Oil & Gas

Our latest O&G updates

PLNG strong value play amid limited opportunities

- **The O&G sector has had a strong run in the last four months, with OMC stock prices up 35-50%, CGDs up 10-30% and upstream stocks up 10-30%. In this short note, we highlight that : 1) domestic mutual funds' relative underweight position in the O&G sector vs. BSE 200 continues to decline, down only 2% now (FY22: ~5%); 2) average one-year fwd. P/E for our O&G coverage is 16.8x, up significantly vs. LT avg of 13x; 3) while OMCs are well owned, we see the possibility of a sharp excise duty hike in 2QFY26, which could halt share price momentum; 4) with the O&G sector trading above the LT average, we see PLNG as the only strong value play in the sector (Tide is turning, slowly).**

Sharp auto fuel excise duty hike could be coming in 2QFY26

- **Three key takeaways:** Based on historical trends, we believe that: 1) the possibility of an excise duty hike in 2QFY26 remains high (given high gross marketing margins); 2) the next excise duty adjustment will likely be sharper than the modest INR2/lit for both MS/HSD in Apr'25; 3) often duty adjustments happen when gross marketing margins cross the INR8-9/lit mark. Note that the current MS/HSD marketing margins are above this level.
- **Sharp duty adjustments in the past:** During the Nov'14 to Feb'16 period, the government increased MS/HSD excise duty by INR11.8/INR13.6 per lit. During this period, crude prices fell from highs of USD100+/bbl to USD35/bbl. In Mar'20, MS/HSD excise duty was increased by INR3/lit when the marketing margins averaged INR8-9/lit. Later, with crude prices plunging below the USD20/bbl mark and marketing margins soaring above INR18/lit, an additional MS/HSD duty hike of INR10/INR13 per lit was implemented in May'20.

Continue to believe excise duty adjustments preferred over retail price cuts

- **Limited retail price cut in the past:** We continue to believe that an excise duty adjustment has higher profitability than a retail price cut. Note that in the last few years, the central government has taken limited price cuts for MS/HSD.
- **No major elections scheduled in next six months:** Apart from Bihar, which accounts for ~7% of seats in Lok Sabha (elections due in Oct/Nov'25), there are no other major elections scheduled in the next six months. Also, instead of a pan-India retail price cut by the central government, individual states might resort to fuel price adjustments, thus lowering the impact on OMC gross marketing margins.

Capex cycle tapering off; ND/EBITDA to improve across OMCs

- **Capex cycle tapering at HPCL/IOCL:** We think the probability of excise duty adjustments remains high, as barring BPCL, the capex cycle is set to taper off at OMCs and FY27E ND/EBITDA metrics at 2x-3x are within control, thus reducing the need for super-normal profitability. With the recent commissioning of Chhara LNG Terminal, expected completion of Bottom Upgradation Unit at Visakhapatnam refinery in 2QFY26, expected completion of HRRL refinery by Jan'26, and no mega-projects in pipeline, HPCL's capex intensity is expected to soften. IOCL is also expected to increase refining capacity by 17.3mmtpa during 4QFY26-1HFY27. However, beyond this, the capex will start to moderate.

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- **BPCL though is embarking on new capex:** BPCL has already entered a new capex cycle with the ongoing Bina Refinery expansion, and the clarity on a 9-12mmtpa Andhra Refinery is yet to come. ND/EBITDA ratio for OMCs is expected to improve to 2x-3x in FY27E from 5.5x-7.5x in FY20.

At least partial LPG reimbursement likely; under-recovery declining

- **With strong marketing margins, LPG compensation might be limited:** LPG under-recovery was a key concern for OMCs during FY25, with combined under-recovery for OMCs amounting to INR413b (INR199/INR104b/INR109b for IOCL/BPCL/ HPCL). No support has been provided by the government yet, even as OMCs continue to earn super-normal MS/HSD marketing margins. Our base case remains for at least partial LPG compensation as under-recovery per cylinder has continued to decline.
- **LPG under-recovery down to INR115/cyl now (vs. INR180 in 4QFY25):** As per our estimate, LPG under-recovery per 14.2kg cylinder stood at ~INR180 in 4QFY25. With average Saudi propane prices down ~3% QoQ and a price hike of INR50/cyl in domestic LPG cylinder (media article), we estimate LPG under-recovery to reduce to INR115/cyl in 1QFY26. Further, we believe that propane prices should start correcting further, leading to higher earnings momentum for OMCs.
- **Last compensation payment was in CY22:** In CY22, the government had announced a compensation of INR220b for OMCs for a cumulative loss of INR280b they incurred. Assuming INR200b compensation (~50% of current outstanding) is received by OMCs in FY26, INR7/INR12/INR25 would be added to FY26E BVPS of IOCL/BPCL/HPCL.

Exhibit 1: Upside to FY26E BVPS for OMCs led by LPG compensation

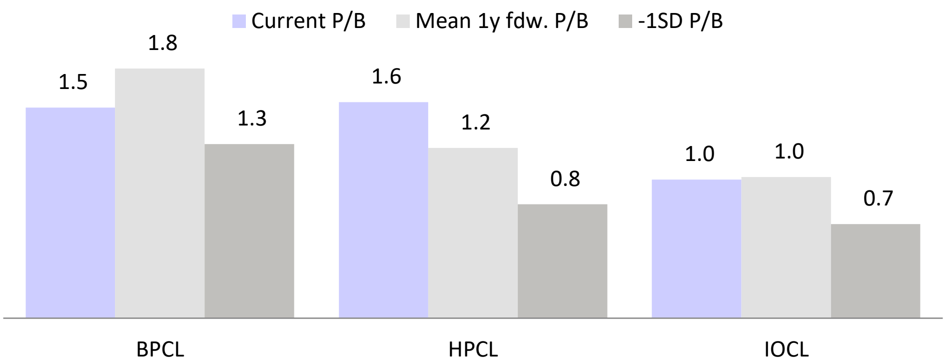
Particulars	IOCL	BPCL	HPCL	Total
FY25 LPG under-recovery (INR b)	199	105	109	413
LPG under-recovery %	*48%*	*25%*	*26%*	
Compensation (INR b)	97	51	53	200
Increase in BVPS	**7**	**12**	**25**	
FY26E Consol. BVPS	**145**	**217**	**276**	
Increase in FY25E BVPS (%)	**5%**	**6%**	**9%**	

Source: Company, MOFSL

OMC valuations no longer inexpensive, but still below historical highs

- **Only BPCL trading below LTA:** OMC valuations are not inexpensive any more, although they are still significantly below the historical peak. Only BPCL is trading below its 1yr fwd. LTA P/B, though re-rating for the stock might be crimped by the commencement of a heavy capex cycle. While we do not think that valuations are inexpensive, a weak crude price outlook, declining LPG under-recovery and recent strength in GRMs can sustain valuations for OMCs. HPCL currently trades at 1.6x one-year fwd. P/B, marginally below its mean +1SD P/B. IOCL/BPCL trade at 1x/1.5x one-year fwd. P/B, at par/below their LTA.
- **ROE has to ramp up sharply for OMC valuations to sustain at mean + 1 S.D.:** All OMCs traded comfortably above their mean +1SD P/B during FY17/18, even touching highs of 1.8x/3.1x/2.5x one-year fwd. P/B, as ROE stood at 20%+/30%+/35%+ for IOCL/BPCL/HPCL, respectively. Current MS/HSD marketing margins, zero LPG under-recovery and stable mid-cycle GRMs will imply RoE of 25%+/35%+/45%+ for IOCL/BPCL/HPCL in FY26/27 (our current FY26E ROE: 7.9%/17.9%/22%).

Exhibit 2: OMCs: Only BPCL is trading below its 1yr fwd. LTA P/B

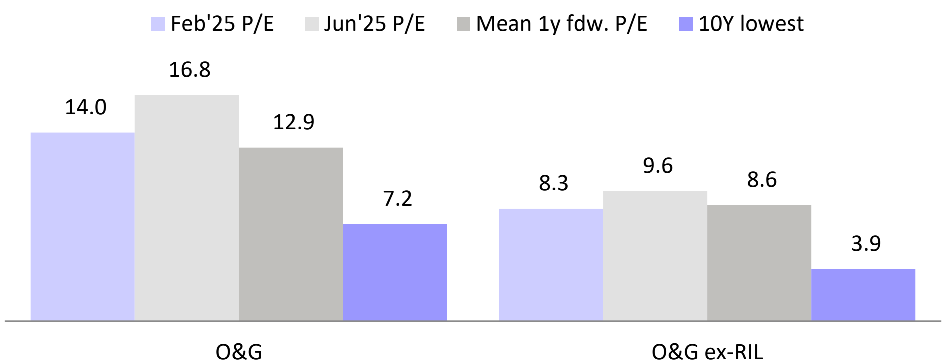


Source: Company, MOFSL

Domestic MFs' underweight position in O&G vs. BSE 200 falling

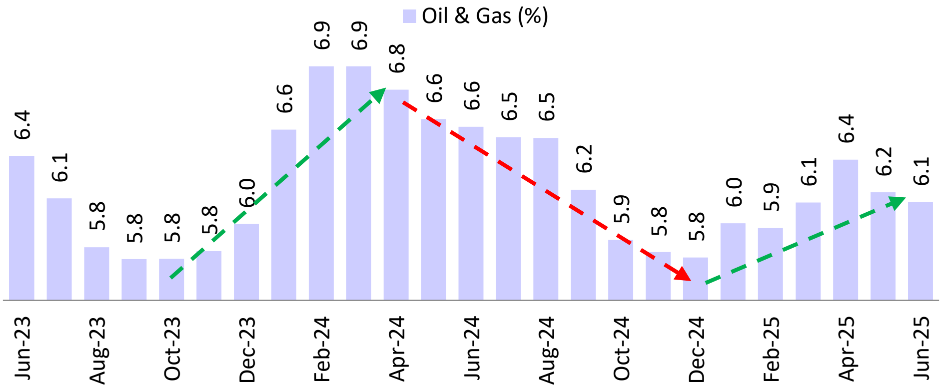
- **O&G sector trading above historical average valuation:** The average one-year fwd. P/E valuation for the 15 O&G stocks in our coverage is 16.8x now, up 20% vs. Feb'25 and above LTA of 13x. Similarly, average one-year fwd. P/E valuation for the O&G coverage excl. Reliance is 9.6x now, up 15% vs. Feb'25 and above LTA of 8.6x. **PLNG, currently trading at ~10x FY27E P/E**, is the only inexpensive play left now in O&G.
- **Domestic MFs underweight position in O&G vs. BSE 200 down from 5% to 2%:** Domestic MFs' underweight position in the O&G sector, which was as high as ~5% in FY22, has been consistently falling and is down to only 2% now. At 6.1% in Jun'25, MF weightage in the O&G sector is higher than the two-year low of 5.8%, and we believe it is heavily tilted toward OMCs.

Exhibit 3: O&G sector 1-year fwd. P/E valuation



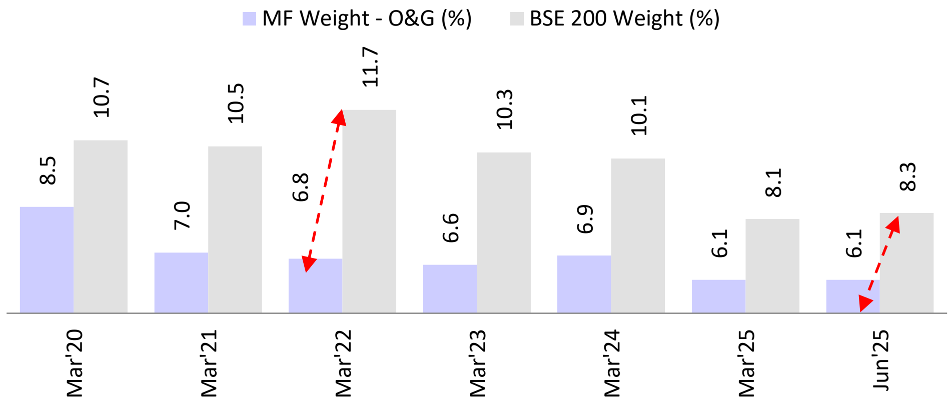
Source: Company, MOFSL

Exhibit 4: Domestic mutual fund weightage in O&G sector (%) – monthly trend



Source: Company, MOFSL

Exhibit 5: Domestic MFs under-weight position in O&G vs BSE 200 down from 5% to 2%:



Source: Company, MOFSL

PLNG only strong value play remaining amid limited opportunities

- **PLNG's valuations imply the stock is at a point of maximum pessimism:** We recently upgraded PLNG to BUY (Tide is turning, slowly). PLNG trades at 10x FY27E EPS compared to its historical one-year forward P/E of 10.4x. Under a variety of bearish scenarios, our DCF-based valuation implies -5% to 20% returns from the current price. Our DCF-based TP of INR410/sh (WACC: 11.2%, TG = 2%) assumes a 10% tariff cut in FY28, followed by a 4% increase 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 FY27E.
- **HPCL momentum play, PLNG value play:** We like HPCL as a momentum play and PLNG as value play as we await better buying opportunities in the sector. Our sector preference remains for OMC-CGD > upstream. After a 10-30% run-up in CGDs over the last four months, we prefer PLNG over CGDs at current levels.

Exhibit 6: PLNG - DCF

PLNG - DCF Valuation	FY25	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E
PLNG EBITDA (INRm)	**55,241**	**59,210**	**70,138**	**69,363**	**77,320**	**80,587**	**86,173**	**91,879**
Depreciation	8,062	9,223	10,299	11,433	12,742	14,132	14,878	14,999
EBIT	**47,179**	**49,987**	**59,838**	**57,929**	**64,578**	**66,455**	**71,295**	**76,880**
Tax rate (%)	*26*	*26*	*26*	*26*	*26*	*26*	*26*	*26*
Capital expenditure	14,518	35,000	40,000	50,000	45,000	30,000	10,000	7,500
Change in WC	1,730	-96	794	389	1,040	424	717	727
FCFF (INRm)	**26,930**	**11,525**	**14,043**	**4,162**	**14,768**	**33,170**	**57,227**	**63,994**
Year		0	1	2	3	4	5	6
Discount factor		1.00	0.90	0.81	0.73	0.65	0.59	0.53
PV(FCFF) (INR m)		**11,525**	**12,629**	**3,366**	**10,740**	**21,694**	**33,657**	**33,846**

Source: Company, MOFSL

Exhibit 7: PLNG – one-year forward DCF valuation

Terminal cash flow (INRm)	63,994
Terminal growth rate	2.0%
Terminal value (INRm)	7,09,498
PV (Terminal Value)	**3,75,251**
PV of cash flows	**1,27,456**
Enterprise value (INRm)	**5,02,708**
Net debt (INRm)	-89,968
Equity value (INRm)	5,92,676
Fair value (INR)	**395**
Add: Petrochemical complex at 0.5x P/B	15
Target Price (INR)	**410**

Source: Company, MOFSL

Exhibit 8: HPCL – Valuation SoTP

Particulars	Earning metric		Val metric	Multiple	Amount (INR m)
HPCL standalone	FY27E EBITDA	2,01,808	EV/EBITDA	6.5	13,21,844
(-) Standalone FY27E Net Debt					6,09,624
Standalone Market Cap					**7,12,220**
+ 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
SoTP					**10,73,201**
(/) shares outstanding					**2,128**
TP (INR/share)					**505**

Source: Company, MOFSL

Exhibit 9: Upcoming state elections in India

State / UT	Election Period	Lok Sabha Seats
Bihar	Oct-Nov'25	40
Assam	Mar–Apr'26	14
West Bengal	By Mar–Apr'26	42
Puducherry (UT)	Apr-26	1
Tamil Nadu	By Apr–May'26	39
Kerala	May-26	20
Goa	By 14 Mar'27	2
Manipur	By 13 Mar'27	2
Punjab	By 16 Mar'27	13
Uttarakhand	Feb'27	5
Uttar Pradesh	By Feb–Mar'27	80
Himachal Pradesh	By Nov'27	4
Gujarat	By Dec'27	26

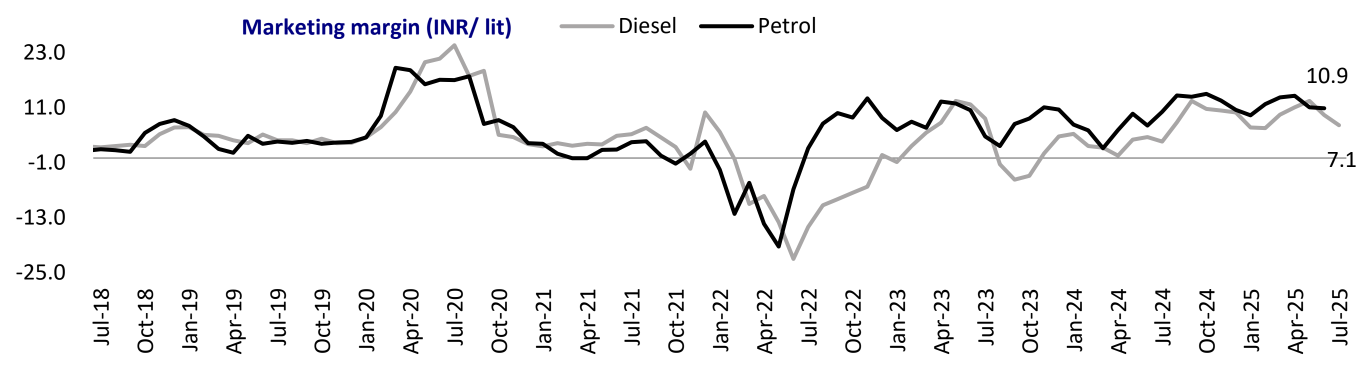
Source: Election Commission of India, MOFSL

Exhibit 10: Excise duty adjustments made by the government since May'14

Date	Particulars	Petrol Excise	Diesel Excise
As on May'14		9.5	3.6
Nov'14	Excise duty hike	1.5	1.5
Dec'14	Excise duty hike	2.3	1.0
Jan'15	Excise duty hike	2.0	2.0
Jan'15	Excise duty hike	2.0	2.0
Nov'15	Excise duty hike	1.6	0.4
Dec'15	Excise duty hike	0.3	1.2
Jan'16	Excise duty hike	0.4	2.0
Jan'16	Excise duty hike	0.8	2.0
Feb'16	Excise duty hike	1.0	1.5
Oct'17	Excise duty Cut	-2.0	-2.0
Oct'18	Excise duty Cut	-1.5	-1.5
Jul'19	Excise duty hike	2.0	2.0
Mar'20	Excise duty hike	3.0	3.0
May'20	Excise duty hike	10.0	13.0
Nov'21	Excise duty Cut	-5.0	-10.0
May'22	Excise duty Cut	-8.0	-6.0
Apr'25	Excise duty hike	2.0	2.0
As on date		**21.8**	**17.6**

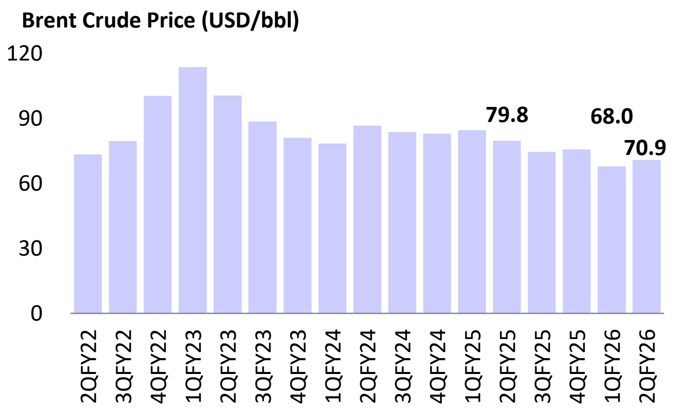
Source: MOFSL

Exhibit 11: MS/HS marketing margins remain strong



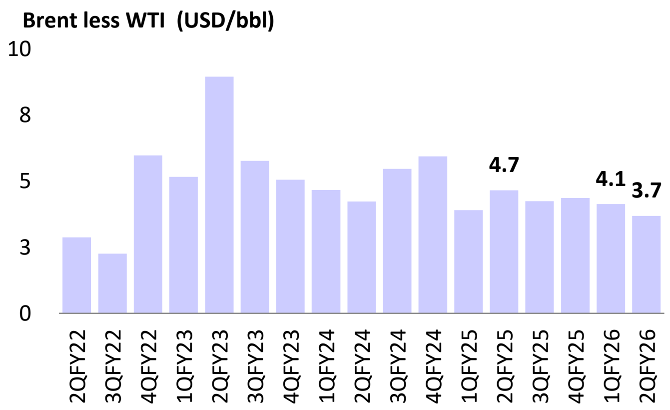
Source: Bloomberg, MOFSL

Exhibit 12: Brent crude price (USD/bbl)



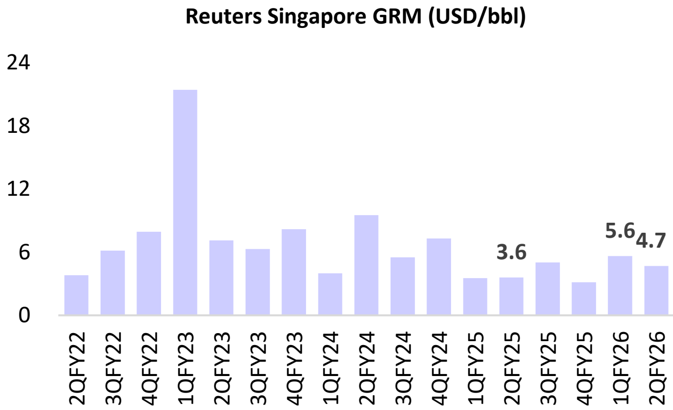
Source: Reuters, MOFSL

Exhibit 13: Brent less WTI (USD/bbl)



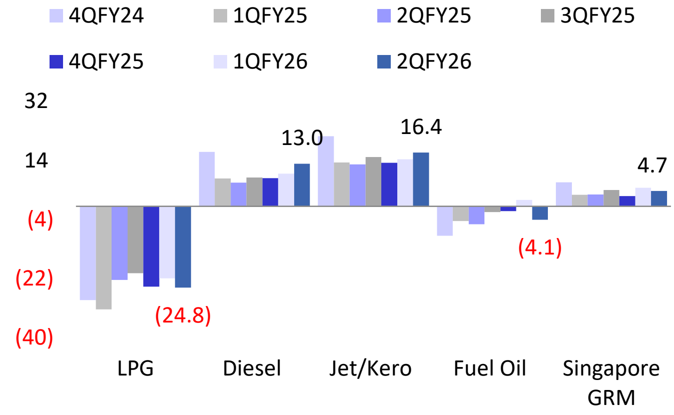
Source: Reuters, MOFSL

Exhibit 14: Singapore GRM (USD/bbl)



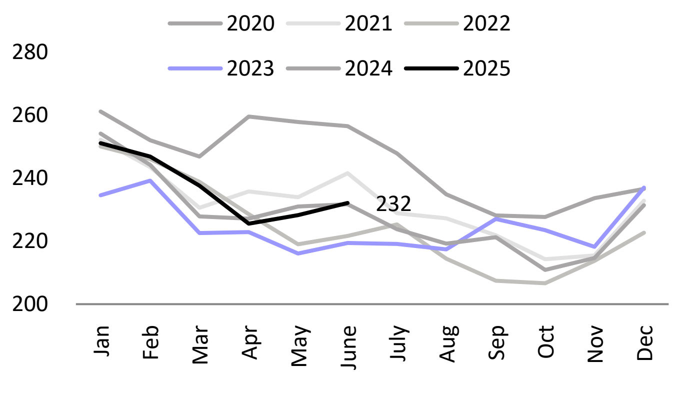
Source: Reuters, MOFSL

Exhibit 15: Various product cracks over Dubai crude (USD/bbl)



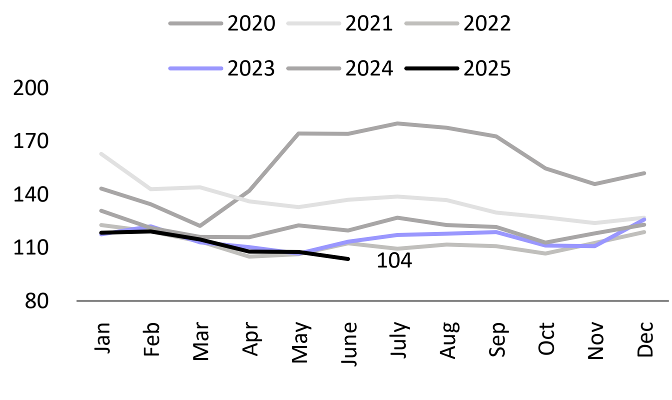
Source: Reuters, MOFSL

Exhibit 16: US gasoline inventory (mb)



Source: Reuters, MOFSL

Exhibit 17: US gasoil inventory (mb)



Source: Reuters, MOFSL

Financials and valuations: PLNG (BUY | TP: INR410)

Key assumptions	FY25	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E
Volume sold (mmtpa)								
Dahej terminal	**17.3**	**17.3**	**18.3**	**18.9**	**19.5**	**20.1**	**20.6**	**21.2**
Terminal utilization	*99%*	*92%*	*81%*	*84%*	*87%*	*89%*	*92%*	*94%*
Kochi terminal	**1.2**	**1.3**	**1.3**	**1.4**	**1.7**	**1.9**	**2.1**	**2.4**
Terminal utilization	*23%*	*25%*	*25%*	*29%*	*34%*	*38%*	*43%*	*47%*
Total	**19.5**	**19.5**	**20.3**	**21.2**	**22.0**	**22.9**	**23.7**	**24.5**
Regas tariff (INR/mmbtu)								
Dahej terminal	63.7	66.9	70.2	63.2	65.7	68.3	71.1	73.9
YoY increase/(decrease)	*5%*	*5%*	*5%*	*-10%*	*4%*	*4%*	*4%*	*4%*
Kochi terminal	89.3	93.8	98.5	88.6	92.2	95.8	99.7	103.7
YoY increase/(decrease)	*5%*	*5%*	*5%*	*-10%*	*4%*	*4%*	*4%*	*4%*

Financial Snapshot (INR b)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Sales	384.0	354.5	260.2	431.7	599.0	527.3	509.8	506.2	536.1
EBITDA	32.9	39.9	47.0	52.5	48.6	52.1	55.2	59.2	70.1
Adj. PAT	21.6	27.6	29.5	33.5	32.4	35.4	39.3	39.9	46.6
Adj. EPS (INR)	14.4	18.4	19.7	22.3	21.6	23.6	26.2	26.6	31.0
EPS Gr. (%)	3.7	28.1	6.9	13.7	-3.4	9.1	11.0	1.6	16.7
BV/Sh.(INR)	67.1	73.0	77.7	89.5	99.6	113.1	129.2	145.7	164.8
Ratios									
Net D:E	-0.3	-0.4	-0.4	-0.3	-0.4	-0.4	-0.5	-0.4	-0.4
RoE (%)	21.8	26.3	26.1	26.7	22.8	22.2	21.6	19.4	20.0
RoCE (%)	21.5	29.4	28.1	28.5	24.6	23.5	22.7	19.9	20.0
Payout (%)	74.9	73.8	58.5	51.5	46.3	42.4	38.2	38.2	38.2
Valuation									
P/E (x)	21.3	16.6	15.6	13.7	14.2	13.0	11.7	11.3	9.7
P/BV (x)	4.6	4.2	3.9	3.4	3.1	2.7	2.4	2.1	1.8
EV/EBITDA (x)	13.1	10.4	8.9	7.9	8.3	7.4	6.7	6.1	5.2
Div. Yield (%)	3.3	4.1	3.8	3.8	3.3	3.3	3.3	3.4	4.0

Financials and valuations: HPCL (BUY | TP: INR505)

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	3,412	3,426
EBITDA	115	57	160	102	-72	249	166	229	203
Adj. PAT	67	36	107	73	-70	160	67	121	94
Adj. EPS (INR)	31	17	50	34	-33	75	32	57	44
EPS Gr. (%)	-7	-46	193	-32	PL	LP	-58	80	-23
BV/Sh.(INR)	143	146	179	195	152	220	240	276	304
Ratios									
Net D:E	0.8	1.3	1.1	1.1	2.1	1.3	1.3	1.0	0.9
RoE (%)	23.9	11.9	30.9	18.4	-19.0	40.4	13.7	22.0	15.2
RoCE (%)	12.9	12.0	14.9	8.3	-7.8	15.9	8.2	11.3	8.9
Payout (%)	43.0	76.0	30.3	27.2	0.0	27.9	33.2	36.8	37.5
Valuations									
P/E (x)	12.6	23.2	7.9	11.6	-12.1	5.3	13.6	7.6	9.8
P/BV (x)	2.8	2.7	2.2	2.0	2.6	1.8	1.8	1.6	1.4
EV/EBITDA (x)	9.6	21.8	7.9	12.6	-20.9	5.9	9.6	6.7	7.6
Div. Yield (%)	2.7	1.6	3.8	2.4	0.0	5.3	2.4	4.9	3.8
FCF Yield (%)	-3.2	-9.9	7.4	4.5	-15.2	16.5	5.2	14.4	7.5

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	65.4	65.0
Market Sales (MMT)	38.7	39.6	36.6	39.1	43.5	46.8	49.8	51.8	53.9
YoY (%)	*5*	*2*	*(8)*	*7*	*11*	*8*	*6*	*4*	*4*
GRM (USD/bbl)	5.0	1.0	3.9	7.2	12.1	9.1	5.7	7.1	6.5
Singapore GRM (USD/bbl)	4.9	3.2	0.5	5.0	10.7	6.6	3.8	5.2	5.0
Prem/(disc) (USD/bbl)	*0*	*(2)*	*3*	*2*	*1*	*2*	*2*	*1.9*	*1.5*
Total Refinery throughput (MMT)	18.4	17.2	16.4	14.0	19.1	22.3	25.3	26.6	26.6
YoY (%)	*1%*	*-7%*	*-4%*	*-15%*	*37%*	*17%*	*13%*	*5%*	*0%*
Refining capacity utilization (%)	117%	109%	104%	88%	85%	91%	103%	108%	108%
Blended marketing margin incld inventory (INR/lit)	4.3	4.0	6.3	4.3	(0.8)	5.5	4.4	4.9	4.5
Consolidated EPS	**31.4**	**17.1**	**50.1**	**34.3**	**-32.8**	**75.2**	**31.6**	**57.0**	**44.1**

NOTES

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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