

Oil & Gas, Chemical & Telecom Sector

Institutional Equity Research

Results Preview | 10 July 2021

Second COVID Wave Impact to Reflect in Sequential Performance

We expect sectoral earnings to be impacted in 1QFY22E due to: (1) rally in Brent crude prices to US\$68.6/ bbl during the quarter (up 118% YoY and up 13% QoQ); (2) rise in spot LNG price to US\$9.5/mmbtu with no major recovery in Singapore benchmark GRM (US\$2.1/bbl); (3) 9% QoQ decline in sales volume of oil products; and (4) 1% QoQ decline in India's total gas consumption. We expect increase in cost of gas per unit basis for the City Gas Distribution (CGD) companies owing to: (1) higher crude-linked LNG prices; and (2) depreciation of INR. Along with this, total sales volume of the CGD players is expected to be impacted due to state-wide lockdowns led by second COVID wave. We expect the gas companies to witness continued better performance compared to the OMCs.

Our Top Picks : Gujarat Gas, IGL, Aarti Industries & SRF

Gujarat Gas (GUJGA)

A Blip in Volume

State-wide lockdown due to the second COVID wave hit GUJGA's industrial sales volume during the quarter. We expect the company to post 15% QoQ fall in total volume. In Apr-May'21, it witnessed volume loss at Morbi region, as the ceramic tile manufacturers could not supply products to other states on account of inter-state movement restriction. However, the exit volume was ~11mmscmd in Jun'21. Cost of gas on per unit basis is expected to increase by 29% YoY and 3% QoQ, which would be compensated by Rs5/scm price hike in industrial PNG in Feb'21. GUJGA is likely to post EBITDA/scm of Rs5.5 in 1QFY22E vs. Rs5.1 in 4QFY21. We expect the company's net sales to decline by 12% QoQ to Rs30.1bn, while its EBITDA is likely to decline by 7% QoQ to Rs5.1bn in 1QFY22E.

Mahanagar Gas (MAHGL)

Challenge Remains on CNG Volume Recovery Front

Total sales volume of Mahanagar Gas (MAHGL) is likely to fall by 16% QoQ in 1QFY22E due lockdown in Mumbai and suburban areas. While the CNG sales volume dropped by 25-30% from the normal level in Apr-May'21 (as per the company), we expect 21% QoQ drop in CNG volume in 1QFY22E. Along with this, the restaurants PNG sales volume was also impacted adversely. However, its PNG domestic sales are likely to improve on sequential basis. 3% QoQ rise in cost of gas/unit can be attributed to INR depreciation. We expect MAHGL to report ~Rs12/scm EBITDA in 1QFY22E (vs. Rs12.2/scm in 4QFY21), while its net profit is seen at Rs1.75bn (down 17% QoQ).

Indraprastha Gas (IGL)

Exit Volume Touched 6.4mmscmd in June'21

IGL total sales volume is likely to fall by 17% QoQ in 1QFY22E due lockdown in Delhi and National Capital Region (NCR). While its CNG sales volume dropped by ~30% from normal level in Apr'21-May'21 (as per the company), we expect 20% QoQ drop in CNG volume. However, PNG domestic sales volume is likely to improve on QoQ basis. As higher crude price is expected to result in higher LNG prices, we expect cost of gas on per unit basis to increase by 6% QoQ. We expect IGL to post Rs4bn EBITDA (down 18% QoQ) and net profit of Rs2.6bn (down 20% QoQ) in 1QFY22E.

Petronet LNG (PLNG)

Lockdown to Drag Dahej Volume; Kochi Utilization Seen at 30%

Petronet LNG (PLNG) is likely to report total re-gas volume of 209 tbtu (up 10% YoY and down 4% QoQ). As per Bloomberg data, re-gas volume of Dahej terminal would be 190tbtu (up 5% YoY and down 7% QoQ) mainly due to lockdown. We expect Kochi terminal to post higher utilization on the back of commissioning of Kochi-Mangalore pipeline. We expect, PLNG to post EBITDA of Rs9.4bn (up 3% YoY and down 14% QoQ) and report Rs5.5bn net profit (up 6% YoY and down 13% QoQ) in 1QFY22E.

Research Analyst:

Yogesh Patil

Contact : (022) 41681371 / 9763153797

Email : Yogesh.Sh.Patil@relianceada.com

Research Associate:

Pratik Oza

Contact : (022) 41681371 / 9960358990

Email : pratik.oza@relianceada.com

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GAIL (GAIL)

Proxy Play on Higher Crude Prices

Gas Transmission: We expect GAIL's gas transmission volume to decline by 6% QoQ in 1QFY22E due to lower gas consumption by the CGD players, power utilities and refineries. **Natural Gas Trading:** Landed US HH LNG at average price of ~US\$7.5/mmbtu is lower than the average spot LNG price of US\$9.5/mmbtu and crude-linked average LNG price of US\$9.2/mmbtu. We believe, GAIL's US LNG non-contracted (back-to-back) volume would earn higher trading margin and could see continuation of margin up-tick in scenario of higher crude prices, higher spot LNG prices and stable US HH gas prices. We believe GAIL to post US\$0.20/mmbtu gas trading EBITDA (up 44% QoQ). **Petrochemical:** We expect 68% utilisation at production levels due to plant shutdown for 3-4 weeks. EBITDA is seen at Rs1.9bn (down 74% QoQ) due to higher LNG cost. **LPG & OLHC:** Despite rise in LPG prices in line with the crude prices, GAIL would not be able to reap the benefits, as it faced rich gas supply issue for LPG production in 1QFY22. We expect GAIL to post overall EBITDA of Rs20.2bn (up 225% YoY and down 21% QoQ) and overall net profit of Rs13.8bn (up 441% YoY and down 28% QoQ) in 1QFY22E.

Gujarat State Petronet (GUJS)

Volume Growth Despite Lockdown

Gujarat State Petronet (GUJS) is likely to post total gas transmission volume of ~37mmscmd (up 10% YoY and up 8% QoQ) in 1QFY22E. Transmission volume sequentially improved to 37mmscmd on the back of KG basin gas flowing to Gujarat (Reliance refineries). Post ramp-up in Vedanta (RJ) fields, gas is transmitted through GUJS pipelines to Gujarat-based industries. Despite lower gas consumption by the CGD players and power industry, GUJS is likely to post growth in transmission volume. We expect the company to post EBITDA of Rs3.7bn (up 8% YoY and up 9% QoQ) and net profit of Rs2.3bn (up 16% YoY and up 12% QoQ) in 1QFY22E.

Bharat Petroleum Corporation Limited (BPCL)

Inventory Gain Continues to Aid Financials

BPCL is expected to post 34% QoQ decline in EBITDA owing to 11% QoQ fall in sales volume of oil products, 8% QoQ drop in crude refinery throughput and no major recovery in refining margins. However, the crude prices have inched up from the record low to the highest level of the last 2 years to ~US\$68.6/bbl, which will lead to inventory gain to the tune of ~US\$1.4/bbl. But higher prices are denting its net marketing margin on petrol. We expect BPCL's reported GRM to come in at ~US\$3.5/bbl, while its net marketing margin on diesel and petrol seen at Rs2.44/liter and -Rs1.8/liter for the period.

Castrol (CSTRL)

Second COVID Wave to Impact Volume

Castrol hiked the prices of MCO/PCO/CVO/industrial lubricants by ~Rs21/Rs25/Rs20/Rs27 per liter in the 1st week of Jun'21 due to rise in base oil prices on account of higher crude prices. As per PPAC data, India's lubricant and grease consumption grew by 58% YoY in Apr'21-May'21. The second COVID wave and partial lockdown in few states impacted the automobiles retail sales volume across segments in May'21. While we expect lubricants volume to be impacted sequentially, the price realisation is expected to improve on the back of price hike across segments. Castrol's revenue is likely to grow by 107% YoY, while its EBITDA is expected to grow by 186% YoY to Rs2.8bn. We expect its net profit to double on YoY basis to Rs1.9bn.

Our View: India's gas consumption, which has witnessed 2.3% CAGR over FY17-FY21, is expected to clock 9% CAGR over FY21-FY24E, largely on account of: (1) upcoming fertilizer capacities (6.5MMTPA), which are expected to consume ~12mmscmd of gas; (2) commencement of CGD in >228 new geographical areas; and (3) new refining and petrochemical capacity. India's gas production is also expected to increase by ~35mmscmd over FY21-FY24E with commissioning of new LNG terminals (~20MMTPA) in the next 3 years. **We remain constructively positive on CGD business and Gujarat Gas and IGL remain our top picks owing to decent volume growth visibility over the next 3 years.**

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SRF (SRF)

Margin to Moderate

We expect SRF's chemical and packaging film business to grow by 45%/50% YoY on the back of: (1) dedicated agrochemical plant commissioned in 4QFY21 (however, the impact of lockdown is expected to be a short-term aberration on the domestic fluorochemicals segment, which would hinder its revenue growth); (2) commissioning of BOPP line in Thailand and production ramp-up at Hungary unit are expected to aid packaging segment growth in 1QFY22E. We expect packaging segment's margin to dip by 300bps QoQ to 19% due to commissioning of new facility. Technical textile business is expected to report 120% YoY growth with improvement in margin owing to revival of industrial growth (auto). In technical segment, import substitution plays an important role. SRF's revenue is likely to grow by 54% YoY, while its EBITDA is expected to grow by 45% YoY to Rs5.3bn. We expect its net profit to improve by 67% YoY to Rs2.9bn in 1QFY22E.

Aarti Industries (ARTO)

Both Segments to Drive Growth

While we expect its specialty chemicals segment to report 18% YoY growth, rise in benzene prices (raw material) could drag margin. Volume expansion can be seen led by higher demand from discretionary sectors like automobile/retail sector, while non-discretionary sectors like agrochemicals and pharmaceuticals to remain intact. Further, its pharma business is expected to continue its growth trajectory with 10% YoY growth. Aarti's revenue is likely to grow by 29% YoY, while its EBITDA is expected to grow by 43% YoY (on lower base) to Rs2.6bn. PAT is expected to grow by ~58% YoY in 1QFY22E.

Our View: Indian specialty chemicals companies delivered resilient performance in FY21 and the industry is set to grow to US\$40bn by FY25E. "China+1" strategy is the key catalyst for global firms to turn towards India. China exported chemicals worth ~US\$73.7bn in CY20. However, the situation has changed in the wake of COVID-19, as several downstream MNCs, which used to import bulk of their chemical requirements from China, are now contemplating to supplement this supply from elsewhere to reduce dependence on China. This is a positive trigger for the Indian specialty chemicals players. **Considering the long-term structural tailwind for the specialty chemicals sector in India, Aarti Industries and SRF remain our top picks.**

Indus Tower (INDUSTOW)

Tenancy Addition to be the Only Savior

While tower addition is a big concern due to lockdown imposed by several states in 1QFY22 due to surge in COVID-19 cases, tenancy addition is expected to gain momentum led by additional spectrum buyout in Mar'21 as well as incremental subscribers addition by Bharti Airtel and Vodafone Idea during Feb'21 and Mar'21. We expect revenue to rise by 3% QoQ and 9% YoY to Rs66.5bn, while EBITDA is seen at ~Rs34.6bn (down 1% QoQ and up 10% YoY). Operating cost is expected to be higher mainly due to significant increase in diesel prices. PAT is expected to rise by 17% YoY to ~Rs 13.1bn, as energy reimbursement percolates directly to PAT. We expect capex rollout to be subdued on the back of fund-raising issues faced by its biggest client (Vodafone Idea).

Our View: We expect India's telecom tower companies to face headwind in next 2 years led by: (1) very minimal capex on tower side, as public launch of 5G will take more than a year; (2) survival of Vodafone-Idea is under threat (led by upcoming debt repayment of Rs60bn in FY22E and deferred spectrum payment of Rs82bn); and (3) likelihood of the tower companies becoming mere infrastructure providers, as the incremental capex of the telcos will be incurred towards software up-gradation only. Thus, the linear tenancy is unlikely to witness any meaningful upside in the next 2 years. **We maintain our SELL rating on Indus Tower.**

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Exhibit 1: Quarterly Estimates

(Rs mn)	Sales					EBITDA				
	1QFY22E	1QFY21	YoY (%)	4QFY21	QoQ (%)	1QFY22E	1QFY21	YoY (%)	4QFY21	QoQ (%)
GAIL	1,67,042	1,20,875	38.2	1,55,491	7.4	20,213	6,226	224.6	25,648	(21.2)
Petronet LNG	92,449	48,836	89.3	75,753	22.0	9,366	9,099	2.9	10,911	(14.2)
BPCL	11,04,795	5,06,169	118.3	9,87,556	11.9	33,316	39,158	(14.9)	50,578	(34.1)
Mahanagar Gas	6,129	2,618	134.2	7,177	(14.6)	2,621	800	227.7	3,162	(17.1)
IGL	13,402	6,386	109.9	15,506	(13.6)	4,036	834	383.7	4,918	(17.9)
GUJGA	30,132	10,829	178.3	34,289	(12.1)	5,150	1,857	177.2	5,543	(7.1)
GSPL	5,156	4,644	11.0	4,650	10.9	3,739	3,462	8.0	3,442	8.6
Aarti Industries	12,071	9,373	28.8	12,094	(0.2)	2,595	1,820	42.6	2,603	(0.3)
SRF	23,724	15,452	53.5	26,077	(9.0)	5,275	3,633	45.2	6,433	(18.0)
Castrol	10,140	4,906	106.7	11,387	(11.0)	2,728	953	186.3	3,401	(19.8)
Indus Tower	66,541	60,859	9.3	64,918	2.5	34,636	31,526	9.9	34,901	(0.8)

	PBT (Rs mn)					PAT (Rs mn)				
	1QFY22E	1QFY21	YoY (%)	4QFY21	QoQ (%)	1QFY22E	1QFY21	YoY (%)	4QFY21	QoQ (%)
GAIL	18,466	3,562	418.4	26,116	(29.3)	13,818	2,555	440.8	19,077	(27.6)
Petronet LNG	7,357	6,966	5.6	8,561	(14.1)	5,506	5,202	5.8	6,234	(11.7)
BPCL	25,175	29,262	(14.0)	52,445	(52.0)	18,839	20,762	(9.3)	1,19,401	(84.2)
Mahanagar Gas	2,351	607	287.2	2,867	(18.0)	1,759	453	288.8	2,129	(17.3)
IGL	3,518	435	708.3	4,400	(20.0)	2,633	318	726.9	3,310	(20.5)
GUJGA	4,289	783	447.9	4,682	(8.4)	3,204	587	446.2	3,499	(8.4)
GSPL	3,110	2,727	14.1	2,833	9.8	2,327	1,994	16.7	2,079	11.9
Aarti Industries	1,660	1,049	58.3	1,731	(4.1)	1,277	803	59.0	1,361	(6.1)
SRF	3,958	2,262	75.0	5,117	(22.6)	2,951	1,769	66.8	3,814	(22.6)
Castrol	2,661	885	200.7	3,323	(19.9)	1,996	654	205.2	2,436	(18.1)
Indus Tower	17,193	15,033	14.4	17,958	(4.3)	13,057	11,206	16.5	13,638	(4.3)

Source: Rsec Research

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Oil & Gas Prices Trend - Macro-Focused Charts

Exhibit 2: Brent Oil Prices Quarterly Trend

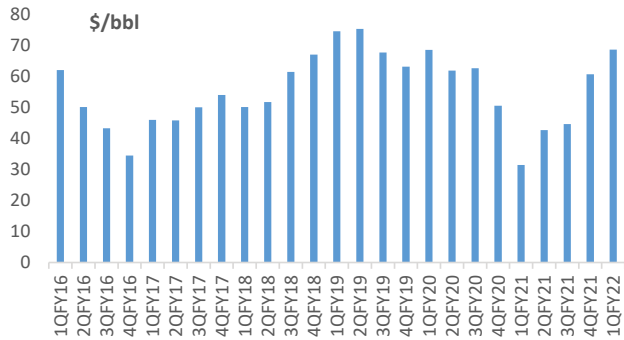


Exhibit 3: WTI Oil Prices Quarterly Trend

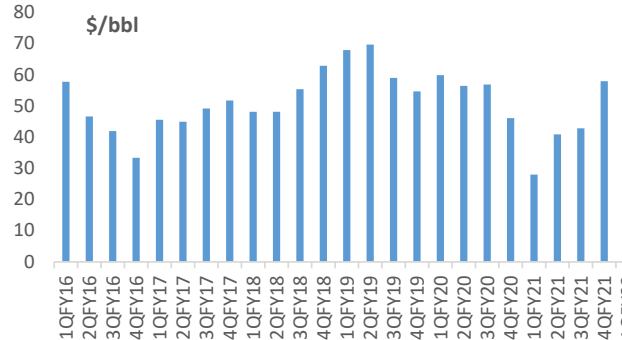
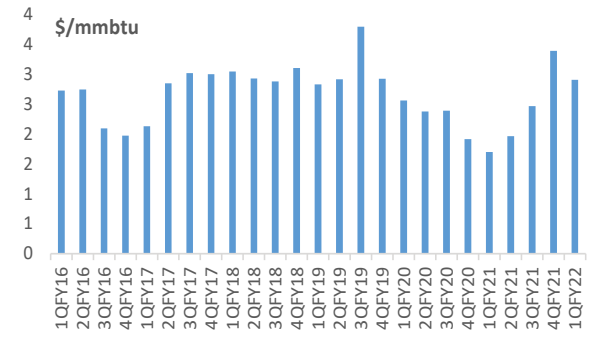


Exhibit 4: Henry Hub Gas Prices Quarterly Trend



Oil Product Crack Trends - Macro-Focused Charts

Exhibit 5: Gasoline (Petrol) cracks Quarterly Trend

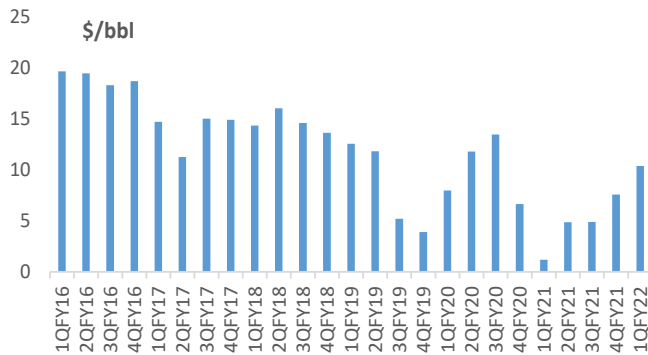


Exhibit 6: Diesel cracks Quarterly Trend

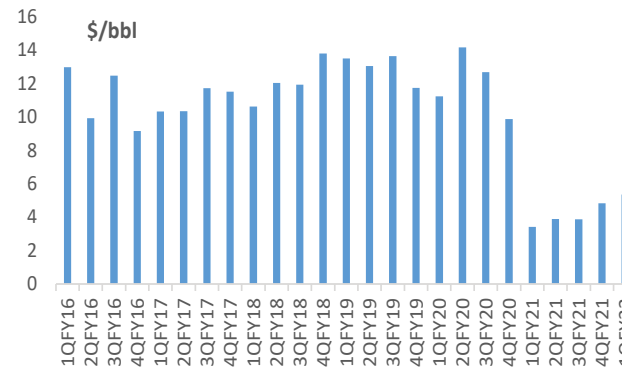
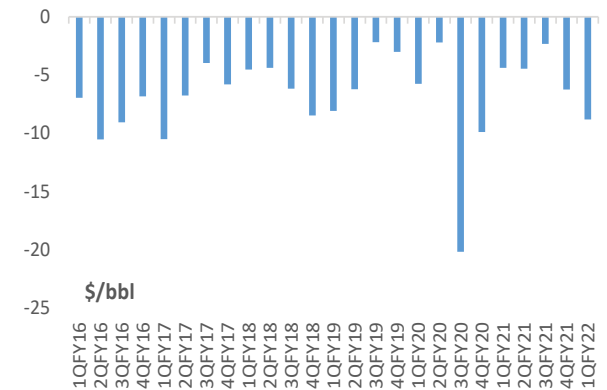


Exhibit 7: Fuel Oil cracks Quarterly Trend



Source: Bloomberg, Rsec Research

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Oil Product Crack Trends - Macro-Focus Chart

Exhibit 8: Jet/Kero cracks Quarterly Trend

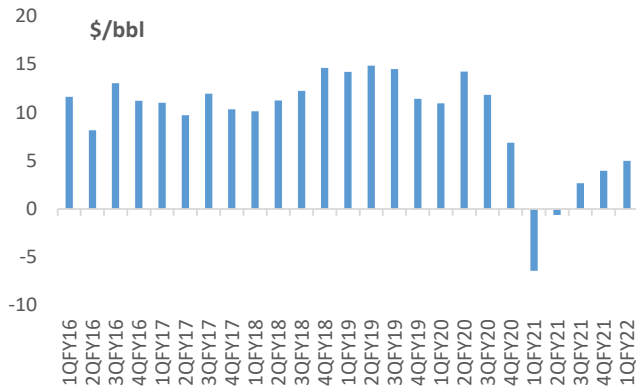


Exhibit 9: Napththa cracks Quarterly Trend

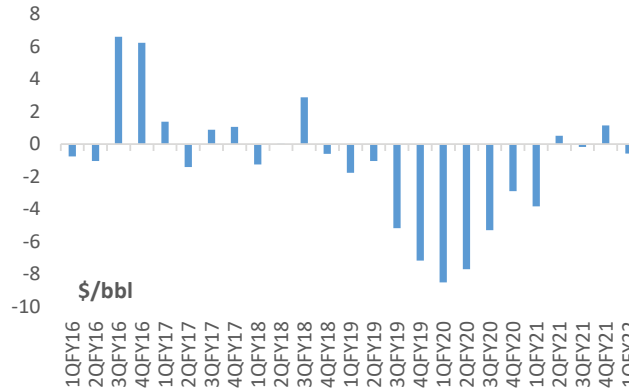
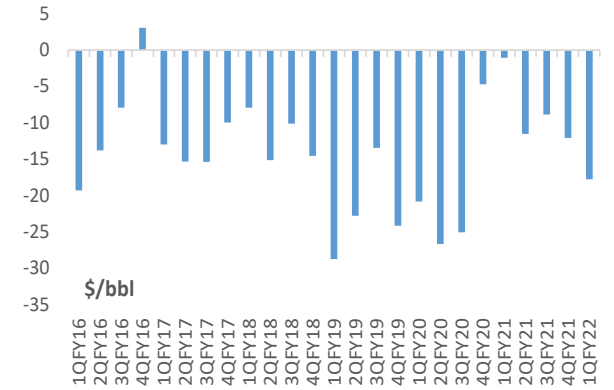


Exhibit 10: LPG cracks Quarterly Trend



Crude Spread - Macro-Focus Chart

Exhibit 11: Brent - Dubai crude price differentials

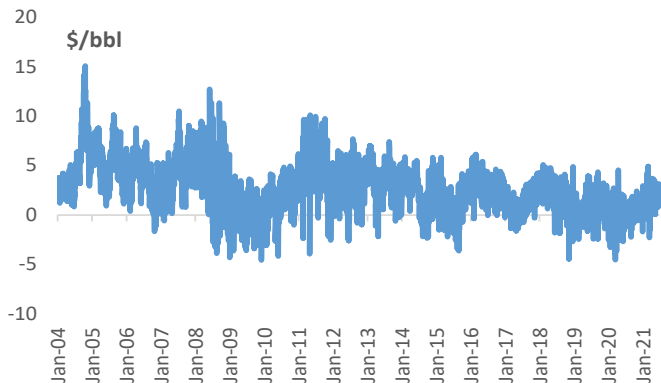


Exhibit 12: Brent - Dubai crude price differentials

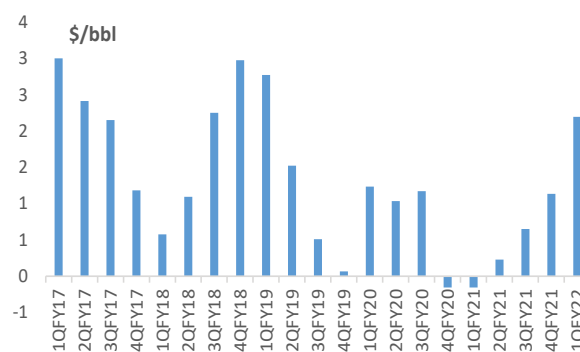
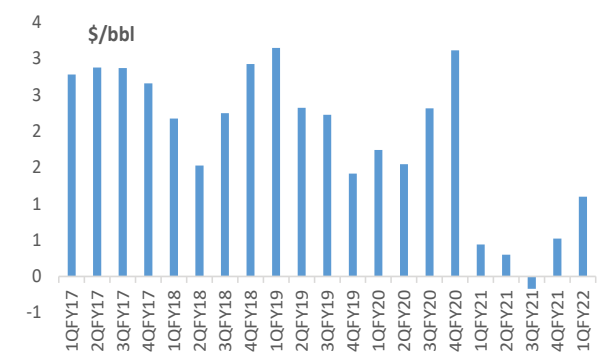


Exhibit 13: Arab Light - Arab Heavy crude price differentials



Source: Bloomberg, Reuters, Rsec Research

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Gas Charts

Exhibit 14: India's Domestic Gas consumption

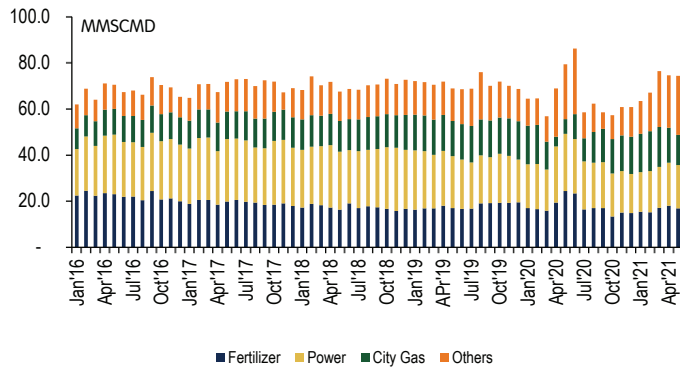


Exhibit 15: India's Imported gas consumption

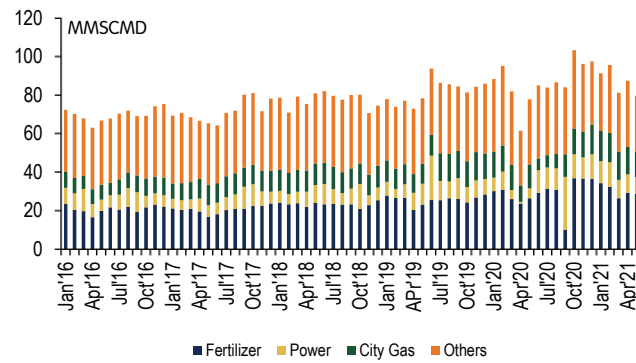
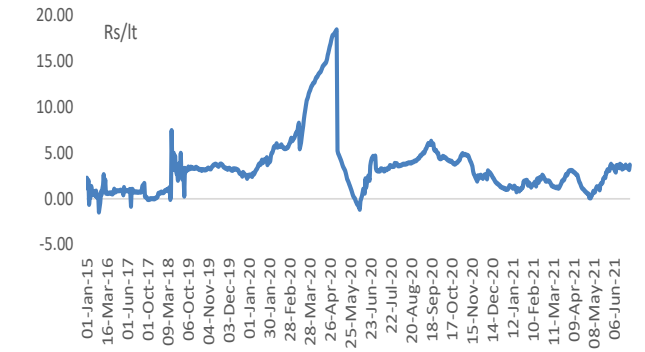


Exhibit 16: Net Marketing Margins of IOCL on Diesel



Margins

Exhibit 17: Net Marketing Margins of IOCL on Petrol

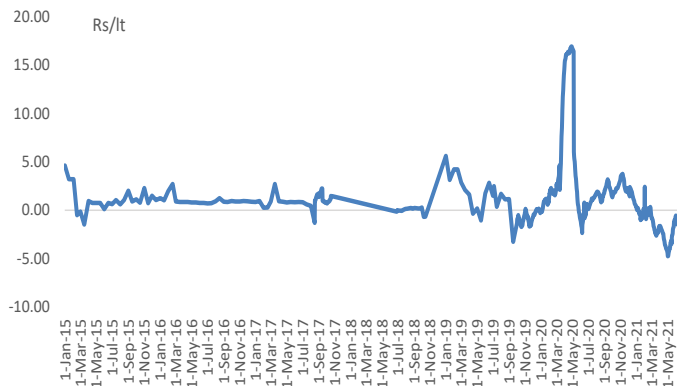


Exhibit 18: LPG - Domestic Gas price spread (\$/toonne)

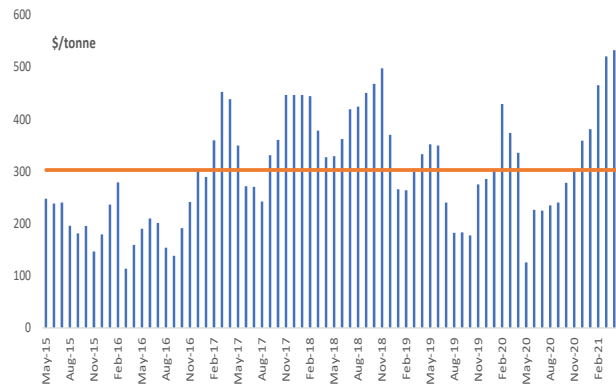
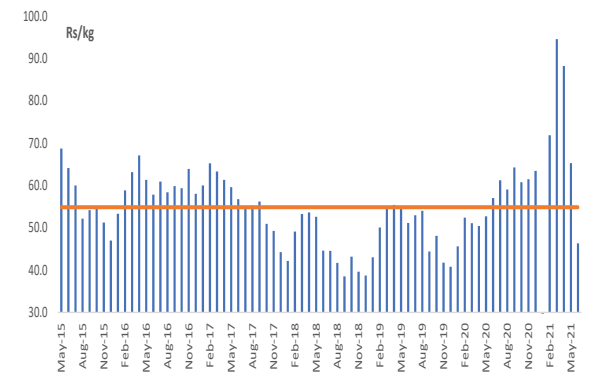


Exhibit 19: GAIL's Petrochemical Indicator (PE - Spot LNG prices in Rs/kg)



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Exhibit 20: Oil & Gas - 1QFY22 Results Preview

Company (Rs mn)	1QFY22E	1QFY21	YoY (%)	4QFY21	QoQ (%)	Comments
GAIL						
Revenue	1,67,042	1,20,875	38.2	1,55,491	7.4	GAIL's gas transmission volume to decline by 6% QoQ in 1QFY22E due to lower gas consumption by the CGD players, power utilities and refineries
EBITDA	20,213	6,226	224.6	25,648	(21.2)	NG trading to witness highest EBITDA on account of higher spot LNG and crude prices.
PBT	18,466	3,562	418.4	26,116	(29.3)	
PAT	13,818	2,555	440.8	19,077	(27.6)	
Petronet LNG						
Revenue	92,449	48,836	89.3	75,753	22.0	Likely to report total re-gas volume of 209fbtu (+10% YoY & -4% QoQ), Dahej terminal to contribute ~91% volume
EBITDA	9,366	9,099	2.9	10,911	(14.2)	Kochi Terminal to post higher utilization on the back of commissioning of Kochi-Mangalore Pipeline
PBT	7,357	6,966	5.6	8,561	(14.1)	
PAT	5,506	5,202	5.8	6,234	(11.7)	
BPCL						
Revenue	11,04,795	5,06,169	118.3	9,87,556	11.9	Recovery in Crude oil price will lead to inventory gain, however volumes to remain tepid
EBITDA	33,316	39,158	(14.9)	50,578	(34.1)	Decline in EBITDA owing to fall in sales volume of oil products, drop in crude refinery throughput and no recovery in refining margins
PBT	25,175	29,262	(14.0)	52,445	(52.0)	Net marketing margins to be negative ~Rs1.8 & positive Rs2.4 on petrol & diesel respectively
PAT	18,839	20,762	(9.3)	1,19,401	(84.2)	
Mahanagar Gas						
Revenue	6,129	2,618	134.2	7,177	(14.6)	Total sales volume is likely to fall by 16% QoQ due to lockdown in 1QFY22E, with CNG sales expected to fall by ~21%
EBITDA	2,621	800	227.7	3,162	(17.1)	Decline in EBITDA on QoQ basis is on account of 3% increase in cost of gas/unit
PBT	2,351	607	287.2	2,867	(18.0)	
PAT	1,759	453	288.8	2,129	(17.3)	

Continued...

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Oil & Gas - 1QFY22 Results Preview

Company (Rs mn)	1QFY22E	1QFY21	YoY (%)	4QFY21	QoQ (%)	Comments
IGL						
Revenue	13,402	6,386	109.9	15,506	(13.6)	Sales volume is likely to fall by 17% QoQ, with decline in CNG volume to be ~20%, PNG domestic is expected to fare well
EBITDA	4,036	834	383.7	4,918	(17.9)	Cost of gas is expected to increase by 6% QoQ on the back of higher crude prices
PBT	3,518	435	708.3	4,400	(20.0)	
PAT	2,633	318	726.9	3,310	(20.5)	
GUJGA						
Revenue	30,132	10,829	178.3	34,289	(12.1)	Lockdown imposed to hurt volumes, likely to fall by 15% QoQ. Sales hit of ceramic manufacturers will lead to tepid sales volume
EBITDA	5,150	1,857	177.2	5,543	(7.1)	Cost of gas to increase by 3% QoQ, however to be compensated by Rs5/scm price hike in industrial PNG in Feb'21.
PBT	4,289	783	447.9	4,682	(8.4)	
PAT	3,204	587	446.2	3,499	(8.4)	
GSPL						
Revenue	5,156	4,644	11.0	4,650	10.9	GUJS is likely to post total gas transmission volume of ~37mmscmd (up 10% YoY and up 8% QoQ) in 1QFY22E
EBITDA	3,739	3,462	8.0	3,442	8.6	Flow of KG basin gas to Gujarat and ramp up in Vedanta (RJ) fields are main factors in sequential improvement (~37mmscmd) in transmission volume
PBT	3,110	2,727	14.1	2,833	9.8	
PAT	2,327	1,994	16.7	2,079	11.9	
Castrol						
Revenue	10,140	4,906	106.7	11,387	(11.0)	Subdued vehicular movement on account of partial lockdown in 2QCY21 will impact volumes.
EBITDA	2,728	953	186.3	3,401	(19.8)	Hike in prices by castrol in June'21 to counter the increase in base oil (raw material) prices.
PBT	2,661	885	200.7	3,323	(19.9)	
PAT	1,996	654	205.2	2,436	(18.1)	

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Chemicals - 1QFY22 Results Preview

Company (Rs mn)	1QFY22E	1QFY21	YoY (%)	4QFY21	QoQ (%)	Comments
Aarti Industries						
Revenue	12,071	9,373	28.8	12,094	(0.2)	Specialty chemicals to report 18% YoY growth, while pharma business is expected to continue its growth trajectory with 10% YoY growth.
EBITDA	2,595	1,820	42.6	2,603	(0.3)	
PBT	1,660	1,049	58.3	1,731	(4.1)	
PAT	1,277	803	59.0	1,361	(6.1)	
SRF						
Revenue	23,724	15,452	53.5	26,077	(9.0)	Short term blip to be seen in domestic fluorochemicals segment, however chemical & packaging segment to witness robust growth of 45% & 50% on YoY basis.
EBITDA	5,275	3,633	45.2	6,433	(18.0)	EBITDA to witness contraction followed by new capacity addition, however technical textile to grow on the back of revival in industrial growth (auto).
PBT	3,958	2,262	75.0	5,117	(22.6)	
PAT	2,951	1,769	66.8	3,814	(22.6)	

Continued...

Oil & Gas, Chemical & Telecom Sector

Institutional Equity Research

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Telecom - 1QFY22 Results Preview

Company (Rs mn)	1QFY22E	1QFY21	YoY (%)	4QFY21	QoQ (%)	Comments
Indus Tower						
Revenue	66,541	60,859	9.3	64,918	2.5	Tenancy addition, followed by moderate rise in rental revenue & energy reimbursement will lead to 9.3% YoY and 2.5% QoQ rise in revenue
EBITDA	34,636	31,526	9.9	34,901	(0.8)	Expect capex rollout to be subdued on the back of the fund-raising issues faced by its biggest client (Vodafone Idea)
PBT	17,193	15,033	14.4	17,958	(4.3)	
PAT	13,057	11,206	16.5	13,638	(4.3)	

Source: RSec Research

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