

Our latest O&G updates



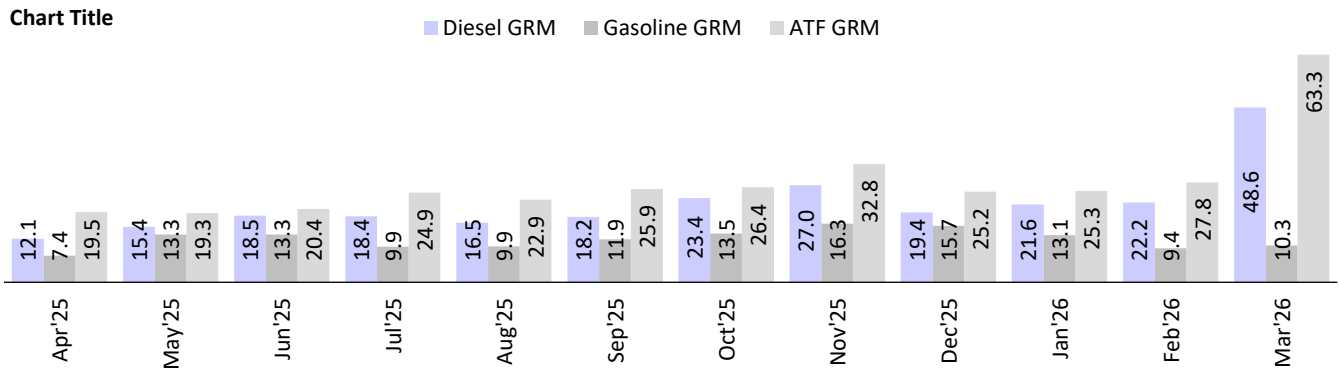
Big boost for OMCs; RIL profitability lower than what GRMs suggest

- On 27th Mar'26, the central government cut excise duty on HSD/MS by INR10/ltr and imposed a tax of INR21.5/INR29.5 per ltr on the export of HSD/ATF. **Key implications for Reliance Industries (RIL) and oil marketing companies (OMCs) are as follows:**
- Govt steps in to help OMCs as challenges continue:** While the [excise duty cut](#) of INR10/ltr on MS/HSD should lower under-recovery for OMCs, current under-recoveries on MS/HSD (pre-excise adjustment) remain highly volatile at INR20-30/ltr. As such, even after these measures, OMCs continue to incur significant losses on auto-fuel retail sales. In addition, we **estimate a further ~INR4/ltr benefit for HPCL/BPCL/IOCL** due to the export tax on high-sulfur diesel (HSD), which lowers the refinery transfer price (net benefit will accrue only on external volumes). Lastly, we see scope for a **retail price increase of INR2-4/ltr if a low-to-moderate intensity conflict continues** to simmer over the coming months.
- RIL – HSD/ATF export tax crimps overall GRM by ~USD2/bbl:** The government on 27th Mar'26 announced [the imposition of a windfall tax](#) of INR21.5/INR29.5 per ltr on HSD/ATF exports. Assuming the tax is not applicable on RIL's SEZ volumes (was applicable only for initial fortnight post Russia-Ukraine war), we estimate an impact of ~USD2/bbl on overall gross refining margin (GRM).
- Actual refiner profitability likely to be lower than what headline GRMs suggest:** While recent HSD GRMs have been in the USD50-60/bbl range and refiners, including RIL, are making higher profits vs. before the Israel-Iran war, actual refining profitability may be lower than what headline GRMs suggest due to: (1) higher fuel loss at complex refineries (2-3%), translating into ~USD2-3/bbl impact; (2) a sharp rise in **VLCC freight costs (~USD2/bbl impact)**; and (3) export tax calculations are likely based on GRMs over Brent, whereas crude sourcing currently often involves paying a premium (thus overstating GRMs).
- Propane diversion, lower profitability at Jio-BP are additional challenges:** In addition, RIL has diverted propane toward LPG production, given the domestic LPG shortage and this is likely to weigh on profitability. RIL has also not implemented any retail fuel price hikes despite a sharp rise in crude prices.

Valuation and View

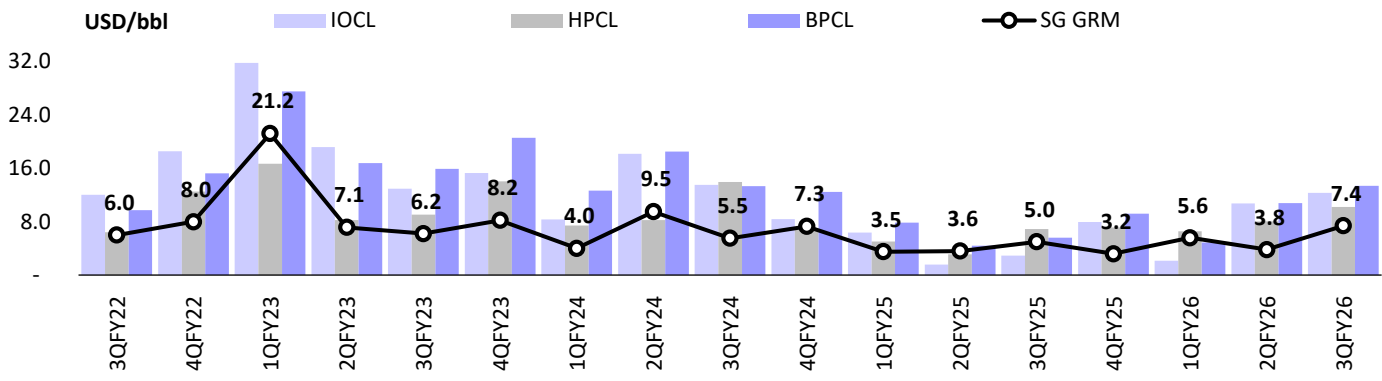
- We have a BUY rating on HPCL and Neutral on BPCL and IOCL. Our earnings estimates for OMCs have not been revised to account for the recent under-recoveries on auto-fuels.
- We reiterate our BUY rating on RIL with a TP of INR1,750. Using the SoTP method, we value the O2C/E&P segments at 7.5x/5.0x FY28E EV/EBITDA to arrive at an enterprise value of INR5.7t (or ~INR420/sh) for the standalone business. We ascribe an equity valuation of INR590/sh and INR560/sh to RIL's stake in JPL and RRVL, respectively. We assign INR174/sh to the New Energy business, INR30/share equity value to RCPL, and INR26/sh to RIL's stake in JioStar.

Exhibit 1: Refining margins (USD/bbl)



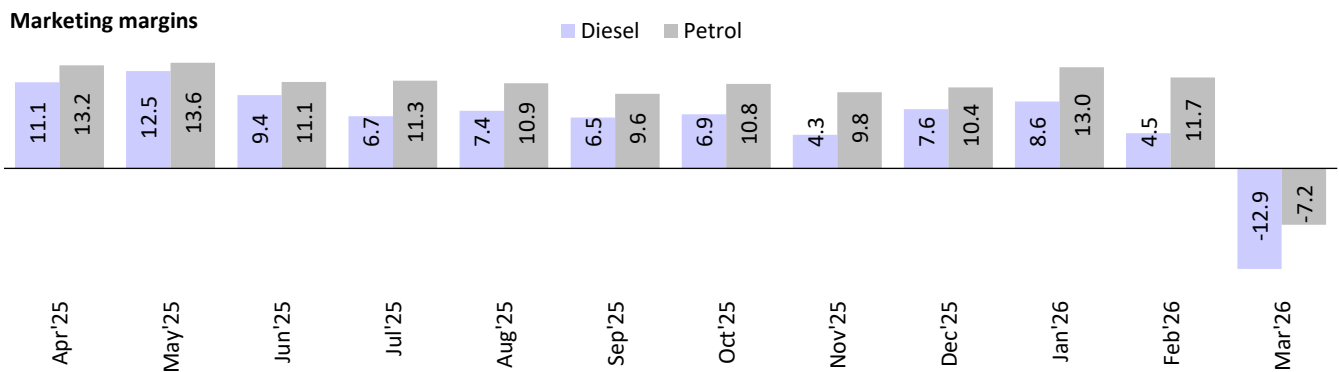
Source: Bloomberg, MOFSL

Exhibit 2: Reported GRM (USD/bbl)



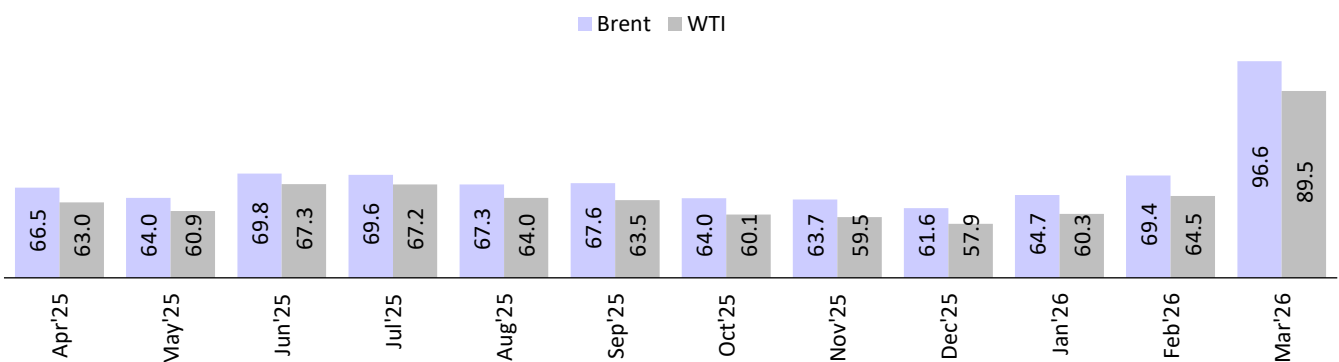
Source: Company, MOFSL

Exhibit 3: Marketing margins (INR/lit)



Source: Bloomberg, MOFSL

Exhibit 4: Brent and WTI prices (USD/bbl)



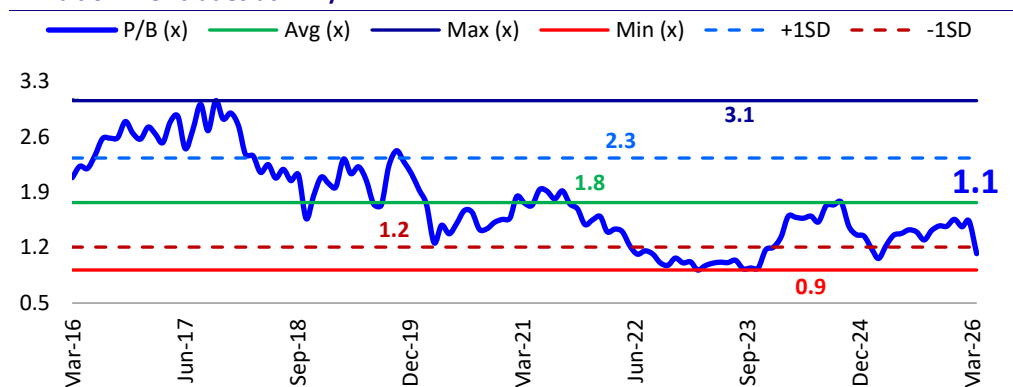
Source: Company, MOFSL

Exhibit 5: Windfall tax estimation for ATF/HSD

Particulars	Unit	2022	2026
Windfall tax on ATF	INR/lit	6	29.5
Windfall tax on Diesel	INR/lit	13	21.5
Conversion bbl to litres	litres	159	159
INR/USD		80	94
Windfall tax on ATF	USD/bbl	11.9	49.9
Windfall tax on Diesel	USD/bbl	25.8	36.4

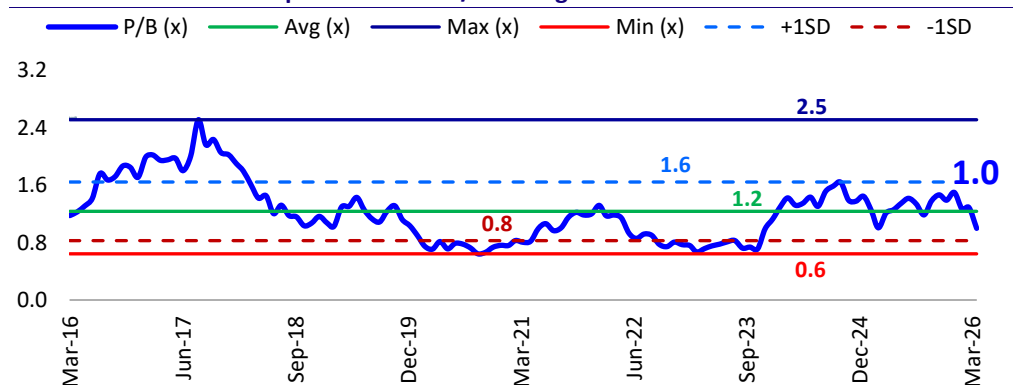
Source: MOFSL

Exhibit 6: BPCL trades at 1x P/B



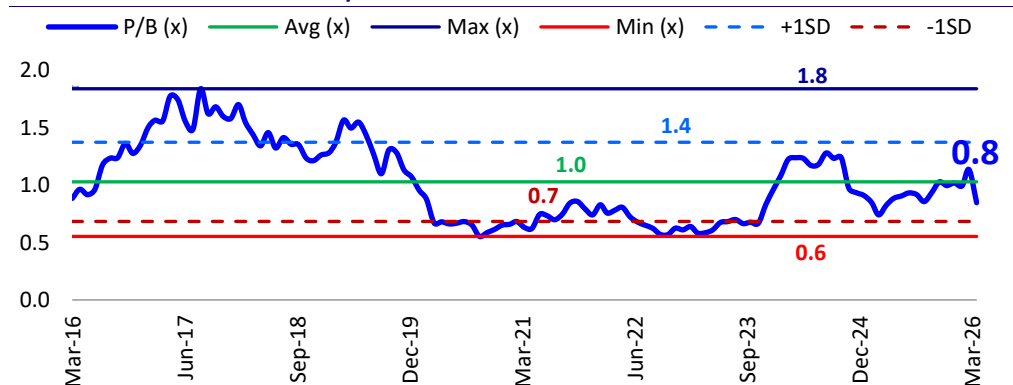
Source: Company, MOFSL

Exhibit 7: HPCL trades at par with its LT P/B average at 1x



Source: Company, MOFSL

Exhibit 8: IOCL trades at 0.8x P/B



Source: Company, MOFSL

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SELL	< - 10%
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