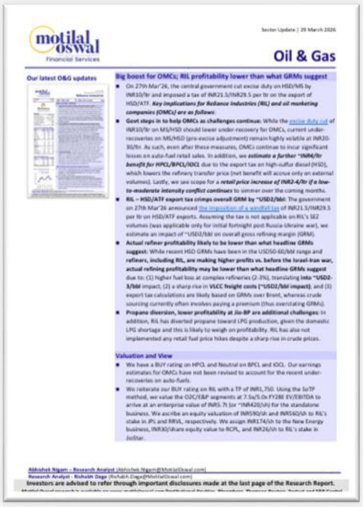
Oil & Gas

Our latest O&G updates



Assessing the truce trade; sector outlook nuanced

- **Truce trade largely behind for CGDs/GAIL; still upside left for OMCs/PLNG:** According to media reports (link), the Strait of Hormuz (SOH) has been temporarily opened while negotiations between warring parties continue. OMCs/CGDs/Gas utilities have corrected 16%-22%/2%-12%/7%-14% vs. pre-war levels, and we believe 1) the truce trade is largely behind for CGDs & GAIL; CGDs we estimate will need retail price hikes of INR1.5-8/scm to maintain 3QFY26 margins, 2) for OMCs, gross marketing margins are now near breakeven levels (assuming normalized refining GRMs), and 3) we see a slow, drawn-out supply normalization across various O&G sub-sectors.
- **Refining and gas supply may normalize with a lag:** 1) **Refining**: Lagged supply-chain normalization (~4mb/d refinery outages, China export curbs, upcoming summer driving season) could keep GRMs elevated in the near-to-mid-term; 2) **Upstream**: Crude disruptions remain largely logistical, implying a swift supply recovery and downside risk to current prices on de-escalation; and 3) **Gas**: LNG markets face multi-year tightness (~3% capacity offline for 2-3 years).
- **Stock implications:** 1) **OMCs**: We estimate the breakeven oil price for MS/HSD marketing margins at ~USD85-90/bbl (at mid-cycle GRMs); we believe OMCs still have room to run as margins normalize higher; 2) **Refining**: Reliance Industries (RIL)'s SEZ refinery could benefit from elevated GRMs; 3) **CGDs**: GUJGA/ IGL/MAHGL need overall retail price hikes of ~INR3/2.1/1.3 per scm to offset the adverse margin impact (at USD5/bbl and USD1/mmbtu higher Brent, spot LNG/Henry Hub, respectively); and 4) **Gas utilities**: Resumption of Qatari LNG supplies should aid volumes (37%/46% of total volumes for GAIL/PLNG). However, elevated gas prices pose some risk to our assumption of 15%/29% utilization at PLNG's new Dahej facility (FY27/28)/GAIL's transmission volume growth of 4% CAGR over FY26-28 for GAIL. HPCL and PLNG (both down ~15% vs. pre-war levels) remain our preferred picks in oil & gas.

Refining: Supply disruptions to keep cracks elevated

- **SG GRM est. at USD7.5/USD6.0 per bbl for FY27/28:** We recently revised our SG GRM assumptions to USD7.5/USD6 per bbl for FY27/28 (earlier USD5/USD5 per bbl), as even if geopolitical tensions ease, supply-chain normalization is likely to lag, keeping cracks structurally elevated over the near-to-mid-term (Apr'26 MTD SG GRM: USD53/bbl).
- **Wood Mackenzie cuts Apr'26 crude runs by ~6mb/d:** As per Wood Mackenzie, a Strait of Hormuz (SoH) closure could force Asian refineries to cut crude runs by ~6mb/d in Apr'26 vs. the pre-conflict forecasts, thus keeping cracks elevated.
- **Gasoil/gasoline/jet fuel cracks at 4.6x/2.3x/2.8x LTA in Apr'26 MTD:** As per Bloomberg, attacks have targeted **~4mb/d (~35% of total regional capacity)** of Middle East (ME) refining capacity, disrupting refinery run rates and tightening product supplies for import-reliant regions (Asia, Europe, Africa), thereby driving up refining cracks. Crude and Refined product exports via the SoH declined 67% to ~9MBD in Mar-26. Gasoil/gasoline/jet fuel cracks have surged to USD83/USD27/USD75 per bbl in Apr'26 MTD, 4.6x/2.3x/2.8x of long-term averages, reflecting acute tightness across key product markets.

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Supply disruptions lift crude oil price floor; Brent assumptions raised

- **Brent crude est. at USD75/65 per bbl for FY27/28:** We recently revised our Brent crude assumptions upwards to USD75/65 per bbl for FY27/28 (earlier USD60/60 per bbl), as current dynamics indicate a higher price floor due to delayed restoration of supply and export flows.
- **De-escalation poses sharp downside risk to crude prices:** With disruptions ***largely logistical and limited infrastructure damage***, shut-in production and export flows can return swiftly on de-escalation, potentially driving a sharp correction in prices. Hence, we forecast Brent at USD85/bbl in 1QFY27, easing to USD80/bbl in 2Q, before correcting to USD70/65 per bbl in 3Q/4Q.
- **About 11mb/d crude shut-ins; Strait flows at ~10% of pre-war levels:** Despite no major infra damage, Hormuz disruption has cut ME Gulf exports from ~15mb/d to ~7mb/d, with ~11mb/d production shut in (Kpler). As per the IEA, total Gulf exports fell 15.8mb/d MoM to 8.7mb/d in Mar'26, with Strait flows at just 2.3mb/d (~10% of pre-war), dominated by Iran (>70%).
- **Alternative export route flows surge to 7.2 mb/d vs. <4 mb/d pre-war:** Exports via alternative routes, particularly Saudi Arabia's west coast, Fujairah (UAE), and the Iraq-Türkiye (ITP) pipeline to Ceyhan, have scaled up sharply, rising to 7.2mb/d from sub-4mb/d levels before the war.

Gas: Low gas cost outlook in CY27 and beyond at risk

- **Structural outages underpin elevated gas price outlook:** Unlike oil, disruptions have directly impacted critical upstream and liquefaction infrastructure, constraining supply over the medium term. ***With ~3% global LNG capacity offline and production losses across key Middle East assets, supply recovery is likely to be gradual,*** supporting elevated gas prices and a tighter global balance.
- **About 17% Qatar LNG capacity disrupted; 12.8mtpa offline for 3-5 years:** Iran's attack on Ras Laffan (Qatar) has disrupted ~17% of Qatar's LNG export capacity, with ~12.8mtpa likely to remain offline for 3-5 years, posing significant risks to gas supplies for key importing regions including Europe and Asia (media article).
- **About 12% of Iran's gas output impacted; broader regional disruptions intensify risks:** Israel's attack on the South Pars field (accounting for ~70% of Iran's gas production) is estimated to have curtailed ~12% of Iran's gas output. Additional disruptions across key assets – UAE's Habshan, Das Island, and Shah facilities, along with Iran's Isfahan gas complex - further exacerbate supply-side risks across the Middle East gas network (media article).

About 1.2mb/d Iranian exports at risk as the US blocks Iranian ports

- The collapse of US-Iran talks and the US blockade of Iranian ports mark a clear escalation, supporting energy prices. As per S&P Global, while LNG flows remain operationally unaffected, heightened risks around Hormuz and tanker disruptions keep gas benchmarks firm. The already tight **Crude** markets face further pressure with **~1.2mb/d Iranian exports at risk** and limited substitution from US barrels, keeping both oil and LNG prices biased upward in the near term.

Policy support cushions OMCs; RTP caps and duties drive margin recovery

- **Policy changes/RTP discounts to support OMCs:** In the last few weeks, INR55.5/INR42 per lit export duty has been levied on Diesel/ATF (~USD95/72 per bbl), effectively capping upside from elevated international cracks for refiners and benefiting OMCs on externally sourced volumes. Further, as per media reports, OMCs have capped Diesel/ATF refinery transfer price (RTP) at the Indian Crude Basket (ICB) plus USD15/bbl (Apr'26 ICB: USD123/bbl). Further, an excise duty cut of INR10/lit on MS/HSD was implemented to moderate under-recoveries.

- **MS/HSD marketing margin to break even at USD85-90/bbl Brent:** Assuming mid-cycle Diesel/Petrol GRM of USD20/15 per bbl, we estimate that the MS/HSD marketing margin is likely to break even at USD85-90/bbl Brent price.
- **HPCL most favorably impacted:** Based on 9MFY26, HPCL/BPCL/IOCL procure ~49%/26%/20% of their marketing volumes externally. Diesel/ATF volumes sourced externally will likely benefit from the ~INR60/INR50 per lit lower RTP (actual discount could vary depending on negotiations), implying the highest benefit for HPCL, followed by BPCL and IOCL. We see scope for a retail price increase of INR2-4/lit if a low-to-moderate intensity conflict continues to simmer over the coming months.

Valuation and view

- **HPCL>BPCL>IOCL:** We have a BUY rating on HPCL and Neutral rating on BPCL and IOCL. We are currently building in marginally negative auto-fuel gross marketing margins (GMM) for OMCs in 1HFY27 (negative INR5/2.5 per lit MS/HSD GMM in 1QFY27/2QFY27) and INR120-150 per cyl LPG under recovery. However, last fortnight auto-fuel GMM is negative INR20-30/lit, and LPG under-recovery is close to INR380/lit.
- **PLNG:** At 11.9x FY27E P/E and a ~3% dividend yield, we believe valuations are inexpensive. Our DCF-based TP of INR361 (WACC: 10.5%, TG = 2%) assumes a 10% tariff cut in FY28, followed by a 4% rise for both the terminals. While we have incorporated the full capex for the petchem plant, we value it conservatively at 0.5x FY29E P/B and discount this back to FY27.
- **GAIL's** valuations have corrected sharply from their Sep'24 highs, and the stock now trades significantly below its historical average at ~0.9x one-year forward core P/B, offering limited downside (FY28 consol. RoE: 12.3%, FY27 div. yield: 4%). Government initiatives to further rationalize natural gas (NG) taxation can be a significant long-term positive. We have a BUY rating with a TP of INR181.

Exhibit 1: US EIA forecasts: Brent spot prices and OPEC oil production

Particulars	Unit	2026	2027
Brent spot price forecast - latest	USD/bbl	96	76
Previous forecast	USD/bbl	79	64
OPEC+ crude oil production - latest	mb/d	41.7	45
Previous forecast	mb/d	43.9	45

Note: Assuming the conflict doesn't persist past Apr'26 and traffic through the SoH gradually resumes

Source: US EIA, MOFSL

Exhibit 2: Quarterly Brent price assumption – MOFSL

1QFY27	2QFY27	3QFY27	4QFY27	1QFY28	2QFY28	3QFY28	4QFY28
85.0	80.0	70.0	65.0	65.0	65.0	65.0	65.0

Source: MOFSL

Exhibit 3: ~3-4mb/d refinery closures add to product supply pressure

Particulars	Country	Capacity (kb/d)
Ras Tanura Refinery	Saudi Arabia	550
Ruwais Refinery	UAE	922
Sitra Refinery	Bahrain	405
Al-Zour, Mina Al-Ahmadi , and Mina Abdullah	Kuwait	1,415
Mangalore Refinery and Petrochemicals	India	300

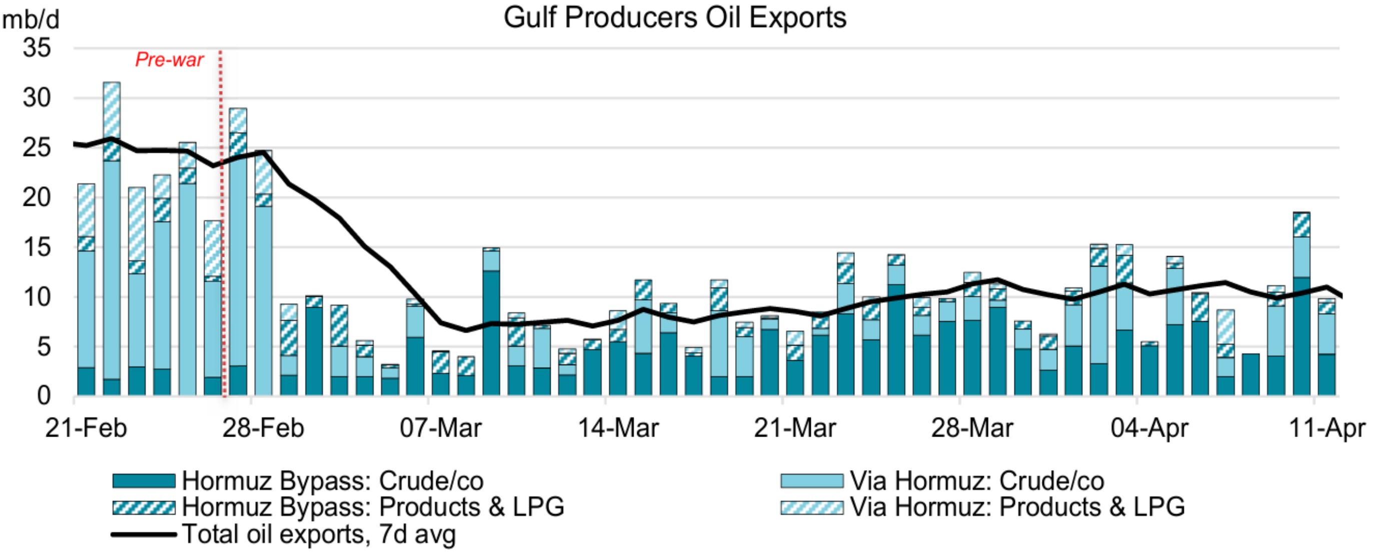
Source: Company, MOFSL

Exhibit 4: CGDs – 3QFY26 gas sourcing split

Particulars	GUJGA	MAHGL	IGL
APM	24%	39%	35%
NW Gas	4%	6%	6%
HH Price linked	2%	28%	22%
Brent linked	37%	3%	33%
Spot LNG	33%	3%	0%
HPHT	0%	13%	5%
IGX	0%	8%	0%

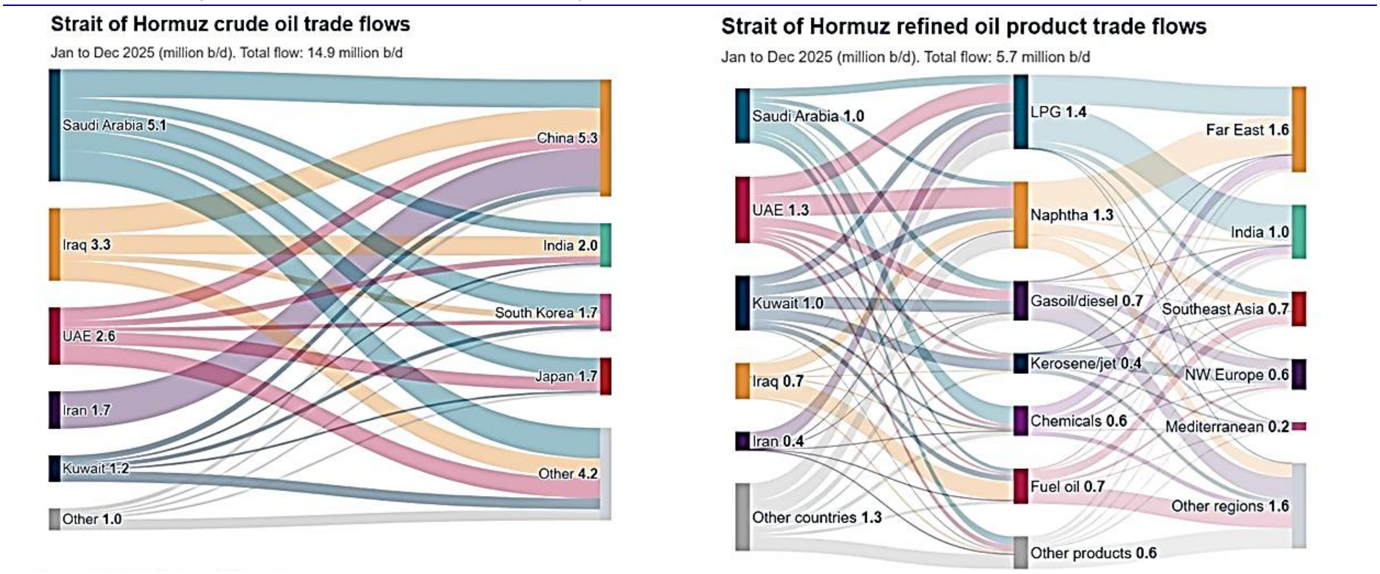
Source: Company, MOFSL

Exhibit 5: SoH flows have declined sharply



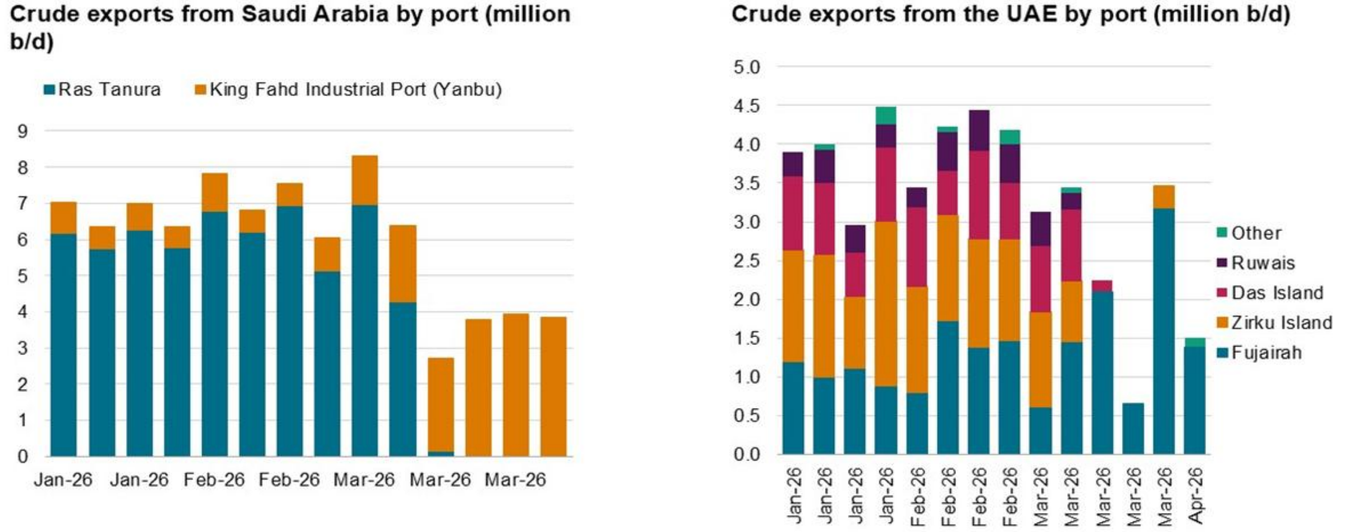
Source: IEA, MOFSL

Exhibit 6: India imported 2/1 mb/d crude oil/refined products via SoH



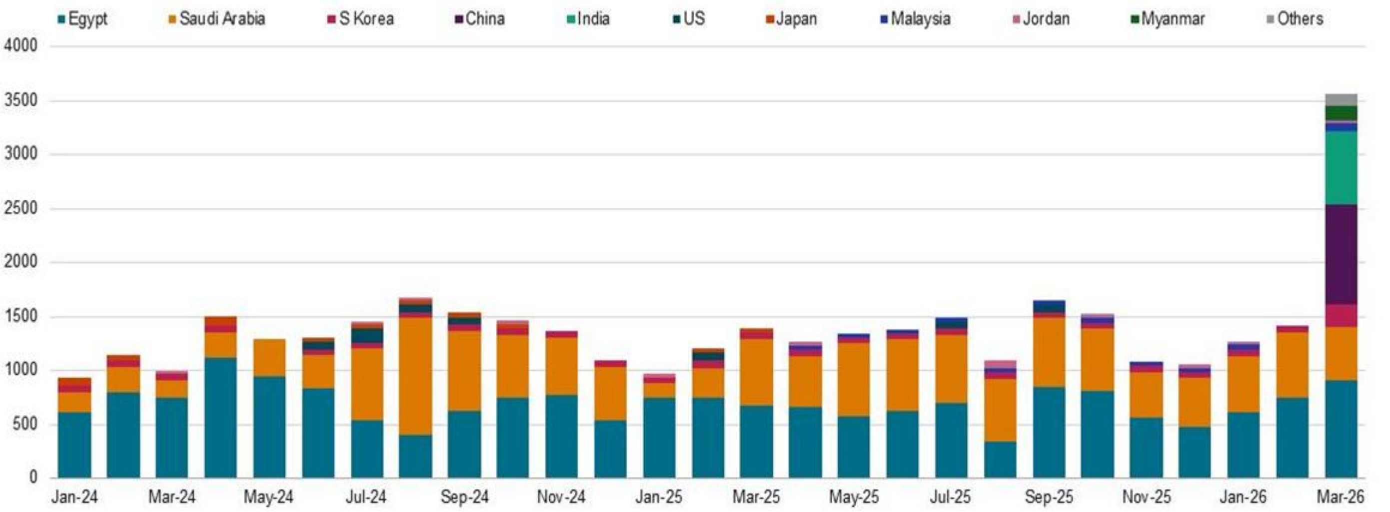
Source: S&P Global, MOFSL

Exhibit 7: Alternate routes used by Saudi Arabia and the UAE to export crude



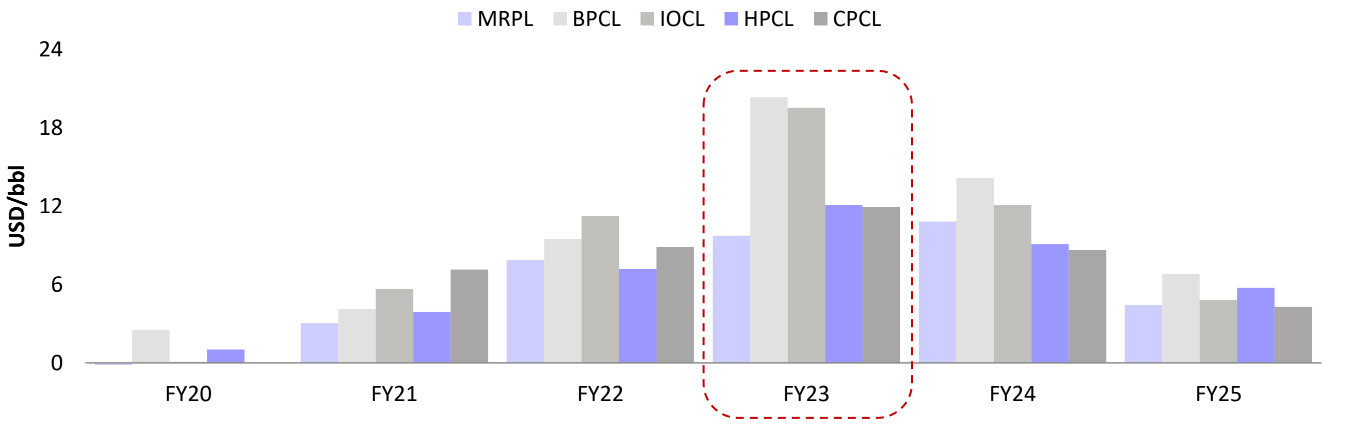
Source: S&P Global, MOFSL

Exhibit 8: Saudi crude oil loading from Yanbu (in kb/d)



Source: S&P Global, MOFSL

Exhibit 9: Indian refiners reported robust GRMs in FY23



Source: Bloomberg, MOFSL

Exhibit 10: Refining margins have spiked in Mar'26 and Apr'26 (USD/bbl)

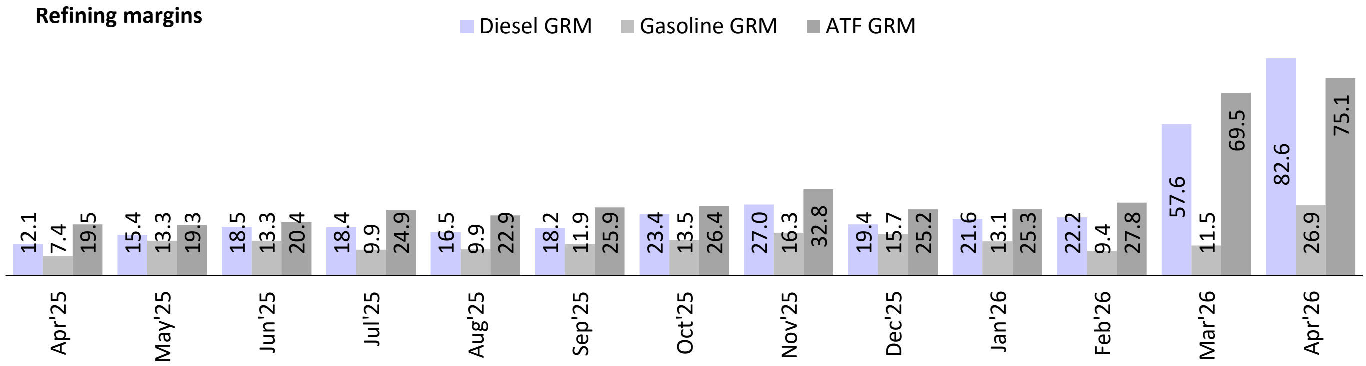


Exhibit 11: Reported GRM trend – OMCs (USD/bbl)

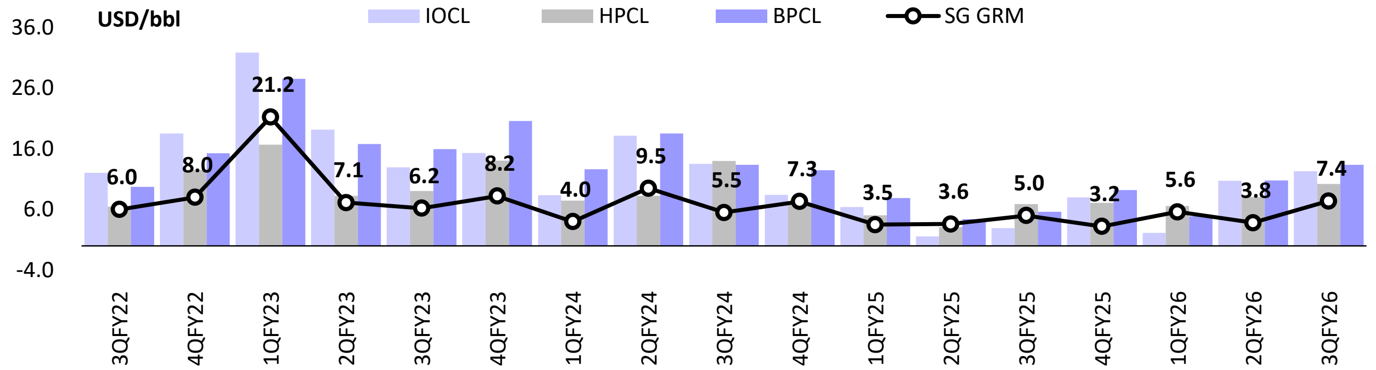


Exhibit 12: MS/HSD gross marketing margins at negative INR45/INR26 per lit in Apr'26-MTD

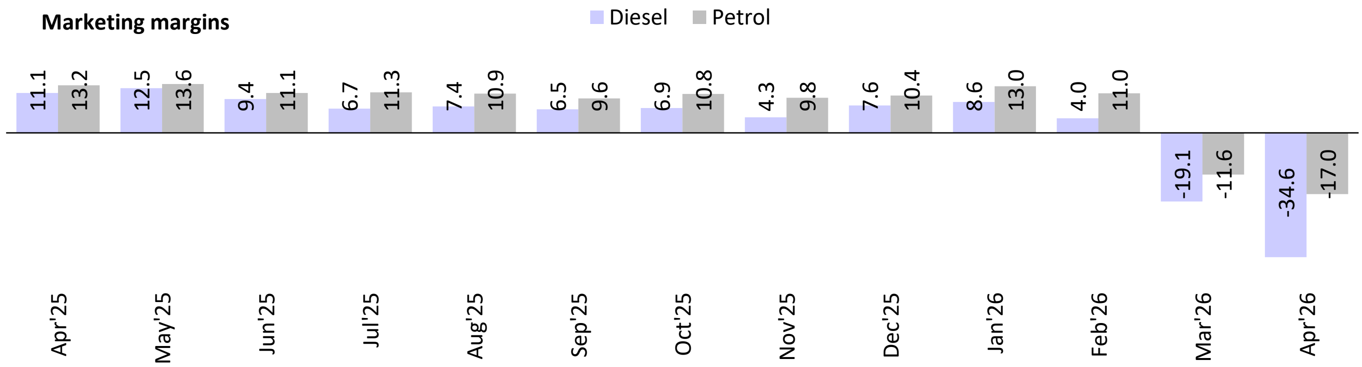
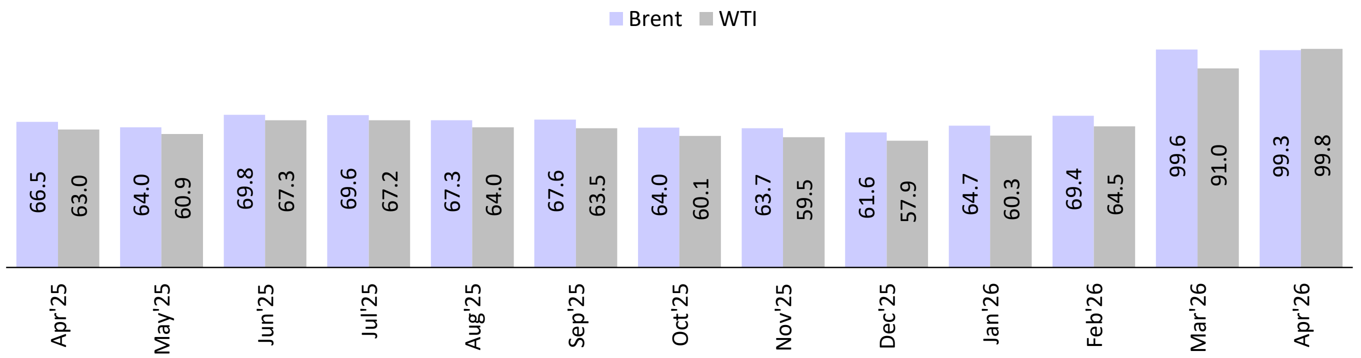


Exhibit 13: Brent and WTI prices (USD/bbl)

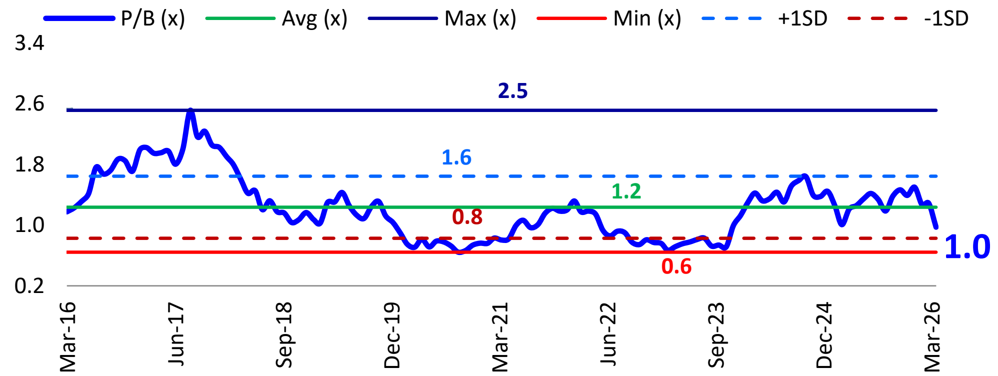


Source: Company, Bloomberg, Reuters, MOFSL

Financials and valuations: HPCL (BUY | TP: INR420)

Financial & Valuation Summary								(INR b)
Y/E March	**FY21**	**FY22**	**FY23**	**FY24**	**FY25**	**FY26E**	**FY27E**	**FY28E**
Sales	2,332	3,499	4,407	4,339	4,341	4,409	4,083	3,831
EBITDA	160	102	-72	249	166	274	127	255
Adj. PAT	107	73	-70	160	67	152	35	118
Adj. EPS (INR)	50	34	-33	75	32	72	16	55
EPS Gr. (%)	193	-32	PL	LP	-58	126	-77	240
BV/Sh.(INR)	179	195	152	220	240	290	301	336
Ratios								
Net D:E	1.1	1.1	2.1	1.3	1.3	1.0	1.0	0.9
RoE (%)	30.9	18.4	-19.0	40.4	13.7	27.0	5.5	17.4
RoCE (%)	14.9	8.3	-7.8	15.9	8.2	13.8	4.5	10.9
Payout (%)	30.3	27.2	0.0	27.9	33.2	30.6	34.6	36.1
Valuations								
P/E (x)	6.5	9.6	-10.0	4.4	10.4	4.6	20.1	5.9
P/BV (x)	1.8	1.7	2.2	1.5	1.4	1.1	1.1	1.0
EV/EBITDA (x)	7.0	11.2	-18.9	5.3	8.2	4.8	10.6	5.2
Div. Yield (%)	4.6	2.8	0.0	6.4	3.2	6.7	1.7	6.1
FCF Yield (%)	8.9	5.4	-18.4	19.9	6.9	16.7	3.4	15.7

Exhibit 14: HPCL trades marginally below its LTA at 1x P/B

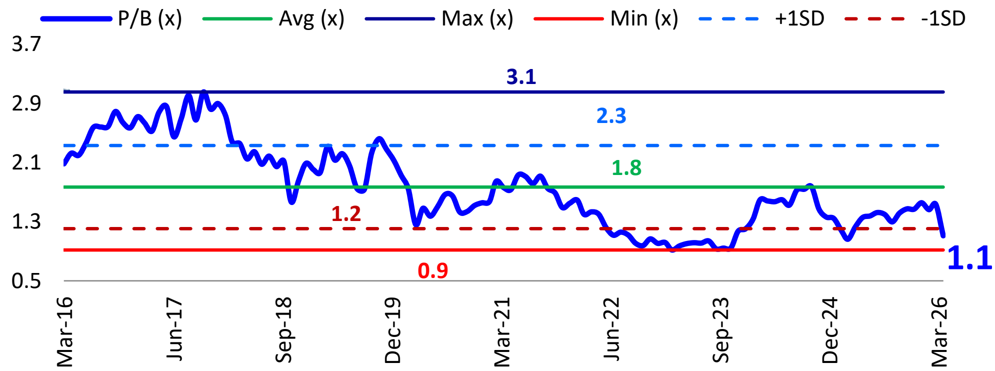


Source: Company, MOFSL

Financials and valuations: BPCL (Neutral | TP: INR306)

Financial & Valuation Summary								(INR b)
Y/E March	**FY21**	**FY22**	**FY23**	**FY24**	**FY25**	**FY26E**	**FY27E**	**FY28E**
Sales	2,301.6	3,467.9	4,731.9	4,481	4,403	4,491	4,168	3,813
EBITDA	211.0	188.5	93.8	443	254	400	193	269
Adj. PAT	132.4	108.9	19.7	271	136	250	108	163
Adj. EPS (INR)	31.0	25.5	4.6	63	32	59	25	38
EPS Gr. (%)	165.6	-17.8	-81.9	1271.9	-49.7	83.9	-56.7	50.6
BV/Sh.(INR)	125.3	121.5	125.3	177	190	227	244	268
Ratios								
Net D:E	0.6	1.0	1.1	0.5	0.5	0.3	0.3	0.3
RoE (%)	29.4	20.6	3.7	41.9	17.3	28.1	10.8	14.9
RoCE (%)	15.9	10.9	-0.4	24.8	11.7	19.1	7.8	11.5
Payout (%)	97.4	29.3	100.2	33.4	32.0	38.0	33.7	34.8
Valuations								
P/E (x)	9.0	10.9	60.3	4.4	8.7	4.8	11.0	7.3
P/BV (x)	2.2	2.3	2.2	1.6	1.5	1.2	1.1	1.0
EV/EBITDA (x)	5.6	6.3	12.7	2.7	4.7	3.0	6.2	4.4
Div. Yield (%)	14.2	2.9	1.8	7.5	3.6	8.0	3.1	4.8
FCF Yield (%)	12.1	10.0	3.3	22.2	7.2	17.0	9.5	7.6

Exhibit 15: BPCL trades significantly below its LTA at 1.1x P/B



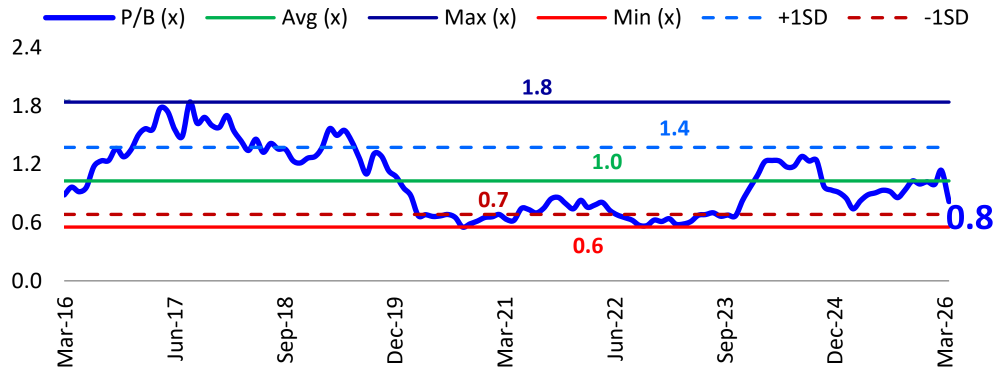
Source: Company, MOFSL

Financials and valuations: IOCL (Neutral | TP: INR145)

Financial & Valuation Summary (INR b)

Y/E March	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Sales	3,639.5	5,893.4	8,418	7,764	7,581	8,179	8,697	7,745
EBITDA	405.9	477.4	306	768	360	744	412	507
Adj. PAT	217.6	257.3	91	406	107	378	139	205
Adj. EPS (INR)	15.8	18.7	6.6	29.5	7.8	27.4	10.1	14.9
EPS Gr. (%)	801.4	18.2	-64.5	344.7	-73.6	253.3	-63.3	48.1
BV/Sh.(INR)	81.2	97.0	101.5	133.2	135.4	156.6	163.6	173.5
Ratios								
Net D:E	0.9	0.9	1.0	0.7	0.7	0.6	0.6	0.5
RoE (%)	21.0	21.0	6.7	25.1	5.8	18.8	6.3	8.8
RoCE (%)	10.0	12.4	8.4	16.6	5.8	13.6	5.8	7.4
Payout (%)	59.2	52.6	42.2	39.6	30.4	22.8	30.7	33.6
Valuations								
P/E (x)	5.7	7.2	20.3	4.6	17.3	4.9	13.4	9.0
P/BV (x)	1.7	1.4	1.3	1.0	1.0	0.9	0.8	0.8
EV/EBITDA (x)	7.2	6.4	10.5	4.0	9.0	4.2	7.6	6.1
Div. Yield (%)	6.0	6.3	2.2	8.9	2.2	4.6	2.3	3.7
FCF Yield (%)	23.9	10.6	(1.7)	18.4	(0.1)	16.8	6.8	9.4

Exhibit 16: IOCL trades marginally below its LTA at 0.8x P/B



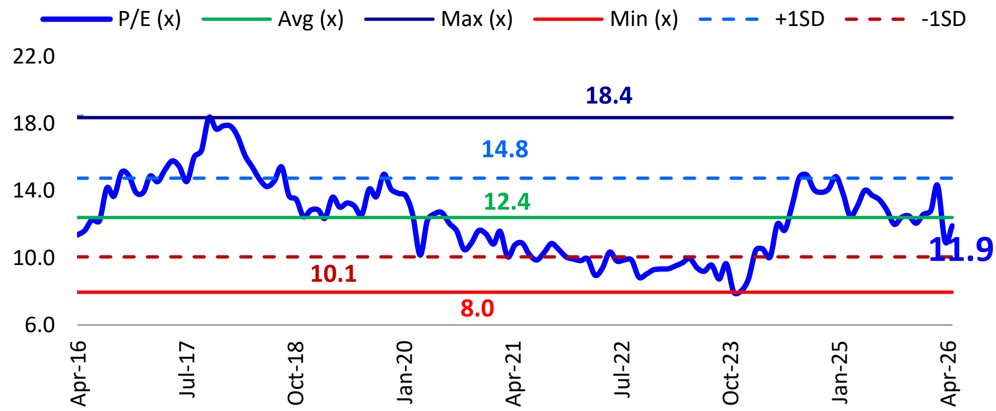
Source: Company, MOFSL

Financials and valuations: PLNG (BUY | TP: INR361)

Financial & Valuation Summary (INR b)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Sales	384.0	354.5	260.2	431.7	599.0	527.3	509.8	428.2	357.5	490.8
EBITDA	32.9	39.9	47.0	52.5	48.6	52.1	55.2	46.7	49.4	54.3
Adj. PAT	21.6	27.6	29.5	33.5	32.4	35.4	39.3	33.5	33.9	36.0
Adj. EPS (INR)	14.4	18.4	19.7	22.3	21.6	23.6	26.2	22.3	22.6	24.0
EPS Gr. (%)	3.7	28.1	6.9	13.7	-3.4	9.1	11.0	-14.6	1.2	6.2
BV/Sh.(INR)	67.1	73.0	77.7	89.5	99.6	113.1	129.2	142.9	156.9	171.8
Ratios										
Net D:E	-0.3	-0.4	-0.4	-0.3	-0.4	-0.4	-0.5	-0.4	-0.3	-0.3
RoE (%)	21.8	26.3	26.1	26.7	22.8	22.2	21.6	16.4	15.1	14.6
RoCE (%)	21.5	29.4	28.1	28.5	24.6	23.5	22.7	16.9	15.0	13.9
Payout (%)	74.9	73.8	58.5	51.5	46.3	42.4	38.2	38.2	38.2	38.2
Valuation										
P/E (x)	18.8	14.7	13.7	12.1	12.5	11.5	10.3	12.1	11.9	11.2
P/BV (x)	4.0	3.7	3.5	3.0	2.7	2.4	2.1	1.9	1.7	1.6
EV/EBITDA (x)	11.4	9.1	7.7	6.9	7.2	6.4	5.7	6.8	6.6	6.4
Div. Yield (%)	3.7	4.6	4.3	4.3	3.7	3.7	3.7	3.1	3.2	3.4

Exhibit 17: PLNG trades at 11.9x 1-yr fwd P/E (LTA: 12.4x)



Source: Company, MOFSL

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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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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