumption scales
fresh highs

January 12, 2024

REINITIATING COVERAGE

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Sunny prospects for Refiners and OMCs; gas consumption scales fresh highs

After witnessing a highly volatile FY23 in both crude and gas, FY24 has brought cheer for Indian Oil & Gas companies, given that most of them reported record profits. We expect brighter prospects in FY25/FY26, but only after a potential downhill journey over FY24. Among the conducive factors are modest crude and LNG prices, higher sourcing of discounted crude, and greater domestic gas supplies. Indian refiners' GRMs could come stronger to hold premiums to the benchmark, while possible lower crude prices and unchanged petrol and diesel retail prices could spell better marketing margins for OMCs. In a consumption-thirsty nation that India is, we expect significant volume growth across segments.

Crude prices hovering in the USD 75-85/bbl range and stronger GRMs above USD9/bbl have undoubtedly emerged as a big plus for standalone refiners and OMCs. These ranged crude prices have also ensured better marketing margins, and we believe these stronger numbers are sustainable. We build in crude prices at USD/bbl of 85/77/70, Singapore GRMs of 6.2/5.0/4.2 for FY24e/25e/26e. For Indian refiners we assume GRMs of ~USD/bbl of 8/7 and gross marketing margins for both petrol and diesel normalized at Rs2.8/ltr for FY25e/26e. Higher product demand and low refinery additions resulting in short supply could help keep up the key product cracks and sustain the GRMs. A higher sourcing of discounted Russian crude could further support profitability (10% ~USD0.5/bbl). We expect the upstream to achieve stronger profits in FY24e/FY25e and a decline in FY26e based on our crude expectations and a cap of net realization at ~USD75-77/bbl while gas prices at USD/mmbtu of 6.5/7.0/7.0 for FY24e/25e/26e should add support.

Spot LNG prices were quite volatile in FY23 and peaked at USD70/mmbtu; supply issues were unable to meet the demand, given disruption caused by shutdowns and EU moving away from Russia. The prices have fallen (currently below USD16/mmbtu) and stable despite winter, but still higher than the Indian long-term crude linked sourcing, which is ~USD11-12/mmbtu.

The Indian government aims to increase share of natural gas in energy consumption basket from ~7.5% to 15% by 2030. India hit peak gas demand of 198.1mmcmd in Oct'23, with fertilizer demand peaking, while CGD and other sector demand near high. Major supply growth should come from LNG imports given lower domestic supplies, despite additions from RIL's MJ field and ONGC's KG basin. Production from older fields continues to decline. In FY23, RIL's KG basin increased domestic gas supplies and is now supplying ~30mmcmd, addressing the demand emanating from core sectors. We expect strong demand growth to continue for all sectors given falling gas prices. India gas consumption should increase by ~100mmcmd by 2030, with key contributions expected from CGD followed by miscellaneous sectors as the availability improves.

The Indian CGD sector is a key beneficiary of sustained government support via policy changes, unlike for upstream, midstream, and downstream companies. A potential benefit could emanate from lower gas prices post the approval of the Kirit Parikh Report recommendations; lower CNG and D-PNG prices could help drive volumes.

Top Picks: Overall, we are bullish on the sector, and BPCL, HPCL, CPCL and IGL are our key preferences; other names with upsides include IOCL, RIL, MAHGL and GUJGA. For the Gas utilities and upstream, we carry a ADD recommendation given the valuations and limited upside.

Risks: Some upward/downward risks to our assumptions include volatile crude prices, GRMs, marketing margins, sharper movement in LNG prices, change in government policies, and faster EV adoption affecting CGDs and the like.

STOCK VIEW

Stock	Rating	TP (Rs)	Potential Return (%)
HPCL	BUY	574	33.2
BPCL	BUY	618	37.0
IOCL	BUY	155	18.9
CPCL	BUY	1,040	40.7
MRPL	ADD	151	12.5
RIL	BUY	3,170	19.6
ONGC	ADD	225	6.1
Oil India	ADD	408	11.9
GAIL	ADD	166	3.8
Petronet LNG	REDUCE	229	(2.1)
GSPL	ADD	375	17.7
Gujarat Gas	ADD	605	17.5
IGL	BUY	540	29.2
MGL	ADD	1,365	15.6

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Snapshot of key global trends and consequent impact on domestic sector:

- **Refining margins still higher:** Record margins were observed in 2022, tightening markets, heightening volatility, and posing long-term challenges for refiners and consumers that disrupted demand-supply patterns for the year. We expect the supply and demand uncertainties influencing refining margins to persist and the potential developmental fronts to watch out for include Russian supply, Chinese policy toward refined-product exports, outlook on global demand-supply growth gap, and capacity additions (new refining projects). **Our assumptions for refining** - We estimate a dip in the Singapore benchmark in FY24/25/26 (from FY23) and believe Indian refiners would report premiums to the benchmark due to greater share of the higher-crack product, diesel. We estimate the Singapore benchmark at USD/bbl of 6.2/5.0/4.2 for FY24/25/26.
- **Robust Indian petroleum-product consumption:** India's Dec'23 petroleum-product demand at 20.1mmt was up 2.6% YoY, diesel down 2.3% while petrol stayed flat and still lower than its peak in May'23. Gross marketing margins as of January 1, 2024, diesel and petrol recorded Rs/ltr 6.7 and 10.8, respectively, signifying a positive impact from the sharp correction in crude prices. OMCs benefited by stagnant RSP and decrease in crude prices. As per PPAC, 233.81mmt of petroleum products are expected to be consumed in FY24 vs our estimate of 232.2mmt and FY23's 222.3mmt, surpassing the earlier peak of 212.9mmt in FY19. **OMCs marketing margins above normal:** Jan'24, diesel and petrol recorded Rs/ltr 6.7 and 10.8, respectively, a notable improvement compared to Q3FY24 figures of Rs/ltr 1.7 and 8.8, signifying a positive impact from the sharp correction in crude prices. While the Q2FY24 both products averaged Rs/ltr of 0.0 and 5.9 for diesel and petrol. Demand stands strong with RSP for both products unchanged, and a sharp correction in crude prices lifting gross marketing margins.
- **India imported 36% of its crude from Russia in 2023:** In Dec'23 India bought a large quantity of Russian crude, importing ~4.5mb/d, ~31% (1.39mb/d) from Russia, available at a ~USD5-6/bbl discount (Urals trade at a USD12/bbl discount to Brent) incl. freight discounts. Indian PSUs imported 0.9mb/d (>30% of their crude imports) while private refiners (RIL and Nayara) sourced ~0.5mb/d (~35% of India's imports from Russia and ~23% of its total crude imports). 2023's 1.67mb/d crude imports (~36% of Indian crude imports) show a sharp offtake from Russia, the Middle East players gained market share in Q4CY23, stood at 45.3% in Dec vs a low of 33.7% in May. This was largely supported by Iraq which moved from 16.4% to 22% now.
- **OMR from IEA Dec'23 - Record supplies from US, Brazil & Iran offset OPEC+ cuts, demand eases marginally.** The global oil demand in 2023 is set to soar by 2.3mb/d to 101.7mb/d while global oil supply in 2023; however, a 101.9mb/d. Saudi production cut of 1mb/d is likely to continue through the end of the year. (Saudi supply stable at ~9mb/d), Global supply for 2023 & 2024 is expected to be dominated by non-OPEC+ producers. The **OECD's commercial oil stock** at 2,818mb barrels is 128mb lower than the 5-year average (2015-19). Russia's Nov'23 oil exports were at 7.3mb/d (crude shipments higher, offsetting a fall in crude products). Despite signaling a 0.5mb/d cut, Russia's crude production was strong in Nov'23 at ~9.5mb/d. It is pertinent to note that Iranian oil production surged to 3.2mb/d in Nov'23 (near highs of last 5 years) despite US sanctions and promises by top American diplomats.
- **Major LNG trades, 2023 (11 months; USA-led supply growth, EU LNG imports drop, while Asian demand stays constant.**
- Major LNG trades in Nov'23, LNG exports of the top four fall; Japan and South Korea's imports decline. For 2023 (11-months), US LNG exports grew 12% from a year ago, Australia's flat; Qatar down 2%, Russia's declined 3%. Of imports, however, China's grew 12% and India 7%, while Japan and South Korea was down 9% and 5% respectively. Major European countries' imports fell sharply in double digits, but Netherlands and Italy grew. In terms of global supply outlook, few export-scale LNG projects would come on-line in 2024, adding ~9.1mtpa liquefaction capacity in 2024.

- **Indian gas market:** India's gas consumption is huge, but domestic supplies have been patchy in the past. However, in FY23, RIL's KG basin increased domestic gas supplies, which has served the demand from core sectors. Recent demand in India for gas got a shot in the arm from domestic supply, and LNG was ~47% versus a five-year average of 55%.
- **India gas consumption should increase by ~100mmcmd by 2030:** Supply growth would largely come from LNG imports, given lower domestic supplies despite additions from RIL's MJ field and ONGC's KG basin. Production from older fields continues to decline. Our assumption of gas-consumption-growth does not include higher offtake due to expansions (refineries), new petrochemical projects and policy changes, which could further alter demand. CGD consumption, which today is ~21%, would increase to ~28.5% by 2030.
- **Strong CGD infrastructure addition:** With the rollout of CGD rounds 9, 10 and 11, the penetration and availability of gas has increased, and India has added vast CGD infrastructure. CNG has been highly competitive at times to petrol and diesel but, given the huge price difference, conversions to CNG have been good. The number of CNG stations has crossed 6,000 end-Sep'23, the domestic PNG connections are now above 11.7mn, domestic-commercial customers 39,000+ and domestic-industrial (expected to drive the proportion of gas in India's energy mix to 15% by 2030) customers at ~17,400 with some of bigger industries consuming gas, and some yet to be connected.
- **Running costs of petrol/diesel versus CNG:** Running costs of variously fuelled vehicles have steeply increased due to mounting input costs and taxes. CNG prices have fallen on the approval of the Kirit Parikh Committee recommendations, increasing the differences and could lead to more conversions to CNG. A capped gas price offers better visibility to CGDs in managing their EBITDA spreads. OEMs have been adding newer CNG models which could further swell growth.

Exhibit 1: Oil & Gas valuation matrix

Company	Mkt cap (Rs bn)	Reco	CMP* (Rs)	Target Price (Rs)	Target Upside per/sh (%)	Value of Invest. per/sh	PER (x)		EV/EBITDA (x)		P/B (x)		ROE (%)	
							FY25e	FY26e	FY25e	FY26e	FY25e	FY26e	FY25e	FY26e
HPCL	611	BUY	431	574	33	80	4.9	5.5	5.7	5.4	1.0	0.9	21.6	17.3
BPCL	960	BUY	451	618	37	115	5.9	7.1	4.3	4.8	1.0	0.9	17.0	13.0
IOCL	1,836	BUY	130	155	19	21	6.0	7.2	5.2	5.7	0.9	0.8	15.7	12.1
CPCL	110	BUY	739	1040	41	-	5.1	6.7	3.5	3.8	1.0	0.9	22.0	14.5
MRPL	235	ADD	134	151	12	-	10.3	13.9	6.5	7.4	1.6	1.4	16.8	10.8
RIL	17,930	BUY	2650	3170	20	-	19.8	18.6	10.7	9.9	1.8	1.7	9.2	8.9
ONGC	2,667	ADD	212	225	6	53	5.2	5.2	2.0	1.8	0.7	0.6	12.7	11.7
Oil India	396	ADD	365	408	12	159	3.6	4.1	2.7	2.6	0.5	0.5	14.9	12.3
GAIL	1,052	ADD	160	166	4	28	10.5	9.8	8.1	7.4	1.4	1.3	13.4	13.3
Petronet LNG	351	REDUCE	234	229	(2)	-	10.7	10.2	5.5	5.1	1.3	1.2	18.2	17.0
GSPL	180	ADD	319	375	18	190	6.5	5.9	3.5	2.9	0.7	0.6	10.7	10.9
Gujarat Gas	355	ADD	515	605	17	-	21.1	18.7	12.8	11.2	3.9	3.4	19.8	19.5
IGL	293	BUY	418	540	29	79	13.1	12.1	8.0	7.2	2.5	2.2	20.1	18.9
MGL	117	ADD	1180	1365	16	-	11.1	10.4	6.2	5.7	2.0	1.8	19.6	18.3

Source: YES Sec Note: Trading valuations are excluding value of investments

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SECTOR OUTLOOK

HIGHER REFINING MARGINS, THE NEW NORMAL

Refining margins have fallen from their peak levels of 2022, thereby tightening markets, heightening volatility, and throwing up long-term challenges for refiners and consumers. Uncertainties concerning refining margins on the demand and supply sides is likely to continue but we expect key product supplies would remain below 5-yr averages. Factors to watch out for: Russian sanctions on global supply, Chinese policy regarding refined-product exports, outlook on the global demand-supply growth gap and capacity growth (new refining projects).

Russian crude and export sanctions, no major impact

The West sanctioned Russian crude and product exports and capped prices, which is still playing out and despite the fall in May'23, still trending stronger at ~7.5mb/d. There is an indication that the product exports are harder to re-route than those of crude which at times pile up pressure on oil and product margins and lead to volatility.

Discounted Russian crude imports at large benefited Indian refiners

In FY23, Indian refiners, boosted by discounted crude, reported premiums to the Singapore benchmark. The greater proportion of diesel and ATF in the basket along with stronger cracks also helped their cause. The FY23 Singapore GRM of USD10.8/bbl (even crossing USD25/bbl) would be difficult to attain and was a one off.

In FY23, Russian crude comprised 22% of the Indian basket (from ~2% in FY22). This, with a peak discount of USD16/bbl to Brent yielded benefits to refiners who had more Russian crude in their mix. Indian refiners' GRMs were at premiums of USD8-10/bbl to the benchmark. Since India increased sourcing of the Russian crude, Saudi Arabia, Iraq the UAE and the US lost market shares in India. Of such Russian imports, Indian PSUs sourced ~50-55%, private refiners (RIL, Nayara Energy) the rest. In Nov'23, India bought ~33% crude from Russia, available at a ~USD5-6/bbl discount, Indian PSUs importing more than 1mb/d (>32% of their crude imports) while private refiners (RIL and Nayara) sourced ~0.5mb/d (~31% of India's imports from Russia and ~22% of its total crude imports). The first 11 months of 2023's 1.69mb/d crude imports (~36% of Indian crude imports) show a sharp offtake from Russia, the Middle East players recently gain market share at 44.6% in Nov'23 versus a low of 33.7% in May'23. This was largely supported by Iraq which moved from 16.4% to 23% now.

Windfall export taxes were imposed (w.e.f. 1-Jul'23, H2) on diesel, ATF and petrol, affecting standalone refiners; their GRMs came less than expected but was marginally offset by higher sourcing of discounted Russian crude.

China's crude product export policy: potential game changer

Playing a key role in tight supplies were the Chinese export quotas of major products, diesel and petrol. In H2 2021, China began tightening its refiners' quotas of refined-product exports, cutting them >30% from the previous year. Later at year end, it backed off its product export restrictions significantly, likely due to weaker-than-past fuel demand and high diesel export margins. We believe exports would be lower in future in line with China's long-term policy, though any ad hoc policy changes could pressure margins, albeit temporarily.

Refining capacity growth globally to define supply

Globally, in Africa, Latin America and the Middle East, greenfield projects are coming up, adding refining capacity and bringing relief to a tight market. New refining capacity could add 4.4mb/d in the next 4-5 years and phase out ~1.5mb/d, the net ~3mb/d added should help balance demand and supply, given periodic shutdowns. We expect greater risks for these additions, hit by higher costs and supply chain issues or unplanned outages, which could keep supply marginally volatile at times, helping sustain refining margins.

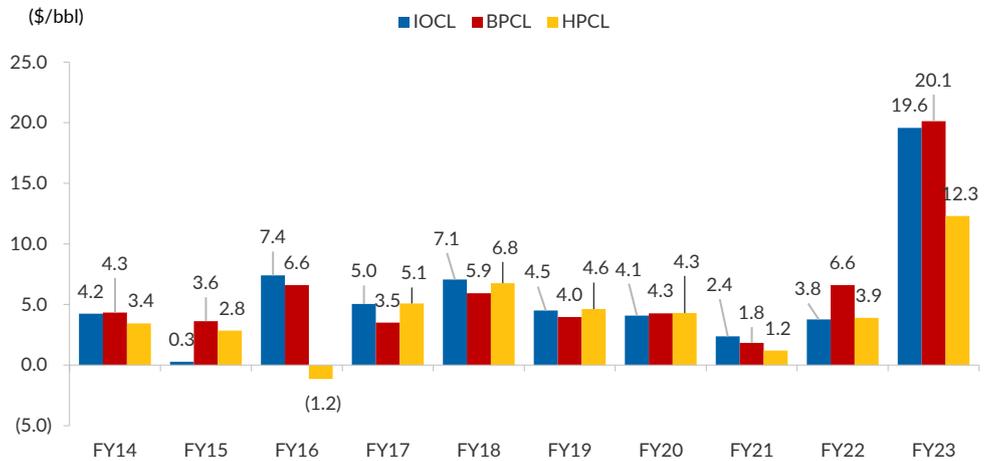
Near-term implications for Indian Refiners

The strong market outlook persists and should translate to higher cashflows and even a higher dividend payout. In FY24, the refiners and OMCs could report their highest ever earnings and lead to higher dividends as well. The proposed energy transition seems hazy at the moment, in the longer run, some certainty could arise which could help improve balance sheets, reduce debt, and better manage future capex to lock horns with a more challenging long-term environment.

Key Indian refiners

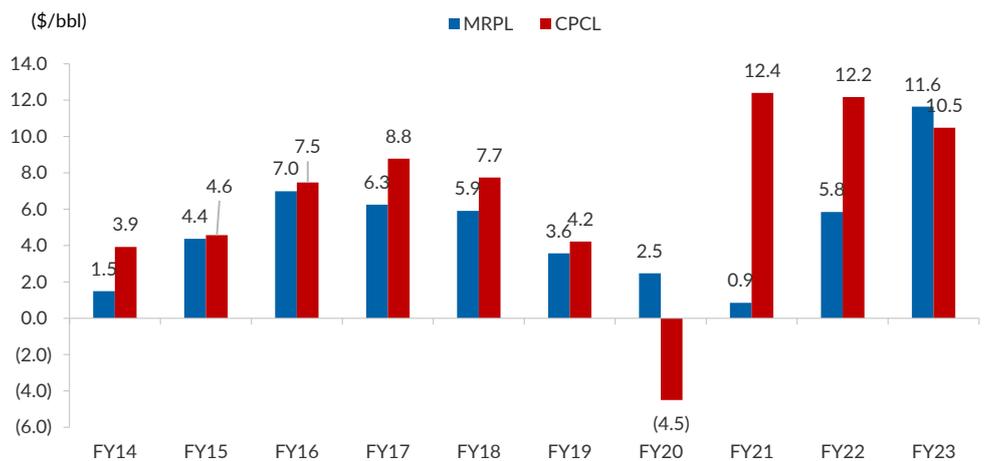
Global refining fundamentals are still supportive. We estimate a dip in FY24/25/26 from FY23 for the Singapore benchmark and believe Indian refiners would continue to report a premium to the benchmark due to their greater proportion of the higher-crack product, diesel, and higher sourcing of discounted crude.

Exhibit 2: Core GRM for public sector refiners



Source: PPAC, Company, YES Sec

Exhibit 3: Core GRM for standalone refiners



Source: PPAC, Company, YES Sec

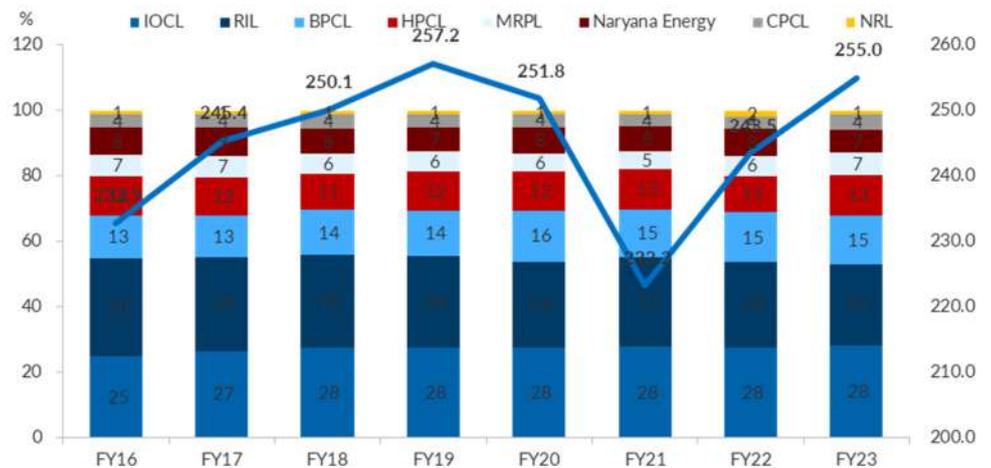
Exhibit 4: Crude and key refining product assumptions

Assumptions	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24e	FY25e	FY26e
USD / Rs	61.2	65.5	67.0	64.5	69.5	70.9	74.2	74.5	80.3	83.0	83.0	83.0
Brent crude (USD / bbl)	86.4	48.7	49.9	58.0	70.7	61.1	45.8	79.8	95.2	85.0	77.0	70.0
Dubai crude (USD / bbl)	83.7	45.9	46.8	55.8	69.0	60.1	44.4	77.9	92.5	83.0	75.0	68.0
Brent-Dubai spread (USD / bbl)	2.7	2.8	3.1	2.1	1.7	1.0	1.4	1.9	2.6	2.0	2.0	2.0
Singapore GRM (USD / bbl)	6.4	7.5	5.8	7.2	4.9	3.2	0.5	5.0	10.8	6.3	5.0	4.2

Product cracks vs Dubai crude												
Gasoil / Diesel	15.6	12.0	11.3	13.3	14.1	13.3	4.6	10.4	35.8	20.4	18.0	15.0
Gasoline / Petrol	11.7	16.1	11.2	12.0	5.9	6.7	2.9	11.5	14.7	10.7	11.0	11.0
Jet Fuel / ATF	15.9	12.5	11.5	13.3	14.6	12.6	1.2	9.1	33.5	21.3	17.0	15.0
Naphtha	(1.7)	2.8	(0.0)	0.2	(4.2)	(5.7)	(0.9)	1.5	(12.1)	(13.9)	(11.0)	(11.0)
Fuel oil (FO)	(8.4)	(6.8)	(5.4)	(4.0)	(2.8)	(8.0)	(3.0)	(7.7)	(17.7)	(10.1)	(12.0)	(12.0)
LPG	(19.8)	(7.9)	(14.8)	(13.2)	(22.8)	(22.9)	(6.8)	(15.0)	(32.2)	(30.1)	(28.0)	(28.0)

Source: Reuters, Bloomberg

Exhibit 5: Indian refining crude throughput share (%) company wise



Source: PPAC, Company, YES Sec

Exhibit 6: Indian Refiners capacity utilization

(%)	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
IOCL	100	94	100	103	100	89	96	103
HPCL	113	114	109	113	101	96	93	110
BPCL	100	104	115	108	118	92	106	109
CPCL	84	89	94	99	97	79	86	108
MRPL	104	106	108	106	93	76	99	114
NRL	96	105	95	94	103	85	101	91
RIL	116	117	117	105	97	89	92	92
Nayara Energy	96	105	95	94	103	85	101	91
India refiners average	105	105	107	104	101	89	97	102

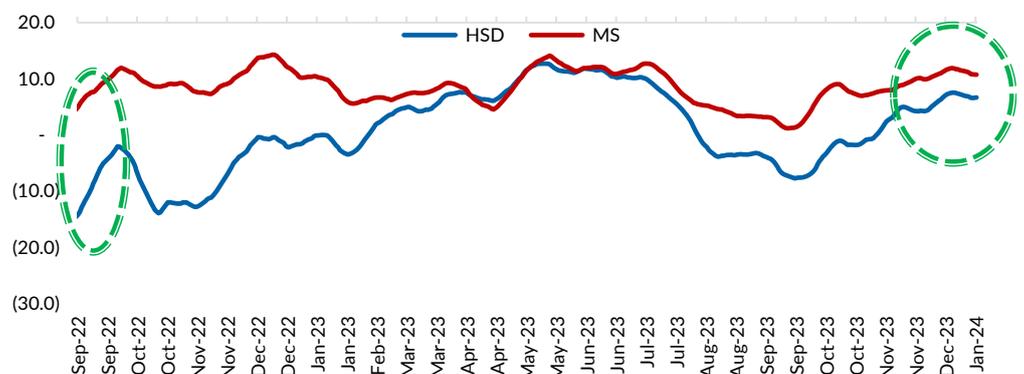
Source: PPAC, Company, YES Sec

INDIAN PETOLEUM PRODUCTS CONSUMPTION

India's Dec'23 Petroleum product consumption grew 2.6% YoY, Diesel declined 2.3% while Petrol stayed flat (still lower than May'23 peak); gross marketing margins stayed strong amid falling crude prices (below USD80/bbl)

- Demand for petroleum products showed a favorable trend, with a 2.6% YoY increase, reaching 20.1mmt. Despite being 3% below its peak, the surge was fueled by rising demand for Naphtha and other products. Notably, diesel demand rose by 1% MoM, attributed to India's robust infra projects and overall economic recovery efforts, led by substantial government investments. The vehicular fuel (diesel, petrol & ATF) contribution was marginally lower at 56% of total consumption.
- Breaking down product-specific figures, diesel consumption stood at 7.61mmt, marking a 2.3% YoY decrease but a 1% MoM increase. Petrol consumption, at 2.99mmt, remained flat YoY but endured a 4.4% MoM decline. Aviation Turbine Fuel (ATF) consumption reached 0.72mmt, up by 9.3% YoY and 4.3% MoM. LPG consumption hit its peak at 2.63mmt, reflecting a 2.3% YoY increase and a 5.7% MoM rise.
- Zooming out to Q3FY24, the overall POL consumption reached 58.3mmt, exhibiting a 2% YoY increase and a significant 5.5% QoQ growth. Diesel consumption during this period rose to 22.8mmt (1% YoY, 13.5% QoQ), Petrol consumption increased to 9.3mmt (4.7% YoY, 1.4% QoQ), ATF consumption reached 2.1mmt (11% YoY, 5.2% QoQ), and LPG consumption peaked at 7.6mmt, with a 2.5% YoY rise and a 2.8% QoQ increase.
- The cumulative data for the first nine months of FY24 reveals a 4.8% YoY increase in POL consumption, totaling 172.5mmt. Diesel consumption reached 66.8mmt, up by 4.4% YoY, Petrol consumption increased to 27.8mmt (5.7% YoY), *ATF consumption* stood at 6.1mmt (12.6% YoY), and LPG consumption reached 21.8mmt (2.6% YoY). As per PPAC, India's consumption of petroleum products in FY24 is expected to be 233.81mmt vs our estimated 232.2mmt (FY23: 222.3mmt, surpassing the 212.9mmt peak in FY19).
- Gross marketing margins as of January 1, 2024, diesel and petrol recorded Rs/ltr 6.7 and 10.8, respectively, a notable improvement compared to Q3FY24 figures of Rs/ltr 1.7 and 8.8, signifying a positive impact from the sharp correction in crude prices. While the Q2FY24 both products averaged Rs/ltr of 0.0 and 5.9 for diesel and petrol. Demand stands strong with RSP for both products unchanged, and a sharp correction in crude prices lifting gross marketing margins.

Exhibit 7: Gross Marketing Margins for diesel and petrol recovers on a fall in crude



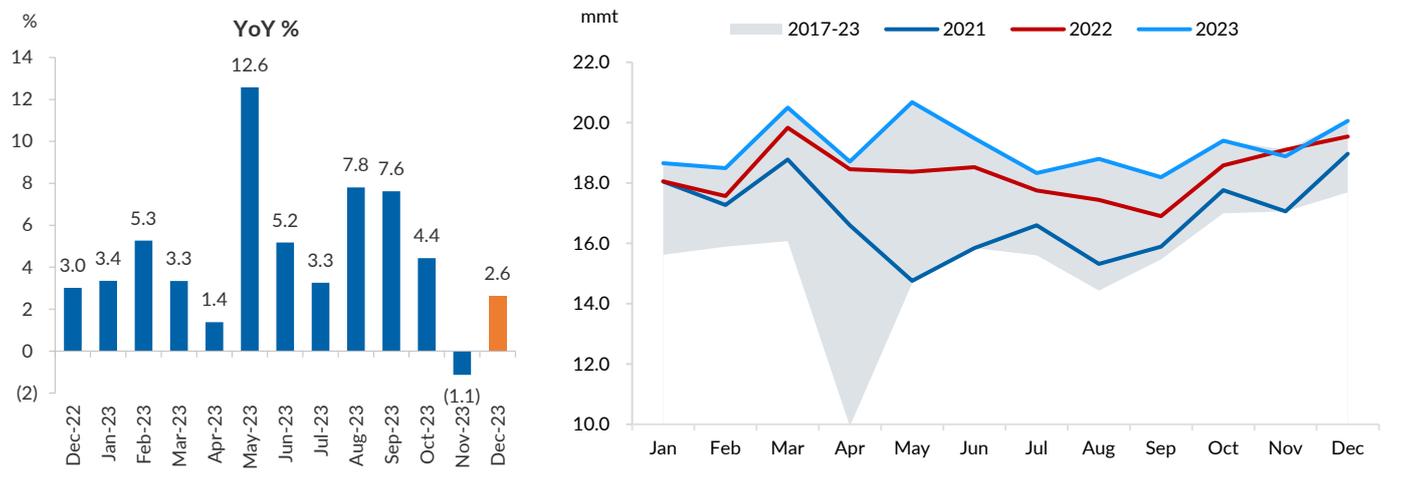
Source: PPAC, YES Sec

- **Sensitivity:** As per our calculations, to offset USD1/bbl of GRM, IOCL needs Rs 0.64/ltr higher marketing margins for MS and HSD vs Rs 0.58/ltr for BPCL and Rs 0.52/ltr for HPCL given the refining to marketing skew.

Major factors driving consumption

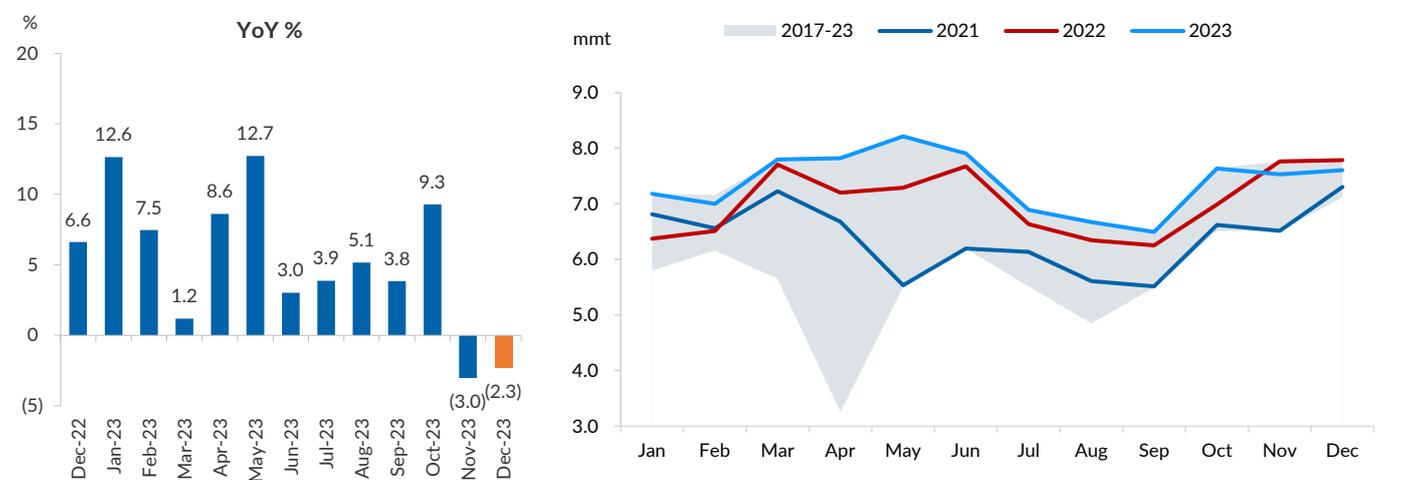
- Demand for diesel hit fresh highs in May'23, supported by stronger economic activity, greater consumption for irrigation, pumps and tractor mobility, marriage season-influenced personal mobility, high utilization in industrial and mining in various parts of India, increasing diesel consumption. ~94% of diesel consumption is of retail sales for road transport.
- Demand for petrol was supported by better economic momentum, increase in mobility, festive season, tourism growth, etc.
- ATF consumption is rising but still far from pre-Covid peaks. Domestic footfalls are comparable with pre-Covid levels; international footfalls, though they lag given restricted entry in a few countries. 76% of ATF consumption is domestic; 24%, comprises international aviation.

Exhibit 8: India petroleum oil products, total consumption (mmt)



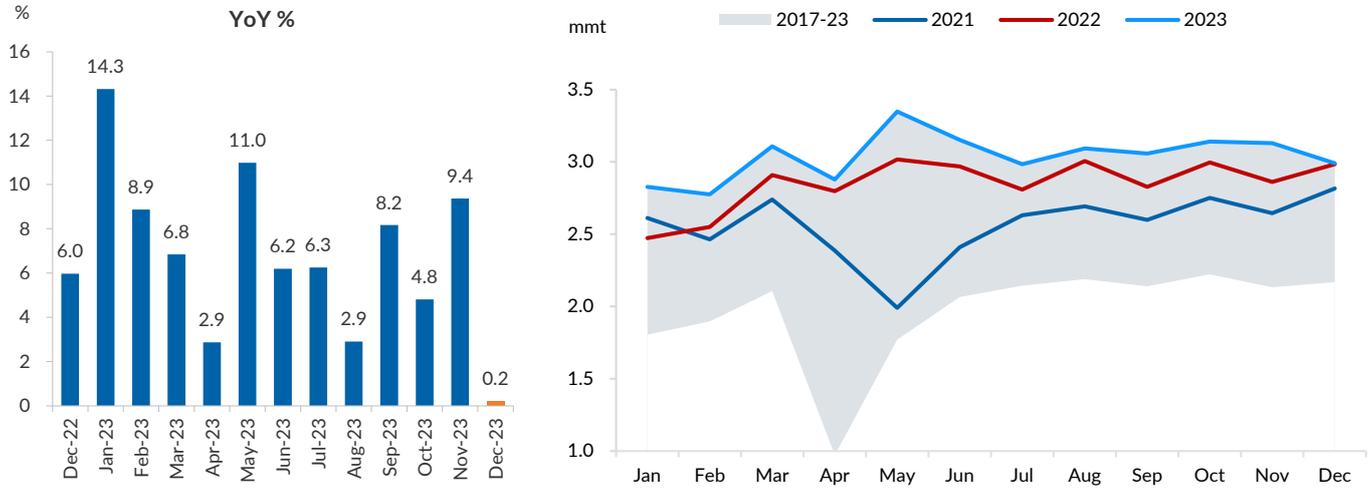
Source: PPAC, YES Sec

Exhibit 9: India gasoil/diesel consumption (mmt)



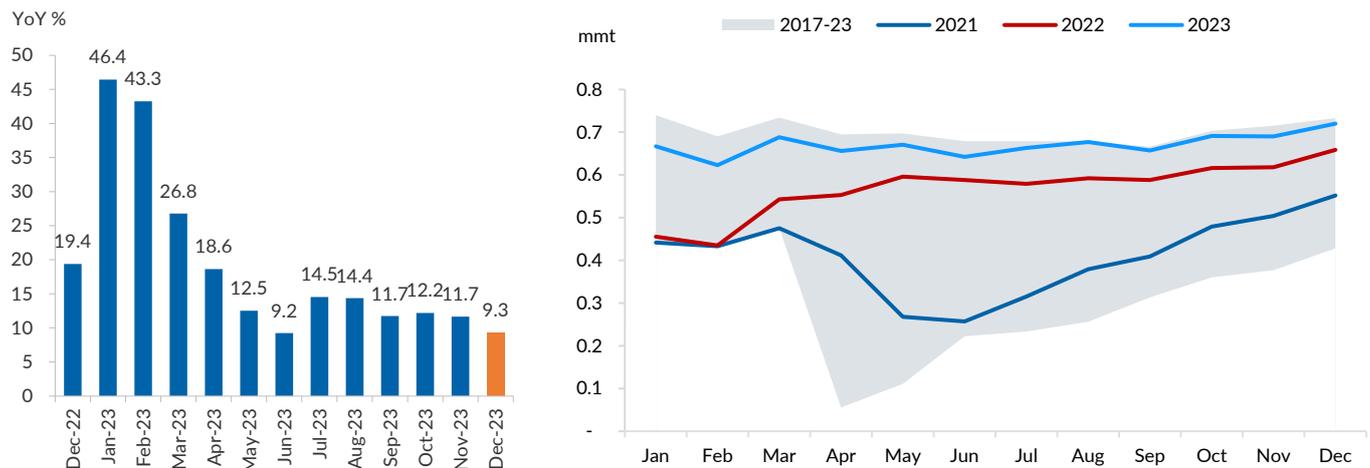
Source: PPAC, YES Sec

Exhibit 10: India gasoline/petrol consumption (mmt)



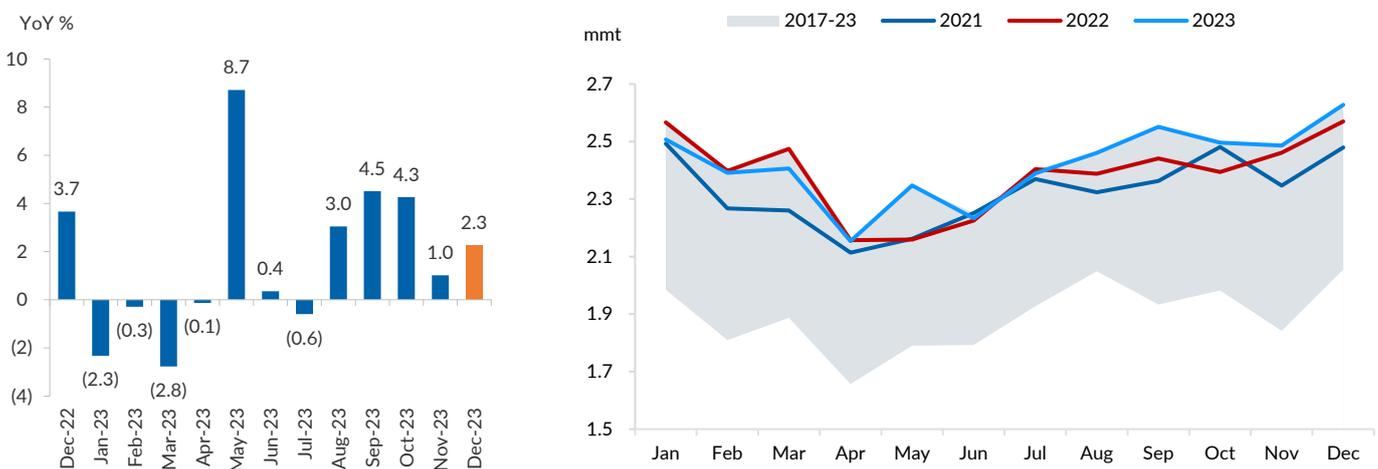
Source: PPAC, YES Sec

Exhibit 11: India ATF consumption (mmt)



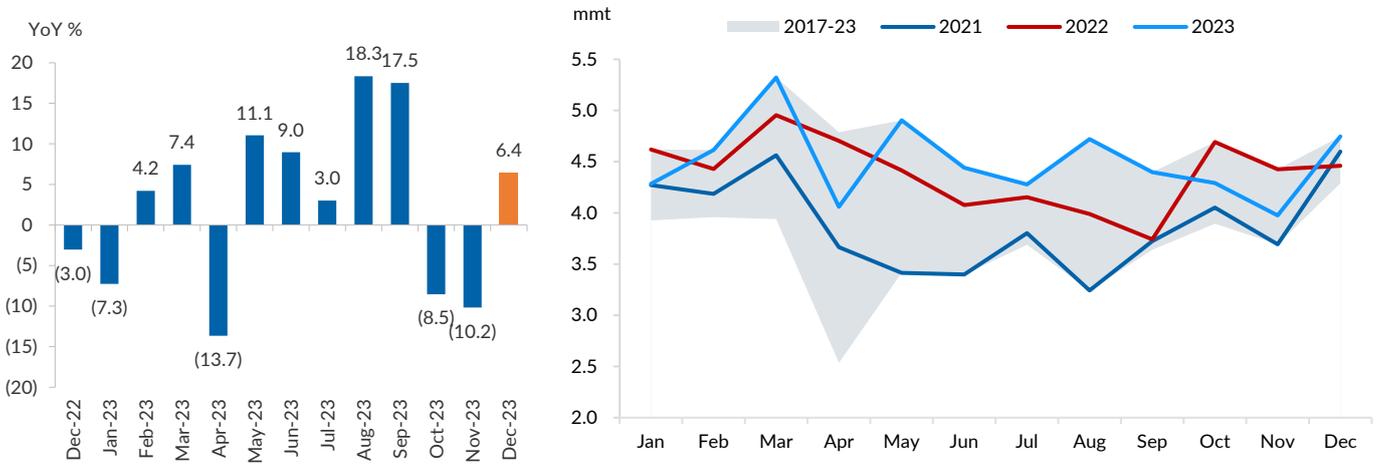
Source: PPAC, YES Sec

Exhibit 12: India LPG consumption (mmt)



Source: PPAC, YES Sec

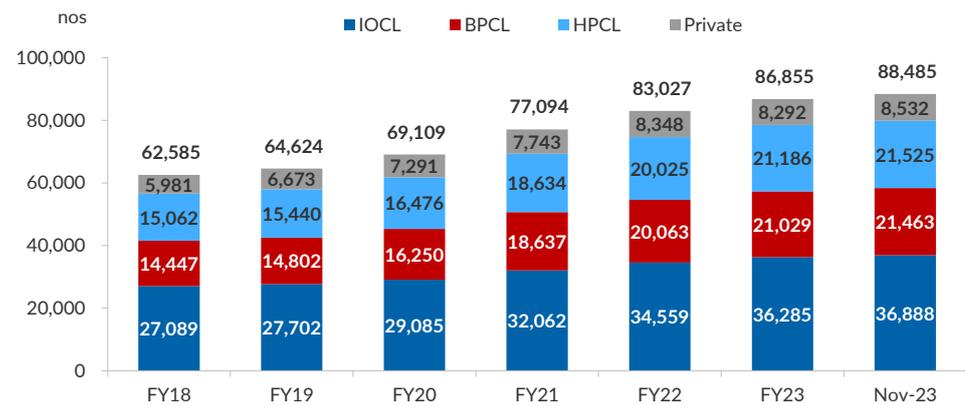
Exhibit 13: India Other products consumption (mmt)



Source: PPAC, YES Sec

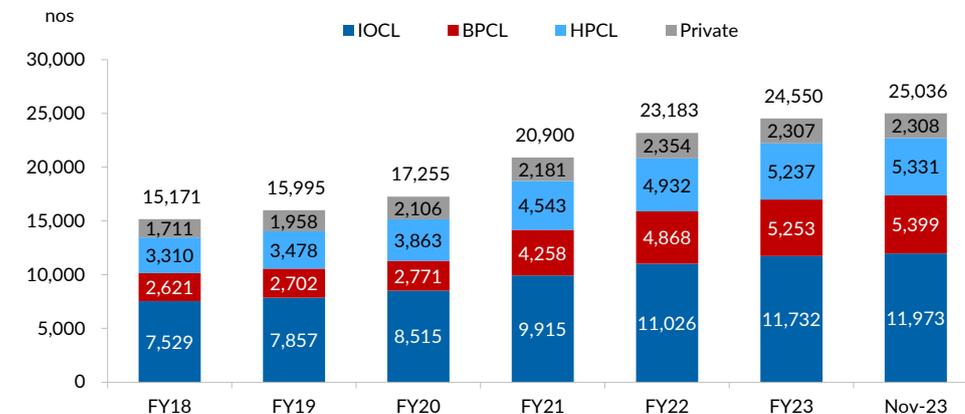
Note: Other products include – FO & LSHS, Petcoke and others

Exhibit 14: Auto fuel – retail outlets



Source: PPAC, YES Sec

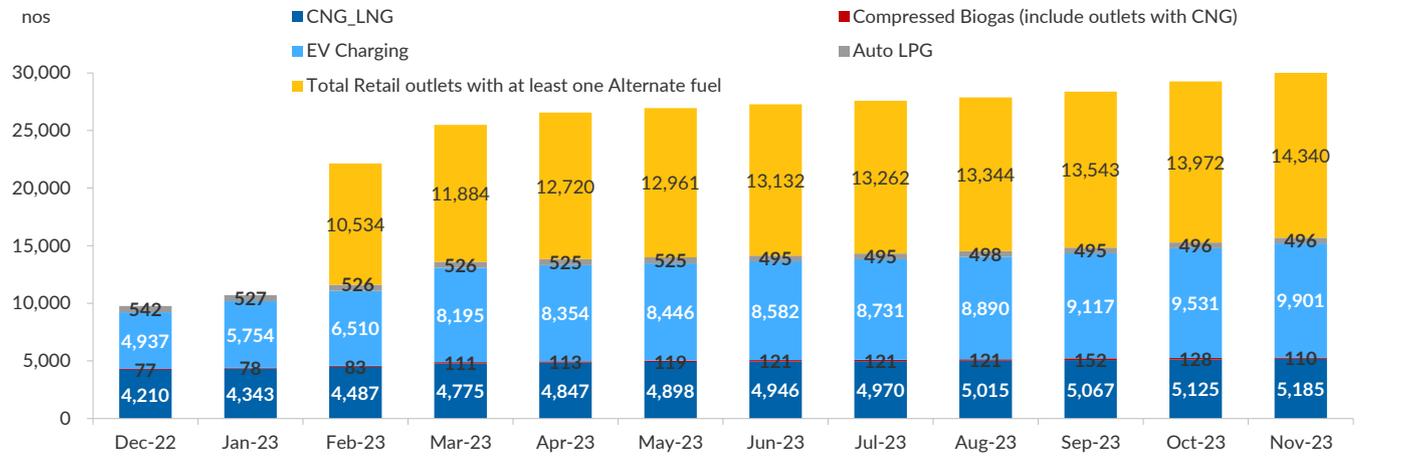
Exhibit 15: Auto fuel – rural retail outlets



Source: PPAC, YES Sec

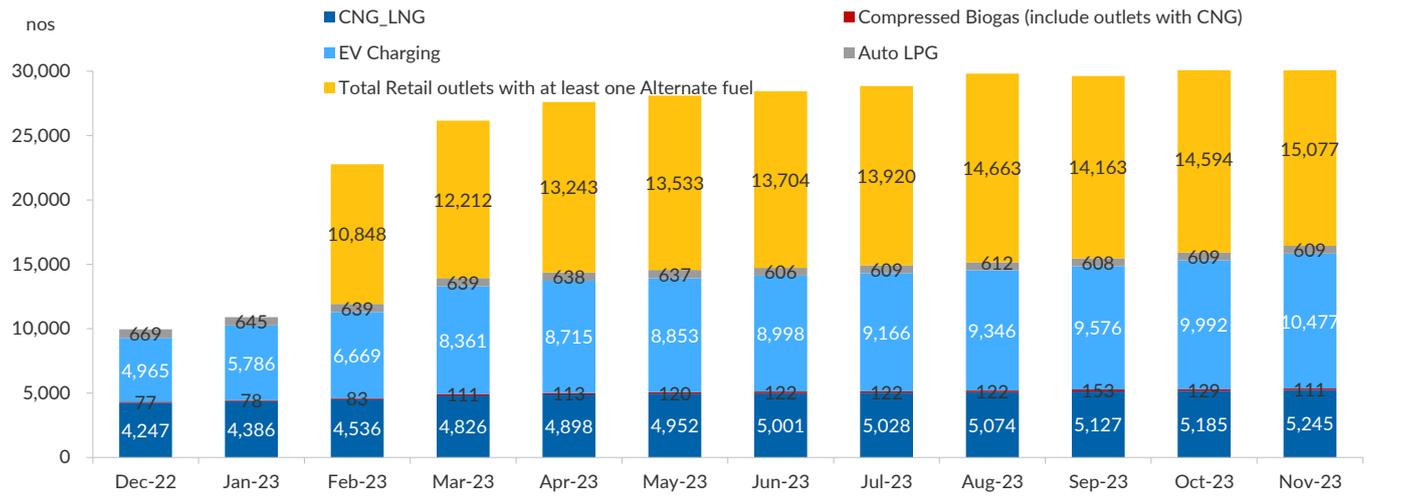
Expanding Auto fuel infrastructure: Retail outlet additions have been good while PSUs have focused on maintaining market shares. IOC leads the pack followed by HPCL and BPCL; private players look to gain market-share, ditto for the addition of alternative fuel infrastructure.

Exhibit 16: Auto alternative fuel infrastructure - retail outlets



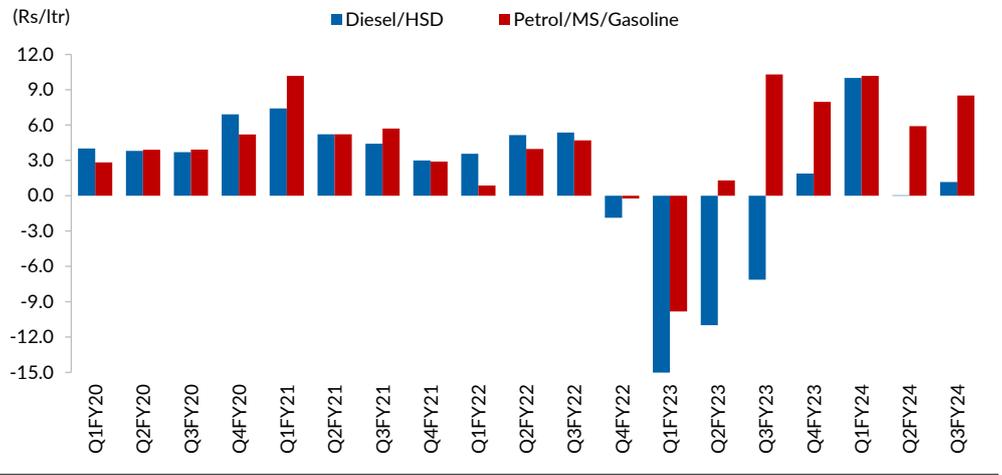
Source: PPAC, YES Sec

Exhibit 17: Auto alternative fuel infrastructure - PSU retail outlets



Source: PPAC, YES Sec

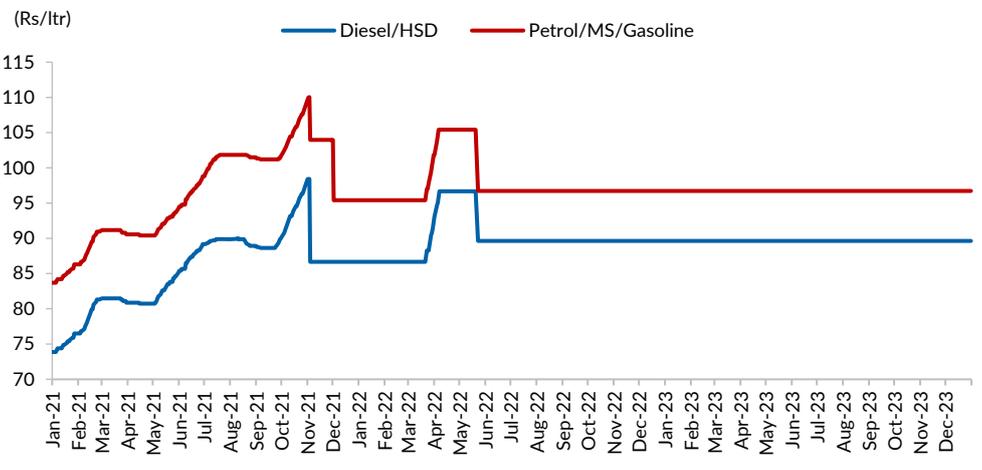
Exhibit 18: Gross marketing margins



Source: Company, YES Sec

The gross marketing margins for diesel and petrol have been volatile on changing crude and product realizations given that retail selling price (RSP) was unchanged. In ytd FY24 we have witnessed OMCs earning supernormal profits on higher integrated margins, largely supported by the refining segment, with support from marketing too. In a scenario where crude prices are expected to remain below USD85/bbl, marketing margins could stay strong.

Exhibit 19: Petrol and diesel prices constant in the last 18 months



Source: Company, Bloomberg, YES Sec

Exhibit 20: Indian Petroleum product demand

Volumes (mmt)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24e	FY25e	FY26e
Diesel	68.4	69.4	74.6	76.0	81.0	83.4	82.5	72.7	76.7	85.9	89.8	92.0	93.8
Gasoline	17.1	19.1	21.8	23.8	26.1	28.2	30.0	28.0	30.8	35.0	37.1	39.7	42.0
ATF	5.5	5.7	6.3	7.0	7.6	8.3	8.1	3.7	5.0	7.4	8.3	8.7	9.2
LPG	16.3	18.0	19.6	21.6	23.4	24.9	26.4	27.6	28.3	28.5	29.1	29.4	29.7
Naphtha	11.3	11.1	13.3	13.4	12.4	14.4	13.9	14.3	14.3	12.2	13.3	13.7	14.0
Kerosene	7.2	7.1	6.8	5.4	3.8	3.5	2.4	1.8	1.5	0.5	0.5	0.4	0.4
Others	32.6	35.1	42.2	47.3	49.3	50.2	49.7	46.5	47.6	52.9	54.2	54.6	55.1
FO & LSHS	6.2	6.0	6.6	7.2	6.7	6.5	6.0	6.0	6.3	6.9	6.7	6.8	6.9
Petroleum coke	11.8	14.6	19.3	23.9	25.4	23.0	21.1	17.8	15.8	17.9	18.6	18.0	17.5
Others	14.7	14.6	16.3	16.2	17.2	20.7	22.5	22.7	25.6	28.1	28.9	29.8	30.8
Total	158.4	165.5	184.7	194.5	203.6	212.9	212.9	194.7	204.2	222.3	232.2	238.5	244.2
Y/Y growth, %													
Diesel	(1.0)	1.5	7.5	1.8	6.6	2.9	(1.1)	(11.8)	5.4	12.0	4.5	2.5	2.0
Gasoline	8.8	11.4	14.5	8.8	9.9	8.2	6.1	(6.7)	10.4	13.4	6.0	7.0	6.0
ATF	4.4	4.0	9.4	12.1	8.5	9.4	(3.3)	(54.0)	35.1	47.1	13.0	5.0	5.0
LPG	4.4	10.5	9.0	9.8	8.4	6.7	6.0	4.7	2.5	0.6	2.0	1.0	1.0
Naphtha	(8.0)	(2.0)	19.8	1.1	(7.9)	16.3	(3.5)	3.5	(0.5)	(14.6)	9.0	3.0	2.0
Kerosene	(4.5)	(1.1)	(3.7)	(21.0)	(28.7)	(10.1)	(30.7)	(25.1)	(16.8)	(67.3)	(7.0)	(5.0)	(5.0)
Others	3.4	7.6	20.1	12.1	4.3	1.8	(1.0)	(6.4)	2.3	11.1	2.5	0.8	0.9
FO & LSHS	(18.6)	(4.4)	11.3	9.1	(7.2)	(3.6)	(6.8)	(0.0)	3.7	11.0	(3.0)	1.0	1.0
Petroleum coke	16.0	23.8	32.6	23.7	6.5	(9.4)	(8.3)	(15.7)	(11.4)	13.3	4.0	(3.0)	(3.0)
Others	6.3	(0.3)	11.3	(0.5)	6.1	20.4	9.0	0.7	12.6	9.8	2.9	3.2	3.2
Total	0.9	4.5	11.6	5.3	4.7	4.5	0.0	(8.5)	4.9	8.8	4.4	2.7	2.4

Source: PPAC, YES Sec

Historically, demand for fuel has grown well as manufacturing activities, which are part of government capital spends, are also picking up. This indicates huge demand for construction and infrastructure growth which will swell demand for oil products. The recovery post pandemic was sharp, in FY23 demand peaked at 222.3mmt in a pre-election year.

We have witnessed continued growth in LPG demand and a de-growth in SKO, but all other products are growing steadily.

As per PPAC, India's consumption of petroleum products in FY24 is expected to be 233.81mmt vs our estimated 232.2mmt (FY23: 222.3mmt, surpassing the 212.9mmt peak in FY19).

INDIA SOURCES ~36% OF IMPORTS FROM RUSSIA AT A DISCOUNT IN 2023

India buys ~1.39mb/d of Russian crude in Dec'23, ~31% of India's imports (~1.67mb/d, ~35.8% of its imports in 2023) – a big positive for Indian Refiners

India crude imports:

In Dec'23, India imported ~4.51mb/d of crude, ~31% from Russia at a discount of ~\$5-6/bbl (Urals trading at \$12/bbl discount to Brent) incl. freight discounts (~30days transit from Russia to Indian port).

India's crude imports from Russia

Of Dec'23's ~1.39mb/d of crude imports from Russia, private refiners (RIL & Nayara) could have sourced ~0.49mb/d (~35% of India's Russian imports and ~23% of their total crude requirements). The rest was sourced by PSUs (~31% of their total crude imports).

2023's 1.67mb/d crude imports (~36% of Indian crude imports) show a sharp offtake from Russia, the Middle East players gained market share in Q4CY23, stood at 45.3% in Dec vs a low of 33.7% in May. This was largely supported by Iraq which moved from 16.4% to 22% now.

Exhibit 21: India's crude imports from Russia

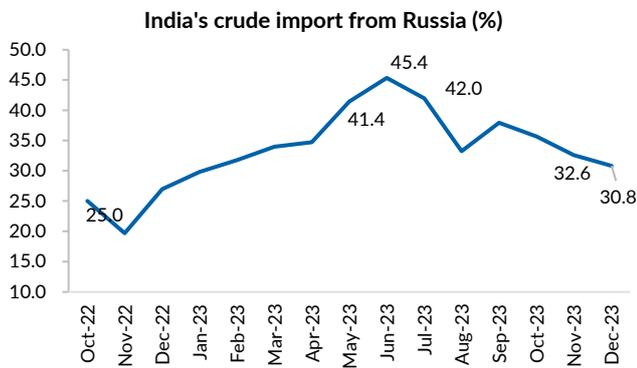
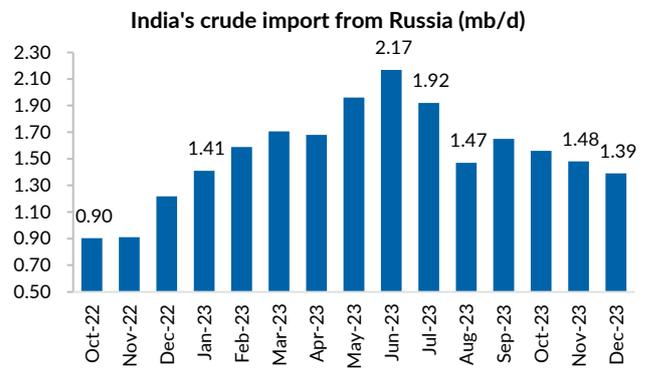


Exhibit 22: India's crude imports from Russia



Source: Industry, YES Sec

Indian refiners' requirement met via Russian crude

We understand from a few articles in the media and other sources that IOC's crude imports from Russia in Dec'23 at ~0.4mb/d was down as it was unable to discharge oil at Vadinar and Paradip ports, fulfilling ~27% of its crude required (vs ~38% in Q2FY24). For BPCL it could be ~37%, CPCL ~28%, and MRPL ~37%. Private refiner RIL could have fulfilled ~22% of its requirements through Russian crude while Nayara Energy's requirements at ~47% in Dec'23.

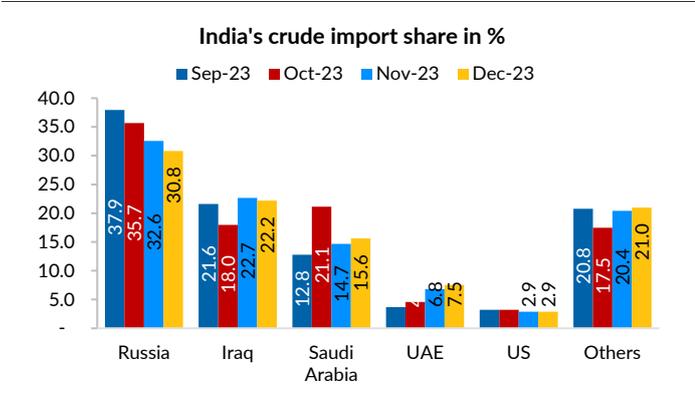
Russia benefits from EU ban

The growth in imports over the previous month has come from PSU refiners on increased discounts available, despite the EU ban on Russian crude. India's major crude imports come from Russia, Iraq, Saudi Arabia, the UAE and the USA, ~80% of its imports.

India seeks affordable supplies

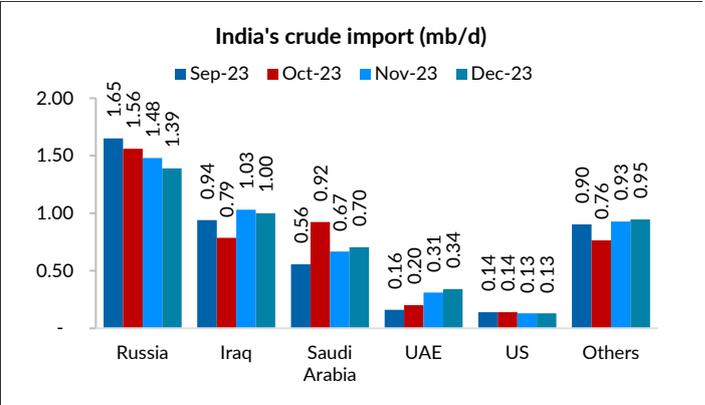
With the announcements of OPEC+ production cuts led by Saudi and Russia, it has become more important for India to secure affordable and assured supplies because of rising crude prices. We believe discounted crude would play an important role in India's energy consumption as well as for refiners, with Russia, Iraq and UAE offering discounts on crude.

Exhibit 23: India's crude imports



Source: Industry, YES Sec

Exhibit 24: India's crude imports



Crude discounts benefits

These discounts support Indian refiners. 10% Russian crude for a refinery would benefit reported GRMs by \$0.5/bbl. More Russian crude imports would help reduce working capital required.

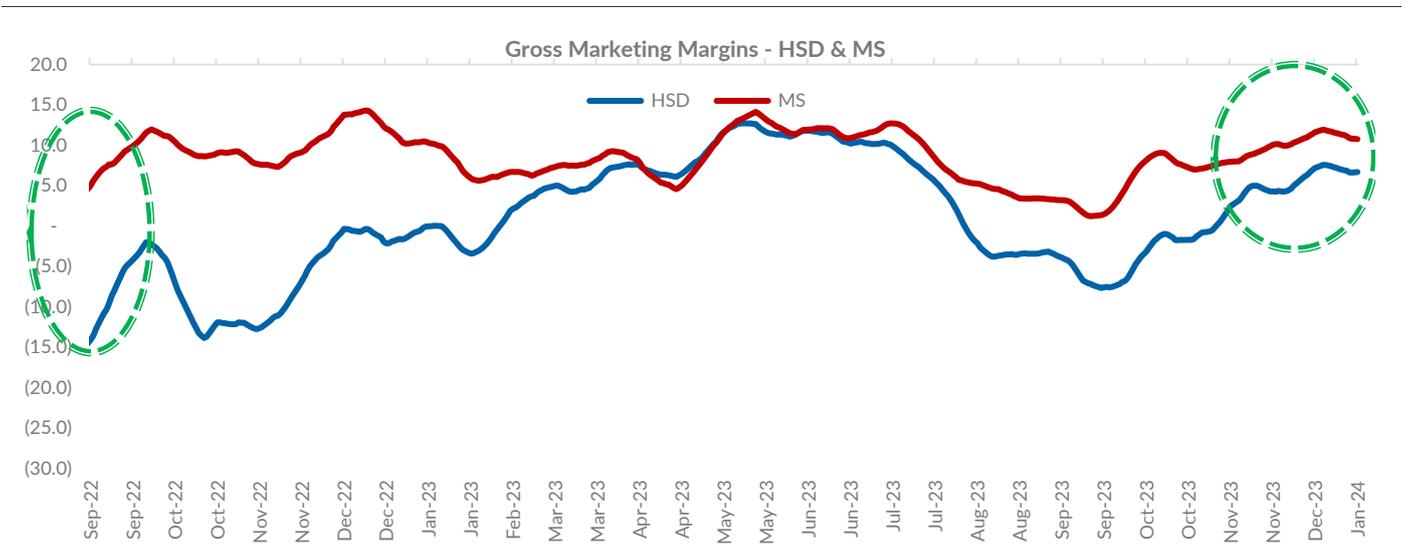
Refining product cracks

The key refining product cracks for Diesel/ATF/Petrol at USD/bbl of 19.5/22.7/10 have been strong for the Indian refiners (Q3FY24 averaged at Diesel/ATF/Petrol at USD/bbl of 20.4/23.5/7.2 with Singapore GRMs at USD5.4/bbl). The windfall taxes for diesel, ATF and petrol are now NIL. The Indian refiners are still making USD9-10/bbl of GRMs which would result in a strong Q3 core performance.

Gross marketing margins

Marketing margins for diesel is at Rs/ltr 6.7 and for petrol at 10.7 as of 1st Jan'24 vs Rs/ltr of 1.7 and 8.8 for Q3FY24, respectively. 2QFY24 both products averaged Rs/ltr of 0.0 and 5.9 for diesel and petrol. The demand stands strong with the RSP for both these products remaining unchanged, a correction in crude prices has resulted in improved marketing margins.

Exhibit 25: Gross marketing margins for diesel (HSD) and petrol (MS), Rs/ltr



Source: PPAC, Industry, YES Sec

IEA'S OIL MARKETING REPORT, DEC'23

Record supplies from US, Brazil & Iran offset OPEC+ cuts, demand eases marginally

Global oil demand in 2023 is set to rise by 2.3mb/d to 101.7mb/d; in 2024, it is likely to achieve demand growth of 1.1mb/d (revised upwards from last month's 0.9mb/d increase). 4QCY23 demand growth would likely weaken, with more than half of this decline attributed to Europe. A deterioration in the macroeconomic growth forecast has caused a downward revision in the last quarter of the year.

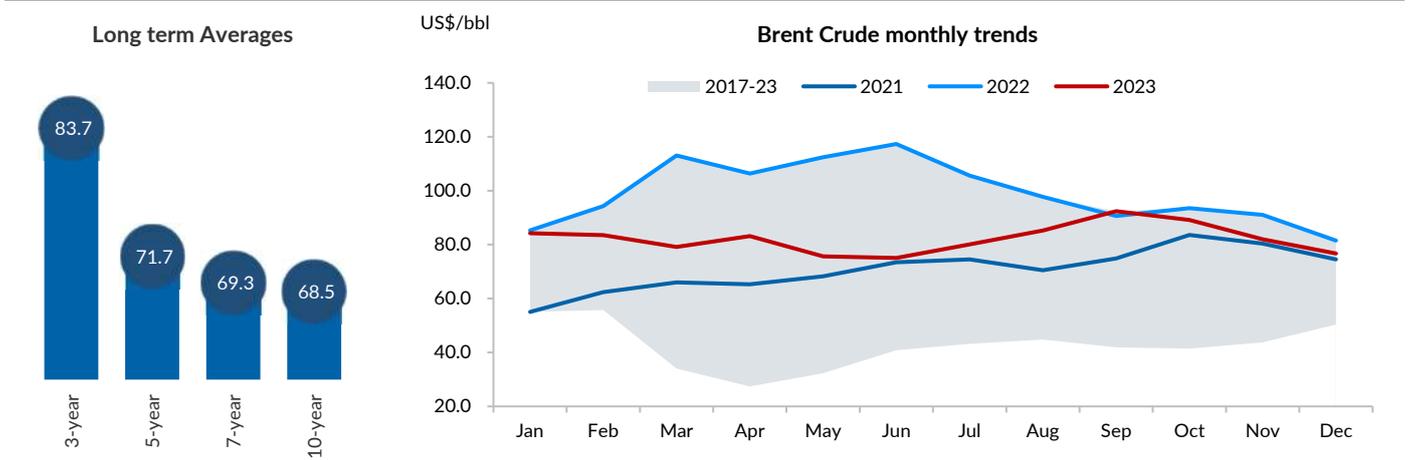
Oil supply is expected to increase by 1.8mb/d to 101.9mb/d in 2023 (up 0.1mb/d from last month's number) and by 1.2mb/d in 2024 (revised downwards on further OPEC+ voluntary cuts). Output stayed strong, led by US, Brazil, Guyana and surging Iranian flows, with no material impact of Israel-Hamas War. Saudi production cut of 1mb/d will continue (Saudi supply stable at ~9mb/d), Global supply for 2023 & 2024 would be dominated by non-OPEC+ producers. Of the extra 2.2mb/d of non-OPEC+ supply in 2023, US accounted for 2/3rd, OPEC+ supply declined 0.4mb/d during the same period.

Global refinery throughput were weaker ~80.2mb/d, they started correcting from high levels of Q3CY24 and would likely be materially weaker. While US refining margins were lower, Europe and Singapore margins improved in Nov'23.

OECD commercial oil stocks: As per OPEC MOMR, OECD commercial oil stocks at 2,818mb, is 128mb lower than the five-year average (2015-2019). At 1,342mb, OECD crude stocks are 112mb lower than 2015-19 average, while OECD product stocks at 1,476mb are 16mb lower than 2015-19 average.

Russian oil exports in Nov'23 were down by 200kb/d m/m to 7.3mb/d, with higher crude shipment partially offsetting product flow declines. Russian crude production has been stable over the past few months at ~9.5mb/d despite cut announced.

Exhibit 26: Brent Crude price (USD/bbl)



Source: Bloomberg, YES Sec

All eyes on Russia-Saudi oil partnership

Saudi Arabia and Russia came together to OPEC+ to manage oil prices. Together they sell over 20% of global oil and agreed to a production cut on expected weak demand. While the Saudis cut production, Russia continued to export more. Saudi had further 1mb/d oil-production cut starting Jul'23. Russian exports are key as they produce ~9.5mb/d and export 7.3mb/d. **Russian oil exports** have exceeded Saudi Arabia's since the latter announced a production cut. **Iranian oil production stays strong**; despite US sanctions and promises by top American diplomats, **Iranian oil production stayed elevated in Nov'23, at 3.2mb/d (near highs of last 5-years)**

Exhibit 27: Russia crude exports more than those of Saudi Arabia

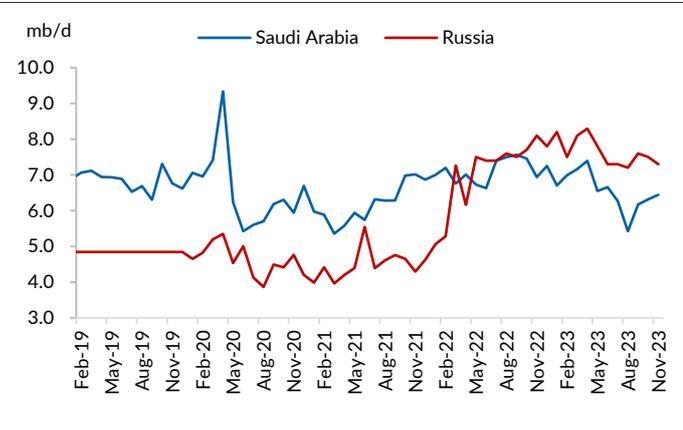
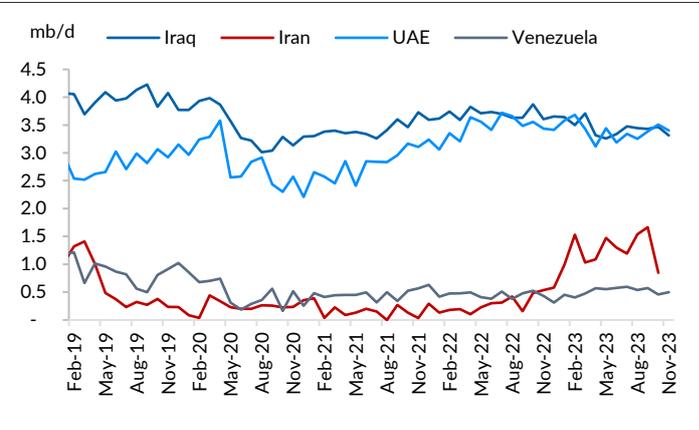


Exhibit 28: Other key exporters, Iran and Venezuela back in the game, could further disrupt crude prices



Source: Industry, Bloomberg, YES Sec

- **Venezuela back in the game:** A temporary easing of US sanctions on Venezuela in late Oct'23 would only marginally impact supply, as any production increase would be a function of substantial time and investment, given the country's battered oil sector.

Exhibit 29: Crude supplies (mb/d)

Countries	May-22	Oct-22	Dec-22	Jan-23	Apr-23	Aug-23	Oct-23	Nov-23
Algeria	1.01	1.04	1.01	1.01	1.00	0.93	0.96	0.96
Angola	1.16	1.05	1.09	1.11	1.06	1.13	1.15	1.08
Congo	0.26	0.25	0.25	0.26	0.28	0.27	0.26	0.26
Equatorial guinea	0.09	0.07	0.06	0.05	0.05	0.06	0.06	0.05
Gabon	0.18	0.22	0.19	0.19	0.20	0.22	0.22	0.23
Iraq	4.43	4.60	4.45	4.42	4.09	4.32	4.38	4.29
Kuwait	2.67	2.80	2.66	2.68	2.68	2.58	2.57	2.60
Nigeria	1.11	1.01	1.23	1.25	1.02	1.18	1.35	1.26
Saudi Arabia	10.50	10.90	10.44	10.41	10.48	8.96	9.01	9.00
UAE	3.14	3.46	3.23	3.23	3.32	3.22	3.25	3.24
Total OPEC-10	24.55	25.40	24.61	24.59	24.18	22.87	23.21	22.97
Iran	2.51	2.51	2.66	2.63	2.79	3.14	3.10	3.19
Libya	0.77	1.18	1.17	1.14	1.13	1.16	1.13	1.14
Venezuela	0.73	0.71	0.66	0.72	0.78	0.80	0.77	0.80
Total OPEC	28.56	29.80	29.10	29.06	28.88	27.97	28.21	28.10
Azerbaijan	0.57	0.55	0.55	0.53	0.51	0.50	0.49	0.49
Kazakhstan	1.58	1.45	1.68	1.67	1.65	1.45	1.63	1.60
Mexico	1.62	1.62	1.62	1.65	1.67	1.67	1.67	1.66
Oman	0.84	0.88	0.84	0.84	0.84	0.80	0.80	0.80
Russia	9.26	9.72	9.81	9.78	9.60	9.47	9.53	9.50
Others	0.82	0.87	0.86	0.78	0.83	0.84	0.85	0.86
Total Non opec	14.69	15.09	15.36	15.25	15.10	14.73	14.97	14.91
Opec+19 in cut deal	37.62	38.86	38.33	38.22	37.61	35.93	36.51	36.22
Total OPEC+	43.25	44.89	44.46	44.35	43.98	42.70	43.18	43.01

Source: IEA, YES Sec

MAJOR LNG TRADES

IN 2023; USA LED SUPPLY GROWTH, EU LNG IMPORTS DECLINES; ASIAN DEMAND STABLE

Major LNG trades in Dec'23, LNG exports of the top four improves. For 2023, US LNG exports grew 13% from a year ago, Australia's flat; Qatar down 2%, Russia's declined 2%. Of imports, however, China's grew 12% and India 10%, while Japan and South Korea was down 8% and 3% respectively. Major European countries' imports fell sharply in double digits, but Netherlands and Italy strongly grew.

The USA's LNG exports to Europe have risen since 2022 while subdued economic activity in China led to surpluses there, which were sold in the market in 2022. Chinese demand for LNG in 2022 was down 21% YoY and in 2023 is higher by 12% (at 69.6mmt) but ended lower than its peak in 2021 at 78.8mmt.

European countries having learnt their lesson have enough gas storage filled to fulfill their winter gas requirements. EU's gas storage peaked at ~99.6% on 6-Nov'23 and is currently at ~82%. This is enough to keep the gas price at current levels and would take it lower as winter is coming to an end. The fall in gas prices has proved a boon for the market, and we have seen India gas demand peaking at ~198mmscmd in Oct'23.

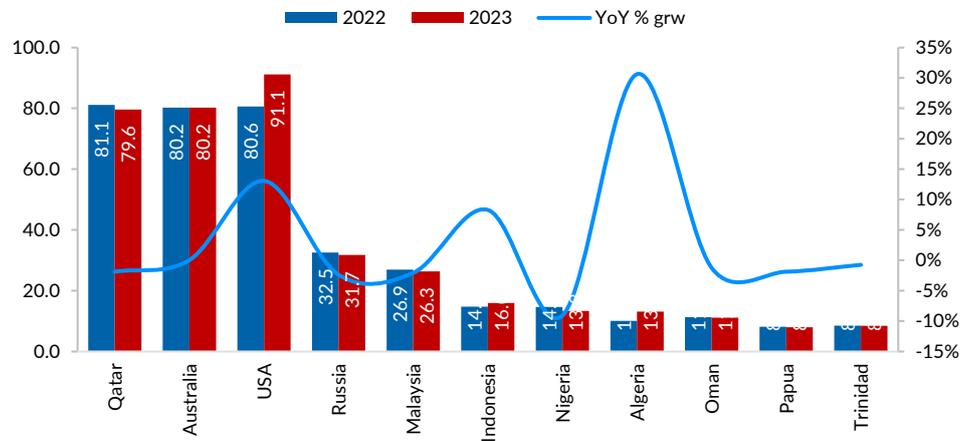
Key highlights

- Major LNG exporters in 2023 supplied a further ~10.3mmt over previous year, with USA leading the growth with 10.5mmt while other leading exporters achieving a decline in supply versus the corresponding year-ago period. Algeria also supplied higher (+31% YoY), the major decline came from Qatar by 1.5mmt and Nigeria by 1.3mmt.
- Major Asian LNG importers in 2023 received an extra 2.4mmt of volumes when compared to the previous year. Demand in China was up 12% or by ~7.3mmt, to 69.6mmt with a late revival in demand. Demand in India was up 10% or by ~2mmt to 21.8mmt. Demand from the leading Asian country, Japan and South Korea was down while Taiwan was flat. China in 2023, maintaining itself as the world's largest LNG importer with Japan imports at 7-yr low to 65.1mmt, while India was fourth.
- Demand for major European LNG importers peaked in 2022, led by France the UK, the Netherlands, Italy and Spain. In 2023, demand was lower by 9% or 6mmt over the previous year.

Major global LNG exports

- The USA exported 91.1mmt in 2023, up 10.5mmt from a year back. Output is expected to get a boost, courtesy the six 4.5mtpa Sabine Pass trains and recently commenced first trains at the new 10mtpa Calcasieu Pass plant.
- Australia exported 80.2mmt in 2023, flat versus a year back. Some articles highlight expert opinions claiming a peak in Australian exports; some of its aging fields are on a decline.
- Qatar exported 79.6mmt in 2023, down 1.5mmt from the year prior. It announced plans to raise its LNG capacity to 110mtpa, adding four 7.8mtpa mega-trains (aiming at first production in late 2025) and a second expansion phase of 16mtpa planned for first LNG in 2027, raising export capacity to 126mtpa, from 77mmt today.
- Russia's 2023 output of 31.7mmt was down by 0.8mmt compared to a year back.

Exhibit 30: LNG exports (mmt)

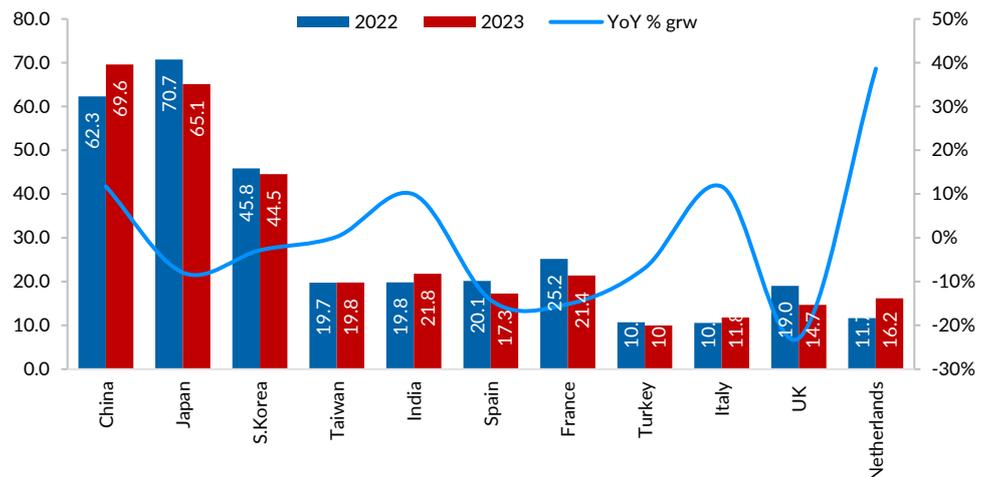


Source: Industry, Bloomberg, YES Sec

Major global LNG importers

- Key Asian LNG importers in 2023 received an extra 2.4mmt of volumes over the previous year. Demand in China was up 12% or by ~7.3mmt, to 69.6mmt with a late revival in demand. Demand in India was up 10% or by ~2mmt to 21.8mmt. Demand from the leading Asian country, Japan, was down 8% at 65.1mmt; South Korea at 44.5mmt and Taiwan at 19.8mmt. China in 2023, maintaining itself as the world's largest LNG importer, higher by 4.5mmt to the second Japan, while India was fourth followed by Taiwan among the Asian countries.
- Demand for major European LNG importers peaked in 2022, led by France, the UK, the Netherlands, Italy and Spain. In 2023, demand was lower by 9% or 6mmt over the previous year. Gas consumption has declined but LNG imports to Europe would continue as European buyers continue to compensate for declines in Russian gas shipments.

Exhibit 31: LNG imports



Source: Industry, Bloomberg, YES Sec

- China prefers to source gas from Russian piped gas imports and domestic production and so sourced less from elsewhere. A few media articles highlight that the piped gas accounted for over ~40% of China's gas imports, while its LNG imports had fallen. This is due largely to the fact that LNG prices were significantly higher than piped gas imports for most of last year.
- Most of Japan's declining gas demand is in the power sector, which accounts for more than half of the country's gas consumption; residential, commercial, and industrial annual demand has been relatively flat. Power sector gas demand is influenced largely by nuclear power

generation. Japanese buyers did not renew Qatar long-term contracts of 7.2mtpa, due partly to the fact that Japanese importers were pushing for deals of less than 10 years.

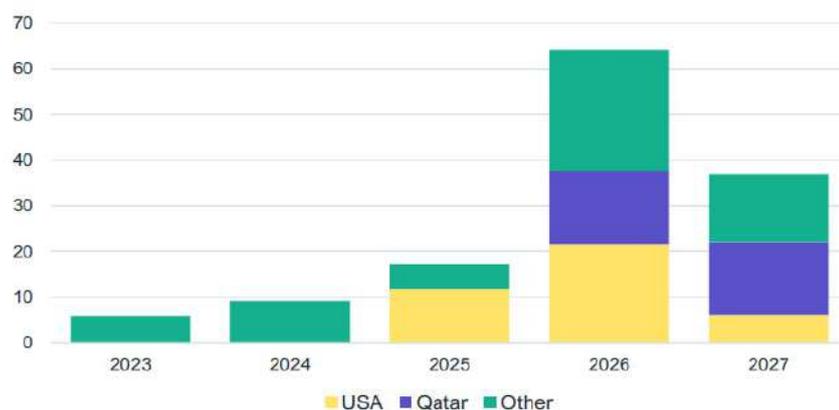
- South Korea’s higher nuclear and renewables generation could also squeeze LNG consumption in the power sector, which makes up for 48% of gas consumption.
- India gas consumption has peaked in Oct’23 as gas prices have corrected from last years’ unaffordable prices.
- Unlike Japan and South Korea, Taiwan aims to phase out nuclear power in its generation mix by 2026, suggesting larger roles for LNG, renewables. Taiwan remains a wild card. Government policy generally supports LNG imports, but state-owned utilities in 2022 have absorbed huge losses due to high global LNG prices, and terminal projects have experienced repeated delays.
- Japan and South Korea, which have in the past anchored global LNG demand, plan to reduce LNG purchases while boosting nuclear, wind, and solar power generation to achieve energy security, economic growth and de-carbonization goals. Long-term contracts for Japan and South Korea (together 25.6mtpa) will expire by 2026; how this pans out remains to be seen.

Global LNG supply outlook

The global LNG segment has seen a two-year lull in fresh supplies added. Few export-scale LNG projects are expected to come online, adding ~9.1mtpa of liquefaction capacity in 2024.

- Eni expects its 0.6mtpa Tango LNG terminal to enter service in late 2023.
- The 2.5mtpa Greater Tortue Ahmeyim LNG project off the coast of Mauritania and Senegal has been delayed from 2023 to 2024.
- Russia’s Arctic LNG 2 project may be able to bring 6.6mtpa online over the next two years, but the fleet of specialized ice-class LNG carriers being built for the project will not be delivered until 2024, at the earliest.
- These projects will boost global LNG production capacity ~3% over the next two years, from ~456mtpa to 471mtpa

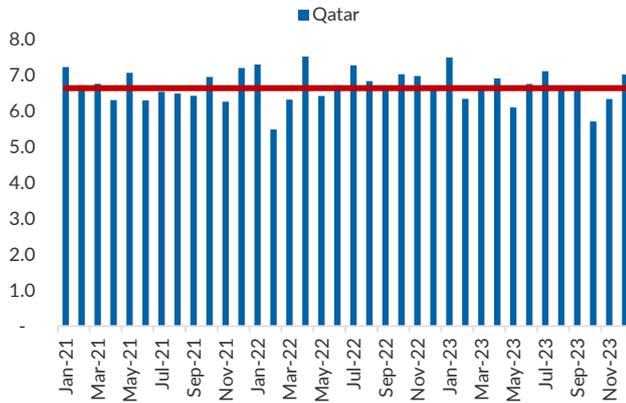
Exhibit 32: Forecast liquefaction capacity additions 2023-27 (mmt)



Source: IEEFA estimates, Industry

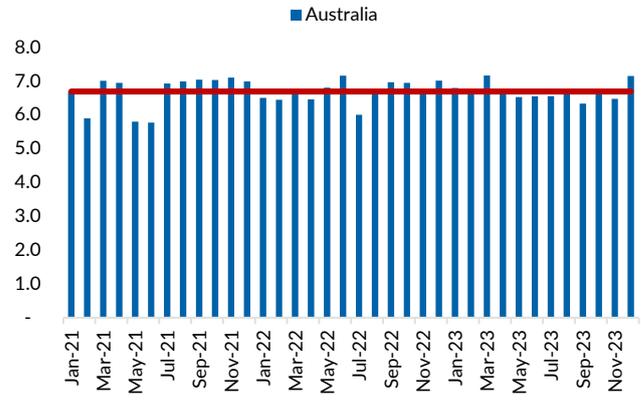
TOP LNG EXPORTERS, SUPPLY

Exhibit 33: Qatar's LNG exports (mmt)



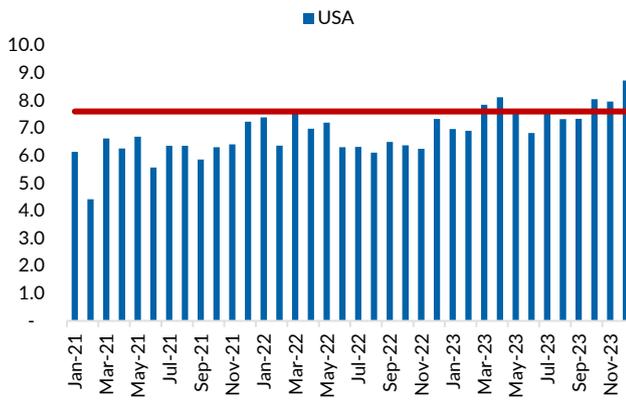
Source: PPAC, Company, YES Sec

Exhibit 34: Australia's LNG exports (mmt) near average



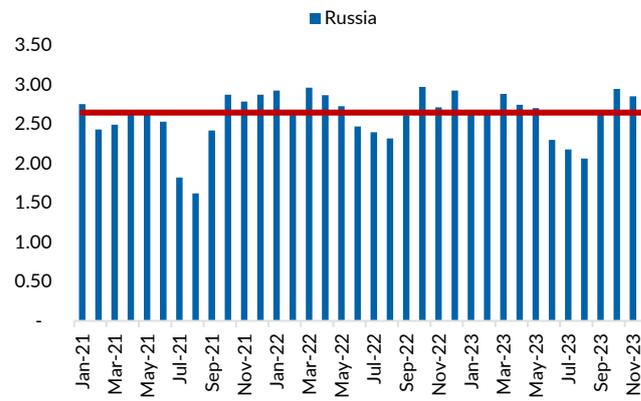
Source: PPAC, Company, YES Sec

Exhibit 35: USA's LNG exports (mmt) above average



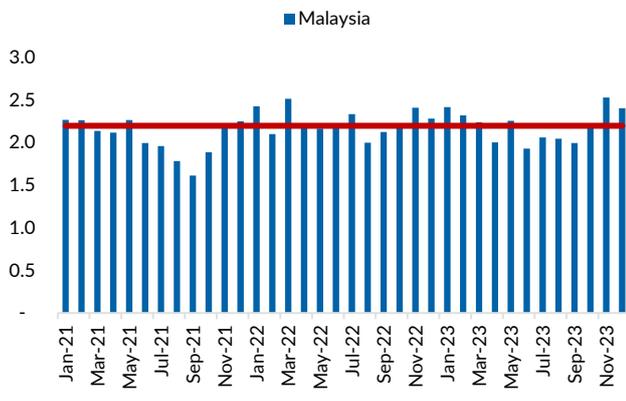
Source: Bloomberg, YES Sec

Exhibit 36: Russia's LNG exports (mmt) recovers



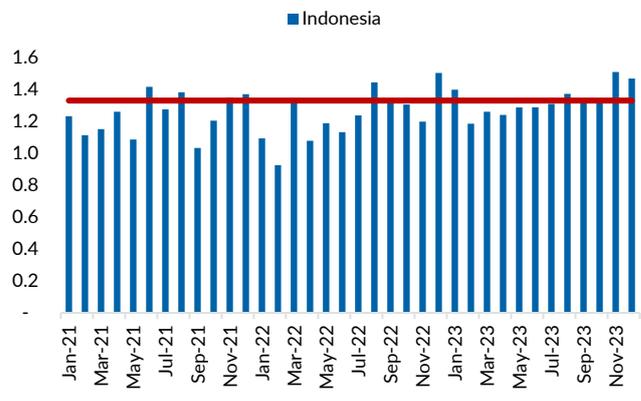
Source: Bloomberg, YES Sec

Exhibit 37: Malaysia's LNG exports (mmt) near average



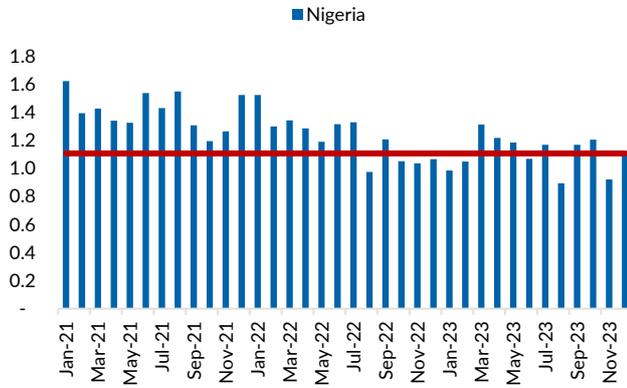
Source: Bloomberg, YES Sec

Exhibit 38: Indonesia's LNG exports (mmt) near average



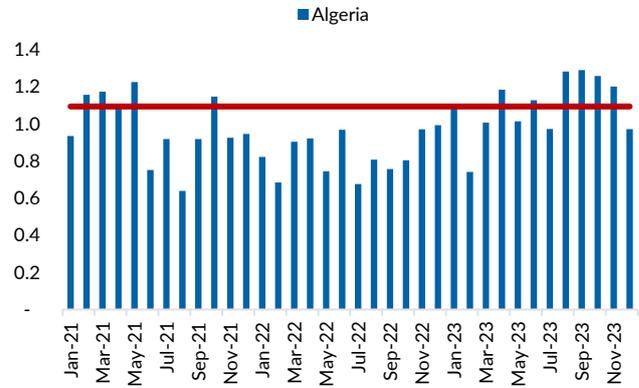
Source: Bloomberg, YES Sec

Exhibit 39: – Nigeria’s LNG exports (mmt)



Source: PPAC, Company, YES Sec

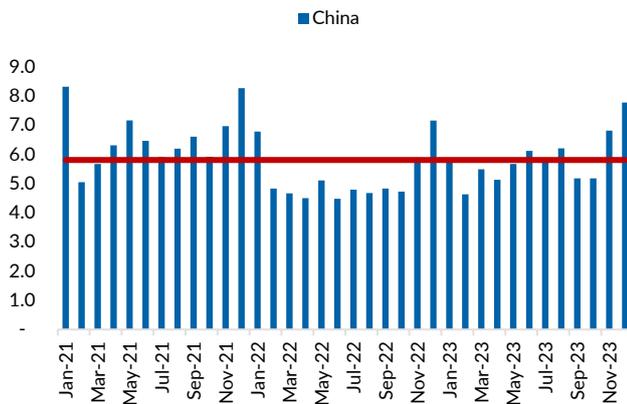
Exhibit 40: Algeria’s LNG exports (mmt)



Source: PPAC, Company, YES Sec

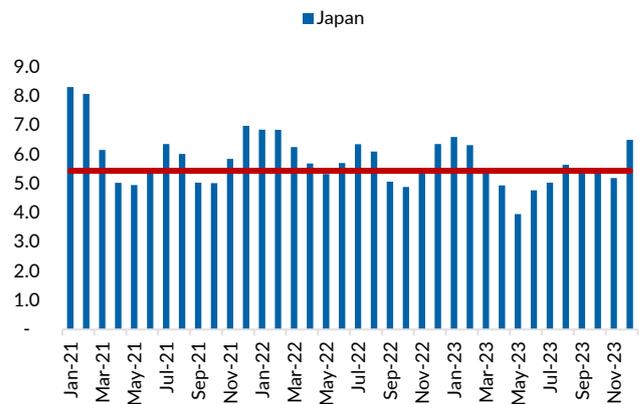
TOP LNG IMPORTERS, DEMAND

Exhibit 41: China’s LNG imports (mmt) picking up



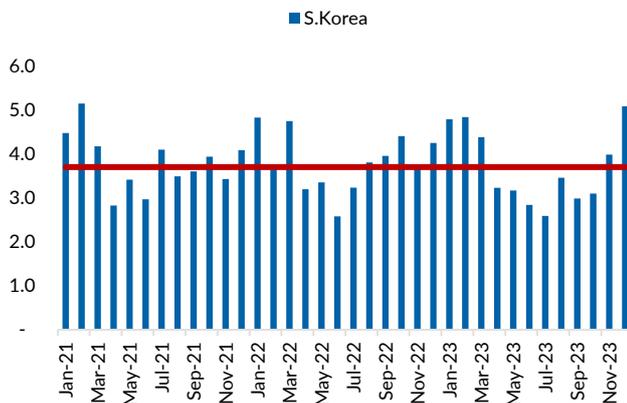
Source: PPAC, Company, YES Sec

Exhibit 42: Japan’s LNG imports (mmt) near average



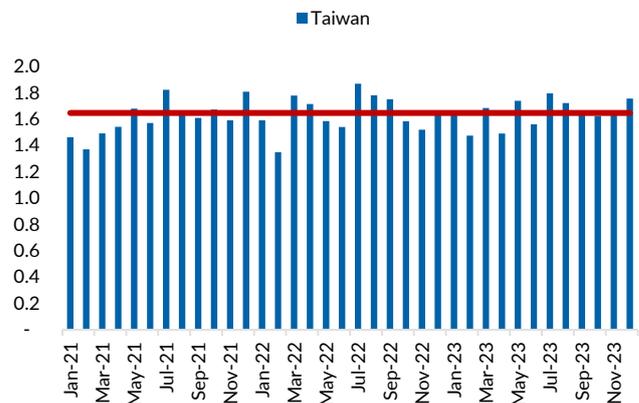
Source: PPAC, Company, YES Sec

Exhibit 43: South Korea’s LNG imports (mmt) recovers



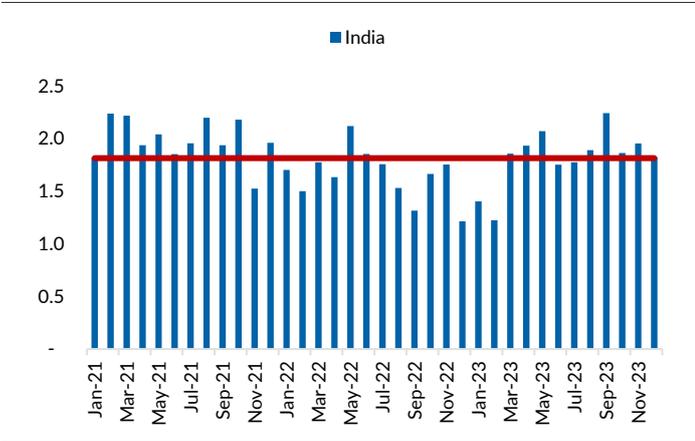
Source: Bloomberg, YES Sec

Exhibit 44: Taiwan’s LNG imports (mmt) stable



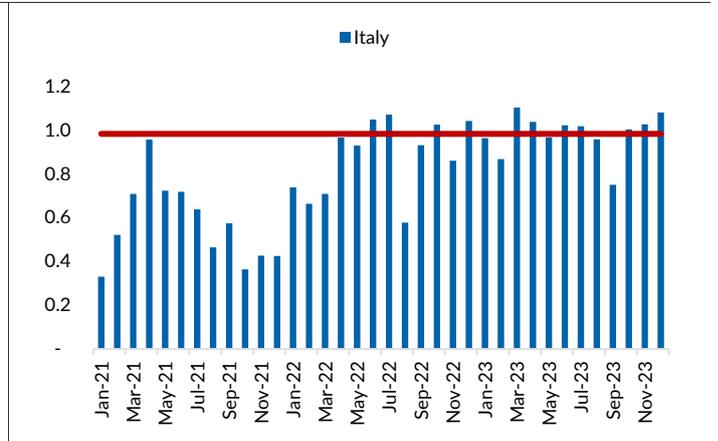
Source: Bloomberg, YES Sec

Exhibit 45: India's LNG imports (mmt) picking up on falling gas prices



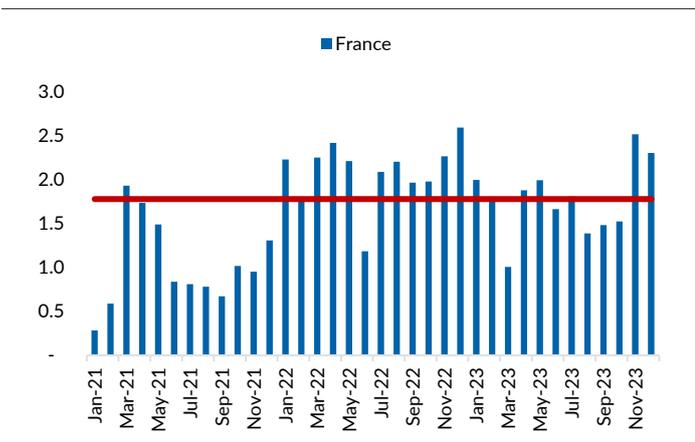
Source: Bloomberg, YES Sec

Italy's LNG imports (mmt) near average



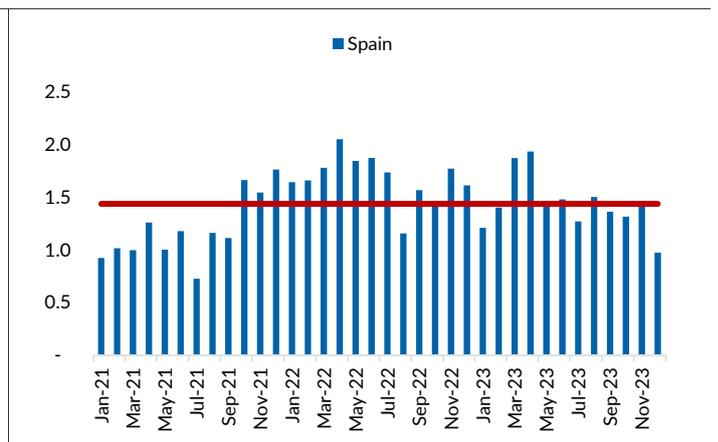
Source: Bloomberg, YES Sec

Exhibit 46: France's LNG imports(mmt) moves up in winter



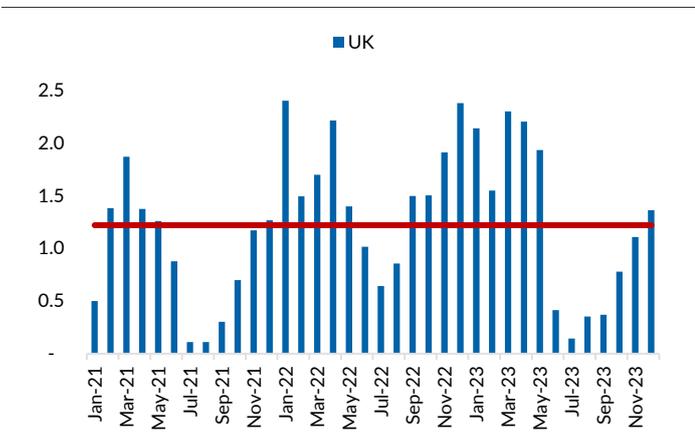
Source: Industry, Bloomberg, YES Sec

Exhibit 47: Spain's LNG imports (mmt)



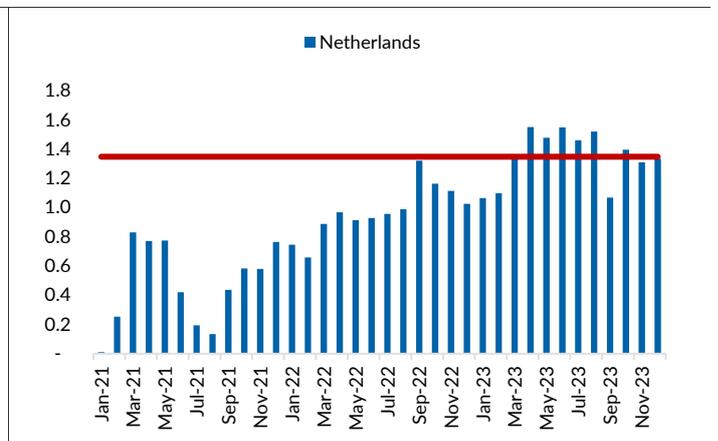
Source: Industry, Bloomberg, YES Sec

Exhibit 48: UK's LNG imports (mmt)



Source: Industry, Bloomberg, YES Sec

Exhibit 49: Netherlands' LNG imports picking up

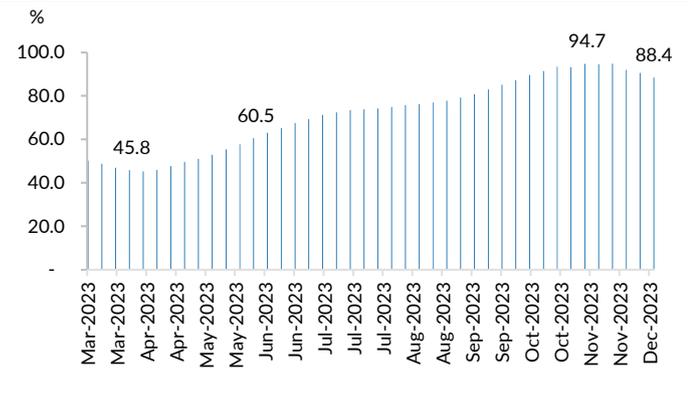


Source: Industry, Bloomberg, YES Sec

Europe gas storage ~82%

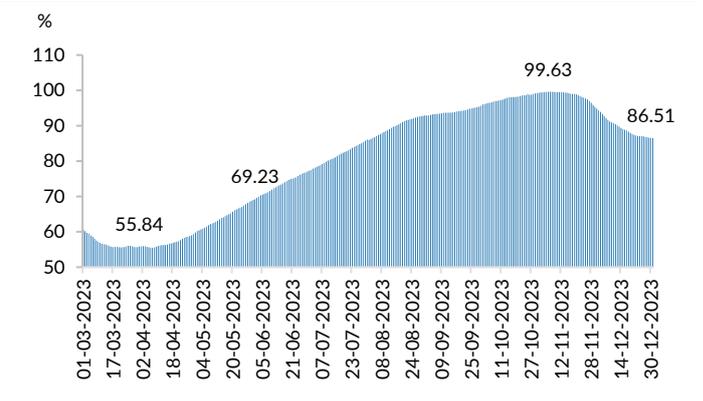
Gas storage in the EU, still good despite no volumes from Russia, peaked in Nov'23 above 99%. Storage levels of leading EU countries peaked for Germany 94%, France 93%, Spain 95%, Italy 92% and the Netherlands 92%.

Exhibit 50: US gas storage levels, as % of past peak



Source: Industry, Bloomberg, YES Sec

Exhibit 51: EU gas storage near full

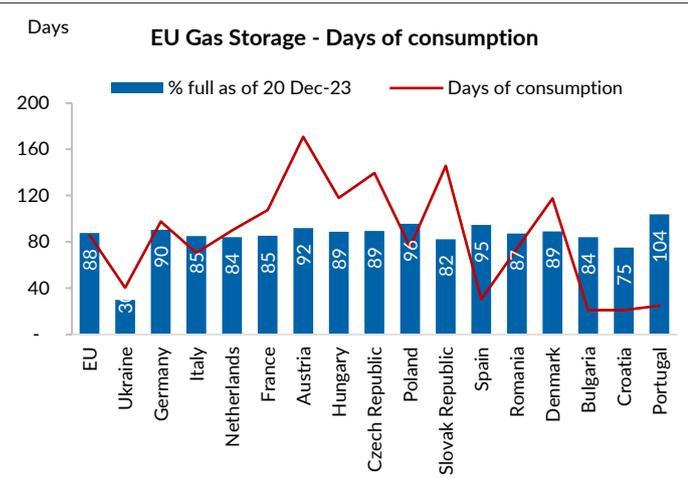


Source: Industry, Bloomberg, YES Sec

Europe gas storage now covers three months' demand

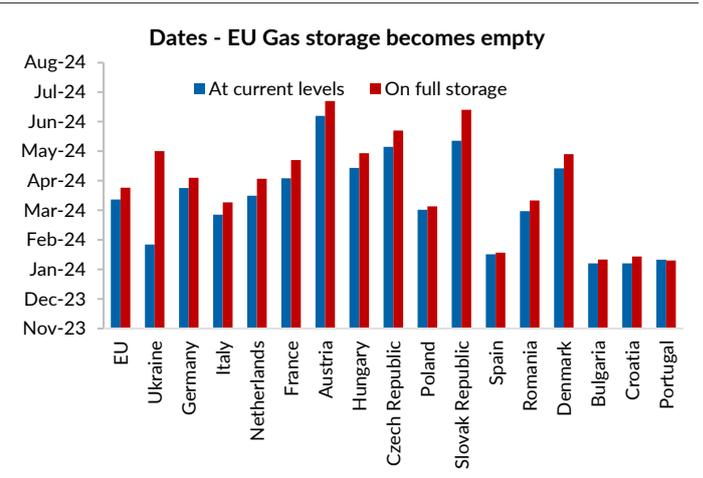
Storage peaked in Nov'23 and is still higher covering the winter demand. After winter, the levels again is expected to move down below 70%. With this, the EU can go 91 days without a refill. We believe that the EU is in quite a comfortable position with gas still in storage, which should keep gas prices lower. Storage levels will continue to be the key monitorable as filling up at these lower prices is necessary.

Exhibit 52: EU gas storage - days of consumption



Source: Industry, Bloomberg, YES Sec

Exhibit 53: Dates when EU gas storage turns empty

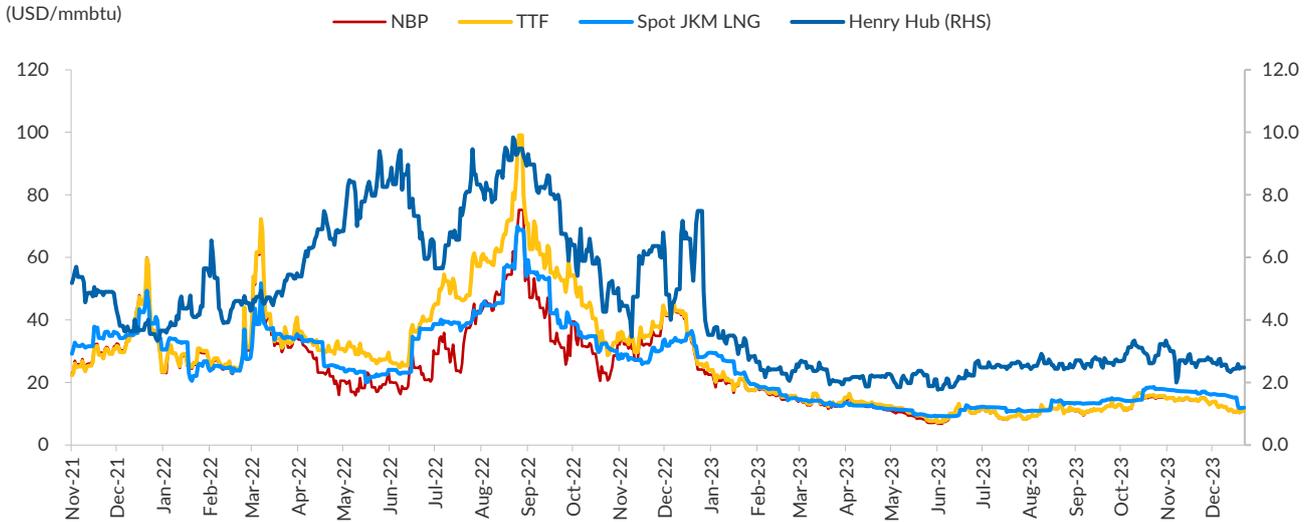


Source: Industry, Bloomberg, YES Sec

Prices of gas from major sources plunge

The gas pricing storm of 2022 has blown over. Brent slid from a peak ~USD130/bbl to below USD75, while major gas prices plummeted big from their Jul'22 peak: Henry Hub down 74% to USD2.6/mmbtu, NBP down 86% to USD10.4, TTF down 89% to USD10.6 and spot LNG down 84% to USD11.5

Exhibit 54: Hub-based gas prices



Source: Bloomberg, Yes Sec

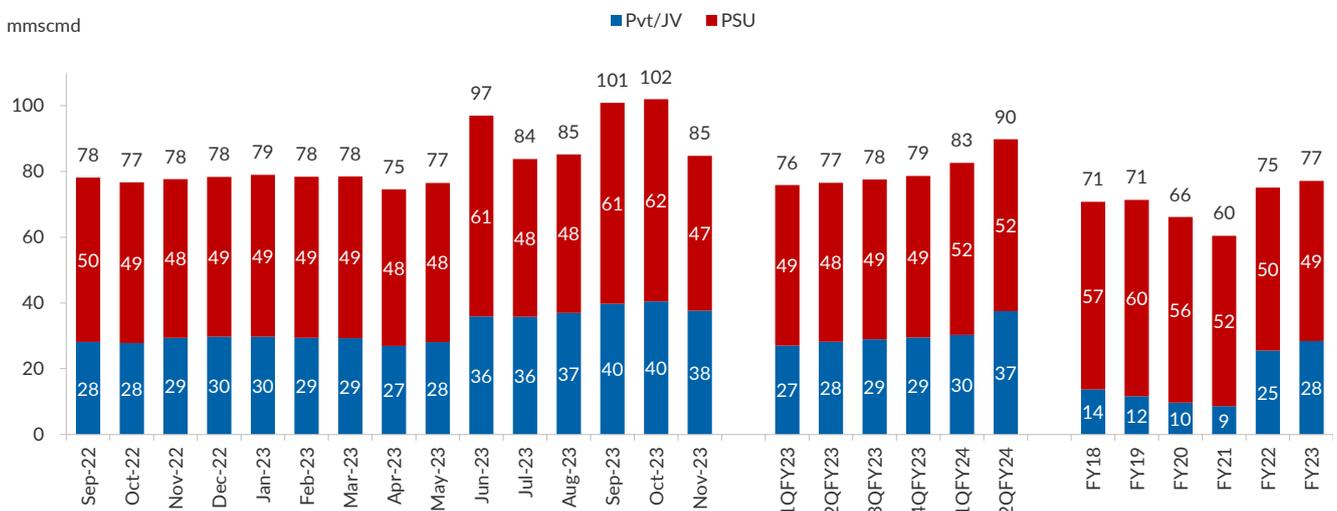
THE INDIA NATURAL GAS MARKET

Natural gas consumption, ~46% met through imported LNG in Nov'23

India's gas consumption is huge, but domestic supplies have suffered issues in the past. In FY23, RIL's KG basin increased domestic gas supplies, which has addressed demand from core sectors.

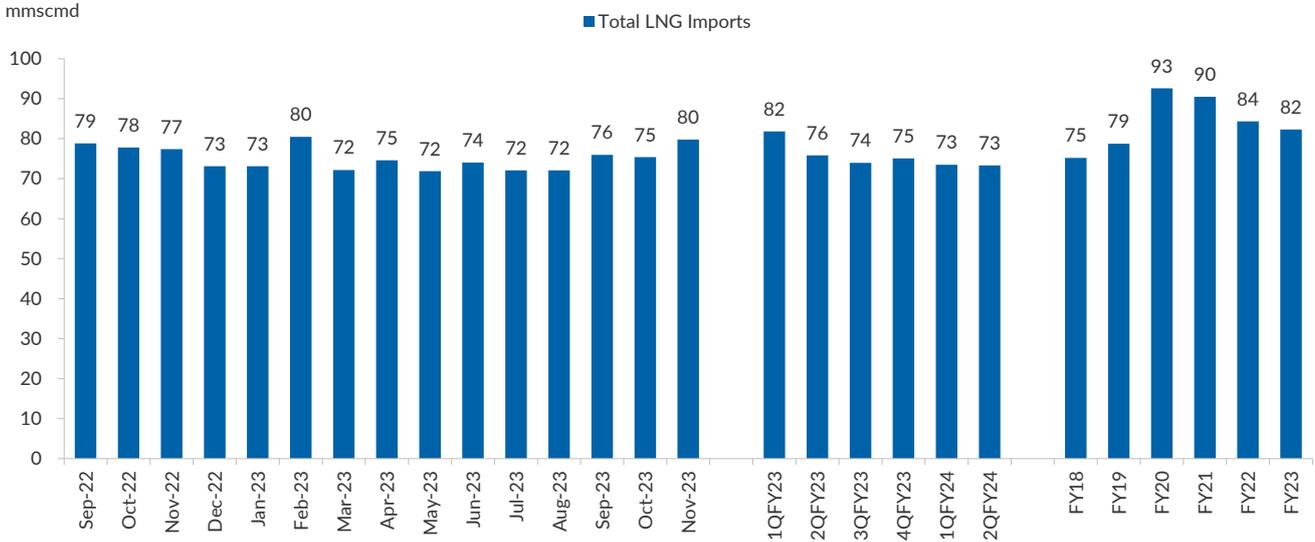
Gas from PSUs has been on a down trend given the decline in legacy fields and not much growth from newer ones. India's LNG imports have been lower than the peak of ~105mmscmd (in Oct'20) because of higher spot prices than that period, which have constrained industrial sector demand. Ahead, we expect growth for India to be strong due to softer spot LNG prices and as the availability improves with newer CGD rounds.

Exhibit 55: Domestic natural gas net production for sale to consuming sectors



Source: PPAC, Yes Sec

Exhibit 56: India's LNG imports

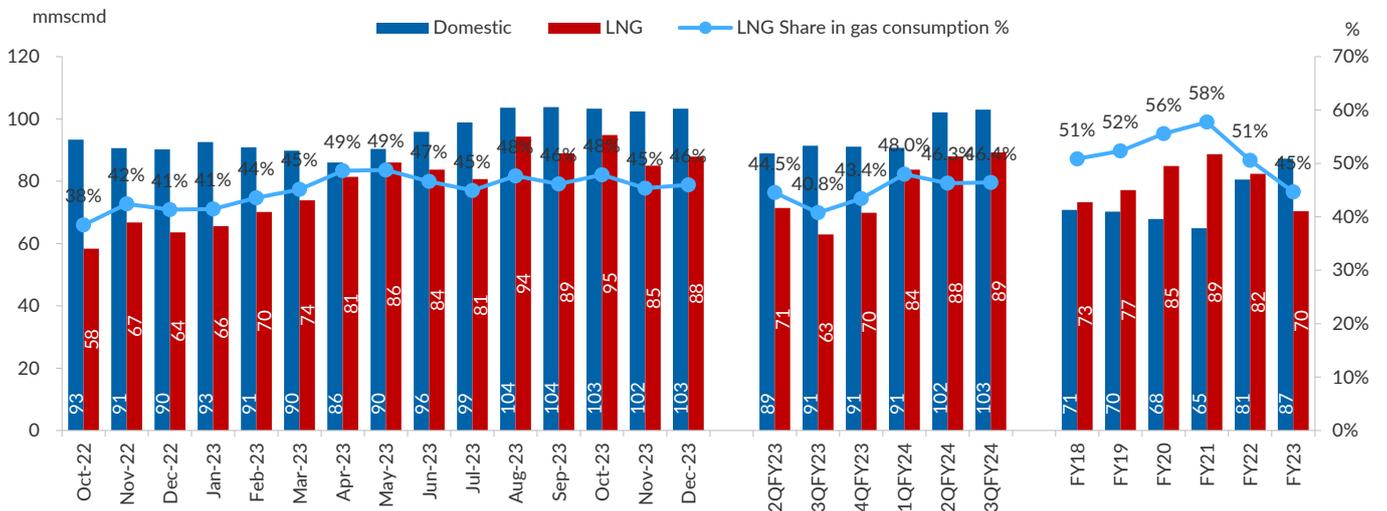


Source: PPAC, Yes Sec

India gas consumption still strong

Demand in India for gas, boosted by domestic supply, has been better recently. LNG as % of demand in India was only 46% versus last five-year average of 55% average due to higher spot LNG prices and improved domestic supply.

Exhibit 57: India's gas consumption - domestic vs LNG

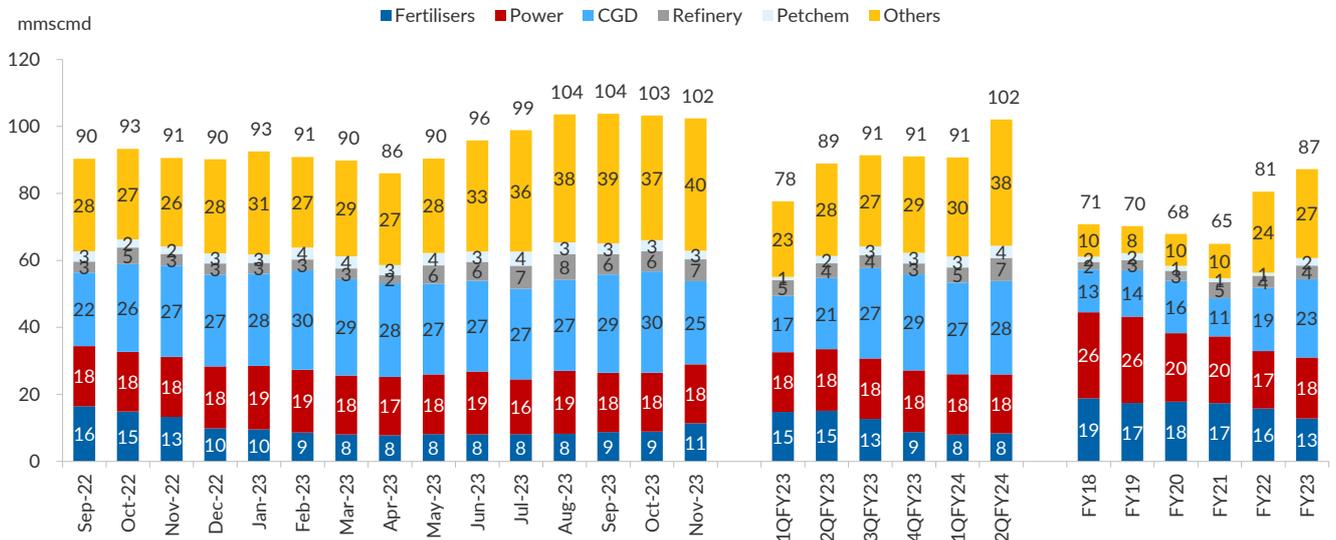


Source: PPAC, Yes Sec

Power sector demand had fallen earlier due to higher gas prices, but has now recouped, while the share of fertilizers and CGD continues to be strong despite the drop in industrial sector demand.

India hit peak gas demand of 198.1mmscmd in Oct'23, with fertilizer demand peaking and CGD and other miscellaneous demand near highs. We expect strong demand growth to continue for all sectors with a potential recovery triggered by falling gas prices.

Exhibit 58: India's sector-wise gas consumption



Source: PPAC, Yes Sec

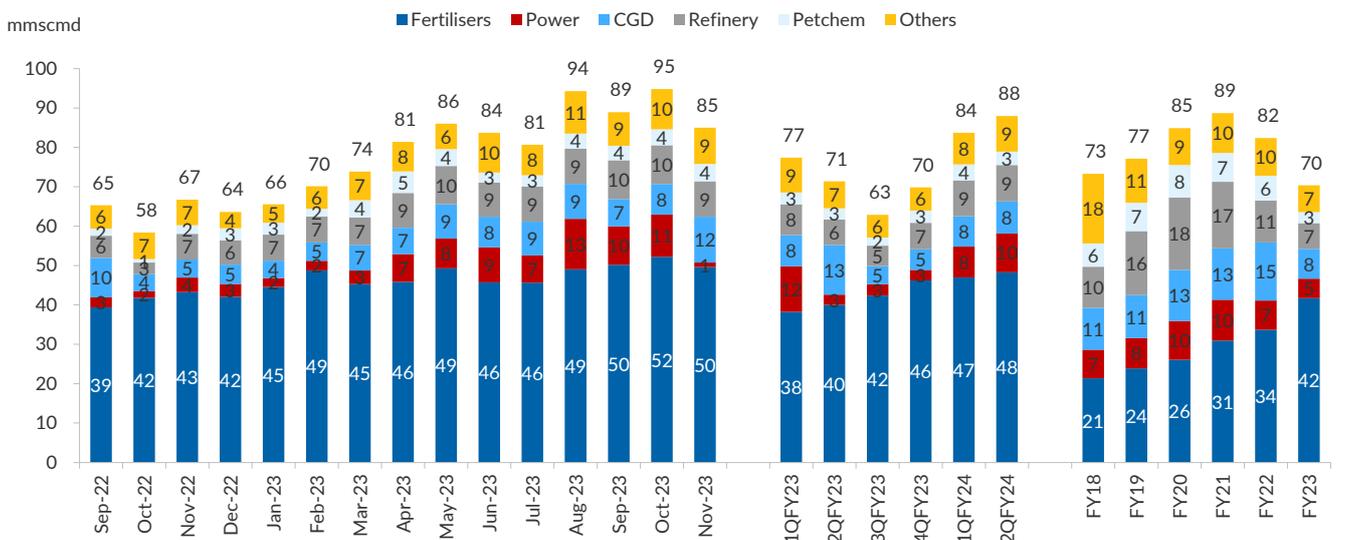
Priority sector leading demand

Consumption of gas from domestic sources hit a new high in Sep'23, of 103.8mmscmd with large growth coming from other sectors and CGD.

R-LNG consumption had hit a low of 58.4mmscmd in Oct'22 across sectors, except fertilisers when the gas prices had peaked. Currently at 94.8mmscmd in Oct'23 is still lower than its peak of 104.7mmscmd in Oct'20. Since the start of 2023, the gas offtake by power sector was very low, now has increased by ~10mmscmd with a correction in spot LNG prices.

Spot gas prices were lower in 2023 versus 2022 and we expect prices to slide further, which would increase LNG imports to meet India's stronger demand growth.

Exhibit 59: India's sector-wise R-LNG consumption



Source: PPAC, Yes Sec

Exhibit 60: India gas: demand-supply model

Sector (mmscmd)	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24e	FY25e	FY26e	FY30e
Energy use													
Power	29.3	29.8	31.8	33	32.9	30.1	29.7	24.6	24.0	26.8	30.0	31.0	35.0
City Gas Distribution	14.8	15	20.1	23.5	25.3	29.6	25.3	33.6	30.3	36.3	42.5	49.3	80.6
Refinery	12.5	13.9	14.7	17.9	19.3	21.3	21.7	14.3	11.0	14.8	15.4	17.0	21.8
Misc.	18.1	13.3	12.3	17	20.2	11.5	20	33.8	35.5	42.9	48.1	52.9	77.4
Total	74.7	72	79	91.3	97.7	92.5	96.6	106.2	100.7	120.8	135.9	150.1	214.8
Non-energy use													
Fertiliser	41.6	44.2	42.3	40.2	41.1	44	48.7	49.5	53.7	57.1	58.5	59.9	62.2
Petro-chemical	7.9	10.2	11.4	11	9.3	9.8	8.4	7.2	5.2	7.2	7.4	7.6	8.0
Total	49.5	54.4	53.7	51.2	50.4	53.8	57.1	56.7	58.9	64.3	65.9	67.5	70.2
Total gas demand	124.2	126.4	132.7	142.6	148.1	146.3	153.7	162.9	159.6	185.1	201.8	217.6	285.0
								FY18-23 CAGR %	2.3	CAGR %	7.2*	7.1**	
Of which													
Domestic gas (net of flaring and internal)	73.4	69.3	68.5	71	71.3	65.7	60.4	75.1	77.2	90.4	90.7	89.7	81.9
Call on LNG	51.1	58.8	69.9	74.5	78.1	92.2	89.3	84.6	82.4	94.7	111.2	127.9	203.1
Total gas supply	124.5	128.1	138.4	145.5	149.4	157.9	149.7	159.7	159.6	185.1	201.8	217.6	285.0
Domestic gas										1.7	CAGR %	8.2*	3.4**
LNG								FY18-23 CAGR %	2.0	CAGR %	7.4*	9.6**	

Source: PPAC, YES Sec

* FY21-26e ; **FY21-30e

Exhibit 61: LNG Regasification Terminals in India

India LNG terminal capacity (mtpa)	FY22	FY23	FY24e	FY25e	FY30e
Dahej / PLNG	17.5	17.5	17.5	20	22.5
Kochi / PLNG	5	5	5	5	5
Hazira / Shell	5	5	5	5	5
Dabhol / GAIL	1.7	1.7	5	5	5
Ennore / IOC	5	5	5	5	5
Mundra / GSPC	5	5	5	5	5
Jaigarh (FSRU) / H-energy	-	-	-	4	4
Jafrabad (FSRU) / Swan Energy	-	-	-	-	5
Dhamra / Adani	-	-	5	5	5
Chhara / HPCL	-	-	-	5	5
Total capacity (mtpa)	39.2	39.2	47.5	59.0	66.5
Total capacity (mmscmd)	143.1	143.1	173.9	215.4	242.7

Source: Industry, PPAC, Bloomberg, YES Sec

India gas consumption: CGD to boost demand

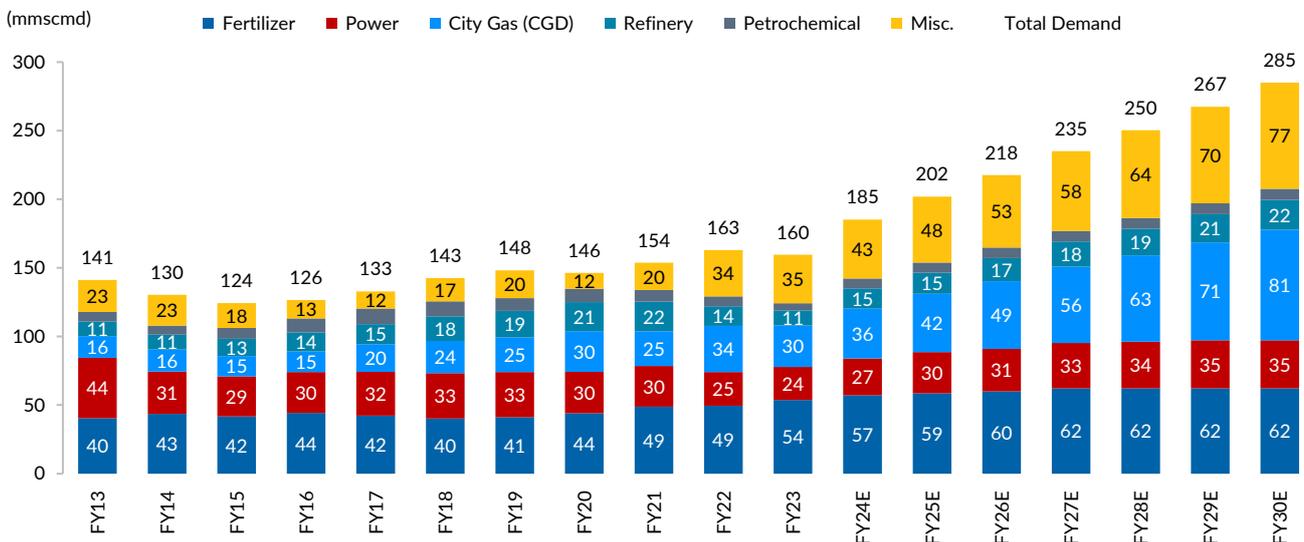
India gas consumption should increase by ~100mmscmd by 2030

Major supply growth should come from LNG imports given lower domestic supplies, despite additions from RIL's MJ field and ONGC's KG basin. Production from legacy fields continues to erode.

Risk factors in our assumptions:

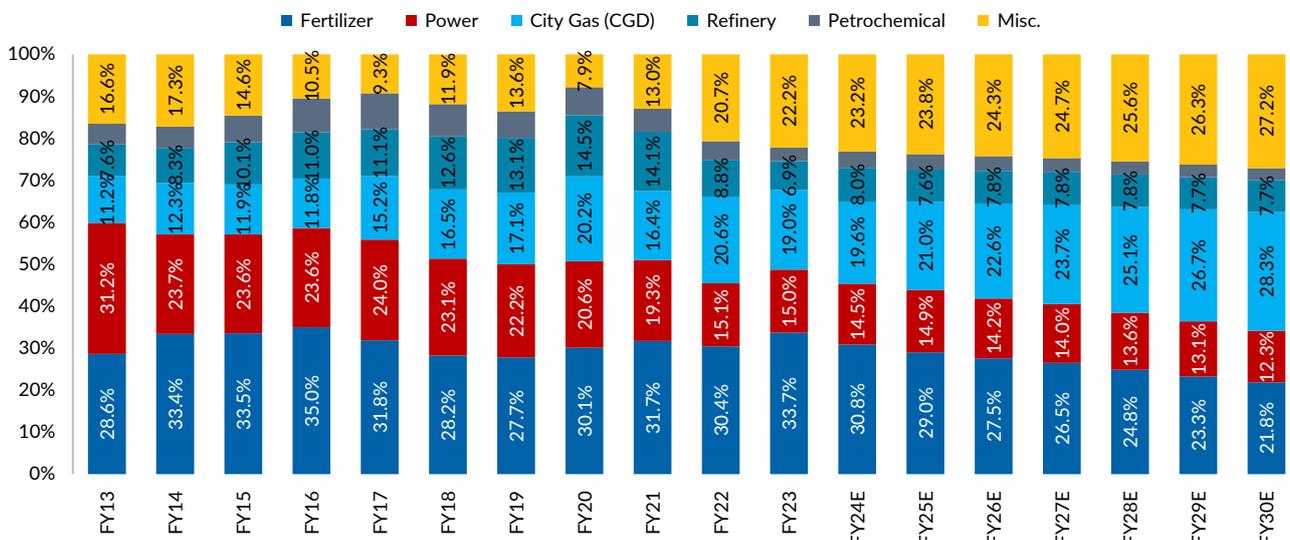
- Higher gas offtake from refinery expansions, new petrochemical projects and policy changes, which could further alter demand.
- Sharp movements in gas prices, which could affect demand estimates.

Exhibit 62: CGD segment to drive gas consumption growth in India



Source: PPAC, YES Sec

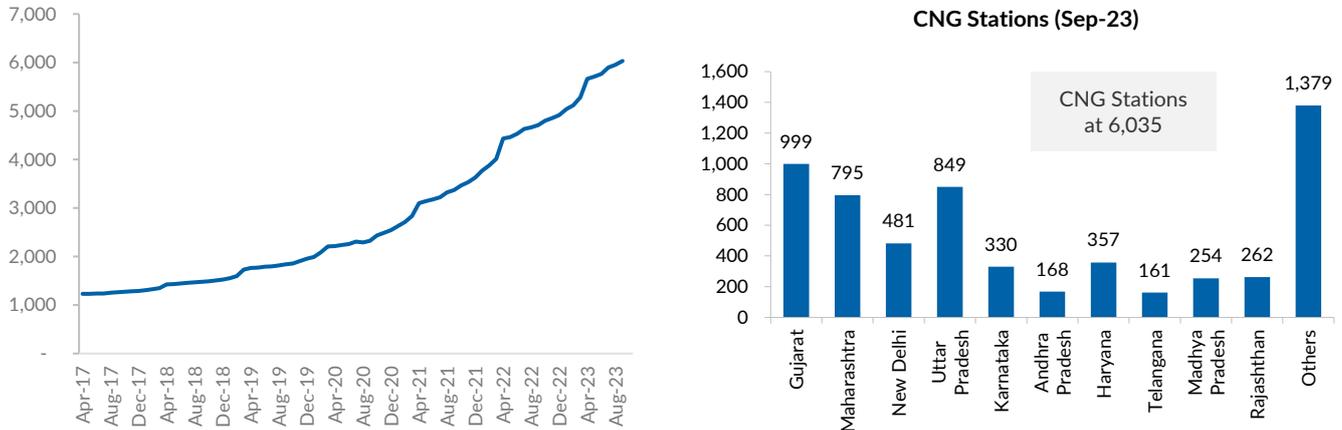
Exhibit 63: CGD today is ~21% of gas consumption; to increase to ~28% by 2030



Source: PPAC, YES Sec

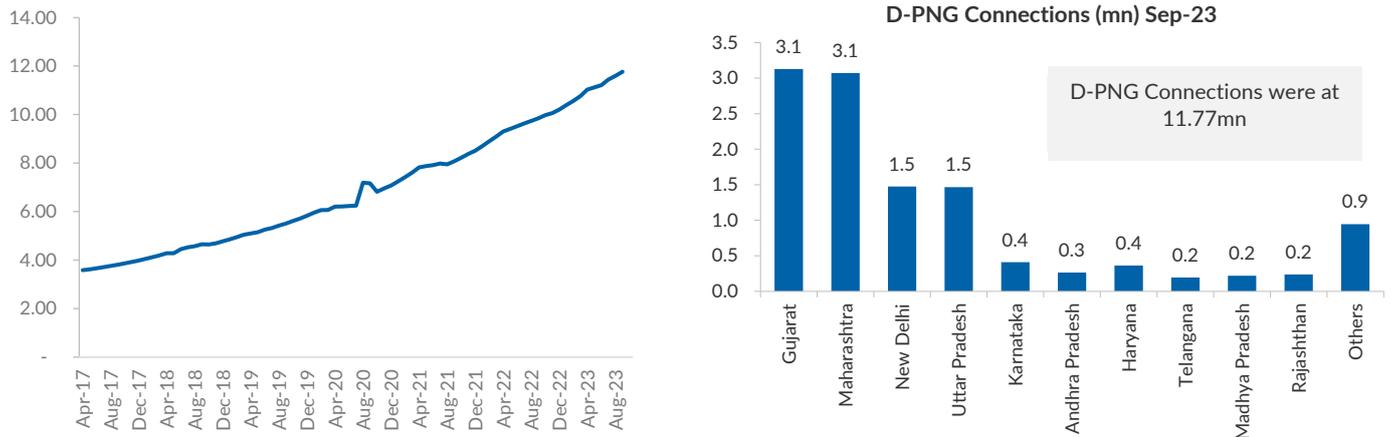
CGD INFRASTRUCTURE IN INDIA

Exhibit 64: Number of CNG stations (Sep'23)



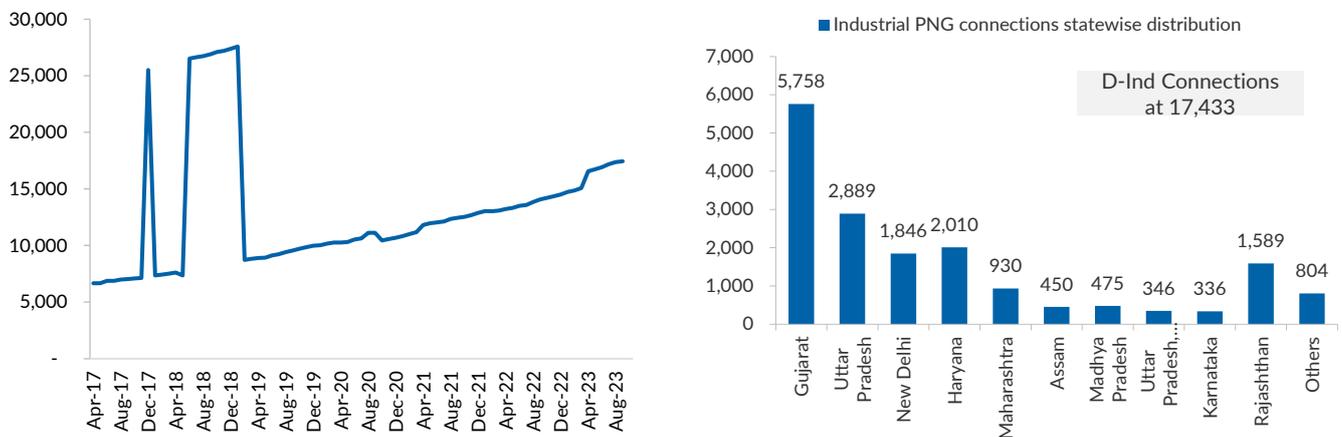
Source: Industry, PPAC, YES Sec

Exhibit 65: Number of domestic piped connections (Sep'23)



Source: Industry, PPAC, YES Sec

Exhibit 66: Number of Industrial piped connections (Sep'23)



Source: Industry, PPAC, YES Sec

Strong Indian CGD infrastructure additions

India has added a vast CGD infrastructure, largely driven by more CNG stations. With the rollout of CGD rounds 9, -10 and -11, penetration and gas availability has significantly risen.

From ~1,230 in Apr'17, the number of CNG stations in Sep'23 was 6,035 (~5x). CNG has been highly competitive at times to petrol and diesel but given the huge difference, conversions to CNG have been good.

From 3.59m in Apr'17, the number of D-PNG connections rose to 11.77m in Sep'23 (domestic consumers added piped gas as availability increased). The number of domestic commercial customers has moved up from 18,600 in Apr'17 to 39,120 in six years. Domestic industrial demand is expected to be strong and improve the share of gas in India's energy mix; from 6,670 customers in Apr'17 the number has grown to 17,400 in six years, with some larger industries consuming gas.

RUNNING COSTS, CNG VS ALTERNATIVES

Running costs of petrol/diesel vehicles vs CNG vehicles

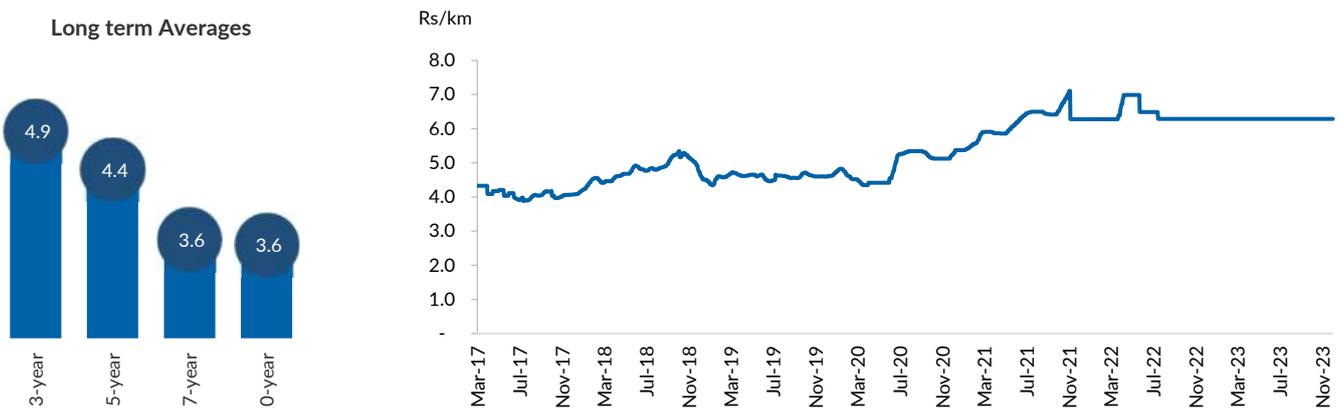
Running costs in Delhi have increased sharply with rising input costs and taxes. CNG prices have fallen with the approval of the Kirit Parikh Committee recommendations. This has swelled the difference, which could lead to higher CNG conversions.

Exhibit 67: Running cost of a petrol vehicle in Delhi



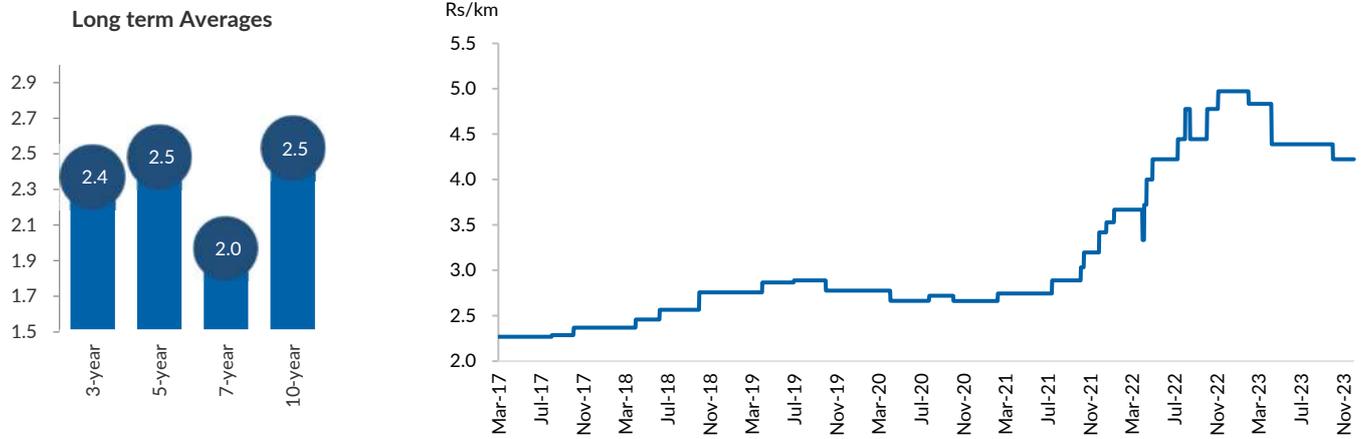
Source: Industry, Company, YES Sec

Exhibit 68: Running cost of a diesel vehicle in Delhi



Source: Industry, Company, YES Sec

Exhibit 69: Running cost of a CNG vehicle in Delhi



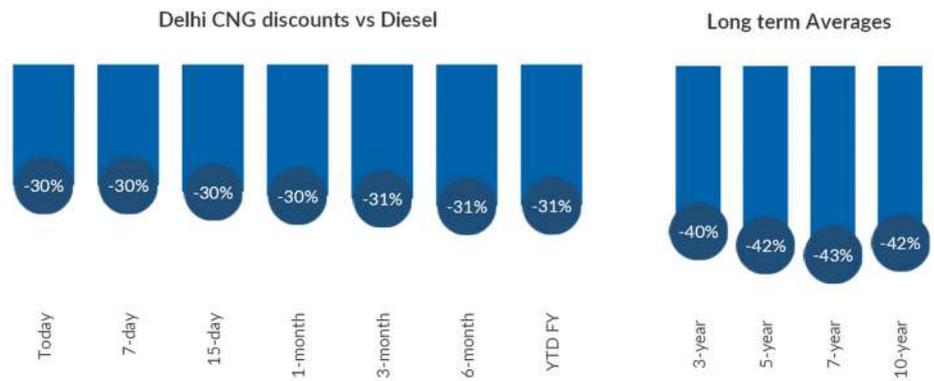
Source: Industry, Company, YES Sec

Exhibit 70: Discount of CNG to petrol in Delhi



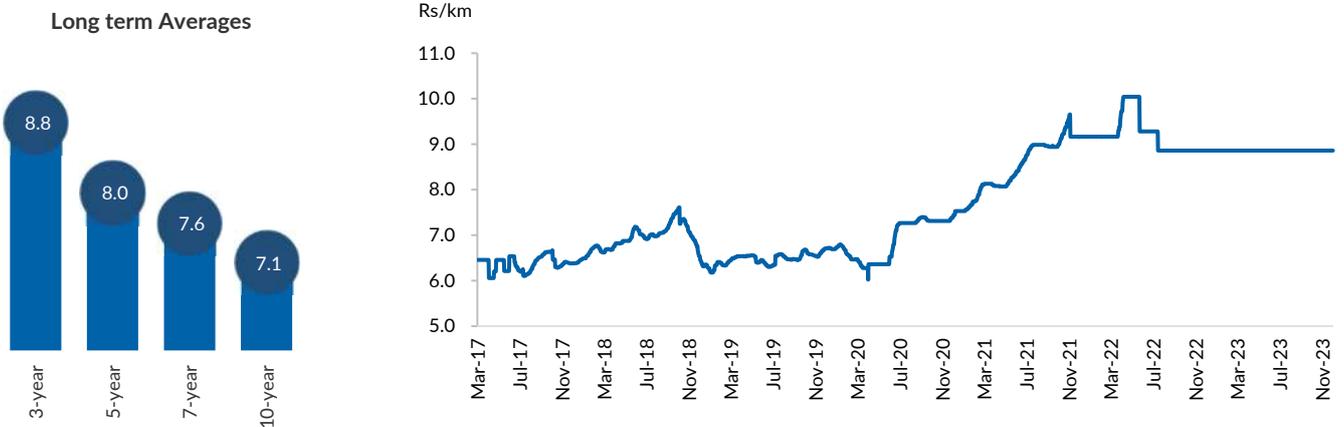
Source: Industry, Company, YES Sec

Exhibit 71: Discount of CNG to diesel in Delhi



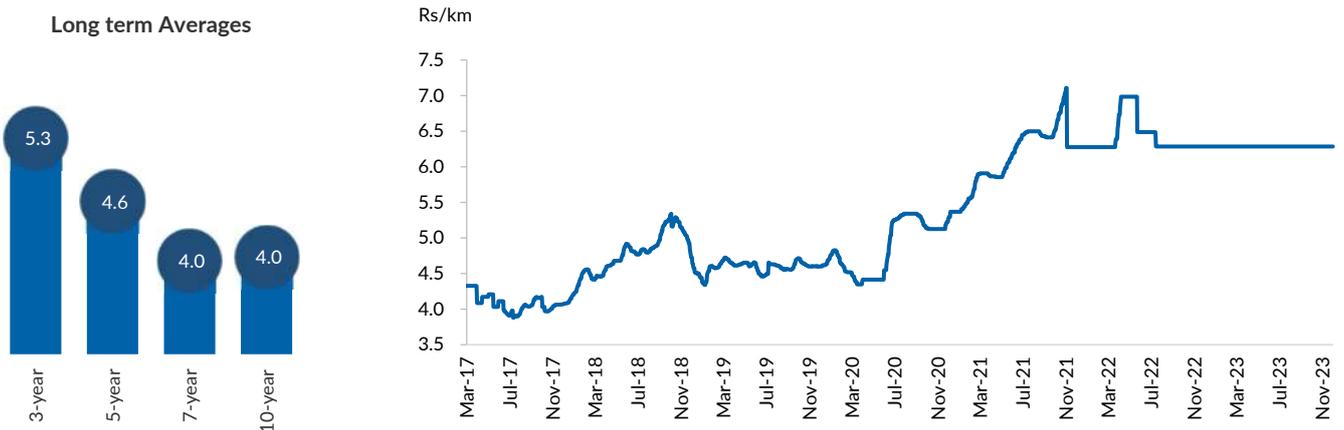
Source: Industry, Company, YES Sec

Exhibit 72: Running cost of a petrol vehicle in Mumbai



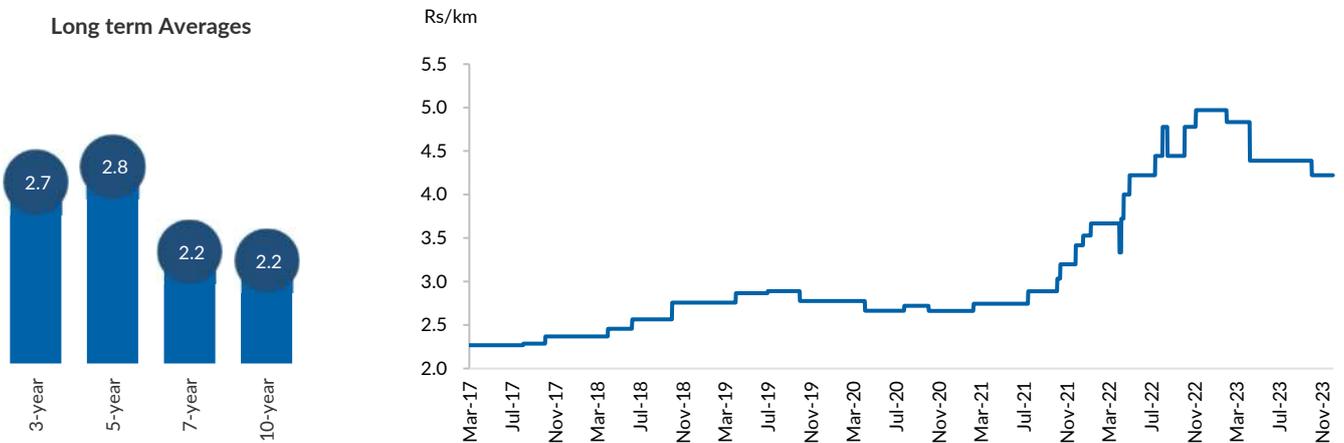
Source: Industry, Company, Yes Sec

Exhibit 73: Running cost of a diesel vehicle in Mumbai



Source: Industry, Company, YES Sec

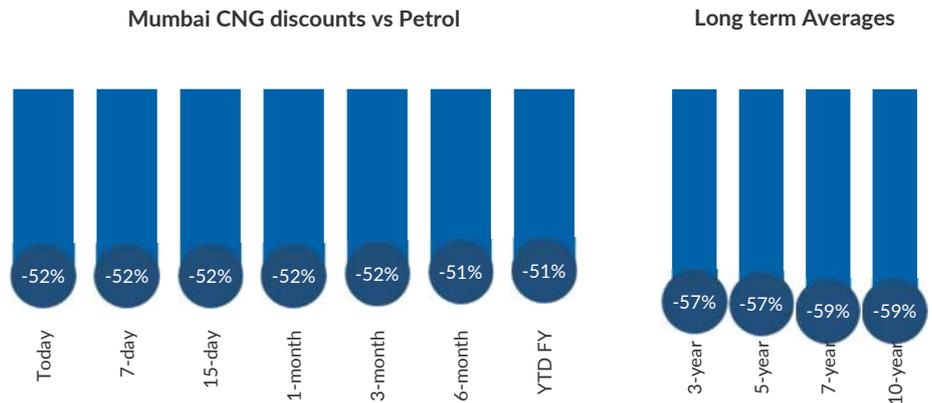
Exhibit 74: Running cost of a CNG vehicle in Mumbai



Source: Industry, Company, YES Sec

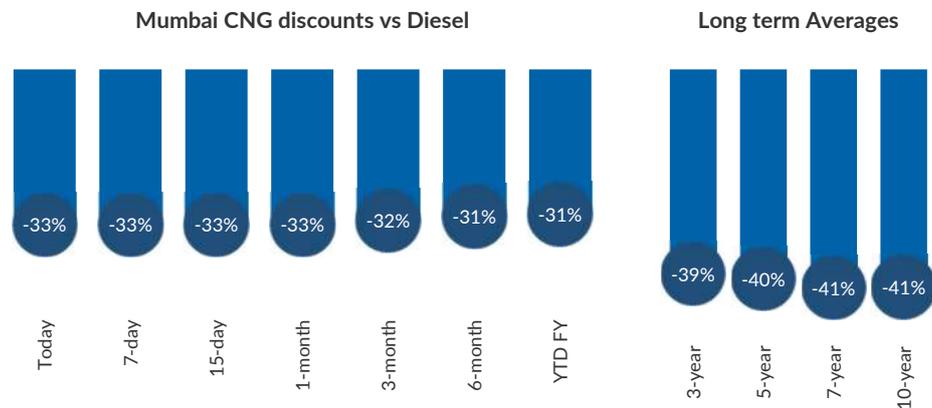
Fuel running costs in Mumbai have risen steeply because of higher input costs and taxes. CNG prices have fallen on the approval of the Kirit Parikh Committee recommendations. This has increased the difference, which could lead to more CNG conversions. Such conversions were supported by the cut in VAT on CNG, from 13.5% to 3%.

Exhibit 75: Discount of CNG to petrol in Mumbai



Source: Industry, Company, YES Sec

Exhibit 76: Discount of CNG to diesel in Mumbai



Source: Industry, Company, YES Sec

COMPANY SECTION

January 12, 2024

REINITIATING COVERAGE | Sector: Energy

Hindustan Petroleum Corp.

Marketing division holds the edge

Hindustan Petroleum's refining and marketing divisions make healthy contributions to its EBITDA. We expect the FY26 contribution of refining at 42%, marketing 51%, and pipeline 7%. This is a marketing-skewed stock and not as balanced as BPCL.

Brighter Marketing Outlook: Over the past few months, HPCL retail fuel margins have recovered from weaker numbers with a fall in crude and product prices which were not passed on as the RSP remains unchanged, this is a clear edge for the marketing division. We expect gross marketing margins to be at par with past averages in a base case scenario, at the pre-deregulated of Rs2.7/ltr for both diesel and petrol for FY25e/26e.

GRM environment - super normal, supportive of earnings Lower global gasoil stocks and robust demand for petroleum products are likely to sustain, keeping key product cracks higher. The company is sourcing over 10% of its crude requirements from Russia, which is at a discount boosting GRMs, least amongst the Indian refiners. The benchmark Singapore GRM and the company's GRM are trending higher than their last 10-year averages, supported by stronger demand, reduced supply, and lower stocks. We assume FY25 and FY26 GRMs of respectively \$8.2 and \$7.2/bbl vs the last 7-year average reported GRM of \$6.1 and the Singapore GRM of \$5.4.

Rajasthan Refinery: The Barmer refinery, a 9mtpa capacity, is expected to be completed by Mar'24. It has total capex outlay of Rs 730bn, of which ~Rs 370bn has been incurred, where HPCL equity contribution is Rs 180bn (total at Rs 244bn). HPCL expects the utilization to reach ~80% by end-FY25. GRM guidance provided is of ~USD 15/bbl, a premium over other refineries, expected EBITDA of Rs 80bn from the entire project including petchem. We believe the added capex would dent the balance sheet in case of any disruption, and it could increase by the time project is commissioned or it stabilizes.

Dividend bonanza: We believe HPCL will report its highest ever profitability in a year in FY24, supported by higher GRMs and an improved marketing performance on a fall in crude prices. As per our expectations, HPCL in FY24 could declare a dividend of Rs48/share (yield of ~11% at CMP, highest amongst the OMCs), the company is yet to declare an interim dividend unlike BPCL and IOCL.

Demerger of Lubes business: HPCL has formed a new company, and a PSU requires many approvals. The main objective is to free Lubes from all control, currently its selling 650tmt lube products in a year. It is increasing marketing reach through JV, new geographies, and volume additions. Various options for creating a subsidiary are under contemplation and a decision is expected soon, expecting high value unlocking and boost to the stock price.

Outlook: HPCL has a Rs17.3bn/Rs18.1bn sensitivity to a change of Rs0.5/ltr and USD1/bbl, respectively. An expectation of higher dividend in FY24 (11% yield), 6.5%/6.0% FY25e/26e would be key for the shareholders, compensating of lower dividend of FY23. The BV/share for FY25e/26e is at Rs 309/341 and the debt: equity is highest amongst the OMCs for HPCL at 1.3/1.1/1.0x for FY24e/25e/26e.

At CMP, the stock trades at 6.1x/5.9x FY25e/26e EV/EBITDA and 1.2x/1.1x P/BV (excl. investments, it trades at 5.6x/5.3x FY25e/26e EV/EBITDA and 1.0x/0.9x P/BV). We initiate coverage on it, with a BUY rating and a target price of Rs574 valuing it on a sum-of-parts basis (core business at 6.5x EV/EBITDA and investments at Rs80).

Risks: Weaker GRM environment, inventory losses, change in crude prices and adverse government policy of subsidy-sharing, and a weak marketing margins environment.

Reco	: BUY
CMP	: Rs 431
Target Price	: Rs 574
Potential Return	: +33%

Stock data (as on January 10, 2024)

Nifty	21,624
52 Week h/l (Rs)	437 / 212
Market cap (Rs/USD mn)	610969 / 7356
Outstanding Shares (mn)	1,419
6m Avg t/o (Rs mn):	1,828
Div yield (%):	-
Bloomberg code:	HPCL IN
NSE code:	HINDPETRO

Stock performance



	1M	3M	1Y
Absolute return	23.7%	75.7%	74.1%

Shareholding pattern (As of Sep'23 end)

Promoter	54.9%
FII+DII	35.9%
Others	9.2%

Financial Summary

(Rs bn)	FY23	FY24E	FY25E	FY26E
Revenue	4,404.0	3,844.2	3,645.3	3,467.9
YoY Growth	25.9	(12.7)	(5.2)	(4.9)
EBIDTA	(75.2)	301.3	193.6	195.9
OPM %	(1.7)	7.8	5.3	5.6
PAT	(89.7)	178.4	90.0	83.5
YoY Growth	NA	NA	(49.6)	(7.2)
ROE	(32.4)	46.0	20.6	17.2
EPS	(63.3)	125.8	63.4	58.9
P/E	(3.7)	3.4	6.8	7.3
BV	195.4	273.1	308.6	341.5
EV/EBITDA	(12.7)	3.4	5.5	5.6

HARSHRAJ AGGARWAL

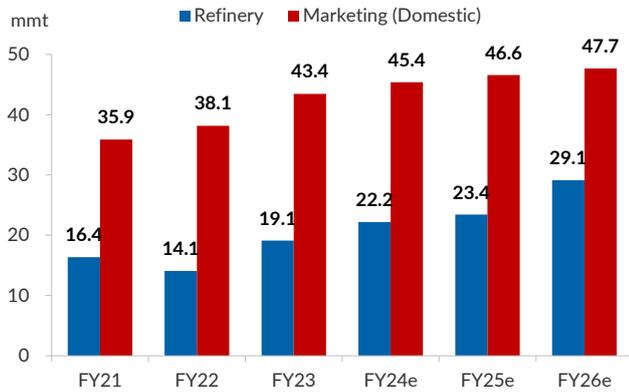
Lead Analyst

harshraj.aggarwal@ysil.in



STORY IN CHARTS

Exhibit 1: Volumes



Source: Company, YES Sec

Exhibit 2: Free cash-flows

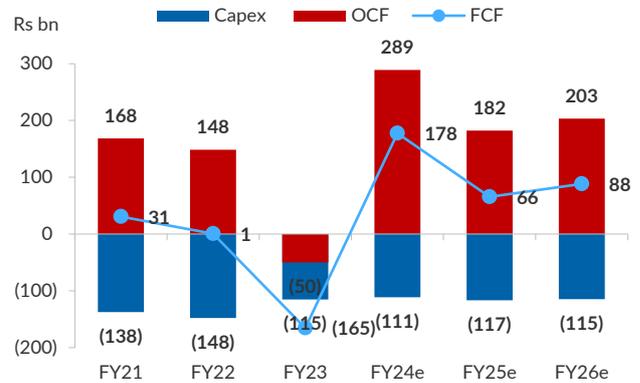
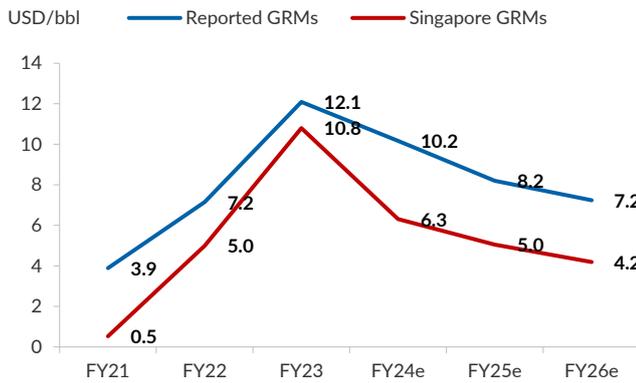


Exhibit 3: Refining margins



Source: Company, YES Sec

Exhibit 4: Marketing EBITDA/ltr (Rs)

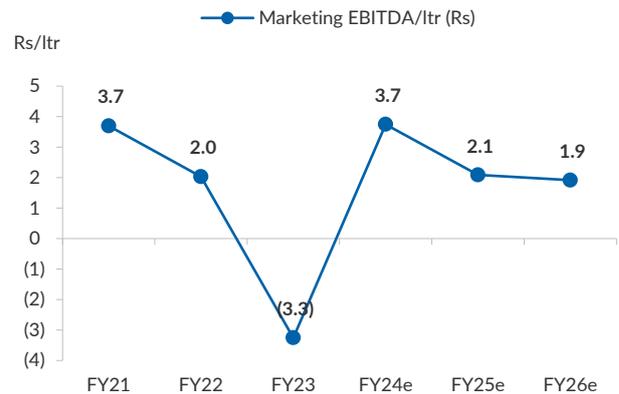


Exhibit 5: Return ratios



Source: Company, YES Sec

Exhibit 6: Dividend Yield (%)

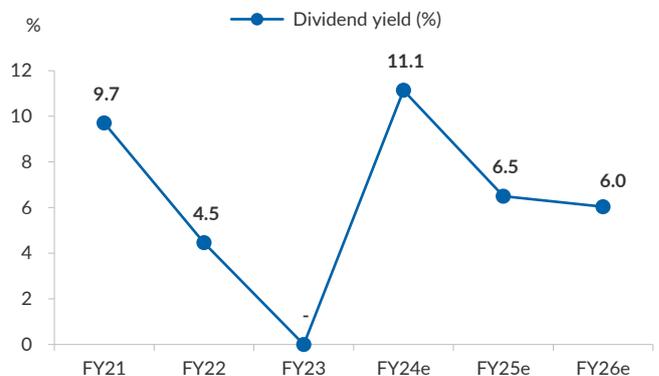


Exhibit 7: Key Assumptions

	Unit	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24e	FY25e	FY26e
Brent	USD/bbl	50.5	59.1	70.9	61.0	45.7	80.0	95.2	85.0	77.0	70.0
Exchange rate	Rs/USD	67.0	65.0	69.5	70.9	74.2	74.5	80.3	83.0	83.0	83.0
Refining											
Throughput	mmt	17.9	18.3	18.4	17.2	16.4	14.1	19.1	22.2	23.4	29.1
Mumbai	mmt	8.5	8.6	8.6	7.9	7.9	6.7	8.1	9.1	9.3	9.3
Vizag	mmt	9.3	9.6	9.8	9.3	8.5	7.4	11.0	13.1	14.1	14.4
Rajasthan	mmt	-	-	-	-	-	-	-	-	-	5.4
Reported GRM	USD/bbl	6.2	7.4	5.0	1.0	3.9	7.2	12.1	10.2	8.2	7.2
S'pore GRM	USD/bbl	6.0	6.0	6.0	3.2	0.5	5.0	10.8	6.2	5.0	4.2
Marketing											
Sales Volume	mmt	35.2	36.9	38.0	37.8	35.9	38.1	43.4	45.4	46.6	47.7
HSD	mmt	17.0	17.7	18.1	17.7	15.7	16.6	19.3	20.1	20.6	21.1
MS	mmt	6.0	6.5	6.9	7.3	6.8	7.5	8.7	9.2	9.8	10.4
Others	mmt	12.2	12.6	12.9	12.8	13.4	14.1	15.5	16.1	16.1	16.2
Marketing EBITDA	Rs/ltr	0.8	1.0	1.6	1.4	1.9	0.1	(3.6)	2.8	1.8	1.8
Pipeline throughput	mmt	17.9	20.4	21.5	21.2	19.1	19.9	22.1	22.1	22.1	22.1

Exhibit 8: EBITDA sensitivity to GRM

Refining Volumes (mmt)	EBITDA (Rs bn)						
	27.1	28.1	29.1	30.1	31.1	32.1	
GRMs (\$ / bbl)	6.2	173	176	178	180	182	184
	6.7	182	184	187	189	192	194
	7.2	190	193	196	199	202	204
	7.7	199	202	205	208	211	214
	8.2	207	211	214	217	221	224
	8.7	216	219	223	227	231	234

Source: Company, YES Sec

Exhibit 9: Target price sensitivity to GRM

Refining Volumes (mmt)	Target (Rs / sh)						
	27.1	28.1	29.1	30.1	31.1	32.1	
GRMs (\$ / bbl)	6.2	471	481	491	501	511	521
	6.7	509	521	532	544	555	567
	7.2	548	561	574	587	600	613
	7.7	587	601	615	630	644	659
	8.2	625	641	657	673	689	704
	8.7	664	681	699	716	733	750

Source: Company, YES Sec

Exhibit 10: EBITDA sensitivity to marketing margins

Marketing Volumes (mmt)	EBITDA (Rs bn)						
	43.7	45.7	47.7	49.7	51.7	53.7	
Gross HSD and MS margins (Rs / ltr)	1.8	156	158	161	164	167	170
	2.3	172	175	179	182	186	189
	2.8	187	192	196	200	204	209
	3.3	203	208	213	218	223	228
	3.8	219	225	231	236	242	248
	4.3	235	241	248	254	261	267

Source: Company, YES Sec

Exhibit 11: Target price sensitivity to marketing margins

Marketing Volumes (mmt)	Target (Rs / sh)						
	43.7	45.7	47.7	49.7	51.7	53.7	
Gross HSD and MS margins (Rs / ltr)	1.8	390	402	415	428	441	453
	2.3	462	478	495	511	527	543
	2.8	535	555	574	593	613	632
	3.3	608	631	653	676	699	722
	3.8	681	707	733	759	785	811
	4.3	754	783	812	842	871	900

Source: Company, YES Sec

VIEW & VALUATION

BUY with a TP of Rs 574/share.

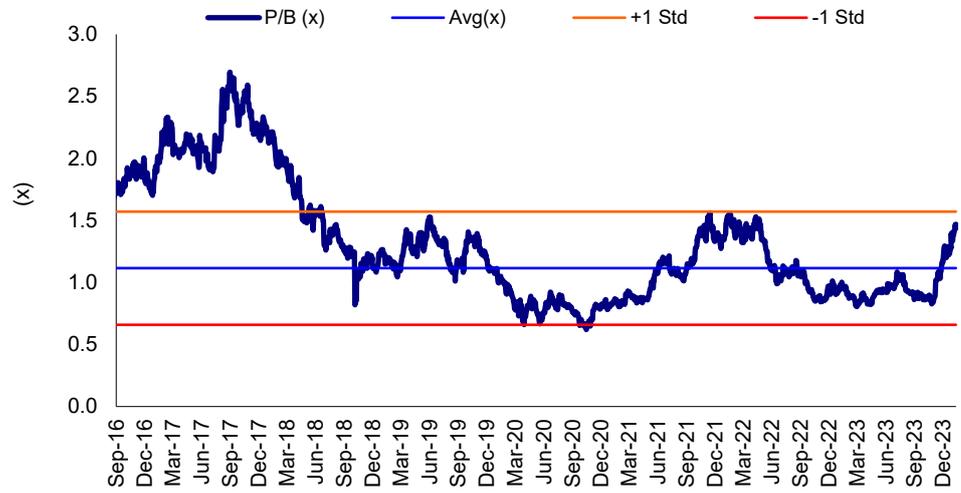
HPCL has a Rs17.3bn/Rs18.1bn sensitivity to a change of Rs0.5/ltr and USD1/bbl, respectively. An expectation of higher dividend in FY24 (11% yield), 6.5%/6.0% FY25e/26e would be key for the shareholders, compensating of lower dividend of FY23. The BV/share for FY25e/26e is at Rs 309/341 and the debt: equity is highest amongst the OMCs for HPCL at 1.3/1.1/1.0x for FY24e/25e/26e.

At CMP, the stock trades at 6.1x/5.9x FY25e/26e EV/EBITDA and 1.2x/1.1x P/BV (excl. investments, it trades at 5.6x/5.3x FY25e/26e EV/EBITDA and 1.0x/0.9x P/BV). We initiate coverage on it, with a BUY rating and a target price of Rs574 valuing it on a sum-of-parts basis (core business at 6.5x EV/EBITDA and investments at Rs80).

Exhibit 12: SOTP Valuation table

EV/EBITDA method	FY26E EBITDA (Rs mm)	EV/EBITDA (x)	Fair Value (Rs mm)	Fair Value (Rs/share)
Standalone	195,877	6.5 x	1,273,199	838
Refining	82,205	6.5 x	534,330	377
Marketing	100,770	6.5 x	655,006	462
Pipeline	12,902	6.5 x	83,862	59
Cash & Current Investments			68,045	48
Gross Debt			640,322	451
Standalone Equity Value (Using EV/EBITDA)			700,922	494
Listed Investments	Full Value (Rs mm)	Holdco discount (%)	Fair Value (Rs mm)	Fair Value (Rs/share)
MRPL (Refining segment)	46,653	30%	32,657	23
Oil India (Upstream segment)	10,245	30%	7,172	5
Listed Investments Equity Value			39,829	28
Unlisted Investments	FY25E EBITDA (Rs mm)	EV/EBITDA (x)	Fair Value (Rs mm)	Fair Value (Rs/share)
HMEL (Bhatinda refinery)	24,876	6.5 x	161,695	114
HMEL (Bhatinda refinery) - Debt			88,200	62
Unlisted Investments Equity Value			73,495	52
Equity Value			814,246	574

Exhibit 13: P/BV (x) band, one-year-forward



FINANCIALS

Exhibit 14: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	3,496,829	4,404,030	3,844,201	3,645,311	3,467,924
Total Expense	3,395,071	4,479,252	3,542,943	3,451,707	3,272,047
Operating Profit	101,759	(75,222)	301,258	193,604	195,877
Other Income	29,697	20,691	21,105	21,527	21,958
Depreciation	39,691	43,300	58,812	70,420	81,911
EBIT	91,764	(97,831)	263,551	144,711	135,924
Interest	9,727	21,319	25,134	24,455	24,272
Extraordinary Item	-	-	-	-	-
PBT	82,037	(119,149)	238,417	120,255	111,651
Tax	18,211	(29,409)	60,009	30,268	28,103
PAT	63,826	(89,740)	178,407	89,987	83,549
Adj. PAT	63,826	(89,740)	178,407	89,987	83,549
Eps	45	(63)	126	63	59

Exhibit 15: Balance sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Equity capital	14,189	14,189	14,189	14,189	14,189
Reserves	372,581	262,945	373,262	423,529	470,196
Net worth	386,770	277,134	387,451	437,719	484,385
Debt	469,404	680,054	635,054	650,054	630,054
Deferred tax liab (net)	59,783	30,110	30,110	30,110	30,110
Capital Employed	915,957	987,298	1,052,615	1,117,883	1,144,549
Fixed assets	838,996	903,414	954,252	998,832	1,030,921
Investments	125,722	160,418	160,418	160,418	160,418
Net working capital	(48,761)	(76,534)	(62,055)	(41,368)	(46,790)
Inventories	353,456	293,440	301,993	284,138	267,653
Sundry debtors	63,318	68,172	73,724	69,910	66,508
Cash & Bank Balance	1,310	5,386	6,302	14,801	16,356
Other current assets	118,809	114,021	114,021	114,021	114,021
Sundry creditors	264,479	228,524	173,875	168,707	158,919
Other liabilities	321,175	329,028	384,221	355,531	352,410
Application of Funds	915,957	987,298	1,052,615	1,117,882	1,144,548

Exhibit 16: Cash flow statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	82,037	(119,149)	238,417	120,255	111,651
Depreciation & amortization	39,691	43,300	58,812	70,420	81,911
Interest expense	6,018	17,657	25,134	24,455	24,272
(Inc)/Dec in working capital	52,176	13,860	(13,562)	(12,188)	6,978
Tax paid	(14,511)	(1,598)	(60,009)	(30,268)	(28,103)
Less: Interest/Dividend Income Received	(5,326)	(6,547)			
Other operating Cash Flow	(1,189)	18,882			
Cash flow from operating activities	158,898	(33,595)	248,791	172,674	196,710
Capital expenditure	(107,642)	(87,228)	(109,650)	(115,000)	(114,000)
Inc/(Dec) in investments	(40)	(3)	-	-	-
Add: Interest/Dividend Income Received	9,040	10,206	-	-	-
Cash flow from investing activities	(98,642)	(77,025)	(109,650)	(115,000)	(114,000)
Inc/(Dec) in share capital	121,483	285,349	-	-	-
Inc/(Dec) in debt	(93,333)	(79,616)	(45,000)	15,000	(20,000)
Dividend Paid	(32,229)	(19,857)	(68,090)	(39,719)	(36,882)
Others	(27,116)	(31,101)	(25,134)	(24,455)	(24,272)
Cash flow from financing activities	(31,194)	154,774	(138,225)	(49,175)	(81,155)
Net cash flow	29,060.9	44,154.6	916.6	8,499.5	1,555.0

Exhibit 17: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Tax burden (x)	0.8	0.8	0.7	0.7	0.7
Interest burden (x)	0.9	1.2	0.9	0.8	0.8
EBIT margin (x)	0.0	(0.0)	0.1	0.0	0.0
Asset turnover (x)	2.5	2.9	2.4	2.2	2.1
Financial leverage (x)	3.8	4.6	4.7	3.9	3.6
RoE (%)	17.1	(27.0)	53.7	21.8	18.1

Exhibit 18: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
Growth matrix (%)					
Revenue growth	50.1	25.9	(12.7)	(5.2)	(4.9)
Op profit growth	(36.1)	(173.9)	(500.5)	(35.7)	1.2
EBIT growth	(39.5)	(206.6)	(369.4)	(45.1)	(6.1)
Net profit growth	(40.1)	(240.6)	(298.8)	(49.6)	(7.2)
Profitability ratios (%)					
OPM	2.9	(1.7)	7.8	5.3	5.6
EBIT margin	2.6	(2.2)	6.9	4.0	3.9
Net profit margin	1.8	(2.0)	4.6	2.5	2.4
RoCE	10.0	(9.9)	25.0	12.9	11.9
RoE	16.5	(32.4)	46.0	20.6	17.2
RoA	4.5	(5.9)	11.3	5.5	5.1
Per share ratios					
EPS	45.0	(63.3)	125.8	63.4	58.9
Dividend per share	12.0	-	48.0	28.0	26.0
Cash EPS	73.0	(32.7)	167.2	113.1	116.6
Book value per share	272.7	195.4	273.1	308.6	341.5
Valuation ratios					
P/E	6.0	(3.7)	3.4	6.8	7.3
P/CEPS	3.7	(7.2)	2.6	3.8	3.7
P/B	1.0	1.2	1.6	1.4	1.3
EV/EBIDTA	8.4	(12.7)	3.4	5.5	5.6
Payout (%)					
Dividend payout	26.7	-	38.2	44.1	44.1
Tax payout	22.2	24.7	25.2	25.2	25.2
Liquidity ratios					
Debtor days	6.6	5.6	7.0	7.0	7.0
Inventory days	34.4	26.4	30.7	31.0	30.8
Creditor days	23.1	20.1	20.7	18.1	18.3

January 12, 2024

REINITIATING COVERAGE | Sector: Energy

Bharat Petroleum Corp. Ltd

Moving from strength to strength

Bharat Petroleum's refining and marketing divisions make significant contributions to its EBITDA. We expect the FY26 contribution for refining at 50%, marketing 47%, and pipeline 3%, a judiciously balanced play with respect to refining and marketing.

GRM environment - super normal, earnings supportive: Lower global gasoil stocks and robust demand for petroleum products are expected to sustain, retaining key product cracks higher. The company sources over 35% of its crude requirements from Russia at a discount, thereby boosting GRMs. The benchmark Singapore GRM and the company's GRM are both trending higher than their last 10-year averages, supported by stronger demand, reduced supply, and lower stocks. We assume FY25 and FY26 GRMs of respectively \$8.1 and \$7.3/bbl vs the last 7-year average reported GRM of \$7.6 and the Singapore GRM of \$5.4.

Improved Marketing Outlook: We estimate the marketing division to fetch ~47% to Bharat Petroleum's FY26 EBITDA. In the past few months, retail fuel margins have recovered from weaker numbers; fall in crude and product prices were not passed on as the RSP is unchanged, this factor clearly weighs on the outlook for the marketing division. We expect gross marketing margins to be at par with past averages in a base case scenario, at the pre-deregulated of Rs2.7/ltr for both diesel and petrol.

Dividend bonanza: We believe that BPCL will report its highest ever annual profitability in FY24 following higher GRMs and an improved marketing performance on a crude price drop. We reckon BPCL could declare a dividend of Rs45/share (yield of 10% at CMP) in FY24; it has already declared an interim dividend of Rs 21/share (yield of 4.7% at CMP).

Mozambique prospects: Management seems optimistic with the developments, and operations are likely to commence in few quarters. Once the force majeure ends, and post reassessing, project costs could increase.

Growing Renewables portfolio: During Q2FY24, BPCL installed 18MW solar plant, taking total renewable energy capacity to 64MW; another 190 MW is under progress at an outlay of Rs 14bn. The aim to touch 1GW in the short term while the long-term target is to achieve 2GW at an outlay of Rs 26bn.

Petchem segment: Petchem complex (PDPP) in Kochi refinery had utilization of ~73% in Q2FY24 and contributed USD 0.5/bbl. BPCL is adding a new petchem capacity which is under progress at Bina refinery; it will have 2.2mmt capacity with products – HDPE, LDPE and Polypropylene and Naphtha, all key inputs used as a feedstock despite it being a dual fuel feed plant. BPCL expects this segment to add strong cashflows and diversify potential risks emerging in other segments.

Outlook: BPCL has Rs20.2bn and Rs23.5bn sensitivity to a change of Rs0.5/ltr and USD1/bbl, respectively. An expectation of higher dividend in FY24 (10% yield), 4.9%/4.4% FY25e/26e would be key for shareholders, compensating lower dividend of FY23. The BV/share for FY25e/26e is at Rs 352/380 and the debt: equity is least amongst OMCs at 0.4/0.3/0.3x for FY24e/25e/26e.

At CMP, the stock trades at 5.4x/6.0x FY25e/26e EV/EBITDA and 1.3x/1.2x P/BV (excl. investments, trades at 4.3x/4.8x FY25e/26e EV/EBITDA and 1.0x/0.9x P/BV). We initiate coverage with a BUY rating and a target price of Rs618 valuing it on a sum-of-parts basis (core business at 6.5x EV/EBITDA and investments at Rs115).

Key Risks: Weaker GRM environment, change in crude prices, inventory losses, adverse government policy of subsidy-sharing, and weak marketing margins.

Reco	: BUY
CMP	: Rs 451
Target Price	: Rs 618
Potential Return	: +37%

Stock data (as on January 10, 2024)

Nifty	21,624
52 Week h/l (Rs)	471 / 314
Market cap (Rs/USD mn)	9603820 / 11613
Outstanding Shares (mn)	2,162
6m Avg t/o (Rs mn):	1,925
Div yield (%):	1.2
Bloomberg code:	BPCL IN
NSE code:	BPCL

Stock performance



	1M	3M	1Y
Absolute return	-1.3%	34.2%	30.4%

Shareholding pattern (As of Sep'23 end)

Promoter	53%
FII+DII	36.5%
Others	10.2%

Financial Summary

(Rs bn)	FY23	FY24E	FY25E	FY26E
Revenue	4,731.2	4,246.5	4,010.7	3,792.7
YoY %	36.5	(10.2)	(5.6)	(5.4)
EBIDTA	109.6	400.5	224.4	204.3
OPM %	2.3	9.4	5.6	5.4
PAT	18.7	251.5	120.9	101.2
YoY %	(83.5)	1,244.9	(51.9)	(16.3)
ROE	3.6	37.2	16.1	12.5
EPS	8.8	118.1	56.8	47.5
P/E	39.2	3.8	7.9	9.5
BV	244.2	317.3	352.1	379.6
EV/EBITDA	8.6	2.4	4.5	5.2

HARSHRAJ AGGARWAL

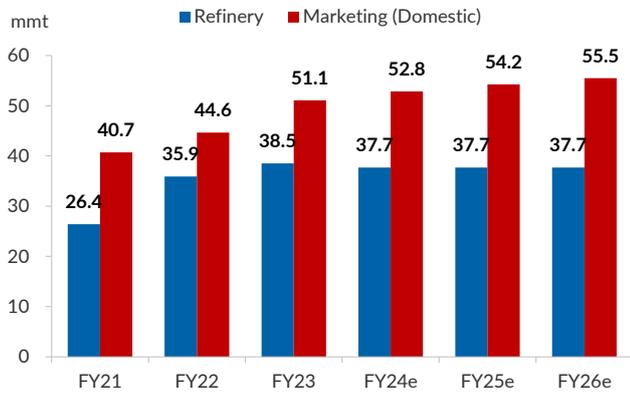
Lead Analyst

harshraj.aggarwal@ysil.in



STORY IN CHARTS

Exhibit 1: Volumes



Source: Company, YES Sec

Exhibit 2: Free cash-flows

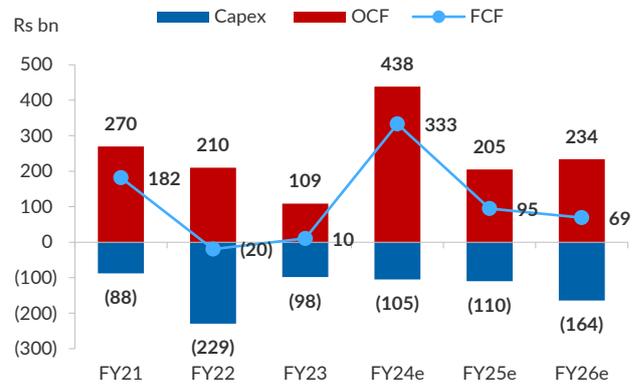
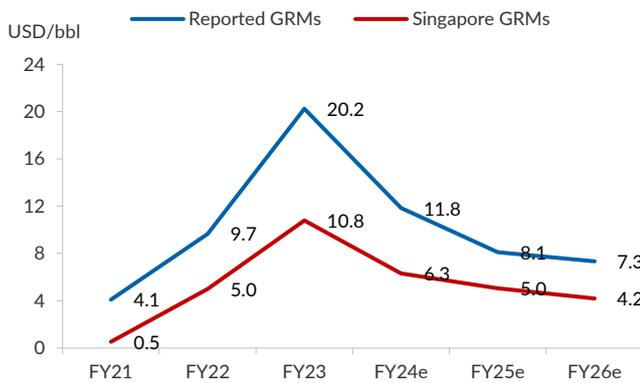


Exhibit 3: Refining margins



Source: Company, YES Sec

Exhibit 4: Marketing EBITDA/ltr (Rs)

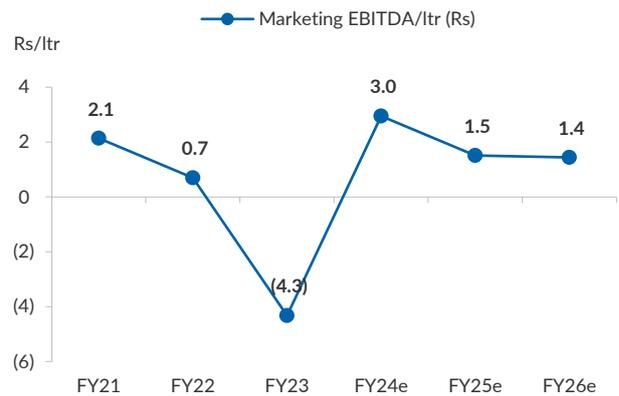
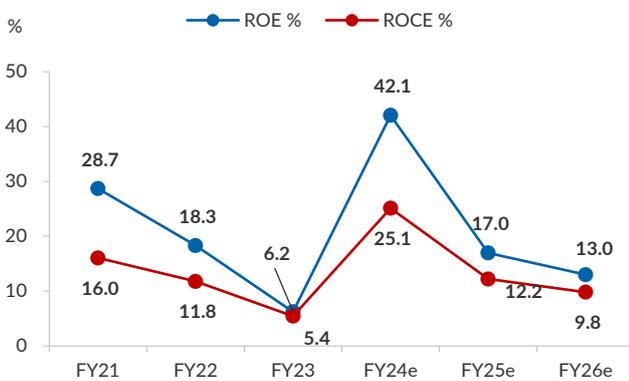


Exhibit 5: Return ratios



Source: Company, YES Sec

Exhibit 6: Dividend Yield (%)

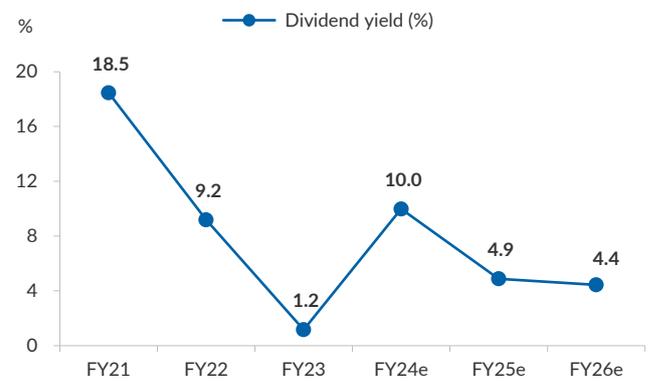


Exhibit 7: Key Assumptions

	Unit	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24e	FY25e	FY26e
Brent	USD/bbl	50.5	59.1	70.9	61.0	45.7	80.0	95.2	85.0	77.0	70.0
Exchange rate	Rs/USD	67.0	65.0	69.5	70.9	74.2	74.5	80.3	83.0	83.0	83.0
Refining											
Throughput	mmt	25.4	28.2	31.0	31.9	26.4	35.9	38.5	37.7	37.7	37.7
Mumbai	mmt	13.6	14.1	14.8	15.1	13.1	14.5	14.7	13.9	13.9	13.9
Kochi	mmt	11.8	14.1	16.2	16.8	13.3	15.6	16.1	15.8	15.8	15.8
Bina	mmt	-	-	-	-	-	5.8	7.7	8.0	8.0	8.0
GRM	USD/bbl	5.2	6.8	4.6	2.5	4.1	9.7	20.2	11.8	8.1	7.3
Marketing											
Sales Volume	mmt	40.0	44.4	46.4	45.7	40.7	44.6	51.1	52.8	54.2	55.5
HSD	mmt	19.1	20.1	20.4	19.9	17.5	18.8	22.4	23.2	23.8	24.3
MS	mmt	6.4	6.9	7.4	7.8	7.2	8.1	9.6	10.1	10.8	11.4
Others	mmt	14.5	17.4	15.2	18.1	16.0	17.7	19.1	19.5	19.6	19.7
Marketing EBITDA	Rs/ltr	0.9	0.8	1.3	1.1	2.1	0.7	(4.3)	3.0	1.5	1.4

Exhibit 8: EBITDA sensitivity to GRM

Refining volumes (mmt)	EBITDA (Rs bn)						
	31.7	34.7	37.7	40.7	43.7	46.7	
GRMs (\$ / bbl)	6.3	168	175	181	187	193	200
	6.8	178	185	193	200	207	214
	7.3	188	196	204	212	221	229
	7.8	198	207	216	225	234	243
	8.3	208	218	228	238	248	258
	8.8	218	229	240	250	261	272

Source: Company, YES Sec

Exhibit 9: Target price sensitivity to GRM

Refining volumes (mmt)	Target (Rs / sh)						
	31.7	34.7	37.7	40.7	43.7	46.7	
GRMs (\$ / bbl)	6.3	508	527	546	565	584	603
	6.8	538	560	582	604	626	648
	7.3	568	593	618	643	667	692
	7.8	599	626	654	681	709	737
	8.3	629	659	690	720	750	781
	8.8	659	692	725	759	792	825

Source: Company, YES Sec

Exhibit 10: EBITDA sensitivity to marketing margins

Marketing volumes (mmt)	EBITDA (Rs bn)						
	49.5	52.5	55.5	58.5	61.5	64.5	
Gross HSD and MS margins (Rs / ltr)	1.8	158	161	164	167	170	173
	2.3	176	180	184	188	192	196
	2.8	194	199	204	210	215	220
	3.3	212	218	225	231	237	243
	3.8	230	237	245	252	259	267
	4.3	248	256	265	273	282	290

Source: Company, YES Sec

Exhibit 11: Target price sensitivity to marketing margins

Marketing volume (mmt)	Target (Rs / sh)						
	49.5	52.5	55.5	58.5	61.5	64.5	
Gross HSD and MS margins (Rs / ltr)	1.8	476	486	495	504	513	522
	2.3	531	544	556	569	581	593
	2.8	586	602	618	634	649	665
	3.3	641	660	679	699	718	737
	3.8	696	719	741	763	786	808
	4.3	751	777	803	828	854	880

Source: Company, YES Sec

VIEW & VALUATION

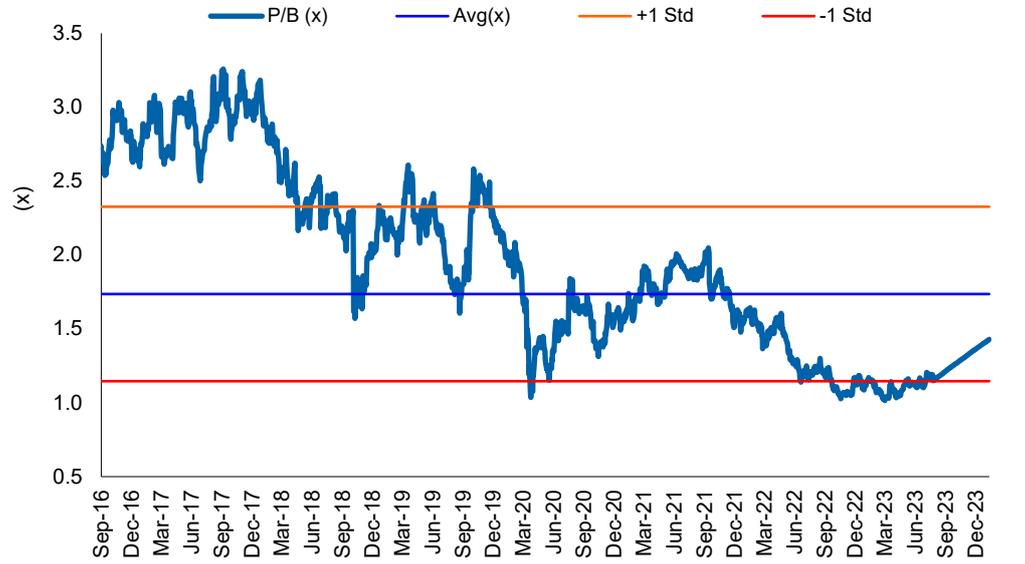
BUY with a TP of Rs 618/share.

BPCL has Rs20.2bn and Rs23.5bn sensitivity to a change of Rs0.5/ltr and USD1/bbl, respectively. An expectation of higher dividend in FY24 (10% yield), 4.9%/4.4% FY25e/26e would be key for shareholders, compensating lower dividend of FY23. The BV/share for FY25e/26e is at Rs 352/380 and the debt: equity is least amongst OMCs at 0.4/0.3/0.3x for FY24e/25e/26e. At CMP, the stock trades at 5.4x/6.0x FY25e/26e EV/EBITDA and 1.3x/1.2x P/BV (excl. investments, trades at 4.3x/4.8x FY25e/26e EV/EBITDA and 1.0x/0.9x P/BV). We initiate coverage with a BUY rating and a target price of Rs618 valuing it on a sum-of-parts basis (core business at 6.5x EV/EBITDA and investments at Rs115).

Exhibit 12: SOTP Valuation table

EV/EBITDA method	FY26e EBITDA (Rs mm)	EV/EBITDA (x)	Fair Value (Rs mm)	Fair Value (Rs/share)
Standalone	204,334	6.5 x	1,328,171	602
Refining	101,757	6.5 x	661,418	311
Marketing	95,451	6.5 x	620,429	291
Pipeline	7,127	6.5 x	46,323	22
Cash & Current Investments			57,674	27
Gross Debt			314,473	148
Standalone Equity Value (Using EV/EBITDA)			1,071,371	503
Listed Investments	Full Value (Rs mm)	Holdco discount (%)	Fair Value (Rs mm)	Fair Value (Rs/share)
Petronet LNG	43,688	30%	30,581	14
Indraprastha Gas	65,678	30%	45,974	22
Oil India	10,245	30%	7,172	3
Listed Investments Equity Value			83,727	39
Unlisted Investments	FY25E EBITDA (Rs mm)	EV/EBITDA (x)	Fair Value (Rs mm)	Fair Value (Rs/share)
Mozambique (Upstream)			122,777	58
Vankor, Taas, Lower Zakum (Upstream)			27,485	13
Unlisted Investments Equity Value			150,263	71
Treasury Stock	14,598	30%	10,218	5
Equity Value			1,315,579	618

Exhibit 13: P/BV (x) band, one-year-forward



Source: Company, YES Sec

FINANCIALS

Exhibit 14: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	3,466,439	4,731,247	4,246,548	4,010,655	3,792,715
Total Expense	3,276,179	4,621,680	3,846,089	3,786,252	3,588,381
Operating Profit	190,260	109,566	400,460	224,404	204,334
Other Income	26,294	21,840	22,277	22,722	23,177
Depreciation	54,179	63,475	64,115	68,204	74,996
EBIT	162,375	67,931	358,621	178,922	152,515
Interest	22,088	32,165	22,522	17,350	17,274
Extraordinary Item	16,431	(13,600)	-	-	-
PBT	156,717	22,167	336,099	161,572	135,241
Tax	43,084	3,466	84,596	40,668	34,040
PAT	113,634	18,701	251,503	120,904	101,201
Adj. PAT	97,203	32,301	251,503	120,904	101,201
Eps	53.4	8.8	118.1	56.8	47.5

Exhibit 15: Balance sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Equity capital	21,295	21,295	21,295	21,295	21,295
Reserves	495,160	498,669	654,347	728,403	787,015
Net worth	516,455	519,963	675,641	749,698	808,309
Debt	422,153	447,751	277,751	277,751	277,751
Deferred tax liab (net)	58,660	70,683	70,683	70,683	70,683
Capital Employed	997,268	1,038,398	1,024,076	1,098,132	1,156,744
Fixed assets	888,035	922,696	963,581	1,005,377	1,094,701
Investments	142,748	131,364	131,364	131,364	131,364
Net working capital	(33,515)	(15,662)	(70,869)	(38,608)	(69,321)
Inventories	421,765	380,647	314,147	332,883	294,163
Sundry debtors	96,996	67,219	69,806	65,929	62,346
Cash & Bank Balance	14,509	21,204	3,771	16,444	14,902
Other current assets	77,793	84,910	84,910	84,910	84,910
Sundry creditors	303,301	240,108	213,970	209,241	196,109
Other liabilities	341,276	329,534	329,534	329,534	329,534
Application of Funds	997,268	1,038,398	1,024,076	1,098,132	1,156,744

Exhibit 17: Cash flow statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	156,717	22,167	336,099	161,572	135,241
Depreciation & amortization	54,179	63,475	64,115	68,204	74,996
Interest expense	22,088	32,165	22,522	17,350	17,274
(Inc)/Dec in working capital	18,750	(610)	37,774	(19,587)	29,170
Tax paid	(18,227)	(8,014)	(84,596)	(40,668)	(34,040)
Less: Interest/Dividend Income Received	(3,185)	(8,005)			
Other operating Cash Flow	(22,188)	5,463			
Cash flow from operating activities	208,135	106,641	375,914	186,871	222,641
Capital expenditure	(73,656)	(67,797)	(105,000)	(110,000)	(164,320)
Inc/(Dec) in investments	23,635	23	-	-	-
Add: Interest/Dividend Income Received	6,121	23,181	-	-	-
Cash flow from investing activities	(43,900)	(44,593)	(105,000)	(110,000)	(164,320)
Inc/(Dec) in share capital	50,162	71,114	-	-	-
Inc/(Dec) in debt	(71,909)	(65,767)	(170,000)	-	-
Dividend Paid	(144,828)	(12,816)	(95,825)	(46,848)	(42,589)
Others	(20,043)	(29,190)	(22,522)	(17,350)	(17,274)
Cash flow from financing activities	(186,618)	(36,659)	(288,347)	(64,198)	(59,863)
Net cash flow	(22,383.6)	25,389.2	(17,433.2)	12,673.3	(1,541.9)

Exhibit 18: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Tax burden (x)	0.7	0.8	0.7	0.7	0.7
Interest burden (x)	1.0	0.3	0.9	0.9	0.9
EBIT margin (x)	0.0	0.0	0.1	0.0	0.0
Asset turnover (x)	2.3	2.9	2.7	2.5	2.3
Financial leverage (x)	2.9	3.1	2.7	2.2	2.1
RoE (%)	21.4	3.6	42.1	17.0	13.0

Exhibit 19: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
Growth matrix (%)					
Revenue growth	49.1	36.5	(10.2)	(5.6)	(5.4)
Op profit growth	11.1	(42.4)	265.5	(44.0)	(8.9)
EBIT growth	(7.2)	(58.2)	427.9	(50.1)	(14.8)
Net profit growth	(40.3)	(83.5)	1,244.9	(51.9)	(16.3)
Profitability ratios (%)					
OPM	5.5	2.3	9.4	5.6	5.4
EBIT margin	4.7	1.4	8.4	4.5	4.0
Net profit margin	3.3	0.4	5.9	3.0	2.7
RoCE	16.3	6.5	35.0	16.3	13.2
RoE	22.0	3.6	37.2	16.1	12.5
RoA	7.5	1.2	15.8	7.5	6.1
Per share ratios					
EPS	53.4	8.8	118.1	56.8	47.5
Dividend per share	33.0	4.0	45.0	22.0	20.0
Cash EPS	78.8	38.6	148.2	88.8	82.7
Book value per share	242.5	244.2	317.3	352.1	379.6
Valuation ratios					
P/E	6.7	39.2	3.8	7.9	9.5
P/CEPS	4.6	8.9	3.0	5.1	5.5
P/B	1.5	1.4	1.4	1.3	1.2
EV/EBIDTA	4.9	8.6	2.4	4.5	5.2
Payout (%)					
Dividend payout	61.8	45.5	38.1	38.7	42.1
Tax payout	27.5	15.6	25.2	25.2	25.2
Liquidity ratios					
Debtor days	10.2	9.2	6.3	6.0	6.0
Inventory days	44.1	41.5	33.8	32.3	35.0
Creditor days	26.9	28.0	22.9	22.0	22.0

January 12, 2024

REINITIATING COVERAGE | Sector: Energy

Indian Oil Corp. Ltd

Diversified portfolio augurs well

Indian Oil's refining and marketing divisions contribute over 70% to its EBITDA. We expect the FY26 contribution of marketing a 45%, refining at 28%, petchem 11%, and pipeline 16%. Currently IOCL is the most diversified and least susceptible to issues of any division, among all OMCs.

Improved Marketing Outlook: Over the past few months, retail fuel margins have recovered from weaker numbers with a fall in crude and product prices which were not passed on as the RSP remains unchanged, this clearly weighs on the outlook for the marketing division. We expect gross marketing margins to be at par with past averages in a base case scenario, at the pre-deregulated of Rs2.7/ltr for both diesel and petrol.

GRM environment - super normal, to support earnings Lower global gasoil stocks and robust demand for petroleum products are expected to sustain, keeping key product cracks higher. The company is sourcing over 30% of its crude requirements from Russia, which is at a discount boosting GRMs, least amongst the Indian refiners. The benchmark Singapore GRM and the company's GRM are trending higher than their last 10-year averages, supported by stronger demand, reduced supply, and lower stocks. We assume FY25 and FY26 GRMs of respectively \$8.0 and \$7.0/bbl vs the last 7-year average reported GRM of \$7.7 and the Singapore GRM of \$5.4.

Dividend bonanza: We believe that IOCL will report highest ever profitability in a year in FY24. This was supported by higher GRMs and an improved marketing performance on a fall in crude prices, though petchem was weaker and supported less. As per our expectations, IOCL in FY24 could declare a dividend of Rs15/share (a higher yield of ~11.5% at CMP), the company has already declared an interim dividend of Rs 5/share (yield of 3.8% at CMP).

Petchem segment: Given the slowing demand, especially in the US and Europe, the current global supply-demand balance will largely stay unchanged. But, given likely higher demand from China (which has the strongest influence on demand), demand-supply balance could tilt toward the latter, and FY24 prices would remain weak. Having said that, considering predictions of a fall in oil prices, demand would fluctuate in line with China's policy changes. Given this backdrop, the extent of improvement next year seems limited for the industry. We expect petchem spreads to improve end-FY25 only. IOCL's FY23 production was at 4.27mtpa, which is expected to rise to 9.68mtpa by the end of the decade.

CGD: IOC has formed two JVs and has presence in 49 GAs in 21 states covering 112 districts, making it one of the largest CGD players in the country. On a standalone basis, it has 26 GAs, in 11 states comprising 75 districts. As penetration improves, we could see strong growth in this space.

Outlook: IOCL has a Rs34.2bn/Rs44.2bn sensitivity to a change of Rs0.5/ltr/\$1/bbl, respectively. An expectation of higher dividend in FY24 (11.5% yield), 6.2%/5.4% FY25e/26e would be key for the shareholders, compensating of lower dividend of FY23. The BV/share for FY25e/26e is at Rs 121/129 and debt: equity at 0.7/0.6/0.5x for FY24e/25e/26e.

At CMP, stock trades at 5.8x/6.3x FY25e/26e EV/EBITDA and 1.1x/1.0x P/BV (excl. investments, it trades at 5.2x/5.7x FY25e/26e EV/EBITDA and 0.9x/0.8x P/BV). We initiate coverage on it, with a BUY rating and a target price of Rs155 valuing it on a sum-of-parts basis (core business at 6.4x EV/EBITDA and investments at Rs21).

Risks: Lower GRM environment, change in crude prices and inventory losses, adverse government policy of subsidy-sharing, weak marketing margins environment, weaker petchem spreads.

Reco	: BUY
CMP	: Rs 130
Target Price	: Rs 155
Potential Return	: +19%

Stock data (as on January 10, 2024)

Nifty	21,624
52 Week h/l (Rs)	136 / 76
Market cap (Rs/USD mn)	1835761 / 22118
Outstanding Shares (mn)	14,121
6m Avg t/o (Rs mn):	1,836
Div yield (%):	3.3
Bloomberg code:	IOCL IN
NSE code:	IOCL

Stock performance



Shareholding pattern (As of Sep'23 end)

Promoter	51.5%
FII+DII	38.2%
Others	10.4%

Financial Summary

(Rs bn)	FY23	FY24E	FY25E	FY26E
Revenue	8,394.7	7,841.4	7,378.1	6,960.4
YoY Growth	40.3	(6.6)	(5.9)	(5.7)
EBIDTA	222.5	711.7	492.4	443.6
OPM %	2.7	9.1	6.7	6.4
PAT	82.4	423.9	256.2	212.6
YoY Growth	(65.9)	414.4	(39.6)	(17.0)
ROE	6.1	27.2	15.0	11.7
EPS	5.8	30.0	18.1	15.1
P/E	13.3	4.3	7.2	8.6
BV	95.4	110.5	120.6	128.7
EV/EBITDA	12.4	3.8	5.6	6.4

HARSHRAJ AGGARWAL

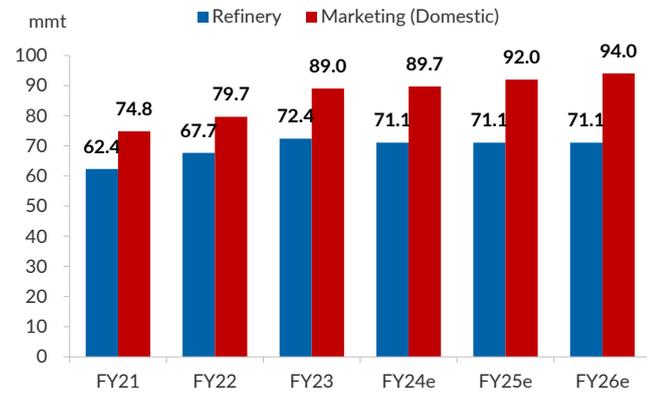
Lead Analyst

harshraj.aggarwal@ysil.in



STORY IN CHARTS

Exhibit 1: Volumes



Source: Company, YES Sec

Exhibit 2: Free cash-flows

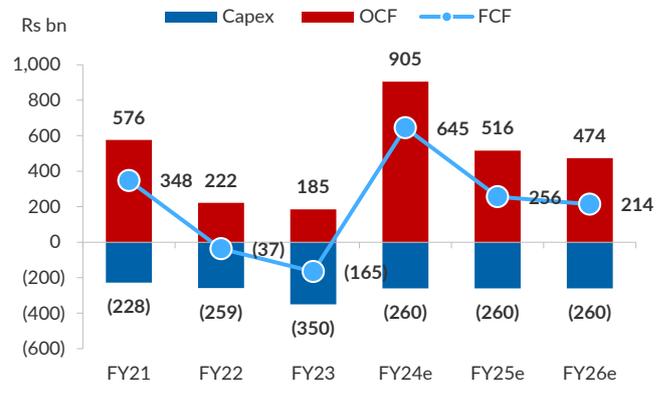
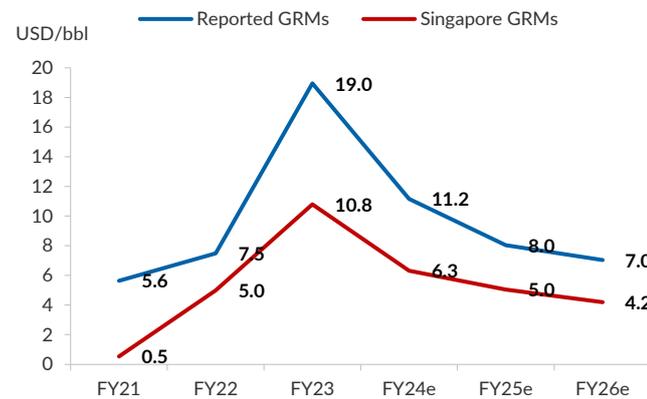


Exhibit 3: Refining margins



Source: Company, YES Sec

Exhibit 4: Gross marketing margins

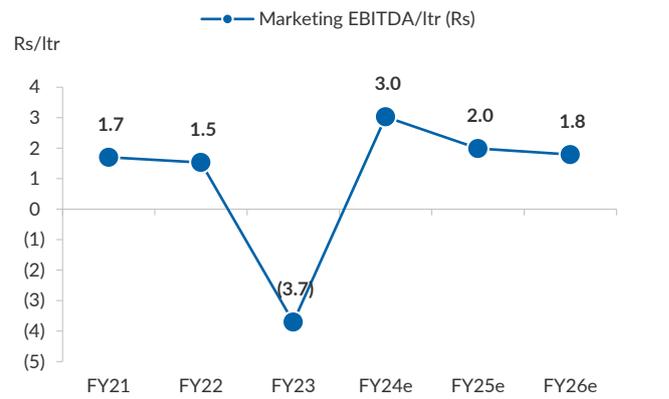
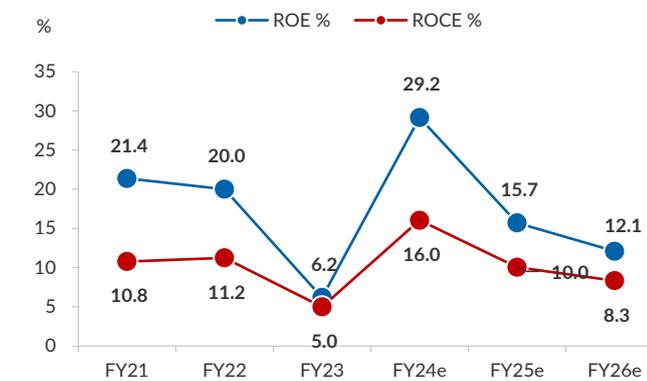


Exhibit 5: Return ratios



Source: Company, YES Sec

Exhibit 6: Dividend Yield (%)

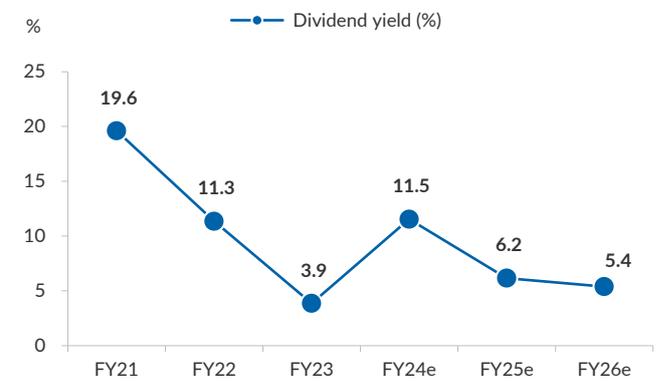


Exhibit 7: Key Assumptions

	Unit	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24e	FY25e	FY26e
Brent	USD/bbl	50.5	59.1	70.9	61.0	45.7	80.0	95.2	85.0	77.0	70.0
Exchange rate	Rs/USD	67.0	64.5	69.5	70.9	74.2	74.5	80.3	83.0	83.0	83.0
Refining											
Throughput	mmt	65.2	69.0	71.8	69.4	62.4	67.7	72.4	71.1	71.1	71.1
Paradip	mmt	8.2	12.7	14.7	13.6	13.0	14.5	16.3	15.8	15.8	15.8
Panipat	mmt	15.6	15.7	15.7	14.4	13.7	15.0	16.5	15.7	15.7	15.7
Koyali	mmt	14.0	13.8	14.5	13.5	12.8	13.0	13.0	13.0	13.0	13.0
Others	mmt	27.3	26.8	27.0	27.9	22.9	25.2	26.6	26.6	26.6	26.6
Reported GRM	USD/bbl	7.8	8.5	5.4	0.1	5.6	7.5	19.0	11.2	8.0	7.0
Marketing											
Sales Volume	mmt	78.8	84.4	90.5	85.5	74.8	79.7	89.0	92.2	94.6	94.0
HSD	mmt	35.4	36.5	37.1	36.2	30.9	32.7	39.1	38.0	39.0	39.4
MS	mmt	10.1	10.9	11.6	12.1	11.2	12.3	14.3	14.8	15.9	16.8
Others	mmt	33.3	37.0	41.8	37.2	32.7	34.7	35.6	39.3	39.7	37.8
Marketing EBITDA	Rs/ltr	0.9	0.5	0.7	1.9	1.4	1.2	(4.0)	2.7	1.7	1.5
Petchem Throughput	mmt	2.7	2.4	2.7	2.3	2.7	2.7	2.7	2.7	2.7	2.7

Exhibit 8: EBITDA sensitivity to GRM

Refining	EBITDA (Rs bn)						
	Volumes (mmt)	65.1	68.1	71.1	74.1	77.1	80.1
GRMs (\$ / bbl)	6.0	393	396	399	403	406	409
	6.5	413	417	422	426	430	434
	7.0	433	439	444	449	454	459
	7.5	454	460	466	472	478	484
	8.0	474	481	488	495	502	509
	8.5	494	502	510	518	526	534

Source: Company, YES Sec

Exhibit 9: Target price sensitivity to GRM

Refining	Target (Rs / sh)						
	Volumes (mmt)	65.1	68.1	71.1	74.1	77.1	80.1
GRMs (\$ / bbl)	6.0	131	133	134	136	137	139
	6.5	141	143	145	146	148	150
	7.0	150	152	155	157	159	162
	7.5	159	162	165	167	170	173
	8.0	168	172	175	178	181	184
	8.5	178	181	185	189	192	196

Source: Company, YES Sec

Exhibit 10: EBITDA sensitivity to marketing margins

Marketing	EBITDA (Rs bn)						
	Volumes (mmt)	88.0	91.0	94.0	97.0	100.0	103.0
Gross HSD and MS margins (Rs / ltr)	1.8	367	371	375	379	384	388
	2.3	399	404	409	415	420	425
	2.8	431	437	444	450	456	463
	3.3	463	470	478	485	493	500
	3.8	495	503	512	521	529	538
	4.3	527	537	546	556	566	575

Source: Company, YES Sec

Exhibit 11: Target price sensitivity to marketing margins

Marketing	Target (Rs / sh)						
	Volumes (mmt)	88.0	91.0	94.0	97.0	100.0	103.0
Gross HSD and MS margins (Rs / ltr)	1.8	120	121	123	125	127	129
	2.3	134	137	139	141	144	146
	2.8	149	152	155	157	160	163
	3.3	163	167	170	174	177	180
	3.8	178	182	186	190	194	198
	4.3	193	197	201	206	210	215

Source: Company, YES Sec

VIEW & VALUATION

BUY with a TP of Rs 155/sh.

Exhibit 12: IOCL has a Rs34.2bn/Rs44.2bn sensitivity to a change of Rs0.5/ltr/\$1/bbl, respectively. An expectation of higher dividend in FY24 (11.5% yield), 6.2%/5.4% FY25e/26e would be key for the shareholders, compensating of lower dividend of FY23. The BV/share for FY25e/26e is at Rs 121/129 and debt: equity at 0.7/0.6/0.5x for FY24e/25e/26e.

At CMP, stock trades at 5.8x/6.3x FY25e/26e EV/EBITDA and 1.1x/1.0x P/BV (excl. investments, it trades at 5.2x/5.7x FY25e/26e EV/EBITDA and 0.9x/0.8x P/BV). We initiate coverage on it, with a BUY rating and a target price of Rs155 valuing it on a sum-of-parts basis (core business at 6.4x EV/EBITDA and investments at Rs21).

Exhibit 13: Valuation table

EV/EBITDA method	FY26E EBITDA (Rs mm)	EV/EBITDA (x)	Fair Value (Rs mm)	Fair Value (Rs/share)
Standalone	443,606	6.4 x	2,858,399	202
Refining	122,078	6.5 x	793,508	56
Marketing	200,544	6.5 x	1,303,535	92
Petchem	50,075	6.0 x	300,448	21
Pipeline	70,909	6.5 x	460,908	33
Cash & Current Investments			165,905	12
Gross Debt			1,142,967	81
Standalone Equity Value (Using EV/EBITDA)			1,881,337	133
Listed Investments	Full Value (Rs mm)	Holdco discount (%)	Fair Value (Rs mm)	Fair Value (Rs/share)
ONGC (Upstream)	208,233	30%	145,763	10
PLNG (LNG Regasification)	43,688	30%	30,581	2
GAIL (Natural gas pipeline)	25,811	30%	18,067	1
CPCL (Refining)	64,130	30%	44,891	3
OINL (Upstream)	20,491	30%	14,344	1
Listed Investments Equity Value			253,646	18
Unlisted Investments			Fair Value (Rs mm)	Fair Value (Rs/share)
Vankor, Tass, Oman			26,454	2
Unlisted Investments Equity Value			26,454	2
Treasury Stock	30,305	30%	21,214	2
Equity Value			2,182,651	155

Exhibit 14: P/BV (x) band, one-year-forward



FINANCIALS

Exhibit 15: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	5,981,638	8,394,722	7,841,352	7,378,078	6,960,422
Total Expense	5,549,199	8,172,196	7,129,670	6,885,685	6,516,816
Operating Profit	432,438	222,526	711,682	492,393	443,606
Other Income	43,243	62,352	56,497	61,751	67,531
Depreciation	110,059	118,594	131,864	150,104	168,344
EBIT	365,622	166,284	636,315	404,041	342,793
Interest	48,291	69,303	69,766	61,648	58,648
Extraordinary Item	-	-	-	-	-
PBT	317,331	96,981	566,549	342,393	284,145
Tax	75,490	14,563	142,600	86,180	71,519
PAT	241,841	82,418	423,948	256,212	212,626
Adj. PAT	241,841	82,418	423,948	256,212	212,626
Eps	17.1	5.8	30.0	18.1	15.1

Exhibit 16: Balance sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Equity capital	91,810	137,716	137,716	137,716	137,716
Reserves	1,221,053	1,209,860	1,421,990	1,565,232	1,679,009
Net worth	1,312,864	1,347,575	1,559,705	1,702,948	1,816,725
Debt	1,194,628	1,415,500	1,205,500	1,145,500	1,085,500
Deferred tax liab (net)	136,274	146,130	146,130	146,130	146,130
Capital Employed	2,643,765	2,909,206	2,911,336	2,994,578	3,048,355
Fixed assets	1,913,349	2,144,761	2,272,897	2,382,794	2,474,450
Investments	596,824	556,913	556,913	556,913	556,913
Net working capital	133,593	207,532	81,525	54,871	16,991
Inventories	1,032,069	1,138,534	902,584	866,957	814,154
Sundry debtors	181,366	155,399	150,382	141,497	133,488
Cash & Bank Balance	8,830	7,730	74,934	72,103	64,288
Other current assets	150,953	196,223	196,223	196,223	196,223
Sundry creditors	424,853	486,764	451,292	433,479	407,077
Other liabilities	814,773	803,591	791,306	788,431	784,085
Application of Funds	2,643,765	2,909,206	2,911,336	2,994,578	3,048,355

Exhibit 17: Cash flow statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	317,331	96,981	566,549	342,393	284,145
Depreciation & amortization	110,059	118,594	131,864	150,104	168,344
Interest expense	29,604	44,947	69,766	61,648	58,648
(Inc)/Dec in working capital	(136,342)	(73,243)	193,210	23,823	30,065
Tax paid	(72,305)	(1,480)	(142,600)	(86,180)	(71,519)
Less: Interest/Dividend Income Received	(23,187)	(37,307)			
Other operating Cash Flow	2,752	61,360			
Cash flow from operating activities	227,913	209,854	818,789	491,787	469,683
Capital expenditure	(38,550)	(33,333)	(260,000)	(260,000)	(260,000)
Inc/(Dec) in investments	(18,041)	(8,089)	-	-	-
Add: Interest/Dividend Income Received	45,509	59,696	-	-	-
Cash flow from investing activities	(11,082)	18,274	(260,000)	(260,000)	(260,000)
Inc/(Dec) in share capital	155,768	259,119	-	-	-
Inc/(Dec) in debt	(20,741)	(123,310)	(210,000)	(60,000)	(60,000)
Dividend Paid	(108,960)	(33,094)	(211,819)	(112,970)	(98,849)
Others	(42,018)	(63,179)	(69,766)	(61,648)	(58,648)
Cash flow from financing activities	(15,951)	39,537	(491,585)	(234,618)	(217,497)
Net cash flow	200,879.4	267,664.7	67,203.6	(2,830.9)	(7,814.5)

Exhibit 18: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Tax burden (x)	0.8	0.8	0.7	0.7	0.7
Interest burden (x)	0.9	0.6	0.9	0.8	0.8
EBIT margin (x)	0.1	0.0	0.1	0.1	0.0
Asset turnover (x)	1.7	2.1	1.9	1.8	1.6
Financial leverage (x)	3.0	3.0	2.9	2.6	2.4
RoE (%)	20.0	6.2	29.2	15.7	12.1

Exhibit 19: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
Growth matrix (%)					
Revenue growth	58.2	40.3	(6.6)	(5.9)	(5.7)
Op profit growth	13.6	(48.5)	219.8	(30.8)	(9.9)
EBIT growth	11.4	(54.5)	282.7	(36.5)	(15.2)
Net profit growth	10.8	(65.9)	414.4	(39.6)	(17.0)
Profitability ratios (%)					
OPM	7.2	2.7	9.1	6.7	6.4
EBIT margin	6.1	2.0	8.1	5.5	4.9
Net profit margin	4.0	1.0	5.4	3.5	3.1
RoCE	13.8	5.7	21.9	13.5	11.2
RoE	18.4	6.1	27.2	15.0	11.7
RoA	6.7	2.0	10.2	6.1	5.0
Per share ratios					
EPS	17.1	5.8	30.0	18.1	15.1
Dividend per share	9.0	3.0	15.0	8.0	7.0
Cash EPS	24.9	14.2	39.4	28.8	27.0
Book value per share	93.0	95.4	110.5	120.6	128.7
Valuation ratios					
P/E	4.6	13.3	4.3	7.2	8.6
P/CEPS	3.2	5.5	3.3	4.5	4.8
P/B	0.9	0.8	1.2	1.1	1.0
EV/EBIDTA	5.8	12.4	3.8	5.6	6.4
Payout (%)					
Dividend payout	52.6	51.4	50.0	44.1	46.5
Tax payout	23.8	15.0	25.2	25.2	25.2
Liquidity ratios					
Debtor days	11.1	6.8	7.0	7.0	7.0
Inventory days	59.7	48.5	52.2	46.9	47.1
Creditor days	25.1	20.4	24.0	23.5	23.5

January 12, 2024

INITIATING COVERAGE | Sector: Energy

Chennai Petroleum Corp. Ltd

Pure Refining play of robust GRMs

With 10.5mtpa refining capacity at Manali, Chennai Petroleum Corp (CPCL) produces petroleum products, lubricants, and additives. Besides, it provides high quality feedstock (propylene, superior kerosene, butylene, naphtha, paraffin wax and sulphur) to other industries. IOC holds a strategic 51.9% stake in CPCL, as the latter fulfils product requirements for south India. CPCL has operational synergies with IOC, including pooled sourcing of crude oil through the latter, and benefits from the parent's bulk purchases. Besides, IOC purchases over 90% of Chennai Petroleum's input. The latter's sales volumes are therefore unlikely to be affected in the event of any new refinery coming up in the southern region.

Healthy GRM environment - Lower global gasoil stocks and robust demand for petroleum products are expected to sustain, pushing key product cracks higher. The company sources over 25% of its crude requirements from Russia, and 20%+ from Iraq, at a discount. Consequently, GRMs are impressive (discounted crude basket 50-55%, one of the highest amongst the Indian refiners). The benchmark Singapore GRM and the company's GRM are trending higher than their last 10-year averages, supported by stronger demand, reduced supply, and lower stocks. We assume FY25 and FY26 GRMs of respectively \$8.1 and \$7.2/bbl vs the last 7-year average reported GRM of \$7.3 and the Singapore GRM of \$5.4.

Dividend bonanza: We believe CPCL could report higher profitability in FY24, marginally lower than bumper FY23. This should be supported by higher GRMs and larger sourcing of discounted crude from Russia and Iraq. As per our expectations, CPCL could declare a dividend of Rs32/share in FY24 (yield of ~4.7% at CMP, lower than OMCs) vis-à-vis Rs27/share declared in FY23.

9MTPA Refinery complex: The Rs 320bn Nagapattinam, TN refinery is expected to be completed by FY26. It will be executed through a JV with parent IOC (25% stakes each) at initial investment of Rs25.7bn. CPCL will fund ~Rs14bn of its remaining equity contribution by FY26. Other seed investors are Axis Bank, ICICI Bank, HDFC Life Insurance, ICICI Prudential Life Insurance and SBI Life Insurance. The project JV name, 'Cauvery Basin Refinery and Petrochemicals' was incorporated on 6th Jan'23.

Operating performance boost through past project developments: like re-gasified LNG, boilers IV and V, hydrogen generation units, etc. As part of fuel quality upgrading, the company commissioned new instrument air compressor, associated dryer units and demountable flare. It installed and commissioned booster pumps and laid pipelines to receive TTRO water of CMWSSB at 4 MGR Reservoir.

RLNG to fetch better yield and flexibility: To replace furnace oil/naphtha, the company plans to source 1.6 mmscmd of R-LNG, which produces more hydrogen and offers more flexibility in sourcing crude oil (furnace oil requires lighter crude to meet emission norms). The company will source these volumes only when LNG is available at a lower cost than furnace oil/naphtha.

Outlook: High GRM sensitivity: a \$1/bbl change in GRM changes EBITDA by Rs 6.9bn. Expected dividend of Rs 32/share in FY24 (4.3% yield), 4.4/4.1% FY25e/26e, would be key for shareholders. The BV/share for FY25e/26e: Rs 718/800, debt on books is towards working capital requirements. At CMP, the stock trades at 3.5x/3.8x FY25e/26e EV/EBITDA and 1.0x/0.9x P/BV. We initiate coverage with a BUY rating and TP of Rs1040, valuing the stock at 1.3x FY26e P/BV.

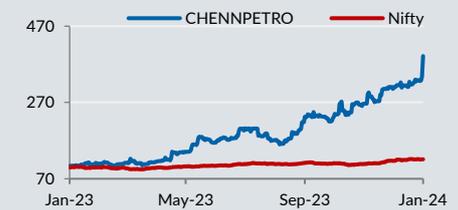
Risks: Lower GRM environment, change in crude prices and inventory losses, adverse government policy – subsidy-sharing, more capex for new refinery.

Reco	: BUY
CMP	: Rs 739
Target Price	: Rs 1040
Potential Return	: +41%

Stock data (as on January 10, 2024)

Nifty	21,624
52 Week h/l (Rs)	745 / 208
Market cap (Rs/USD mn)	109986 / 1324
Outstanding Shares (mn)	149
6m Avg t/o (Rs mn):	969
Div yield (%):	5.2
Bloomberg code:	MRL IN
NSE code:	CHENNPETRO

Stock performance



Shareholding pattern (As of Sep '23 end)

Promoter	67.3%
FII+DII	13.1%
Others	19.6%

Financial Summary

(Rs bn)	FY23	FY24E	FY25E	FY26E
Revenue	767.3	608.1	564.1	515.6
YoY %	76.9	(20.8)	(7.2)	(8.6)
EBIDTA	57.0	49.9	36.9	30.4
OPM %	7.4	8.2	6.5	5.9
PAT	35.3	31.7	21.7	16.4
YoY %	163.2	(10.2)	(31.8)	(24.3)
ROE	56.3	35.3	20.2	13.7
EPS	237.3	213.1	145.4	110.0
P/E	1.0	3.5	5.1	6.7
BV	421.8	602.9	718.3	800.3
EV/EBITDA	1.8	2.5	3.4	4.1

HARSHRAJ AGGARWAL

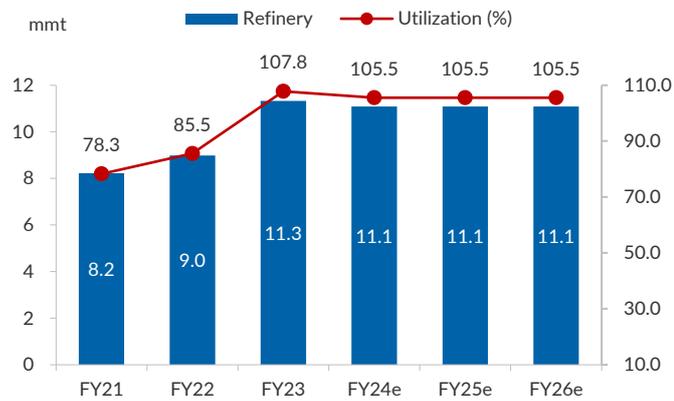
Lead Analyst

harshraj.aggarwal@ysil.in



STORY IN CHARTS

Exhibit 1: Volumes



Source: Company, YES Sec

Exhibit 2: Free cash-flows

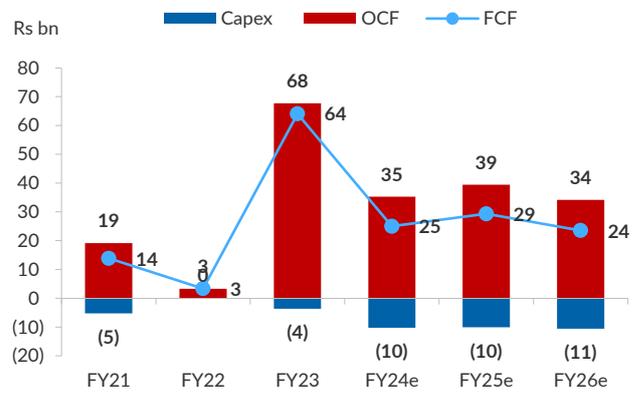
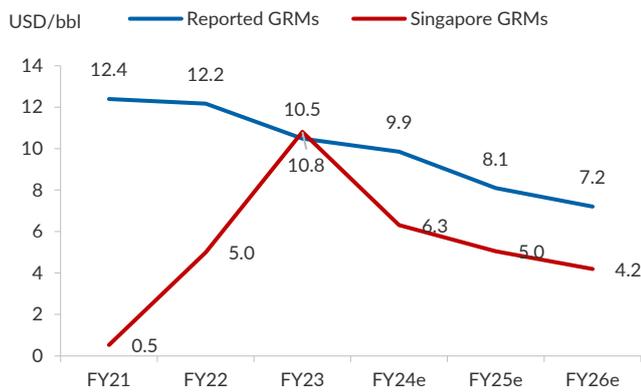


Exhibit 3: Refining margins



Source: Company, YES Sec

Exhibit 4: Net Debt

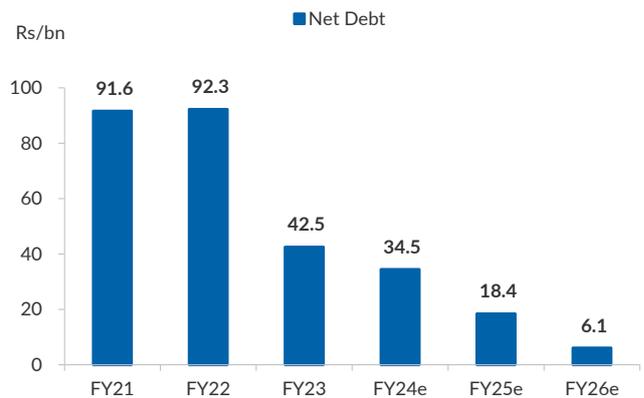
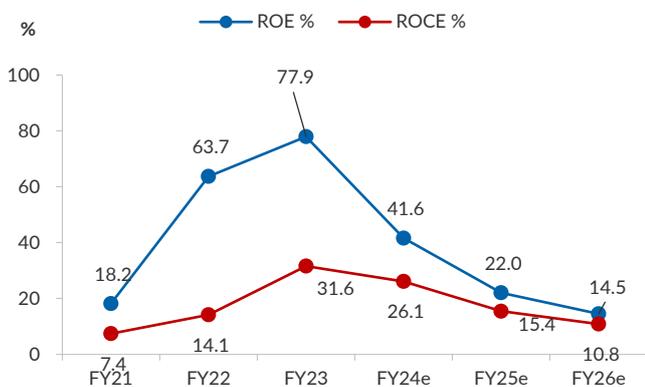


Exhibit 5: Return ratios



Source: Company, YES Sec

Exhibit 6: Dividend Yield (%)

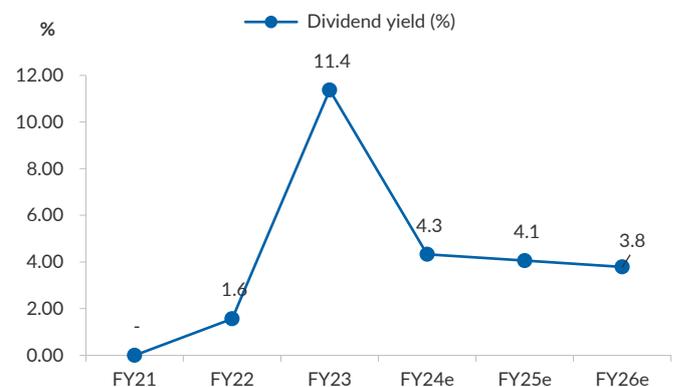


Exhibit 7: Key Assumptions

	Unit	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24e	FY25e	FY26e
Brent	USD/bbl	50.5	59.1	70.9	61.0	45.7	80.0	95.2	85.0	77.0	70.0
Exchange rate	Rs/USD	67.0	64.5	69.5	70.9	74.2	74.5	80.3	83.0	83.0	83.0
Refining											
Throughput	mmt	10.3	10.8	10.7	10.2	8.2	9.0	11.3	11.1	11.1	11.1
Capacity Utilization	%	97.7	102.8	101.9	96.8	78.3	85.5	107.8	105.5	105.5	105.5
Reported GRM	USD/bbl	8.8	7.7	4.2	-4.5	12.4	12.2	10.5	9.9	8.1	7.2
Singapore GRM	USD/bbl	5.8	7.2	4.9	3.2	0.5	5.0	10.8	6.2	5.0	4.2

Exhibit 8: EBITDA sensitivity to GRM

Refining capacity utilization (%)	EBITDA (Rs bn)					
	75.5	85.5	95.5	105.5	115.5	125.5
4.2	6.9	7.9	8.8	9.7	10.6	11.5
5.2	11.9	13.5	15.0	16.6	18.2	19.7
6.2	16.8	19.0	21.3	23.5	25.7	27.9
7.2	21.8	24.6	27.5	30.4	33.3	36.2
8.2	26.7	30.2	33.8	37.3	40.8	44.4
9.2	31.6	35.8	40.0	44.2	48.4	52.6

Source: Company, YES Sec

Exhibit 9: Target price sensitivity to GRM

Refining capacity utilization (%)	Target (Rs / sh)					
	75.5	85.5	95.5	105.5	115.5	125.5
4.2	49	87	126	165	204	243
5.2	257	324	390	457	523	590
6.2	466	560	654	748	842	937
7.2	675	796	918	1,040	1,162	1,283
8.2	883	1,033	1,182	1,332	1,481	1,630
9.2	1,092	1,269	1,446	1,623	1,800	1,977

Source: Company, YES Sec

VIEW & VALUATION

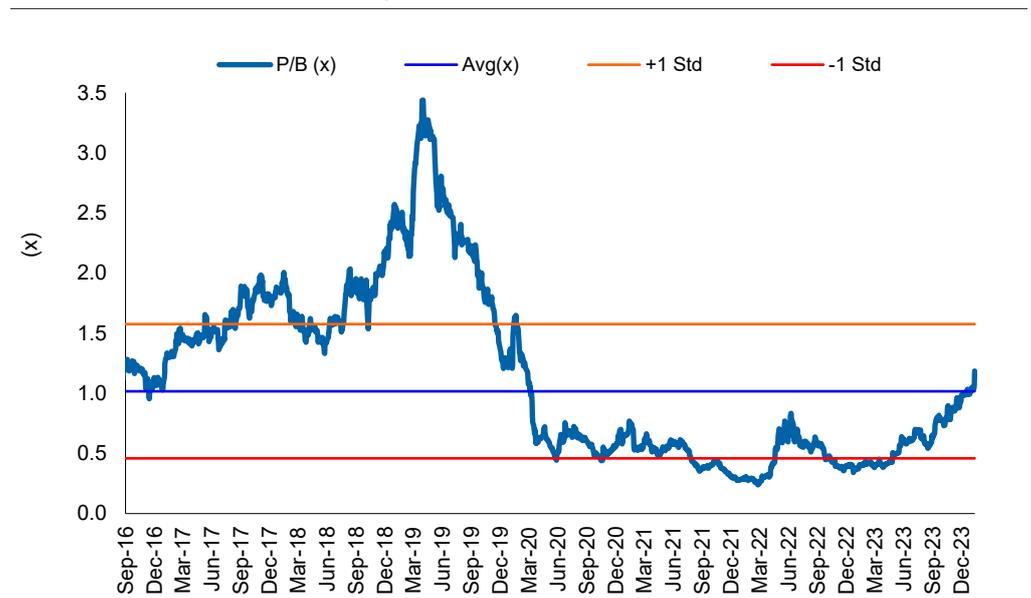
BUY with a TP of Rs 1040/sh.

The GRM sensitivity for the stock is high: a \$1/bbl change in GRM changes EBITDA by Rs 6.9bn. Expected dividend of Rs 32/share in FY24 (4.3% yield), 4.4/4.1% FY25e/26e, would be key for shareholders. The BV/share for FY25e/26e: Rs 718/800, debt on books is towards working capital requirements. At CMP, the stock trades at 3.5x/3.8x FY25e/26e EV/EBITDA and 1.0x/0.9x P/BV. We initiate coverage with a BUY rating and TP of Rs1040, valuing the stock at 1.3x FY26e P/BV.

Exhibit 10: Valuation table

EV/EBITDA	FY26E
Multiple	5.3
EBITDA	30,389
Debt	42,596
Cash	36,529
EV	160,908
Equity value	154,841
No of shares	149
VPS	1040
P/BV	
BV	800
Multiple	1.30
VPS	1040

Exhibit 11: P/BV (x) band, one-year-forward



FINANCIALS

Exhibit 12: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	433,754	767,347	608,112	564,098	515,614
Total Expense	406,436	710,375	558,164	527,194	485,225
Operating Profit	27,317	56,972	49,948	36,903	30,389
Other Income	162	151	166	183	201
Depreciation	5,039	5,735	6,011	6,445	6,988
EBIT	22,441	51,389	44,103	30,641	23,602
Interest	4,124	3,302	1,704	1,704	1,704
Extraordinary Item	-	-	-	-	-
PBT	18,316	48,087	42,399	28,937	21,898
Tax	4,892	12,749	10,672	7,284	5,512
PAT	13,424	35,338	31,728	21,654	16,386
Adj. PAT	13,424	35,338	31,728	21,654	16,386
Eps	90.1	237.3	213.1	145.4	110.0

Exhibit 13: Balance sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Equity capital	1,489	1,489	1,489	1,489	1,489
Reserves	26,413	61,321	88,283	105,469	117,685
Net worth	27,902	62,810	89,772	106,958	119,175
Debt	92,383	42,596	42,596	42,596	42,596
Deferred tax liab (net)	5,631	7,646	7,646	7,646	7,646
Capital Employed	125,917	113,051	140,014	157,200	169,416
Fixed assets	81,762	79,680	83,941	87,595	91,207
Investments	119	120	120	120	120
Net working capital	44,035	33,252	55,953	69,485	78,090
Inventories	75,326	59,736	70,832	66,670	61,124
Sundry debtors	2,523	2,987	3,332	3,091	2,825
Cash & Bank Balance	120	86	8,122	24,180	36,529
Other current assets	12,989	15,812	15,622	15,569	15,511
Sundry creditors	32,401	30,071	26,657	24,728	22,602
Other liabilities	14,523	15,297	15,297	15,297	15,297
Application of Funds	125,917	113,051	140,014	157,200	169,416

Exhibit 14: Cash flow statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	18,316	48,087	42,399	28,937	21,898
Depreciation & amortization	5,039	5,735	6,011	6,445	6,988
Interest expense	3,863	3,230	1,704	1,704	1,704
(Inc)/Dec in working capital	(17,218)	10,848	(14,665)	2,526	3,744
Tax paid	(204)	(10,074)	(10,672)	(7,284)	(5,512)
Less: Interest/Dividend Income Received	(59)	(79)			
Other operating Cash Flow	521	(257)			
Cash flow from operating activities	10,259	57,490	24,777	32,328	28,822
Capital expenditure	(6,995)	(4,176)	(10,272)	(10,099)	(10,599)
Inc/(Dec) in investments	-	(0)	-	-	-
Add: Interest/Dividend Income Received	237	151	-	-	-
Cash flow from investing activities	(6,759)	(4,025)	(10,272)	(10,099)	(10,599)
Inc/(Dec) in share capital	7,750	-	-	-	-
Inc/(Dec) in debt	(7,812)	(48,886)	-	-	-
Dividend Paid	-	(298)	(4,765)	(4,467)	(4,170)
Others	(3,367)	(4,352)	(1,704)	(1,704)	(1,704)
Cash flow from financing activities	(3,428)	(53,536)	(6,469)	(6,171)	(5,873)
Net cash flow	71.8	(71.0)	8,035.7	16,057.9	12,349.8

Exhibit 15: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Tax burden (x)	0.7	0.7	0.7	0.7	0.7
Interest burden (x)	0.8	0.9	1.0	0.9	0.9
EBIT margin (x)	0.1	0.1	0.1	0.1	0.0
Asset turnover (x)	2.8	4.6	3.6	3.0	2.5
Financial leverage (x)	7.4	3.7	2.2	1.9	1.8
RoE (%)	63.7	77.9	41.6	22.0	14.5

Exhibit 16: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
Growth matrix (%)					
Revenue growth	93.3	76.9	(20.8)	(7.2)	(8.6)
Op profit growth	35.9	108.6	(12.3)	(26.1)	(17.7)
EBIT growth	35.9	129.0	(14.2)	(30.5)	(23.0)
Net profit growth	50.2	163.2	(10.2)	(31.8)	(24.3)
Profitability ratios (%)					
OPM	6.3	7.4	8.2	6.5	5.9
EBIT margin	5.2	6.7	7.3	5.4	4.6
Net profit margin	3.1	4.6	5.2	3.8	3.2
RoCE	17.8	45.5	31.5	19.5	13.9
RoE	48.1	56.3	35.3	20.2	13.7
RoA	8.6	21.3	18.6	11.4	8.1
Per share ratios					
EPS	90.1	237.3	213.1	145.4	110.0
Dividend per share	2.0	27.0	32.0	30.0	28.0
Cash EPS	124.0	275.8	253.4	188.7	157.0
Book value per share	187.4	421.8	602.9	718.3	800.3
Valuation ratios					
P/E	1.4	1.0	3.5	5.1	6.7
P/CEPS	1.0	0.9	2.9	3.9	4.7
P/B	0.7	0.6	1.2	1.0	0.9
EV/EBIDTA	4.4	1.8	2.5	3.4	4.1
Payout (%)					
Dividend payout	2.2	11.4	15.0	20.6	25.4
Tax payout	26.7	26.5	25.2	25.2	25.2
Liquidity ratios					
Debtor days	1.90	1.31	2.00	2.00	2.00
Inventory days	54.9	36.7	48.0	48.0	48.0
Creditor days	21.6	14.9	16.0	16.0	16.0

January 12, 2024

INITIATING COVERAGE | Sector: Energy

Mangalore Refinery & Petrochemicals Ltd

Phenomenal GRMs to help reduce debt

ONGC-&HPCL-promoted Mangalore Refinery and Petrochemicals (MRPL) is India's largest single-location PSU refinery, a credible play on refining and petchem in South India having 15mtpa capacity, versatile design, complex secondary processing units, high flexibility to process crudes of various APIs. It produces the full range of petroleum products such as naphtha, LPG, motor spirits, high-speed diesel, kerosene, aviation turbine fuel, sulphur, xylene, bitumen along with pet coke and polypropylene.

GRM environment - impressive, supportive of growth: Lower global gasoil stocks and robust demand for petroleum products are expected to sustain, thereby keeping key product cracks higher. The company sources over 35% of its crude requirements from Russia at a discount, thereby boosting GRMs, one of the highest amongst Indian refiners at a single location. The benchmark Singapore GRM and the company's GRM are trending higher than their last 10-year averages, supported by stronger demand, reduced supply, and lower stocks. We assume FY25 and FY26 GRMs of respectively \$8.0 and \$7.2/bbl vs the last 7-year average reported GRM of \$6.0 and the Singapore GRM of \$5.4.

Growth-conducive developments: Between FY12-15, capex of Rs 150bn was undertaken to modernise and expand Phase III. This include a polypropylene plant and a Single-Point Mooring (SPM), which help facilitate the anchoring of very large crude carriers. MRPL faced constant disruptions due to inadequate water supply from Netravathi River. The desalination project involving outlay of ~Rs 6bn was completed in FY22 causing higher refinery utilization. Cost-effective Russian crude fetched better GRMs and lowered working capital requirements.

Petchem Capex: To boost petrochemical production capacity, MRPL has planned a capex of Rs 470bn, with close to Rs 300-400bn allocated towards new production plant in Karnataka, to be operational in next 5 years; while Rs 60-70bn on petrochemical units. For Phase IV expansion, it has begun land acquisition process to acquire close to 850 acres.

Retail presence: Currently, MRPL depends on OMCs for domestic sales. It plans to reduce this dependency by aggressively focusing on retail outlet additions, as also expand retail outlets in southern Indian to over 500 in three years from current level of 71. Later, it will expand into north region and take the total count of outlets over 1,800 in medium term.

OMPL merger: The May'22 merger incurred losses of Rs 72bn, ~ Rs 30bn loss will be fetching tax advantage over next 3-4 years. MRPL took over equity from ONGC and outstanding loans of ~Rs40bn. The aromatics unit manufactures paraxylene and benzene, with paraxylene market currently facing headwinds, production slate was shifted to reformat mode for MS.

RLNG Sourcing: MRPL plans to source R-LNG which produces more hydrogen and offers flexibility in sourcing crude oil. R-LNG would be sourced once it is available at better price compared to furnace oil/naphtha.

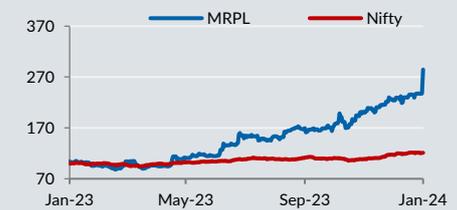
Outlook: High GRM sensitivity: a \$1/bbl change in GRM changes EBITDA by Rs 9.9bn. BV/share for FY25e/26e: Rs 84/94; debt: equity at 0.7/0.5x FY25e/26e vs 1.7x in FY23. At CMP, stock trades at 6.5x/7.4x FY25e/26e EV/EBITDA & 1.6x/1.4x P/BV. We initiate coverage with ADD rating and TP of Rs151, valuing stock at 1.6x FY26e P/BV. **Risks:** Lower GRM environment, change in crude prices and inventory losses, adverse government policy – subsidy-sharing.

Reco	: ADD
CMP	: Rs 134
Target Price	: Rs 151
Potential Return	: +12%

Stock data (as on January 10, 2024)

Nifty	21,624
52 Week h/l (Rs)	135 / 49
Market cap (Rs/USD mn)	234857 / 2830
Outstanding Shares (mn)	1,753
6m Avg t/o (Rs mn):	754
Div yield (%):	-
Bloomberg code:	MRPL IN
NSE code:	MRPL

Stock performance



	1M	3M	1Y
Absolute return	27.1%	64.1%	173.6%

Shareholding pattern (As of Sep '23 end)

Promoter	88.6%
FII+DII	2.7%
Others	8.8%

Financial Summary

(Rs bn)	FY23	FY24E	FY25E	FY26E
Revenue	1,088.6	795.1	814.5	739.9
YoY Growth	58.0	(28.0)	3.5	(8.6)
EBIDTA	65.0	57.7	51.6	42.7
OPM %	6.0	7.3	6.3	5.8
PAT	26.4	26.3	22.8	16.9
YoY Growth	(11.7)	(0.3)	(13.0)	(26.2)
ROE	26.8	21.1	15.5	10.2
EPS	15.1	15.0	13.0	9.6
P/E	3.5	8.9	10.3	13.9
BV	65.6	83.2	98.2	110.1
EV/EBITDA	4.1	4.4	4.8	5.7

HARSHRAJ AGGARWAL

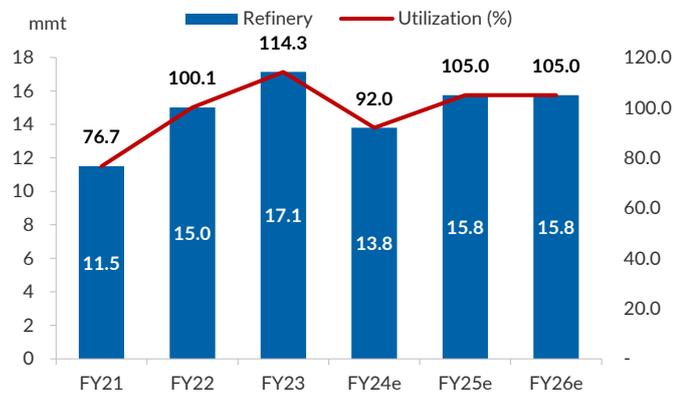
Lead Analyst

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STORY IN CHARTS

Exhibit 1: Volumes



Source: Company, YES Sec

Exhibit 2: Free cash-flows

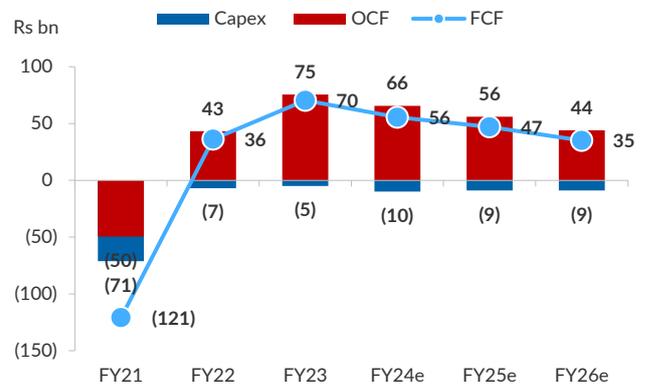
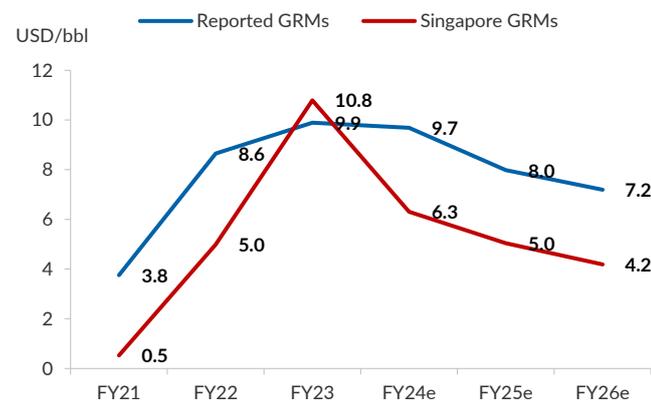


Exhibit 3: Refining margins



Source: Company, YES Sec

Exhibit 4: Net Debt

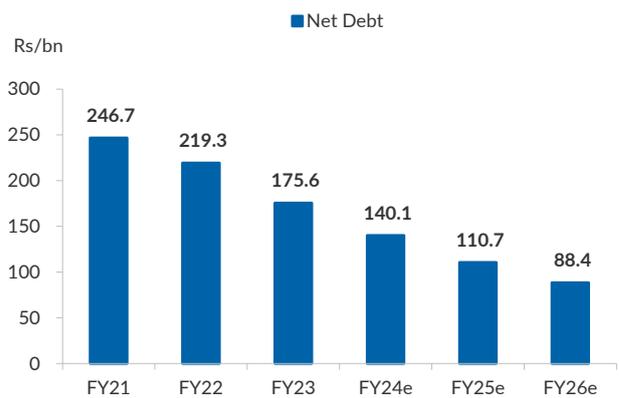
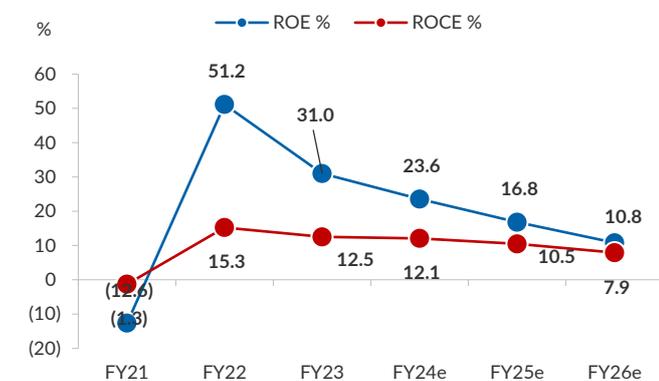


Exhibit 5: Return ratios



Source: Company, YES Sec

Exhibit 6: Dividend Yield (%)

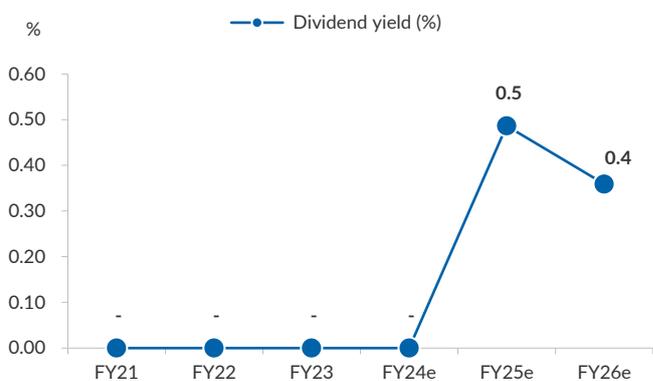


Exhibit 7: Key Assumptions

	Unit	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24e	FY25e	FY26e
Brent	USD/bbl	50.5	59.1	70.9	61.0	45.7	80.0	95.2	85.0	77.0	70.0
Exchange rate	Rs/USD	67.0	64.5	69.5	70.9	74.2	74.5	80.3	83.0	83.0	83.0
Refining											
Throughput	mmt	16.3	16.4	14.1	11.5	11.5	15.0	17.1	13.8	15.8	15.8
Capacity Utilization	%	108.7	109.6	94.3	76.7	76.7	100.1	114.3	92.0	105.0	105.0
Reported GRMs	USD/bbl	8.1	4.1	(0.2)	3.8	3.8	8.6	9.9	9.7	8.0	7.2
Singapore GRMs	USD/bbl	5.8	7.2	4.9	3.2	0.5	5.0	10.8	6.2	5.0	4.2

Exhibit 8: Ebitda sensitivity to GRM

Refining capacity utilization (%)	GRMs (\$ / bbl)	EBITDA (Rs bn)					
		75.0	85.0	95.0	105.0	115.0	125.0
4.2		9.5	10.8	12.1	13.3	14.6	15.9
5.2		16.5	18.7	20.9	23.1	25.3	27.5
6.2		23.5	26.7	29.8	32.9	36.1	39.2
7.2		30.5	34.6	38.7	42.7	46.8	50.9
8.2		37.5	42.5	47.5	52.5	57.5	62.6
9.2		44.5	50.5	56.4	62.3	68.3	74.2

Source: Company, YES Sec

Exhibit 9: Target price sensitivity to GRM

Refining capacity utilization (%)	GRMs (\$ / bbl)	Target (Rs / sh)					
		75.0	85.0	95.0	105.0	115.0	125.0
4.2		(6)	0	6	12	18	24
5.2		27	38	48	58	69	79
6.2		60	75	90	105	119	134
7.2		93	112	132	151	170	189
8.2		126	150	173	197	220	244
9.2		159	187	215	243	271	299

Source: Company, YES Sec

VIEW & VALUATION

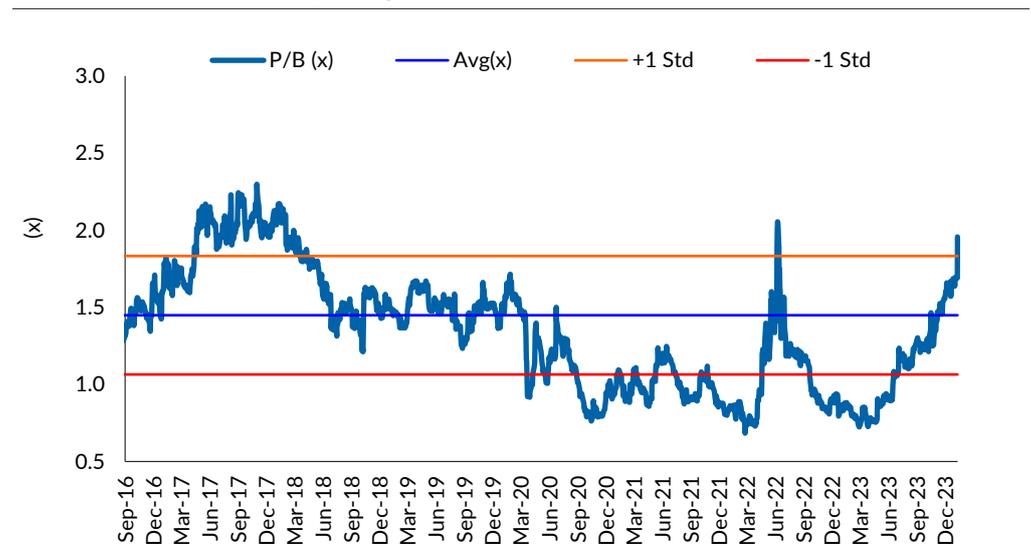
ADD with a TP of Rs 151/sh.

The GRM sensitivity for the stock is high: a \$1/bbl change in GRM changes EBITDA by Rs 9.9bn. BV/share for FY25e/26e: Rs 84/94; debt: equity at 0.7/0.5x FY25e/26e vs 1.7x in FY23. At CMP, stock trades at 6.5x/7.4x FY25e/26e EV/EBITDA & 1.6x/1.4x P/BV. We initiate coverage with ADD rating and TP of Rs151, valuing stock at 1.6x FY26e P/BV. Risks: Lower GRM environment, change in crude prices and inventory losses, adverse government policy – subsidy-sharing.

Exhibit 10: Valuation table

EV/EBITDA	FY26E
Multiple	8.25
EBITDA	42,741
Debt	126,991
Cash	38,579
EV	352,611
Equity value	264,199
No of shares	1,753
VPS	151
P/BV	
BV	94
Multiple	1.60
VPS	151

Exhibit 11: P/BV (x) band, one-year-forward



FINANCIALS

Exhibit 12: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	697,271	1,088,561	795,143	814,544	739,899
Total Expense	647,965	1,023,595	737,414	762,928	697,159
Operating Profit	49,306	64,966	57,729	51,616	42,741
Other Income	1,028	2,117	2,160	2,203	2,247
Depreciation	10,877	11,867	11,224	11,654	12,024
EBIT	39,456	55,216	48,664	42,164	32,963
Interest	12,073	12,853	8,790	7,492	7,365
Extraordinary Item	(300)	25	-	-	-
PBT	27,083	42,389	39,874	34,672	25,598
Tax	(2,469)	16,005	13,597	11,823	8,729
PAT	29,553	26,384	26,277	22,849	16,869
Adj. PAT	29,853	26,368	26,277	22,849	16,869
Eps	16.9	15.1	15.0	13.0	9.6

Exhibit 13: Balance sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Equity capital	17,527	17,527	17,527	17,527	17,527
Reserves	54,437	80,820	107,262	129,702	147,598
Net worth	71,963	98,347	124,788	147,228	165,125
Debt	211,092	167,332	140,332	118,332	118,332
Deferred tax liab (net)	-	-	-	-	-
Capital Employed	283,055	265,678	265,120	265,560	283,457
Fixed assets	215,536	208,706	207,481	204,827	201,803
Investments	155	161	161	161	161
Net working capital	67,364	56,812	57,477	60,572	81,493
Inventories	104,869	67,766	80,991	69,806	67,833
Sundry debtors	43,277	44,694	42,984	38,588	37,264
Cash & Bank Balance	439	389	8,844	16,333	38,579
Other current assets	36,308	29,440	29,440	29,440	29,440
Sundry creditors	93,672	61,688	80,991	69,806	67,833
Other liabilities	23,856	23,790	23,790	23,790	23,790
Application of Funds	283,055	265,678	265,120	265,560	283,457

Exhibit 14: Cash flow statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	29,553	26,384	39,874	34,672	25,598
Depreciation & amortization	10,877	11,867	11,224	11,654	12,024
Interest expense	11,720	12,686	8,790	7,492	7,365
(Inc)/Dec in working capital	(1,901)	3,099	7,789	4,395	1,324
Tax paid	(2,630)	(7,658)	(13,597)	(11,823)	(8,729)
Less: Interest/Dividend Income Received	(47)	(218)	165	734	1,871
Other operating Cash Flow	(2,609)	17,484			
Cash flow from operating activities	44,963	63,644	54,245	47,124	39,454
Capital expenditure	(6,113)	(7,026)	(10,000)	(9,000)	(9,000)
Inc/(Dec) in investments	2	(3)	-	-	-
Add: Interest/Dividend Income Received	163	297	-	-	-
Cash flow from investing activities	(5,947)	(6,732)	(10,000)	(9,000)	(9,000)
Inc/(Dec) in share capital	15,546	6,139	-	-	-
Inc/(Dec) in debt	(46,727)	(51,649)	(27,000)	(22,000)	-
Dividend Paid	-	-	-	(1,142)	(843)
Others	(8,037)	(11,389)	(8,790)	(7,492)	(7,365)
Cash flow from financing activities	(39,218)	(56,899)	(35,790)	(30,635)	(8,209)
Net cash flow	(203)	13	8,455	7,489	22,245

Exhibit 15: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Tax burden (x)	1.1	0.6	0.7	0.7	0.7
Interest burden (x)	0.7	0.8	0.8	0.8	0.8
EBIT margin (x)	0.1	0.1	0.1	0.1	0.0
Asset turnover (x)	1.9	2.9	2.2	2.2	2.0
Financial leverage (x)	6.5	4.4	3.2	2.7	2.4
RoE (%)	51.7	31.0	23.6	16.8	10.8

Exhibit 16: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
Growth matrix (%)					
Revenue growth	107.3	58.0	(28.0)	3.5	(8.6)
Op profit growth	2.1	106.0	2.0	2.0	2.0
EBIT growth	117.7	6.5	(31.6)	(14.8)	(1.7)
Net profit growth	(492.2)	(11.7)	(0.3)	(13.0)	(26.2)
Profitability ratios (%)					
OPM	7.1	6.0	7.3	6.3	5.8
EBIT margin	5.7	5.1	6.1	5.2	4.5
Net profit margin	4.2	2.4	3.3	2.8	2.3
RoCE	13.9	20.8	18.4	15.9	11.6
RoE	41.1	26.8	21.1	15.5	10.2
RoA	9.0	7.1	7.0	6.3	4.6
Per share ratios					
EPS	16.9	15.1	15.0	13.0	9.6
Dividend per share	-	-	-	0.7	0.5
Cash EPS	27.0	25.5	25.0	23.0	19.3
Book value per share	48.0	65.6	83.2	98.2	110.1
Valuation ratios					
P/E	2.5	3.5	8.9	10.3	13.9
P/CEPS	1.5	2.1	5.4	5.8	7.0
P/B	0.9	0.8	1.6	1.4	1.2
EV/EBIDTA	5.7	4.1	4.4	4.8	5.7
Payout (%)					
Dividend payout	-	-	-	5.0	5.0
Tax payout	(9.1)	37.8	34.1	34.1	34.1
Liquidity ratios					
Debtor days	14.4	12.9	14.0	14.0	14.0
Inventory days	51.6	31.9	35.0	35.0	35.0
Creditor days	39.2	28.7	35.0	35.0	35.0

January 12, 2024

REINITIATING COVERAGE | Sector: Energy

Reliance Industries Ltd

Consumer biz steers growth, refining retains sweet spot

Reliance Industries Limited (RIL) is an Indian conglomerate to reckon with; it runs India's largest energy & petrochem business and a key global player. Reliance Retail is the largest company in the retail space, while another key subsidiary Reliance Jio is a telecom heavyweight. RIL is now setting up a mega solar capacity to produce hydrogen under the New Energy segment. In FY23, O2C contributed ~43% to EBITDA, while Upstream/ Digital/ Retail fetched ~9%/32%/12%. Going forward, the gen-next of the Ambani family would steer individual business units with Akash at the helm of Reliance Jio, Isha leading the Retail arm, and Anant involved in the New Energy initiative.

Oil to Chemicals (O2C): O2C segment is well integrated, strategically located, and sources feedstock on favorable terms, making it better equipped to absorb macro shocks. It has a crude processing capacity of 1.3mbpd and given the super cycle in refining, the phenomenal earnings would help raise RIL's performance by leaps and bounds, further aided by expansion of PET bottle recycling, sustainable packaging solutions, and tech-enabled green products, and a Carbon Fiber facility coming up in Hazira, all of which will induct it into the hall of fame, as one of the top three global players of the segment.

Upstream: From Krishna Godavari Basin, Reliance has discovered substantial reserves and has commenced production from 3 fields – R-cluster, Satellite-cluster, and MJ field – slated to produce above 25mmscmd and achieve 30mmscmd in coming months, accounting for ~15% of domestic demand. Coal methane bed in Madhya Pradesh has 300 wells operational. 11mmscmd of gas from KGD6 has been successfully auctioned.

Digital: Jio has subscriber base of 459.7mn and ARPU of Rs 181.7. The industry expects tariff hikes to take ARPU gradually to Rs250-300, net additions being higher at 11mn in last quarter. AirFiber can reach 250m users in a short span as its infra requirements are minimal. Heavy capex requirement and launches for transition from 2G to 5G would increase data consumption per user (currently: 25GB). Growth in digital services would be driven by new offerings like cloud solutions, IoT, broadcasting. RIL is also trying to grab a big share in the Indian OTT market via JioCinema, and seeking a controlling stake in Disney+ Hotstar.

Retail: RIL announced its FMCG foray with entry into Personal Care and Home Care under its brand 'Independence'. Revenue is growing organically YoY through key acquisitions like Campa Cola, Soyo Beverages, Lotus Chocolates, Metro Cash and Carry. Consequently, the company has a strong brand portfolio, robust supply chain, and expanded footprint through store additions and JioMart offerings. Digital commerce and new commerce are together boosting revenues.

Valuation: Our target price is premised upon an operating earnings CAGR of ~10% over FY23-26e where O2C and upstream contribution to EBITDA is ~40%, rest would come from consumer biz, Digital/ Retail in FY26. We place a BUY rating on the stock on SOTP basis at a TP of Rs 3170/share. The O2C contributes Rs647, upstream Rs168, and Jio platforms and Retail at Rs 754/1541. New Energy piece adds Rs182 and a reduction of Rs121 of Net debt.

Key Risks: High competition in retail space challenges growth prospects, petchem spreads and crude oil volatility could impact margins, slow growth of retail revenue and lower EBITDA margins, huge capex required in telecom sector with slow ARPU growth and regulatory changes, capex being largely debt-funded could further strain financials.

Reco	: BUY
CMP	: Rs 2,650
Target Price	: Rs 3,170
Potential Return	: +20%

Stock data (as on January 10, 2024)

Nifty	21,624
52 Week h/l (Rs)	2659 / 1979
Market cap (Rs/USD mn)	17929730 / 215865
Outstanding Shares (mn)	6,766
6m Avg t/o (Rs mn):	14,703
Div yield (%):	0.4
Bloomberg code:	RELANCE IN
NSE code:	RELANCE

Stock performance



Shareholding pattern (As of Sep '23 end)

Promoter	49.1%
FII+DII	37.9%
Others	10.7%

Financial Summary (Consolidated)

(Rs bn)	FY24E	FY25E	FY26E
Revenue	11,265.8	11,805.1	12,574.4
YoY Growth	26.4	4.8	6.5
EBITDA	1,601.5	1,783.9	1,921.0
OPM %	14.2	15.1	15.3
PAT	809.8	906.4	964.7
YoY Growth	9.9	11.9	6.4
ROE	9.0	9.2	8.9
EPS	119.7	134.0	142.6
P/E	22.1	19.8	18.6
BV	1,336.1	1,461.3	1,595.6
EV/EBITDA	7.1	6.9	6.8

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Lead Analyst

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STORY IN CHARTS

Exhibit 1: RIL Consolidated EBITDA

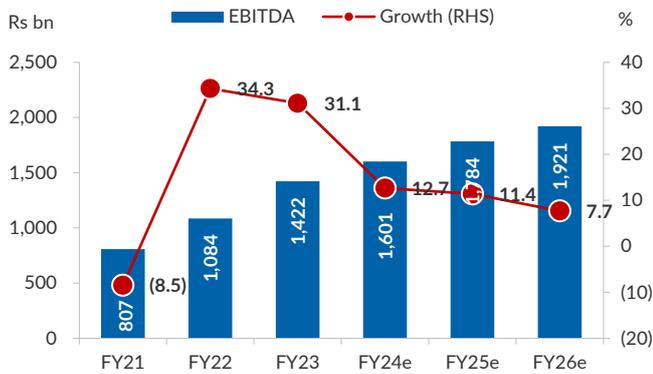
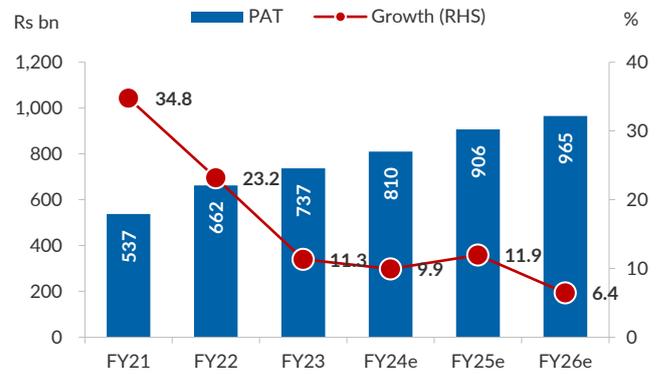


Exhibit 2: RIL Consolidated PAT



Source: Company, YES Sec

Exhibit 3: O2C EBITDA

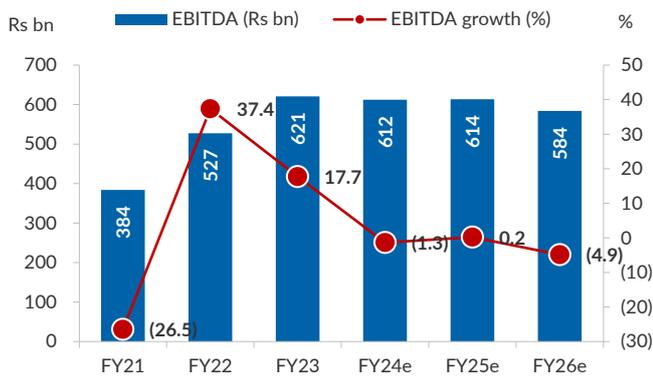
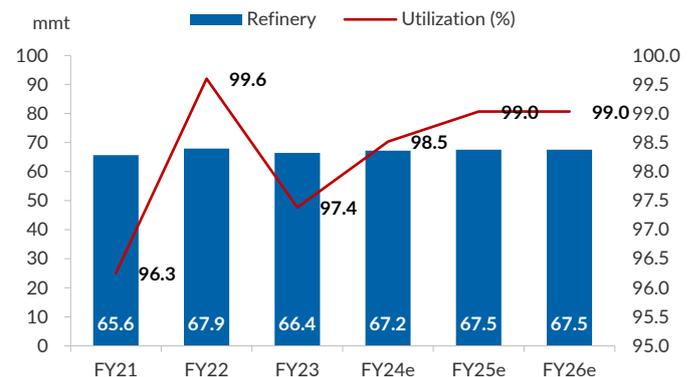
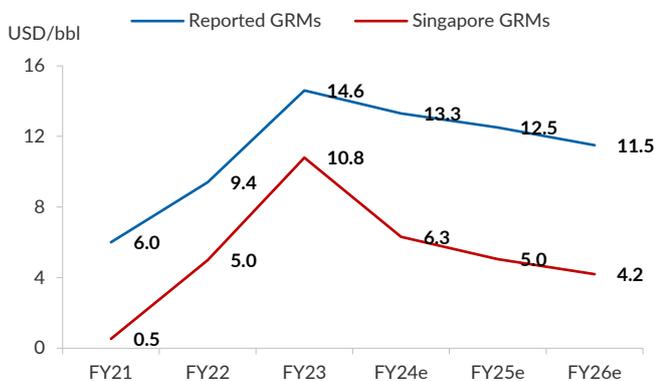


Exhibit 4: Refining volumes and utilization



Source: Company, YES Sec

Exhibit 5: Gross Refining Margins (GRMs)



Source: Company, YES Sec

Exhibit 6: Oil & Gas E&P EBITDA

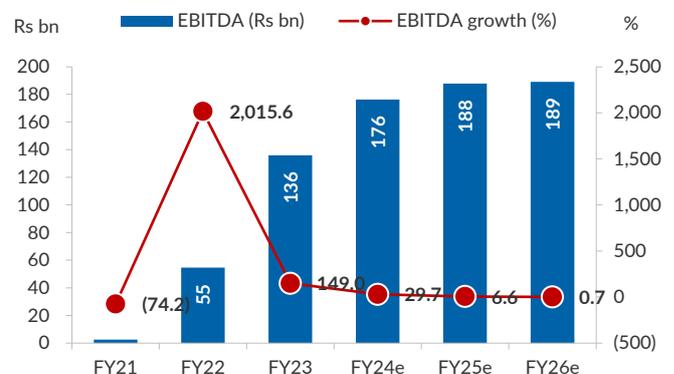
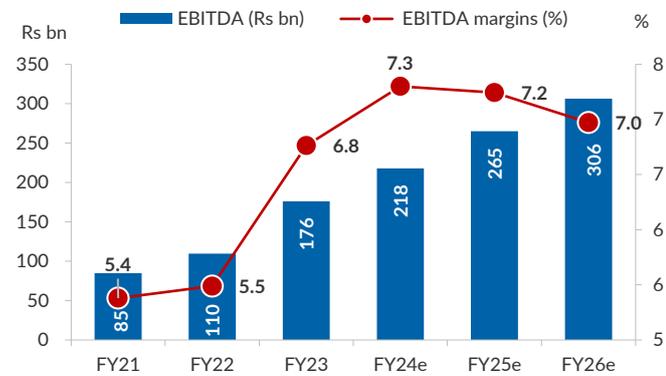


Exhibit 7: Reliance Retail EBITDA



Source: Company, YES Sec

Exhibit 8: Total Retail Stores

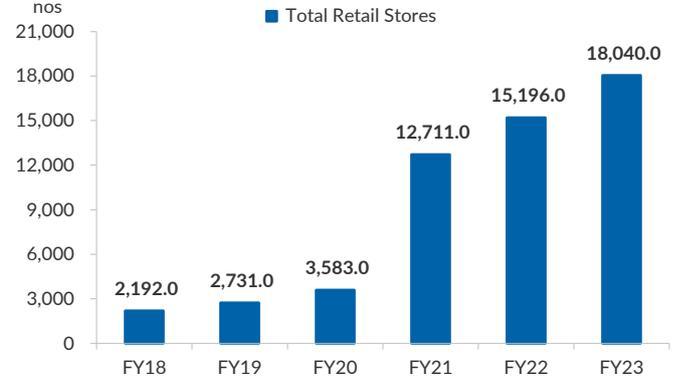
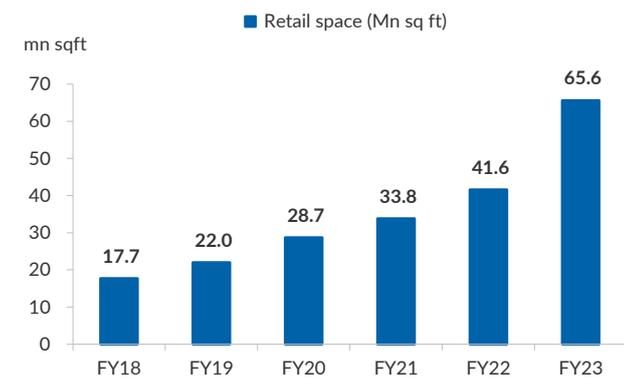


Exhibit 9: Retail space in mn sqft



Source: Company, YES Sec

Exhibit 10: Reliance Digital (RJIO)

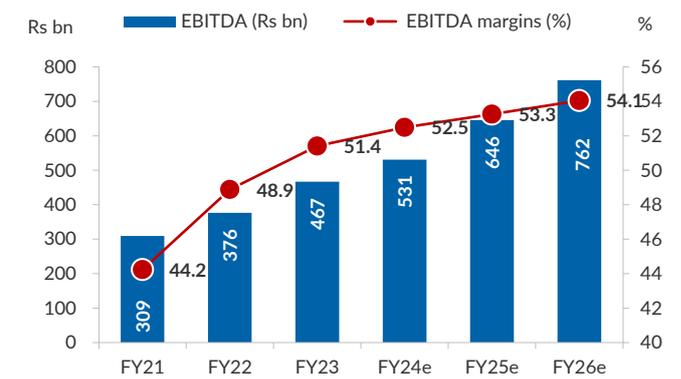
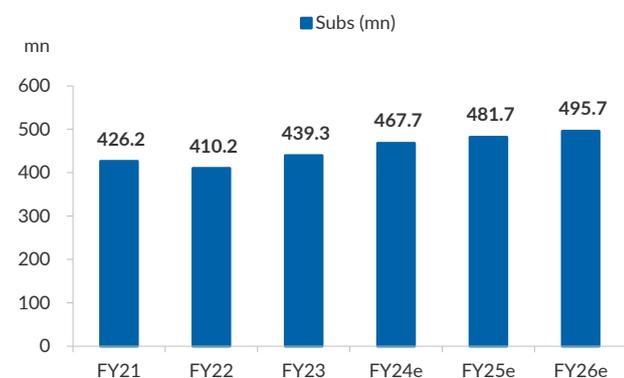


Exhibit 11: Reliance Digital (RJIO) Subscribers (mn)



Source: Company, YES Sec

Exhibit 12: Reliance Digital (RJIO) APRU (Rs)

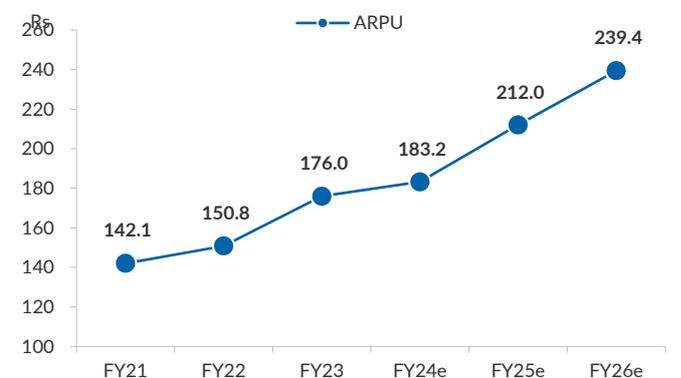
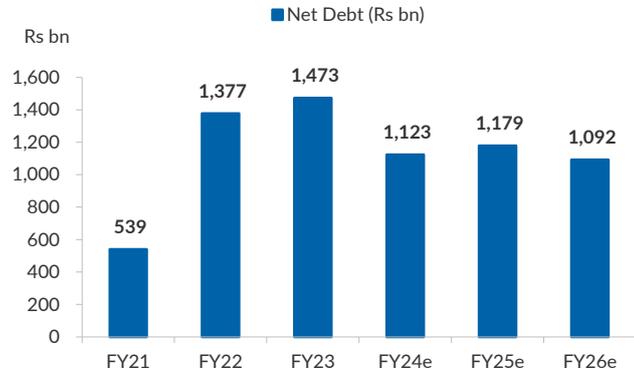


Exhibit 13: Net Debt



Source: Company, YES Sec

Exhibit 14: Free cash-flows

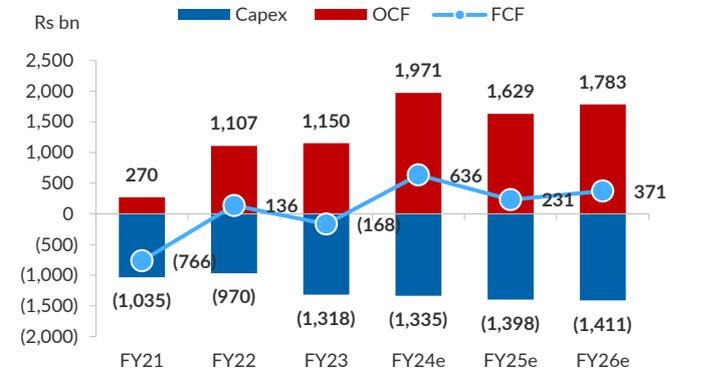
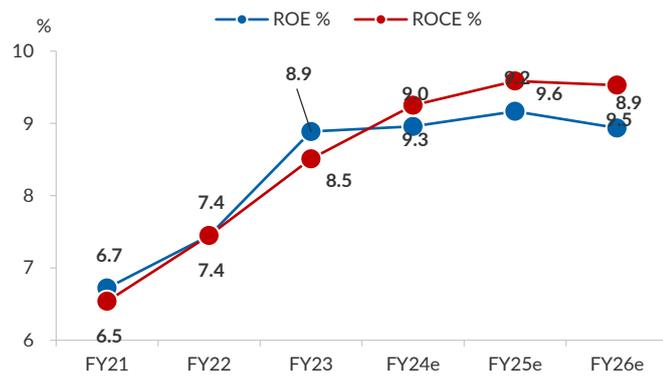


Exhibit 15: Return ratios



Source: Company, YES Sec

Exhibit 16: Book Value per Share

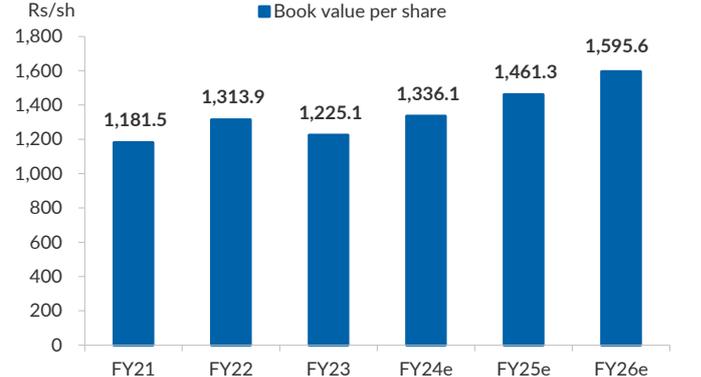
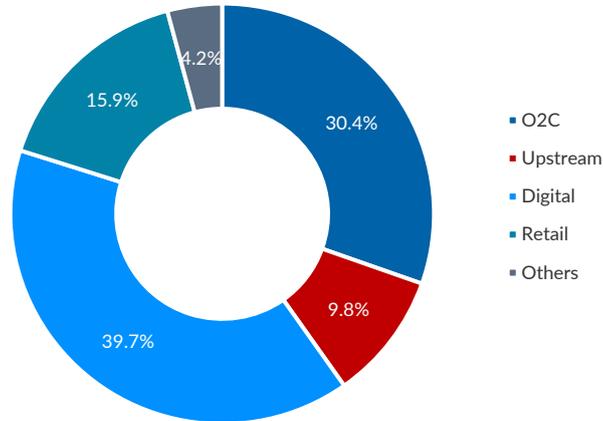


Exhibit 17: EBITDA breakup (FY26)



Source: Yes Sec

Oil to Chemicals: It produces extensive range of polymers, elastomers, polyesters, aromatics, fiber-intermediates, and advanced materials. O2C is well integrated, having location advantage and favorable feedstock sourcing, is relatively well paced to handle macro disruptions. E&P to benefit in high crude price situations.

Lower global gasoil stocks and robust demand for petroleum products are expected to sustain, retaining key product cracks higher. The company sources over 20% of its crude requirements from Russia at a discount, thereby boosting GRMs. RIL is also sourcing discounted crude from few Middle East and other countries which is adding to better GRMs. The benchmark Singapore GRM and the company's GRM are both trending higher than their last 10-year averages, supported by stronger demand, reduced supply, and lower stocks. We assume FY25 and FY26 GRMs of respectively \$12.5 and \$11.5/bbl vs the last 7-year average reported GRM of \$10.1 and the Singapore GRM of \$5.4.

RIL's petrochemical margins were weak due to ongoing global concerns and weak demand uptick from China. Pickup of global oil demand due to China recovery to result in stabilizing the refining margins, however they are subject to feedstock price volatility. China accounts for ~40% of petrochemical consumption, revival of demand in China to benefit.

It is in process to set up Carbon Fiber facility at Hazira, which will place it in top 3 global player. It is also expanding its PET bottle recycling capacity, developing sustainable packaging solutions, and increasing its recycling technology to deliver green products. Correction in fuel cracks from high base, polymer deltas declined on strong supply, polyester margins were down on slow global pickup.

Upstream: RIL in 2002 made significant deep-sea discoveries in Krishna Godavari (KG) basin, while production began only in 2009. R cluster field is the deepest in is India's first ultra-deep-water field. Other fields that have developed are Satellite cluster and MJ field, which are currently producing 29mmscmd, are expected to increase in gas output to 30mmscmd. This would step up India energy security program as the output would contribute to ~30% of the gas production in India. Reliance Coal bed methane in Madhya Pradesh, commenced in 2017 and having over 300 wells on production. Average price realized in Q2FY24 is USD 10.46/mmbtu for gas and USD 13.72/mmbtu for CBM gas.

In April, 6mmscmd of gas was auctioned, with pricing at reference price of JKM and a premium over it of USD 0.75. IOCL secured 3mmscmd, GAIL - 0.7mmscmd, ATGL - 0.4mmscmd, Shell - 0.5mmscmd, GSPC 0.25mmscmd, and IGS 0.5mmscmd. In June, again it had come out with another auction for 5mmscmd, where IOCL had secured 2.5mmscmd. The gas price has ceiling set by the government for HPHT gas of USD 9.99mmbtu.

New Energy Initiatives: RIL have aim to become net carbon zero company by 2035 and has committed capital of Rs 750bn, of which it will spend Rs 600bn to develop Dhirubhai Ambani Green Energy Giga Complex in Jamnagar, spread over 5,000 acres and Rs 150bn to create end to end renewable energy ecosystem. RIL plans to have 100GW of renewable capacity by 2030 while the target set by India is of 500GW, thus RIL having a share of ~20%. This business is expected to have TAM of over 20x the current size of \$19bn and would be driving the next wave of growth for RIL.

On battery front, it has fast tracked the commercialization of sodium-ion battery technology by 2025 and scaling it thereafter. Large scale Battery giga factory would be operational in FY26, it will manufacture battery chemicals, cells, packs, and energy storage solutions; battery recycling facility to be added to provide integrated ecosystem. Green hydrogen production to take place in Jamnagar and will integrate green ammonia and green methanol production for domestic and international markets. Based on Indigenously developed technology, it has commissioned first commercial scale CBG plant, plans for 100 CBG plants in next 5 years

Digital: Telecom Industry expects the ARPU needs to be increased to ~Rs250-300, given the substantial amount of capex being incurred for 5G. Jio's ARPU at Rs 181.7 in Q2FY24, it has been increasing QoQ along with strong net customers addition. Delay in tariff hike is going to pave way for duopoly in the industry. Tariffs have been increasing and the entry level plans moving up in value, the ARPU of Indian telecom industry is lowest when compared with the global average.

Through launch of JioBharat it plans to shift the 250mn user base from 2G to 4G. JioFiber had ~50% growth in the subscriber base, where ~98% were on postpaid. Other offerings include AirFiber – providing Fiber like experience and increasing the reach with little infrastructure spend, Jio IoT – to provide customized end to end specific solutions, JioPlatform – streaming service, JioCinema – Unique customer experience.

RIL is also trying to grab a big share in the Indian OTT market via JioCinema, looking for a significant controlling stake in Disney+ Hotstar. As per some media articles, Disney's asking could be at USD 10bn while RIL might look to buy ~USD6-7bn.

Retail: RIL announced its foray into FMCG business with entry into segments of Personal Care and Home Care with its brand 'Independence' and acquisition of companies like Campa Cola, Soyo Beverages, Lotus Chocolates, Metro Cash and Carry to create its portfolio of brands in the segment and strengthening its supply chain.

It continues to add stores and increase footprints and expanding the offerings of JioMart. Through Independence brand it offers staples, processed foods, and other essentials. It registered strong growth across categories – Grocery (59%), Consumer Electronics (14%), Fashion & Lifestyle (15%). RIL omnichannel presence to foster growth. As of 30th Sep,'23, Reliance Retail operates 18,650 stores in more than 7,000 cities with a retail area of over 71.5 mn sq. ft.

Reliance Retail buyback: Reliance Retail Ventures Ltd (RRVL), holding company with 99.93% stake in RRL announced buyback of shares which are assumed to be with employees and HNIs. While the company reached a price of Rs 1,362/sh, price in unlisted markets were higher at Rs 2,500-3,000/sh. To acquire the shares, from the minority resulted in cash outflow of Rs 9bn. The move can be attributed towards preparation of the launch of IPO in 2024. Qatar Investment Authority had acquired 1% stake in RRVL for USD 1bn, valuing the subsidiary at USD 100bn. Earlier, Private equity investors acquired over 14% in RRVL.

Exhibit 18: Key assumptions

	Unit	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24e	FY25e	FY26e
Brent	USD/bbl	50.5	59.1	70.9	61.0	45.7	80.0	95.2	85.0	77.0	70.0
Exchange rate	Rs/USD	67	65	70	71	74	75	80	83	83	83
Refining											
Crude throughput	mmt	70.2	70.5	71.0	70.7	65.6	67.9	66.4	67.2	67.5	67.5
Cap. utilisation	%	117.0	103.3	104.1	103.6	96.3	99.6	97.4	98.5	99.0	99.0
GRMs	USD/bbl	11.0	11.6	9.3	8.9	6.1	9.4	14.6	13.3	12.5	11.5
RJIO Operational metrics											
Subscribers	mn nos	108.7	186.6	306.7	387.5	426.2	410.2	439.3	467.7	481.7	495.7
ARPU	Rs/month	-	163	126	125	142	151	176	183	212	239
EBITDA margins	(%)	-	33.6	39.3	39.7	44.2	48.9	51.4	52.5	53.3	54.1
Organised Retail											
Revenue	Rs bn	330.3	617.8	1,305.7	1,629.4	1,576.3	1,997.3	2,603.6	2,984.6	3,659.4	4,394.6
Revenue growth	(%)	62.5	87.1	111.4	24.8	(3.3)	26.7	30.4	14.6	22.6	20.1
EBITDA margins	(%)	3.6	4.1	4.7	5.9	5.4	5.5	6.8	7.3	7.2	7.0
Segmental EBITDA											
Oil to Chemicals (O2C)	Rs bn	484.2	680.4	877.6	893.8	860.4	1,139.1	1,455.6	1,614.6	1,792.8	1,919.0
Oil & Gas		450.8	548.5	615.4	521.9	383.8	527.2	620.8	612.4	613.7	583.8
Organised Retail		8.6	10.7	12.9	10.0	2.6	54.6	135.9	176.2	187.7	189.0
Digital Services		11.8	25.3	62.0	96.8	84.8	109.6	176.1	217.9	265.1	306.4
Others		-	67.6	157.1	215.7	309.1	376.3	466.7	530.8	645.7	761.7
RIL debt break up	Rs bn	13.0	28.3	30.2	49.4	80.1	71.4	56.1	77.3	80.7	78.0
Total gross debt		1,966.0	2,187.6	2,875.1	3,362.9	2,237.6	2,819.7	3,343.9	3,343.9	3,343.9	3,343.9
Less: cash and cash equivalents		772.3	618.6	784.5	1,038.4	1,698.4	1,443.0	1,871.4	2,193.2	2,136.0	2,241.9
Net debt		1,193.8	1,569.1	2,090.5	2,324.6	539.2	1,376.8	1,472.6	1,150.7	1,208.0	1,102.0
Total Capex (Rs bn)		1,147.4	792.5	33.7	805.1	796.7	994.7	1,418.1	1,386.1	1,444.2	1,452.5

VIEW & VALUATIONS

BUY with a TP of Rs 3170/sh.

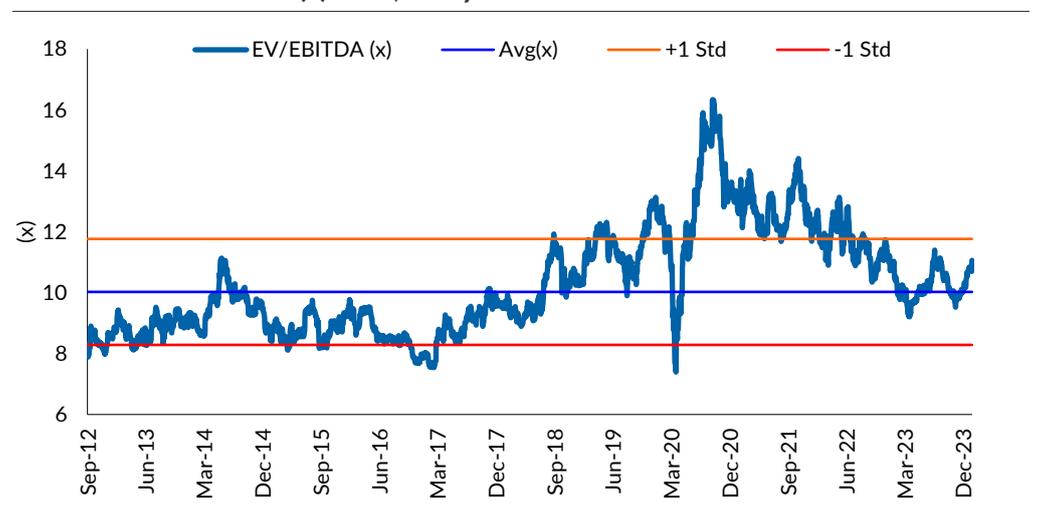
We recommend a BUY rating on RIL with a TP of Rs 3,170/sh. Expectation of elevated capex levels due to the ongoing 5G rollout, planned petrochemical capacity expansion, and planned foray into renewable energy and acquisitions in retail. However, in the longer run, investments in petrochemical and renewable capacities, along with the 5G rollout, Retail growth, New energy contribution have the potential to drive revenue growth.

Our target price is premised upon an operating earnings CAGR of ~10% over FY23-26e where O2C and upstream contribution to EBITDA is ~40%, rest would come from consumer biz, Digital/Retail in FY26. We place a BUY rating on the stock on SOTP basis at a TP of Rs 3170/share. The O2C contributes Rs647, upstream Rs168, and Jio platforms and Retail at Rs 754/1541. New energy piece adds Rs182 and a reduction of Rs121 of Net debt.

Exhibit 19: Valuation Table

SOTP	EBITDA (Rs bn)	Multiple	EV (Rs bn)	EV (USD bn)	Rs/Share	Comments
OIL AND GAS BUSINESS (EV)						
O2C	584	7.5	4,379	52.8	647	Global Multiple at 7.8x
Domestic E&P	189	6.0	1,134	13.7	168	AT 6.0x EBITDA
EV OF OIL TO CHEMICALS (O2C)			4,379	52.8	647	
EV OF STANDALONE BUSINESS			5,513	66.4	815	
CONSUMER BUSINESS (EV)						
Retail Venture business @ ~85%	306	40.0	10,424	125.6	1,541	At 40x EBITDA
Jio Platforms business @ ~67%	762	10.0	5,104	61.5	754	At 10x EBITDA
EV OF CONSUMER BUSINESS			15,527	187	2,295	
New Energy			1,229	14.8	182	
TOTAL EV OF BUSINESS			22,269	268	3,291	
Total Debt			3,344	40.3	494	
Cash and Current Investments			2,525	30.4	373	
NET DEBT			819	9.9	121	
FAIR VALUE			21,450	258	3,170	

Exhibit 20: EV/EBITDA (x) band, one-year-forward



FINANCIALS

Exhibit 21: Income statement (Consolidated)

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	7,176,350	8,913,110	11,265,768	11,805,094	12,574,360
Total Expense	6,091,890	7,491,490	9,664,289	10,021,220	10,653,329
Operating Profit	1,084,460	1,421,620	1,601,479	1,783,874	1,921,031
Other Income	149,430	117,340	146,675	149,609	152,601
Depreciation	297,820	403,030	443,838	500,292	562,734
EBIT	936,070	1,135,930	1,304,316	1,433,190	1,510,897
Interest	145,840	195,710	227,948	227,948	227,948
Extraordinary Item	28,360	-	-	-	-
Share of profit/loss of Associates and JVs	2,950	240	2,500	2,500	2,500
PBT	821,540	940,460	1,078,867	1,207,742	1,285,449
Tax	159,700	203,760	269,092	301,310	320,737
PAT	661,840	736,700	809,776	906,431	964,712
Adj. PAT	661,840	736,700	809,776	906,431	964,712
Eps	97.8	108.9	119.7	134.0	142.6

Exhibit 22: Balance sheet (Consolidated)

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Equity capital	67,650	67,660	67,660	67,660	67,660
Reserves	8,822,190	8,221,150	8,972,276	9,819,832	10,728,181
Net worth	8,889,840	8,288,810	9,039,936	9,887,492	10,795,841
Debt	2,819,740	3,343,920	3,343,920	3,343,920	3,343,920
Deferred tax liab (net)	857,850	1,716,220	1,716,220	1,716,220	1,716,220
Capital Employed	12,567,430	13,348,950	14,100,076	14,947,632	15,855,981
Fixed assets	7,872,950	10,032,870	10,924,502	11,822,303	12,670,712
Investments	3,942,640	2,355,600	2,355,600	2,355,600	2,355,600
Net working capital	751,840	960,480	819,974	769,729	829,669
Inventories	1,077,780	1,400,080	1,543,256	1,617,136	1,722,515
Sundry debtors	236,400	284,480	370,381	388,113	413,404
Cash & Bank Balance	361,780	686,640	1,035,970	980,519	1,067,686
Other current assets	1,494,670	1,299,150	1,299,150	1,299,150	1,299,150
Sundry creditors	1,593,300	1,471,720	2,190,634	2,277,039	2,434,936
Other liabilities	825,490	1,238,150	1,238,150	1,238,150	1,238,150
Application of Funds	12,567,430	13,348,950	14,100,076	14,947,632	15,855,981

Exhibit 23: Cash flow statement (Consolidated)

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	841,420	948,010	1,078,867	1,207,742	1,285,449
Depreciation & amortization	297,970	403,190	443,838	500,292	562,734
Interest expense	20,550	83,310	227,948	227,948	227,948
(Inc)/Dec in working capital	7,250	(196,340)	489,836	(5,206)	27,227
Tax paid	(37,970)	(62,970)	(269,092)	(301,310)	(320,737)
Less: Interest/Dividend Income Received	(410)	(380)			
Other operating Cash Flow	(22,270)	(24,500)			
Cash flow from operating activities	1,106,540	1,150,320	1,971,399	1,629,466	1,782,622
Capital expenditure	(970,080)	(1,318,020)	(1,335,470)	(1,398,094)	(1,411,143)
Inc/(Dec) in investments	2,590	294,440	-	-	-
Add: Interest/Dividend Income Received	(124,130)	93,570	-	-	-
Cash flow from investing activities	(1,091,620)	(930,010)	(1,335,470)	(1,398,094)	(1,411,143)
Inc/(Dec) in share capital	991,100	676,130	-	-	-
Inc/(Dec) in debt	(516,250)	(304,650)	-	-	-
Dividend Paid	(42,970)	(50,830)	(58,650)	(58,875)	(56,363)
Others	(258,990)	(216,100)	(227,948)	(227,948)	(227,948)
Cash flow from financing activities	172,890	104,550	(286,598)	(286,824)	(284,311)
Net cash flow	187,810	324,860	349,330	(55,451)	87,167

Exhibit 24: Du-pont analysis (Consolidated)

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Tax burden (x)	0.8	0.8	0.8	0.8	0.8
Interest burden (x)	0.9	0.8	0.8	0.8	0.9
EBIT margin (x)	0.1	0.1	0.1	0.1	0.1
Asset turnover (x)	0.5	0.6	0.7	0.7	0.7
Financial leverage (x)	1.7	1.8	1.9	1.9	1.8
RoE (%)	7.8	8.6	9.3	9.6	9.3

Exhibit 25: Ratio analysis (Consolidated)

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
Growth matrix (%)					
Revenue growth	47.6	24.2	26.4	4.8	6.5
Op profit growth	34.3	31.1	12.7	11.4	7.7
EBIT growth	32.8	21.4	14.8	9.9	5.4
Net profit growth	23.2	11.3	9.9	11.9	6.4
Profitability ratios (%)					
OPM	15.1	15.9	14.2	15.1	15.3
EBIT margin	13.0	12.7	11.6	12.1	12.0
Net profit margin	9.2	8.3	7.2	7.7	7.7
RoCE	7.4	8.5	9.3	9.6	9.5
RoE	7.4	8.9	9.0	9.2	8.9
RoA	4.7	4.7	4.8	5.0	5.1
Per share ratios					
EPS	97.8	108.9	119.7	134.0	142.6
Dividend per share	8.0	9.0	8.7	8.7	8.3
Cash EPS	141.8	168.4	185.3	207.9	225.8
Book value per share	1,313.9	1,225.1	1,336.1	1,461.3	1,595.6
Valuation ratios					
P/E	26.8	20.5	22.1	19.8	18.6
P/CEPS	18.5	13.2	14.3	12.7	11.7
P/B	2.0	1.8	2.0	1.8	1.7
EV/EBIDTA	10.5	7.7	7.1	6.9	6.8
Payout (%)					
Dividend payout	13.2	12.3	12.0	12.0	12.0
Tax payout	19.4	21.7	24.9	24.9	25.0
Liquidity ratios					
Debtor days	12.0	11.6	12.0	12.0	12.0
Inventory days	56.8	60.4	55.6	57.6	57.2
Creditor days	80.4	74.7	69.2	81.4	80.7

January 12, 2024

REINITIATING COVERAGE | Sector: Energy

ONGC Ltd

Price fully reflective of Value Proposition

ONGC is the largest crude and natural gas company in India armed with large proven reserves. Through its fully owned subsidiary ONGC Videsh, it has presence overseas in the form of partnership ventures for oil fields. The exploration and production activity need to pick up pace to compensate for mature fields and support India's rapidly growing energy demand. The recent KG-98/2 field commenced is expected to boost production. Given the humongous demand levels to be met, we do not foresee any reduction in consumption of crude but an increase in output through development of new wells and ongoing exploration activities. Green energy will only supplement supply rather than replace it.

Production: ONGC has many onshore/offshore fields and has drilled 461 wells in FY23. Being India's largest producer of oil and gas, (fulfilling ~71% of total demand), it is strategically important for the country. ONGC also has presence across the value chain through its subsidiaries (refining, petrochemicals), VAP, LNG, Power and Renewables. By 2025, it targets to have 0.5m sq.km of area under active exploration. Oil production in the recent quarter was 5.3mmt and gas production stood at 5.2bcm; the production has been falling over the past few years. With KG basin production commencing, the output is expected to increase hereon. In FY23, ONGC produced 42.8mmtoe, the management has guided a growth of 1% in FY24 and 5% in FY25 respectively.

ONGC Videsh: ONGC has participating interest in as many as 32 oil and gas assets in 15 countries. It had peak production of 14.98mmtoe in FY20, which has fallen since then, and in FY23 the production was only 10.17mmtoe. Revenue, EBITDA and Adj PAT, during Q2FY24 stood at Rs 26.7bn, Rs 10.1bn and Rs 3.3bn. The management has guided FY24 volumes at 10.68mmtoe, 11.0/11.22mmtoe for FY25/26 respectively.

Realization: The net crude realization for Upstream companies is capped at ~USD 75-77/bbl, any price rise beyond will invite windfall taxes, which will restrict their realization. Windfall taxes are calculated on ~15 days price change. The gross crude oil realization in the recent quarter stood QoQ lower at USD 74.6/bbl (Q1: USD 76.5/bbl). The effective natural gas realization for FY24 is at USD 6.5/mmbtu and would be USD 7.0/mmbtu for FY25.

Dividends: Dividend payout ratio has averaged at 40% for the last 4-years. Dividend yield for last 4-years have been ~6% and we estimate 5.7/5.4/5.2% for FY24e/25e/26e. ONGC dividend for FY22/FY23 were Rs 10.5/11.25 per share.

Green initiatives: ONGC intends to spend Rs 1,000bn by 2030 for expanding its renewable and low carbon sector. It plans to set up renewable portfolio of 10GW by 2030. Collaborations are being explored in renewables, green hydrogen and its derivatives and green ammonia. Natural gas will play key role in balancing renewable energy and reducing carbon emissions.

Outlook: We initiate a Neutral rating on ONGC, and a TP of Rs 225/sh, as we find the stock trading at fair valuations. Our TP of Rs 225/sh comprises of a) Rs 172/sh for the stand-alone domestic business, valued on 6.0x PER FY26e (ex-dividends), b) Rs 6.3/sh for OVL on PER of 6.0x FY26e, c) Rs 47/sh for investment in listed equities, valued at 30% hold-co discount to market price.

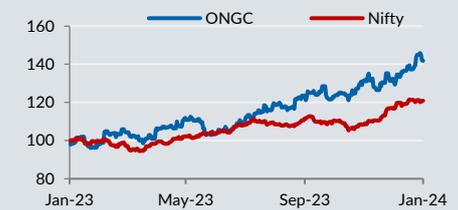
Risks: Weaker crude and gas prices, delay in production from newer fields, higher decline in volumes from legacy fields, hasty overseas acquisitions/investments, changes in government policies.

Reco	: NEUTRAL
CMP	: Rs 212
Target Price	: Rs 225
Potential Return	: +6.1%

Stock data (as on January 10, 2024)

Nifty	21,624
52 Week h/l (Rs)	215 / 140
Market cap (Rs/USD mn)	2668277 / 32125
Outstanding Shares (mn)	12,580
6m Avg t/o (Rs mn):	2,019
Div yield (%):	6.1
Bloomberg code:	ONGC IN
NSE code:	ONGC

Stock performance



	1M	3M	1Y
Absolute return	7.0%	15.5%	44.2%

Shareholding pattern (As of Sep'23 end)

Promoter	58.9%
FII+DII	38.3%
Others	2.8%

Financial Summary

(Rs bn)	FY23	FY24E	FY25E	FY26E
Revenue	1,555.2	1,427.9	1,451.3	1,451.4
YoY Growth	40.9	(8.2)	1.6	0.0
EBIDTA	814.9	743.8	767.3	779.4
OPM %	52.4	52.1	52.9	53.7
PAT	388.3	373.3	385.2	384.9
YoY Growth	(3.7)	(3.9)	3.2	(0.1)
ROE	15.1	13.3	12.7	11.7
EPS	30.9	29.7	30.6	30.6
P/E	4.9	7.1	6.9	6.9
BV	205.0	222.6	241.8	261.4
EV/EBITDA	3.0	3.4	3.4	3.5

HARSHRAJ AGGARWAL

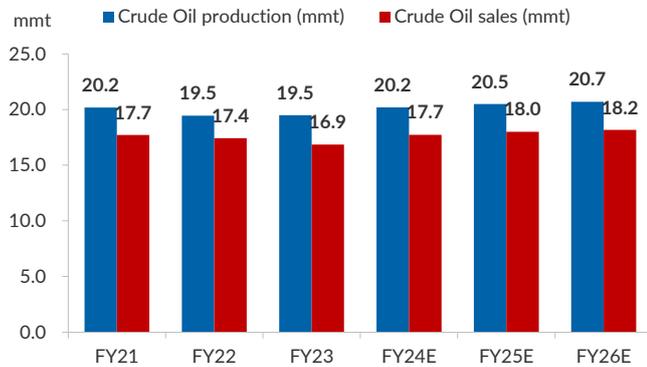
Lead Analyst

harshraj.aggarwal@ysil.in



STORY IN CHARTS

Exhibit 1: Crude oil production and sales



Source: Company, YES Sec

Exhibit 2: Gas production and sales

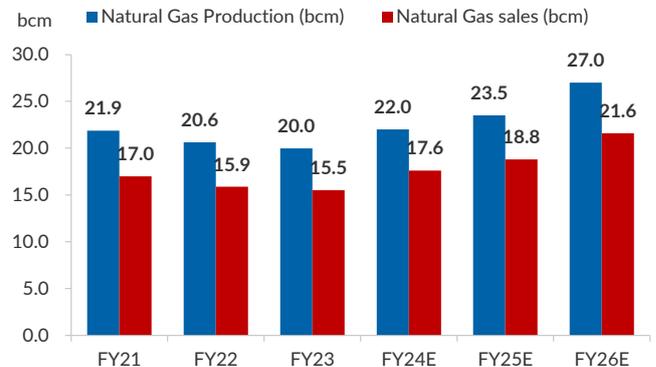
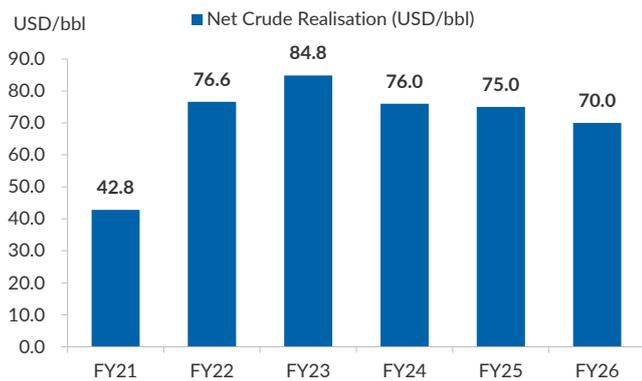


Exhibit 3: Net Crude Realization



Source: Company, YES Sec

Exhibit 4: Exhibit 6: Free cash-flows

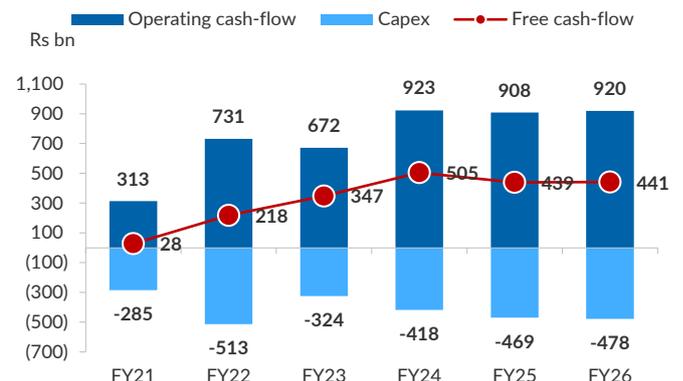
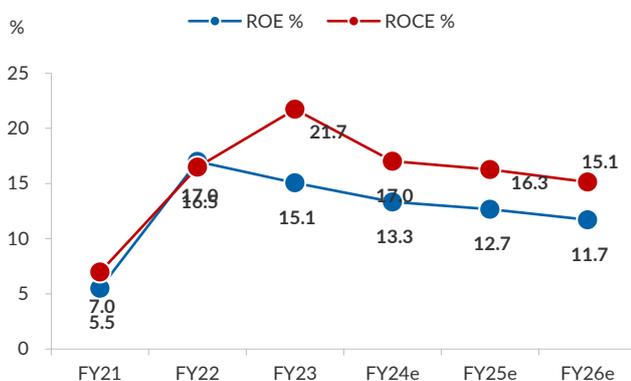


Exhibit 5: Return ratios



Source: Company, YES Sec

Exhibit 6: Dividend yield (%)

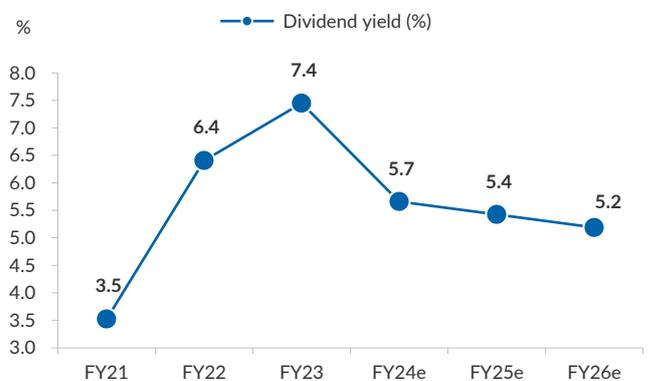


Exhibit 7: Key assumptions

	Unit	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24e	FY25e	FY26e
Production Volumes											
Crude											
ONGC	mmt	22.2	22.2	21.0	20.6	20.2	19.5	19.5	20.2	20.5	20.7
JV	mmt	3.3	3.2	3.2	2.7	2.4	2.3	2.0	2.0	2.0	2.0
Total (incl. JV)	mmt	25.5	25.4	24.2	23.4	22.5	21.7	21.5	22.2	22.5	22.7
Gas											
ONGC	bcm	22.1	23.4	24.7	23.7	21.9	20.6	20.0	22.0	23.5	27.0
JV	bcm	1.2	1.2	1.1	1.2	0.9	1.1	1.4	1.2	1.2	1.2
Total (incl. JV)	bcm	23.3	24.6	25.8	24.9	22.8	21.7	21.4	23.2	24.7	28.2
Total Crude + Gas	mmtoe	48.8	50.0	50.0	48.2	45.3	43.4	42.8	45.4	47.2	50.9
Crude Oil Realisation											
Pre subsidy	USD/bbl	50.3	57.3	68.2	58.6	42.8	76.6	91.9	85.0	77.0	70.0
Post subsidy	USD/bbl	50.3	57.3	68.2	58.6	42.8	76.6	84.8	76.0	75.0	70.0
Post subsidy	USD/bbl	3,373	3,695	4,766	4,154	3,174	5,708	6,819	6,308	6,225	5,810
OVL Performance											
Revenue	Rs mn	100,800	104,176	146,320	154,980	119,558	173,220	116,763	159,799	142,029	125,523
PBT	Rs mn	23,702	8,290	68,253	68,020	27,946	63,694	10,305	58,514	40,777	24,103
PAT	Rs mn	7,538	9,796	16,797	4,352	18,860	14,939	16,602	32,111	22,377	13,227
OVL Production											
Crude (mmt)	mmt	8.4	9.4	10.1	9.8	8.5	8.5	6.4	7.3	6.8	6.4
Gas (bcm)	bcm	4.4	4.8	4.7	5.2	4.5	4.5	3.8	3.4	3.3	3.2

Exhibit 8: ONGC Sensitivity Table to Crude

FY26e	Bear Case			Base Case	Bull Case		
Brent crude (US\$/bbl)	55.0	60.0	65.0	70.0	75.0	80.0	85.0
Exc rate (US\$/INR)	83.0	83.0	83.0	83.0	83.0	83.0	83.0
Realization - Crude oil (US\$/bbl)							
Pre discount rate	55.0	60.0	65.0	70.0	75.0	80.0	85.0
Subsidy/Discount	-	-	-	-	-	-	5.0
Post Discount	55.0	60.0	65.0	70.0	75.0	75.0	75.0
Target Price Sensitivity							
EPS	22.0	24.9	27.7	30.6	33.5	36.3	39.2
Less: Dividend from Investments	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Core EPS	20.0	22.9	25.7	28.6	31.5	34.3	37.2
PE Multiple (x)	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Core Value	120	137	154	172	189	206	223
OVL Value							
EPS	0.3	0.5	0.8	1.1	1.3	1.6	1.8
PE Multiple (x)	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Value/Share	2	3	5	6	8	9	11
Value of Investments (30% discount)							
MRPL	9.4	9.4	9.4	9.4	9.4	9.4	9.4
HPCL	18.8	18.8	18.8	18.8	18.8	18.8	18.8
GAIL	1.9	1.9	1.9	1.9	1.9	1.9	1.9
IOCL	14.5	14.5	14.5	14.5	14.5	14.5	14.5
PLNG	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Total	47						
Target Price	169	187	206	225	244	263	281

VIEW & VALUATION

NUETRAL with a TP of Rs 225/sh.

We initiate a Neutral rating on ONGC, and a TP of Rs 225/sh, as we find the stock trading at fair valuations. Our TP of Rs 225/sh comprises of a) Rs 172/sh for the stand-alone domestic business, valued on 6.0x PER FY26e (ex-dividends), b) Rs 6.3/sh for OVL on PER of 6.0x FY26e, c) Rs 47/sh for investment in listed equities, valued at 30% hold-co discount to market price.

Exhibit 9: Valuation Table

Valuation	FY26e
Valuation (Rs/share)	
EPS	30.6
Less: Dividend from Investments	2.0
Core EPS	28.6
PE Multiple (x)	6.0
Core Value	172
Add: Value of Investments (30% discount)	
MRPL	9.4
HPCL	18.8
GAIL	1.9
IOCL	14.5
PLNG	2.4
Total	47.0
OVL Value	6.3
Target Price	225

Exhibit 10: P/BV (x) band, one-year-forward



FINANCIALS

Exhibit 11: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	103,454	1,555,173	1,427,866	1,451,273	1,451,413
Total Expense	504,071	740,242	684,030	683,948	672,036
Operating Profit	599,383	814,931	743,836	767,325	779,376
Other Income	65,156	76,266	59,054	66,876	58,087
Depreciation	230,540	267,896	277,094	292,425	296,150
EBIT	433,998	623,300	525,796	541,777	541,313
Interest	23,599	26,996	26,996	26,996	26,996
Extraordinary Item	-	(92,351)	-	-	-
PBT	410,400	503,953	498,800	514,781	514,317
Tax	7,342	115,665	125,548	129,570	129,453
PAT	403,057	388,289	373,252	385,210	384,863
Adj. PAT	403,057	480,640	373,252	385,210	384,863
Adj. EPS	32.0	30.9	29.7	30.6	30.6

Exhibit 12: Balance sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Equity capital	62,901	62,901	62,901	62,901	62,901
Reserves	2,308,579	2,515,557	2,737,854	2,978,400	3,224,888
Net worth	2,371,481	2,578,458	2,800,756	3,041,301	3,287,790
Debt	63,969	72,189	72,189	72,189	72,189
Deferred tax liab (net)	197,333	217,612	217,612	217,612	217,612
Capital Employed	2,632,782	2,868,259	3,090,556	3,331,102	3,577,590
Fixed assets	1,789,063	1,879,830	1,963,769	2,056,493	2,145,862
Investments	851,732	849,856	849,856	849,856	849,856
Net working capital	(8,013)	138,573	276,931	424,753	581,872
Inventories	78,614	83,195	76,385	77,637	77,644
Sundry debtors	117,885	102,503	94,112	95,655	95,664
Cash & Bank Balance	2,362	216,340	364,779	510,748	667,856
Other current assets	532,986	538,646	538,646	538,646	538,646
Sundry creditors	61,547	62,556	57,435	58,377	58,382
Other liabilities	678,313	739,556	739,556	739,556	739,556
Application of Funds	2,632,782	2,868,259	3,090,556	3,331,102	3,577,590

Exhibit 13: Cash flow statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	403,057	388,289	498,800	514,781	514,317
Depreciation & amortization	175,457	167,952	277,094	292,425	296,150
Interest expense	11,845	(1,258)	26,996	26,996	26,996
(Inc)/Dec in working capital	(10,006)	85,409	10,080	(1,853)	(11)
Tax paid	(97,799)	(128,448)	(125,548)	(129,570)	(129,453)
Less: Interest/Dividend Income Received	(42,520)	(25,007)			
Other operating Cash Flow	52,980	304,273			
Cash flow from operating activities	493,014	791,210	687,422	702,778	707,998
Capital expenditure	(176,612)	(251,160)	(361,033)	(385,149)	(385,519)
Inc/(Dec) in investments	(159)	(150)	-	-	-
Add: Interest/Dividend Income Received	(57,179)	(304,875)	-	-	-
Cash flow from investing activities	(233,950)	(556,185)	(361,033)	(385,149)	(385,519)
Inc/(Dec) in share capital	-	6,290	-	-	-
Inc/(Dec) in debt	(137,865)	(57,988)	-	-	-
Dividend Paid	(114,487)	(176,090)	(150,955)	(144,665)	(138,375)
Others	(6,340)	(6,666)	(26,996)	(26,996)	(26,996)
Cash flow from financing activities	(258,692)	(234,454)	(177,951)	(171,661)	(165,371)
Net cash flow	372.1	570.8	148,438.9	145,968.2	157,108.1

Exhibit 14: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Tax burden (x)	1.0	0.8	0.7	0.7	0.7
Interest burden (x)	0.9	0.8	0.9	1.0	1.0
EBIT margin (x)	0.4	0.4	0.4	0.4	0.4
Asset turnover (x)	0.3	0.4	0.4	0.4	0.3
Financial leverage (x)	1.5	1.4	1.4	1.4	1.3
RoE (%)	18.3	15.7	13.9	13.2	12.2

Exhibit 15: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
Growth matrix (%)					
Revenue growth	61.9	40.9	(8.2)	1.6	0.0
Op profit growth	82.7	36.0	(8.7)	3.2	1.6
EBIT growth	151.7	43.6	(15.6)	3.0	(0.1)
Net profit growth	258.4	(3.7)	(3.9)	3.2	(0.1)
Profitability ratios (%)					
OPM	54.3	52.4	52.1	52.9	53.7
EBIT margin	39.3	40.1	36.8	37.3	37.3
Net profit margin	36.5	25.0	26.1	26.5	26.5
RoCE	16.5	21.7	17.0	16.3	15.1
RoE	17.0	15.1	13.3	12.7	11.7
RoA	12.3	11.0	9.9	9.6	9.1
Per share ratios					
EPS	32.0	30.9	29.7	30.6	30.6
Dividend per share	10.5	11.3	12.0	11.5	11.0
Cash EPS	50.4	52.2	51.7	53.9	54.1
Book value per share	188.5	205.0	222.6	241.8	261.4
Valuation ratios					
P/E	5.1	4.9	7.1	6.9	6.9
P/CEPS	3.3	2.9	4.1	3.9	3.9
P/B	0.9	0.7	1.0	0.9	0.8
EV/EBIDTA	4.1	3.0	3.4	3.4	3.5
Payout (%)					
Dividend payout	32.8	36.4	40.4	37.6	36.0
Tax payout	1.8	23.0	25.2	25.2	25.2
Liquidity ratios					
Debtor days	39.0	24.1	24.1	24.1	24.1
Inventory days	59.1	39.9	42.6	41.1	42.2
Creditor days	45.4	30.6	32.0	30.9	31.7

January 12, 2024

REINITIATING COVERAGE | Sector: Energy

Oil India Ltd

E & P track record augurs well

Oil India Limited (OINL) is India's second largest oil and gas company, contributing ~10% of the nation's crude oil production. It is fully integrated in upstream activities and has a track record of exploration and production activities. OINL has secured participating interest in 8 countries. It operates 1,157km crude pipeline in NE India to feed refineries in the region; it has also developed 660km pipeline from Numaligarh to Siliguri. Further, gas production from Baghjan field is expected to increase soon. Capex target for FY24 is Rs 49bn on standalone basis; for Numaligarh Refinery (NRL), it is Rs 88bn. OINL targets to be carbon neutral by 2040.

Production: OINL's crude oil production was 3.176mmt, and natural gas stood at 3.18bcm in FY23. It continues production from its mature and newly discovered oil fields. Towards maintaining and increasing production, it drilled 45 wells in FY23 and carrying out exploration activities in 29 OAPL blocks. Overseas asset of Mozambique is expected to restart, thereby adding to the supply. OINL is targeting 3.5mmt of crude production in FY24, and gas at 3.3bcm and 3.8mmt/3.43bcm for FY25. Volume growth would be supported by Northeast grid which will be completed by FY26. Of the capex of Rs 49bn announced for FY24, 40% is earmarked for exploration and 20% for development. The mature fields have had to grapple with depleting production, albeit new fields have helped maintain production levels.

Numaligarh Refinery (NRL): OINL's holding in the company increased to 80.16% after it acquired controlling stake from BPCL in 2021. Govt of Assam and EIL own 15.47%/4.37% respectively. It has 3mtpa of oil refinery in Assam. The proposed ethanol production at its biorefinery will help meet the 2025 target of 20% ethanol mixing in gasoline. The capacity is being expanded from current 3mmt to 9mmt, and would be completed by FY26. NRL margins were USD16/bbl in Q2FY24 and we expect a strong GRM environment in FY25e/26e which will be earning-supportive.

Realization: The net crude realization for Upstream companies is capped at ~USD 75-77/bbl, any price rise beyond invites windfall taxes, which limit their realization. Windfall taxes are calculated on ~15 days price change. The gross crude oil realization in the recent quarter stood QoQ lower at USD 75.5/bbl (Q1: USD 74.3/bbl). The effective natural gas realization for FY24 is at USD 6.5/mmbtu and would be USD 7.0/mmbtu for FY25.

Dividends: The Dividend payout ratio has averaged at 37% for the last 4 years. Dividend yield for last 4 years has been ~7.7% and we estimate 6.8/6.8/5.8% for FY24e/25e/26e. Dividends for FY22/FY23 were Rs 14.3/20.0 per share respectively. We expect payout to rise going forward, given increasing crude prices that would result in peak realizations, coupled with strong contribution from NRL.

Green portfolio: To transit towards net zero objective, Rs 250bn has been allocated, of which Rs 80bn is intended for 2G ethanol. OINL has a JV with Assam for 620MW of solar power plant and collaboration with Himachal Pradesh for 150MW of solar power plant. NRL has placed order for replacing grey hydrogen with green hydrogen, facility with capacity of 20ktpa, Compressed biogas plant would be set up for catering to CGD.

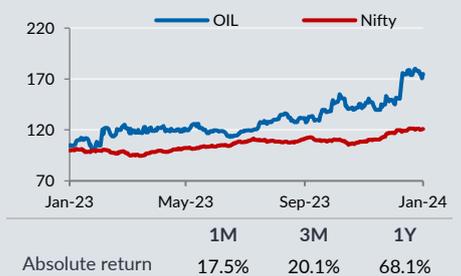
Outlook: We initiate with an ADD rating, and TP of Rs 408/sh, given limited upside on current CMP. Our TP of Rs 403/sh comprises a) Rs 249/sh for stand-alone domestic business, valued on 6.0x PER FY26e (ex-dividends), b) Rs 99/sh for NRL on EV/EBITDA of 6.5x FY26e, c) Rs 61/sh for investment in listed equities, valued at 30% hold-co discount to market price. **Risks:** Weaker crude & gas prices, production delays from newer fields, higher volume decline from legacy fields, impulsive overseas acquisitions/investments, and ad hoc changes in government policies.

Reco	: ADD
CMP	: Rs 365
Target Price	: Rs 408
Potential Return	: +11.9%

Stock data (as on January 10, 2024)

Nifty	21,624
52 Week h/l (Rs)	406 / 209
Market cap (Rs/USD mn)	395810 / 4882
Outstanding Shares (mn)	1,084
6m Avg t/o (Rs mn):	753
Div yield (%):	6.5
Bloomberg code:	OINL IN
NSE code:	OIL

Stock performance



Shareholding pattern (As of Sep '23 end)

Promoter	56.7%
FII+DII	37.0%
Others	6.3%

Financial Summary

(Rs bn)	FY23	FY24E	FY25E	FY26E
Revenue	232.7	211.2	218.1	213.9
YoY Growth %	60.2	(9.2)	3.3	(1.9)
EBIDTA	96.9	94.1	97.1	90.1
OPM %	41.6	44.5	44.5	42.1
PAT	68.1	60.2	61.3	54.5
YoY Growth	75.2	(11.6)	1.9	(11.1)
ROE	19.8	16.0	14.9	12.3
EPS	62.8	55.5	56.6	50.3
P/E	4.0	6.6	6.5	7.3
BV	316.9	347.4	379.0	408.3
EV/EBITDA	4.6	4.8	4.7	5.1

HARSHRAJ AGGARWAL

Lead Analyst

harshraj.aggarwal@ysil.in



STORY IN CHARTS

Exhibit 1: Crude oil production and sales

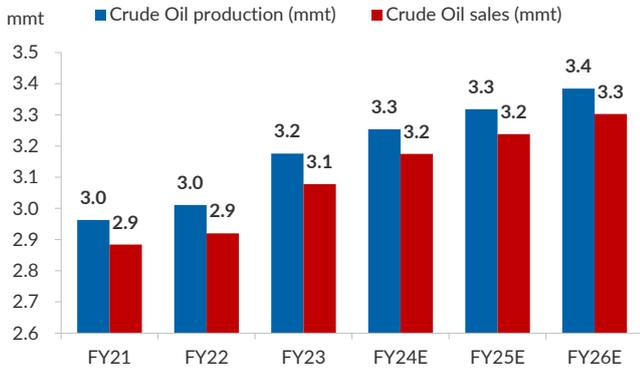
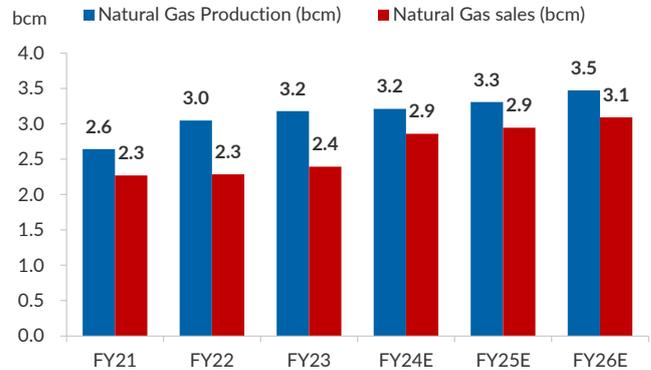


Exhibit 2: Gas production and sales



Source: Company, YES Sec

Exhibit 3: Net Crude Realization

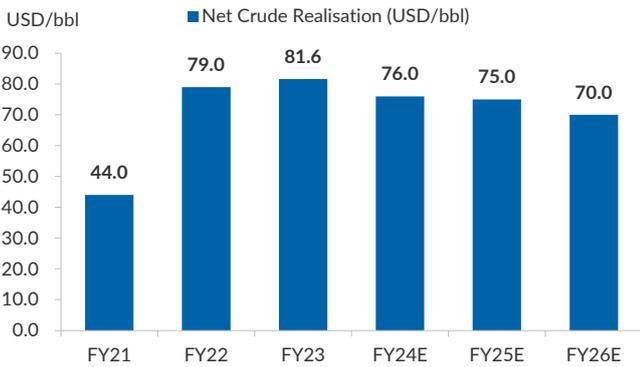
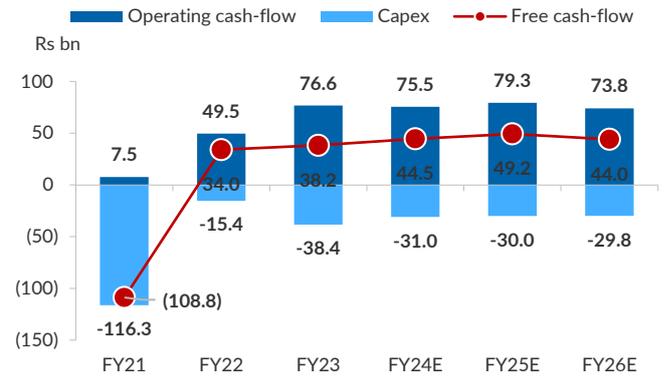


Exhibit 4: Exhibit 6: Free cash-flows



Source: Company, YES Sec

Exhibit 5: Return ratios

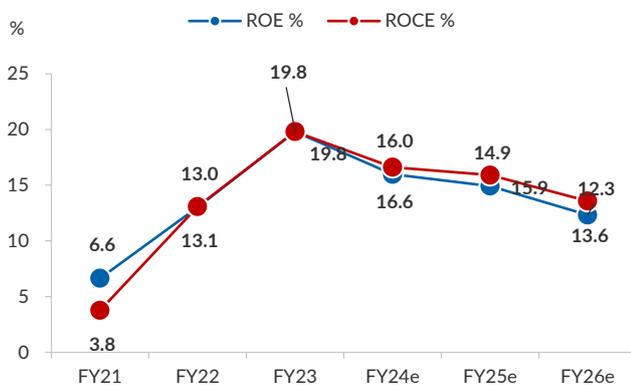
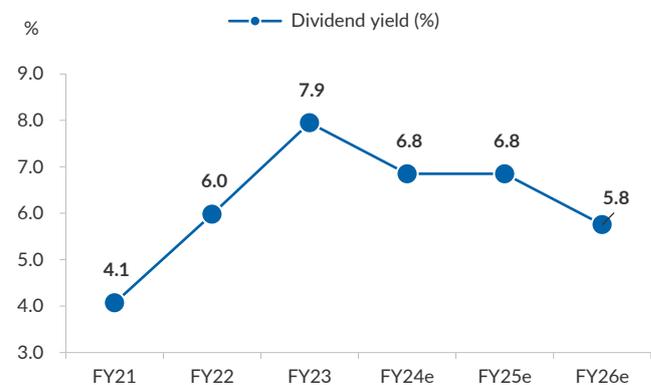


Exhibit 6: Dividend yield (%)



Source: Company, YES Sec

Exhibit 7: OINL-Key Assumptions

	Unit	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24e	FY25e	FY26e
Production Volumes											
Crude (mmt)	mmt	3.3	3.4	3.3	3.1	3.0	3.0	3.2	3.3	3.3	3.4
Gas (bcm)	bcm	2,937	2,894	2,865	2,801	2,642	3,045	3,180	3,212	3,308	3,474
Total Crude + Gas	mtoe	6.2	6.3	6.2	5.9	5.6	6.1	6.4	6.5	6.6	6.9
Crude Oil Realisation											
Pre subsidy	USD/bbl	47.4	55.7	68.5	60.8	44.0	79.0	92.4	85.0	77.0	70.0
Post subsidy	USD/bbl	47.4	55.7	68.5	60.8	44.0	79.0	81.6	76.0	75.0	70.0
Post subsidy (Rs/bbl)	Rs/bbl	3,176	3,592	4,787	4,306	3,265	5,883	6,561	6,308	6,225	5,810
Numaligarh Refinery (NRL) Performance											
Crude Throughput (mmt)	mmt	2.7	2.8	2.9	2.4	2.7	2.6	3.1	3.2	3.2	3.2
GRM (US\$/bbl)	USD/bbl	28.6	31.9	28.1	15.0	12.0	24.0	-	26.3	26.6	23.3
Revenue	Rs mn	112,470	132,294	162,051	120,452	136,817	194,417	267,317	166,674	150,987	137,261
EBITDA	Rs mn	29,633	32,122	31,380	20,434	43,459	50,526	52,045	38,072	39,385	33,647
PAT	Rs mn	21,006	20,447	19,681	13,813	31,161	36,141	37,070	26,492	27,474	23,180

Exhibit 8: Oil India (OINL) Sensitivity Table to Crude

FY26e	Bear Case			Base Case	Bull Case		
Brent crude (US\$/bbl)	55.0	60.0	65.0	70.0	75.0	80.0	85.0
Exc rate (US\$/INR)	83.0	83.0	83.0	83.0	83.0	83.0	83.0
Realization - Crude oil (US\$/bbl)							
Pre discount rate	55.0	60.0	65.0	70.0	75.0	80.0	85.0
Subsidy/Discount	-	-	-	-	-	(5.0)	(10.0)
Post Discount	55.0	60.0	65.0	70.0	75.0	75.0	75.0
Target Price Sensitivity							
EPS	35.9	40.7	45.5	50.3	55.1	59.9	64.7
Less: Dividend from Investments	8.8	8.8	8.8	8.8	8.8	8.8	8.8
Core EPS	27.1	31.9	36.7	41.5	46.3	51.2	56.0
PE Multiple (x)	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Core Value	163	191	220	249	278	307	336
Numaligarh (NRL) Value							
EBITDA (Rs mn)	33,647	33,647	33,647	33,647	33,647	33,647	33,647
Multiple (x)	6.5	6.5	6.5	6.5	6.5	6.5	6.5
Net Debt	218,705	218,705	218,705	218,705	218,705	218,705	218,705
EV (Rs mn) at 100% stake	190,526	190,526	190,526	190,526	190,526	190,526	190,526
Value/Share for OINL at 30% discount	99	99	99	99	99	99	99
Value of Investments (30% discount)							
IOCL	61	61	61	61	61	61	61
Target Price	322	351	380	408	437	466	495

VIEW & VALUATIONS

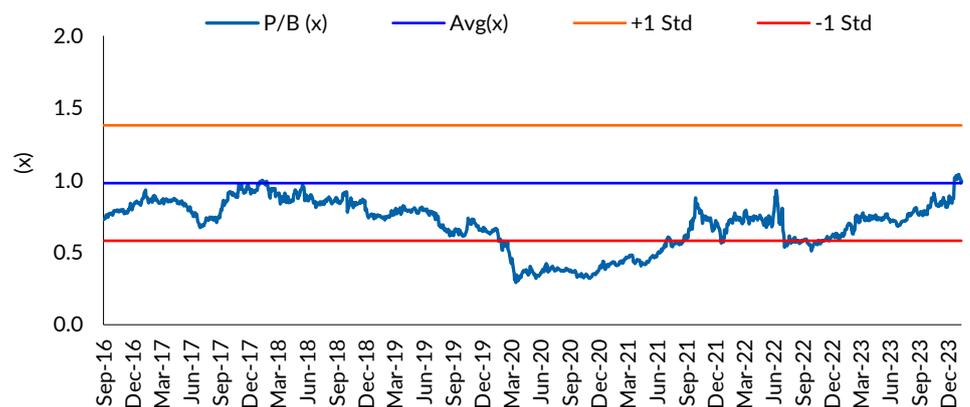
ADD with a TP of Rs 408/sh

We initiate with an ADD rating on Oil India, and TP of Rs 408/sh, as we find limited upside on current CMP. Our TP of Rs 403/sh comprises a) Rs 249/sh for the stand-alone domestic business, valued on 6.0x PER FY26e (ex-dividends), b) Rs 99/sh for NRL on EV/EBITDA of 6.5x FY26e, c) Rs 61/sh for investment in listed equities, valued at 30% hold-co discount to market price.

Exhibit 9: Valuation table

Valuation	Unit	FY26
Value of core business		
EPS	Rs/share	50.3
Less: Dividend income	Rs/share	8.8
Net earnings	Rs/share	41.5
PE multiple	(X)	6.0
Value of core business	Rs/share	249
Value of investments		
IOCL @30% discount	Rs/share	60.7
NRL @30% discount	Rs/share	98.6
Total value of investments	Rs/share	159
PER based target price	Rs/share	408

Exhibit 10: P/BV (x) band, one-year-forward



FINANCIALS

Exhibit 11: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	145,302	232,726	211,201	218,108	213,932
Total Expense	91,613	135,818	117,136	120,974	123,850
Operating Profit	53,689	96,908	94,065	97,135	90,082
Other Income	18,975	14,853	15,037	15,229	15,430
Depreciation	14,968	15,949	23,276	24,754	26,439
EBIT	57,696	95,812	85,825	87,609	79,073
Interest	7,831	7,242	7,532	7,833	8,146
Extraordinary Item	-	-	-	-	-
PBT	49,865	88,570	78,294	79,776	70,927
Tax	10,992	20,466	18,092	18,434	16,389
PAT	38,873	68,104	60,202	61,342	54,537
Adj. PAT	38,873	68,104	60,202	61,342	54,537
Eps	35.8	62.8	55.5	56.6	50.3

Exhibit 12: Balance sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Equity capital	10,844	10,844	10,844	10,844	10,844
Reserves	288,061	332,809	365,900	400,132	431,897
Net worth	298,905	343,653	376,744	410,976	442,741
Debt	116,356	111,613	111,613	111,613	111,613
Deferred tax liab (net)	26,188	28,139	28,139	28,139	28,139
Capital Employed	441,449	483,405	516,497	550,728	582,493
Fixed assets	155,736	170,696	178,382	183,675	187,067
Investments	279,926	283,207	283,207	283,207	283,207
Net working capital	5,788	29,501	54,908	83,846	112,219
Inventories	10,953	13,871	13,754	13,639	13,525
Sundry debtors	14,042	22,224	22,038	21,854	21,671
Cash & Bank Balance	6,567	13,512	38,396	67,898	96,408
Other current assets	30,852	38,123	38,123	38,123	38,123
Sundry creditors	8,022	8,908	8,084	8,348	8,189
Other liabilities	48,605	49,320	49,320	49,320	49,320
Application of Funds	441,449	483,405	516,497	550,728	582,493

Exhibit 13: Cash flow statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	49,865	88,570	78,294	79,776	70,927
Depreciation & amortization	14,968	15,949	23,276	24,754	26,439
Interest expense	3,057	3,771	7,532	7,833	8,146
(Inc)/Dec in working capital	(7,913)	(16,064)	(522)	564	137
Tax paid	(182)	(21,318)	(18,092)	(18,434)	(16,389)
Less: Interest/Dividend Income Received	(15,065)	(10,686)			
Other operating Cash Flow	15,322	16,383			
Cash flow from operating activities	60,052	76,604	90,488	94,493	89,259
Capital expenditure	(21,833)	(48,929)	(30,962)	(30,048)	(29,831)
Inc/(Dec) in investments	-	-	-	-	-
Add: Interest/Dividend Income Received	(190)	(29,610)	-	-	-
Cash flow from investing activities	(22,023)	(78,539)	(30,962)	(30,048)	(29,831)
Inc/(Dec) in share capital	4,054	1,537	-	-	-
Inc/(Dec) in debt	(48,787)	(16,909)	-	-	-
Dividend Paid	(11,667)	(21,142)	(27,110)	(27,110)	(22,773)
Others	(5,780)	(5,687)	(7,532)	(7,833)	(8,146)
Cash flow from financing activities	(62,179)	(42,201)	(34,642)	(34,943)	(30,919)
Net cash flow	(24,150.1)	(44,135.9)	24,884.4	29,502.0	28,510.0

Exhibit 14: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Tax burden (x)	0.8	0.8	0.8	0.8	0.8
Interest burden (x)	0.9	0.9	0.9	0.9	0.9
EBIT margin (x)	0.4	0.4	0.4	0.4	0.4
Asset turnover (x)	0.3	0.4	0.4	0.4	0.3
Financial leverage (x)	3.2	3.3	3.6	3.8	4.0
RoE (%)	25.1	43.7	38.6	39.3	35.0

Exhibit 15: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
Growth matrix (%)					
Revenue growth	68.6	60.2	(9.2)	3.3	(1.9)
Op profit growth	324.3	80.5	(2.9)	3.3	(7.3)
EBIT growth	245.3	66.1	(10.4)	2.1	(9.7)
Net profit growth	123.2	75.2	(11.6)	1.9	(11.1)
Profitability ratios (%)					
OPM	37.0	41.6	44.5	44.5	42.1
EBIT margin	39.7	41.2	40.6	40.2	37.0
Net profit margin	26.8	29.3	28.5	28.1	25.5
RoCE	13.1	19.8	16.6	15.9	13.6
RoE	13.0	19.8	16.0	14.9	12.3
RoA	7.7	13.1	10.8	10.4	8.7
Per share ratios					
EPS	35.8	62.8	55.5	56.6	50.3
Dividend per share	14.3	20.0	25.0	25.0	21.0
Cash EPS	49.6	77.5	77.0	79.4	74.7
Book value per share	275.6	316.9	347.4	379.0	408.3
Valuation ratios					
P/E	6.7	4.0	6.6	6.5	7.3
P/CEPS	4.8	3.2	4.7	4.6	4.9
P/B	0.9	0.8	1.1	1.0	0.9
EV/EBIDTA	7.6	4.6	4.8	4.7	5.1
Payout (%)					
Dividend payout	39.8	31.8	45.0	44.2	41.8
Tax payout	22.0	23.1	23.1	23.1	23.1
Liquidity ratios					
Debtor days	35.3	34.9	38.1	36.6	37.0
Inventory days	46.9	33.4	43.0	41.3	40.0
Creditor days	30.5	22.7	26.5	24.8	24.4

January 12, 2024

REINITIATING COVERAGE | Sector: Energy

GAIL (India) Ltd

Bright prospects for Gas transmission business

Gas grid: GAIL is making noteworthy progress in developing JHDBPL pipeline; gas flow has begun from FY20 (full capacity of 16mmscmd to be achieved this year). The Kochi-Mangaluru pipeline commissioning and the potential of Kochi-Bengaluru leg (to be ready by FY24) will further boost volumes, supported by PLNG's Kochi LNG terminal. GAIL will be laying ~9,000km of pipelines over the next year, thereby supporting steady growth in gas demand in line with increasing availability.

Natural gas transmission: GAIL transports ~65% of the country's gas consumption and commands ~50% of the pipeline network. In Feb'23, PNGRB announced integrated tariff of Rs 58.61/mmbtu (FY22 tariff Rs 44.2) GAIL has objected to the proposed tariff as it seeks Rs 68.55/mmbtu (SUG cost allocated by PNGRB is USD 3.61 while GAIL's ask is of USD 5.76) In the last decade, transmission volumes reported muted growth. FY24 volumes are likely to average at 120mmscmd and grow over 20mmscmd by FY26.

Natural Gas Trading: GAIL dominates Marketing, transmission, and distribution of natural gas as it accounts for more than 52% of sales. Volumes have grown at 2.7% for over seven years, and improved margins have seen EBITDA grow by 24% (EBITDA guidance: Rs 45bn in FY24 and Rs 40bn in FY25) GAIL has 5.8mtpa of US HH-linked LNG, of which 2.9mtpa is contracted, hence the impact of volatility would be limited.

Petchem: PATA complex was impacted in FY23 given restricted Gazprom LNG exports, pulling utilisation levels down to ~40% (now back to ~100%). They are currently working on options for sourcing gas at lower prices and firming up term contracts with exporters. Utilisation would be managed at 100% if spot prices stabilize below USD 16/mmbtu. FY26 could pressurise margins due to excessive capacities coming up for key polymers like PP/PE. GAIL has many projects due for commercialize by FY26: PDH-PP & IPA at Usar, PP project at PATA, and Mangalore Petrochemical Ltd (JBF Petrochemical acquisition).

LPG and LHC: Gail operates petrochemical complex at PATA to produce polymers and other liquid products, as also Gas processing units (GPU) at Pata, Gandhar, Vaghodia and two at Vijapur. LPG is sold entirely to OMCs while LHC is sold to industrial customers. **Transmission pipeline** of 2,038km is in operation with capacity to transmit 3,830tn tons of LPG.

Outlook: The near-term outlook for gas transmission, trading and petchem has discernibly improved following the fall in spot LNG prices. Lower prices could drive higher gas transmission and trading volumes, thereby lowering operating costs.

We believe GAIL's EBITDA would achieve a 27.6% CAGR over FY23-26e, led by a 36% CAGR in gas transmission EBITDA. The gas transmission business has bright prospects (currently contributing ~56% to EBITDA in FY26e, expected to increase further) while the commodity business is a little volatile. Given the recent rally in the stock price and per our valuation, we initiate coverage on the stock with an ADD rating, at a TP of Rs166, valuing it on a sum-of-parts basis (core business at Rs138, 7.7x EV/EBITDA and investments at Rs28).

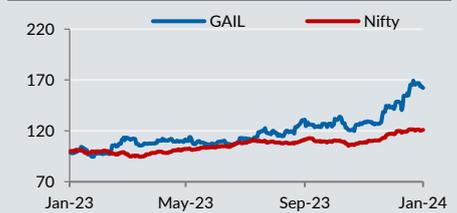
Risks: Changes in government regulation policies, smaller natural gas transmission tariff hike, steep movements in LNG, crude and PE prices, slower execution of pipeline expansion plans, slowdown of demand and high capex spends denying good returns.

Reco	: ADD
CMP	: Rs 160
Target Price	: Rs 166
Potential Return	: +4%

Stock data (as on January 10, 2024)

Nifty	21,624
52 Week h/l (Rs)	169 / 91
Market cap (Rs/USD mn)	1052016 / 12666
Outstanding Shares (mn)	6,575
6m Avg t/o (Rs mn):	2,005
Div yield (%):	4.1
Bloomberg code:	GAIL IN
NSE code:	GAIL

Stock performance



	1M	3M	1Y
Absolute return	12.8%	28.7%	63.5%

Shareholding pattern (As of Sep'23 end)

Promoter	51.5%
FII+DII	41.5%
Others	6.3%

Financial Summary

(Rs bn)	FY23	FY24E	FY25E	FY26E
Revenue	1,442.5	1,258.6	1,327.7	1,338.3
YoY %	57.4	(12.8)	5.5	0.8
EBIDTA	67.0	107.3	128.5	139.2
OPM %	4.6	8.5	9.7	10.4
PAT	53.0	69.6	82.7	88.5
YoY %	(48.8)	31.2	18.9	7.0
ROE	9.5	11.8	12.9	12.8
EPS	8.1	10.6	12.6	13.5
P/E	13.0	15.1	12.7	11.9
BV	84.6	90.0	97.3	105.3
EV/EBITDA	4.4	10.6	7.0	6.3

HARSHRAJ AGGARWAL

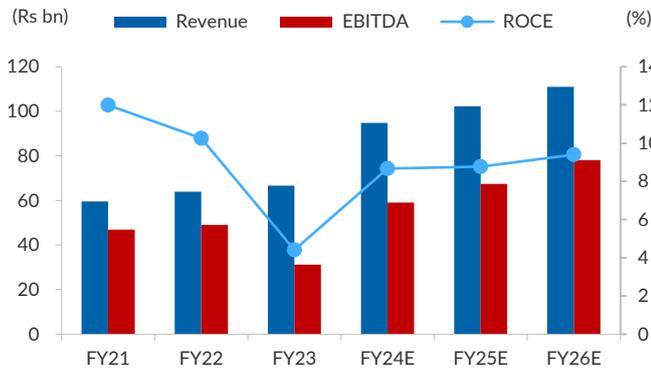
Lead Analyst

harshraj.aggarwal@ysil.in



STORY IN CHARTS

Exhibit 1: Gas Transmission business



Source: Company, YES Sec

Exhibit 2: Gas transmission volumes

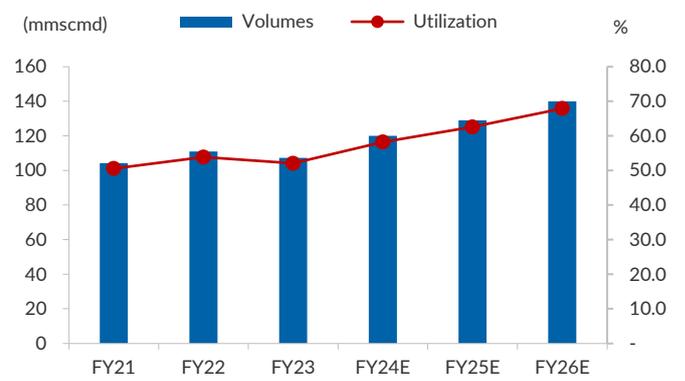
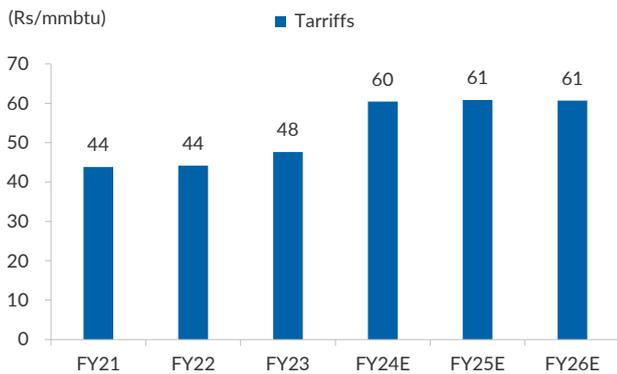


Exhibit 3: Integrated transmission tariff



Source: Company, YES Sec

Exhibit 4: LPG Transmission

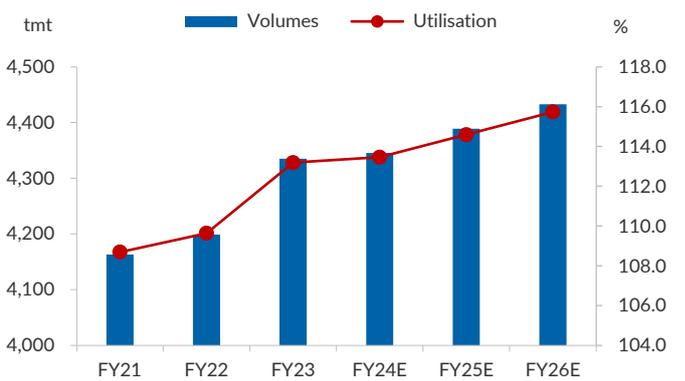
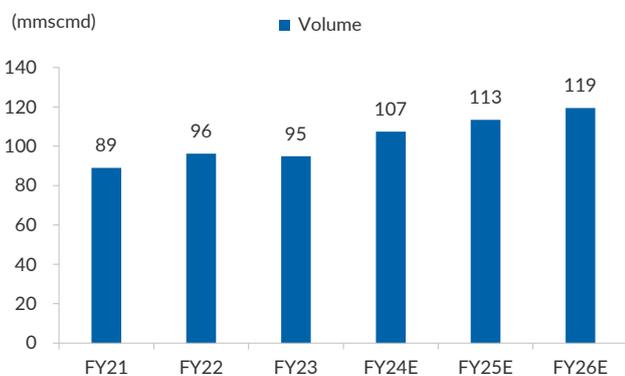


Exhibit 5: Natural Gas business volumes



Source: Company, YES Sec

Exhibit 6: Natural Gas business margins

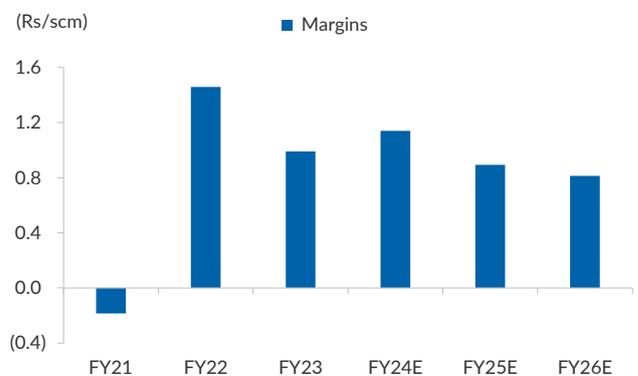
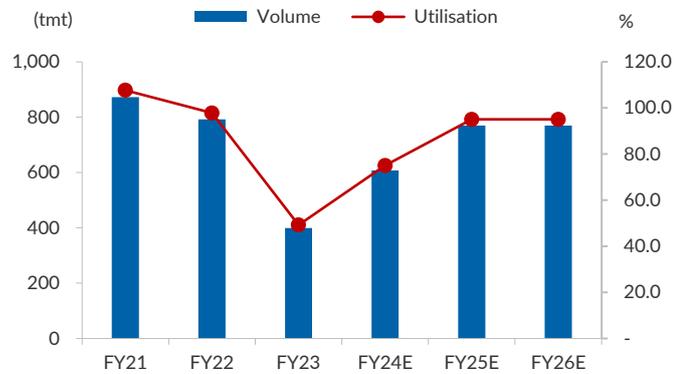


Exhibit 7: Petchem Volumes



Source: Company, YES Sec

Exhibit 8: Petchem Realisation

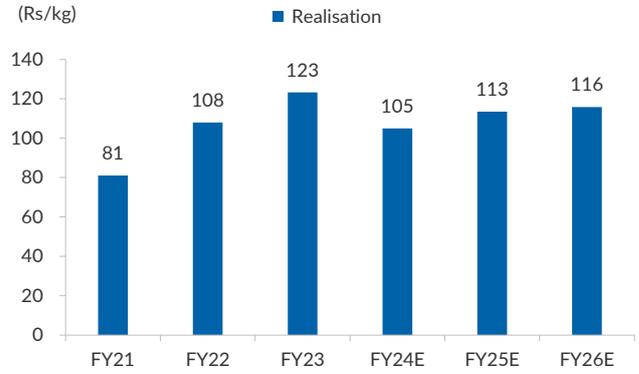
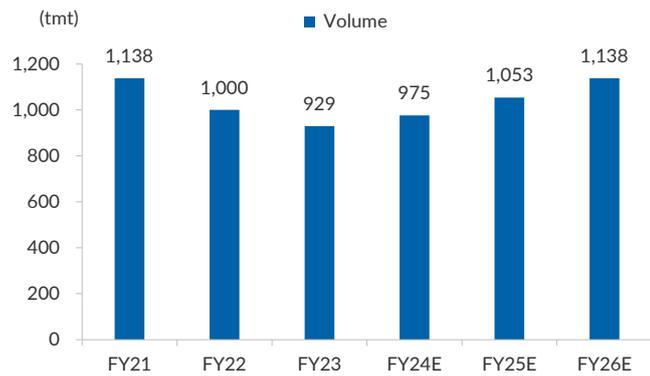


Exhibit 9: LPG and LHC Volumes



Source: Company, YES Sec

Exhibit 10: Free cash-flows

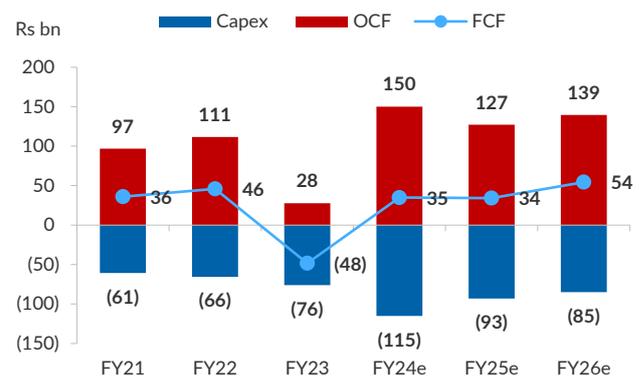
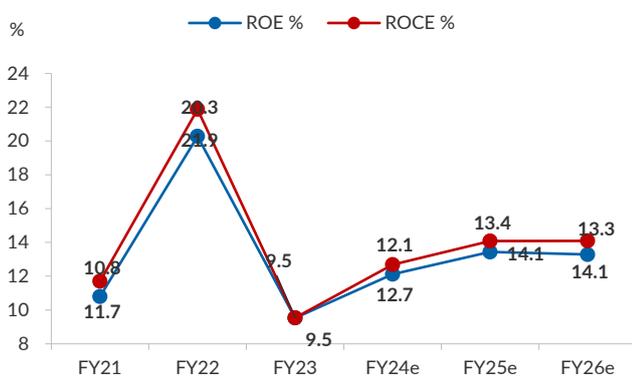


Exhibit 11: Return ratios



Source: Company, YES Sec

Exhibit 12: Dividend Yield (%)

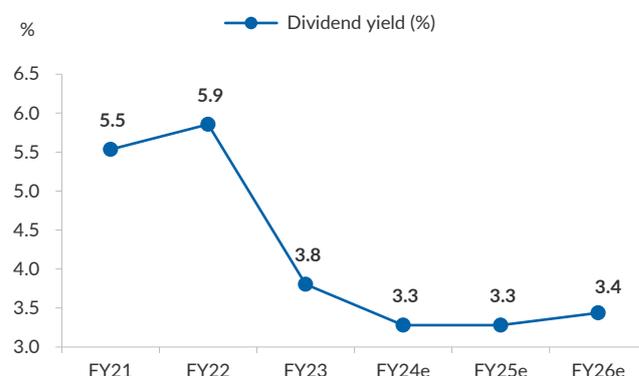
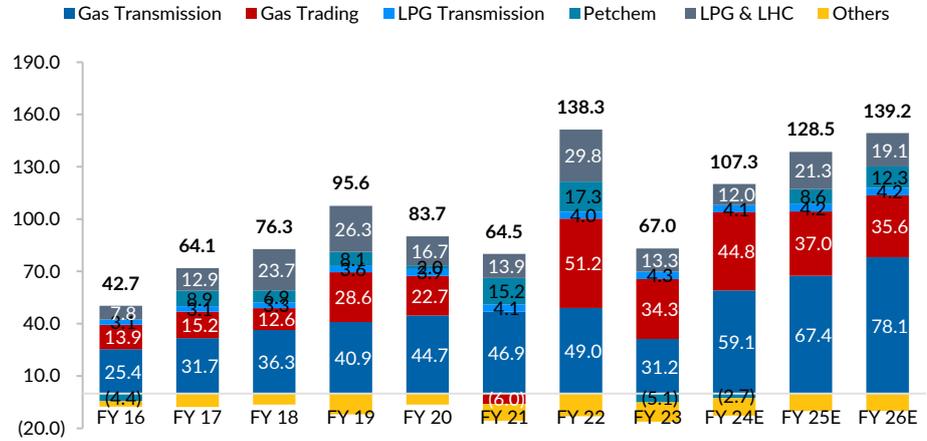


Exhibit 13: GAIL's EBITDA to register a 27.6% CAGR over FY23-26e, led by a 36% CAGR in gas transmission EBITDA



Source: Company, YES Sec

Exhibit 14: Natural Gas Transmission Performance

(Rs bn)														CAGR (upto FY23)		
	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	5-Yr	7- Yr	10- yr
Revenue	41.0	33.9	39.9	46.1	49.7	57.8	60.3	59.5	63.9	66.6	94.8	102.3	111.0	3.6	6.3	5.5
Opex	15.7	14.3	14.5	15.4	13.4	16.9	15.6	12.7	14.9	35.4	35.7	34.8	32.9	20.3	14.9	9.5
EBITDA	25.4	19.6	25.4	30.7	36.3	40.9	44.7	46.9	49.0	31.2	59.1	67.4	78.1	(6.5)	0.3	2.3
EBIT	18.0	13.2	18.5	23.5	29.2	32.5	35.4	36.8	38.1	19.2	42.9	49.1	57.8	(12.4)	(3.3)	0.7
Capital Employed	191.8	203.8	193.3	195.4	211.3	272.8	299.7	306.8	371.1	435.2	495.2	560.2	615.2	12.4	14.3	9.5
ROCE (%)	9.4	6.5	9.6	12.0	13.8	11.9	11.8	12.0	10.3	4.4	8.7	8.8	9.4			
Operational highlights																
Capacity (mmscmd)	206.0	206.1	206.1	206.1	206.1	206.1	206.1	206.1	206.1	206.1	206.1	206.1	206.1			
Volumes (mmscmd)	96.0	92.0	92.0	100.0	105.0	107.0	108.4	104.2	111.0	107.3	120.0	129.0	140.0	0.1	1.2	1.2
Utilization (%)	46.6	44.6	44.6	48.5	50.9	51.9	52.6	50.6	53.9	52.1	58.2	62.6	67.9			
Tarriffs (Rs/mmbtu)	32.8	28.3	33.2	35.3	36.3	41.4	42.6	43.8	44.2	47.6	60.4	60.8	60.7	3.5	5.1	4.2

Source: Company, YES Sec; Note: Capital employed assumed as (segment assets - segment liabilities)

Exhibit 15: LPG Transmission Performance

(Rs bn)														CAGR (upto FY23)		
	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	5-Yr	7- Yr	10- yr
Revenue	4.2	4.4	4.9	5.1	5.6	6.2	6.4	6.7	6.7	7.2	7.0	7.1	7.1	3.7	5.8	6.3
Opex	1.6	1.5	1.8	2.1	2.4	2.7	2.5	2.6	2.7	2.9	2.8	2.9	2.9	2.0	5.3	7.0
EBITDA	2.6	2.9	3.1	3.0	3.3	3.6	3.9	4.1	4.0	4.3	4.1	4.2	4.2	4.9	6.2	5.8
EBIT	2.2	2.4	2.6	2.5	2.7	3.0	3.3	3.5	3.4	3.7	3.5	3.5	3.5	5.2	6.5	6.2
Capital Employed	7.5	7.1	7.6	7.3	8.6	9.2	9.6	9.6	9.2	9.1	9.1	9.1	9.1	(0.2)	3.8	2.2
ROCE (%)	28.5	33.5	35.0	34.4	31.7	32.7	34.4	36.7	36.4	40.3	37.9	38.2	38.1			
Operational highlights																
Capacity (tmt)	3,780	3,780	3,780	3,780	3,780	3,780	3,830	3,830	3,830	3,830	3,830	3,830	3,830			
Volumes (tmt)	3,145	3,093	2,819	3,362	3,721	3,975	3,909	4,163	4,199	4,335	4,345	4,389	4,433	2.2	4.3	3.6
Utilisation (%)	83.2	81.8	74.6	88.9	98.4	105.2	102.1	108.7	109.6	113.2	113.5	114.6	115.7			
Tarriffs (Rs/mt)	1,329	1,424	1,724	1,530	1,518	1,570	1,628	1,603	1,592	1,665	1,610	1,610	1,610	1.5	1.4	2.5

Source: Company, YES Sec; Note: Capital employed assumed as (segment assets - segment liabilities)

Exhibit 16: Natural Gas Trading Performance

(Rs bn)														CAGR (upto FY23)		
	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	5-Yr	7- Yr	10- yr
Revenue	489	492	437	374	411	613	600	438	773	1,353	1,073	1,099	1,099	21.9	23.9	12.0
Opex	473	486	423	361	398	585	577	444	722	1,319	1,028	1,063	1,063	22.5	24.1	12.1
EBITDA	15.8	5.6	13.9	13.2	12.6	28.6	22.7	(6.0)	51.2	34.3	44.8	37.0	35.6	4.7	17.3	9.0
EBIT	15.8	5.6	13.9	13.2	12.6	28.6	22.7	(6.0)	51.2	30.8	41.3	33.4	32.0	1.9	15.1	7.7
Capital Employed	192	204	193	195	211	273	300	307	371	435	495	560	615	12.4	14.3	9.5
ROCE (%)	8.2	2.8	7.2	6.8	5.9	10.5	7.6	(2.0)	13.8	7.1	8.3	6.0	5.2			
Operational highlights																
Volume (mmscmd)	79.0	72.0	74.0	81.0	85.0	97.0	96.0	89.0	96.2	94.9	107.4	113.4	119.4	(0.5)	2.7	2.1
Margins (Rs/scm)	0.55	0.21	0.52	0.45	0.40	0.81	0.65	(0.18)	1.46	0.99	1.14	0.89	0.81	5.2	14.2	6.8
Margins (US\$/mmbtu)	0.23	0.09	0.20	0.17	0.16	0.29	0.23	(0.06)	0.49	0.31	0.35	0.27	0.25	1.7	10.8	3.5

Source: Company, YES Sec; Note: Capital Employed for Natural Gas Trading business is same as Natural Gas Transmission; Capital employed assumed as (segment assets - segment liabilities)

Exhibit 17: Petchem Performance

(Rs bn)														CAGR (upto FY23)		
	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	5-Yr	7- Yr	10- yr
Revenue	45.8	47.2	30.7	56.5	58.6	67.0	54.3	70.6	85.5	49.2	63.7	87.3	89.1	(7.5)	(2.3)	0.8
Gas Cost	24.0	32.1	29.3	32.3	42.3	45.7	39.6	48.1	62.5	39.8	47.5	58.5	57.0	(3.4)	3.5	5.8
Gross Margins	21.8	15.1	1.4	24.1	16.2	21.3	14.7	22.5	23.0	9.4	16.2	28.8	32.1	(18.5)	(14.6)	(8.9)
Opex	6.5	13.0	5.9	15.2	9.4	13.2	12.6	7.3	5.7	14.5	19.0	20.3	19.8	2.4	(0.8)	9.3
EBITDA	15.3	2.1	(4.4)	8.9	6.9	8.1	2.0	15.2	17.3	(5.1)	(2.7)	8.6	12.3			
EBIT	13.6	1.3	(8.1)	4.8	2.7	3.8	(2.5)	10.6	12.5	(10.6)	(7.8)	3.4	7.1			
Capital Employed	13.9	78.8	95.4	92.9	93.5	93.8	95.3	91.1	88.6	102.8	109.2	115.7	122.1	2.3	1.7	24.9
ROCE (%)	98.2	1.7	(8.5)	5.1	2.9	4.1	(2.6)	11.7	14.1	(10.3)	(7.2)	2.9	5.8			
Operational highlights																
Capacity (tmt)	810.0	810.0	810.0	810.0	810.0	810.0	810.0	810.0	810.0	810.0	810.0	810.0	810.0			
Volume (tmt)	445.0	441.0	334.0	577.0	674.0	735.0	737.0	872.0	792.0	399.0	607.5	769.5	769.5	(14.2)	(6.0)	(1.2)
Utilisation (%)	54.9	54.4	41.2	71.2	83.2	90.7	91.0	107.7	97.8	49.3	75.0	95.0	95.0	(14.2)	(6.0)	(1.2)
Realisation (Rs/kg)	103.0	107.0	91.9	97.9	86.9	91.2	73.7	81.0	107.9	123.2	104.9	113.4	115.8	7.8	3.9	2.0
Gas Cost (US\$/mmtbu)	9.7	12.9	14.6	9.1	10.6	9.7	8.2	8.1	11.5	13.5	10.2	9.9	9.7	8.7	6.8	3.7
(Rs/tmt)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E			
Gas cost	53.9	72.8	87.6	56.0	62.8	62.2	53.8	55.1	78.9	99.7	78.1	76.0	74.1			
Opex	14.6	29.5	17.5	26.3	13.9	17.9	17.2	8.4	7.2	36.3	31.3	26.3	25.7			
Depreciation	3.9	1.8	10.9	7.2	6.3	5.8	6.1	5.2	6.1	13.9	8.4	6.7	6.8			
EBITDA breakeven Price	68.5	102.3	105.2	82.4	76.7	80.1	70.9	63.6	86.1	136.0	109.4	102.3	99.7			
EBIT Break even price	72.4	104.1	116.0	89.6	82.9	86.0	77.0	68.8	92.2	149.8	117.8	109.0	106.5			
Realisation (Rs/kg)	103.0	107.0	91.9	97.9	86.9	91.2	73.7	81.0	107.9	123.2	104.9	113.4	115.8			

Source: Company, YES Sec; Note: Capital employed assumed as (segment assets - segment liabilities)

Exhibit 18: LPG & LHC Performance

(Rs mn)														CAGR (upto FY23)		
	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	5-Yr	7- Yr	10- yr
Gross Revenue (pre-subsidy)	73.6	60.5	32.5	31.9	43.3	50.8	42.3	32.9	48.7	55.7	50.4	61.6	62.1	2.3	9.7	(3.1)
Subsidy	19.0	10.0	-	-	-	-	-	-	-	-	-	-	-			
Reported Revenue	54.6	50.5	32.5	31.9	43.3	50.8	42.3	32.9	48.7	55.7	50.4	61.6	62.1	2.3	9.7	0.2
Gas cost	36.6	24.7	15.3	10.8	12.0	15.9	16.4	9.3	16.1	35.5	31.7	33.4	35.8	22.2	21.9	(0.3)
Opex	7.0	6.1	9.4	8.2	7.6	8.6	9.2	9.7	2.7	6.9	6.7	6.9	7.3	(5.3)	(2.7)	(0.1)
EBITDA	11.0	19.7	7.8	12.9	23.7	26.3	16.7	13.9	29.8	13.3	12.0	21.3	19.1	(15.7)	0.4	2.1
EBIT	10.2	19.2	7.5	12.5	23.0	25.5	15.8	13.0	29.0	12.3	10.5	19.6	17.3	(16.7)	(0.2)	2.1
Capital Employed	6.8	8.4	5.5	7.4	7.6	7.9	8.0	7.5	10.9	13.2	13.2	14.3	15.4	13.8	10.2	7.6
ROCE (%)	149.8	228.4	136.4	169.0	301.8	323.0	197.2	173.1	267.2	92.9	79.2	137.4	112.5	(26.8)	(9.5)	(5.2)
Operational highlights																
LPG	1,027	1,039	855	862	989	945	914	811	734	690	725	782	845	(7.6)	(3.6)	(4.3)
Propane	134	116	128	144	165	247	234	241	177	166	175	189	204	(9.4)	2.4	2.4
Others	146	122	102	76	122	137	115	86	89	73	76	82	89	(14.7)	(0.8)	(7.5)
Volume (tmt)	1,307	1,277	1,085	1,082	1,276	1,329	1,263	1,138	1,000	929	975	1,053	1,138	(8.6)	(2.5)	(3.7)
GAIL Gross Realization (Rs/kg)	56.3	47.4	30.0	29.5	33.9	38.2	33.5	28.9	48.7	60.0	51.7	58.5	54.6	11.9	12.5	0.7
Net Realization (Rs/kg)	41.8	39.6	30.0	29.5	33.9	38.2	33.5	28.9	48.7	60.0	51.7	58.5	54.6	11.9	12.5	4.1
Market Realization (Rs/kg)	53.0	43.4	26.4	24.4	31.5	36.6	32.4	30.8	48.5	56.8	51.5	58.2	54.4	11.6	15.2	0.8
Market Realization (US\$/bbl)	75.7	61.2	34.9	31.4	42.1	45.1	39.4	35.7	56.0	61.0	53.5	60.5	56.5	7.8	11.7	(2.4)
Cracks (US\$/bbl)	(32.0)	(25.5)	(12.5)	(14.1)	(15.5)	(25.4)	(21.5)	(10.1)	(23.8)	(34.2)	(31.5)	(16.5)	(13.5)	7.6	15.8	0.7
Gas Consumption	45.2	45.7	37.6	37.9	43.5	41.6	40.2	35.7	32.3	30.4	31.9	34.4	37.2	(7.6)	(3.6)	(4.3)
LPG gas cost	13.4	8.9	6.2	4.3	4.3	5.5	5.8	3.5	6.7	14.6	12.0	11.7	11.6			
Rs/Kg	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E			
Gas cost	28.0	19.4	14.1	10.0	9.4	12.0	13.0	8.2	16.1	38.2	32.5	31.7	31.4			
Opex per ton	5.4	4.8	8.7	7.6	5.9	6.5	7.3	8.6	2.7	7.5	6.8	6.6	6.4			
Dep	0.6	0.3	0.4	0.4	0.5	0.6	0.7	0.7	0.8	1.1	1.6	1.6	1.6			
EBITDA breakeven Price	33.4	24.2	22.7	17.6	15.3	18.5	20.3	16.8	18.8	45.7	39.4	38.2	37.8			
EBIT Break even price	34.0	24.5	23.1	18.0	15.9	19.1	21.0	17.5	19.7	46.7	40.9	39.8	39.4			
Realisation	41.8	39.6	30.0	29.5	33.9	38.2	33.5	28.9	48.7	60.0	51.7	58.5	54.6			

Source: Company, YES Sec; Note: Capital employed assumed as (segment assets - segment liabilities)

Exhibit 19: Key Assumptions

	Unit	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24e	FY25e	FY26e
Brent	USD/bbl	49.0	57.6	70.2	60.9	45.8	79.8	95.2	85.0	77.0	70.0
Exchange rate	Rs/USD	67.1	64.5	69.9	70.9	74.2	74.5	80.3	83.0	83.0	83.0
Spot LNG	USD/mmbtu	6.1	7.6	9.1	4.8	5.6	23.1	31.0	13.3	11.6	10.0
APM	USD/mmbtu	3.1	3.0	3.6	3.8	2.1	3.4	8.2	6.5	7.0	7.0

Natural Gas Transmission											
Volumes	mmscmd	100.0	105.0	107.4	108.4	104.2	111.0	107.3	120.0	129.0	140.0
Blended Tariff	Rs/mmbtu	35.7	36.3	41.3	42.7	43.8	44.2	47.6	60.6	60.8	60.8
Blended Tariff	Rs/tscm	1.4	1.4	1.6	1.7	1.7	1.8	1.9	2.4	2.4	2.4
Gross margins	(Rs/tscm)	317.0	346.0	380.6	412.7	449.7	441.5	290.8	492.3	522.8	557.7

Natural Gas Trading											
Volumes	mmscmd	81.0	85.0	97.0	96.0	89.0	96.2	94.9	107.4	113.4	119.4
Gross margins	(Rs/tscm)	187.5	147.8	294.7	236.4	(67.3)	532.3	361.7	417.2	326.0	297.8

Petrochemical											
Sales	Kilo tons	577.0	674.0	735.0	737.0	871.0	790.0	399.0	607.5	769.5	769.5
Realisation	Rs/kg	98.2	86.9	91.2	73.7	91.2	91.2	79.6	104.9	113.4	115.8
EBITDA margin	Rs/kg	15.5	10.2	11.1	2.8	17.4	21.9	(12.7)	(4.5)	11.1	16.0

LPG Production											
Sales	Kilo tons	1,082.0	1,276.0	1,329.0	1,263.0	1,138.0	1,004.0	929.0	975.5	1,053.5	1,137.8
Realisation	Rs/kg	440.0	526.4	547.1	472.9	389.9	650.0	652.6	622.9	704.4	657.8
EBITDA margin	Rs/kg	11.9	18.6	19.8	13.2	12.2	29.7	14.3	12.3	20.2	16.8

LPG transmission											
Volumes	Kilo tons	3,362.0	3,721.0	3,975.0	3,909.0	4,163.0	4,199.0	4,335.0	4,345.4	4,388.9	4,432.8
Tariff	Rs/tons	1,529.5	1,517.9	1,570.1	1,628.1	1,602.8	1,592.3	1,664.6	1,610.0	1,610.0	1,610.0

Exhibit 20: EBITDA sensitivity to gas transmission volumes

Natural Gas Transmission volumes (mmscmd)	EBITDA (Rs bn)					
	134.0	137.0	140.0	143.0	146.0	149.0
Transmission Tariff (Rs/scm) 2.0	116	118	119	120	121	123
2.2	126	128	129	130	132	133
2.4	136	138	139	141	143	144
2.6	146	148	149	151	153	155
2.8	155	158	160	162	164	166
3.0	165	168	170	172	175	177

Source: PPAC, Company, YES Sec

Exhibit 21: Target price sensitivity to gas transmission volumes

Natural Gas Transmission volumes (mmscmd)	Target (Rs / sh)					
	134.0	137.0	140.0	143.0	146.0	149.0
Transmission Tariff (Rs/scm) 2.0	139	141	142	144	145	146
2.2	151	152	154	156	157	159
2.4	162	164	166	168	170	172
2.6	174	176	178	180	182	185
2.8	185	187	190	192	195	197
3.0	196	199	202	205	207	210

Source: PPAC, Company, YES Sec

Exhibit 22: EBITDA sensitivity to gas trading volumes

Natural Gas Trading volumes (mmscmd)	EBITDA (Rs bn)						
	113.4	116.4	119.4	122.4	125.4	128.4	
Weighted average gas price (\$/mmbtu)	8.1	89	88	88	87	87	87
8.3	113	113	114	114	114	114	114
8.5	138	139	139	140	141	142	142
8.7	162	164	165	167	168	170	170
8.9	187	189	191	193	195	198	198
9.1	211	214	217	220	223	225	225

Source: Bloomberg, YES Sec

Exhibit 23: Target price sensitivity to gas trading volumes

Natural Gas Trading volumes (mmscmd)	Target (Rs / sh)						
	113.4	116.4	119.4	122.4	125.4	128.4	
Weighted average gas price (\$/mmbtu)	8.1	107	106	106	105	105	104
8.3	135	136	136	136	137	137	137
8.5	164	165	166	167	168	169	169
8.7	193	195	196	198	200	202	202
8.9	222	224	227	229	232	234	234
9.1	250	254	257	260	264	267	267

Source: Bloomberg, YES Sec

VIEW & VALUATION

ADD with a TP of Rs 166/sh

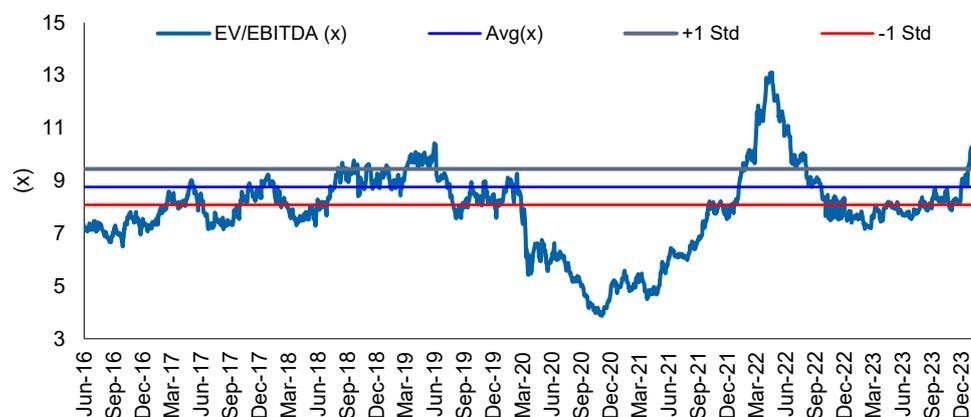
We note that the near-term outlook for gas transmission, trading and petchem has improved following the fall in spot LNG prices. Such lower prices could drive higher gas transmission and trading volumes and lead to lower operating costs.

We believe GAIL's EBITDA to record a 27.6% CAGR over FY23-26e led by a 36% CAGR in gas transmission EBITDA. The gas transmission business has bright prospects (currently contributing ~56% to EBITDA in FY26e, expected to increase further) while the commodity business is a little volatile. Given the recent rally in the stock price and per our valuation, we initiate coverage on the stock with an ADD rating, at a TP of Rs166, valuing it on a sum-of-parts basis (core business at Rs138, 7.7x EV/EBITDA and investments at Rs28).

Exhibit 24: SOTP Valuation table

EV/EBITDA Based valuation				
Particulars				
Core Value	EBITDA	(x)	EV	Rs/Share
Natural gas transmission	78,073	8.0	624,581	95
LPG Transmission	4,201	8.0	33,605	5
Natural gas trading	35,555	7.5	266,664	41
Petchem	12,334	6.0	74,004	11
LPG & LHC	19,080	6.5	124,018	19
Unallocated	(10,000)	5.0	(50,000)	(8)
Standalone	139,242	7.7	1,072,871	163
Net Debt			167,078	25
Total Core value			905,793	138
Value of investments				
Listed Investments				
PLNG	43,688	30	30,581	5
ONGC	65,034	30	45,524	7
IGL	65,678	30	45,974	7
China Gas	16,380	30	11,466	2
MGL	39,808	30	27,866	4
Total value of listed investments @ 30% discount	230,587	30	161,411	25
Unlisted Investments				
Brahmaputra Cracker & Polymer Ltd (BCPL)				2
ONGC Petro-Additions Ltd (OPAL)				2
Ramagundam Fertilizers				0
South East Asia Gas Pipeline Company				0
Total value of listed investments				4
Fair Value				166

Exhibit 25: EV/EBITDA (x) band, one-year-forward



Source: Company, YES Sec

FINANCIALS

Exhibit 26: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	916,265	1,442,497	1,258,555	1,327,692	1,338,274
Total Expense	777,975	1,375,508	1,151,236	1,199,226	1,199,032
Operating Profit	138,290	66,989	107,319	128,466	139,242
Other Income	20,469	26,847	22,551	23,454	24,392
Depreciation	21,112	24,881	30,458	34,643	38,468
EBIT	137,647	68,955	99,412	117,277	125,166
Interest	1,744	3,117	6,444	6,744	6,944
Extraordinary Item	-	-	-	-	-
PBT	135,903	65,838	92,968	110,533	118,222
Tax	32,263	12,823	23,400	27,821	29,756
PAT	103,640	53,015	69,568	82,712	88,465
Adj. PAT	103,640	53,015	69,568	82,712	88,465
Eps	15.8	8.1	10.6	12.6	13.5

Exhibit 27: Balance sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY25E
Equity capital	44,404	65,751	65,751	65,751	65,751
Reserves	511,464	490,786	525,834	574,027	626,329
Net worth	555,868	556,537	591,585	639,778	692,080
Debt	76,558	157,295	162,295	172,295	172,295
Deferred tax liab (net)	47,673	46,628	46,628	46,628	46,628
Capital Employed	680,098	760,460	800,509	858,701	911,003
Fixed assets	528,523	579,698	664,299	722,656	769,188
Investments	186,194	194,084	194,084	194,084	194,084
Net working capital	(34,619)	(13,322)	(57,874)	(58,038)	(52,269)
Inventories	30,152	52,813	41,377	43,650	43,998
Sundry debtors	73,164	103,663	71,881	74,875	75,032
Cash & Bank Balance	20,850	4,020	2,103	649	6,523
Other current assets	24,522	27,039	27,039	27,039	27,039
Sundry creditors	54,660	72,992	72,410	76,388	76,997
Other liabilities	128,647	127,864	127,864	127,864	127,864
Application of Funds	680,098	760,460	800,509	858,701	911,003

Exhibit 28: Cash flow statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY25E
PBT	135,903	65,838	92,968	110,533	118,222
Depreciation & amortization	21,112	24,881	30,458	34,643	38,468
Interest expense	(4,269)	(3,681)	6,444	6,744	6,944
(Inc)/Dec in working capital	(30,198)	(30,932)	42,635	(1,289)	104
Tax paid	(31,960)	(15,178)	(23,400)	(27,821)	(29,756)
Less: Interest/Dividend Income Received	(8,709)	(14,640)			
Other operating Cash Flow	5,662	1,791			
Cash flow from operating activities	87,540	28,080	149,105	122,809	133,982
Capital expenditure	(59,184)	(73,416)	(115,059)	(93,000)	(85,000)
Inc/(Dec) in investments	(4,372)	(10,586)	-	-	-
Add: Interest/Dividend Income Received	19,426	18,469	-	-	-
Cash flow from investing activities	(44,130)	(65,533)	(115,059)	(93,000)	(85,000)
Inc/(Dec) in share capital	19,000	90,770	-	-	-
Inc/(Dec) in debt	(17,430)	(14,720)	5,000	10,000	-
Dividend Paid	(39,943)	(30,679)	(34,519)	(34,519)	(36,163)
Others	(3,485)	(19,856)	(6,444)	(6,744)	(6,944)
Cash flow from financing activities	(41,857)	25,515	(35,963)	(31,263)	(43,107)
Net cash flow	1,553.4	(11,937.9)	(1,916.9)	(1,453.9)	5,874.6

Exhibit 29: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY25E
Tax burden (x)	0.8	0.8	0.7	0.7	0.7
Interest burden (x)	1.0	1.0	0.9	0.9	0.9
EBIT margin (x)	0.2	0.0	0.1	0.1	0.1
Asset turnover (x)	1.1	1.6	1.3	1.3	1.2
Financial leverage (x)	1.6	1.6	1.7	1.7	1.6
RoE (%)	20.3	9.5	12.1	13.4	13.3

Exhibit 30: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY25E
Growth matrix (%)					
Revenue growth	61.5	57.4	(12.8)	5.5	0.8
Op profit growth	114.6	(51.6)	60.2	19.7	8.4
EBIT growth	110.4	(49.9)	44.2	18.0	6.7
Net profit growth	111.9	(48.8)	31.2	18.9	7.0
Profitability ratios (%)					
OPM	15.1	4.6	8.5	9.7	10.4
EBIT margin	15.0	4.8	7.9	8.8	9.4
Net profit margin	11.3	3.7	5.5	6.2	6.6
RoCE	20.2	9.1	12.4	13.7	13.7
RoE	18.6	9.5	11.8	12.9	12.8
RoA	13.0	5.8	7.1	8.0	8.1
Per share ratios					
EPS	15.8	8.1	10.6	12.6	13.5
Dividend per share	6.1	4.0	5.3	5.3	5.5
Cash EPS	19.0	11.8	15.2	17.8	19.3
Book value per share	84.5	84.6	90.0	97.3	105.3
Valuation ratios					
P/E	6.6	13.0	15.1	12.7	11.9
P/CEPS	5.5	8.9	10.5	9.0	8.3
P/B	1.2	1.2	1.8	1.6	1.5
EV/EBIDTA	8.0	4.4	10.6	7.0	6.3
Payout (%)					
Dividend payout	38.6	49.6	49.6	41.7	40.9
Tax payout	23.7	19.5	25.2	25.2	25.2
Liquidity ratios					
Debtor days	29.1	26.2	20.8	20.6	20.5
Inventory days	14.3	11.0	14.9	12.9	13.3
Creditor days	23.0	16.9	23.0	22.6	23.3

January 12, 2024

REINITIATING COVERAGE | Sector: Energy

Petronet LNG Ltd

Petrochemical expansion to hurt returns

Volume recovery: PLNG expects better global supply situation in medium-to-long term with improving Mozambique situation, US FID and Qatar's capacity likely to rise. Fall in gas prices would push demand which would be served by increased capacity at Dahej and Kochi-Bengaluru pipeline. Of the total 17.5mtpa capacity, contracts for 15.75mtpa have remained unaffected by the volatility in spot LNG prices. Any shortfall in offtake would be compensated by take-or-pay penalties, thus protecting profitability. Rasgas renegotiation could boost volumes.

Higher utilization intact: Long term take-or-pay contracts end in 2036 and Rasgas sourcing contract in 2028, leading to stable long-term volumes. Kochi capacity ramp up was delayed due to lack of evacuation pipeline, however, it has been completed while Kochi-Bengaluru pipeline is still in progress. Dahej and Kochi terminals current capacities are 17.5/5mtpa. The current contracted volumes at Dahej/Kochi Terminal are 15.75/1.44mtpa, would lend key support.

Kochi Terminal: Current utilization rate of ~20% is expected to reach ~35% in medium term, further support will come from Kochi-Bengaluru Pipeline which is near commissioning. Kochi has abundant gas availability, leading to higher volumes and utilization rate, which would enhance RoCE substantially.

Dahej expansions: It is targeted to take Dahej Terminal capacity from current levels of 17.5mtpa to 20mtpa by end FY24 and 22.5mtpa by FY27. Two storage tanks at capex of Rs 12bn and capex of Rs 17bn for Jetty have been announced.

PDH-PP Plant: PLNG has announced a capex at Dahej for Petchem which is a non-core business for them. A Propylene capacity of 750ktpa will require ~882ktpa of Propane as a feedstock. ~250ktpa of the capacity will be sold directly into the market while the rest will be converted largely to Polypropylene and sparingly to Hydrogen. Plant location is in close proximity to demand areas. It will take ~4-yrs to get ready, commissioning is targeted by Oct'27 and expected life span is 25-yrs. Sale of 250ktpa of propylene and Hydrogen has been already finalized with Deepak Phenol. In terms of price movements, company claims to have some sort of hedging in place to protect pricing fluctuations. Project cost is Rs 207bn with Debt to Equity ratio of 70:30. Initial cost was Rs 140bn, which was adjusted upwards due to multiple factors (Currency depreciation: Rs 19bn, margin money: Rs 4bn, ethane handling: Rs 25bn, other costs: Rs 19bn) and has guided for IRR of >16%. We believe this escalation could hurt returns from core business, given volatility in petchem spreads and large upcoming capacity in domestic and global markets.

Gopalpur LNG terminal: It is a 4mtpa east-coast terminal, recently executed a binding document viz. (a) Sub-Concession Agreement (b) Sub-Lease deed and (c) Port Service Agreement) with Gopalpur Ports Ltd for setting up of FSRU. If PLNG is unable to get an FSRU, they may go ahead with a land-based LNG terminal (5mtpa); in that event, it would become the first LNG terminal on Eastern India soil to serve the Eastern market.

Dividend outlook: Cashflows are significant and should average higher than the capex targets for FY24-26e. With last 5-year average dividend payout of ~60%, we expect dividend payout to reduce (~35%) given multiple capex announcements.

Valuation: We believe earnings would record a ~2% CAGR over FY23-26, driven by the Dahej utilisation and a further ramp-up at Kochi. We initiate coverage with a REDUCE rating given limited potential, with a TP of Rs229, valuing the stock at 10x PER.

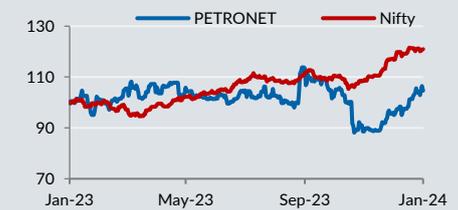
Risks: Sharp reduction in LNG prices, slower expansion plans, steep rise in domestic gas production, lower tariff from competition.

Reco	: REDUCE
CMP	: Rs 234
Target Price	: Rs 229
Potential Return	: -2.1%

Stock data (as on January 10, 2024)

Nifty	21,624
52 Week h/l (Rs)	254 / 192
Market cap (Rs/USD mn)	351000 / 4226
Outstanding Shares (mn)	1,500
6m Avg t/o (Rs mn):	761
Div yield (%)	4.6
Bloomberg code:	PLNG IN
NSE code:	PETRONET

Stock performance



	1M	3M	1Y
Absolute return	9.0%	2.3%	4.3%

Shareholding pattern (As of Sep '23 end)

Promoter	50.0%
FII+DII	39.2%
Others	10.8%

Financial Summary

(Rs bn)	FY23	FY24E	FY25E	FY26E
Revenue	599.0	587.9	548.6	515.1
YoY Growth	38.8	(1.8)	(6.7)	(6.1)
EBIDTA	48.6	47.3	49.5	51.8
OPM %	8.1	8.0	9.0	10.1
PAT	32.4	31.3	32.8	34.3
YoY Growth	(3.4)	(3.3)	4.7	4.6
ROE	21.7	18.5	17.2	16.0
EPS	21.6	20.9	21.9	22.9
P/E	10.6	11.2	10.7	10.2
BV	99.6	113.0	127.3	142.7
EV/EBITDA	1.9	2.3	2.5	2.7

HARSHRAJ AGGARWAL

Lead Analyst

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STORY IN CHARTS

Exhibit 1: Volumes

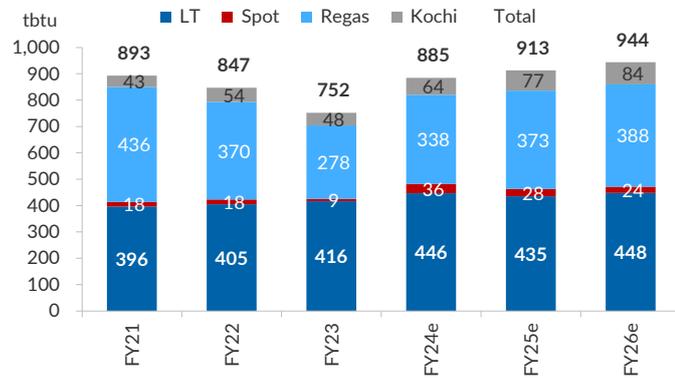
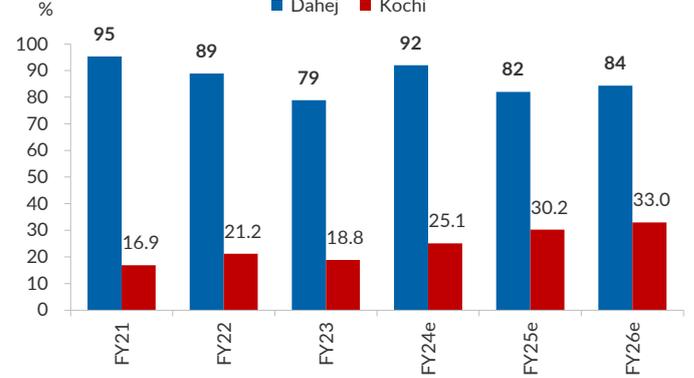


Exhibit 2: Terminal Capacity utilization (%)

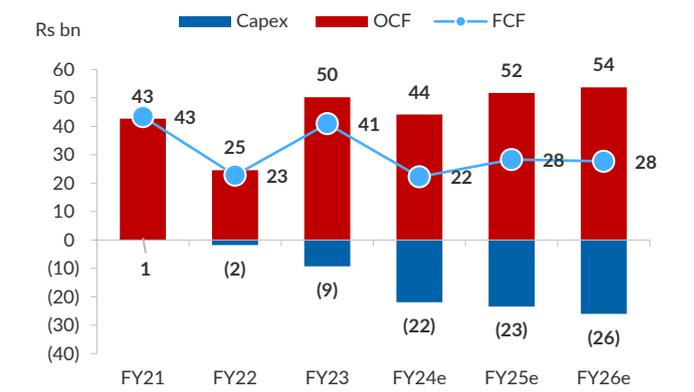


Source: Company, YES Sec

Exhibit 3: Margins/tbtu



Exhibit 4: Free cash-flows



Source: Company, YES Sec

Exhibit 5: Return ratios

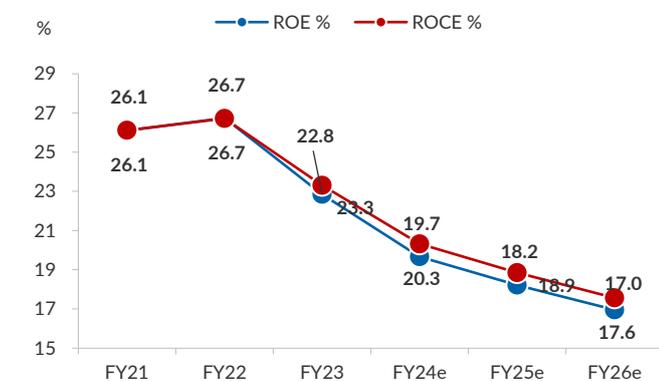
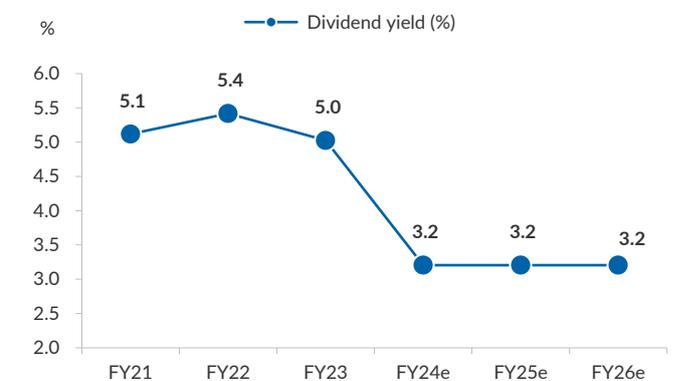


Exhibit 6: Dividend Yield (%)



Source: Company, YES Sec

Exhibit 7: Key Assumptions

	Unit	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24e	FY25e	FY26e
Brent	USD/bbl	50.5	59.1	70.9	60.0	45.0	80.0	95.2	85.0	77.0	70.0
Exchange rate	Rs/USD	66.8	64.5	69.9	70.9	74.2	74.5	80.3	83.0	83.0	83.0
Volumes											
LT	tbtu	422.6	465.8	438.0	406.0	396.0	405.0	416.4	446.3	434.7	447.5
Spot	tbtu	35.5	15.9	23.0	25.0	18.0	18.0	9.0	36.0	28.0	24.0
Service	tbtu	255.6	334.3	360.0	454.0	436.0	370.0	278.4	338.3	373.1	388.0
Total	tbtu	713.7	815.9	821.0	885.0	850.0	793.0	703.8	820.6	835.8	859.5
Kochi	tbtu	14.1	31.4	23.0	43.0	43.0	54.0	48.0	64.0	77.0	84.0
Total Volumes	tbtu	727.8	847.4	844.0	928.0	893.0	847.0	751.8	884.6	912.8	943.5
Capacity utilisation											
Dahej	%	112.0	106.7	107.4	99.2	95.3	88.9	78.9	92.0	82.0	84.3
Kochi	%	5.7	12.3	9.0	16.9	16.9	21.2	18.8	25.1	30.2	33.0
Margins											
Gross Margins	Rs/tbtu	44.0	46.1	47.1	53.4	59.8	71.9	79.1	63.3	64.2	65.0
Opex	Rs/tbtu	7.3	6.0	6.6	9.1	5.5	7.8	12.3	7.9	8.0	8.1
EBITDA	Rs/tbtu	35.6	39.1	39.0	43.0	52.6	62.0	64.6	53.5	54.3	54.9

Exhibit 8: Dahej has 90% capacity tied up on take-or-pay, insulating its profits

Customers	Volumes (mtpa)	Start Year	End Year	Tenure (yrs)	Comment
Offtake with: RasGas contract					
GAIL	4.50		2028		Marketing rights of shareholder
IOCL	2.25		2028		Marketing rights of shareholder
BPCL	0.75		2028		Marketing rights of shareholder
Offtake with: Tolling capacity					
GSPC	1.25	2013	2033	20	Use-or-pay contract
GAIL	2.50	2016	2036	20	Use-or-pay contract
IOCL	1.50	2016	2036	20	Use-or-pay contract
BPCL	1.00	2016	2036	20	Use-or-pay contract
GSPC	1.00	2016	2036	20	Use-or-pay contract
Torrent power	1.00	2016	2036	20	Use-or-pay contract
Contracted capacity	15.75				

Exhibit 9: EBITDA sensitivity to Volumes

Volume growth %	EBITDA (Rs bn)					
	-0.6	1.4	3.4	5.4	7.4	9.4
48.9	44.4	45.3	46.2	47.1	47.9	48.8
50.9	46.2	47.1	48.0	49.0	49.9	50.8
52.9	48.0	49.0	49.9	50.9	51.9	52.8
54.9	49.8	50.8	51.8	52.8	53.8	54.8
56.9	51.6	52.7	53.7	54.7	55.8	56.8
58.9	53.4	54.5	55.6	56.7	57.7	58.8

Source: Company, YES Sec

Exhibit 10: Target price sensitivity to Volumes

Volume growth %	Target (Rs / sh)					
	-0.6	1.4	3.4	5.4	7.4	9.4
48.9	204	207	210	213	216	219
50.9	210	213	216	219	222	226
52.9	216	219	223	226	229	232
54.9	222	225	229	232	236	239
56.9	228	232	235	239	242	246
58.9	234	238	241	245	249	252

Source: Company, YES Sec

VIEW & VALUATION

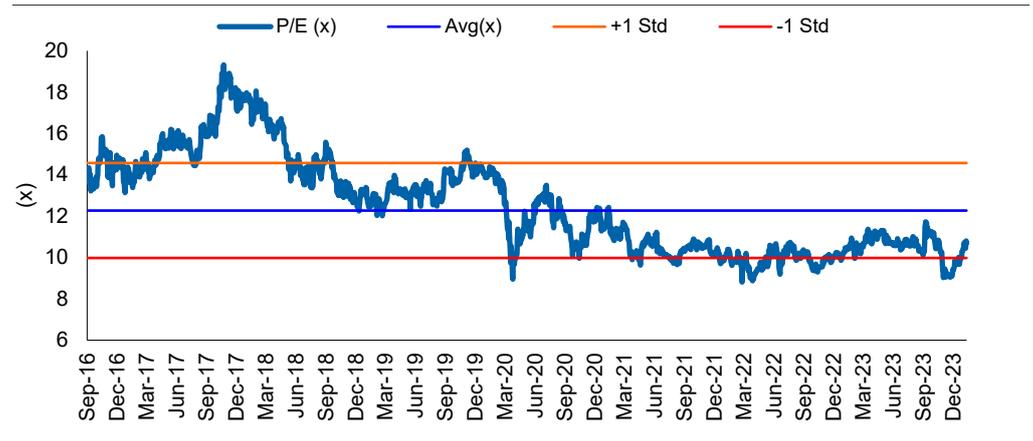
REDUCE with a TP of Rs 229/sh

We believe earnings would record a ~2% CAGR over FY23-26, driven by the Dahej utilisation and a further ramp-up at Kochi. We initiate coverage with a REDUCE rating given the limited potential, with a TP of Rs229, valuing the stock at 10x PER.

Exhibit 11: Valuation table

Valuation	FY26E
EPS (Rs)	22.9
PER (x)	10.0
Target (PER based)	229

Exhibit 12: PER (x) band, one-year-forward



Source: Company, YES Sec

FINANCIALS

Exhibit 13: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	431,686	598,994	587,949	548,642	515,108
Total Expense	379,162	550,436	540,624	499,097	463,287
Operating Profit	52,523	48,558	47,325	49,545	51,821
Other Income	3,073	5,736	5,736	5,736	5,736
Depreciation	7,685	7,643	7,873	8,109	8,352
EBIT	47,911	46,651	45,189	47,173	49,205
Interest	3,173	3,305	3,305	3,305	3,305
Extraordinary Item	-	-	-	-	-
PBT	44,738	43,345	41,884	43,867	45,900
Tax	11,215	10,946	10,542	11,041	11,553
PAT	33,524	32,399	31,342	32,826	34,347
Adj. PAT	33,524	32,399	31,342	32,826	34,347
Eps	22.3	21.6	20.9	21.9	22.9

Exhibit 14: Balance sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Equity capital	15,000	15,000	15,000	15,000	15,000
Reserves	119,255	134,347	154,439	176,015	199,112
Net worth	134,255	149,347	169,439	191,015	214,112
Debt	230	-	-	-	-
Deferred tax liab (net)	8,324	7,031	7,031	7,031	7,031
Capital Employed	142,809	156,378	176,470	198,046	221,143
Fixed assets	97,498	99,162	113,228	128,567	146,207
Investments	1,744	1,748	1,644	1,644	1,644
Net working capital	43,567	55,469	61,598	67,835	73,292
Inventories	5,767	11,531	11,276	10,522	9,879
Sundry debtors	26,844	38,397	41,881	39,081	36,693
Cash & Bank Balance	43,196	56,800	59,724	68,138	75,437
Other current assets	36,142	16,588	16,588	16,588	16,588
Sundry creditors	15,265	16,440	17,488	16,110	14,920
Other liabilities	53,117	51,408	50,384	50,384	50,384
Application of Funds	142,809	156,378	176,470	198,046	221,143

Exhibit 15: Cash flow statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	44,738	43,345	41,884	43,867	45,900
Depreciation & amortization	7,685	7,643	7,873	8,109	8,352
Interest expense	1,010	(60)	3,305	3,305	3,305
(Inc)/Dec in working capital	(6,641)	(15,943)	(3,205)	2,176	1,842
Tax paid	(12,642)	(12,380)	(10,542)	(11,041)	(11,553)
Less: Interest/Dividend Income Received	(98)	(508)			
Other operating Cash Flow	670	3,100			
Cash flow from operating activities	34,721	25,199	39,314	46,416	47,846
Capital expenditure	(723)	(10,577)	(21,939)	(23,448)	(25,992)
Inc/(Dec) in investments	5,521	424	104	-	-
Add: Interest/Dividend Income Received	(15,431)	(1,214)	-	-	-
Cash flow from investing activities	(10,633)	(11,367)	(21,835)	(23,448)	(25,992)
Inc/(Dec) in share capital	-	-	-	-	-
Inc/(Dec) in debt	(6,271)	(6,177)	-	-	-
Dividend Paid	(15,750)	(17,250)	(11,250)	(11,250)	(11,250)
Others	(88)	(253)	(3,305)	(3,305)	(3,305)
Cash flow from financing activities	(22,109)	(23,681)	(14,555)	(14,555)	(14,555)
Net cash flow	1,978.7	(9,848.8)	2,924.2	8,413.4	7,299.3

Exhibit 16: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Tax burden (x)	0.7	0.7	0.7	0.7	0.7
Interest burden (x)	0.9	0.9	0.9	0.9	0.9
EBIT margin (x)	0.1	0.1	0.1	0.1	0.1
Asset turnover (x)	5.1	5.8	4.8	4.3	3.9
Financial leverage (x)	0.7	0.7	0.8	0.7	0.6
RoE (%)	26.7	22.8	19.7	18.2	17.0

Exhibit 17: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
Growth matrix (%)					
Revenue growth	65.9	38.8	(1.8)	(6.7)	(6.1)
Op profit growth	11.8	(7.6)	(2.5)	4.7	4.6
EBIT growth	11.3	(2.6)	(3.1)	4.4	4.3
Net profit growth	13.7	(3.4)	(3.3)	4.7	4.6
Profitability ratios (%)					
OPM	12.2	8.1	8.0	9.0	10.1
EBIT margin	11.1	7.8	7.7	8.6	9.6
Net profit margin	7.8	5.4	5.3	6.0	6.7
RoCE	33.5	29.8	25.6	23.8	22.3
RoE	25.0	21.7	18.5	17.2	16.0
RoA	39.7	31.5	25.8	25.8	26.1
Per share ratios					
EPS	22.3	21.6	20.9	21.9	22.9
Dividend per share	10.5	11.5	7.5	7.5	7.5
Cash EPS	27.5	26.7	26.1	27.3	28.5
Book value per share	89.5	99.6	113.0	127.3	142.7
Valuation ratios					
P/E	8.7	10.6	11.2	10.7	10.2
P/CEPS	7.1	8.6	9.0	8.6	8.2
P/B	2.2	2.3	2.1	1.8	1.6
EV/EBIDTA	1.7	1.9	2.3	2.5	2.7
Payout (%)					
Dividend payout	47.0	53.2	35.9	34.3	32.8
Tax payout	0.3	0.3	0.3	0.3	0.3
Liquidity ratios					
Debtor days	22.70	23.40	26.00	26.00	26.00
Inventory days	4.4	5.7	7.7	8.0	8.0
Creditor days	12.3	10.5	11.5	12.3	12.2

January 12, 2024

REINITIATING COVERAGE | Sector: Energy

Gujarat State Petronet Ltd

Transmission tariff hike, key growth trigger

GSPL is a pure transmission play operating out of Gujarat in western India, second to GAIL in natural gas transmission. Along with GAIL, GSPL is working towards fulfilling the government's target of increasing natural gas share in energy mix to 15% by 2030. GSPC, parent company of GSPL, holds 54.2% stake in Gujarat Gas. The capital raised for the GSPL stake in Gujarat Gas has been fully paid off. GSPC has 5mmtpa LNG terminal at Mundra in the Adani Port SEZ. GSPL's existing HP gas grid receives supply of natural gas from Mundra-Anjar pipeline. Utilization of GSPC LNG had been low at ~12% during Apr'23-Oct'23.

With its well-connected **pipeline network** in Western India, and projections of volume growth of LNG imports to meet growing demand, GSPL is in a sweet spot. Further, it could become an integrated mid-stream and downstream gas player given that it has transmission business and LNG terminal under one roof.

Gujarat Gas's CGD business growth over the past few years has yielded well for GSPL. Increase in gas consumption in the country and two new terminals coming up in Gujarat augurs well for GSPL. Transmission segment will benefit from the new pipeline under construction i.e., increased output from Mehsana-Bhatinda and RIL KG basin.

Volume growth imminent: Volume growth to come from increase in pipeline infrastructure and rise in consumption of natural gas by CGD

- developed gas transmission network (gas grid complete)
- robust industrial demand
- material supply infrastructure with four major LNG import terminals of ~42mtpa capacity operational by FY25.

Higher industry capex to improve transmission network:

- Mehsana-Bhatinda (2,052km, capex ~Rs69bn)
- Mallavaram-Vijaipur (1,881km, capex ~Rs81bn)
- Bhatinda-Srinagar (725km, capex Rs15bn).

The expansion will make gas available in new areas and increase GSPL's volumes across sectors over the next 5-7 years.

PNGRB notification: PNGRB has capped unified transmission tariff at 12% post-tax RoCE. This move is expected to work well with transmission companies and result in laying of more pipelines across the country. The resultant volume growth will ultimately benefit GSPL. Inclusion of natural gas under GST would further accelerate transmission volumes, thus increasing the share of natural gas in energy mix. For GSPL's main high-pressure pipeline network, PNGRB had initiated a public consultation process in Jul'21. The former had asked for a tariff increase of ~60%, from Rs33.3/mmbtu to Rs54. We assume GSPL's tariff at Rs35.5/mmbtu for FY25/26 (our tariff assumption is still very conservative).

Valuation: GSPL's FY23-26 EBITDA would grow at a CAGR of 9.6% despite a 14.4% volume growth, due to a fall in tariffs. We initiate coverage with a ADD rating, at a TP of Rs375, valuing it on a sum-of-parts basis (core business at Rs163 at 1.4x P/BV, investment value in GUJGA at Rs200).

Risks: Changes in government regulation policies, smaller hike in natural gas transmission tariffs, steep movement in LNG & crude prices, slower execution of pipeline expansion plans, demand slowdown and high capex spends denying good returns.

Reco	: ADD
CMP	: Rs 319
Target Price	: Rs 375
Potential Return	: +17.7%

Stock data (as on January 10, 2024)

Nifty	21,624
52 Week h/l (Rs)	340 / 255
Market cap (Rs/USD mn)	179814 / 2165
Outstanding Shares (mn)	564
6m Avg t/o (Rs mn):	270
Div yield (%)	1.8
Bloomberg code:	GUJSIN
NSE code:	GSPL

Stock performance



	1M	3M	1Y
Absolute return	4.8%	9.8%	14.6%

Shareholding pattern (As of Sep'23 end)

Promoter	37.6%
FII+DII	43.2%
Others	19.2%

Financial Summary

(Rs bn)	FY23	FY24E	FY25E	FY26E
Revenue	17.6	20.4	21.3	23.4
YoY Growth	(12.8)	15.5	4.5	10.0
EBIDTA	12.6	14.5	15.0	16.6
YoY Growth	71.4	71.4	70.4	70.8
PAT	9.4	11.7	11.2	12.3
YoY Growth	(3.5)	23.4	(3.8)	9.8
ROE	10.2	11.6	10.3	10.5
EPS	16.8	20.7	19.9	21.8
P/E	15.8	15.4	16.0	14.6
BV	164.4	178.9	192.8	208.1
EV/EBITDA	6.0	6.8	6.0	5.9

HARSHRAJ AGGARWAL

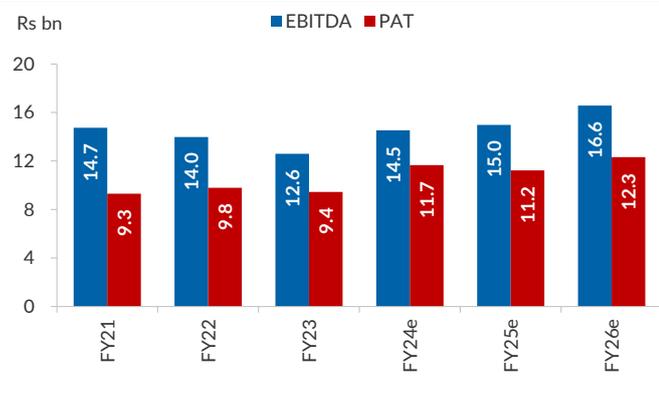
Lead Analyst

harshraj.aggarwal@ysil.in



STORY IN CHARTS

Exhibit 1: EBITDA and PAT performance



Source: Company, YES Sec

Exhibit 2: Volumes

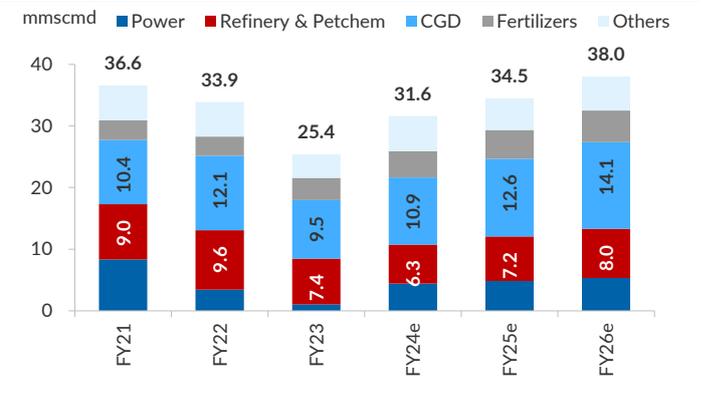
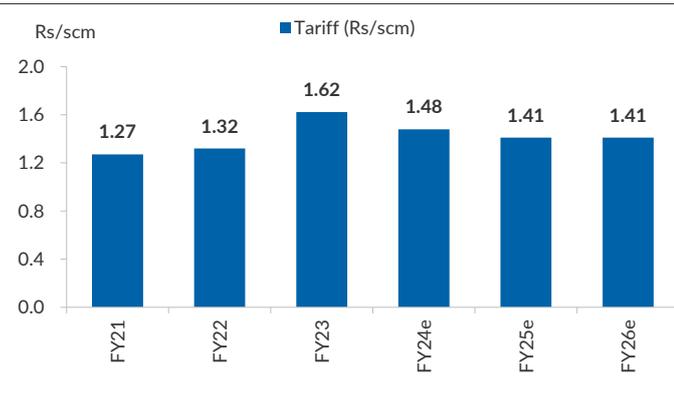


Exhibit 3: Tariffs (Rs/scm)



Source: Company, YES Sec

Exhibit 4: Free cash-flows

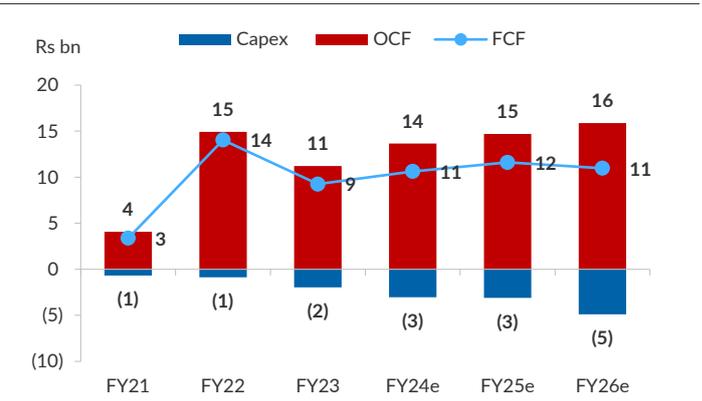
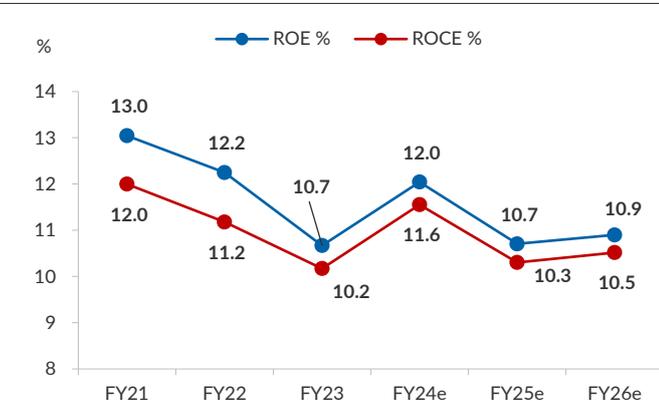


Exhibit 5: Return ratios



Source: Company, YES Sec

Exhibit 6: Dividend Yield (%)

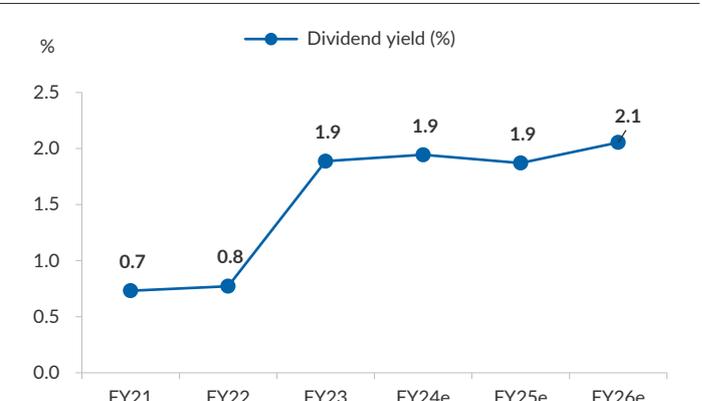
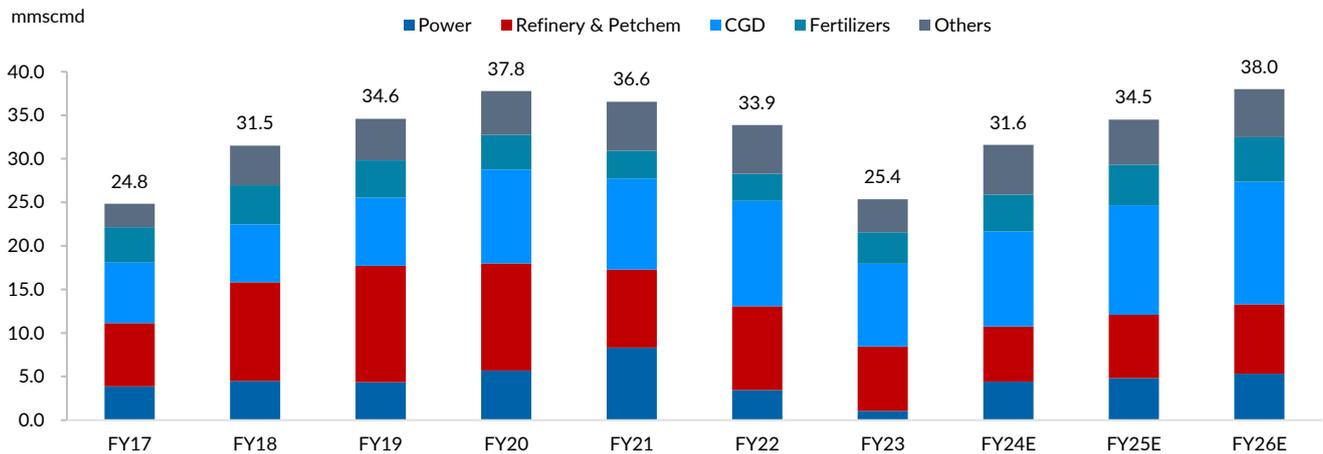


Exhibit 7: Key Assumptions

	Unit	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24e	FY25e	FY26e
Volumes											
Fertilisers	mmscmd	4.1	4.5	4.3	4.0	3.2	3.1	3.6	4.2	4.7	5.1
Gas Based Power	mmscmd	3.9	4.5	4.4	5.7	8.3	3.5	1.0	4.4	4.8	5.3
CGD	mmscmd	7.0	6.6	7.8	10.8	10.4	12.1	9.5	10.9	12.6	14.1
Refinery	mmscmd	7.3	11.3	13.4	12.3	9.0	9.6	7.4	6.3	7.2	8.0
Others	mmscmd	2.7	4.6	4.8	5.0	5.6	5.6	3.8	5.7	5.2	5.5
Total Volumes	mmscmd	24.8	31.5	34.6	37.8	36.6	33.9	25.4	31.6	34.5	38.0
Tariffs	Rs/scm	1.08	1.12	1.37	1.31	1.27	1.32	1.62	1.48	1.41	1.41

Exhibit 8: Sectoral Volumes



Source: Company, YES Sec

Exhibit 9: EBITDA sensitivity to Natural Gas Transmission volumes

Transmission Tariff (Rs/scm)	Natural Gas Transmission volumes (mmscmd)	EBITDA (Rs bn)					
		36.0	37.0	38.0	39.0	40.0	41.0
1.0		10.4	10.7	11.0	11.3	11.6	11.9
1.2		13.1	13.4	13.8	14.2	14.5	14.9
1.4		15.7	16.1	16.6	17.0	17.4	17.9
1.6		18.3	18.8	19.3	19.8	20.4	20.9
1.8		20.9	21.5	22.1	22.7	23.3	23.9
2.0		23.6	24.2	24.9	25.5	26.2	26.8

Source: Company, YES Sec

Exhibit 10: Target price sensitivity to Natural Gas Transmission volumes

Transmission Tariff (Rs/scm)	Natural Gas Transmission volumes (mmscmd)	Target (Rs / sh)					
		36.0	37.0	38.0	39.0	40.0	41.0
1.0		332	334	336	338	340	342
1.2		350	353	356	358	361	363
1.4		369	372	375	378	381	384
1.6		388	391	395	398	402	406
1.8		406	410	415	419	423	427
2.0		425	430	434	439	444	448

Source: Company, YES Sec

VIEW & VALUATIONS

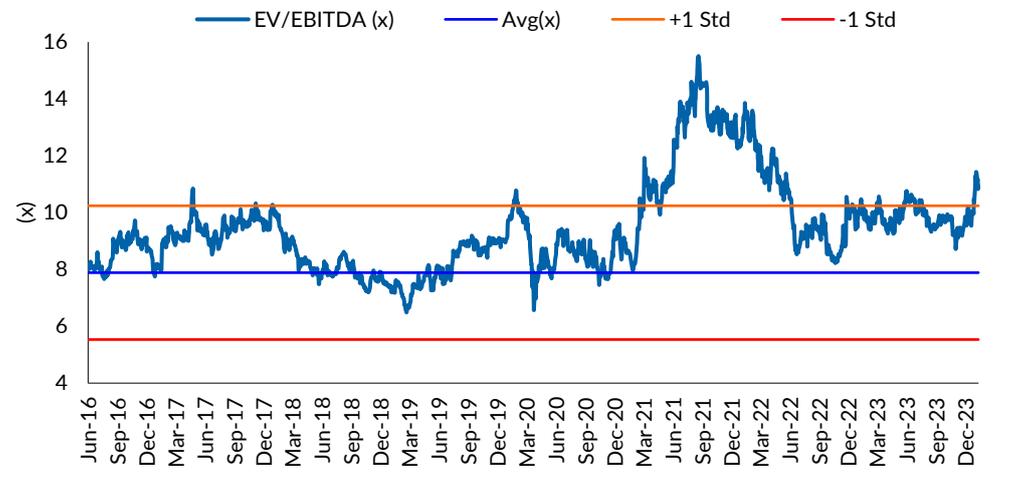
ADD with a Target Price of Rs 375/sh

GSPL's FY23-26 EBITDA would grow at a CAGR of 9.6% despite a 14.4% volume growth due to a fall in tariffs. At the CMP, the stock trades at 16.0x/14.6x FY25e/FY26e EV/ EBITDA and 1.7x/1.5x P/BV (excl. investments, it trades at 5.4x/4.9x FY25e/FY26e EV/EBITDA and 0.6x/0.5x P/BV). We initiate coverage on the stock with an ADD rating, at a TP of Rs375, valuing it on a sum-of-parts basis (core business at Rs163 at 1.4x P/BV, investment value in GUJGA at Rs200).

Exhibit 11: Valuation table

Valuation	FY26E
Core value (Standalone)	
Total Book Value	117,371
Non-Current Investments	51,700
Core Transmission Book Value	65,672
P/BV (x)	1.40
Book Value	91,940
Core value (Rs/share)	163
Gujarat Gas	
Target Mcap	605
Target Mcap	416,221
GSPL Stake @54.17%	225,467
Value to GSPL (at 50% Holdco discount)	112,733
Per share value to GSPL	200
Sabarmati Gas	
Profits of FY22	347
Multiple (x)	20.0
Value	6,930
GSPL stake/share (30% discount)	3
Cross Country Pipeline	
Book Value	10,154
P/B	0.5
Value	5,077
Fair Value (Rs/share)	9
Total Fair Value	375

Exhibit 12: EV/EBITDA (x) band, one-year-forward



FINANCIALS

Exhibit 13: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	20,200	17,618	20,357	21,270	23,401
Total Expense	6,224	5,031	5,824	6,294	6,839
Operating Profit	13,976	12,587	14,533	14,976	16,562
Other Income	1,045	1,684	3,229	2,329	2,392
Depreciation	1,960	1,939	2,162	2,290	2,469
EBIT	13,061	12,332	15,601	15,015	16,485
Interest	313	47	21	21	21
Extraordinary Item	-	-	-	-	-
PBT	12,748	12,286	15,580	14,994	16,465
Tax	2,958	2,836	3,921	3,774	4,144
PAT	9,791	9,450	11,658	11,220	12,320
Adj. PAT	9,791	9,450	11,658	11,220	12,320
Eps	17.4	16.8	20.7	19.9	21.8

Exhibit 14: Balance sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Equity capital	5,642	5,642	5,642	5,642	5,642
Reserves	78,787	87,090	95,251	103,105	111,729
Net worth	84,429	92,732	100,893	108,747	117,371
Debt	877	-	-	-	-
Deferred tax liab (net)	4,250	4,238	4,238	4,238	4,238
Capital Employed	89,557	96,970	105,131	112,985	121,609
Fixed assets	35,785	35,809	36,678	37,483	39,909
Investments	53,383	53,248	53,489	53,569	53,757
Net working capital	388	7,912	14,963	21,933	27,943
Inventories	1,890	2,121	2,451	2,561	2,817
Sundry debtors	1,295	1,440	1,664	1,739	1,913
Cash & Bank Balance	864	6,917	13,333	20,108	25,611
Other current assets	182	1,347	1,557	1,627	1,790
Sundry creditors	654	510	598	644	698
Other liabilities	3,189	3,403	3,444	3,458	3,489
Application of Funds	89,557	96,970	105,131	112,985	121,609

Exhibit 15: Cash flow statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	13,165	12,286	15,580	14,994	16,465
Depreciation & amortization	1,960	1,939	2,162	2,290	2,469
Interest expense	256	(200)	21	21	21
(Inc)/Dec in working capital	(202)	(274)	(635)	(194)	(508)
Tax paid	(3,062)	(2,741)	(3,921)	(3,774)	(4,144)
Less: Interest/Dividend Income Received	(856)	(1,295)			
Other operating Cash Flow	(510)	(50)			
Cash flow from operating activities	10,752	9,664	13,206	13,337	14,302
Capital expenditure	(804)	(1,982)	(3,031)	(3,095)	(4,895)
Inc/(Dec) in investments	(1,690)	-	(241)	(80)	(187)
Add: Interest/Dividend Income Received	2,458	(5,037)	-	-	-
Cash flow from investing activities	(36)	(7,019)	(3,272)	(3,175)	(5,083)
Inc/(Dec) in share capital	1,750	-	-	-	-
Inc/(Dec) in debt	(11,104)	(886)	-	-	-
Dividend Paid	(1,128)	(1,128)	-	(3,366)	(3,696)
Others	(341)	(12)	(21)	(21)	(21)
Cash flow from financing activities	(10,823)	(2,026)	(21)	(3,387)	(3,717)
Net cash flow	(107.5)	618.7	9,914.0	6,774.7	5,503.0

Exhibit 16: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Tax burden (x)	0.8	0.8	0.7	0.7	0.7
Interest burden (x)	1.0	1.0	1.0	1.0	1.0
EBIT margin (x)	0.6	0.7	0.8	0.7	0.7
Asset turnover (x)	0.2	0.2	0.2	0.2	0.2
Financial leverage (x)	1.2	1.1	1.1	1.1	1.1
RoE (%)	12.2	10.7	12.0	10.7	10.9

Exhibit 17: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
Growth matrix (%)					
Revenue growth	(2.9)	(12.8)	15.5	4.5	10.0
Op profit growth	(5.1)	(9.9)	15.5	3.0	10.6
EBIT growth	(2.5)	(5.6)	26.5	(3.8)	9.8
Net profit growth	5.2	(3.5)	23.4	(3.8)	9.8
Profitability ratios (%)					
OPM	69.2	71.4	71.4	70.4	70.8
EBIT margin	64.7	70.0	76.6	70.6	70.4
Net profit margin	48.5	53.6	57.3	52.8	52.6
RoCE	14.6	12.7	14.8	13.3	13.6
RoE	11.6	10.2	11.6	10.3	10.5
RoA	10.5	9.7	11.1	9.9	10.1
Per share ratios					
EPS	17.4	16.8	20.7	19.9	21.8
Dividend per share	2.0	5.0	6.2	6.0	6.6
Cash EPS	20.8	20.2	24.5	24.0	26.2
Book value per share	149.7	164.4	178.9	192.8	208.1
Valuation ratios					
P/E	14.9	15.8	15.4	16.0	14.6
P/CEPS	12.4	13.1	13.0	13.3	12.2
P/B	1.7	1.6	1.8	1.7	1.5
EV/EBIDTA	5.8	6.0	6.8	6.0	5.9
Payout (%)					
Dividend payout	11.5	29.8	30.0	30.0	30.0
Tax payout	23.2	23.1	25.2	25.2	25.2
Liquidity ratios					
Debtor days	23.4	29.8	29.8	29.8	29.8
Inventory days	93.4	145.5	143.3	145.3	143.5
Creditor days	37.4	42.2	34.7	36.0	35.8

January 12, 2024

REINITIATING COVERAGE | Sector: Energy

Gujarat Gas Ltd

CNG pivotal to growth; Morbi volumes slack

Morbi cluster: Morbi accounts for ~43% of GUJGA volumes, but its contribution to EBITDA is only ~10-15%. The industrial volumes tend to fluctuate in this region due to price volatility of alternate fuels (propane). Propane prices have soared internationally taking the price in Morbi region to Rs 44/scm (in comparison, PNG price is Rs 45.6/scm while price for non-ceramic customers is Rs 47.4/scm) Morbi ceramic cluster has total volume capacity of 8.5mmscmd with current volumes at ~4mmscmd; new capacities coming up in the region will boost volumes.

Other Industrial demand: The industrial volumes are ~2mmscmd from customers from pharma/chemical and textile industries. GUJGA reckons volumes could increase by another 2-3mmscmd in quick time. Any regulatory action on use of alternate fuels can boost volumes substantially. These regions earn better margins than Morbi cluster. New ceramic cluster is coming up in Aniyari having potential of 0.5mmscmd, capacity for which would be set up in due course. Industrial volumes have the potential to increase as spot LNG prices are below USD 12/mmbtu currently. If sustained, volumes could emanate from newer set of clients across diverse industries.

CNG volume contributions >25%: The number of CNG stations have increased from 403 in FY20 to 808 in FY23 of which 252 are outside Gujarat. While CNG volumes comprise 27% of total volumes and contribute significantly to EBITDA (~55-60%). The additions of stations have not resulted in similar growth in volumes, as lag of 1-2years is expected. A volume growth of ~10% is assumed sustainable in this segment, as it is also supported by highest discount to petrol/diesel, newer variants of CNG vehicles by OEMs and a VAT cut in FY23.

Gas Sourcing: Low spot LNG prices hold the key for volume rise. Company sources 4.5mmscmd of RLNG. It has contract with Rasgas (Qatar) for 1mmscmd, BG (Shell) for 2mmscmd, RIL for 0.67mmscmd, and some from Cairn & Vedanta.

Other volume growth optionality: An increase in demand from Industrial customers is attributed to stringent environmental regulations across industrial clusters. Increase in CNG network – annual additions have been more than 100 stations - would result in more vehicle conversion. As the pipeline connection is laid, increased D-PNG consumption will follow. New industrial clusters are coming up at various locations like Rajkot, Bhavnagar, Ahmedabad, Dahej, Thane, Amritsar, Bhatinda etc.

New Geographical Areas (GAs) to support growth momentum: The new GAs won in the 9th & 10th round of bidding have started contributing 0.3mmscmd in FY19 and have touched 0.5mmscmd in FY23. The MWP timeline spans 8 years, of which 3 years have passed and the current infrastructure is ahead of target.

Valuation: We believe that the company's large geographical footprint with access to 27 GAs, increased environmental activism, lower VAT, and difference vis-à-vis alternative fuels for CNG would entail double-digit volume growth. Given robust cashflows and reasonable capex the company is rapidly de-levering and maintaining a strong RoCE. We forecast spreads of Rs/scm 5.8/6.8/7.0 for FY24/25/26. The stock trades at fair 21.1x/18.7x FY25e/26e PER. We value it on a PER basis assigning a 22x multiple and, believing it to be fairly valued, recommend a ADD with target price of Rs605/share.

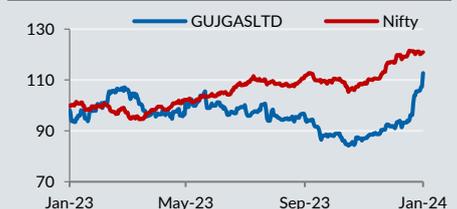
Risks: Given large exposure to Morbi tile cluster, demand revival may be back-ended given its discretionary nature. Other risks: Slower volume growth, margin compression on lower difference vs alternatives, regulatory changes, sharp increase in LNG prices, sustained discount of propane to natural gas, slow infra rollout, competition from alternative fuels like EV.

Reco	: ADD
CMP	: Rs 515
Target Price	: Rs 605
Potential Return	: +17%

Stock data (as on January 10, 2024)

Nifty	21,624
52 Week h/l (Rs)	516 / 397
Market cap (Rs/USD mn)	354521 / 4260
Outstanding Shares (mn)	688
6m Avg t/o (Rs mn):	628
Div yield (%):	1.6
Bloomberg code:	GUJGA IN
NSE code:	GUJGASLTD

Stock performance



	1M	3M	1Y
Absolute return	22.7%	28.3%	14.8%

Shareholding pattern (As of Sep'23 end)

Promoter	60.9%
FII+DII	23.9%
Others	15.2%

Financial Summary

(Rs bn)	FY23	FY24E	FY25E	FY26E
Revenue	167.6	149.6	156.4	156.3
YoY %	1.8	(10.7)	4.5	(0.0)
EBIDTA	23.9	20.5	26.8	30.3
YoY %	14.3	13.7	17.2	19.3
PAT	15.3	12.4	16.8	18.9
YoY %	18.7	(18.4)	34.8	12.8
ROE	21.8	15.8	18.6	18.3
EPS	22.2	18.1	24.4	27.5
P/E	20.7	28.5	21.1	18.7
BV	101.6	114.3	131.3	150.6
EV/EBITDA	2.7	3.5	2.9	2.8

HARSHRAJ AGGARWAL

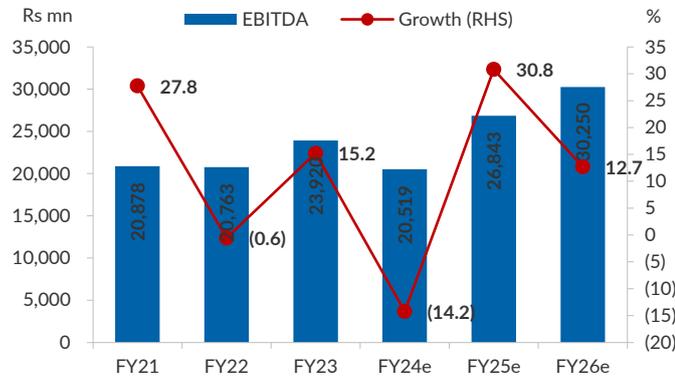
Lead Analyst

harshraj.aggarwal@ysil.in



Story in Charts

Exhibit 1: EBITDA growth



Source: Company, YES Sec

Exhibit 2: PAT Growth

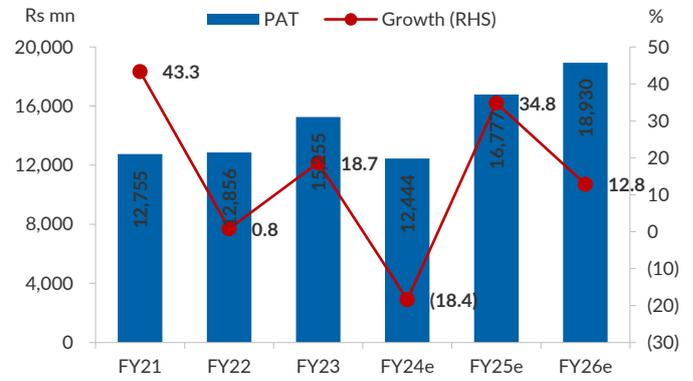
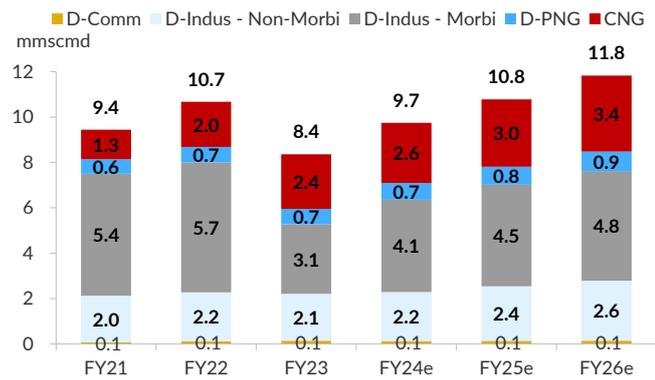


Exhibit 3: Volumes



Source: Company, YES Sec

Exhibit 4: EBITDA spreads

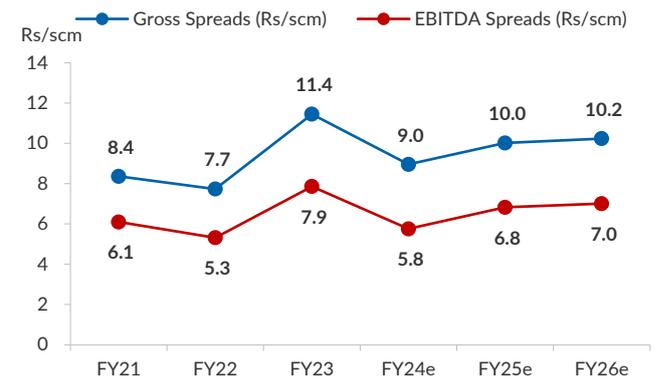
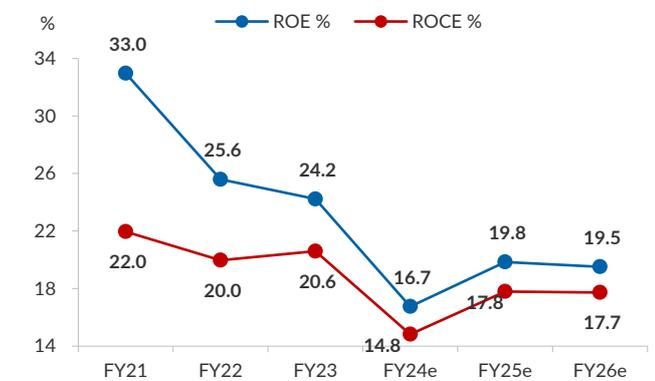


Exhibit 5: Return ratios



Source: Company, YES Sec

Exhibit 6: Free cash-flows

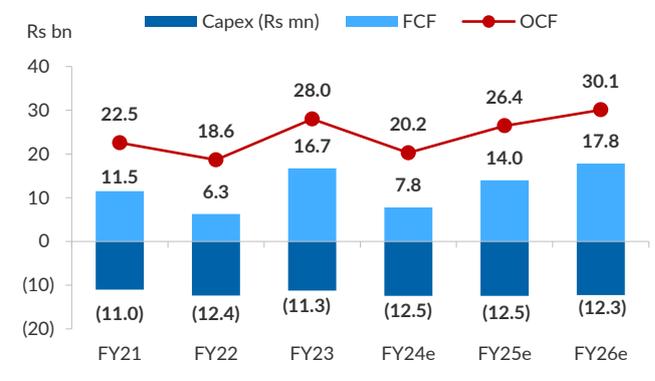


Exhibit 7: Key Assumptions

	Unit	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24e	FY25e	FY26e
Exchange rate	Rs/USD	67.0	64.5	69.5	70.9	74.2	74.5	80.3	83.0	83.0	83.0
Total Sales	mmscmd	5.4	6.4	6.7	9.5	9.4	10.7	8.4	9.7	10.8	11.8
CNG	mmscmd	1.2	1.3	1.4	1.5	1.3	2.0	2.4	2.6	3.0	3.4
PNG	mmscmd	4.3	5.1	5.3	8.0	8.1	8.7	6.0	7.1	7.8	8.5
Domestic	mmscmd	0.5	0.5	0.5	0.6	0.6	0.7	0.7	0.7	0.8	0.9
Industrial	mmscmd	3.7	4.4	4.6	7.3	7.4	7.9	5.1	6.2	6.9	7.5
Morbi	mmscmd	1.8	2.4	2.5	5.2	5.4	5.7	3.1	4.1	4.5	4.8
Non-Morbi	mmscmd	1.9	2.0	2.1	2.1	2.0	2.2	2.1	2.2	2.4	2.6
Commercial	mmscmd	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Margins											
Revenue	Rs/scm	25.6	27.2	32.5	29.8	28.8	42.1	55.0	42.0	39.7	36.2
GM	Rs/scm	6.3	6.6	7.0	7.0	8.4	7.7	11.4	9.0	10.0	10.2
Opex	Rs/scm	2.6	2.6	2.9	2.3	2.3	2.4	3.6	3.2	3.2	3.2
EBITDA	Rs/scm	3.7	3.9	4.1	4.7	6.1	5.3	7.9	5.8	6.8	7.0

Exhibit 8: EBITDA sensitivity to volumes

Volume growth %	EBITDA (Rs bn)					
	3.7	5.7	7.7	9.7	11.7	13.7
6.1	24.9	25.4	25.9	26.3	26.8	27.3
6.4	26.1	26.6	27.1	27.6	28.1	28.6
6.7	27.3	27.9	28.4	28.9	29.5	30.0
7.0	28.6	29.1	29.7	30.2	30.8	31.3
7.3	29.8	30.4	30.9	31.5	32.1	32.7
7.6	31.0	31.6	32.2	32.8	33.4	34.0

Source: Company, YES Sec

Exhibit 9: Target price sensitivity to Volumes

Volume growth %	Target (Rs / sh)					
	3.7	5.7	7.7	9.7	11.7	13.7
6.1	503	512	521	530	540	549
6.4	526	536	546	555	565	575
6.7	550	560	570	580	590	600
7.0	573	584	594	605	616	626
7.3	597	608	619	630	641	652
7.6	620	632	643	655	666	678

Source: Company, YES Sec

VIEW & VALUATIONS

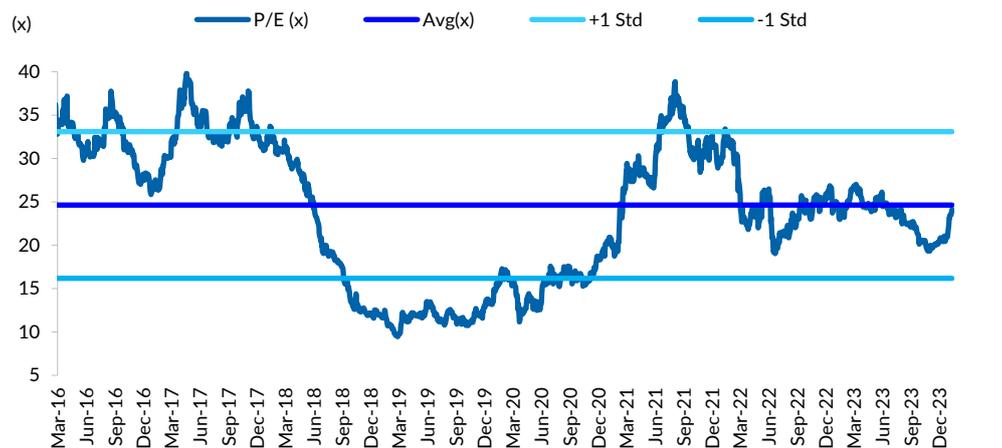
ADD with a TP of Rs 605/share

We believe that the company's large geographical footprint with access to 27 GAs, increased environmental activism, lower VAT, and difference vis-à-vis alternative fuels for CNG would entail double-digit volume growth. Given robust cashflows and reasonable capex the company is rapidly de-levering and maintaining a strong RoCE. We forecast spreads of Rs/scm 5.8/6.8/7.0 for FY24/25/26. The stock trades at fair 21.1x/18.7x FY25e/26e PER. We value it on a PER basis assigning a 22x multiple and, believing it to be fairly valued, recommend a ADD with target price of Rs605/share.

Exhibit 10: Valuation table

Valuation	FY26E
EPS (Rs)	27.5
PER (x)	22.0
Target (PER based)	605

Exhibit 11: PER (x) band, one-year-forward



Source: Company, YES Sec

FINANCIALS

Exhibit 12: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	164,562	167,594	149,648	156,382	156,336
Total Expense	143,799	143,674	129,129	129,539	126,086
Operating Profit	20,763	23,920	20,519	26,843	30,250
Other Income	907	1,013	1,138	1,205	1,275
Depreciation	3,849	4,283	4,876	5,476	6,077
EBIT	17,821	20,650	16,781	22,572	25,448
Interest	568	404	151	151	151
Extraordinary Item	(119)	-	-	-	-
PBT	17,134	20,247	16,630	22,421	25,297
Tax	4,278	4,992	4,186	5,643	6,367
PAT	12,856	15,255	12,444	16,777	18,930
Adj. PAT	12,856	15,255	12,444	16,777	18,930
Eps	18.7	22.2	18.1	24.4	27.5

Exhibit 13: Balance sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Equity capital	1,377	1,377	1,377	1,377	1,377
Reserves	54,616	68,579	77,290	89,034	102,285
Net worth	55,993	69,956	78,667	90,411	103,662
Debt	5,035	284	284	284	284
Deferred tax liab (net)	8,077	8,461	8,461	8,461	8,461
Capital Employed	69,105	78,701	87,412	99,156	112,407
Fixed assets	76,235	83,208	90,787	97,772	103,958
Investments	5,442	5,951	5,951	5,951	5,951
Net working capital	(12,571)	(10,458)	(9,326)	(4,567)	2,497
Inventories	534	612	508	505	484
Sundry debtors	9,301	10,212	8,610	8,997	8,995
Cash & Bank Balance	211	6,810	7,651	11,994	18,870
Other current assets	3,831	2,159	2,159	2,159	2,159
Sundry creditors	4,456	7,156	5,160	5,128	4,916
Other liabilities	21,991	23,094	23,094	23,094	23,094
Application of Funds	69,106	78,701	87,412	99,156	112,407

Exhibit 14: Cash flow statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	17,134	20,247	16,630	22,421	25,297
Depreciation & amortization	3,849	4,283	4,876	5,476	6,077
Interest expense	232	(115)	151	151	151
(Inc)/Dec in working capital	(95)	4,052	(290)	(416)	(188)
Tax paid	(4,363)	(4,608)	(4,186)	(5,643)	(6,367)
Less: Interest/Dividend Income Received	-	-	-	-	-
Other operating Cash Flow	(139)	(78)	-	-	-
Cash flow from operating activities	16,618	23,780	17,181	21,989	24,970
Capital expenditure	(13,663)	(10,865)	(12,455)	(12,461)	(12,264)
Inc/(Dec) in investments	-	-	-	-	-
Add: Interest/Dividend Income Received	727	451	-	-	-
Cash flow from investing activities	(12,935)	(10,413)	(12,455)	(12,461)	(12,264)
Inc/(Dec) in share capital	-	-	-	-	-
Inc/(Dec) in debt	(4,378)	(5,024)	-	-	-
Dividend Paid	(1,375)	(1,379)	(3,733)	(5,033)	(5,679)
Others	(531)	(381)	(151)	(151)	(151)
Cash flow from financing activities	(6,284)	(6,784)	(3,884)	(5,184)	(5,830)
Net cash flow	(2,602.2)	6,582.6	841.0	4,343.4	6,876.0

Exhibit 15: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Tax burden (x)	0.8	0.8	0.7	0.7	0.7
Interest burden (x)	1.0	1.0	1.0	1.0	1.0
EBIT margin (x)	0.1	0.1	0.1	0.1	0.2
Asset turnover (x)	1.8	1.6	1.3	1.3	1.2
Financial leverage (x)	1.8	1.6	1.5	1.4	1.4
RoE (%)	25.6	24.2	16.7	19.8	19.5

Exhibit 16: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
Growth matrix (%)					
Revenue growth	67.0	1.8	(10.7)	4.5	(0.0)
Op profit growth	(0.6)	15.2	(14.2)	30.8	12.7
EBIT growth	(2.1)	15.9	(18.7)	34.5	12.7
Net profit growth	0.8	18.7	(18.4)	34.8	12.8
Profitability ratios (%)					
OPM	12.6	14.3	13.7	17.2	19.3
EBIT margin	10.8	12.3	11.2	14.4	16.3
Net profit margin	7.8	9.1	8.3	10.7	12.1
RoCE	25.8	26.2	19.2	22.8	22.6
RoE	23.0	21.8	15.8	18.6	18.3
RoA	14.2	14.9	11.1	13.8	14.1
Per share ratios					
EPS	18.7	22.2	18.1	24.4	27.5
Dividend per share	2.0	6.6	5.4	7.3	8.2
Cash EPS	24.3	28.4	25.2	32.3	36.3
Book value per share	81.3	101.6	114.3	131.3	150.6
Valuation ratios					
P/E	26.9	20.7	28.5	21.1	18.7
P/CEPS	20.7	16.2	20.5	15.9	14.2
P/B	6.2	4.5	4.5	3.9	3.4
EV/EBIDTA	2.9	2.7	3.5	2.9	2.8
Payout (%)					
Dividend payout	10.7	29.8	30.0	30.0	30.0
Tax payout	25.0	24.7	25.2	25.2	25.2
Liquidity ratios					
Debtor days	20.6	22.2	21.0	21.0	21.0
Inventory days	1.3	1.5	1.6	1.4	1.4
Creditor days	11.3	14.8	17.4	14.5	14.5

January 12, 2024

REINITIATING COVERAGE | Sector: Energy

Indraprastha Gas Ltd

Earnings growth visible, EV threat yet distant

Supportive Volume mix: About 60% volumes come from Delhi and adjoining areas and 40% from other geographical areas (GAs). In FY23, IGL sold volumes of 8.1mmscmd and targets to exit at 9mmscmd in FY24 and 10mmscmd in FY25 following new GA ramp up, CNG station additions, and increasing D-PNG penetration. The mix of mature and new GAs will support long term volume growth. Volumes from new GAs (currently at 0.2mmscmd) is expected to grow over 1mmscmd by FY26, (potential of 2.5mmscmd) thereby compensating volume loss, if any, due to EV policy in Delhi.

Sustainable Margins: The EBITDA margin in recent quarter was Rs 8.6/scm while gross margin reported was Rs 14.1/scm. Over long-term, IGL expects sustainable EBITDA margin to be Rs 7.5-8/scm. Falling gas cost would reduce IGL cost, while we believe it can partially absorb benefit in margins and report surprise earnings.

Strong Vehicle additions: CNG monthly conversions during recent quarter were 15.9k/month, aided by price cuts; even at lower price differentials of 15%, the conversion were strong at ~13k/month vehicles. OEMs are coming out with newer CNG variants, adding to the total CNG vehicle base. IGL has also begun working with Uttarakhand government for long haul buses where they have piloted 5 buses at present. CNG is ~45% cheaper to petrol in Delhi and ~30% cheaper than diesel, based on respective mileage.

CNG station additions: IGL intends to add 100 CNG stations in FY24 and following years and significantly increasing CNG network in new GAs. New GAs are doing well, with more than 50% new stations being added in new GAs which would boost volumes, offsetting possible decline in growth from EV policy.

Gas Sourcing: The priority gas allotment with IGL is 6.2mmscmd, while long term contracts of 2.2mmscmd are in place, of which it has ~1.3mmscmd purchase contract with GAIL and BPCL (accounting for ~30%.) In recent gas auction by RIL, IGL secured 0.5mmscmd for a period of 5 years.

Subsidiaries: Maharashtra Natural Gas (MNGL) and Central UP Gas (CUGL) are expected to achieve double volume growth with strong PAT growth, (averaging over 35% in the last 5-years.) CUGL GAs include Kanpur and Bareilly, Unnao & Jhansi while MNGL GA comprises Pune city and nearing area.

EV impact: Over long term, increase in adoption of EV vehicles could shadow CNG growth prospects, but there are no threats in immediate to medium term. To compensate for the potential loss of volumes, IGL is working on installation of 50 charging stations by end of FY24, it currently has 30 stations. The EV policy introduced by Delhi government is going to impact cab aggregators, as they would have to shift 100% fleet to EV in 5 years, thus impacting 15% of total volume. To offset transition in buses, IGL is in talks with many state transport corporations (Rajasthan, Uttarakhand, Haryana, UP) to put their fleet on CNG/LNG for long haul.

Valuation: We expect an 7% volume CAGR over FY23-FY26 with a spread of Rs7.5-8/scm. IGL is the best placed CGD given its resilient volume mix, debt-free balance sheet and prudent capital allocation. Stock trades at 15.9x/14.7x FY25e/26e PER, below -1 std of the last five-year average. We value it on a PER basis, assigning an 17x multiple and target of Rs540 (incl. value from investments in MNGL, at Rs68/sh and, in CUGL, at Rs21/sh).

Risks: Slower volume growth, margin compression on lower differences vs alternatives, regulatory changes, sharp increase in LNG prices, slower infra rollout, competition from alternative fuels like electricity for vehicles.

Reco	: BUY
CMP	: Rs 418
Target Price	: Rs 540
Potential Return	: +29%

Stock data (as on January 10, 2024)

Nifty	21,624
52 Week h/l (Rs)	516 / 376
Market cap (Rs/USD mn)	292600 / 3521
Outstanding Shares (mn)	700
6m Avg t/o (Rs mn):	838
Div yield (%):	3.3
Bloomberg code:	IGL IN
NSE code:	IGL

Stock performance



	1M	3M	1Y
Absolute return	5.9%	-7.6%	0.9%

Shareholding pattern (As of Sep'23 end)

Promoter	45.0%
FII+DII	47.2%
Others	7.8%

Financial Summary

(Rs bn)	FY23	FY24E	FY25E	FY26E
Revenue	141.5	134.0	141.7	152.4
YoY Growth	83.5	(5.3)	5.7	7.6
EBIDTA	20.4	25.6	25.1	27.0
OPM %	14.4	19.1	17.7	17.7
PAT	14.5	18.4	18.1	19.6
YoY Growth	9.9	27.0	(1.4)	8.0
ROE	20.4	21.9	18.8	17.8
EPS	20.6	26.2	25.9	27.9
P/E	20.8	15.9	16.2	15.0
BV	101.2	119.6	137.7	157.2
EV/EBITDA	2.2	2.2	2.6	2.7

HARSHRAJ AGGARWAL

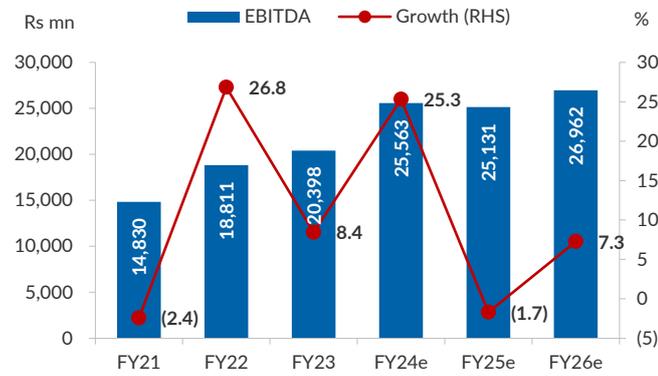
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STORY IN CHARTS

Exhibit 1: EBITDA growth



Source: Company, YES Sec

Exhibit 2: PAT Growth

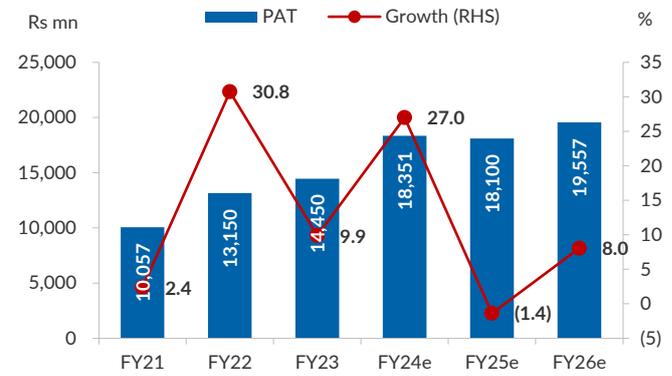
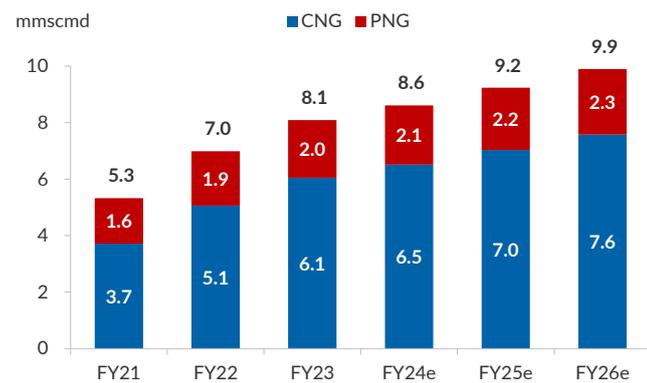


Exhibit 3: Volumes



Source: Company, YES Sec

Exhibit 4: EBITDA spreads

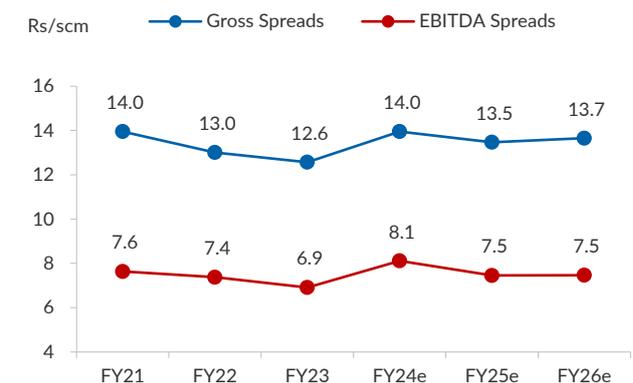
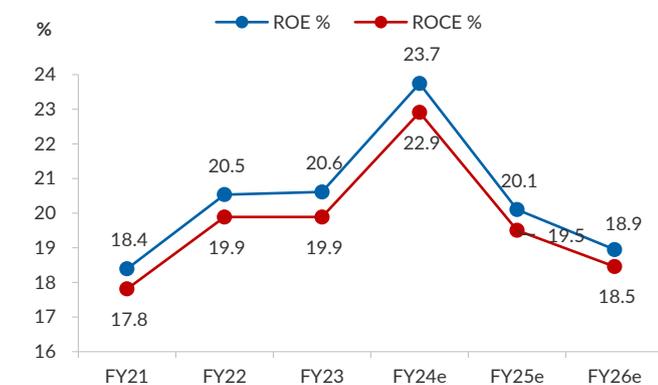


Exhibit 5: Return ratios



Source: Company, YES Sec

Exhibit 6: Free cash-flows

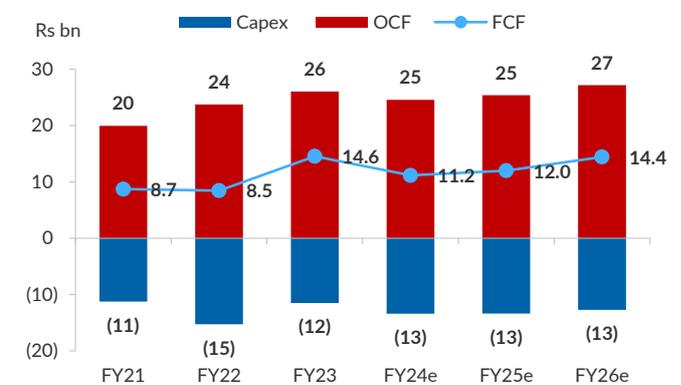


Exhibit 7: Key Assumptions

	Unit	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24e	FY25e	FY26e
Exchange rate	Rs/USD	67.1	64.5	69.9	70.9	72.5	74.5	80.3	83.0	83.0	83.0
Total Sales	mmscmd	4.6	5.2	5.9	6.4	5.3	7.0	8.1	8.6	9.2	9.9
CNG	mmscmd	3.5	3.9	4.4	4.7	3.7	5.1	6.1	6.5	7.0	7.6
PNG											
Domestic	mmscmd	0.3	0.3	0.3	0.4	0.5	0.5	0.5	0.6	0.6	0.7
Industrial/ Commercial	mmscmd	0.5	0.6	0.7	0.8	0.8	1.0	1.0	1.0	1.1	1.1
Haryana Sales	mmscmd	0.4	0.5	0.5	0.5	0.4	0.5	0.5	0.5	0.5	0.5
Total PNG	mmscmd	1.1	1.3	1.5	1.7	1.6	1.9	2.0	2.1	2.2	2.3
Margins											
Revenue	Rs/scm	22.8	24.3	26.8	27.5	25.4	30.2	47.9	42.5	42.0	42.2
GM	Rs/scm	10.3	11.1	11.0	11.9	14.0	13.0	12.6	14.0	13.5	13.7
Opex	Rs/scm	4.6	5.2	5.2	5.5	6.3	5.6	5.7	5.8	6.0	6.2
EBITDA	Rs/scm	5.8	5.9	5.8	6.4	7.6	7.4	6.9	8.1	7.5	7.5
Share of JV PAT (MNGL & CUGL)	Rs mn	620	730	842	1,540	1,259	2,257	2,536	2,929	3,268	3,652

Exhibit 1: EBITDA sensitivity to volumes

Volume growth %	EBITDA (Rs bn)					
	(1.9)	1.1	4.1	7.1	10.1	13.1
6.6	21.7	22.4	23.0	23.7	24.4	25.0
6.9	22.7	23.4	24.1	24.8	25.5	26.2
7.2	23.7	24.4	25.1	25.9	26.6	27.3
7.5	24.7	25.4	26.2	27.0	27.7	28.5
7.8	25.7	26.5	27.3	28.0	28.8	29.6
8.1	26.7	27.5	28.3	29.1	29.9	30.8

Source: Company, YES Sec

Exhibit 2: Target price sensitivity to Volumes

Volume growth %	Target (Rs / sh)					
	(1.9)	1.1	4.1	7.1	10.1	13.1
6.6	464	474	483	493	503	512
6.9	478	489	499	509	519	529
7.2	493	503	514	524	535	546
7.5	507	518	529	540	551	562
7.8	522	533	545	556	567	579
8.1	536	548	560	572	584	596

Source: Company, YES Sec

VIEW & VALUATIONS

BUY with a TP of Rs 540/sh.

We expect an 7% volume CAGR over FY23-FY26 with a spread of Rs7.5–8/scm. IGL is the best placed CGD given its resilient volume mix, debt-free balance sheet and prudent capital allocation. The stock trades at 15.9x/14.7x FY25e/26e PER, below -1 std of the last five-year average. We value the stock on a PER basis, assigning an 17x multiple and arriving at a target of Rs540 (incl. value from investments in MNGL, at Rs68/sh and, in CUGL, atRs21/sh).

Exhibit 3: Valuation table

	FY26E
EPS (Rs/share)	
Standalone Earnings (net of dividend from Investments)	26.6
MNGL	4.0
CUGL	1.2
Consolidated EPS	31.8
PE Multiple (x)	
Standalone Earnings	17.0
MNGL	17.0
CUGL	17.0
Fair Value (x)	
Standalone Earnings	451
MNGL	68
CUGL	21
Target Price	540

Exhibit 4: PER (x) band, one-year-forward



Source: Company, YES Sec

FINANCIALS

Exhibit 5: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	77,100	141,459	134,020	141,675	152,373
Total Expense	58,289	121,061	108,457	116,544	125,411
Operating Profit	18,811	20,398	25,563	25,131	26,962
Other Income	2,150	2,619	2,881	3,169	3,486
Depreciation	3,171	3,634	3,815	4,006	4,206
EBIT	17,791	19,383	24,629	24,294	26,241
Interest	132	106	106	106	106
Extraordinary Item	-	-	-	-	-
PBT	17,659	19,277	24,523	24,188	26,135
Tax	4,509	4,827	6,172	6,088	6,578
PAT	13,150	14,450	18,351	18,100	19,557
Adj. PAT	13,150	14,450	18,351	18,100	19,557
Eps	18.8	20.6	26.2	25.9	27.9

Exhibit 6: Balance sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Equity capital	1,400	1,400	1,400	1,400	1,400
Reserves	67,962	69,466	82,311	94,981	108,671
Net worth	69,362	70,866	83,711	96,381	110,071
Debt	-	-	-	-	-
Deferred tax liab (net)	2,737	3,168	3,168	3,168	3,168
Capital Employed	72,098	74,033	86,879	99,549	113,239
Fixed assets	63,803	71,673	81,269	90,659	99,194
Investments	3,093	3,807	3,807	3,807	3,807
Net working capital	6,288	(317)	2,932	6,212	11,368
Inventories	455	492	466	492	530
Sundry debtors	5,206	9,034	8,559	9,047	9,730
Cash & Bank Balance	13,616	26,332	28,601	32,154	37,528
Other current assets	18,350	6,421	6,380	6,422	6,482
Sundry creditors	7,861	9,013	7,777	8,313	8,900
Other liabilities	23,478	33,582	33,296	33,591	34,002
Application of Funds	73,185	75,163	88,009	100,679	114,369

Exhibit 7: Cash flow statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	17,659	19,283	24,523	24,188	26,135
Depreciation & amortization	3,171	3,634	3,815	4,006	4,206
Interest expense	(447)	(1,093)	106	106	106
(Inc)/Dec in working capital	3,777	6,469	(980)	272	218
Tax paid	(3,759)	(4,833)	(6,172)	(6,088)	(6,578)
Less: Interest/Dividend Income Received	(384)	(590)			
Other operating Cash Flow	(1,038)	(564)			
Cash flow from operating activities	18,979	22,306	21,292	22,484	24,088
Capital expenditure	(13,370)	(11,221)	(13,412)	(13,396)	(12,741)
Inc/(Dec) in investments	(829)	13,599	-	-	-
Add: Interest/Dividend Income Received	(1,649)	(10,792)	-	-	-
Cash flow from investing activities	(15,848)	(8,414)	(13,412)	(13,396)	(12,741)
Inc/(Dec) in share capital	-	-	-	-	-
Inc/(Dec) in debt	(765)	(638)	-	-	-
Dividend Paid	(2,519)	(12,948)	(5,505)	(5,430)	(5,867)
Others	-	-	(106)	(106)	(106)
Cash flow from financing activities	(3,285)	(13,586)	(5,611)	(5,536)	(5,973)
Net cash flow	(153.2)	306.1	2,268.8	3,552.8	5,373.7

Exhibit 8: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Tax burden (x)	0.7	0.7	0.7	0.7	0.7
Interest burden (x)	1.0	1.0	1.0	1.0	1.0
EBIT margin (x)	0.2	0.1	0.2	0.2	0.2
Asset turnover (x)	0.8	1.3	1.1	1.0	1.0
Financial leverage (x)	1.5	1.6	1.6	1.5	1.5
RoE (%)	20.5	20.6	23.7	20.1	18.9

Exhibit 9: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
Growth matrix (%)					
Revenue growth	56.0	83.5	(5.3)	5.7	7.6
Op profit growth	26.8	8.4	25.3	(1.7)	7.3
EBIT growth	32.5	9.0	27.1	(1.4)	8.0
Net profit growth	30.8	9.9	27.0	(1.4)	8.0
Profitability ratios (%)					
OPM	24.4	14.4	19.1	17.7	17.7
EBIT margin	23.1	13.7	18.4	17.1	17.2
Net profit margin	17.1	10.2	13.7	12.8	12.8
RoCE	24.7	26.2	28.3	24.4	23.2
RoE	19.0	20.4	21.9	18.8	17.8
RoA	13.8	13.0	14.9	13.3	13.0
Per share ratios					
EPS	18.8	20.6	26.2	25.9	27.9
Dividend per share	5.5	13.0	7.9	7.8	8.4
Cash EPS	23.3	25.8	31.7	31.6	33.9
Book value per share	99.1	101.2	119.6	137.7	157.2
Valuation ratios					
P/E	19.9	20.8	15.9	16.2	15.0
P/CEPS	16.0	16.6	13.2	13.2	12.3
P/B	3.8	4.2	3.5	3.0	2.7
EV/EBIDTA	3.0	2.2	2.2	2.6	2.7
Payout (%)					
Dividend payout	29.3	63.0	30.0	30.0	30.0
Tax payout	25.5	25.0	25.2	25.2	25.2
Liquidity ratios					
Debtor days	24.6	23.3	23.3	23.3	23.3
Inventory days	2.9	1.4	1.6	1.5	1.5
Creditor days	37.7	25.4	28.3	25.2	25.0

January 12, 2024

REINITIATING COVERAGE | Sector: Energy

Mahanagar Gas Ltd

Aggressive growth plans

Revised volume-focused strategy: MAHGL was focused on strong margins in the past; however, following a litany of concerns about volume growth, the focus is now on volume growth. In Q2FY24, margins were Rs 14.6/scm; while guidance received is for targeting EBITDA spreads of Rs 12/scm to boost volume growth supported by APM price decline and favourable gas sourcing. In October, MAHGL had taken price cut of Rs 3/kg for CNG following reduction in HPHT natural gas prices. CNG is ~50% cheaper to petrol in Delhi and ~30% cheaper than diesel, based on respective mileage.

Sustainable volumes: The monthly conversion of vehicles was ~19,000 per month, with 319 CNG stations in Mumbai, 32 in Raigad. As Mumbai has exhausted land available, upgradation of existing stations is underway while the growth in CNG stations would happen through new geographical areas (GAs). Unison Enviro (UEPL) acquisition has added GAs of Ratnagiri, Latur and Osmanabad in Maharashtra, and Chitradurga and Davanagere in Karnataka. Mumbai and Raigad volumes will continue to grow at 5% for next 5 years.

All eyes on growth: In the next three to five years, company plans to increase customers to about 1m households, operate over 500 CNG stations, expand steel pipeline network to around 600km, and PE pipeline network to over 5,500km. To boost future growth, annual capex spend of Rs 6-8bn has been planned, so are tie-ups with OEMs for CNG variants launch and targeting long haul buses of state corporations to use CNG. Company launched fuel card targeting new users to convert to CNG, with fuel value incentive of Rs 0.2-0.5m depending on vehicle size, aimed at locking in volumes.

CNG supported by VAT cut: The Maharashtra government has recently cut VAT from 13.5% to 3%, which has supported MAHGL in passing on higher input gas costs. This will help maintain stronger margins. This also hints at strong chances of natural gas coming under GST, lower VAT across key states would be further beneficial, if taxes are lowered further.

Unison Environ Pvt Ltd (UEPL): MAHGL acquired UEPL from Ashoka Buildcon for price of Rs 5.31bn. UEPL has been authorised by PNBRC 3 GAs of Ratnagiri, Latur and Osmanabad in Maharashtra and Chitradurga & Davanagere in Karnataka. This acquisition will provide long term growth avenues. In FY23, volumes were 0.1mmscmd, expected to grow to 1.1mmscmd over next 10 years. As new GAs have accessibility to highway, they would be dominated by CNG volumes. MAHGL is reportedly looking for acquisition candidates and would be bidding for GAs if they meet internal IRR requirements.

LNG portfolio: MAHGL has entered LNG contracts with GAIL for five years with 0.38mmscmd and mid-term LNG with GSPC for 18 months with 0.15mmscmd. Coupled with this, MAHGL has bagged 0.3mmscmd gas from RIL KG fields, considering MAHGL's PNG industrial & commercial demand of ~0.5mmscmd. The company has a spare supply of cheaper contracted LNG to blend with domestic gas to fulfil priority sector requirements. This should help better manage higher EBITDA spreads.

Margins to moderate: We expect margins could taper over FY25-26 vis-à-vis what the company could report in FY24. Any further cut in excise duty on diesel or fall in crude oil price would pose a downside risk to our margin assumptions.

Robust FCF and net cash could raise dividend: MAHGL's net cash position remains strong with lower capex and better earnings throughout our forecast period, our projected FCF outlook is robust. We hence see an upside to MAHGL's current ~30% dividend pay-out.

Valuation: We expect a 5% volume CAGR over FY24/25/26 with a spread of Rs 13.9/11.3/11.4/scm. The stock is trading at 11.1x/10.4x PER FY25e/26e and we sense a limited upside. We recommend a ADD with a target price of Rs 1,365/share on strong margins, strong cash flows and balance sheet.

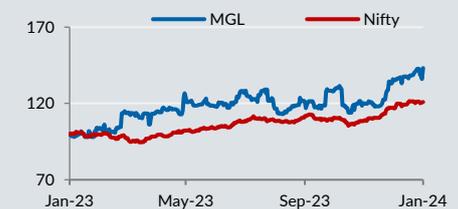
Risks: Slower volume growth, margin compression on lower differentials vs alternatives, regulatory changes, sharp increase in LNG prices, slower infra rollout, competition from alternative fuels like EVs.

Reco	:	ADD
CMP	:	Rs 1179
Target Price	:	Rs 1365
Potential Return	:	+15.7%

Stock data (as on January 10, 2024)

Nifty	21,624
52 Week h/l (Rs)	1252 / 831
Market cap (Rs/USD mn)	116584 / 1403
Outstanding Shares (mn)	99
6m Avg t/o (Rs mn):	562
Div yield (%)	1.6
Bloomberg code:	MAHGL IN
NSE code:	MGL

Stock performance



	1M	3M	1Y
Absolute return	5.4%	11.8%	43.3%

Shareholding pattern (As of Sep'23 end)

Promoter	32.5%
FII+DII	56.6%
Others	10.9%

Financial Summary

(Rs bn)	FY23	FY24E	FY25E	FY26E
Revenue	63.0	61.1	63.5	67.7
YoY Growth	76.9	(3.0)	4.0	6.7
EBIDTA	11.8	18.1	15.5	16.6
OPM %	18.8	29.5	24.4	24.4
PAT	7.9	12.5	10.5	11.2
YoY Growth	32.3	58.7	(16.0)	6.7
ROE	19.1	25.0	18.3	17.2
EPS	80.0	126.9	106.6	113.7
P/E	12.3	9.3	11.1	10.4
BV	418.4	507.3	581.9	660.6
EV/EBITDA	3.3	2.5	3.2	3.3

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STORY IN CHARTS

Exhibit 1: EBITDA growth

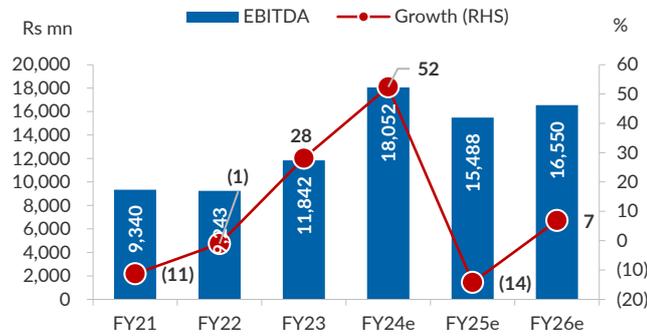
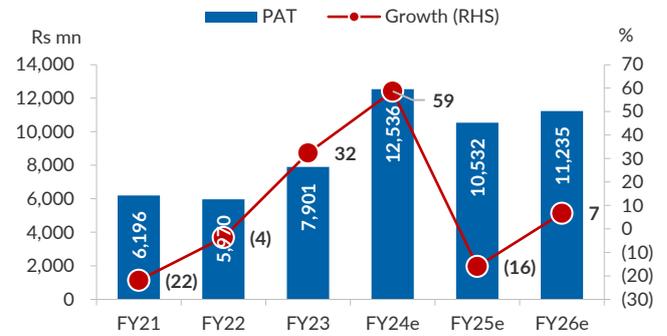


Exhibit 2: PAT Growth



Source: Company, YES Sec

Exhibit 3: Volumes

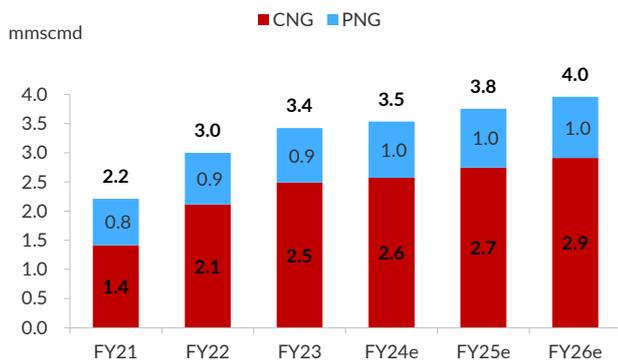
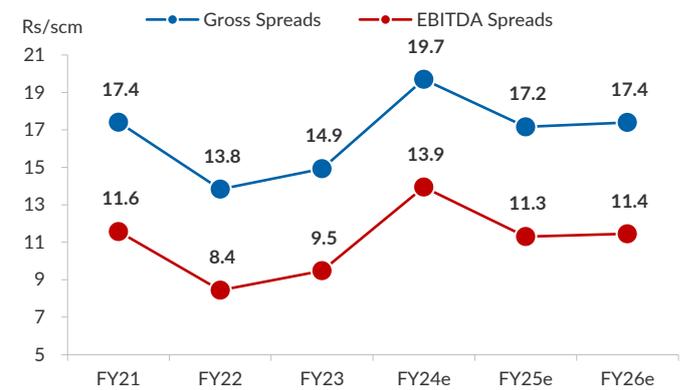
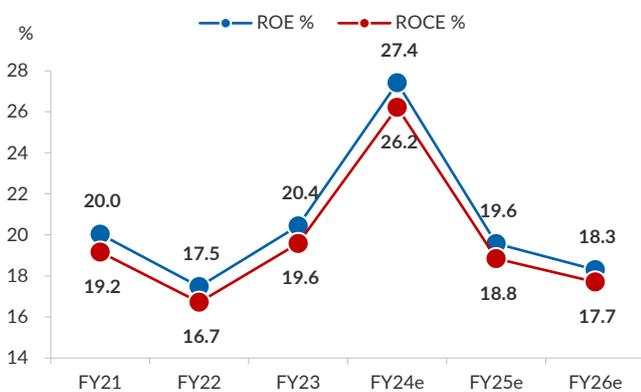


Exhibit 4: EBITDA spreads



Source: Company, YES Sec

Exhibit 5: Return ratios



Source: Company, YES Sec

Exhibit 6: Free cash-flows

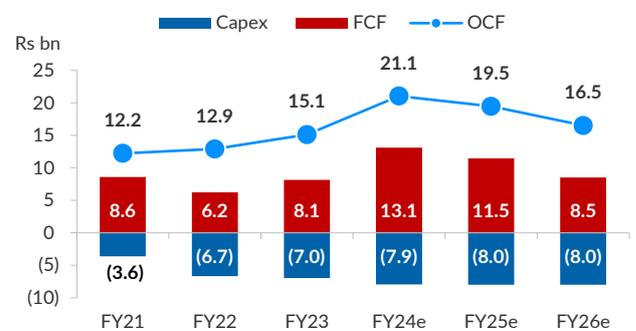


Exhibit 7: Key Assumptions

	Unit	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24e	FY25e	FY26e
Exchange rate	Rs/USD	67.0	65.0	69.8	72.0	74.0	74.5	80.3	83.0	83.0	83.0
Total Sales	mmscmd	2.6	2.7	2.9	3.0	2.2	3.0	3.4	3.5	3.8	4.0
CNG	mmscmd	1.9	2.0	2.2	2.1	1.4	2.1	2.5	2.6	2.7	2.9
PNG		0.7	0.7	0.8	0.8	0.8	0.9	0.9	1.0	1.0	1.0
Domestic	mmscmd	0.3	0.3	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5
Industrial/ Commercial	mmscmd	0.4	0.4	0.4	0.4	0.3	0.4	0.4	0.5	0.5	0.5
Margins											
Revenue	Rs/scm	21.5	22.6	25.9	27.5	26.7	32.5	50.4	48.2	48.5	48.8
GM	Rs/scm	10.8	12.2	12.9	14.7	17.4	13.8	14.9	19.7	17.2	17.4
Opex	Rs/scm	4.0	4.3	4.7	5.0	5.8	5.4	5.4	5.8	5.9	5.9
EBITDA	Rs/scm	6.9	7.9	8.2	9.7	11.6	8.4	9.5	13.9	11.3	11.4

Exhibit 8: EBITDA sensitivity to volumes

Volume growth %	EBITDA (Rs bn)					
	(0.5)	1.5	3.5	5.5	7.5	9.5
10.0	13.6	13.8	14.1	14.4	14.7	14.9
10.5	14.2	14.5	14.8	15.1	15.4	15.7
11.0	14.9	15.2	15.5	15.8	16.1	16.4
11.5	15.6	15.9	16.2	16.6	16.9	17.2
12.0	16.3	16.6	16.9	17.3	17.6	17.9
12.5	17.0	17.3	17.7	18.0	18.3	18.7

Source: Company, YES Sec

Exhibit 9: Target price sensitivity to volumes

Volume growth %	Target (Rs / sh)					
	(0.5)	1.5	3.5	5.5	7.5	9.5
10.0	1,136	1,157	1,178	1,199	1,220	1,241
10.5	1,188	1,210	1,232	1,254	1,276	1,298
11.0	1,241	1,264	1,286	1,309	1,332	1,355
11.5	1,293	1,317	1,341	1,365	1,389	1,413
12.0	1,345	1,370	1,395	1,420	1,445	1,470
12.5	1,397	1,423	1,449	1,475	1,501	1,527

Source: Company, YES Sec

VIEW & VALUATIONS

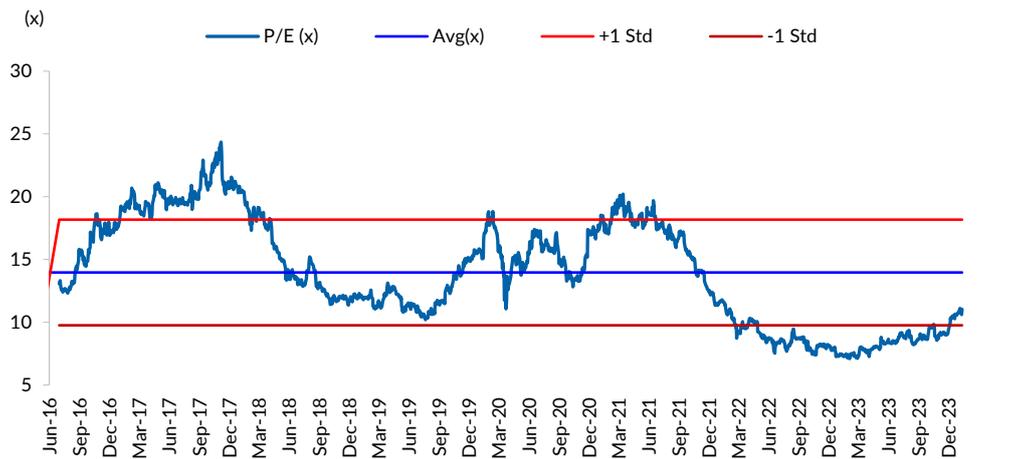
ADD with a target price of Rs 1,365/sh

We expect a 5% volume CAGR over FY24/25/26 with a spread of Rs 13.9/11.3/11.4/scm. The stock is trading at 11.1x/10.4x PER FY25e/26e and we sense a limited upside. We recommend a ADD with a target price of Rs 1,365/share on strong margins, strong cash flows and balance sheet.

Exhibit 10: Valuation table

Valuation	FY26E
EPS (Rs)	113.7
PER (x)	12.0
Target (PER based)	1,365

Exhibit 11: PER (x) band, one-year-forward



Source: Company, YES Sec

FINANCIALS

Exhibit 12: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	35,602	62,993	61,090	63,519	67,747
Total Expense	26,359	51,151	43,038	48,031	51,196
Operating Profit	9,243	11,842	18,052	15,488	16,550
Other Income	857	1,119	1,175	1,233	1,295
Depreciation	1,963	2,311	2,473	2,646	2,832
EBIT	8,138	10,649	16,753	14,075	15,014
Interest	75	94	-	-	-
Extraordinary Item	-	-	-	-	-
PBT	8,063	10,555	16,753	14,075	15,014
Tax	2,093	2,655	4,217	3,543	3,779
PAT	5,970	7,901	12,536	10,532	11,235
Adj. PAT	5,970	7,901	12,536	10,532	11,235
Eps	60.4	80.0	126.9	106.6	113.7

Exhibit 13: Balance sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Equity capital	988	988	988	988	988
Reserves	34,985	40,354	49,136	56,507	64,284
Net worth	35,973	41,342	50,124	57,495	65,272
Debt	-	-	-	-	-
Deferred tax liab (net)	2,008	2,086	2,086	2,086	2,086
Capital Employed	37,981	43,428	52,210	59,581	67,358
Fixed assets	30,793	35,455	40,926	46,280	51,449
Investments	-	-	-	-	-
Net working capital	7,189	7,973	11,284	13,301	15,909
Inventories	275	338	328	341	364
Sundry debtors	1,840	2,940	2,851	2,965	3,162
Cash & Bank Balance	4,652	2,279	5,052	7,263	9,840
Other current assets	14,779	19,310	19,310	19,310	19,310
Sundry creditors	2,719	3,222	2,585	2,905	3,094
Other liabilities	11,638	13,673	13,673	13,673	13,673
Application of Funds	37,981	43,428	52,210	59,581	67,358

Exhibit 14: Cash flow statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	8,063	10,555	16,753	14,075	15,014
Depreciation & amortization	1,963	2,311	2,473	2,646	2,832
Interest expense	(384)	(336)	-	-	-
(Inc)/Dec in working capital	1,652	134	(538)	194	(31)
Tax paid	(2,122)	(2,638)	(4,217)	(3,543)	(3,779)
Less: Interest/Dividend Income Received	-	-	-	-	-
Other operating Cash Flow	(135)	(334)	-	-	-
Cash flow from operating activities	9,037	9,693	14,472	13,372	14,035
Capital expenditure	(6,473)	(7,127)	(7,944)	(8,000)	(8,000)
Inc/(Dec) in investments	(357)	(1,748)	-	-	-
Add: Interest/Dividend Income Received	1,440	2,384	-	-	-
Cash flow from investing activities	(5,391)	(6,491)	(7,944)	(8,000)	(8,000)
Inc/(Dec) in share capital	-	-	-	-	-
Inc/(Dec) in debt	(290)	(330)	-	-	-
Dividend Paid	(2,810)	(2,518)	(3,754)	(3,162)	(3,458)
Others	(4)	-	-	-	-
Cash flow from financing activities	(3,103)	(2,848)	(3,754)	(3,162)	(3,458)
Net cash flow	542.8	354.2	2,773.1	2,210.8	2,577.3

Exhibit 15: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Tax burden (x)	0.7	0.7	0.7	0.7	0.7
Interest burden (x)	1.0	1.0	1.0	1.0	1.0
EBIT margin (x)	0.2	0.2	0.3	0.2	0.2
Asset turnover (x)	0.7	1.1	0.9	0.9	0.8
Financial leverage (x)	1.0	1.0	1.0	1.0	1.0
RoE (%)	12.1	14.0	19.5	14.6	14.0

Exhibit 16: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
Growth matrix (%)					
Revenue growth	65.4	76.9	(3.0)	4.0	6.7
Op profit growth	(1.0)	28.1	52.4	(14.2)	6.9
EBIT growth	(3.2)	30.9	57.3	(16.0)	6.7
Net profit growth	(3.7)	32.3	58.7	(16.0)	6.7
Profitability ratios (%)					
OPM	26.0	18.8	29.5	24.4	24.4
EBIT margin	22.9	16.9	27.4	22.2	22.2
Net profit margin	16.8	12.5	20.5	16.6	16.6
RoCE	21.4	24.5	32.1	23.6	22.3
RoE	16.6	19.1	25.0	18.3	17.2
RoA	12.1	14.0	19.5	14.6	14.0
Per share ratios					
EPS	60.4	80.0	126.9	106.6	113.7
Dividend per share	23.5	26.0	38.0	32.0	35.0
Cash EPS	80.3	103.4	151.9	133.4	142.4
Book value per share	364.1	418.4	507.3	581.9	660.6
Valuation ratios					
P/E	12.9	12.3	9.3	11.1	10.4
P/CEPS	9.7	9.5	7.8	8.8	8.3
P/B	2.1	2.4	2.3	2.0	1.8
EV/EBIDTA	3.4	3.3	2.5	3.2	3.3
Payout (%)					
Dividend payout	38.9	32.5	29.9	30.0	30.8
Tax payout	26.0	25.2	25.2	25.2	25.2
Liquidity ratios					
Debtor days	17.29	15.51	15.47	15.44	15.45
Inventory days	4.4	2.5	3.4	3.1	3.0
Creditor days	48.5	26.5	26.5	26.5	26.5

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