OIL & GAS | Q2FY25 Preview | 10 October 2024

Q2FY25 to reflect impact of normalisation of margins

- **Q2 likely to reflect healthy YoY volume growth for both CGDs and gas utilities but seasonal sequential pullback for the latter**
- **OMC margins are cushioned by a sharp fall in crude price amid stable retail prices, retail CGD margins sustained with modest price increase**
- **EBITDA likely to decline ~30% YoY for the coverage universe but stage a modest sequential recovery supported by OMCs and RIL**

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Sequential recovery in Q2FY25: We forecast a 29% YoY decline in EBITDA across our coverage universe, driven by 55% pullback in OMCs and 13% contraction in retail CGDs. However, we expect a sequential 6% recovery in EBITDA for our coverage universe supported by rise in petrol and diesel retail margins for OMCs, volume growth for retail CGDs and growth in Digital Services EBITDA for RIL

RIL to post modest YoY decline: We expect RIL to post 4% YoY EBITDA decline with a 2% decline in Retail business on rationalisation and a 15% decline in Energy business on lower O2C margins. However, RIL is likely to post a modest (2%) sequential recovery in EBITDA with pick-up in Digital Services from tariff increase. Commentary on momentum in 5G penetration, roll-out of Jio AirFiber, status of rationalisation in Retail and start-up of giga factories are key monitorables.

OMCs benefit from fall in crude: We expect a 15% QoQ recovery in OMCs EBITDA in Q2FY25E with pullback in crude prices. Higher retail margin on gasoline and diesel is likely to offset weakness in refining margin, under-recovery on LPG and inventory loss. Combined R&M EBITDA margin is likely to remain healthy at Rs4.2k/t or US$6.8/bbl of marketing volume. Progress on expansion projects and commentary on sustainability of marketing margin are key monitorables.

Retail CGDs to post healthy volume growth: Retail-focused CGDs are likely to report stable EBITDA sequentially as volume growth and price increase largely offsets pressure from higher LNG prices. We factor in an EBITDA margin of Rs11.2/scm for MAHGL and Rs7.2/scm for IGL in Q2FY25E. Commentary on the pace of CNG vehicle additions, additional success in the industrial segment, availability of APM gas and guidance on EBITDA margin are key monitorables.

Other gas utilities: Benefitting from redirected Dahej cargoes and growth in LNG consumption, PLNG is likely to clock 29% YoY growth in adj EBITDA ex provisions for TOP recovery. In contrast, GUJS is likely to post a sharp 52% YoY cut in EBITDA due to the **recent cut in HP Gas Grid's tariff**. Actual underlying tariff and volume outlook is key for GUJS; visibility on **timing for make-up cargos** is key for PLNG.

Oil & Gas Q2FY25 preview

Oil & Gas coverage universe

Q2FY25 is likely to reflect impact of normalisation of margins across various oil & gas segments that we have seen in Q1. We are forecasting a 29% YoY decline in EBITDA across our coverage universe. The decline is primarily driven by sharp 55% pullback in profitability for OMCs (Oil Marketing Companies) and 13% contraction in profitability for retail CGD (City Gas Distribution) players. OMCs have been impacted by a sharp pullback in refining profitability and inventory losses, however, the fall has been cushioned by rise in petrol and diesel retail margins with drop in crude prices. Margins of CGD companies have already came-off from high base a year ago.

However, we are seeing a sequential 6% recovery in EBITDA for our coverage universe. Sequential recovery is supported by rise in petrol and diesel margins for OMCs, volume growth for retail CGDs and growth in Digital Services EBITDA for Reliance with tariff increase.

Amongst our coverage universe, PLNG stands out as the only company likely to post YoY growth in EBITDA this quarter benefitting from pick-up in LNG imports in FY25.

Fig 1 – Q2FY25 estimates

Companies	Adj. EBITDA			Net income		
	(Rs bn)	YoY (%)	QoQ (%)	(Rs bn)	YoY (%)	QoQ (%)
Reliance	**397.3**	**(3.0)**	**2.5**	**158.6**	**(8.8)**	**4.8**
OMCs						
BPCL	61.6	(52.3)	9.0	33.2	(61.0)	10.1
HPCL	37.9	(53.8)	80.1	17.7	(65.4)	398.3
IOCL	91.4	(56.9)	3.0	33.2	(74.4)	25.6
OMCs subtotal	**191.0**	**(54.9)**	**14.8**	**84.1**	**(68.4)**	**39.9**
CGDS (Retail focus)						
IGL	5.9	(10.5)	1.1	4.0	(24.4)	0.8
MAHGL	4.0	(16.5)	(4.4)	2.7	(19.4)	(4.1)
CGDS (Retail focus) subtotal	**9.9**	**(13.0)**	**(1.2)**	**6.8**	**(22.5)**	**(1.3)**
Other gas utilities						
PLNG	14.1	29.4	(5.5)	9.0	10.4	(20.8)
GUJS	2.0	(52.4)	(35.2)	1.3	(74.9)	(36.9)
Oil & Gas coverage universe	**614.2**	**(28.5)**	**5.5**	**259.9**	**(43.8)**	**12.1**

Source: BOBCAPS Research

Reliance Industries

We forecast RIL's consolidated EBITDA (excluding other income) to decline 2% YoY with a 2% decline in Retail business slowing down consumer businesses growth to 11% and a 15% YoY decline in Energy businesses. However, this translates in a modest (2%) sequential recovery with a pickup in EBITDA for Digital Services as well as a deceleration in decline in Energy business after a sharp pullback in Q1.

- **O2C (oil to chemicals):** Margin weakness continued into Q2 with another 3% QoQ decline in EBITDA after 22% decline in Q1.
- **Oil & Gas:** We look for a minor 1% sequential decline due to easing of production.
- **Digital Services:** We expect growth to rebound to 16.5% YoY as benefit of tariff hikes from Jul'24 is partially offset by a modest reduction in subscriber base due to SIM consolidation. Benefit of the tariff hike is likely to be spread over 2-3 quarters.
- **Retail:** We look for a modest 2% YoY decline in EBITDA due to impact of significant rationalisation undertaken by the business.
- **Key monitorable: (a) Oil & Gas:** global outlook on refining margin and petrochemical spreads, **(b) Digital Services:** extent of SIM consolidation, roll-out pace for Jio AirFiber, momentum in 5G penetration, **(c) Retail:** commentary on readiness to capture growth during upcoming festive season, **(d) New Energy:** commentary on ramp-up of new energy Giga factories targeted for start-up in FY25 and guidance on cost reduction with deployment of new energy, **(e) Listing timeline** for Jio and Retail.

Fig 2 – Reliance: Q2FY25 estimates

(Rs bn)	Q2FY24	Q1FY25	Q2FY25E	YoY (%)	QoQ (%)
Revenue	2,349.6	2,362.2	2,309.8	(1.7)	(2.2)
EBITDA excluding other income	**409.7**	**387.7**	**397.3**	**(3.0)**	**2.5**
Net income	173.9	151.4	158.6	(8.8)	4.8
EBITDA mix (including other income)					
Oil to Chemicals (O2C)	162.8	130.9	126.5	(22.3)	(3.4)
Oil and Gas	47.7	52.1	51.5	8.1	(1.1)
Energy subtotal	**210.5**	**183.0**	**178.0**	**(15.4)**	**(2.7)**
Retail	58.3	56.7	57.4	(1.6)	1.1
Digital Services	140.7	149.4	163.9	16.5	9.7
Consumers subtotal	**199.0**	**206.2**	**221.3**	**11.2**	**7.3**
Consolidated EBITDA including other income	**448.1**	**427.5**	**437.3**	**(2.4)**	**2.3**

Source: Company, BOBCAPS Research

Oil marketing companies

Collectively for OMCs, we are looking for a 15% sequential recovery in EBITDA this quarter with a pullback in crude prices. We expect higher marketing margin on gasoline and diesel to offset weakness in refining margin, under-recovery on LPG and inventory loss due to decline in crude prices. Combined R&M (Refining and Marketing) EBITDA margin likely to remain healthy at Rs4.2k/t or US$6.8/bbl of marketing volume at our estimates.

Refining: We assume a further US$2.5/bbl QoQ decline in refining margin in Q2 after a sharp pullback in product spreads since Q1 and inventory loss in Q2 with a decline in crude prices. Stabilisation of operations at Kochi refinery may help offset part of this weakness.

Marketing: We currently assume a 130% sequential increase in marketing EBITDA per tonne with a sharp recovery in retail marketing margins of petrol and diesel. However, its benefit is likely to be partially offset by continuing under-recovery on LPG marketing from a retail price cut in March 2024 and inventory loss on oil products from decline in product prices.

Key monitorable: Progress on expansion projects and commentary on sustainability of current marketing margin are key to watch.

Fig 3 – OMCs: Q2Y25 estimates

(Rs bn)	Q2FY24	Q1FY25	Q2FY25E	YoY (%)	QoQ (%)
OMCs					
Revenue	4,006.2	4,423.9	3,737.6	(6.7)	(15.5)
EBITDA	**423.4**	**166.3**	**191.0**	**(54.9)**	**14.8**
PAT	265.9	60.1	84.1	(68.4)	39.9
Operational indicators					
Throughput (mt)	32.9	34.2	34.0	3.3	(0.4)
GRM (US$/bbl)	17.4	6.6	4.1	(76.3)	(37.5)
Marketing volume (mt)	44.2	48.8	45.8	3.6	(6.1)
Marketing EBITDA (Rs'000/t)	2.5	1.3	2.9	15.0	126.0
R&M EBITDA (Rs'000/t of marketing volume)	9.6	3.4	4.2	(56.5)	22.3
BPCL					
Revenue	1,029.9	1,131.0	934.4	(9.3)	(17.4)
EBITDA	**129.1**	**56.5**	**61.6**	**(52.3)**	**9.0**
PAT	85.0	30.1	33.2	(61.0)	10.1
Operational indicators					
Throughput (mt)	9.4	10.1	10.4	11.2	2.9
GRM (US$/bbl)	18.5	7.9	5.4	(70.6)	(30.8)
Marketing volume (mt)	12.5	13.4	12.6	0.5	(6.3)
Marketing EBITDA (Rs'000/t)	3.1	1.7	3.3	6.4	88.1
R&M EBITDA (Rs'000/t of marketing volume)	10.3	4.2	4.9	(52.5)	16.4
HPCL					
Revenue	953.2	1,133.0	976.4	2.4	(13.8)
EBITDA	**82.2**	**21.1**	**37.9**	**(53.8)**	**80.1**
PAT	51.2	3.6	17.7	(65.4)	398.3
Operational indicators					
Throughput (mt)	5.8	5.8	6.2	7.8	7.6
GRM (US$/bbl)	13.3	5.0	4.5	(66.1)	(10.1)
Marketing volume (mt)	10.7	12.6	11.8	9.7	(6.7)
Marketing EBITDA (Rs'000/t)	3.9	0.7	2.7	(30.8)	286.7
R&M EBITDA (Rs'000/t of marketing volume)	7.7	1.7	3.2	(57.9)	93.1
IOCL					
Revenue	2,023.1	2,159.9	1,826.9	(9.7)	(15.4)
EBITDA	**212.2**	**88.7**	**91.4**	**(56.9)**	**3.0**
PAT	129.7	26.4	33.2	(74.4)	25.6
Operational indicators					
Throughput (mt)	17.8	18.3	17.4	(2.2)	(4.8)
GRM (US$/bbl)	18.1	6.4	3.2	(82.4)	(50.0)
Marketing volume (mt)	20.9	22.7	21.4	2.4	(5.6)
Marketing EBITDA (Rs'000/t)	1.4	1.3	2.7	93.6	107.5
R&M EBITDA (Rs'000/t of marketing volume)	10.1	3.9	4.3	(57.9)	9.1

Source: Company, BOBCAPS Research

Gas utilities

City gas distribution companies

Retail-focused CGDs are likely to report stable EBITDA sequentially (-1.2% at our estimates) as a sequential volume growth and price increase during the quarter offset pressure from higher LNG prices.

Volumes: We assume a 2% sequential increase in combined volumes of IGL and MAHGL on continuing healthy addition of CNG vehicles and recent success in ramping up industrial volumes. This translates to 6.7% YoY growth for IGL and 9.0% YoY growth for MAHGL.

EBITDA margin: We are building in a modest (Rs0.3/scm) decline in EBITDA margin to Rs8.2/scm for retail CGDs as rise in purchase cost of natural gas is partially offset by price increase during the quarter. With a typical linkage to Brent for pricing in Industrial segment and partial linkage to US HH in contract LNG portfolio, margin in the segment is likely to face a bit of compression this quarter. Faster CNG growth during the quarter also increase exposure to higher priced gas in priority segment due to typical lag in allocation of the APM gas. We factor in an EBITDA margin of Rs11.2/scm for MAHGL and Rs7.2/scm for IGL in Q2FY25.

Key monitorables: Traction on CNG vehicle additions and its translation to CNG consumption, traction on marketing incentive scheme for commercial vehicles and industrial customers, availability of APM gas for priority sector and guidance on unit EBITDA margin are key to watch.

Fig 4 – CGDs: Q2FY25 estimates

(Rs bn)	Q2FY24	Q1FY25	Q2FY25E	YoY (%)	QoQ (%)
City Gas Distribution Companies (Retail focused)					
Revenue	50.3	51.1	53.2	5.7	4.0
EBITDA	**11.4**	**10.0**	**9.9**	**(13.0)**	**(1.2)**
PAT	8.7	6.9	6.8	(22.5)	(1.3)
Operational indicators					
Volume (mmscmd)	11.9	12.5	12.8	7.4	2.1
EBITDA margin (Rs/scm)	10.4	8.8	8.5	(18.1)	(3.2)
IGL					
Revenue	34.6	35.2	36.8	6.4	4.5
EBITDA	**6.6**	**5.8**	**5.9**	**(10.5)**	**1.1**
PAT	5.3	4.0	4.0	(24.4)	0.8
Operational indicators					
Volume (mmscmd)	8.3	8.6	8.9	6.7	2.6
EBITDA margin (Rs/scm)	8.6	7.4	7.2	(16.1)	(2.5)
MAHGL					
Revenue	15.7	15.9	16.3	4.1	2.8
EBITDA	**4.8**	**4.2**	**4.0**	**(16.5)**	**(4.4)**
PAT	3.4	2.8	2.7	(19.4)	(4.1)
Operational indicators					
Volume (mmscmd)	3.6	3.9	3.9	9.0	1.0
EBITDA margin (Rs/scm)	14.6	11.9	11.2	(23.3)	(6.3)

Source: Company, BOBCAPS Research

LNG regasification – Petronet LNG (PLNG)

We expect strong volume to continue into Q2 with benefit of redirected cargoes from Dabhol during monsoon months. However, volumes are likely to ease (-6% QoQ) from high levels in Q1 with pullback in LNG demand from power, refinery and petrochemicals as well as gas demand in Morbi. We also assume a sequentially lower trading profit in Q2 with pick-up in LNG import prices.

Excluding provisions against prior TOP (take-or-pay) recovery, we are looking for 29% YoY growth in adj. EBITDA on the back of 10% volume growth and 17% margin growth. However, factoring in provisions against CY22/ CY23 TOP recovery, EBITDA growth drops to 7% YoY.

Key monitorable: Visibility on timing for make-up cargoes for TOP charges levied in CY22 and CY23 and agreement on recovery of CY24 TOP charges with consumers and progress on the implementation of the PDHPP **(propane dehydrogenation and polypropylene** plant) are key to watch. We believe that PLNG has granted free make-up cargoes of 1.4mt/ 3.0mt for shortfall in CY21 and CY22, which could constrain availability of capacity for FY25 and FY26. Refer **Volume growth visibility still low**, 25 May 2024 for additional details.

Fig 5 – PLNG: Q2FY25 estimates

(Rs bn)	Q2FY24	Q1FY25	Q2FY25E	YoY (%)	QoQ (%)
Revenue	125.3	134.2	132.5	5.7	(1.3)
EBITDA	12.2	15.6	13.0	7.0	(16.8)
Adj. EBITDA excl provisions for TOP charges	**10.9**	**14.9**	**14.1**	**29.4**	**(5.5)**
PAT	8.2	11.4	9.0	10.4	(20.8)
Operational indicators					
Volume (tbtu)	223.0	262.0	246.0	10.3	(6.1)
Adj. EBITDA margin excl provisions for TOP charges (Rs/mmbtu)	48.9	57.0	57.4	17.3	0.6

Source: Company, BOBCAPS Research

Gas transportation – Gujarat State Petronet (GUJS)

We expect another sequential sharp 35% QoQ cut in EBITDA for GUJS in Q2 after 20% QoQ cut in Q1. The cut is driven by an additional one-month impact of the 46% cut in tariff for the HP Gas Grid from May'24 (Refer **Decoding HP Gas grid tariff order**, 30 Apr'24 for details), and seasonal slowdown in volume. We expect a sequential decline in volume across city gas distribution, power, refinery and petrochemical segments.

Key monitorable: Actual realised tariff and EBITDA margin post reduction of HP Gas Grid Tariff will be a key monitorable. Visibility on new volume from completion of connectivity of HPCL Chhara LNG terminal and Mehsana-Bhatinda pipeline are key to watch.

Fig 6 – GUJS: Q2FY25 estimates

(Rs bn)	Q2FY24	Q1FY25	Q2FY25E	YoY (%)	QoQ (%)
Revenue	5.3	3.5	2.7	(49.6)	(24.7)
EBITDA	**4.1**	**3.0**	**2.0**	**(52.4)**	**(35.2)**
PAT	5.3	2.1	1.3	(74.9)	(36.9)
Operational indicators					
Volume (mmscmd)	30.2	36.4	31.0	2.6	(14.8)
EBITDA margin (Rs/scm)	1.5	0.9	0.7	(53.7)	(24.7)

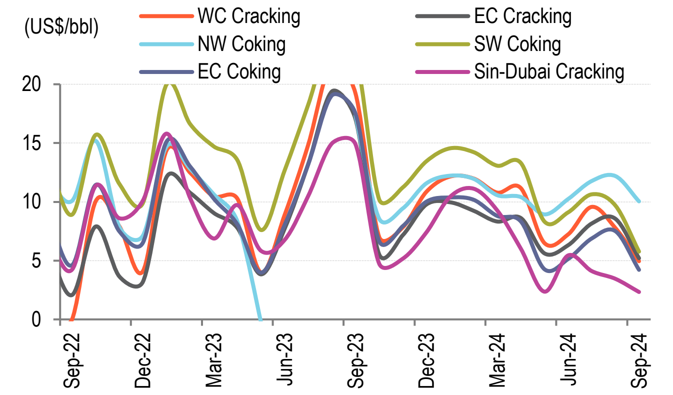
Source: Company, BOBCAPS Research

Fig 7 – Market indicators

Parameter		Q2FY24	Q1FY25	Q2FY25E	Change absolute		Change (%)	
					YoY	QoQ	YoY	QoQ
Ex rate		82.7	83.4	83.8	1.1	0.4	1.4	0.4
Crude								
Brent	US$/bbl	85.9	85.0	78.7	(7.2)	(6.3)	(8.4)	(7.4)
Indian crude basket	US$/bbl	86.2	85.2	78.9	(7.3)	(6.3)	(8.4)	(7.4)
Natural Gas								
APM gas price (with cap)	US$/MMbtu	6.5	6.5	6.5	0.0	0.0	0.0	0.0
HPHT gas price	US$/MMbtu	12.1	9.9	9.9	(2.3)	0.0	(18.6)	0.0
Asia LNG cargo swap	US$/MMbtu	12.6	11.1	13.0	0.4	1.9	3.4	16.9
US HH	US$/MMbtu	2.7	2.3	2.2	(0.4)	(0.1)	(16.1)	(3.8)
Petroleum product spread								
Diesel	US$/bbl	27.1	17.6	14.0	(13.1)	(3.6)	(48.4)	(20.7)
Gasoline	US$/bbl	15.0	14.0	11.4	(3.6)	(2.6)	(24.1)	(18.7)
Naphtha	US$/bbl	(14.7)	(8.4)	(4.1)	10.7	4.3	(72.5)	(51.7)
LPG	US$/bbl	(41.1)	(34.8)	(25.7)	15.4	9.1	(37.4)	(26.1)
Refining margin								
Singapore Dubai Cracking	US$/bbl	13.5	4.5	3.4	(10.1)	(1.2)	(75.1)	(25.7)
India West Coast Cracking	US$/bbl	18.8	8.3	7.9	(10.8)	(0.4)	(57.8)	(4.8)
India East Coast Cracking	US$/bbl	16.6	6.8	7.7	(9.0)	0.9	(53.8)	12.8
India North West Coking	US$/bbl	17.3	9.8	11.6	(5.8)	1.7	(33.2)	17.7
South West Coking	US$/bbl	21.8	10.2	9.2	(12.5)	(1.0)	(57.5)	(9.8)
Petrochem margin								
RIL proxy	US$/t	398.6	376.4	342.5	(56.1)	(33.9)	(14.1)	(9.0)
RIL polymer average	US$/t	384.7	383.6	372.0	(12.7)	(11.6)	(3.3)	(3.0)
RIL polyester	US$/t	344.5	274.2	201.0	(143.5)	(73.2)	(41.7)	(26.7)
Retail natural gas price								
CNG – Delhi	Rs/kg	73.6	74.2	75.1	1.5	0.9	2.0	1.2
CNG – Mumbai	Rs/kg	79	73.5	73.5	(5.5)	0.0	(7.0)	0.0
Domestic PNG - Delhi	Rs/scm	48.6	48.6	48.6	0.0	0.0	0.0	0.0
Domestic PNG - Mumbai	Rs/scm	49.0	47.0	48.0	(1.0)	1.0	(2.0)	2.1

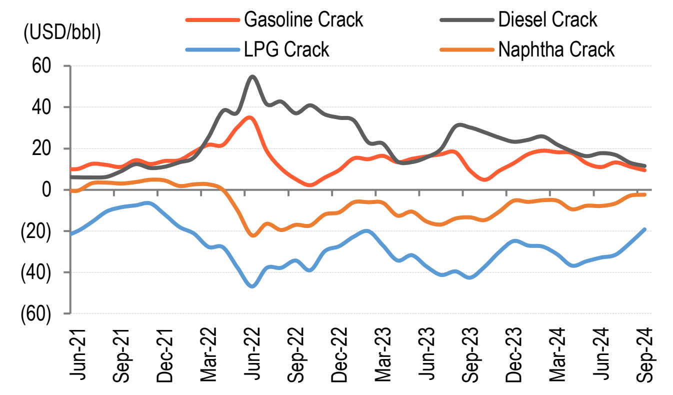
Source: Bloomberg, BOBCAPS Research

Fig 8 – Refining margin



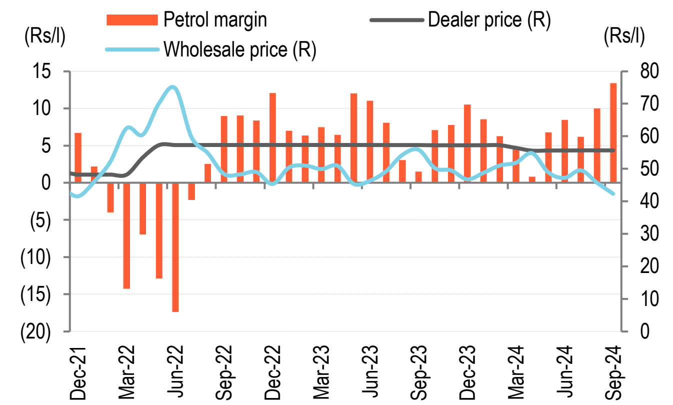
Source: LSEG Workspace, BOBCAPS Research, Notes: WC: West Coast, EC: East Coast, NW: North-west, Sin-Dubai: Singapore Dubai

Fig 9 – Petroleum product crack spread



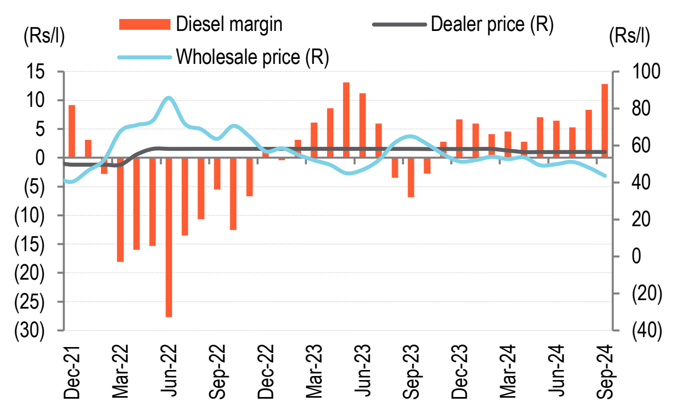
Source: Bloomberg, BOBCAPS Research

Fig 10 – Petrol marketing margin indicator



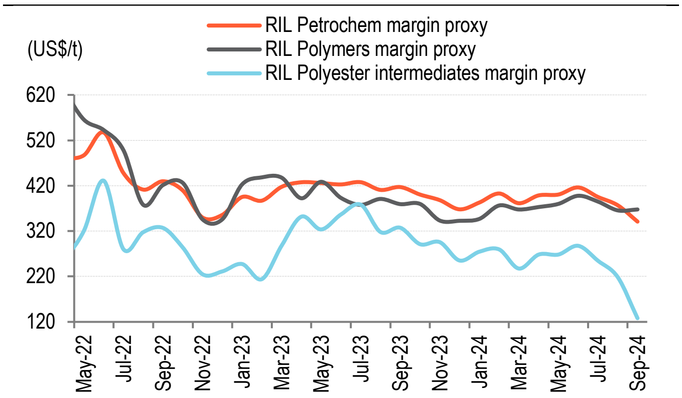
Source: CMIE, Petroleum Planning and Analysis Cell, BOBCAPS Research

Fig 11 – Diesel marketing margin indicator



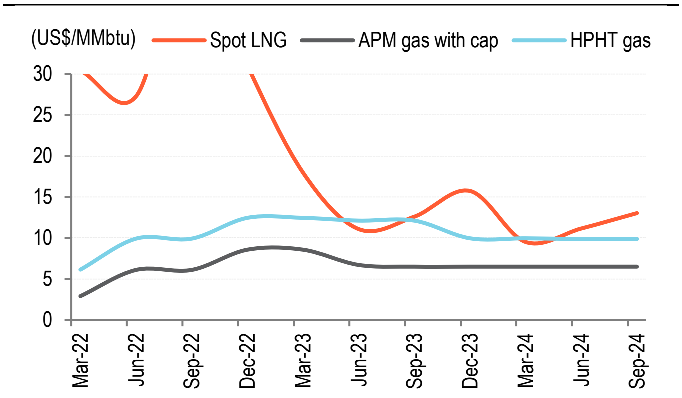
Source: CMIE, Petroleum Planning and Analysis Cell, BOBCAPS Research

Fig 12 – Petrochemical spreads



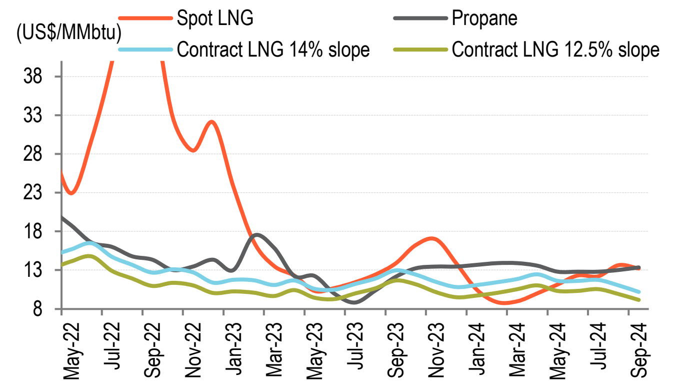
Source: Bloomberg, BOBCAPS Research

Fig 13 – Natural gas prices



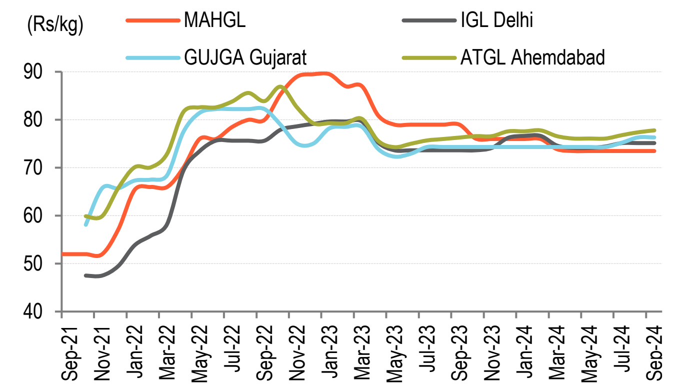
Source: Bloomberg, BOBCAPS Research

Fig 14 – Natural gas vs propane price



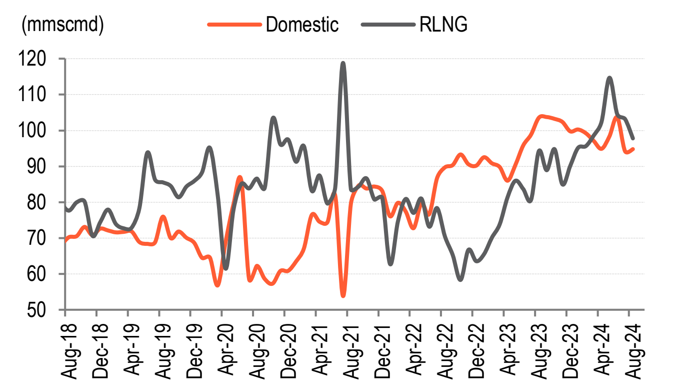
Source: Bloomberg, BOBCAPS Research

Fig 15 – CNG prices



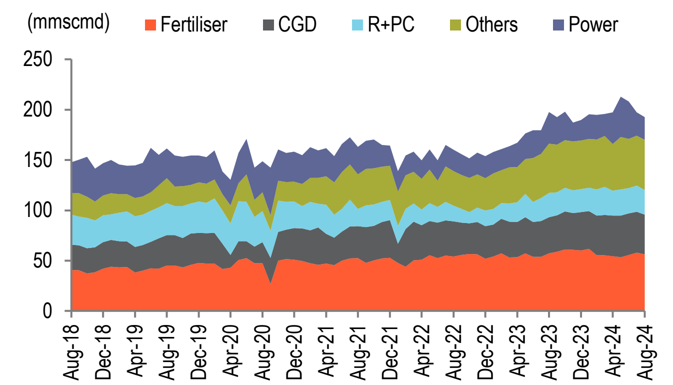
Source: Bloomberg, Petroleum Planning and Analysis Cell, BOBCAPS Research

Fig 16 – Natural gas consumption in India



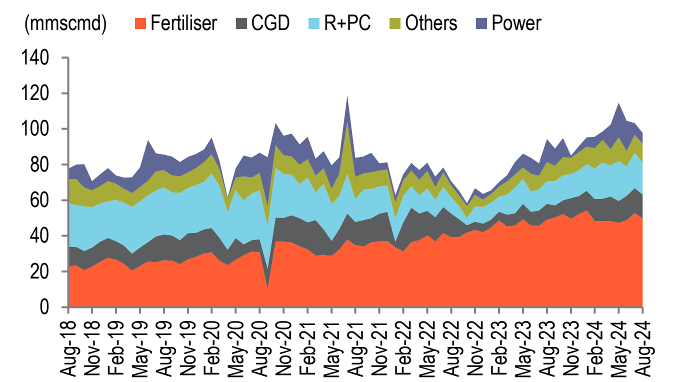
Source: CMIE, Petroleum Planning and Analysis Cell, BOBCAPS Research

Fig 17 – India's natural gas consumption breakdown



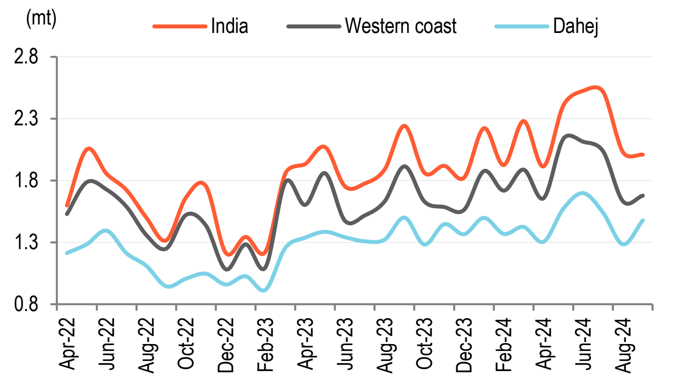
Source: CMIE, Petroleum Planning and Analysis Cell, BOBCAPS Research

Fig 18 – RLNG consumption breakdown



Source: CMIE, Petroleum Planning and Analysis Cell, BOBCAPS Research

Fig 19 – LNG imports



Source: Bloomberg, BOBCAPS Research

Fig 20 – Valuation of our Oil & Gas coverage

	CMP	Market cap	P/B (x)	EV/EBITDA (x)		P/E (x)	
	(Rs)	(Rs bn)	FY25	FY25	FY26	FY25	FY26
RELIANCE IN	2749.2	18,602	2.0	11.1	10.0	22.2	19.4
BPCL IN	338.9	1,470	1.6	7.5	7.2	9.6	9.0
HPCL IN	394.9	840	1.4	7.8	7.2	8.9	7.8
IOCL IN	164.7	2,326	1.1	6.7	6.2	9.2	8.6
IGL IN	532.5	373	3.1	13.0	12.4	17.4	16.7
MAHGL IN	1820.3	180	2.9	9.6	9.2	14.9	14.4
PLNG IN	352.0	528	2.5	8.4	7.7	13.5	11.5
GUJS IN	410.9	232	2.2	11.1	8.1	16.7	13.5

Source: Bloomberg, consensus estimates from Bloomberg, BOBCAPS Research

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