

As the ME conflict nears one month, its impact on Indian downstream players is becoming more visible, with petrol-diesel accounting marketing margins of OMCs turning negative, at -Rs25/45 per liter this fortnight. While the Indian Crude Basket hovers above USD150/bbl, the actual import price per our checks could be USD5-10/bbl above Dated Brent, with Russian floating oil making up a sizable portion and the rest contributed by other sources such as USA, Africa, and potentially Iran (~140mb of floating oil). Product markets are haywire, with Asian benchmark diesel-kero cracks at USD70-100/bbl, though higher freight and insurance costs along with physical market quotes could considerably deviate realized margin. Auto fuel-LPG monthly under-recovery based on current prices for OMCs could range at Rs350-500bn per month; Rs90-180bn of this however may be funded by windfall taxes, if imposed. The attack on the Ras Laffan LNG facility has led to structural damage in two trains, with Qatar Energy declaring long-term force majeure on customers from certain countries (though it has not named India). Imported gas flows of up to 45-50mmscmd have seen a hit and spot LNG prices are also persisting at >USD20/mmbtu. For CGDs, allocation for CNG and DPNG is stable, with diverted gas pool prices at ~USD10-12/mmbtu, though IPNG customers may be allocated ~50% of their normalized volume as the GoI has indicated its preference for CPNG (restaurants, hospitals, schools, etc) along with GAIL cutting certain LNG supplies to 'take or pay' levels and basing calculations on the trailing 6M average rather than immediate pre-crisis levels. In the current scenario, upstream (ONGC-Oil India) and oil to chemicals (RIL) are best protected, while OMCs are worse off due to heavy losses despite crude supplies remaining largely intact. Though PLNG and GAIL are seeing a volume hit, we reiterate that they would be the quickest to normalize as the crisis ends. Within CGDs, IGL and MGL are seeing ~5% overall volume hit each and we estimate EBITDA/scm decline of Rs0.6-0.7; however, for Gujarat Gas, these would be 15-20% and Rs1.5-2.0, respectively. Nevertheless, valuations of CGDs are also reasonable, and we find them neutrally placed. Further, Lube players would see margin pressure, albeit followed by pricing action. The macro outlook remains volatile; and the Strait of Hormuz resolution and cooling down of oil and gas prices are the sole driver for Indian energy stocks.

Current OMC autofuel integrated margins imply Rs20-27/ltr under-recovery

Auto-fuel under-recoveries for OMCs based on current prices are at a negative Rs20-27/ltr at integrated levels, implying absolute amount of at least Rs250bn per month at the lower end. Additionally, the LPG under-recovery at spot price of >USD800/mt is Rs80-85bn per month. Hence, the total monthly loss run rate is ~Rs350bn, with the potential to increase to ~Rs500bn, factoring in 5-6% crude price volatility and diesel cracks as high as USD70-80/bbl. Such numbers are unsustainable; however, if the GoI imposes windfall taxes—assuming a maximum USD75/bbl in upstream realizations and USD15/bbl in diesel cracks, Rs90bn at the lower end can be funded and compensated to OMCs. Still, ~Rs250bn losses are likely, and could require a significant Rs20/ltr adjustment, either in the form of price hikes, or tax cuts, or a mix of both. We believe that on the back of the imminent state elections, the GoI may wait another month before planning any comprehensive action if the current crisis continues and oil remains above USD100/bbl. The three OMCs would still see profit in Q4FY26E. For upstream, a USD75/bbl net oil realization is reasonable, and better than our current assumption of USD70/bbl for FY26E.

Bulk gas players see a huge volume hit, CGDs see some hit on margin, volume

PLNG's Dahej LNG terminal, post the Qatar Energy force majeure, is seeing ~50% utilization for Mar-26, while GAIL's transmission volumes are down by 35-40mmscmd and trading volumes by 18-20mmscmd. The Pata petchem plant is also currently shut. For CGDs, the GoI has allowed 100% gas allocation for DPNG and CNG, while I/C PNG has been allotted 80%. However, due to the trailing 6M average being taken as the base consumption and CPNG customers like restaurants and hospitals turning sensitive given the sizable LPG cut, PNG availability for industrial customers is only ~50%. We estimate the EBITDA/scm of IGL and MGL will see a Rs0.6-0.7 hit and of Gujarat Gas a Rs1.7 hit.

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