Higher crude prices impacted margins of OMC's but benefited Oil exploration companies

Companies Name	RATING
ONGC	BUY
OIL	BUY
RELIANCE	BUY
IOC	ACCUMULATE
BPCL	BUY
HINDPETRO	NEUTRAL
MGL	BUY
IGL	BUY
GSPL	BUY
GAIL	BUY
PETRONET	BUY
AEGISCHEM	BUY
DEEPIND	NEUTRAL

3QFY19 Result Review

- Oil exploring companies like Oil India and ONGC has been in sweet spot in last quarter. Revenue growth of these companies remained in the range of 20-23% whereas the PAT has grown significantly in the range of 65-75% on YoY basis. This is led by the margin improvement due to higher realization in both crude oil prices and natural gas. These companies reported higher crude realization by almost 16% as compared to Q3 FY18.
- On the volume front, oil exploring companies have posted muted growth or decline in volume. These companies are facing natural decline in their existing wells, however companies are working on track to commence exploration process on the newly developed wells. Production from new projects is expected to commence in second half of 2019.
- Oil marketing companies are most affected due to volatility in the crude oil prices. Their revenue has increased but higher inventory losses and lower refining margin has resulted in the decline of PAT. Further in Q3 of previous fiscal, oil marketing companies have clocked huge inventory gains, resulting in elevated levels of profits which scenario has reversed in Q3 FY19.
- However Reliance Industries has managed to protect its refining margins from step decline and reported GRM of 8.8 USD/bbl as compared to Singapore Refining margin of 4.3 USD/bbl. due to its higher operating efficiencies.
- City gas distribution companies like MGL, IGL have taken price hike in order to pass on the hike in gas cost on its customers during the last quarter. They have reported higher revenues and PAT on account of higher realization and volume growth to the tune of 9-11% on YoY. However companies have maintained margins levels on sequential basis.
- Mid-stream company like Aegis Logistics had done major capex to extend its capacities in both liquid and gas division and now the company is in the process of securing contracts with the OMC's in order to ensure higher off-take in the LPG sourcing volumes. Recently the company has been awarded with 1.5MT LPG sourcing contract with Indian Oil which gives us higher volume off-take from the upcoming quarters.

Volatility in crude oil prices: Key trackable for the quarter

Ongoing geo-political issues like trade war between US and China, various sanctions imposed by US on several countries has resulted in huge volatility in the crude oil prices from the last six months. In Q3 FY19, average crude oil price has declined by 19% on QoQ basis but increased by 9% on YoY basis to 4066 USD/bbl. Following spurt in the crude oil price, APM gas price has also increased by 10% to 3.36 USD/MMBTU. Now in month of Feb, crude oil price has again increased to 4113 Rs/bbl. We expect margins of the oil marketing companies are expected to improve once crude oil prices stabilizes. However oil exploration companies to continue to get benefitted if crude oil price remains above 55 USD/bbl.

View and valuation:

Q3 FY19 result was remained mixed for companies in our coverage universe. Oil exploring companies reported better results on the back of higher realizations with margin improvement whereas the oil marketing companies takes hit in refining margins and huge inventory losses. Oil marketing companies are now expected to normalize their refining margins as they have already booked huge inventory losses in the last quarter. Inventory losses are unlikely to be there in Q4 FY19 (provided if crude oil price does not fall sharply). Oil exploring companies are expected to enjoy benefits of higher realizations in Q4 FY19, while maintaining the margin at levels of Q3 FY19. In City gas horizon, companies are expected to clock volume growth to the tune of 8-10% on YoY in upcoming quarters with stable margins. Our top picks are ONGC, OIL, MGL and AEGISCHEM

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Q3 FY19 Result snapshot:

Companies Name	Sales	YoY Growth	EBITDA	EBITDA Margin	PAT	PAT Margin
Oil Exploration Companies						
ONGC	27694	20%	13896	50.2%	8263	65.0%
OIL	3514	23%	1521	43.3%	1233	75.0%
Oil Marketing Companies						
RELIANCE	156397	57%	21317	13.6%	10376	6.6%
IOC	139968	26%	3610	2.6%	716	0.5%
BPCL	88238	38%	737	0.8%	495	0.6%
HINDPETRO	77182	42%	963	1.2%	248	0.3%
Gas Distribution Companies						
MGL	824	29%	239	29.0%	148	18.0%
IGL	1665	29%	318	19.1%	198	11.9%
GSPL	454	30%	353	77.8%	174	38.2%
GAIL	19789	37%	2673	13.5%	1681	18.5%
PETRONET	10098	30%	848	8.4%	565	5.6%
Mid Stream Companies						
AEGISCHEM	1320	6%	93	7.0%	65	4.9%
DEEPIND	60	-19%	34	56.5%	15	24.9%

Valuation:

Companies Name			ROE			EPS			EV/EBITA		
	Rating	Target	FY16	FY17	FY18	FY16	FY17	FY18	FY16	FY17	FY18
Oil Exploration Companies											
ONGC	BUY	181	9.7%	9.6%	10.3%	12.6	13.9	15.5	5.4	7.3	5.8
OIL	BUY	196	9.2%	5.3%	9.6%	19.1	12.9	23.5	4.5	9.4	7.5
Oil Marketing Companies											
RELIANCE	BUY	1351	12.9%	11.3%	12.3%	47.2	47.1	57.0	11.1	11.8	11.6
IOC	ACCUMULATE	151	12.4%	19.2%	19.4%	11.3	19.7	22.0	6.5	7.5	5.7
BPCL	BUY	407	25.8%	27.1%	23.2%	32.5	37.1	36.5	7.0	10.6	9.9
HINDPETRO	NEUTRAL	244	20.7%	30.5%	26.5%	24.5	40.7	41.7	5.2	6.7	6.6
Gas Distribution Companies											
MGL	BUY	1073	18.0%	21.4%	22.8%	34.8	39.8	48.4	-	13.5	9.9
IGL	BUY	359	16.7%	19.5%	19.1%	6.0	8.2	9.6	9.7	14.8	18.2
GSPL	BUY	219	10.9%	11.0%	13.2%	7.9	8.8	11.9	9.1	12.0	11.0
GAIL	BUY	433	6.3%	9.2%	11.5%	9.9	15.5	20.5	11.5	10.2	9.5
PETRONET	BUY	282	13.8%	21.1%	21.4%	6.1	11.4	13.9	11.9	12.1	11.0
Mid Stream Companies											
AEGISCHEM	BUY	250	22.5%	14.2%	16.4%	3.4	3.6	5.9	17.8	17.1	32.6
DEEPIND	NEUTRAL	124	15.6%	18.2%	16.9%	14.0	22.0	24.2	6.1	7.8	3.6

ONGC

Snapshot	3QFY18	2QFY19	3QFY19	YoY %	QoQ %
Sales	22996	27989	27694	20%	-1%
EBITDA	10919	14471	13896	27%	-4%
EBIT	6663	10940	10419	56%	-5%
PAT	5015	8265	8263	65%	0%
EBITDA M%	47.5%	51.7%	50.2%	2.7%	-1.5%
PAT M%	21.8%	29.5%	29.8%	8.0%	0.3%

ONGC has posted strong set of numbers with revenue growth of 20% YoY to Rs. 27694 Cr while PAT has grown by 65% YoY to Rs. 8263 Cr. This robust growth is led by the higher crude oil and gas realizations. Crude oil sales volume (incl. JV) has declined by 9% on YoY basis to 5.4 MMT due to lower production and lower off-take by OMC's whereas the crude oil realization has increased by 26% YoY to 4786 Rs/bbl in Q3 FY19. Natural gas volume (incl. JV) has increased by 6% on YoY basis to 5.32 BCM whereas the realization in gas has improved by 16% on YoY basis in Q3 FY19. We expect crude oil prices to remain in the range of 52-58 USD/bbl which is likely to normalize its top-line and Pat growth in upcoming quarters. Company is expected to maintain its margin levels in upcoming quarters on the back of lower operating expenses.

OIL

Snapshot	3QFY18	2QFY19	3QFY19	YoY %	QoQ %
Sales	2853	3744	3512	23%	-6%
EBITDA	1224	1475	1521	24%	3%
EBIT	868	1109	1152	33%	4%
PAT	705	862	1233	75%	43%
EBITDA M%	42.9%	39.4%	43.3%	0.4%	3.9%
PAT M%	24.7%	23.0%	35.1%	10.4%	12.1%

Company has reported strong set of numbers with revenue growth of 23% YoY to Rs. 3512 Cr while PAT has grown by 75% YoY to Rs. 1233 Cr. This growth is led by higher realization in both crude oil and gas. Crude oil volume has declined by 5% YoY to 0.814 MMT due to the lower production and lower off take by OMC's. Oil India is ramping up its crude production from Baghjan, Dirok, Ningru and Taas oilfields. The company has already drilled 14 new oil wells and out of which currently 1 well is producing crude oil and remaining wells are expected to commercialize in upcoming fiscal.

RELIANCE

Snapshot	3QFY18	2QFY19	3QFY19	YoY %	QoQ %
Sales	99810	143323	156397	57%	9%
EBITDA	17588	21108	21317	21%	1%
EBIT	13058	15879	16080	23%	1%
PAT	9445	9516	10376	10%	9%
EBITDA M%	17.6%	14.7%	13.6%	-4.0%	-1.1%
PAT M%	9.5%	6.6%	6.6%	-2.8%	0.0%

Reliance has reported robust revenue growth of 57% YoY to Rs. 156397 Cr whereas the PAT has grown by only 10% on YoY to Rs. 10376 Cr. Revenue growth was mainly led by the higher contribution of refining, petrochemicals and retail segment. Company has reported sales growth of 37%/47%/89% on YoY basis in petrochemicals, refining and organized retail business respectively. However lower refining margins of 8.8 USD/bbl in Q3 FY19 vs. 11.6 USD/bbl in Q3 FY18 has restricted PAT growth to 10% YoY. These refining margins are expected to improve once crude price stabilizes. Jio has reported revenue and PAT of Rs. 10,383 Cr and Rs. 831 Cr respectively in the last quarter.

IOC

Snapshot	3QFY18	2QFY19	3QFY19	YoY %	QoQ %
Sales	110667	132035	139968	26%	6%
EBITDA	13269	6762	3610	-73%	-47%
EBIT	11554	4953	1749	-85%	-65%
PAT	7883	3247	716	-91%	-78%
EBITDA M%	12.0%	5.1%	2.6%	-9.4%	-2.5%
PAT M%	7.1%	2.5%	0.5%	-6.6%	-1.9%

Company has reported revenue growth of 26% YoY led by the higher realizations but huge inventory losses and lower refining margins has evaded the profits for the company during the last quarter. The company has reported PAT decline of 91% YoY to Rs. 716 Cr. In Q3 FY18, company has posted huge inventory gains of Rs. 5520 Cr vs. inventory loss of Rs. 6655 Cr in Q3 FY19. However refining margins are expected to improve in upcoming quarters if crude oil price stabilizes. On the volume front, company has reported marginal growth in refinery throughput volume of 4% on YoY basis to 19MMT and muted growth in marketing volume to 22.8 MMT during the last quarter.

BPCL

Snapshot	3QFY18	2QFY19	3QFY19	YoY %	QoQ %
Sales	70195	82885	88238	26%	6%
EBITDA	3188	2419	737	-77%	-70%
EBIT	2511	1662	-41	-102%	-102%
PAT	2144	1219	495	-77%	-59%
EBITDA M%	4.5%	2.9%	0.8%	-3.7%	-2.1%
PAT M%	3.1%	1.5%	0.6%	-2.5%	-0.9%

BPCL has posted revenue growth of 38% YoY to Rs.88238 Cr on the back of higher realizations. But higher inventory loss and lower refining margins resulted in PAT decline by 79% on YoY to Rs.495 Cr. GRM for the quarter stood at 2.8 USD/bbl vs. 7.9 USD/bbl in Q3 FY18. EBITDA margin of the company has slipped substantially from 4.5% to 0.8% in the last quarter. Sales volume growth has remained muted to 10.67 MMT in the last quarter. We expect BPCL Kochi refinery to stablize over next few quarters post which GRM at Kochi refinery could increase by 2 USD/bbl.

HINDPETRO

Snapshot	3QFY18	2QFY19	3QFY19	YoY %	QoQ %
Sales	63076	73376	77182	22%	5%
EBITDA	3159	2122	963	-70%	-55%
EBIT	2479	1383	224	-91%	-84%
PAT	1950	1092	248	-87%	-77%
EBITDA M%	5.0%	2.9%	1.2%	-3.8%	-1.6%
PAT M%	3.1%	1.5%	0.3%	-2.8%	-1.2%

Hindustan Petroleum has posted revenue growth of 42% on YoY basis to Rs.77182 Cr led by the higher realizations. In the last quarter crude oil prices has corrected sharply leading to higher inventory losses for the company which leads to the PAT decline by 86% YoY to Rs.248 Cr. GRM for the 9 months of FY19 stood at 5.17 USD/bbl vs. 7.51 USD/bbl in Q3 FY18. GRM for Q3 FY19 stood at 3.7 USD/bbl as compared to 9.0 USD/bbl in the same period of FY18. EBITDA margin of the company has slipped substantially from 5.0% to 1.2% in the last quarter. Sales volume growth has grown marginally by 3% YoY to 9.74 MMT in the last quarter.

MGL

Snapshot	3QFY18	2QFY19	3QFY19	YoY %	QoQ %
Sales	638	763	824	29%	8%
EBITDA	201	221	239	19%	8%
EBIT	174	191	206	18%	8%
PAT	124	136	148	19%	9%
EBITDA M%	31.5%	29.0%	29.0%	-2.5%	0.0%
PAT M%	19.4%	17.8%	18.0%	-1.5%	0.1%

MGL has reported strong set of numbers led by the gradual growth in both CNG and PNG segment. Company has added 26000 new PNG connections in the last quarter post which total connection count reached to 1.1 million till 31 Dec 2019. This gives the company volume growth of 7% YoY basis in PNG segment. In CNG segment, with the conversion rate of 6000-6500 vehicles per month, company was able to achieve CNG volume growth of 8% on YoY basis in the last quarter. The company is continuously adding CNG stations and new PNG stations (~ 1 lakh connections every year) which give us volume growth visibility to the tune of 6-7% CAGR over FY18-20e. The company has taken price hike in both CNG and PNG in order to pass on the hike in gas cost on its customers. With this company has maintained its EBITDA margin level on sequential basis. Going forward, company's margins are expected to improve marginally on the back of decline in spot LNG prices.

IGL

Snapshot	3QFY18	2QFY19	3QFY19	YoY %	QoQ %
Sales	1294	1569	1665	29%	6%
EBITDA	263	308	318	21%	3%
EBIT	218	258	267	22%	3%
PAT	166	187	198	19%	6%
EBITDA M%	20.3%	19.6%	19.1%	-1.2%	-0.5%
PAT M%	12.8%	11.9%	11.9%	-0.9%	0.0%

Company's revenue grew by 29% YoY whereas PAT grew by 19% YoY. This growth is mainly led by the growth in both volumes and realization. Company has added nearly 79000 new PNG gas connections during the last quarter which resulted in volume growth of 10% YoY in this segment. In CNG gas, volume has grown by 13% YoY led by the higher conversion of cars into CNG fuel. The company has taken price hike in the last quarter to pass on the hike in gas cost on its customers. However margin of the company has remained under pressure in the last quarter. Considering decline in the international prices of gas, margins are expected to improve in upcoming quarters.

GSPL

Snapshot	3QFY18	2QFY19	3QFY19	YoY %	QoQ %
Sales	350	598	454	30%	-24%
EBITDA	297	516	353	19%	-32%
EBIT	253	473	309	22%	-35%
PAT	182	323	174	-4%	-46%
EBITDA M%	84.9%	86.3%	77.8%	-7.1%	-8.5%
PAT M%	52.0%	54.0%	38.3%	-13.7%	-15.7%

GSPL has reported muted growth of 3% YoY in transmission volumes in the last quarter. The growth is largely impacted due to the lower off-take by the power plants. The volume growth is likely to remain muted for Q4 FY19 on account of lower off take by RIL. However, volume growth is likely to pick up from FY20 onwards on the back of rising gas demand in our country and limited domestic production. Volume growth in the range of 8-9% is expected in FY20e. In the last quarter, margins impacted due to higher employee cost and other expenses which are expected to normalize in next 4Q FY19

GAIL

Snapshot	3QFY18	2QFY19	3QFY19	YoY %	QoQ %
Sales	14414	19275	19789	37%	3%
EBITDA	1970	2927	2673	36%	-9%
EBIT	1906	2943	2530	33%	-14%
PAT	1262	1963	1681	33%	-14%
EBITDA M%	13.7%	15.2%	13.5%	-0.2%	-1.7%
PAT M%	8.8%	10.2%	8.5%	-0.3%	-1.7%

Company's results were in line with our estimates. In the last quarter company has reported 37% YoY growth in revenue and 33% YoY growth in PAT. Volume in gas marketing segment has grown by 9% YoY to 96TMT, volume in LPG transmission business grown by 11% YoY to 1035 MSCMD whereas in gas transmission volume has remained almost flat in the last quarter. Going ahead management has guided for transmission volume growth of 5-7% in upcoming years as more fertilizers customers are coming. On margins front, company has gained significant marketing margins in trading US LNG in the last two quarters and management expects margins to be remained at almost same level in Q4 FY19.

PETRONET

Snapshot	3QFY18	2QFY19	3QFY19	YoY %	QoQ %
Sales	7757	10745	10098	30%	-6%
EBITDA	847	884	848	0%	-4%
EBIT	743	780	744	0%	-5%
PAT	529	563	565	7%	0%
EBITDA M%	10.9%	8.2%	8.4%	-2.5%	0.2%
PAT M%	6.8%	5.2%	5.6%	-1.2%	0.4%

Company has reported 9% YoY decline in volume due to the lower off-take by power plants and 2-3 cargoes less are imported. However management expects this demand to restore in up-coming quarters. Capacity utilization at Kochi terminal has remained subdued to 10% in the last quarter. However, progress on Kochi Mangalore pipeline is on track and is expected to get commissioned in June 2019. Post commissioning Kochi volume may go up to 1-1.2 MTPA from current level of 0.5 MTPA. On the margins front, company has reported lower margins when compared to Q3FY18, due to the higher volatility in the spot LNG prices in the last few quarters. We expects margins to revive once, crude prices get stabilized.

AEGISCHEM

Snapshot	3QFY18	2QFY19	3QFY19	YoY %	QoQ %
Sales	1442	1017	1426	-1%	40%
EBITDA	72	86	89	24%	3%
EBIT	63	74	76	21%	3%
PAT	54	59	58	7%	-2%
EBITDA M%	5.0%	8.5%	6.2%	1.2%	-2.2%
PAT M%	3.7%	5.8%	4.1%	0.3%	-1.7%

Company has reported decline in revenue growth of 8% YoY to Rs.1320 Cr whereas PAT has grown by 25% YoY to Rs.65 Cr. in the last quarter. With the major capex done, company is now looking to expand its throughput volumes. But in the last quarter, LPG sourcing volumes have declined by 11% YoY to 273 MMT due to the lower off-take by BPCL, which has not come out with new sourcing contracts. However the company has secured 1.5MT LPG sourcing contract with IOC for 2019. This will help the company to achieve double digit volume growth in FY20e. On the margins front, margin improvement in the LPG division has helped the company to grow EBITDA margins by 200bps on YoY to 7% in Q3 FY19. We expect margins to remain at current levels in upcoming quarter and volume growth to drive the momentum ahead.

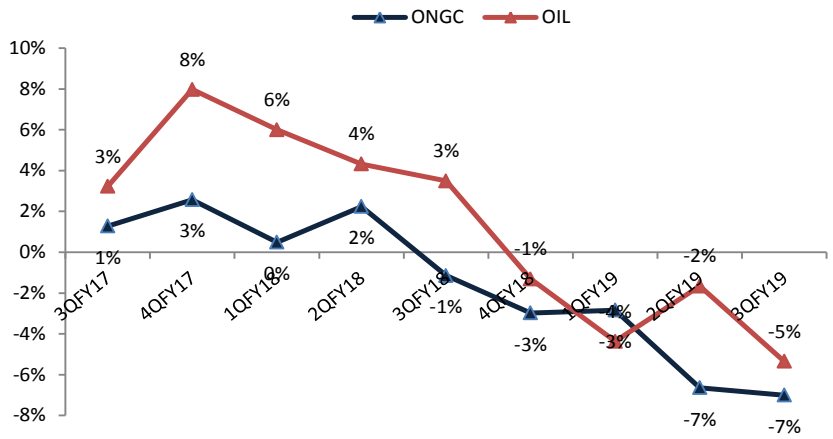
DEEPIND

Snapshot	3QFY18	2QFY19	3QFY19	YoY %	QoQ %
Sales	75	55	60	-20%	9%
EBITDA	38	30	34	-11%	13%
EBIT	28	21	25	-11%	19%
PAT	18	13	15	-17%	15%
EBITDA M%	50.7%	54.5%	56.7%	6.0%	2.1%
PAT M%	24.0%	23.6%	25.0%	1.0%	1.4%

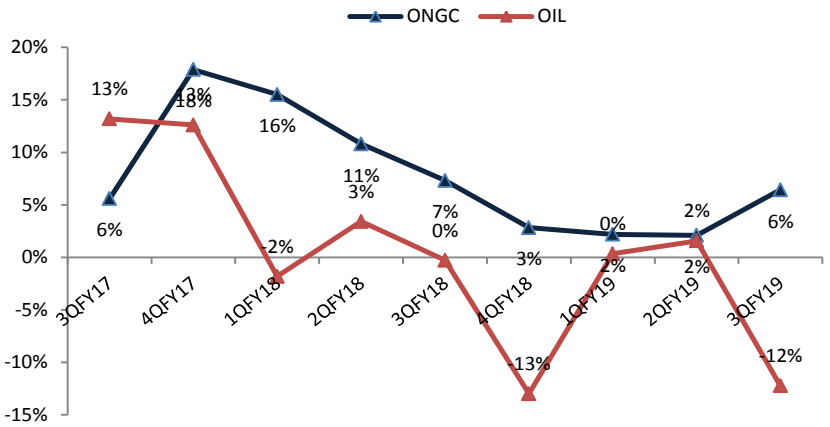
Deep Industries Q3 FY19, results were in-line with our estimates. Revenue has declined by 19% YoY to Rs.60 Cr whereas PAT has declined by 18% YoY to Rs.15 Cr. This decline is led by the cancellation of gas compression contract by the ONGC in last fiscal. However the company has now started receiving contracts from ONGC post cancellation dispute. The current order book stands at Rs.600 Cr. Company's overseas subsidiary Deep International DMCC has reported revenue of Rs. 46 Cr and PAT of Rs. 16.4 Cr during 9 months of FY19. Company has completed drilling of 17 wells under integrated services business and expects revenue to start flowing from next fiscal.

OIL EXPLORATION COMPANIES

Crude Volume Growth

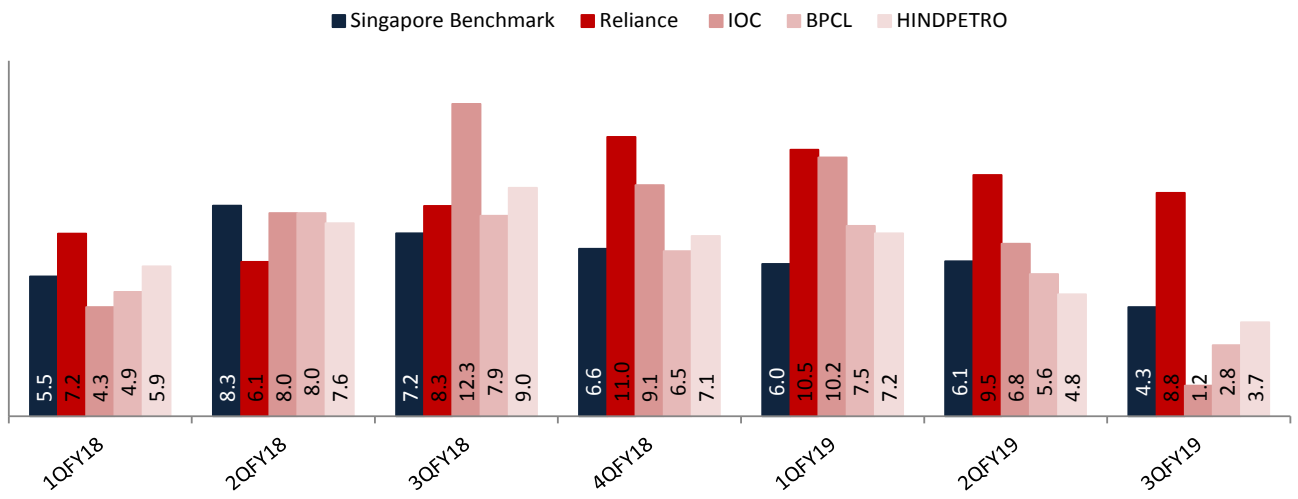


Natural Gas Volume Growth



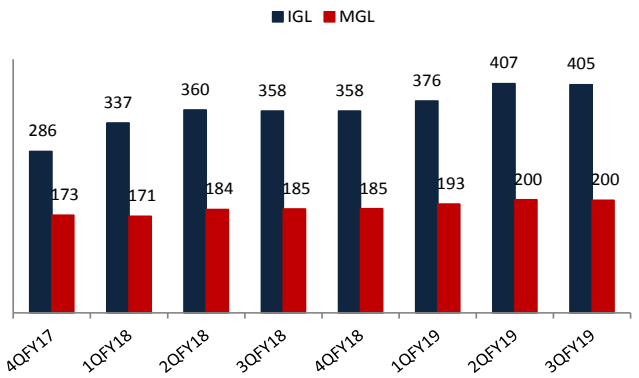
OIL MARKETING COMPANIES

GRM Trend (USD/bbl)

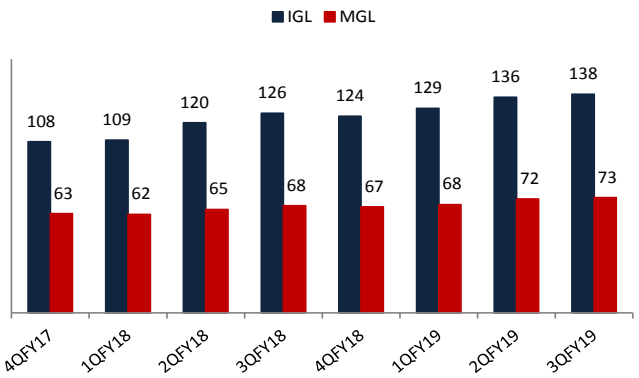


Gas Distribution Companies

CNG volumes(MSCM)

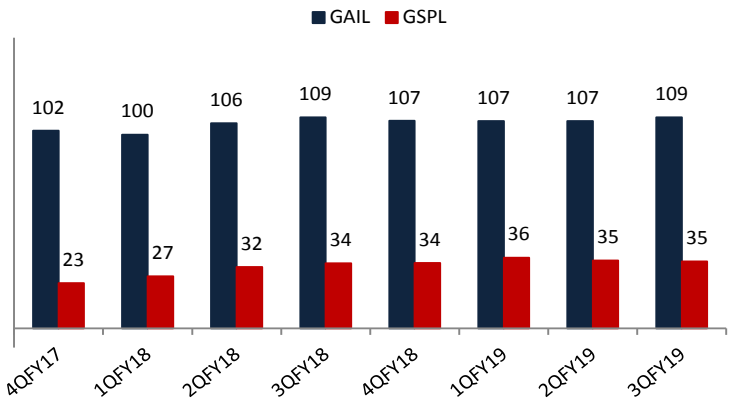


PNG volumes(MSCM)



Distribution Companies

Gas Transmission volumes (MMSCMD)



Management Commentary

Company	Topic	Details
MGL	Volume	Management has retained is volume growth guidance to the range of 6-7% for FY19&20e. Vehicle conversion rate has not improved significantly. Currently CNG conversion rate is 6000-6500 per month. This conversion rate is dominated by auto-rickshaws' followed by cars.
	Margin	EBITDA of 8/SCM is likely to be achieved this financial year. But these margins are depended on multiple factors like forex change, APM quota, and industrial sales
	Capex	Revised capex guidance for FY19&20e is Rs. 375 Cr each from earlier Rs. 300 Cr. Company plans to open 20 new CNG stations every year.
AEGISCHEM	LPG volumes	Company has now bagged with 1.5 MT contract with IOC for 2019. Mgt. expects huge volume growth in sourcing volumes in 2019.
	Liquid volumes	Kandla 100,000 KL liquid which was commissioned in Oct 2018, has reached full capacity utilization in just 3 months and has contributed significantly in revenue but on EBITDA level this terminal has not contributed because at new capacities, co. started with low value products and slowly starts moving to high value products.
	Expansion	Company is planning additional 100,000 KL expansion at Kandla liquid port, which will enhance total capacity to 240,000 KL in next 3-4 years.
PETRONET	Volume	In Q3 FY19, volume has declined by 9% to 202 TBTU due to lower off-take by power plants. In Q3, 2-3 cargoes less are imported. Management expects this demand to restore in up-coming quarters.
	Tariff	Tariff at Dahej has increased from 1 Jan, 2019 by almost 5%.
	Tax	The company has claimed tax benefit under Section 80 IA of Rs.150 Cr. for the whole year and Rs. 40 Cr for Q3 FY19.
	Kochi Mangalore pipeline	Kochi pipeline is expected to commission by June 2019. Post commissioning Kochi volume may go up to 1-1.2 MTPA from current level of 0.5 MTPA. Capacity utilization at Kochi terminal capacity utilization remains at ~10%.
	Dahej Expansion	Dahej expansion is expected to complete by June 2019, company has requested various customers to take additional volumes. In next 2-3 years company should be able to achieve its capacity utilization up-to its name plate capacity of 17.5MTPA.
GAIL	Petrochemicals volume	GAIL's petrochemical unit at PATA has been first in India to produce the value added Metellocene film grade polymer. In FY20, mgt. is expecting full utilization in this segment in FY20.
	Transmission volumes	Guidance for transmission volume growth is 5-7% in upcoming years as more fertilizers customers are coming. Power sector has hardly taken any volume from Gail this year. Even the open Access terminal that the company has given to book our capacity is almost flat at present.
	Dividend	Management has guided for the same range of dividend in upcoming year.
	Tariff	Tariff revision for various pipelines is due and management expects revision in days to come, but no specific timeline.
	Jagdishpur Haldia pipeline	Received capital grant of Rs.578 Cr has been received in last quarter and total Rs. 2000 Cr has received till date. With this company has received 40% of total grant approved for Jagdishpur Haldia Bokaro Dhamra pipeline

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