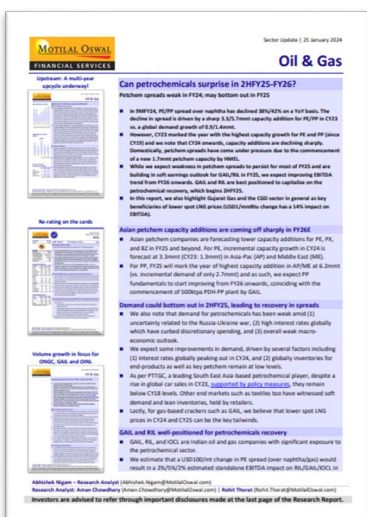
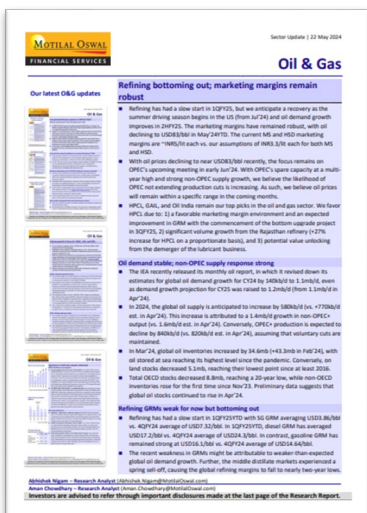
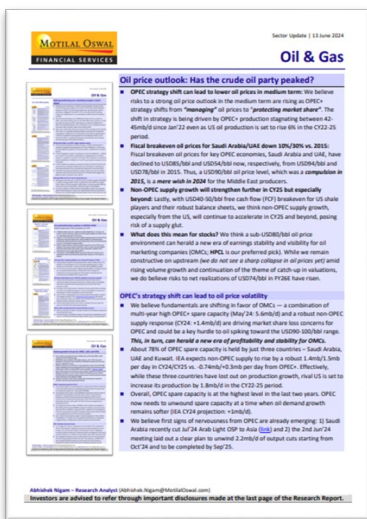


Our latest O&G updates



India O&G: Value trade is fading away

- The average one-year fwd. P/E valuation for the 15 oil and gas stocks in our coverage is 13.5x now, up 35% vs. Jun'23. Barring a few stocks, which still have reasonable valuations, we believe the value trade has all but faded away for the Indian oil and gas sector.
- We now prefer HPCL over GAIL and Oil India (OINL), where we believe valuation comfort is lower and earnings delivery is critical. HPCL trades at FY26E P/B of 1.2x (FY26E RoE: 17.8%) vs. GAIL's 1.7x and OINL's 1.3x (FY26E RoE of 15%/16%).
- We highlight Gujarat Gas (GUJGA) as a potential beneficiary of the possible inclusion of natural gas under GST and believe that the impact for other oil and gas players will be marginal in the short term. GUJ's current market price implies a 45.3% holding company discount on GUJ's stake in GUJGA. However, the long-term average discount has been 28% while the maximum discount was 60%. We continue to highlight Gujarat State Petronet (GUJS) as an inexpensive way to take exposure to GUJGA.

OMCs, ONGC, GUJS are the only pockets of value remaining in O&G

- We see pockets of value in OMCs (HPCL>IOCL>BPCL), ONGC and GUJS. For ONGC, despite improving volume growth visibility, we believe the investment case is a tad more complicated today than it was a year ago, mainly due to risk of lower oil price in FY26 – refer to our report titled [“Oil price outlook: Has the crude oil party peaked?”](#) However, the marketings are still at a 30% discount to long-term average and we believe the value catch-up trade still has legs to run.
- The one-year fwd. P/E for GAIL and OINL is now ~40% above the long-term average, ably supported by an improved operating outlook. However, we think the market may look for earnings delivery now and we see limited short-term re-rating for both stocks.
- **We now prefer HPCL over GAIL and Oil India:** We see strong ~25% volume growth (due to HRRL start-up), USD1.5-2/bbl margin expansion due to bottom upgrade project completion, and modest valuations as key catalysts. We also highlight **GUJS**, for which, assuming a 25% holding company discount, the estimated value of GUJGA stake in GUJGA is INR301/share vs. CMP of INR302/share.

Natural gas under GST - short-term hype, long-term advantage

- As per media reports, the Union government is considering inclusion of natural gas under GST in the coming months. We believe GUJGA is the only clear near-term beneficiary, while the impact for other oil and gas players will be staggered over the medium to long term.
- Natural gas attracts 5% value-added tax in Gujarat and competes with propane, which, besides being cheaper (and boasting 20-25% higher calorific value), attracts 18% GST (on which businesses can claim input tax credit). The inclusion of natural gas under GST increases its relative attractiveness vs. propane and could be an upside risk to our estimated 10-12% volume growth for FY25-26. The impact of natural gas inclusion under GST is marginal for most of the other oil and gas players in the short term, in our view.

- For the CGD sector (barring GUJGA), we believe the benefits of natural gas inclusion under GST could be offset by the following factors: 1) the need to pass on “savings” to consumers as EBITDA margins/scm are already at a multi-year high; and 2) while CNG prices might correct, we see some risk of lower retail MS/HSD prices in 2HFY25/FY26.

Refining GRMs down 52% QoQ in 1QFY25'TD

- Refining has had a slow start in 1QFY25'TD, with SG GRM averaging USD3.5/bbl vs. 4QFY24 average of USD7.3/bbl. In 1QFY25'TD, diesel GRM has averaged USD17/bbl vs. 4QFY24 average of USD24.3/bbl. In contrast, gasoline GRM has remained healthy at USD14/bbl vs. 4QFY24 average of USD17.64/bbl.
- The recent weakness in GRMs might be attributable to weaker-than-expected global oil demand growth. Further, the middle distillate markets experienced a spring sell-off, causing the global refining margins to fall to nearly two-year lows.
- The IEA expects refinery activity to pick up pace, with annual growth projected to increase by 690kb/d in CY24 and by 1.8mb/d in CY25. As such, we foresee a stronger refining GRM environment in 2HCY25.
- Meanwhile, the current gross marketing margins are INR10.2/lit for MS and INR4.8/lit for HSD. However, we estimate gross marketing margin of INR3.3/lit for both MS and HSD.
- As such, we believe OMCs/MRPL/RIL are on course to post weaker refining performance sequentially even as marketing business profitability for OMCs, currently, is marginally below the 4QFY24 level.

Petrochemicals stable but could rebound in 2HFY25

- HDPE and PP spreads over naphtha have averaged USD311/t and USD318/t in 1QFY25YTD, up 1.6% and 6.5% QoQ, respectively.
- Average HDPE price in 1QFY25YTD is USD996/t vs. 4QFY24 price of USD990/t, even as spot LNG price has risen by 15.8% QoQ to USD10.9/mmbtu in 1QFY25'TD.
- While key petchem spreads have largely remained flat QoQ, we believe the petchem segment is bottoming out as capacities globally are coming off sharply and the excess supply situation continues to ease. Refer to our report titled [“Can petrochemicals surprise in 2HFY26”](#).

Our top picks are HPCL, ONGC and GUJS

- **HPCL** remains our preferred pick among the three OMCs. We model a marketing margin of INR3.3/lit for both MS and HSD in FY25-26E, while the current MS/HSD marketing margins are INR10.2 /lit and INR4.8/lit, respectively. We see the following as key catalysts for the stock: 1) demerger and potential listing of lubricant business, 2) the commissioning of its bottom upgrade unit, and 3) the start of its Rajasthan refinery in 4QFY25.
- HPCL currently trades at 1.2x FY26E P/B, which we believe offers a reasonable margin of safety as we estimate FY26 ROE of 17.6%. We value the stock at 1.4x FY26E P/BV to arrive at our TP of INR400. **Reiterate BUY.**
- **ONGC** has guided for 6% production volume CAGR over the next three years, driven by rising production from 1) KG 98/2 asset, 2) Daman upside development, and 3) the monetization of stranded gas reserves. While volume guidance is upbeat, execution will be key, and should the management achieve guided volumes, we see upside risk to our and street earnings estimates.

➤ ONGC is trading at 2.7x FY26E EV/EBITDA (SA) and 6.8x FY26E P/E (SA). We value the company at 7x FY26E adj. EPS of INR34 and add the value of investments to arrive at our TP of INR340. **We reiterate our BUY rating on the stock with a 26% potential upside.**

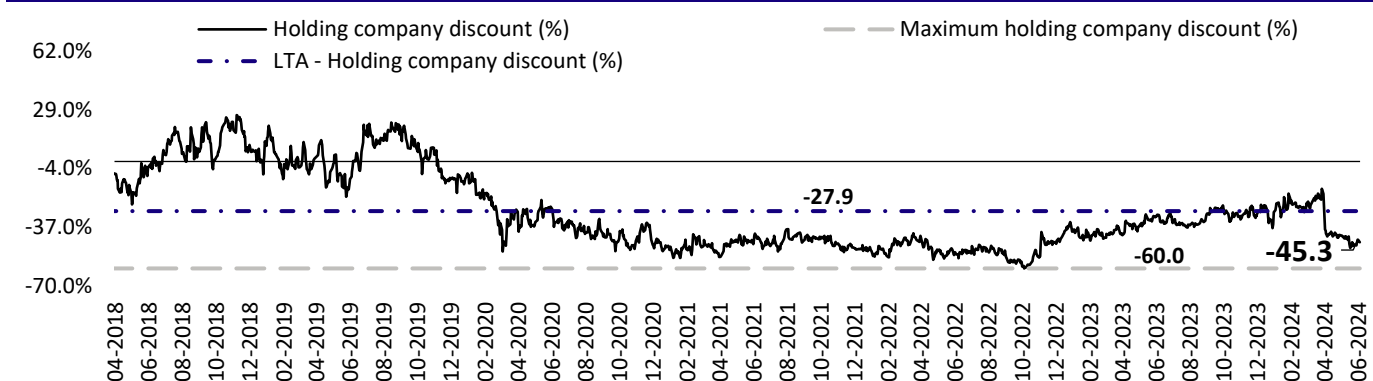
■ **GUJS:** We expect volumes to jump to ~38.5mmscmd in FY26, as it is a beneficiary of: a) the upcoming LNG terminals in Gujarat, b) improved demand owing to the focus on reducing industrial pollution – Gujarat has five geographical areas identified as severely/critically polluted. Valuing the core business at 8x adj. FY26E EPS of INR10.4 and adding the value of investments, we arrive at our TP of INR385. **We maintain our BUY rating on the stock with a 28% potential upside.**

Exhibit 1: Valuation snapshot

Company	Reco	TP (INR)	EPS (INR)			P/E (x)			P/BV (x)			EV/EBITDA (x)			ROE (%)		
			FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
GUJS	Buy	385	22.8	11.6	12.1	13.2	25.9	24.9	1.7	1.6	1.5	11.0	16.6	15.9	13.1	6.3	6.2
H P C L	Buy	400	75.2	48.2	48.4	4.5	7.1	7.0	1.5	1.3	1.2	5.4	7.1	7.0	40.4	20.3	17.8
O N G C	Buy	340	46.3	52.8	57.4	5.8	5.1	4.7	1.0	0.9	0.8	3.9	3.2	2.6	18.8	18.3	17.5

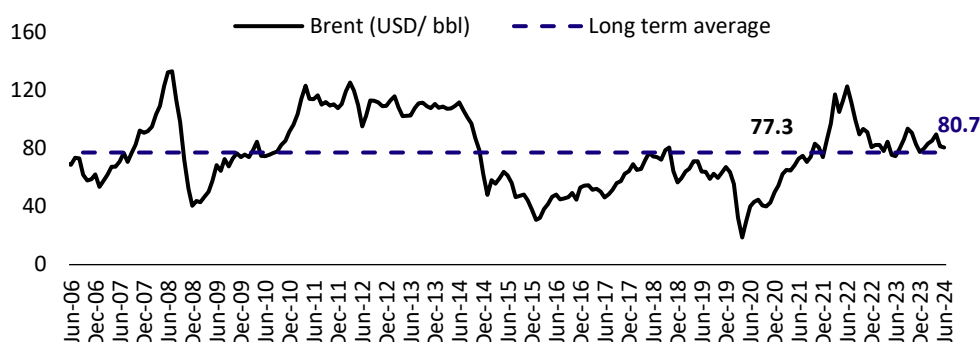
Source: Company, MOFSL

Exhibit 2: Current holding company discount of GUJS's stake in GUJGA (45.3%) is 17.5% above the long term average discount



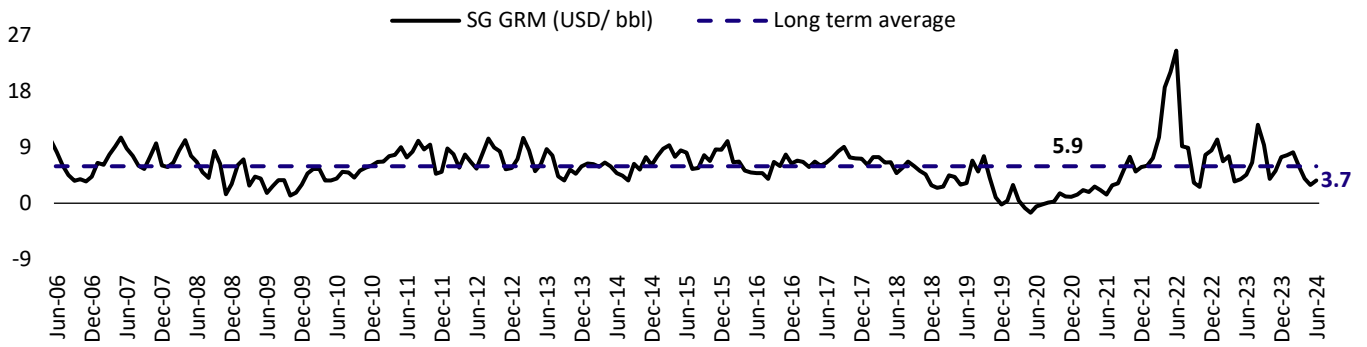
Source: Bloomberg, MOFSL

Exhibit 3: Brent crude historical trend (USD/bbl)



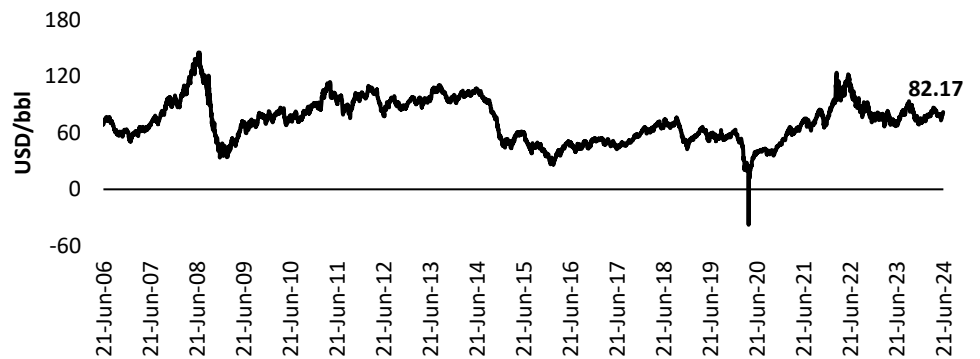
Source: Reuters, MOFSL

Exhibit 4: SG GRM historical trend (USD/bbl)



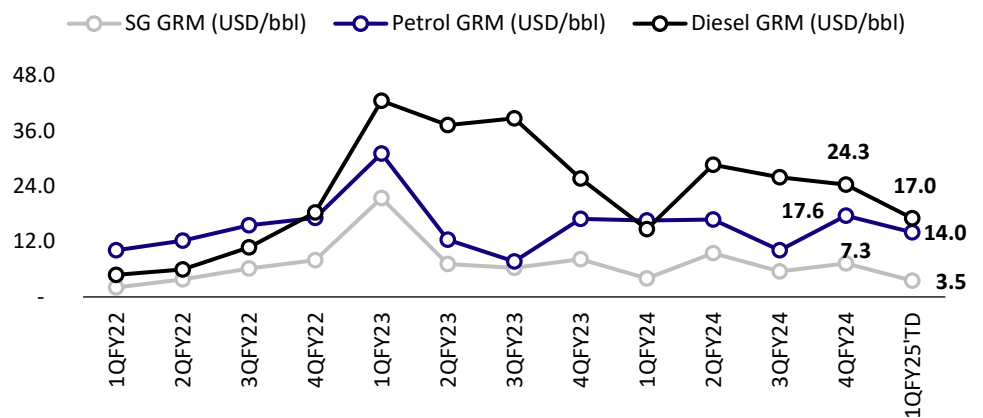
Source: Reuters, MOFSL

Exhibit 5: Exhibit 3: WTI historical price trend (USD/bbl)



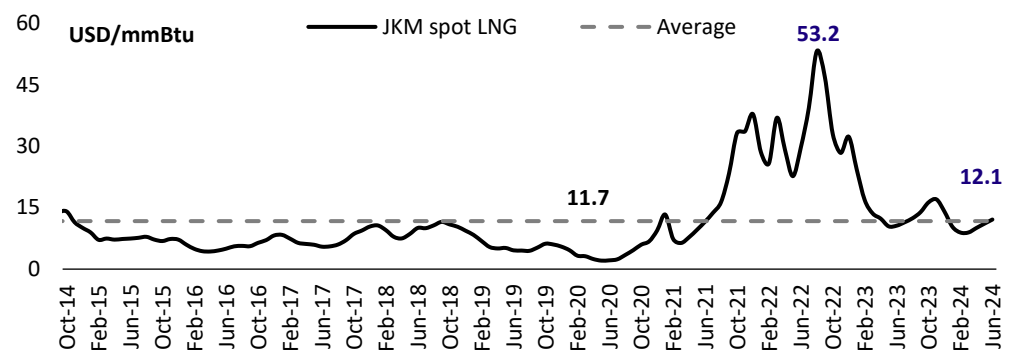
Source: Bloomberg, MOFSL

Exhibit 6: Exhibit 5: Weak refining margins in 1QFY25'TD



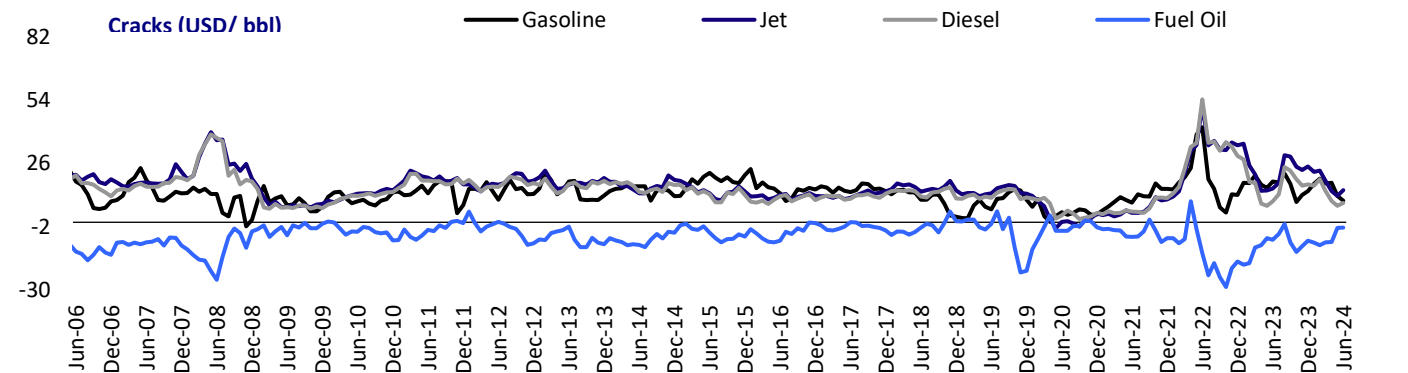
Source: Reuters & Bloomberg, MOFSL

Exhibit 7: Spot LNG historical price (USD/mmbtu)



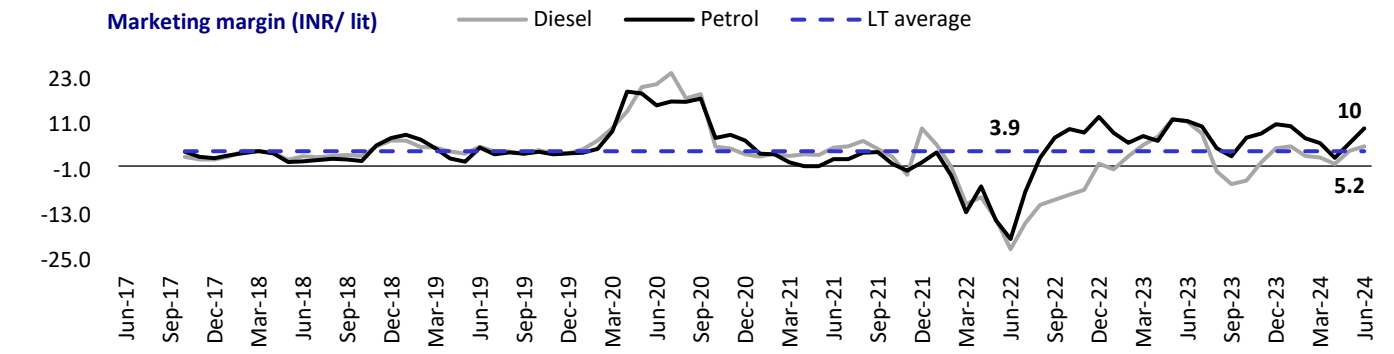
Source: Reuters, MOFSL

Exhibit 8: Various product cracks, except gasoline, have improved recently (USD/bbl)



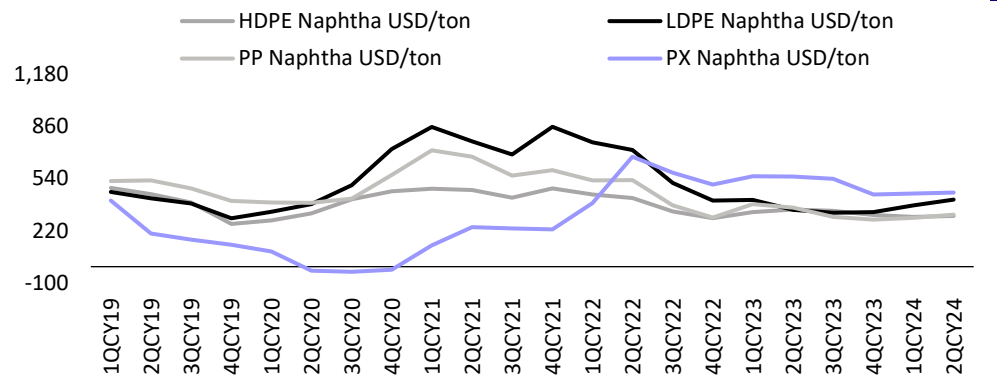
Source: Reuters, MOFSL

Exhibit 9: Marketing margin has increased for both petrol and diesel in May'24-end and Jun'24TD



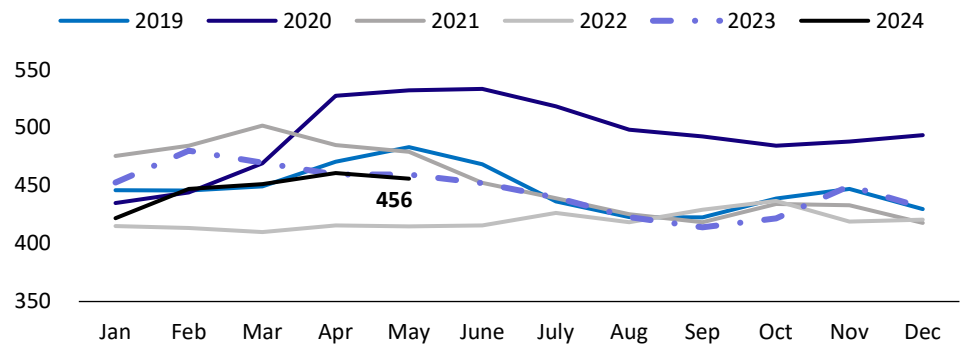
Source: Bloomberg, MOFSL

Exhibit 10: PE, PP and PX spreads over Naphtha



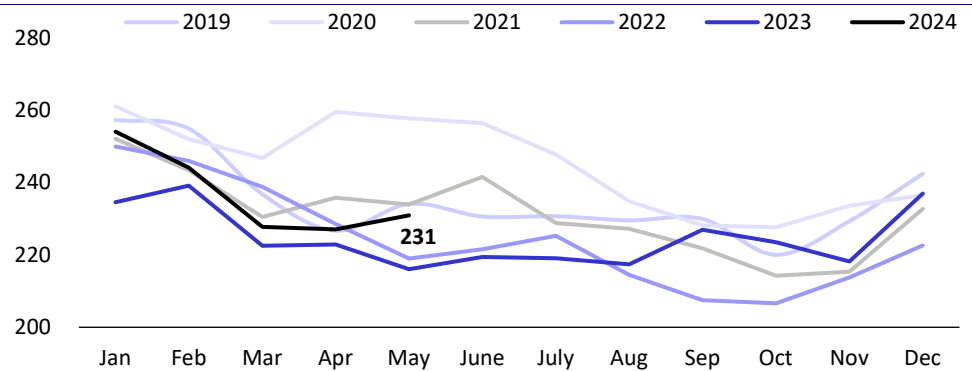
Source: Bloomberg, MOFSL

Exhibit 11: US crude inventory (mb)



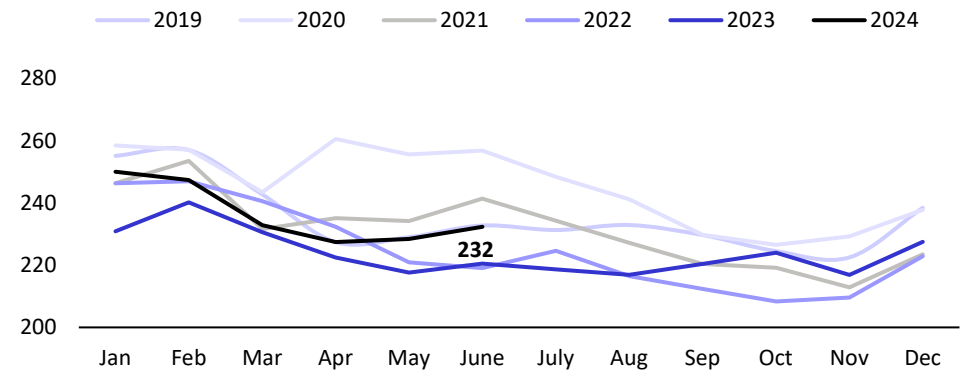
Source: Bloomberg, MOFSL

Exhibit 12: US gasoline inventory (mb)



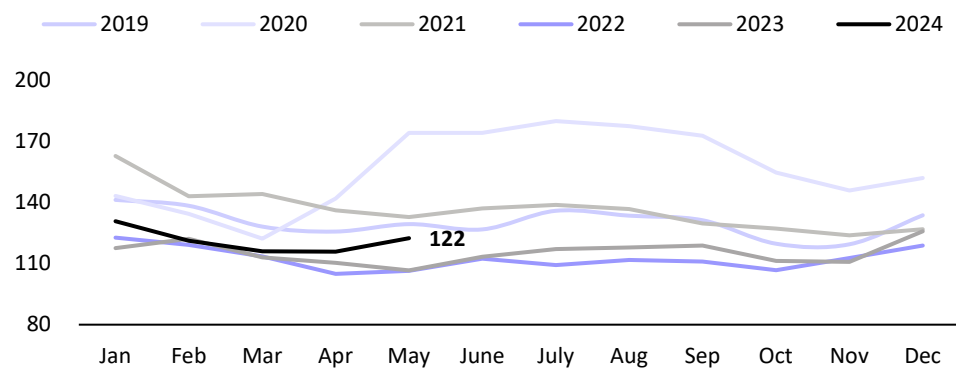
Source: Bloomberg, MOFSL

Exhibit 13: US motor gasoline inventory (mb)



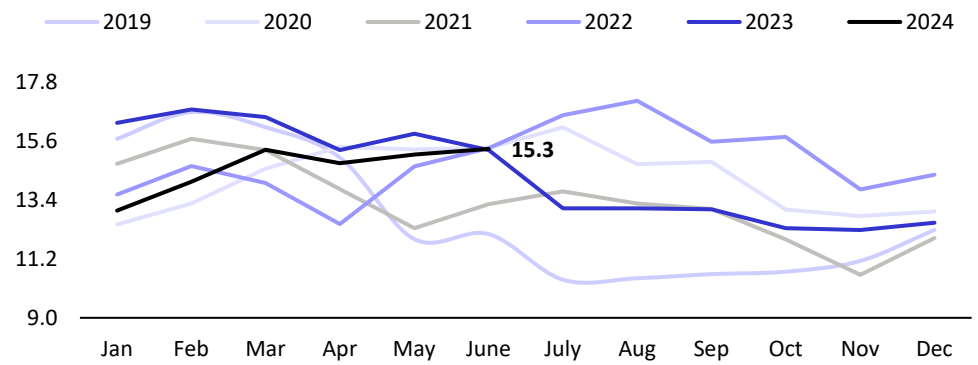
Source: Bloomberg, MOFSL

Exhibit 14: US gasoil inventory (mb)



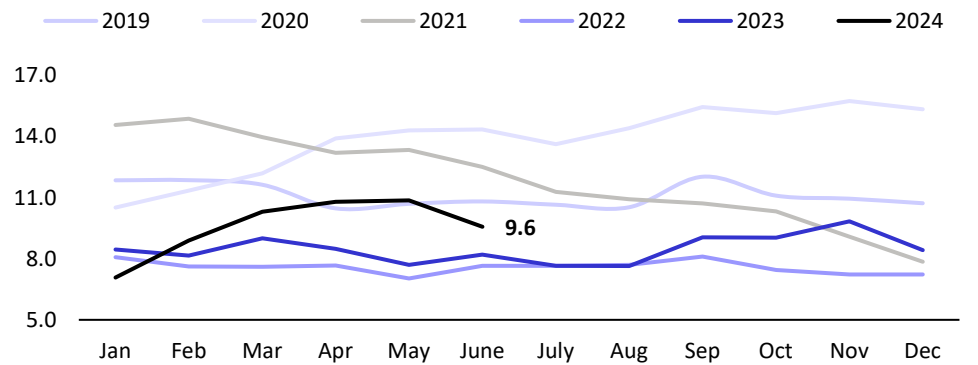
Source: Bloomberg, MOFSL

Exhibit 15: Singapore light distillate inventory (mb)



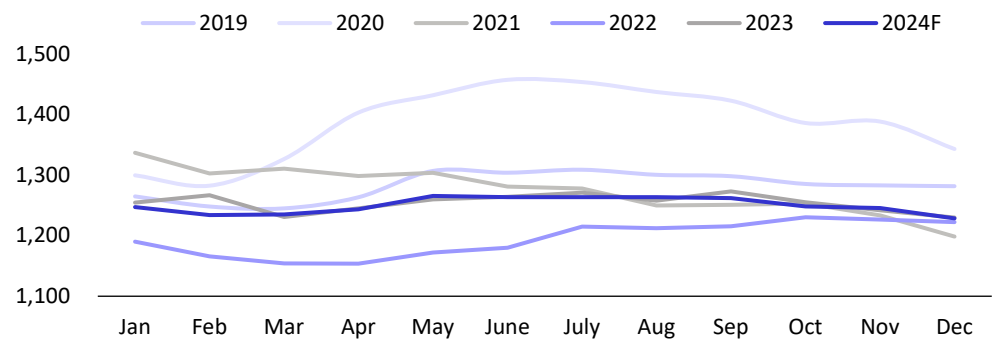
Source: Bloomberg, MOFSL

Exhibit 16: Singapore middle distillate inventory (mb)



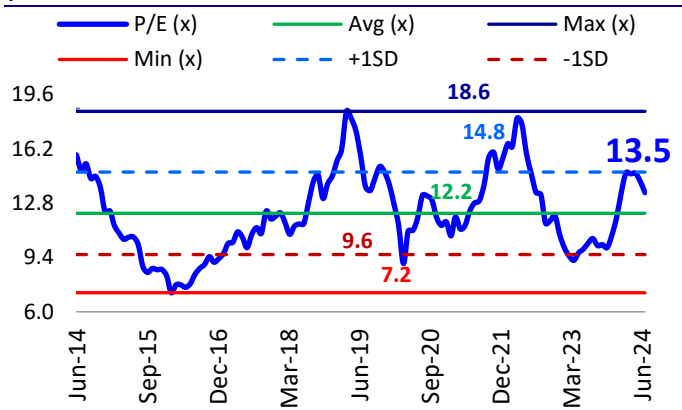
Source: Bloomberg, MOFSL

Exhibit 17: OECD and US Commercial Crude oil and other liquid inventories



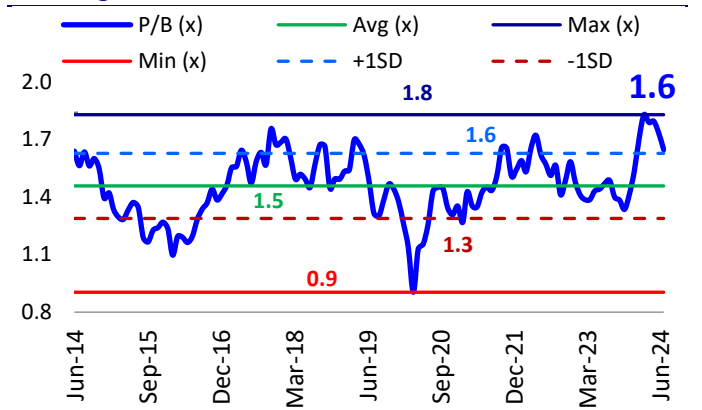
Source: Bloomberg, MOFSL

Exhibit 18: O&G sector 1 year forward PE trades at 11% premium...



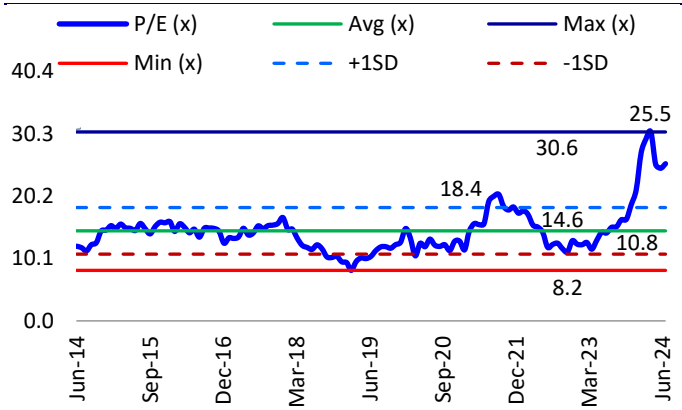
Source: Company, MOFSL

Exhibit 19: ...while on P/B trades at 13% premium to the long-term avg.



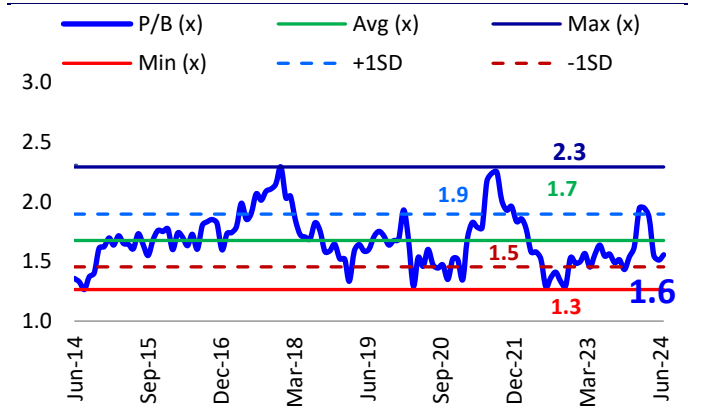
Source: Company, MOFSL

Exhibit 20: GUJS 1-year forward PE trades at 75% premium...



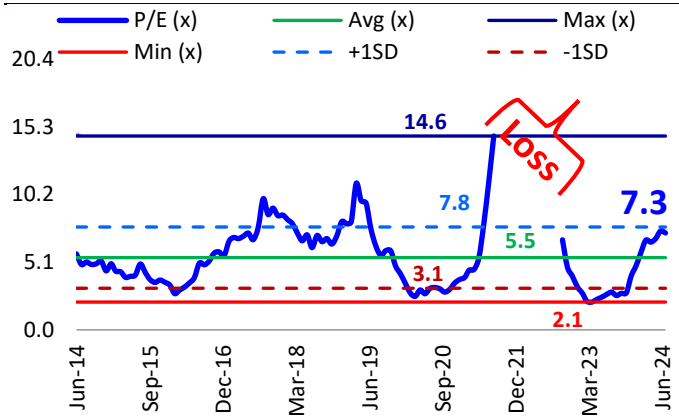
Source: Company, MOFSL

Exhibit 21: ...while on P/B trades at 7% discount to the long-term avg



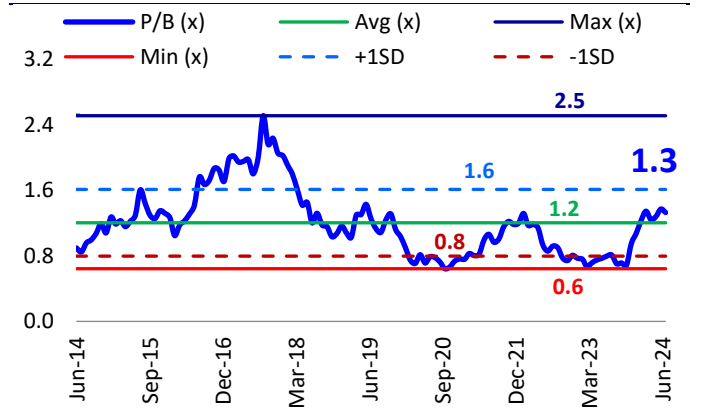
Source: Company, MOFSL

Exhibit 22: HPCL 1-year forward P/E trades at 34% premium...



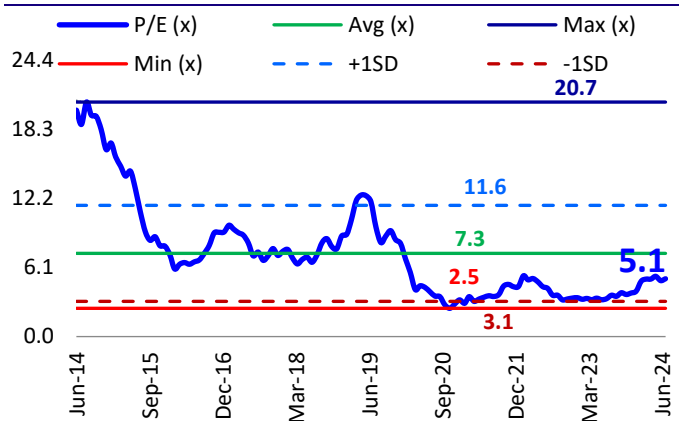
Source: Company, MOFSL

Exhibit 23: ...while on P/B trades at 10% premium to long-term avg



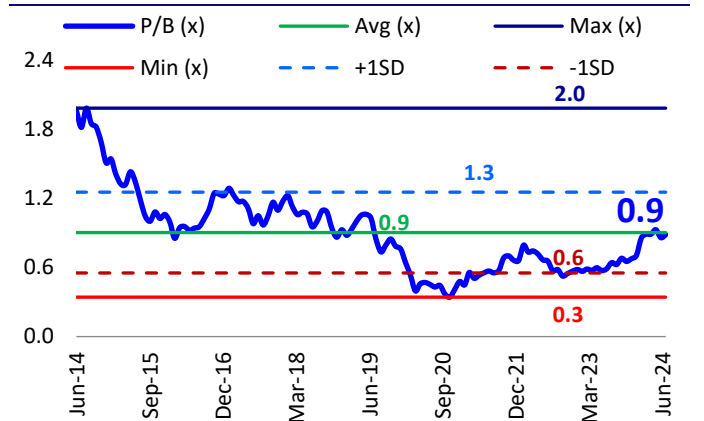
Source: Company, MOFSL

Exhibit 24: ONGC 1 year forward PE trades at 30% discount...



Source: Company, MOFSL

Exhibit 25: ...while on P/B trades at par with the long-term avg.



Source: Company, MOFSL

HPCL: Financial summary and assumptions – BUY (TP: INR400)

Exhibit 26: Key assumptions

Particulars	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Exchange Rate (INR/USD)	70.0	70.9	74.3	74.5	80.4	82.9	84.6	86.0
Brent Crude (USD/bbl)	70.1	61.2	44.4	80.5	96.1	83.4	85.0	85.0
Market Sales (MMT)	38.7	39.6	36.6	39.1	43.5	46.8	48.7	50.6
YoY (%)	5	2	(8)	7	11	8	4	4
GRM (USD/bbl)	5.0	1.0	3.9	7.2	12.1	9.1	8.0	8.0
Singapore GRM (USD/bbl)	4.9	3.2	0.5	5.0	10.7	6.6	6.0	6.0
Prem/(disc) (USD/bbl)	0	(2)	3	2	1	2	2.0	2.0
Total Refinery throughput (MMT)	18.4	17.2	16.4	14.0	19.1	22.3	24.5	24.5
YoY (%)	1%	-7%	-4%	-15%	37%	17%	10%	0%
Refining capacity utilization (%)	117%	109%	104%	88%	85%	91%	100%	100%
Blended marketing margin incld inventory (INR/lit)	4.3	4.0	6.3	4.3	(0.8)	5.4	4.5	4.5
Consolidated EPS	31.4	17.1	50.1	34.3	-32.8	75.2	48.2	48.4

Source: Company, MOFSL

Exhibit 27: Financial summary (INR b)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Sales	2,755	2,691	2,332	3,499	4,407	4,339	4,232	4,364
EBITDA	115	57	160	102	-72	249	189	195
Adj. PAT	67	36	107	73	-70	160	103	103
Adj. EPS (INR)	31	17	50	34	-33	75	48	48
EPS Gr. (%)	-7	-46	193	-32	PL	LP	-36	0
BV/Sh.(INR)	143	146	179	195	152	220	255	290
Ratios								
Net D:E	0.8	1.3	1.1	1.1	2.1	1.3	1.1	1.0
RoE (%)	23.9	11.9	30.9	18.4	-19.0	40.4	20.3	17.8
RoCE (%)	12.9	12.0	14.9	8.3	-7.8	15.9	9.2	8.5
Payout (%)	43.0	76.0	30.3	27.2	0.0	27.9	27.6	28.2
Valuations								
P/E (x)	10.8	19.9	6.8	9.9	-10.4	4.5	7.1	7.0
P/BV (x)	2.4	2.3	1.9	1.8	2.2	1.5	1.3	1.2
EV/EBITDA (x)	8.5	19.7	7.2	11.5	-19.3	5.4	7.1	7.0
Div. Yield (%)	3.1	1.9	4.4	2.7	0.0	6.2	3.9	4.0
FCF Yield (%)	-3.7	-11.5	8.6	5.2	-17.7	19.2	7.2	7.0

Source: Company, MOFSL

ONGC – Financial summary and assumptions – BUY (TP: INR340)

Exhibit 28: Key assumptions

Particulars	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Exchange Rate (INR/USD)	70.0	70.9	74.3	74.5	80.4	82.8	83.9	85.0
APM Gas Price (USD/mmBtu)	3.5	3.8	2.3	2.6	7.3	6.6	6.5	7.0
Brent crude price (USD/bbl)	70.1	61.2	44.4	80.5	96.1	83.0	85.0	85.0
Production Details (mmtoe)								
Domestic Oil Production (mmt)	24.2	23.4	22.5	21.7	21.5	21.1	22.4	23.3
Domestic Gas Production (bcm)	25.8	24.9	22.8	21.7	21.4	20.6	22.6	24.6
Domestic Production (mmtoe)	50.0	48.3	45.3	43.4	42.8	41.8	45.0	47.9
OVL Production (mmtoe)	14.8	14.7	13.0	12.3	9.8	10.5	11.8	11.8
Group Production (mmtoe)	64.9	62.9	58.4	55.7	52.6	52.3	56.8	59.7
Oil Price Realization (USD/bbl)								
Gross	68.9	58.8	42.8	76.4	92.1	80.8	85.0	85.0
Windfall tax	0.0	0.0	0.0	0.0	13.0	10.4	12.0	12.0
Net (post windfall)	68.9	58.8	42.8	76.4	79.0	70.4	73.0	73.0
Consolidated EPS	27.7	13.3	16.5	32.9	32.0	46.3	52.8	57.4

Source: Company, MOFSL

Exhibit 29: Financial summary (INR b)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Sales	4,536.8	4,249.6	3,605.7	5,317.6	6,848.3	6,430.4	6,613.7	6,871.2
EBITDA	840.4	611.3	566.0	857.7	857.1	1,086.5	1,186.9	1,262.8
Adj. PAT	348.8	167.3	207.0	413.6	402.4	583.0	664.0	722.6
Adj. EPS (INR)	27.7	13.3	16.5	32.9	32.0	46.3	52.8	57.4
EPS Gr. (%)	37.3	-52.1	23.8	99.8	-2.7	44.9	13.9	8.8
BV/Sh.(INR)	167.9	159.8	172.2	202.2	220.3	262.7	301.3	342.1
Ratios								
Net D:E	0.4	0.5	0.5	0.4	0.4	0.2	0.1	0.0
RoE (%)	16.7	8.0	9.7	17.2	14.8	18.8	18.3	17.5
RoCE (%)	11.3	6.4	7.3	15.7	11.9	14.6	15.2	15.4
Payout (%)	31.3	77.7	21.6	27.3	42.4	27.5	25.3	27.6
Valuations								
P/E (x)	9.7	20.3	16.4	8.2	8.4	5.8	5.1	4.7
P/BV (x)	1.6	1.7	1.6	1.3	1.2	1.0	0.9	0.8
EV/EBITDA (x)	5.3	7.2	7.9	5.2	5.2	3.9	3.2	2.6
Div. Yield (%)	2.5	2.1	1.3	3.9	4.2	4.5	4.9	5.8
FCF Yield (%)	10.3	8.3	4.4	13.0	13.8	17.8	21.4	23.5

Source: Company, MOFSL

GUJS– Financial summary and assumptions – Buy (TP: INR385)

Exhibit 30: Financial summary (INR b)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Sales	18.8	19.4	17.2	16.6	15.3	17.6	12.8	13.5
EBITDA	15.4	15.7	14.7	14.0	12.6	15.0	9.8	10.3
PAT	7.9	11.1	9.3	9.8	9.4	12.8	6.6	6.8
EPS (INR)	14.1	19.7	16.4	17.4	16.8	22.8	11.6	12.1
EPS Gr. (%)	18.9	39.5	-16.5	5.7	-3.5	35.9	-48.9	4.1
BV/Sh.(INR)	101.8	119.2	133.8	149.7	164.4	182.1	190.3	198.7
Ratios								
Net D:E	0.2	0.1	0.1	0.0	-0.1	0.0	-0.1	-0.1
RoE (%)	14.7	17.8	13.0	12.2	10.7	13.1	6.3	6.2
RoCE (%)	13.6	17.5	12.8	11.9	10.7	13.2	6.3	6.3
Payout (%)	16.1	10.2	12.2	11.5	29.8	21.9	30.0	30.0
Valuations								
P/E (x)	21.4	15.3	18.4	17.4	18.0	13.2	25.9	24.9
P/BV (x)	3.0	2.5	2.3	2.0	1.8	1.7	1.6	1.5
EV/EBITDA (x)	11.8	11.1	12.0	12.2	13.0	11.0	16.6	15.9
Div. Yield (%)	0.7	0.7	0.7	0.7	1.7	1.7	1.2	1.2
FCF Yield (%)	5.2	7.4	6.6	5.8	4.6	4.4	1.7	0.2

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

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