

Oil & Gas

Sector Update

OMCs - not out of the woods yet

Quick Pointers

- Expect under recovery of Rs7/10/ltr for MS & HSD in Q1FY27
- Restoration of excise duty remains a key risk

June 19, 2026

Coverage Universe

Name of the Company	Rating	TP (INR)	CMP (INR)
Bharat Petroleum Corporation	Reduce	291	316
Hindustan Petroleum Corporation	Hold	384	402
Indian Oil Corporation	Reduce	126	146

After 3.5 months of one of the worst energy shocks in recent history, we see some positivity as the US-Iran ceasefire deal finally gets signed, although uncertainty remains, especially over the nuclear deal. Brent crude dropped below ~USD80/bbl, its lowest level since Mar'26, providing a positive respite for OMCs. Q1FY27 is expected to weigh sharply on profitability, impacting earnings for the full year. We expect an under-recovery of Rs7.0/ltr and Rs10/ltr in Q1FY27, after considering a Rs10/ltr excise cut and capping of cracks at USD10/bbl and USD15/bbl for MS and HSD respectively. Additionally, LPG continues to remain a key pain point, with losses estimated at around Rs500/cyl for Q1FY27. As per Q4FY26 concall, OMCs reported LPG under-recoveries in the range of Rs610-670/cyl in May'26 vs ~Rs170/cyl in April'26. Saudi CP prices for Q1FY27 are expected to increase by ~47% QoQ, driven by supply constraints due to the West Asia disruption. The overhang of a rollback in excise duty cuts of Rs10/ltr remains a key pressure point for OMCs, although the rollback is expected to happen in a phased manner. If the US-Iran situation progresses positively and full normalcy is restored at the Strait of Hormuz, crude prices may soften further. However, we expect crude oil prices to rise again as countries are expected to replenish inventories and SPRs to maintain optimum resource levels, creating incremental demand in the market. As a result, we downgrade IOCL & BPCL to "Reduce" and HPCL to "Hold" from "Accumulate" as near-term earnings visibility remains weak. We lower the multiples accordingly from 0.8x, 1.2x, and 1.3x to 0.7x, 1.1x, and 1.2x based on FY28E PBV, arriving at a TP of INR126/384/291/share for IOCL/HPCL/BPCL respectively

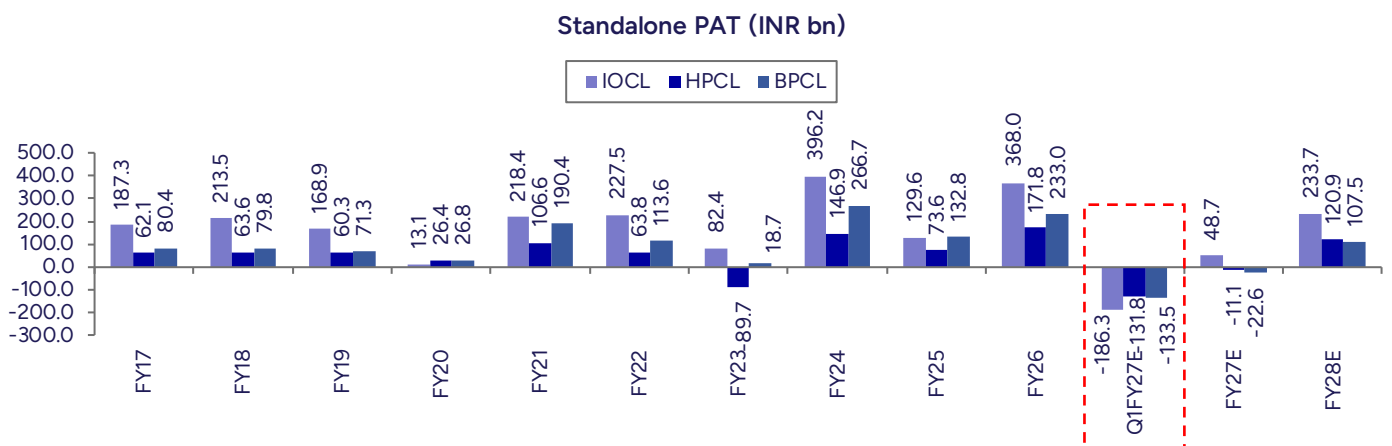
GMMs expected to remain under pressure in Q1FY27 - Q1FY27 has remained a challenging quarter for OMCs. The impact of the US-Iran conflict led to higher crude prices and pressure on marketing profitability. To offset the widening losses, OMCs implemented retail fuel price hikes in May'26 of Rs7.4/7.5/ltr for MS/HSD. The subsequent softening in crude prices, following the announcement of a ceasefire agreement between the US-Iran (reportedly signed electronically on June 17th), provided some relief towards the latter part of the quarter. However, the overall Q1FY27 performance remains weak as the benefit from lower crude prices was insufficient to offset the full-quarter impact of elevated input costs and compressed marketing margins. For Q1FY27, MS and HSD GMM are estimated at a loss of Rs7/10/ltr, respectively, after factoring in the impact of excise duty cuts and capped product cracks. The sharp deterioration in marketing margins is expected to materially impact profitability. At crude price of US78.0/bbl, GMM for MS and HSD are expected at Rs10.6/ltr and Rs8.2/ltr respectively (including excise cuts and capped cracks).

Excise duty rollback remains a risk for OMC earnings - While the recent improvement in crude prices and retail fuel price hikes have resulted in a recovery in GMMs, a key risk remains underappreciated - the potential rollback of the excise duty cut. The excise duty reduction was introduced as a crisis management measure rather than a permanent structural change. With crude prices moderating, retail fuel price hikes implemented, and marketing margins turning positive, the government may gradually withdraw this benefit. The government continues to bear a significant revenue impact of ~INR1700bn per year from the excise cut. Overall, while near-term sentiment has improved, Q1FY27 losses and continued uncertainty around the excise duty rollback suggest that OMC profitability is likely to remain under pressure through FY27.

LPG under-recovery remains the biggest pain point - LPG continues to remain the most challenging component of the OMC loss pool. While commercial LPG prices have witnessed periodic price increases, residential LPG prices continue to remain regulated, resulting in significant under-recoveries. Based on Q4FY26 concall commentary, OMCs witnessed a sharp increase in LPG losses. Industry-wide LPG under-recoveries increased from ~Rs84/cyl in Q4FY26 to ~Rs170/cyl in April'26 and further surged to ~Rs600-670/cyl in May 2026 due to supply disruptions caused by the US-Iran conflict. Saudi CP prices in Q1FY27 are estimated to average USD796.0/mt, representing a QoQ increase of ~46.7%.

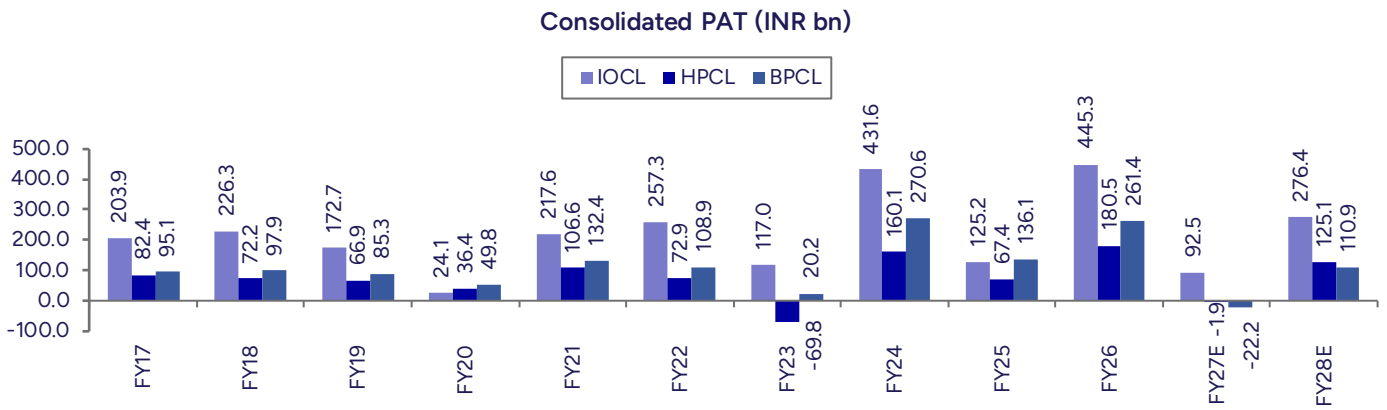
Crude oil outlook: Near-term decline, but volatility remains - After a hiatus of 3.5 months, a concrete US-Iran deal has finally been announced. As a result, Brent declined below USD80/bbl after remaining above USD95/bbl for much of the quarter. Iranian oil exports are expected to resume immediately; however, the structural damage from the disruption is not completely resolved yet. We expect oil prices to decline initially as a gush of supply is expected to enter the market once safe passage through the Strait of Hormuz resumes, putting further downward pressure on crude prices. However, the decline in prices may be limited. Countries that utilised their Strategic Petroleum Reserves (SPRs) and inventories during the conflict are likely to begin replenishing stocks, which could provide support to crude prices. The rebuilding of inventories is expected to create additional demand in the market, potentially offsetting some of the near-term supply-driven pressure and supporting prices.

Exhibit 1 : Standalone PAT expected to be impacted due to sharp losses in Q1FY27



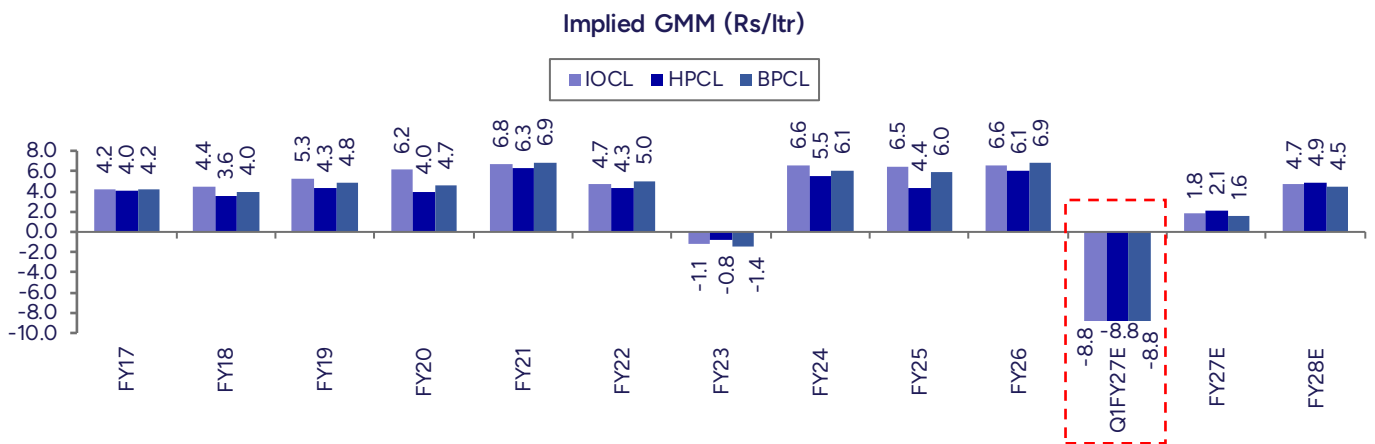
Source: Company, PL

Exhibit 2 : Consolidated PAT expected to be lower in FY27



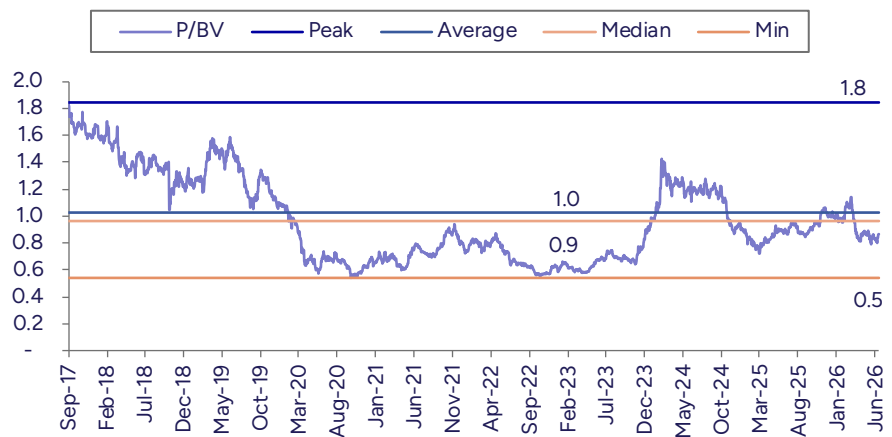
Source: Company, PL

Exhibit 3 : Implied GMM to witness sharp losses in Q1FY27



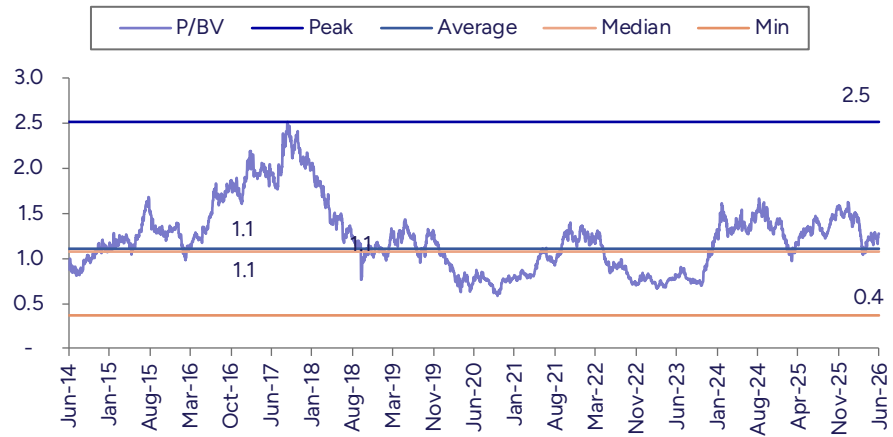
Source: Company, PL

Exhibit 4 : IOCL's PB trades at 0.9x FY27



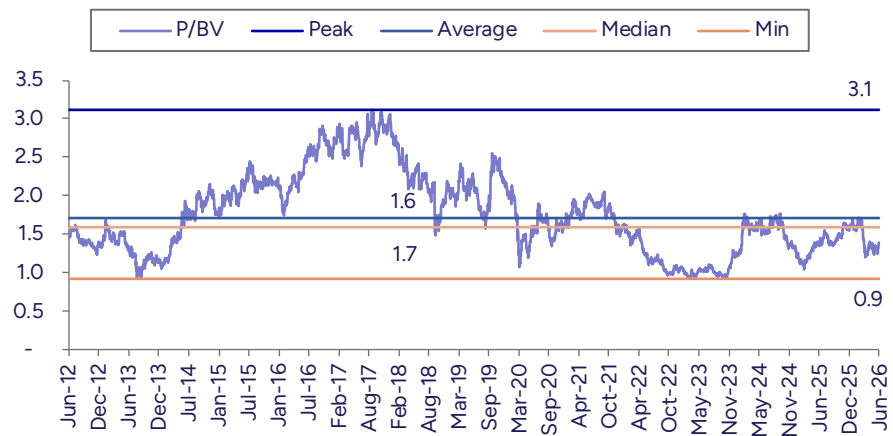
Source: Company, PL

Exhibit 5 : HPCL's PB trades at 1.3x FY27



Source: Company, PL

Exhibit 6 : BPCL's PB trades at 1.4x FY27



Source: Company, PL

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (INR)	Share Price (INR)
1	Aarti Industries	Accumulate	529	488
2	Bharat Petroleum Corporation	Accumulate	325	294
3	Bharti Airtel	BUY	2226	1884
4	Clean Science and Technology	Hold	846	818
5	Deepak Nitrite	REDUCE	1495	1749
6	Fine Organic Industries	BUY	5353	4607
7	GAIL (India)	Buy	190	161
8	Gujarat Fluorochemicals	REDUCE	3478	3784
9	Gujarat Gas	HOLD	380	397
10	Gujarat State Petronet	Hold	242	236
11	Hindustan Petroleum Corporation	Accumulate	427	390
12	Indian Oil Corporation	Accumulate	145	135
13	Indraprastha Gas	Buy	181	157
14	Jubilant Ingrevia	REDUCE	647	697
15	Laxmi Organic Industries	REDUCE	143	152
16	Mahanagar Gas	Accumulate	1302	1174
17	Mangalore Refinery & Petrochemicals	Sell	143	186
18	Navin Fluorine International	Accumulate	7489	7125
19	NOCIL	HOLD	176	182
20	Oil & Natural Gas Corporation	Accumulate	297	274
21	Oil India	Accumulate	550	507
22	Petronet LNG	Accumulate	310	283
23	Reliance Industries	BUY	1635	1328
24	SRF	REDUCE	2579	2720
25	Sudeep Pharma	REDUCE	627	673
26	Vinati Organics	Accumulate	1475	1288

PL's Recommendation Nomenclature (Absolute Performance)

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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