

# Oil & Gas

## Our latest O&G updates



## Marketing sub-sector favored; turning bullish on CGDs

- In Feb'25, we noted that valuations for O&G stocks appeared inexpensive ([Pockets of value re-emerging](#)) and highlighted HPCL, BPCL, GAIL and MAHGL as our top picks. In the last two-and-half months, HPCL/BPCL have delivered a return of 26%/25%, aided by super-normal marketing profitability. GAIL has had a strong run (+15%) on the back of tariff-related announcements, while APM de-allocation concerns have weighed on MAHGL.
- Marketing remains preferred sub-sector; turning positive on CGDs for first time since Nov'23: Our positive stance on retail marketing is driven by: 1) our negative bias for crude oil prices (FY26E: USD65/bbl), 2) we do not see sharp cuts in retail prices of MS/HSD. These factors, along with healthy ~4% marketing volume CAGR, should drive robust marketing profitability. We are now turning positive on the city gas distribution (CGD) sector for the first time since Nov'23 ([link](#)) as we see potential for margin expansion. In the last 18 months, when CGD was not our preferred sub-sector, IGL/MAHGL/GUJGA delivered a return of +2%/+30%/+3%.
- Refining performance to remain lackluster, in our view: We have a cautious stance on refining over FY26-1HFY28 amid strong net refinery capacity additions of 0.6mb/0.9mb per day over CY25/CY26 (substantial portion of this is from India). Even after assuming a six-month delay in the commissioning of IOCL's ~347kb/d refinery expansions, net refinery capacity additions globally remain heavy at ~0.4mb/0.95mb per day in CY25/CY26. Moreover, IEA recently downgraded its global oil demand growth forecast for CY25 by 300mb/d.
- Upstream remains our relatively less preferred sector despite cheap valuations: We forecast Brent to average USD65/bbl in FY26/FY27 but believe downside risks remain to both oil and gas realizations. Every USD1/bbl decline in Brent prices leads to a ~2% decline in FY26E/FY27E PAT for both ONGC SA and OINL SA. While valuations look cheap at 0.8x/1.1x FY27E PB for ONGC SA/OINL SA, we remain on the sidelines and prefer marketing/CGD. Our FY26/FY27 EPS estimates are 15%/11% below consensus for ONGC SA and 12%/15% below consensus for OINL SA.
- Our top picks: HPCL & MAHGL: At 1.3x FY27E consol. P/B, HPCL remains our preferred pick among OMCs, given its leverage toward marketing. Falling raw material costs, coupled with a robust CNG volume growth outlook, should drive earnings for CGDs. MAHGL remains our preferred pick among CGDs.

## Marketing remains our preferred sub-sector within O&G

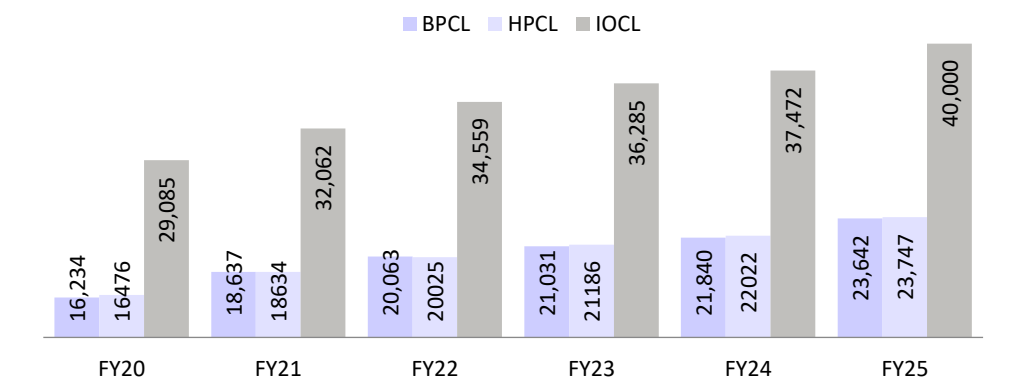
- Weak crude price outlook beneficial for marketing margins: MS/HSD marketing margins have remained robust over the past 10 months and averaging INR13.6/12.3 per lit in 4QFY25. While Brent crude prices averaged ~USD75.8/67.7 per bbl in 4QFY25/Apr'25, we forecast Brent to average USD65/bbl in FY26/FY27 (earlier: USD70/bbl).
- Recently, US EIA, in its short-term energy outlook for Apr'25, decreased its Brent crude price forecast for CY25/CY26 by USD6/USD7 per bbl to USD68/61 per bbl, driven by rising uncertainty around global oil demand growth and potential for additional supply by OPEC+.
- We estimate every USD1/bbl change in global MS/HSD prices affects MS/HSD gross marketing margins by INR0.5/INR0.5 per lit (6%/12% vs. current levels).

- W.e.f. 8th Apr'25, the government has increased excise duty on both MS and HSD by INR2/lit. While the increase in excise duty will affect OMCs' marketing margins, we do not expect any impact on our earnings estimates as the current marketing margins, averaging above ~INR12/lit, are significantly above our assumption of INR3.3/lit for both MS/HSD. Further, upside risks to OMC earnings persist even after this excise duty hike.

#### IOCL/BPCL/HPCL added retail outlets at 7%/8%/8% CAGR over last five years

- **Retail outlet expansion by OMCs continues at a steady pace:** IOCL/BPCL/HPCL have added retail outlets at a CAGR of 7%/8%/8% over the last five years. HPCL/IOCL aim to establish 26,000/44,000 retail outlets by FY28/FY26.
- **Private players doubling down on marketing:** According to a recent [news article](#), in order to take advantage of robust marketing margins, private players saw a 19.7% YoY increase in their combined domestic diesel and petrol retail sales in FY25. In contrast, state-run companies saw a 0.6% decline in diesel sales, while petrol sales rose by 6.4%. Overall, the combined sales growth for both private and public retailers stood at 7.5% for petrol and 1.2% for diesel.

**Exhibit 1: PSU OMCs' retail outlets**



Source: Company, MOFSL

#### Weaker crude and lower slope – the twin emerging tailwinds for CGDs

- As highlighted in our [recent note](#) on GUJGA, we believe that a weak crude price outlook, together with a lower pricing slope for natural gas (given the impending LNG glut), will drive down gas costs.
- While Brent crude prices averaged ~USD75.8/bbl in 4QFY25, current Brent price is ~USD62/bbl. We forecast Brent to average USD65/bbl in FY26/FY27 (earlier: USD70/bbl). We estimate every USD10/bbl decline in Brent prices reduces the landed cost of natural gas by USD2.3/mmbtu.
- Further, according to our discussions with the listed and unlisted Indian CGD companies, new long-term gas contracts are already being signed for a 1.0-1.3% lower slope given the expected surge in LNG supply in 2HFY26 and beyond.
- **We do not foresee sharp cuts in MS/HSD retail prices:** While crude oil prices have seen a sharp correction recently, we believe that the government will increase excise duty on MS/HSD instead of any sharp MS/HSD retail price cuts.
  - The government has already increased excise duty on MS/HSD by INR2/lit recently. Previously, excise duty on MS/HSD was increased by INR10/INR13 per lit in May'20 ([link](#)). However, later in Nov'21 and May'22, the government reduced excise duty on MS/HSD cumulatively by INR13/INR16 per lit ([link](#)).
  - Hence, we think the risk of CNG prices being under pressure due to declining MS/HSD prices is overblown.

### Exhibit 1: Margin improvement driven by lower Brent price and pricing slope % for long-term contracts

Particulars	Unit	Scenario 1	Scenario 2
Brent price	USD/bbl	75.0	65.0
Pricing slope	%	13.5	12.5
LNG price	USD/mmbtu	10.1	8.1
<b>LNG Price post import duty</b>	<b>USD/mmbtu</b>	<b>10.4</b>	<b>8.3</b>
Regasification charges	USD/mmbtu	0.8	0.8
Transportation tariff	USD/mmbtu	0.9	0.9
<b>N Gas price pre tax</b>	<b>USD/mmbtu</b>	<b>12.1</b>	<b>10.1</b>
VAT @ 15%	USD/mmbtu	1.8	1.5
<b>LNG landed cost</b>	<b>USD/mmbtu</b>	<b>13.9</b>	<b>11.6</b>
<b>LNG landed cost</b>	<b>INR/scm</b>	<b>44.4</b>	<b>36.9</b>

Source: Company, MOFSL

### Exhibit 2: Margin improvement fueled by the decline in spot LNG prices

Particulars	Unit	Scenario 1	Scenario 2
LNG price	USD/mmbtu	14.5	13.5
LNG Price post import duty	USD/mmbtu	14.9	13.8
Regasification charges	USD/mmbtu	0.8	0.8
Transportation tariff	USD/mmbtu	0.9	0.9
N Gas price pre tax	USD/mmbtu	16.6	15.6
VAT @ 15%	USD/mmbtu	2.5	2.3
<b>LNG landed cost</b>	<b>USD/mmbtu</b>	<b>19.1</b>	<b>17.9</b>
<b>LNG landed cost</b>	<b>INR/scm</b>	<b>60.9</b>	<b>57.1</b>

Source: Company, MOFSL

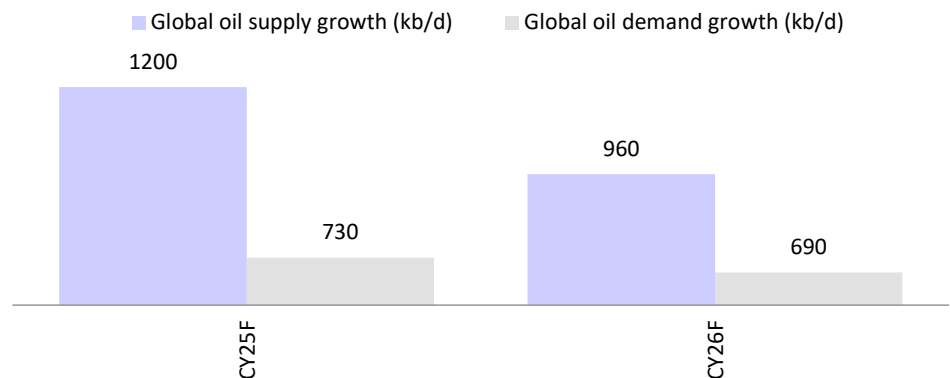
### Oversupply in crude market likely to continue amid ongoing uncertainties

- In its Apr'25 oil market report ([link](#)), IEA cut its CY25 oil demand growth forecast to ~0.7mb/d (~1mb/d earlier) and estimated global oil supply to exceed demand by ~470kb/270kb per day in CY25/CY26. We also highlight that while OPEC+ surplus crude oil production capacity has declined over the last six months from a 30-month high of 6.3mb/d in Sep'24, it still remained high at 5.6mb/d in Mar'25.
- **CY25 demand estimate downgraded by ~300kb/d:** IEA reduced its global crude oil demand projection for CY25 by ~300kb/d to 730kb/d amid rising trade tensions that have dampened the economic outlook. In CY26, IEA estimates oil demand growth to slow down further to 690kb/d.
- **Global oil supply to exceed demand by ~470kb/270kb per day in CY25/CY26:** IEA reduced its global crude oil supply projection for CY25 by ~260kb/d to 1.2mb/d, as a result of reduced production in the US and Venezuela. In CY26, IEA estimates oil supply growth of 960kb/d.
- **Restricting supply from OPEC+ members currently overproducing to counter the un-winding of voluntary cuts:** As per IEA, while the unexpected move by eight OPEC+ members to triple their planned output increases for May'25 to 411kb/d will widen the oil supply-demand gap, the actual rise in production may be significantly lower, as several countries, including Kazakhstan, the UAE, and Iraq, are already producing well above their assigned targets. Notably, Kazakhstan's crude oil production hit a record 1.8mb/d, driven by the launch of the Chevron-operated Tengiz oilfield expansion project. This places the country ~390kb/d above its OPEC+ production quota.
- **Global crude run forecast lowered; refining margins show mixed trends:** Global crude runs are projected to average 83.2mb/d in CY25 and demand growth forecasts are lowered, reducing the expected annual increase by 230kb/d to

340kb/d. In CY26, throughput is anticipated to rise by 360kb/d to 83.6mb/d. Refining margins showed mixed trends in Mar'25, declining in the Atlantic Basin but improving for sour crude processing in Singapore. The drop in profitability was largely driven by weaker middle distillate cracks.

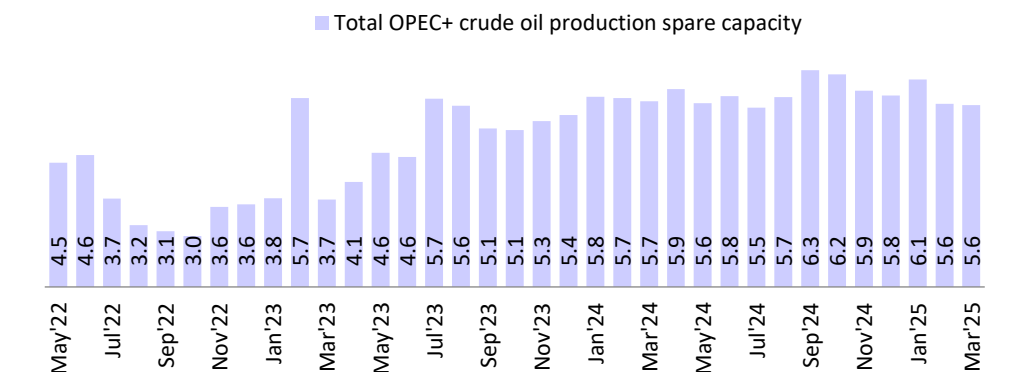
➤ **Inventories rise in Feb'25:** Global oil inventories increased by 21.9mb in Feb'25. Crude, NGLs, and feedstocks rose by 41.2mb, with OECD onshore inventories contributing 14.1mb to the increase. Meanwhile, oil product stocks declined by 19.2mb, as a 34.2mb drop in the OECD offset gains in oil held on water. Preliminary data suggests that global oil inventories continued to rise in Mar'25, driven by crude stock builds in non-OECD regions and higher volumes of oil on water.

**Exhibit 2: Global oil supply to exceed demand by ~470kb/270kb per day in CY25/CY26**



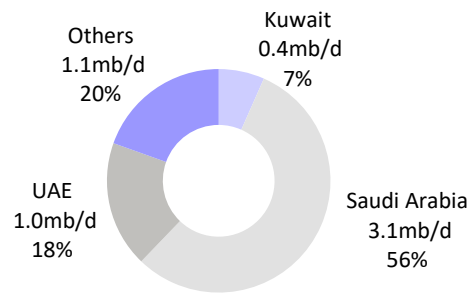
Source: IEA, MOFSL

**Exhibit 3: OPEC+ surplus crude oil production capacity (mb/d)**



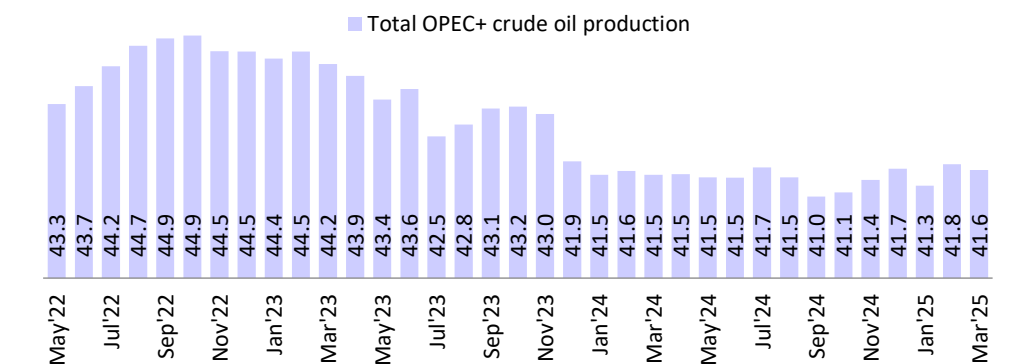
Source: IEA, MOFSL

**Exhibit 4: OPEC+ Mar'25 crude production spare capacity break-up (5.6mb/d)**



Source: IEA, MOFSL

**Exhibit 5: OPEC+ crude oil production (mb/d)**



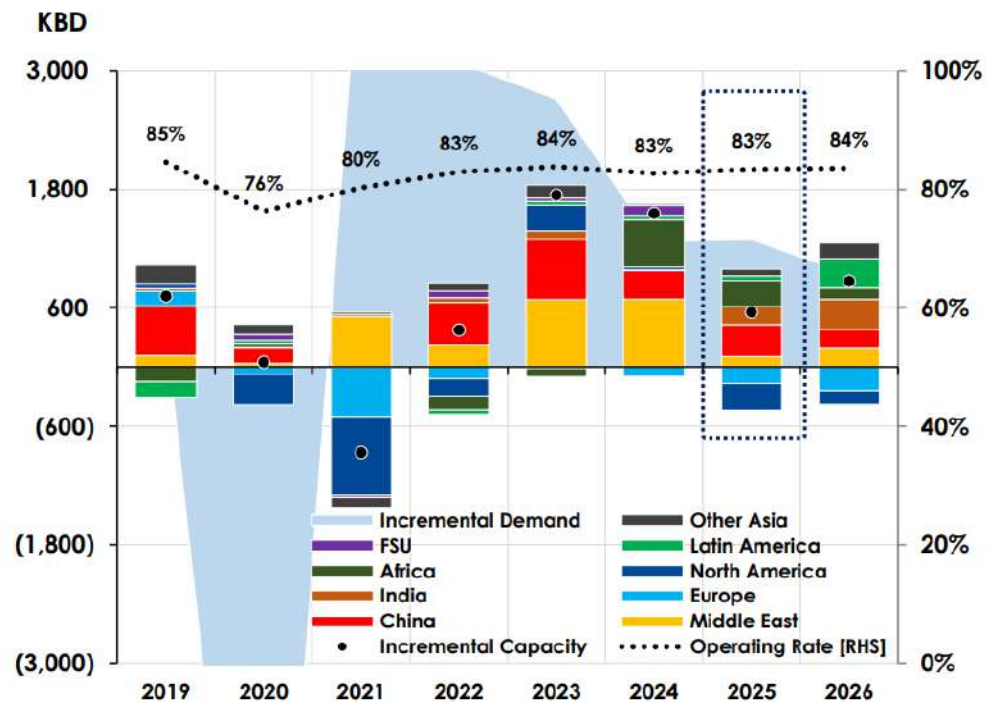
Source: IEA, MOFSL

#### ~1.5mb/d net refining capacity additions over CY25-26

- Thai Oil expects ~1.5mb/d net additions and expansions in refining capacity globally over CY25-26 (FY24: ~1.6mb/d). Capacity additions will be led by Asia: 1) 320kb/d Aramco-Norinco Panjin refinery, expected to be commissioned in 2HCY26, 2) 100kb/d Pertamina Balikpapan modernization, to be fully complete in CY26, and 3) India's 180kb/d HPCL Barmer, 201kb/d IOCL Panipat refinery expansion, 86kb/d IOCL Gujarat refinery expansion and 60kb/d IOCL Barauni refinery expansion. However, ~347kb/d capacity addition led by IOCL, slated for commissioning in CY25 and CY26 are expected to get delayed by six months.
- While global oil demand inched up by ~0.9mb/d in CY24, IEA global oil demand is expected to grow by ~0.7mb/d both in CY25/26.

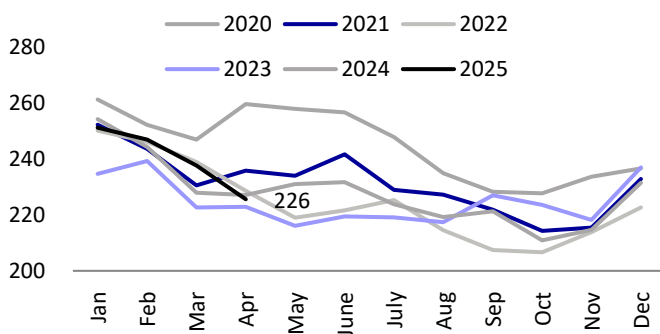
Even after assuming a six-month delay in the commissioning of IOCL's ~347kb/d refinery expansions, net refinery capacity additions globally remain heavy at ~0.4mb/0.95mb per day in CY25/ CY26.

### Exhibit 6: Global net refining capacity additions vs. additional demand



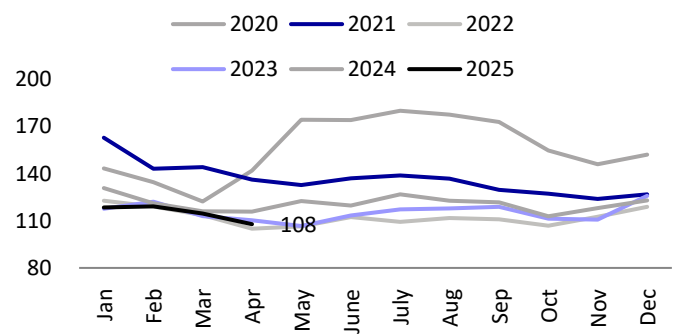
Source: Thai Oil, MOFSL

### Exhibit 7: US gasoline inventory (mb)



Source: Reuters, MOFSL

### Exhibit 8: US gasoil inventory (mb)

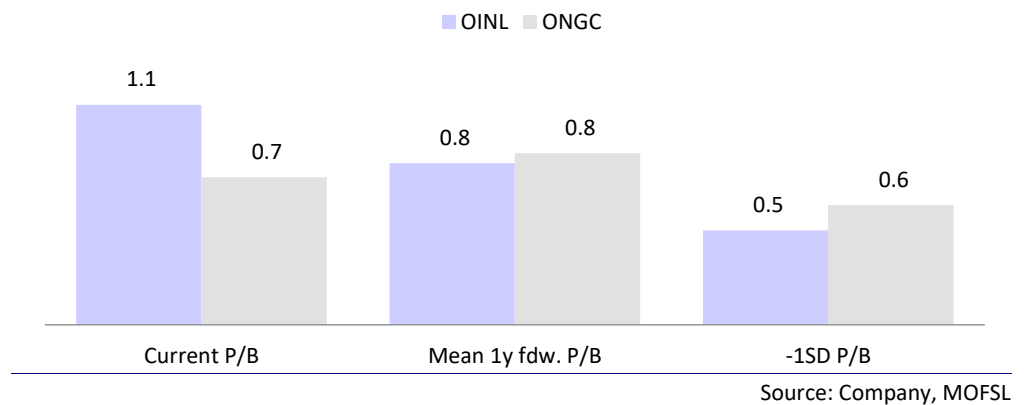


Source: Reuters, MOFSL

**Valuations attractive for ONGC/OINL at 0.7x/1.1x 1-yr fwd. P/B**

- ONGC/OINL have corrected 14%/19% over the past 4 months and now trade at 0.8x/1.2x 1-yr fwd P/B. While OINL still above its 1-yr fwd mean +1SD P/B, ONGC now trades at par with its LTA 1-yr fwd P/B. At current prices, ONGC/OINL have a dividend yield of ~5%/~3.5%.
- While modelling upstream companies, we forecast Brent to average USD65/bbl in FY26/FY27. However, crude prices could potentially slip lower if global real GDP growth worsens, as tariff-related macroeconomic challenges linger. We estimate every USD1/bbl decline in Brent prices leads to a ~2% decline in FY26/FY27 PAT for ONGC/OINL.
- Additionally, any decline in crude oil prices below USD65/bbl may lead to a fall in APM/NW gas realizations, which are priced at 10%/12% slope to Brent.
- While valuations look cheap at 0.7x/1.1x FY27E PB for ONGC/OINL SA, earnings could face further downside risks. Our FY26/FY27 EPS estimates are 15%/11% below consensus for ONGC SA and 12%/15% below consensus for OINL SA.



**Exhibit 9: ONGC/OINL trades at par with LTA/mean + 1 S.D. 1yr fwd. P/B**


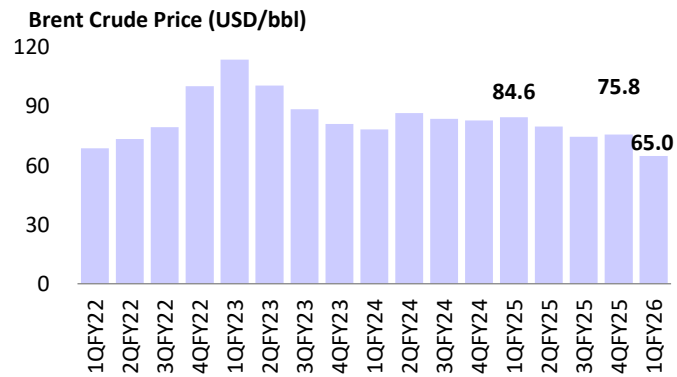
### Our top picks: HPCL and MAHGL

- **HPCL** remains our preferred pick among the three OMCs. We model a marketing margin of INR3.3/lit for both MS and HSD in FY26/27, while the current MS and HSD marketing margins are above INR10/lit, respectively. We view the following as key catalysts for the stock: 1) the de-merger and potential listing of the lubricant business, 2) the commissioning of its bottom upgrade unit in 2QCY26, 3) the start of its Rajasthan refinery in FY26, and 4) LPG under-recovery compensation.
- HPCL currently trades at 1.5x FY26E P/B, which we believe offers a reasonable margin of safety as we estimate FY26E RoE of 17.3%. We value the stock at our SoTP-based TP of INR455/sh. Reiterate BUY.
- **MAHGL:** We expect a 10% CAGR in volume over FY25-27, driven by multiple initiatives implemented by the company, such as collaborating with OEMs to drive conversions of commercial CNG vehicles and providing guaranteed price discounts to new I/C-PNG customers.
- The stock trades at 12.6x FY26E EPS of INR111.5. We value it at 15x FY27E EPS to arrive at our TP of INR1,760. Reiterate BUY.

**Exhibit 10: HPCL's SoTP-based valuation**

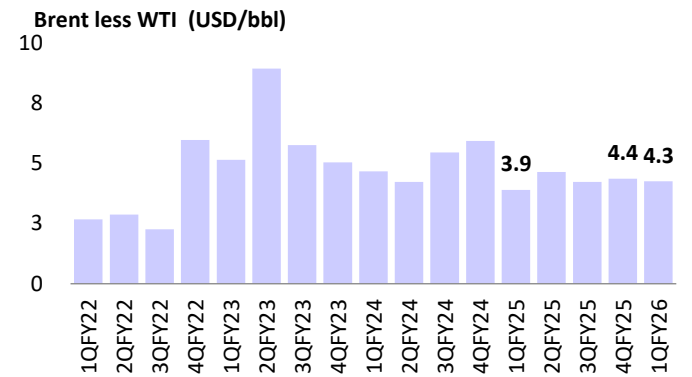
Particulars	Earning metric		Val metric	Multiple	Amount (INR m)
HPCL standalone	Dec'26E EBITDA	2,02,715	EV/EBITDA	6.0	12,23,388
(-) Standalone FY27E Net Debt					6,18,331
<b>Standalone Market Cap</b>					<b>6,05,057</b>
+ Lubricant business- value unlocking	FY24 EBITDA	10,000	EV/EBITDA	8.0	80,000
+ MRPL	MOFSL TP	35,650			35,650
+ HMEL	FY24 PAT	9,310	P/E	10.0	93,100
+ Chhara terminal	Book Value	12,232	P/B	1.0	12,232
+ HRRL	Equity invested till date		P/B	0.5	1,40,000
<b>SoTP</b>					<b>9,66,038</b>
(/) shares outstanding					<b>2,128</b>
<b>TP (INR/share)</b>					<b>455</b>

**Exhibit 11: Brent crude price (USD/bbl)**



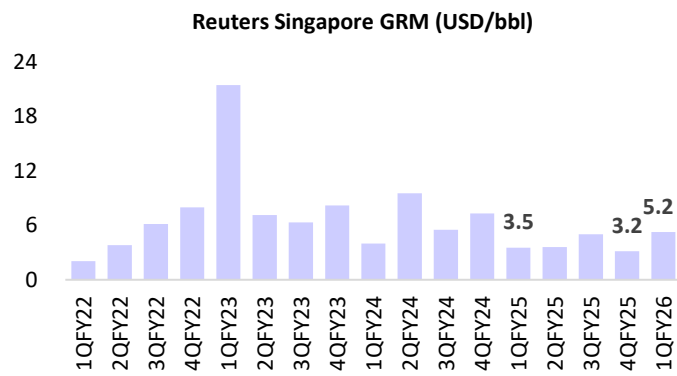
Source: Reuters, MOFSL

**Exhibit 12: Brent less WTI (USD/bbl)**



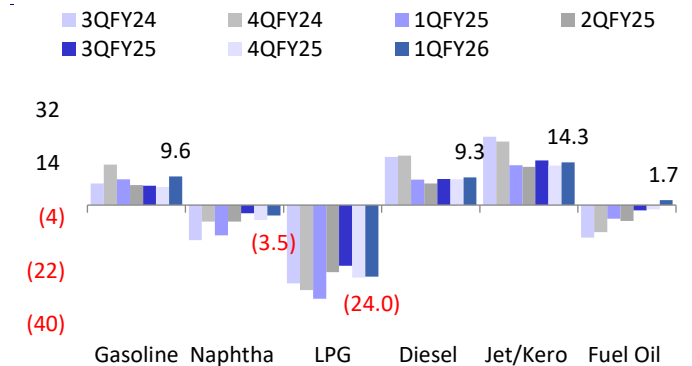
Source: Reuters, MOFSL

**Exhibit 13: Singapore GRM (USD/bbl)**



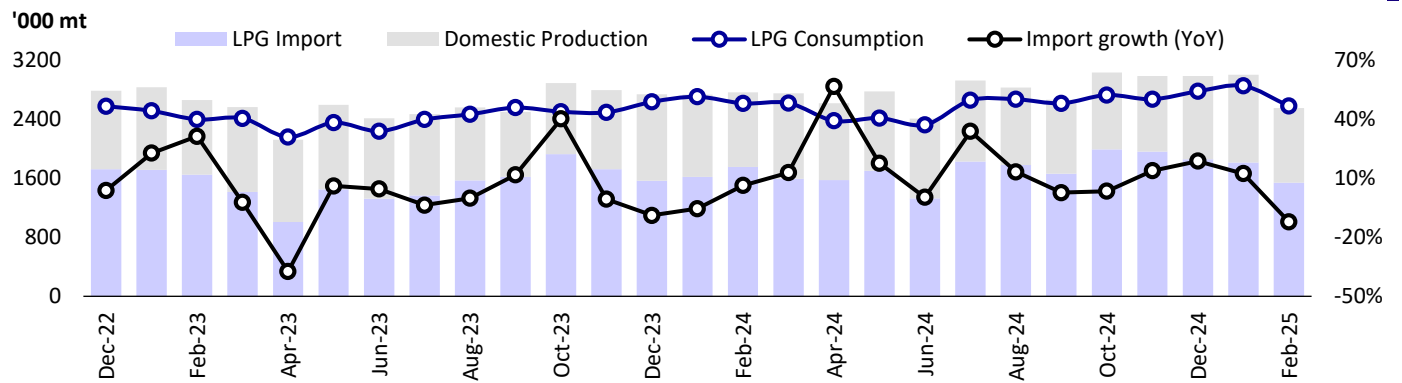
Source: Reuters, MOFSL

**Exhibit 14: Various product cracks over Dubai crude (USD/bbl)**



Source: Reuters, MOFSL

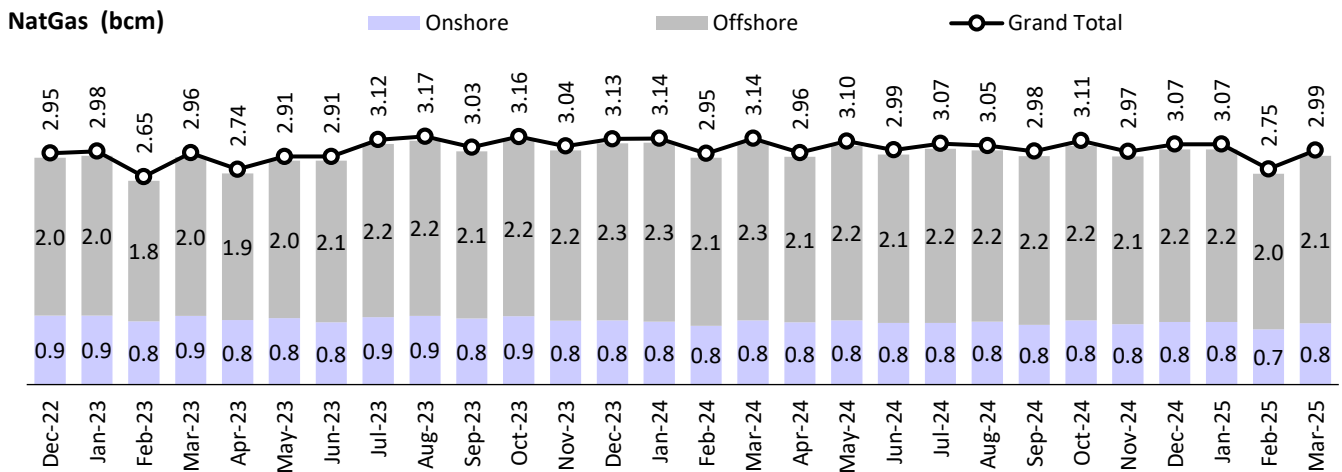
**Exhibit 15: LPG import, production and consumption trends**



Source: PPAC, MOFSL

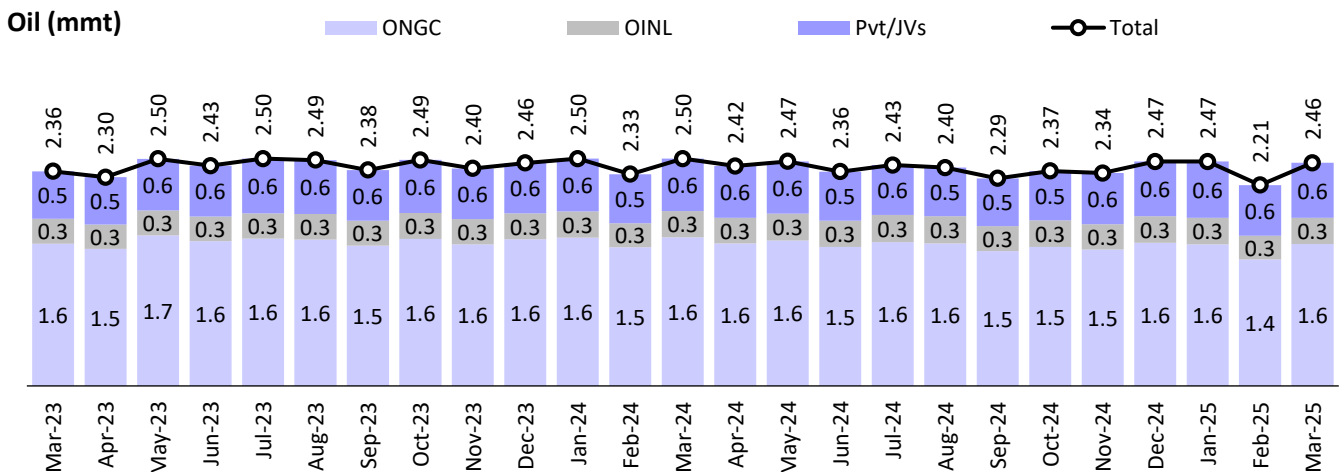


**Exhibit 16: India's natural gas production**



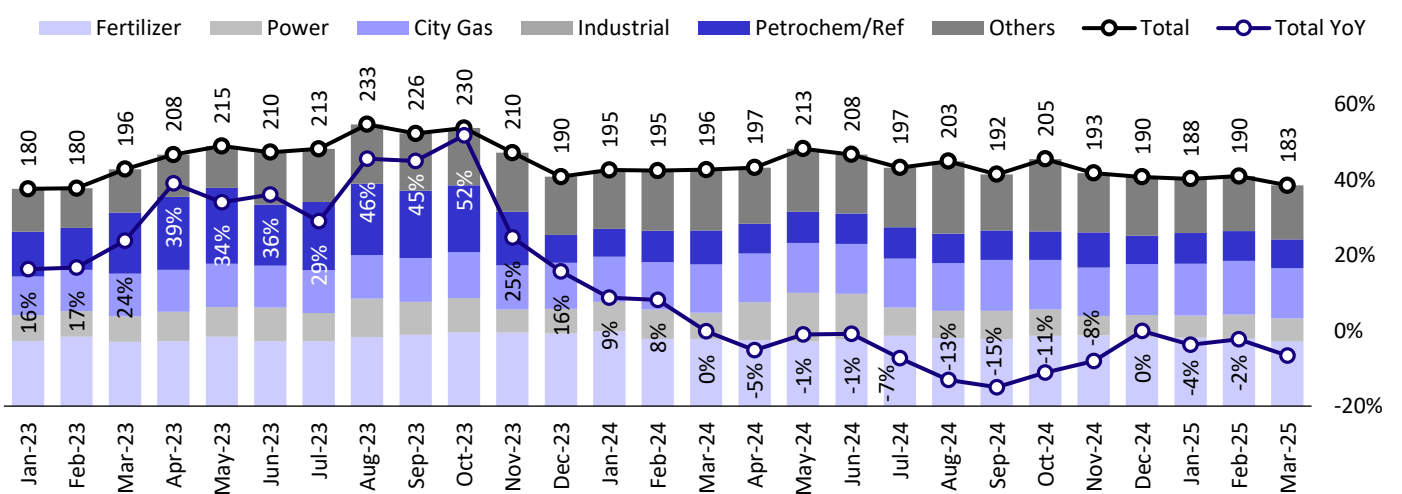
Source: PPAC, MOFSL

**Exhibit 17: India's crude oil production**



Source: PPAC, MOFSL

**Exhibit 18: Sector-wise natural gas consumption in India (mmscmd)**



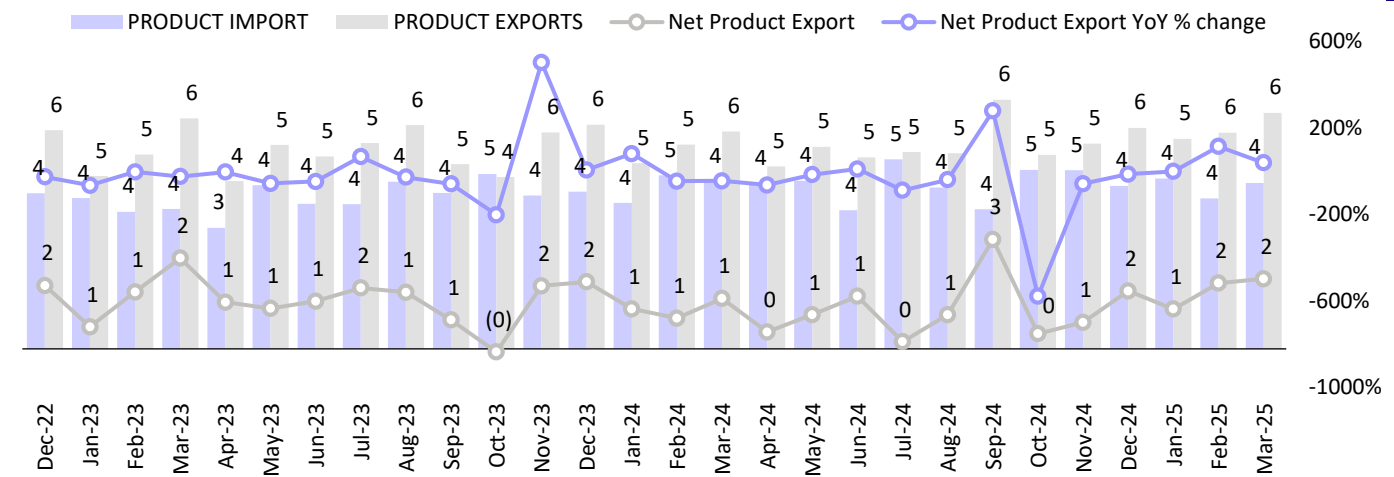
Source: PPAC, MOFSL

**Exhibit 19: Sector-wise domestic gas vs. LNG consumption in India (mmscmd)**

	Domestic Gas			LNG			Total		
	Mar-25	Mar-24	Feb-25	Mar-25	Mar-24	Feb-25	Mar-25	Mar-24	Feb-25
Fertilizer	9.4	7.4	8.6	44.2	48.1	47.3	53.5	55.5	55.9
Power	15.4	17.0	16.3	3.5	4.9	3.5	18.9	21.9	19.8
City Gas	28.6	27.2	30.6	13.2	12.7	14.0	41.7	39.9	44.6
Industrial	-	-	-	-	-	-	-	-	-
Petrochem/Ref	8.3	7.8	8.2	15.4	20.3	16.5	23.7	28.1	24.6
Others	32.3	37.7	32.1	12.5	12.6	13.4	44.8	50.3	45.5
<b>Total</b>	<b>93.9</b>	<b>97.1</b>	<b>95.8</b>	<b>88.8</b>	<b>98.6</b>	<b>94.6</b>	<b>182.7</b>	<b>195.7</b>	<b>190.4</b>

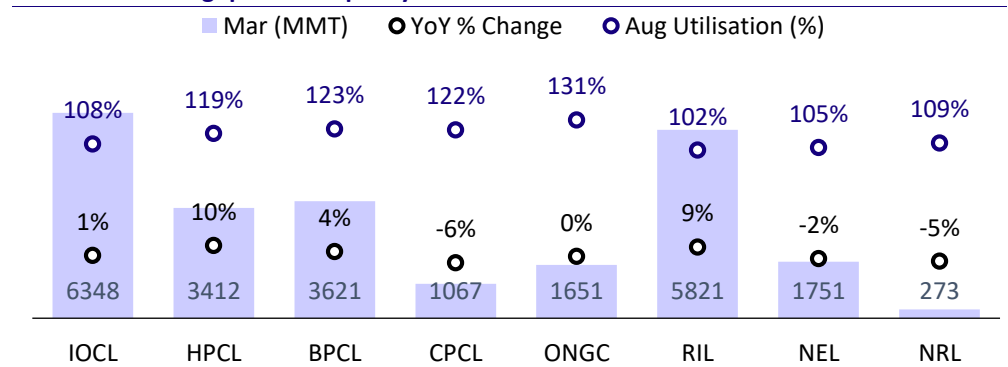
Source: PPAC, MOFSL

**Exhibit 20: Refined products – import and export (mmt)**



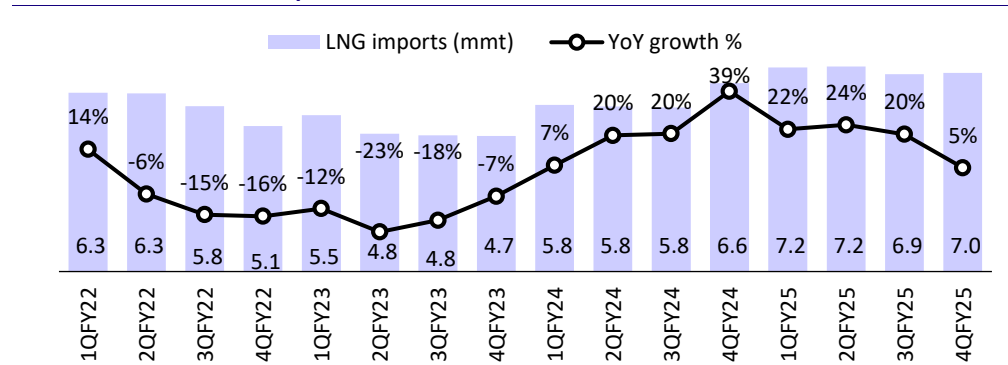
Source: PPAC, MOFSL

**Exhibit 21: Throughput and capacity utilization – Indian refiners**



Source: PPAC, MOFSL

**Exhibit 22: India's LNG import trend**



Source: PPAC, MOFSL

Note: Mar'25 data unavailable

## Financials and valuations: HPCL (Target Price: INR455) BUY

### Financial Snapshot

(INR b)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Sales	2,755	2,691	2,332	3,499	4,407	4,339	4,341	3,332	3,409
EBITDA	115	57	160	102	-72	249	166	193	204
Adj. PAT	67	36	107	73	-70	160	67	94	94
Adj. EPS (INR)	31	17	50	34	-33	75	32	44	44
EPS Gr. (%)	-7	-46	193	-32	PL	LP	-58	39	1
BV/Sh.(INR)	143	146	179	195	152	220	240	269	298
<b>Ratios</b>									
Net D:E	0.8	1.3	1.1	1.1	2.1	1.3	1.3	1.1	1.0
RoE (%)	23.9	11.9	30.9	18.4	-19.0	40.4	13.7	17.3	15.6
RoCE (%)	12.9	12.0	14.9	8.3	-7.8	15.9	8.2	9.1	9.0
Payout (%)	43.0	76.0	30.3	27.2	0.0	27.9	33.2	34.1	35.4
<b>Valuations</b>									
P/E (x)	12.6	23.2	7.9	11.6	-12.1	5.3	12.5	9.0	9.0
P/BV (x)	2.8	2.7	2.2	2.0	2.6	1.8	1.7	1.5	1.3
EV/EBITDA (x)	9.6	21.8	7.9	12.6	-20.9	5.9	9.1	7.6	7.2
Div. Yield (%)	2.7	1.6	3.8	2.4	0.0	5.3	2.6	3.8	3.9
FCF Yield (%)	-3.2	-9.9	7.4	4.5	-15.2	16.5	5.7	12.9	7.8

### Key Assumptions- HPCL

Particulars	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Exchange Rate (INR/USD)	70.0	70.9	74.3	74.5	80.4	82.8	84.6	86.0	86.2
Brent Crude (USD/bbl)	70.1	61.2	44.4	80.5	96.1	83.0	78.6	65.0	65.0
Market Sales (MMT)	38.7	39.6	36.6	39.1	43.5	46.8	49.8	51.6	53.7
YoY (%)	5	2	(8)	7	11	8	6	4	4
<b>GRM (USD/bbl)</b>	<b>5.0</b>	<b>1.0</b>	<b>3.9</b>	<b>7.2</b>	<b>12.1</b>	<b>9.1</b>	<b>5.7</b>	<b>6.2</b>	<b>6.5</b>
Singapore GRM (USD/bbl)	4.9	3.2	0.5	5.0	10.7	6.6	3.8	5.0	5.0
Prem/(disc) (USD/bbl)	0	(2)	3	2	1	2	2	1.2	1.5
Total Refinery throughput (MMT)	18.4	17.2	16.4	14.0	19.1	22.3	25.3	27.0	27.0
YoY (%)	1%	-7%	-4%	-15%	37%	17%	13%	7%	0%
<b>Refining capacity utilization (%)</b>	<b>117%</b>	<b>109%</b>	<b>104%</b>	<b>88%</b>	<b>85%</b>	<b>91%</b>	<b>103%</b>	<b>110%</b>	<b>110%</b>
<b>Blended marketing margin incld inventory (INR/lit)</b>	<b>4.3</b>	<b>4.0</b>	<b>6.3</b>	<b>4.3</b>	<b>(0.8)</b>	<b>5.5</b>	<b>4.4</b>	<b>4.5</b>	<b>4.5</b>
<b>Consolidated EPS</b>	<b>31.4</b>	<b>17.1</b>	<b>50.1</b>	<b>34.3</b>	<b>-32.8</b>	<b>75.2</b>	<b>31.6</b>	<b>44.0</b>	<b>44.2</b>

## Financials and valuations: MAHGL (Target Price: INR1,760) BUY

### Financial & Valuation Summary

(INR b)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Sales	27.9	29.7	21.5	35.6	63.0	62.4	69.2	74.6	81.6
EBITDA	8.9	10.5	9.3	9.2	11.8	18.4	15.1	16.3	17.8
Adj. PAT	5.5	7.9	6.2	6.0	7.9	12.9	10.4	11.0	12.0
Adj. EPS (INR)	55.3	80.3	62.7	60.4	80.0	130.5	105.8	111.5	121.0
EPS Gr. (%)	14.3	45.2	-21.9	-3.6	32.3	63.2	-18.9	5.4	8.5
BV/Sh.(INR)	242.8	298.9	327.2	364.2	418.5	520.6	596.2	663.1	735.7
<b>Ratios</b>									
Net D:E	-0.1	-0.1	-0.2	-0.1	-0.1	-0.1	0.0	0.0	0.0
RoE (%)	24.3	29.7	20.0	17.5	20.4	27.8	18.9	17.7	17.3
RoCE (%)	24.3	29.8	20.1	17.5	20.5	27.8	19.0	17.8	17.4
Payout (%)	43.5	52.4	36.7	38.1	32.5	40.0	28.4	40.0	40.0
<b>Valuation</b>									
P/E (x)	25.5	17.6	22.5	23.3	17.6	10.8	13.3	12.6	11.7
P/BV (x)	5.8	4.7	4.3	3.9	3.4	2.7	2.4	2.1	1.9
EV/EBITDA (x)	15.4	13.0	14.4	14.6	11.6	7.4	9.0	8.4	7.7
Div. Yield (%)	1.4	2.5	1.6	1.6	1.8	3.7	2.1	3.2	3.4
FCF Yield (%)	2.3	4.0	3.3	1.8	1.8	5.7	2.1	1.7	2.4

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Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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