Oil & Gas

2Q improves sequentially, but volatility persists

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Oil & Gas ▸ Sector Report ▸ **September 08, 2026**

NIFTY 50: 23,779

The 2QFY27 outlook for OMCs is sequentially better than 1QFY27, despite continued volatility stemming from the Middle East (ME) conflict. 1Q saw a significant beat in core GRMs, supported by elevated refining cracks, but this was more than offset by mounting marketing under-recoveries. Marketing economics, however, have improved sequentially, supported by the full impact of auto-fuel/LPG price hikes, sequentially lower average crude oil prices following the sharp correction in the first half of Jul-26, and a sharp decline in LPG under-recoveries. However, crude has spiked again to ~$98/bbl amid renewed escalation in the ME, and the situation remains volatile. We expect LPG under-recoveries to average ~Rs290/cylinder in 2Q vs ~Rs510/cylinder in 1Q, while our initial estimates imply OMC integrated margins of ~Rs9-14/liter in 2Q vs ~Rs1-3/liter in 1Q (current margins at ~Rs5-9/liter), with HPCL likely to see the highest positive delta. Overall, we expect 2Q earnings to improve sequentially, but continued escalation in the ME and volatile crude prices pose risks to our full-year earnings estimates. We retain a neutral view and our ADD rating on OMCs.

Better marketing margins and elevated refining cracks to drive 2Q recovery

2QFY27 has seen a sequential recovery in auto-fuel marketing margins, as crude prices declined sharply in the first half of the quarter (low: ~$68/bbl) amid easing ME tensions, before rising again to ~$98/bbl currently. The full impact of auto-fuel price hikes has also supported margins, while LPG under-recoveries are expected to decline sharply to ~Rs290/cylinder in 2Q (Jul/Aug/Sep at ~Rs490/180/200 per cylinder) from ~Rs510/cylinder in 1Q, aided by a ~19% qoq decline in Saudi CP, lower spot premiums, and the full benefit of the price hikes. ATF marketing margins have also improved sequentially, aided by price hikes undertaken by OMCs in 2Q vs largely frozen pricing in 1Q. Refining cracks have remained elevated amid refinery disruptions in Russia (~40% of capacity offline) and the ME, with diesel particularly strong as outages have tightened product availability.

1Q weakness partly cushioned by refining; 2Q outlook improves

1QFY27 was a challenging quarter for OMCs, as a sharp rise in crude prices and elevated premiums/freight costs weighed significantly on marketing profitability, partly offset by strong refining cracks. The extent of the refining cushion, however, varied across companies, with IOCL and BPCL delivering relatively resilient performances as stronger-than-expected GRMs absorbed marketing losses, while HPCL was weaker due to operational issues at the Vizag refinery's resid project, which persists. Across all three, balance sheets also came under pressure from higher working-capital requirements amid elevated crude prices. While 2Q earnings should be better than 1Q, the continued escalation in the ME leaves the earnings trajectory below our initial expectations and poses downside risk to our full-year earnings estimates.

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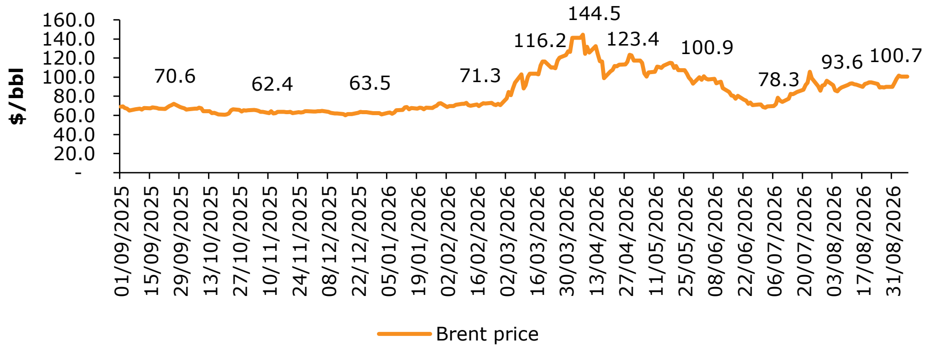
Rating, Target Price and Valuation

	Rating	CMP (Rs)	TP (Rs)	Upside (%)	P/E (x) FY27	P/E (x) FY28	P/B (x) FY27	P/B (x) FY28	EV/EBITDA (x) FY27	EV/EBITDA (x) FY28
Indian Oil	ADD	135	160	18	12.7	10.2	0.8	0.8	7.1	6.0
BPCL	ADD	313	370	18	8.8	8.4	1.2	1.1	5.8	5.8
HPCL	ADD	357	410	15	63.1	7.6	1.2	1.1	14.0	5.8

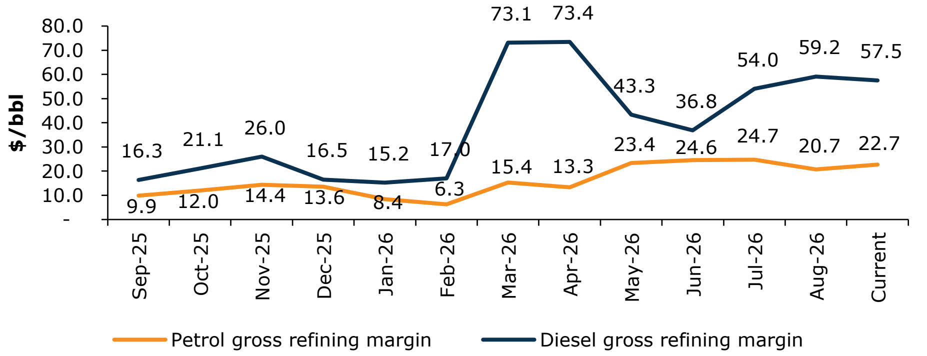
Source: Company, Emkay Research

Exhibit 1: Crude oil price volatility persists amid continued ME tension



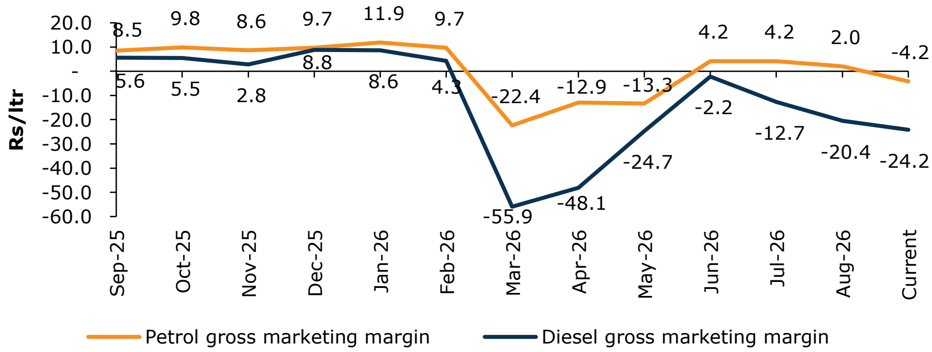
Source: Bloomberg, Emkay Research

Exhibit 2: Refining margins remain elevated amid refinery outages and supply disruptions



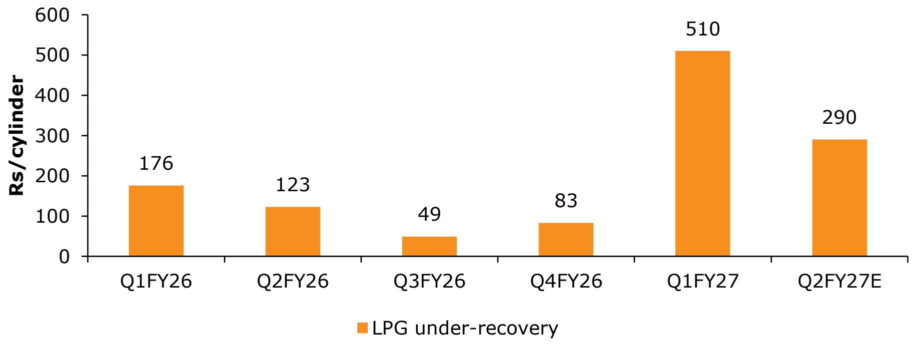
Source: PPAC, Emkay Research

Exhibit 3: 2Q marketing margins recover from 1Q lows



Source: PPAC, Emkay Research

Exhibit 4: Saudi Aramco CP cut and LPG price hikes ease OMC's under-recoveries



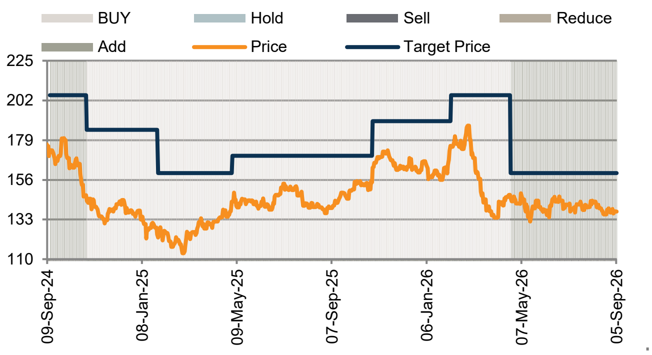
Source: Company, Industry, Bloomberg, Emkay Research

INDIAN OIL
RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (Rs)	TP (Rs)	Rating	Analyst
21-May-26	141	160	Add	Sabri Hazarika
23-Apr-26	145	160	Add	Sabri Hazarika
05-Mar-26	172	205	Buy	Sabri Hazarika
06-Feb-26	175	205	Buy	Sabri Hazarika
29-Oct-25	163	190	Buy	Sabri Hazarika
29-Sep-25	149	170	Buy	Sabri Hazarika
24-Aug-25	140	170	Buy	Sabri Hazarika
18-Jun-25	141	170	Buy	Sabri Hazarika
12-Jun-25	143	170	Buy	Sabri Hazarika
03-May-25	143	170	Buy	Sabri Hazarika
30-Apr-25	138	160	Buy	Sabri Hazarika
28-Jan-25	123	160	Buy	Sabri Hazarika
15-Jan-25	127	185	Buy	Sabri Hazarika
29-Oct-24	144	185	Buy	Sabri Hazarika
12-Sep-24	173	205	Add	Sabri Hazarika

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



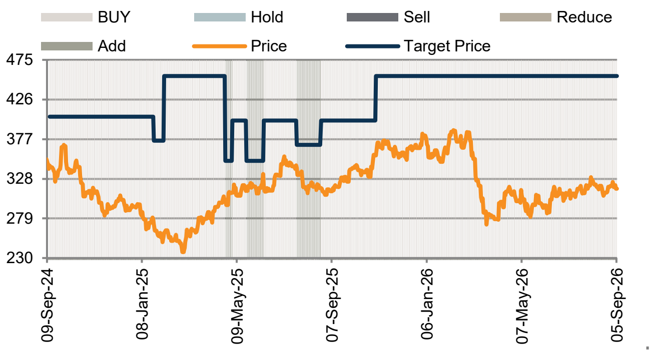
Source: Company, Bloomberg, Emkay Research

BPCL
RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (Rs)	TP (Rs)	Rating	Analyst
02-Nov-25	357	455	Buy	Sabri Hazarika
24-Aug-25	316	400	Buy	Sabri Hazarika
24-Jul-25	341	370	Add	Sabri Hazarika
18-Jun-25	316	400	Buy	Sabri Hazarika
12-Jun-25	319	400	Buy	Sabri Hazarika
21-May-25	316	350	Add	Sabri Hazarika
03-May-25	311	400	Buy	Sabri Hazarika
24-Apr-25	302	350	Add	Sabri Hazarika
05-Feb-25	261	455	Buy	Sabri Hazarika
23-Jan-25	271	375	Buy	Sabri Hazarika
15-Jan-25	267	405	Buy	Sabri Hazarika
29-Oct-24	311	405	Buy	Sabri Hazarika
12-Sep-24	344	405	Buy	Sabri Hazarika

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

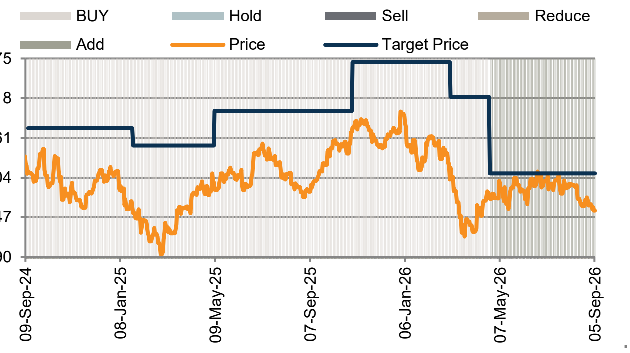
HPCL

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (Rs)	TP (Rs)	Rating	Analyst
24-Jul-26	381	410	Add	Sabri Hazarika
14-May-26	378	410	Add	Sabri Hazarika
24-Apr-26	374	410	Add	Sabri Hazarika
05-Mar-26	418	520	Buy	Sabri Hazarika
22-Jan-26	428	570	Buy	Sabri Hazarika
31-Oct-25	476	570	Buy	Sabri Hazarika
24-Aug-25	391	500	Buy	Sabri Hazarika
10-Aug-25	410	500	Buy	Sabri Hazarika
18-Jun-25	394	500	Buy	Sabri Hazarika
12-Jun-25	393	500	Buy	Sabri Hazarika
08-May-25	388	500	Buy	Sabri Hazarika
24-Jan-25	353	450	Buy	Sabri Hazarika
15-Jan-25	363	475	Buy	Sabri Hazarika
29-Oct-24	389	475	Buy	Sabri Hazarika
12-Sep-24	413	475	Buy	Sabri Hazarika

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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BUY	>15% upside
ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	>15% downside

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