

# Oil and Gas



## Key takeaways from meeting with MoPNG and IOCL

We attended the meeting of the Minister of Petroleum and Natural Gas (MoPNG) and the Petroleum secretary with analysts/investors; we also interacted with the IOCL CMD to understand the company's growth strategy. The agenda of MoPNG's continued interaction with the analyst/investor community in the last 1-2 years is to better understand and address the key concerns that result in Indian O&G PSUs trading at a significant discount to peers from the private sector and from other industries. The MoPNG tried to address key investor arguments for valuation discounts like: a) volatility in earnings for O&G PSUs; b) O&G PSUs' poor capital allocation decisions and their being considered an extended arm of the government; and c) O&G PSUs are not future ready; also, there is intensifying competition. Further, the MoPNG also highlighted that the government had noted investor concerns and taken the following measures to address the same in the last few years: a) timely support to OMCs for LPG under-recoveries by giving INR 520bn compensation since Oct'22; b) longer tenures for CMDs/directors to ensure strategic continuity; c) performance-linked accountability by ensuring leadership appraisal is directly tied to business performance; d) minimal pricing intervention over a long period of time. The ministry also reiterated that with the passage of the ORD Amendment Act in Mar'25 providing for fiscal stability, it will be very difficult for any government in future to impose windfall tax (SAED) on any oil and gas field (nominated and other fields of private players as well).

- **MoPNG tried to understand & address concerns resulting in Indian O&G PSUs' valuation discount:** The agenda of the MoPNG's continued interaction with the analyst/investor community in the last 1-2 years is to better understand and address the key concerns that result in Indian O&G (Oil & Gas) PSUs trading at a significant discount to peers from the private sector and other industries. The MoPNG tried to address key investor arguments for valuation discounts like: **a) Volatility in earnings for O&G PSUs:** MoPNG argued that O&G PSUs has delivered: **i) 9.8% EBITDA CAGR over FY15-25** (despite some volatility in earnings in between given the cyclical nature of the business) and **ii) has built an unparalleled scale in terms of infrastructure;** **b) O&G PSUs' poor capital allocation decisions and being considered an extended arm of the government:** MoPNG argued that **i) O&G PSUs' capex is approved only if it meets the desired hurdle IRR rate and ii) Refining and petchem capex is required given huge scope for growth in domestic oil and petchem demand; and c) O&G PSUs are not future ready; also, there is intensifying competition:** the MoPNG argued that O&G PSUs capex on petchem, renewable energy, gas is to future-proof the business. Also, companies are targeting operational excellence by launching targeted EBITDA improvement plans, accelerating capex delivery by ensuring timely execution of large projects and within budgeted cost, etc.
- **Government measures to address investor concerns in last few years: a) timely support to OMCs for LPG under-recoveries** by giving INR 520bn compensation since Oct'22. Also, LPG is a running account (and not an annual account); hence, the INR 60bn shortfall in LPG compensation in Oct'22 (paid INR 220bn vis-à-vis LPG under-recovery of Rs280bn) was recovered by OMCs from subsequent period over-recoveries; **b) longer tenures for CMDs/directors to ensure strategic continuity;** **c) performance-linked accountability by ensuring leadership appraisal** is directly tied to business performance (revenue, EBITDA, capex, shareholder return, etc.); **d) Minimal pricing intervention over a long period of time.** The ministry highlighted that it's difficult for the government to provide visibility on a range of integrated margin for OMCs as end retail auto-fuel price is largely fixed in India (due to political compulsions) while crude price is highly volatile; hence, it becomes very difficult for the government to give a range on OMCs' integrated margin. It reiterated that the government has given OMCs freedom to source from Russia if it's economical. However, it highlighted that India is also increasing its energy imports from the US as well, with India's energy (crude + gas etc.) import from US up 25% YoY in 1H CY25; it was at USD 15bn in CY24.
- **ORD Amendment Act 2025 to ensure no windfall tax is imposed on any O&G field in future; government will look at ways to unlock value via eliminating cross-holding amongst O&G PSUs:** The MoPNG reiterated that with the enactment of the ORD (Oil Regulation development) Amendment Act in Mar'2025 providing for fiscal stability, it will be very difficult for any government in future to impose windfall tax (SAED) on any oil and gas field (nominated and other fields of private players as well). Separately, on value unlocking via reducing cross-holding amongst O&G PSUs, the MoPNG said it is aware of the concerns and is assessing various options to address this challenge.

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## MoPNG meeting KTAs:

Please find below key takeaways from the meeting with MoPNG - India's Oil Minister and India's Petroleum secretary:

1) Agenda of MoPNG's continued interaction with the analyst/investor community in the last 1-2 years is to better understand and address the key concerns that result in Indian O&G (Oil & Gas) PSUs trading at a significant discount to peers from the private sector and other industries. MoPNG during its presentation and Q&A session tried to address key investor arguments for valuation discounts like:

- a) Volatility in earnings for O&G PSUs: MoPNG argued that O&G PSUs: **i)** have delivered 9.8% EBITDA CAGR over FY15-25 (despite some volatility in earnings in between given the cyclical nature of business, which should be ignored) and **ii)** has built an unparalleled scale in terms of infrastructure (like 90k+ retail outlets, ~170mmtpa refining capacity, 49k+ km pipeline across crude/petroleum product/gas, ~80mn daily retail customer, etc.).
- b) O&G PSUs' poor capital allocation decisions and being considered an extended arm of the government: MoPNG argued that: **i)** Capex of O&G PSUs is approved only if it meets the desired hurdle IRR rate; **ii)** Refining capex is required as India's oil demand is likely to keep growing for next many years to come (despite concerns of global oil demand peaking due to impact from EVs); **iii)** Petchem capex is required given huge scope for growth in domestic petchem demand (as India's per capita petchem consumption is still less than half of China and other emerging economies) and as there is huge scope for import substitution.

It also highlighted that most O&G PSUs capex going forward are likely to be steady (or see some decline) and unlikely to see a sharp jump: **i)** HPCL's major capex is behind it (largely maintenance capex going forward); **ii)** IOCL's capex is also likely to be steady; **iii)** BPCL likely to see jump in capex, but it has limited debt; **iv)** ONGC and Oil India's capex to also be steady to offset production decline and some growth capex; but both companies are largely debt free; **e)** GAIL capex to also be steady with limited net debt.

- c) O&G PSUs are not future ready; also there is intensifying competition: MoPNG argued that O&G PSUs' capex on petchem, renewable energy, gas to future-proof the business. Also companies are trying to improve efficiency and service to match private competition by: **i)** targeting operational excellence (launching targeted EBITDA improvement plans); **ii)** accelerating capex delivery by ensuring timely execution of large projects and within budgeted cost; **iii)** driving growth in adjacencies; and **iv)** improving customer experience, leveraging digital transformation, etc.

2) Further, MoPNG also highlighted that the government has heard investor concerns and taken the following measures to address the same in the last few years:

- a) Timely support to OMCs for LPG under-recoveries by giving INR 520bn compensation since Oct'22. Also, added that LPG is a running account (and not an annual account); hence, the INR 60bn shortfall in LPG compensation in Oct'22 (paid INR 220bn vis-à-vis LPG under-recovery of INR 280bn) was recovered by OMCs from subsequent period over-recoveries.
- b) Longer tenures for CMDs/directors to ensure strategic continuity.
- c) Performance-linked accountability by ensuring leadership appraisal is directly tied to business performance (revenue, EBITDA, capex, shareholder return, etc): O&G PSUs' managements are measured on financial performance with their variable pay linked to MoU ratings with 15% weightage on shareholder value creation, 55% weightage on revenue, production and capex, 20% on profitability ratios and 7% on R&D/procurement/trade receivables.
- d) Minimal pricing intervention over a long period of time.

3) Reiterated that with the enactment of the ORD (Oil Regulation development) Amendment Act in Mar'2025 providing for fiscal stability, it will be very difficult for any government in

future to impose windfall tax (SAED) on any oil and gas field (nominated and all other fields of private players as well

- 4) Highlighted that it's difficult for the government to provide visibility on range of integrated margin for OMCs as end retail auto-fuel price is largely fixed in India (due to political compulsions) while crude price is highly volatile; hence, it becomes very difficult for the government to give a range on OMCs integrated margin.
- 5) Reiterated that the government has given OMCs freedom to source from Russia if it's economical. However, it highlighted that India is also increasing its energy imports from the US as well, with India's energy (crude + gas etc) import from US up 25% YoY in 1H CY25; it was at USD 15bn in CY24.
- 6) On value unlocking via reducing cross-holding amongst O&G PSUs, the MoPNG said it is aware of the concerns and assessing various options to address this challenge.

## IOCL CMD meeting key takeaways

Please find below key takeaways from the meeting with the IOCL CMD (click [here](#) for link to the presentation):

- 1) **Expansion of all three of IOCL's refineries (from 70mmtpa to 88mmtpa in the next 12 months) is brownfield expansions – so the management doesn't expect it to take much time to stabilise expanded capacity and, hence, doesn't see much hit to GRM during the commissioning phase.** Separately, the management is not bothered much about muted diesel demand in India – it expects it to grow at around 2% CAGR though near-term demand is impacted due to rains and other one-off factors; expects ATF demand to be 3x vs. current levels in the next 10-15 years.
- 2) IOCL has launched SPRINT transformation journey with the following key objectives (strengthen core businesses, propel cost optimisation, reinforce customer centricity, integrate technology & innovation, nurture leadership & talent, transition ready):
  - a) **IOCL is targeting: i) budgeted 20% opex saving target** (already achieved some success in 1H FY26 so far); **ii) deliver capex project on time and within budgeted cost** (can't do much as of now on capex cost reduction for existing project as cost has already been committed on various projects - but will look to reduce capex for future projects); **iii) gain cost leadership across marketing business; optimise repair & maintenance cost;**
  - b) **Scale petchem capacity including specialty chemicals by increasing IOCL's petchem capacity to 13mmtpa by FY30 (or 15% petchem intensity) vs. 4.3mmtpa at end-FY25 (6% intensity; IOCL currently has 18% market share in the domestic petchem market):** IOCL is undertaking an INR138bn petchem project at Paradip (expected to be commissioned in FY26); and expanding polypropylene projects at Panipat, Gujarat and Barauni refineries. Further, it is working on an INR610bn dual-feed cracker petchem project in Paradip Odisha; the management said MOU and Stage 1 approval was received in Mar'23 and various licensors have been appointed while Stage 2 approval is pending. Commissioning schedule is 54 months from the date of investment approval. The management added that IOCL's petchem production cost is likely to be the cheapest and most competitive as it's doing on an integrated basis (in-house naphtha, LPG, refinery off gases).
  - c) **Transition ready and achieve Net zero** by focussing to scale up green energy business, Gas business, CBG - build new engine of growth. IOCL is setting up a 10ktpa green hydrogen plant in Panipat. Also IOCL is only company in India with all certifications to produce SAF (sustainable aviation fuel) in India from the Panipat refinery. Also trying to collaborate with fleet operators to push to convert trucks to LNG trucks and accordingly plans to set up LNG ROs.
- 3) **Terra Clean subsidiary to house all clean energy business (RE, CBG, Gas business) and is eyeing an IPO around 2028** as this business is likely to get much higher valuation than that currently being given to IOCL. Terra Clean entity is targeting 18GW RE capacity by 2030 via: **a) 5-6GW expansion via the organic route;** and **b) balance 12-13GW via the inorganic route** and has set up M&A team for that – targeting 15% RoE in the RE business.
- 4) Rationale for IOCL (and other OMCs) focussing on petchem capex is: **a) strong growth outlook for India's domestic petchem demand** (else India will have to depend on petchem imports) and expect to become more competitive with scale and some government protection against Chinese dumping; **b) to use the extra naphtha** that refiners might have in future (due to likely hit to petrol demand due to gradual transition of 2Ws and smaller cars to EVs). However, IOCL agrees that naphtha-based petchem is not the most competitive feedstock for petchem; hence, its INR 660bn petchem plant will use hybrid feedstock to use extra naphtha while also use cheaper feedstock.
- 5) **Capex guidance likely to be steady at ~INR 300bn-400bn p.a.** FY25 capex was INR 375bn while capex guidance for FY26 is INR 340bn.

- 6) Can't comment on dividend payout in future as it will depend on market conditions; but will try to give atleast 30% minimum dividend payout as per government norms to ensure capex can be met from internal cash flows.

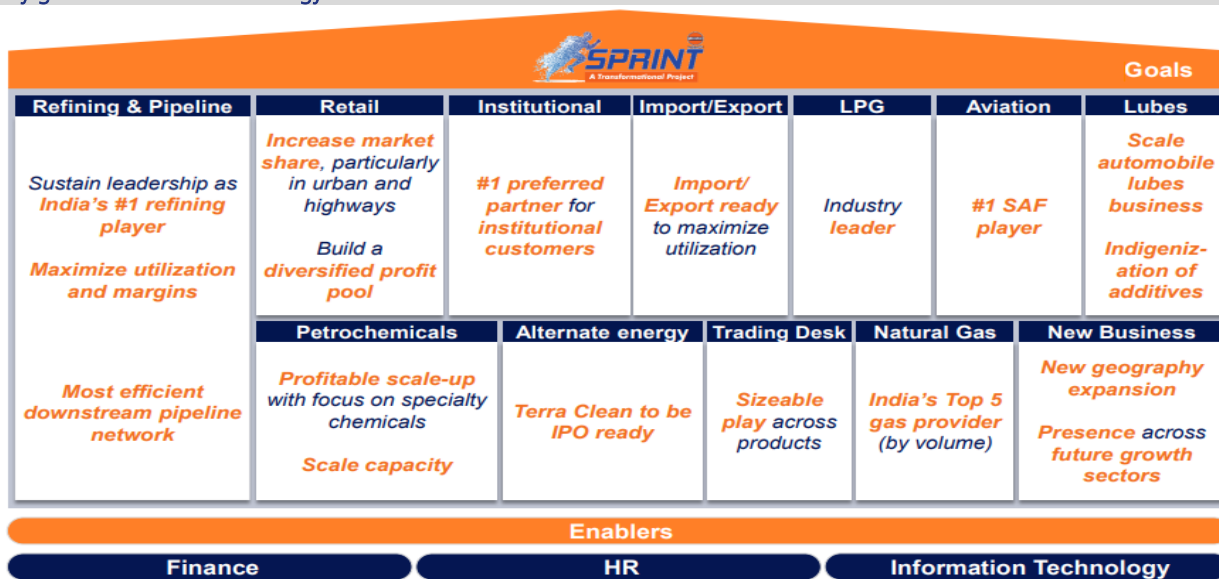
Exhibit 1. IOCL has launched SPRINT transformation journey

**We need to....**



Source: IOCL

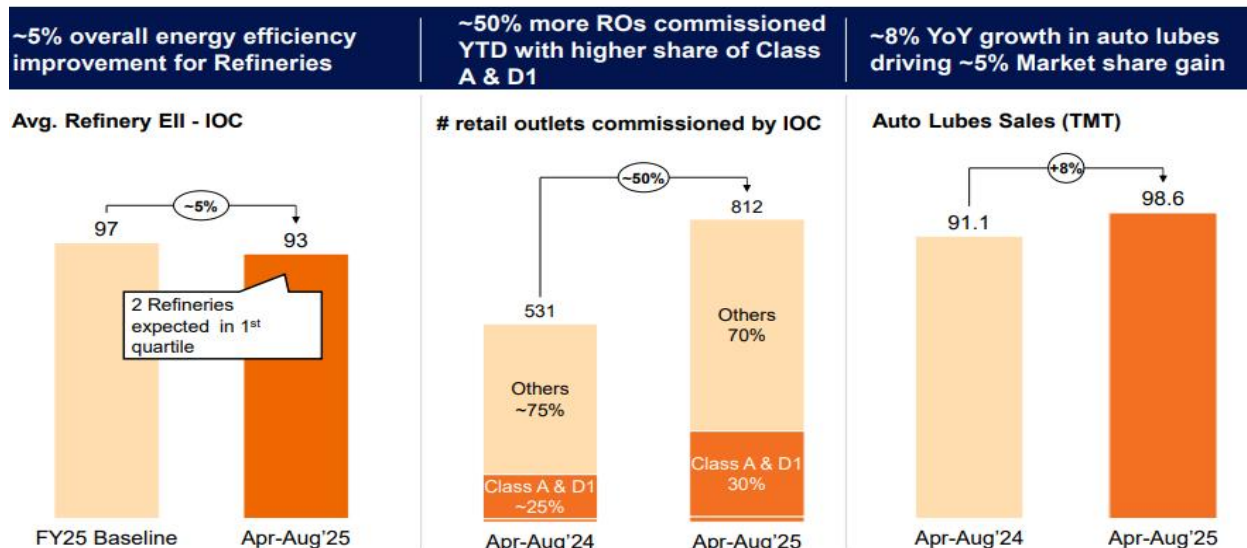
Exhibit 2. Key goals under SPRINT strategy



Source: IOCL

## Exhibit 3. Efficiency and productivity unlocked across refinery and marketing business

# Efficiency & Productivity unlocked across Refineries, RO Commissioning and Auto lubes



Source: IOCL



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Rating	Meaning
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