PL Capital
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Manthan
India Strategy

Riding Bodacious | Cashing the chaotic Brent

Rodeo or bull-fighting is considered one of the most dangerous organized sports. I am sure you can imagine handling an unpredictable ~900kg mass and what it can do to you if you get caught on its wrong side! In the rodeo world, Bodacious has been recognized as the most dangerous. Forecasting crude oil prices, has also been like riding Bodacious. Crude oil prices are a result of complex multi-dimensional factors in addition to demand and supply- geo-political developments, unplanned disruptions, actions by OPEC+, and outlook on renewables.

As global economy takes a beating due to tariff wars, OPEC+ announced intent to raise its production by 411kbopd in May'25 and then by similar quantity in Jun'25. As a result, Brent, which stood at USD79/bbl in FY25, declined to USD67/bbl in Apr'25 and has come down to ~USD60/bbl currently. While we do believe that Brent is likely to rise to ~USD70/bbl led by expected decline in Venezuelan and Iranian oil production which are facing increasing sanctions, it is worthwhile to call out possible beneficiaries if Brent were to defy our stand. In addition to below, it may also be noted that each decline of USD10/bbl results in ~USD45mn/day saving in our import bill. Additionally, it may be noted that if OMCs cut diesel prices, then transportation costs would decline across sectors and would also help in reducing the inflation.

Aviation | Indigo to benefit

After increasing by 4.0% QoQ to ~Rs93.7 per litre in Q4FY25 (blended average across Delhi, Kolkata, Mumbai, and Chennai), ATF prices declined to Rs89.4 per litre in Apr-25. The fall continued in May'25, with a 4.3% MoM decline to Rs85.5 per litre. If we assume fuel CASK of Indigo mimics the ATF price, we end up with a figure in the range of ~Rs1.54-1.55 for 1QFY26E. If RASK remains the same as base quarter (Q1FY25) gross spread would expand to Rs3.85 in Q1FY26E from Rs3.62 in Q1FY25. Remain Positive.

Capital goods | Adverse impact due to possibility of delays in O&G/renewables projects

L&T has significant exposure to the Middle East in hydrocarbon and renewable segments, accounting for ~30% of the total group revenue in 9MFY25. The Middle East accounted for 33% of the total order intake in 9MFY25 while the total order book from Middle East stood at Rs2.0trn (~35% of total OB) at the end of Dec'24. In our view, order intake for L&T's hydrocarbon business from the Middle East might get impacted if the Brent crude pricing is sustained at a lower level as it may result in lower capex announcements in the region. Furthermore, the existing ongoing projects might also face some delays given L&T's significant exposure to the Middle East in last couple of years. Similarly, EIL would also be adversely impacted.

Exhibit 1: L&T's exposure to ME

Rs bn	FY23	FY24	9MFY25
Revenue	238	486	544
% of Total	*13%*	*22%*	*30%*
Order Intake	438	1,151	881
% of Total	*19%*	*38%*	*33%*
Order Book	959	1,665	1,975
% of Total	*24%*	*35%*	*35%*

Source: Company, PL

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Oil & Gas | OMCs to benefit, if…

Gross marketing margins on petrol and diesel stood at Rs10.4/lit and Rs6.5/lit respectively in Q4FY25. They have risen to Rs12.3/lit and Rs9.7/lit respectively in Apr'25. Ceteris paribus, gross marketing margins on auto fuels would increase with decline in Brent. Every USD1/bbl results in ~50p/lit change in gross marketing margins. However, will the OMCs pass on these to end consumers or will the government in order to boost its financials, may raise excise even further, is a difficult question to answer. CGDs, which have witnessed margin pressure due to cut in APM gas allocation, could see marginal improvement with decline in Brent linked gas cost. Castrol (not under coverage) in particular could benefit from decline in base oil prices as their brand commands pricing power. On the other hand, upstream companies like ONGC and Oil India would be adversely impacted. Every USD5/bbl decline in Brent result in 8-10% decline in their EPS.

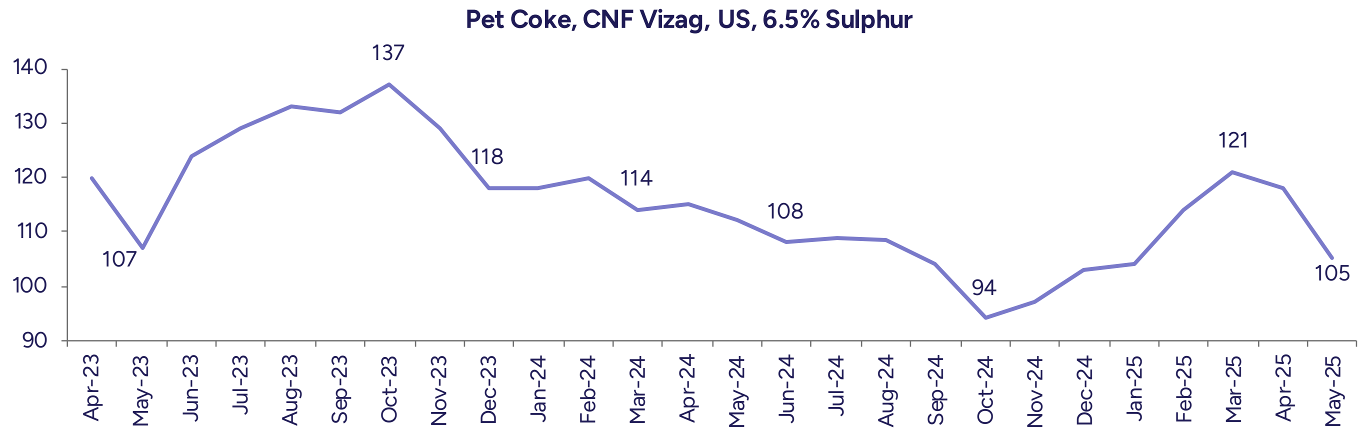
Pharma | marginally positive

Our interactions with the companies suggest that there would be limited positive impact of decline in crude oil prices through improvement in packaging, logistics and certain key raw materials. Margins of Indian pharmaceutical companies are expected to witness marginal improvement only.

Cement | lower petcoke prices to aid margins

Prices of petcoke, a crude oil derivative, have already started showing weakness. This would lower cost for cement companies. Additionally, 70-75% of cement transportation is through roadways. If diesel prices are cut, it would lower freight cost. Exhibit 2: Petcoke prices decline

Exhibit 2: Petcoke prices to aid margins



Source: Company, PL

FMCG/Paints | Pricing remains the key

Paint companies would stand to win with decline in raw material prices. However, looking at the aggravated competitive intensity, it remains to be seen what pricing action they take going forward. Pidilite should gain from lower prices of inputs like VAM/ packaging and other inputs, which are oil based. Detergent manufacturers can gain from any potential decline in prices of LAB and most FMCG companies use crude-based inputs, in addition packaging cost (HDPE/LDPE/ Flexible packaging) are all crude based. However, the benefits will flow down only if the prices remain soft for an extended period and the impact will be visible after a lag of 3 months at least.

Building Materials | Indirect Benefits from Brent Decline for P&F Companies

A decline in Brent crude prices indirectly benefits Pipe & fittings (P&F) companies. One of the major RM for P&F companies is PVC resin, whose prices tend to correct in tandem with falling crude oil prices. While the impact of RM price changes is typically passed through (limiting direct margin benefits), the correction in PVC resin prices can drive volume growth, as end-product prices become more competitive.

Specialty chemicals | lack of pricing power

Most of the chemical companies depend on crude oil derivates like phenol, benzene, toluene etc. However, most of the Indian chemical companies do not have pricing power and are unlikely to benefit from falling crude oil prices.

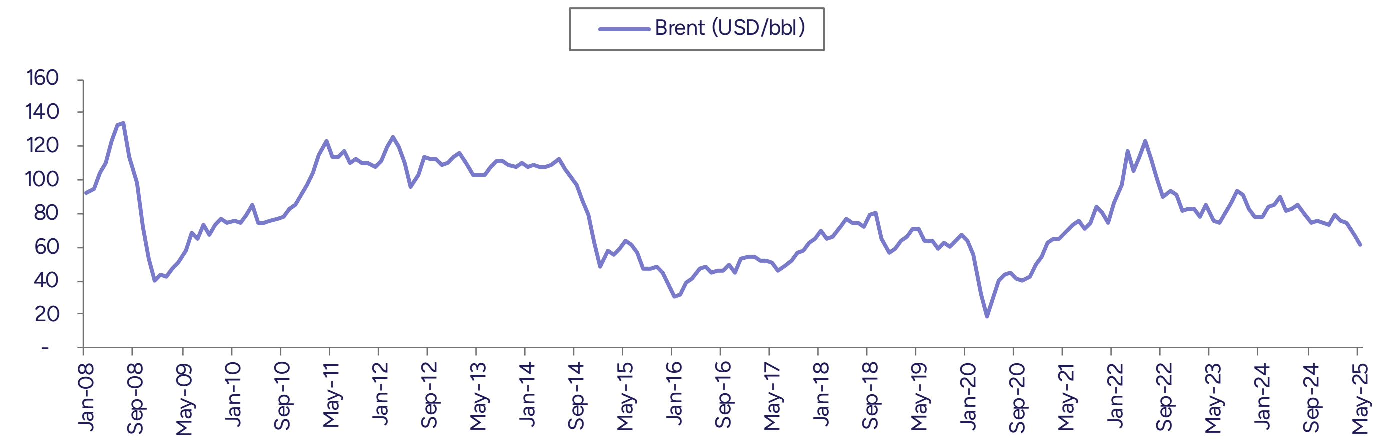
But why we believe Brent could rise to ~USD70/bbl soon

Iran and Venezuela are two "*trump*" cards which we believe could take oil prices up from here. The US has been very vocal in its stance on complete ban on exports of Iranian crude. In 2011/12, a series of sanctions were placed on Iran, which resulted in its production declining from ~3.8mnbopd to ~2.5mnbopd. In 2023, China imported 90% of Iranian crude. Now that US-China tariff resolution appears on the horizon, it may come at the cost of reduced Chinese import of Iranian oil. Additionally, US has already cancelled its license to Shell and BP for their projects in Venezuela. Reports suggest that Chevron may also witness same in Venezuela. With these, it is expected that Venezuelan crude output may drop from ~1mnbopd currently to ~0.5mnbopd.

Low crude oil prices are favoured neither by the US nor OPEC+. For OPEC+, majority of the GDP comes from oil while for the US, significant amount of shale would become unviable thereby raising dependence on imported crude oil.

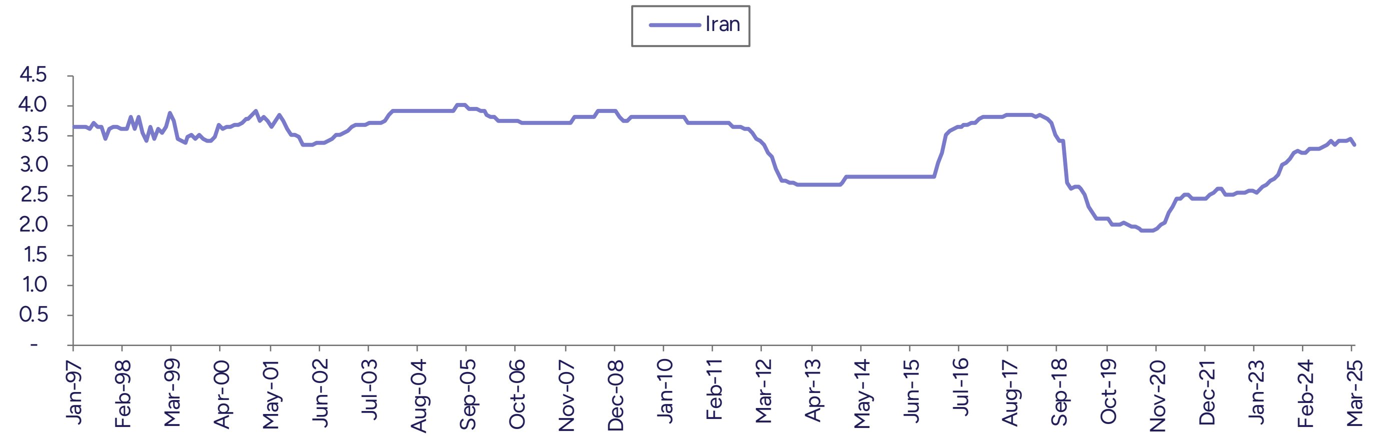
In our view, OPEC+ has raised production in May'25 by 411kbopd and again for Jun'25 by another 411kbopd in anticipation of these and unplanned outages. *However, if OPEC+ were to continue supplying, Brent could fall even further since OPEC+ has a spare capacity of ~4-5mnbopd.*

Exhibit 3: Brent nosedives to ~USD60/bbl



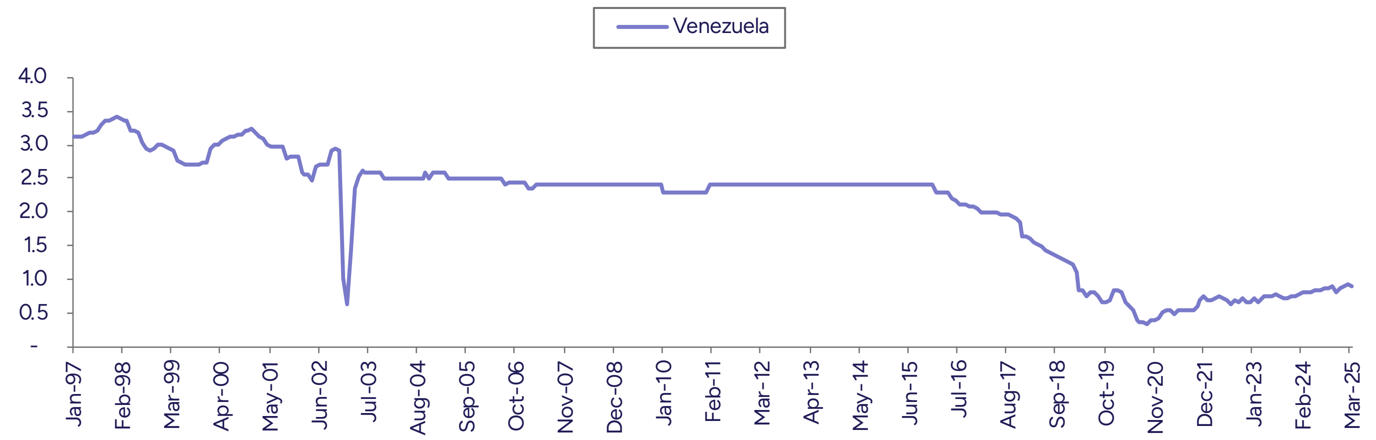
Source: Industry, PL

Exhibit 4: Iranian oil output could be adversely impacted due to US sanctions (mnbopd)



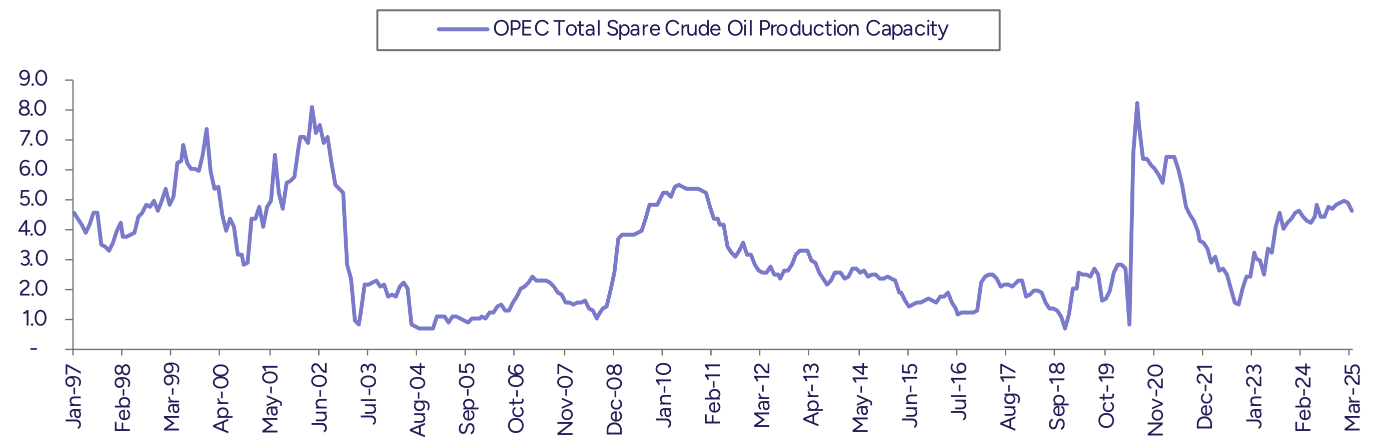
Source: EIA, PL

Exhibit 5: Venezuelan crude output faces decline due to sanctions (mnbopd)



Source: EIA, PL

Exhibit 6: OPEC+ surplus capacity (mnbopd)



Source: EIA, PL

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Reduce	330	356
2	Bharat Petroleum Corporation	Reduce	267	311
3	Bharti Airtel	Accumulate	1,916	1,720
4	Clean Science and Technology	Hold	1,224	1,167
5	Deepak Nitrite	Reduce	1,645	1,835
6	Fine Organic Industries	BUY	4,798	3,960
7	GAIL (India)	Accumulate	185	169
8	Gujarat Fluorochemicals	Reduce	3,328	3,671
9	Gujarat Gas	Hold	395	393
10	Gujarat State Petronet	Hold	288	288
11	Hindustan Petroleum Corporation	Sell	322	395
12	Indian Oil Corporation	Reduce	122	143
13	Indraprastha Gas	Sell	150	185
14	Jubilant Ingrevia	Hold	616	604
15	Laxmi Organic Industries	Reduce	160	169
16	Mahanagar Gas	Accumulate	1,393	1,316
17	Mangalore Refinery & Petrochemicals	Sell	109	129
18	Navin Fluorine International	Accumulate	4,454	3,880
19	NOCIL	Reduce	156	166
20	Oil & Natural Gas Corporation	BUY	264	220
21	Oil India	BUY	659	343
22	Petronet LNG	Reduce	248	278
23	Reliance Industries	Accumulate	1,482	1,300
24	SRF	Hold	2,780	2,721
25	Vinati Organics	Accumulate	1,620	1,459

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Buy : > 15%
Accumulate : 5% to 15%
Hold : +5% to -5%
Reduce : -5% to -15%
Sell : < -15%
Not Rated (NR) : No specific call on the stock
Under Review (UR) : Rating likely to change shortly

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