SECTOR RATING: Overweight

Oil & Gas

Sector Update

March 15, 2026

Coverage Universe

Name of the Company	Rating	CMP (INR)	TP (INR)
Bharat Petroleum Corporation	Accumulate	319	406
GAIL (India)	BUY	148	190
Gujarat Gas	Accumulate	374	422
Gujarat State Petronet	Hold	272	296
Hindustan Petroleum Corporation	Accumulate	369	457
Indraprastha Gas	Accumulate	157	191
Indian Oil Corporation	Accumulate	157	195
Mahanagar Gas	Accumulate	1,035	1,305
Mangalore Refinery & Petrochemicals	Accumulate	178	162
Oil India	Accumulate	471	527
Oil & Natural Gas Corporation	Accumulate	264	297
Petronet LNG	Hold	286	288
Reliance Industries	BUY	1,381	1,688

Iran's strategic lever – Strait of Hormuz

Quick Pointers

- Refined product market crisis to be more severe than crude
- US-China meeting to be a key monitorable

We hosted a webinar with oil market expert Mukesh Sahdev, founder, CEO, Chief Oil Analyst of Xanalyst, Ex-Rystad and Ex-Shell, having more than 30 years of experience across the oil value chain. The discussion focused on the ongoing crisis in the global oil and gas market. The disruption is expected to create an estimated ~10 mb/d supply gap by April 1, 2026, with the shortage more pronounced in refined products than crude oil. Several major Middle Eastern refineries have reportedly been damaged, impacting roughly ~25% of regional refining capacity, which is tightening global product availability. Inventory buffers across Asia remain uneven. Alternative supply sources remain constrained. Increased flows through the Red Sea and Suez Canal face logistical and security risks. Upcoming US-China negotiations in Paris and expected Trump-Xi summit are viewed as a critical catalyst for potential de-escalation, while reopening of the Strait of Hormuz could still face delays due to sea mines, vessel congestion and damaged infrastructure. Even after hostilities ease, the recovery of refining capacity and product export flows is expected to take significantly longer than crude supply normalization.

Scale of the supply shock: The global oil market is facing a rapidly intensifying supply disruption with an estimated ~10mb/d supply gap expected by April 1, 2026. The imbalance is **more severe on the refined product side than crude**. 5 key Middle Eastern producers collectively account for roughly ~20 mb/d of crude production and ~5 mb/d of refining capacity, making disruptions in the region extremely impactful. The crisis is already visible in physical markets. For example, **Sydney is estimated to be ~1 million barrels short**, highlighting the vulnerability of import-dependent markets with limited refining capacity.

Storage buffers: China: ~1.2bn bbls of crude storage, providing 100+ days of buffer. China is also holding significant floating storage, including Iranian, Russian and Venezuelan barrels. **India: ~160 million barrels, translating to roughly 15-20 days of buffer. Rest of Asia: around ~10 days of inventory coverage.** China has additionally cancelled all refinery export quotas and halted product exports, tightening regional product availability further.

Product market crisis to be more severe than crude: The ongoing disruption around the Strait of Hormuz is expected to create a much more severe imbalance in refined product markets than in crude oil markets. While crude production can be restarted relatively quickly in Middle Eastern fields, refinery outages, infrastructure damage, and logistical constraints will likely cause a prolonged shortage of refined products such as diesel, gasoline, LPG, and jet fuel. Even a single large refinery disruption can remove significant product volumes from the market.

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Significant refining capacity disruption already occurred - Drone and missile attacks from Iran have targeted several major refineries in the Middle East, including large facilities such as Ras Tanura, Saudi Arabia, Al-Zour Refinery in Kuwait, Ruwais, UAE, Sitra (Bapco) in Bahrain. Total refining capacity affected is estimated at ~2 mb/d, representing 20–25% of the region's operational refining capacity (out of approximately 8-9 mb/d), which represents a meaningful loss of global product supply. These targeted attacks significantly impact global product supply given the large scale and complexity of Middle Eastern refining systems.

Product Market Stress - Recent attacks on Middle Eastern infrastructure appear highly targeted, hitting some of the largest refining complexes in the region rather than random facilities.

India LPG crisis, a major pressure point - India is particularly vulnerable to the current disruption due to its dependence on Middle Eastern LPG. 50-60% of India's LPG imports transit via the Strait of Hormuz. With import flows disrupted, India is facing a severe LPG supply crunch, which is politically sensitive given the high share of household consumption. The government has already begun implementing measures. However, the import loss from Hormuz closure cannot be compensated. Also, refinery-level levers to increase LPG supply are limited. Potential actions include shifting to LPG-rich crude slates, maximizing conversion unit throughput, and diverting petrochemical feedstock molecules back into LPG production. These steps come with trade-offs, including lower petrochemical output, which is significant as India is already a net petrochemical importer. Authorities may also postpone scheduled refinery maintenance turnarounds (typically Feb-March) to maintain product supply. At present, crude availability remains relatively manageable, but product markets, particularly LPG are experiencing the most severe constraints.

Alternative supply options - Alternative supply sources are offering only **limited relief** to the market. Flows through the **Red Sea and Suez Canal** are increasing but remain constrained due to **narrow logistics capacity and the continued security risks associated with Houthi attacks**. **Russia's** export infrastructure is also facing disruptions because of Ukrainian strikes, which is limiting its ability to provide additional supplies. **Brazil** could potentially supply products, but high freight costs and long transit times reduce its viability as a near-term solution. In US, refineries are currently in the seasonal turnaround period during February & March, which restricts product availability, while exporters are prioritizing crude shipments given prices above $100 per barrel.

Oil price dynamics - Recent intervention by the International Energy Agency (IEA) has not calmed markets. The agency announced a ~400 million barrels of strategic reserve release**.** Rather than easing prices, the announcement was interpreted by markets as confirmation of a deeper and longer supply crisis, resulting in increase in crude oil prices. A USD200/bbl oil scenario has not been ruled out under prolonged disruption conditions. The strategic release is therefore viewed as precautionary, designed to prevent prices from exceeding ~USD150/bbl rather than pushing prices lower.

Geopolitical dynamics, US-China negotiations - The Strait of Hormuz disruptions are increasingly being framed as **geopolitical leverage ahead of high-level diplomatic talks**. US Treasury Secretary **Scott Bessent** and Chinese Vice Premier **He Lifeng** are expected to meet in Paris on **March 15, 2026** to address trade, tariffs, technology, and financial relations. Also, a high-stakes summit between T**rump-Xi** is expected in late March'26, with reports indicating a potential visit by Trump to China from March 31 to April 2, 2026. The timing is notable, as the attacks occurred before the meeting, suggesting an attempt to strengthen the U.S. bargaining position over China by highlighting the strategic importance of Hormuz. However, the situation has not unfolded as expected, as US was unable to take control of the Strait of Hormuz. The hypothesis presented during the webinar suggests that the situation could ultimately be resolved through US-China coordination rather than Middle Eastern military intervention. **China currently holds substantial strategic leverage due to its large storage buffer and ability to withhold product exports while continuing to accumulate crude supply.**

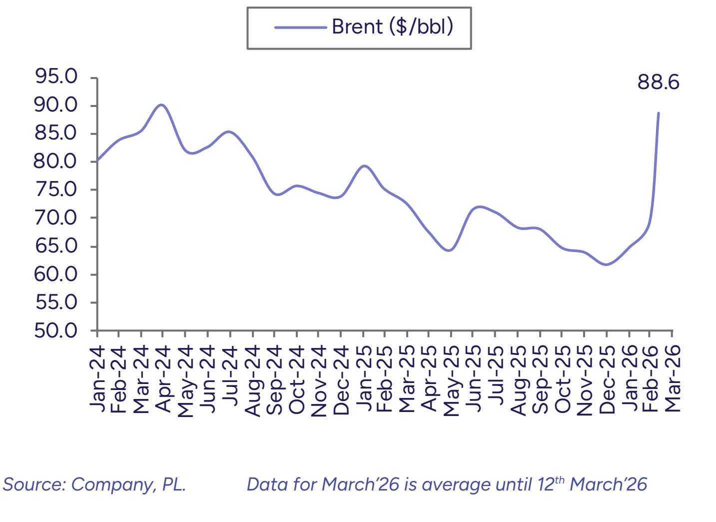
Recovery Timeline - Crude vs. Products - The recovery trajectory differs between crude supply and refined products. Middle Eastern crude production can rebound relatively quickly due to high reservoir pressure in conventional fields, allowing output to ramp up rapidly once disruptions end. In contrast, shale regions require drilling and completion activity to restore production, resulting in a slower recovery profile. **Refining recovery, however, will likely take significantly longer**. Even minor damage to a single processing unit can prevent a refinery from operating at full capacity. Furthermore, once repairs are completed, refineries must first satisfy domestic fuel demand. Only after domestic markets stabilize can export flows normalize, suggesting a prolonged recovery period for global product markets

Post-Hormuz Opening Risks (Even After Resolution) - Even after the Strait of Hormuz reopens, full normalization of oil flows may take time. Potential sea mines could continue to pose navigational risks, preventing an immediate resumption of normal shipping. In addition, vessels likely queued within the strait could create congestion or accident risks, similar to the disruption seen during the Suez Canal blockage.

Iran's Nuclear-Level Leverage - Iran's influence over the **Strait of Hormuz** is often viewed as **"nuclear-level leverage"**, given that the chokepoint carries roughly **~20% of global oil flows**. Iran's negotiating stance centers on securing guarantees that its territory and infrastructure will not be attacked by countries such as **Israel** before agreeing to concessions. Recent developments have also highlighted uncertainty around military control of the strait, with some analysts **expressing surprise that the US** has not been able to fully secure the waterway despite its significant naval presence in the region.

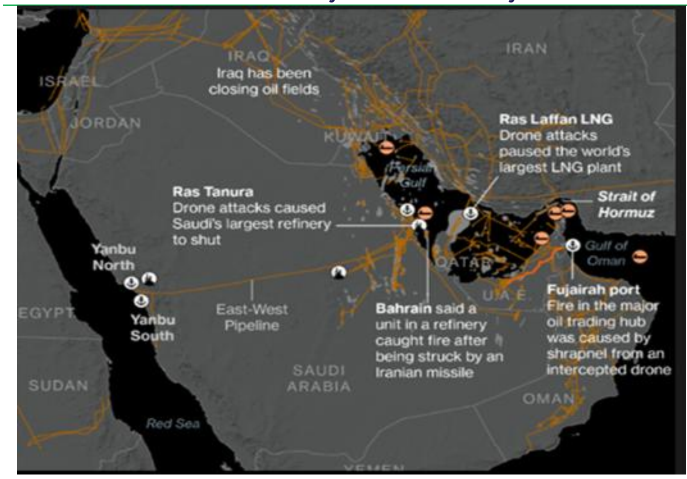
Comparison between Ukraine drone and Iranian attacks - Russia's refining system recovered relatively faster from recent disruptions compared to the Middle East due to several structural factors**. Ukrainian attacks primarily relied on drones rather than missiles,** which tend to cause more limited damage. In response, Russia was able to shift some production to refineries located deeper inside the country, around 1,000-3,000 km from the conflict zone reducing vulnerability to further attacks. Additionally, Russia has a total crude oil refining capacity of ~6.5-6.6mb/d. This capacity is spread across roughly 40 major refineries, providing operational flexibility. In contrast, attacks in the Middle East have involved **missiles**, which are significantly more destructive than drones and can cause deeper infrastructure damage. The region's refineries are also typically large, modern, and highly complex facilities, making shutdowns and restarts more challenging and time-consuming. Moreover, the strikes appear to have targeted the largest and most critical refineries in each country rather than random facilities, amplifying the impact on regional fuel supply.

Exhibit 1: **Brent monthly avg price trend**



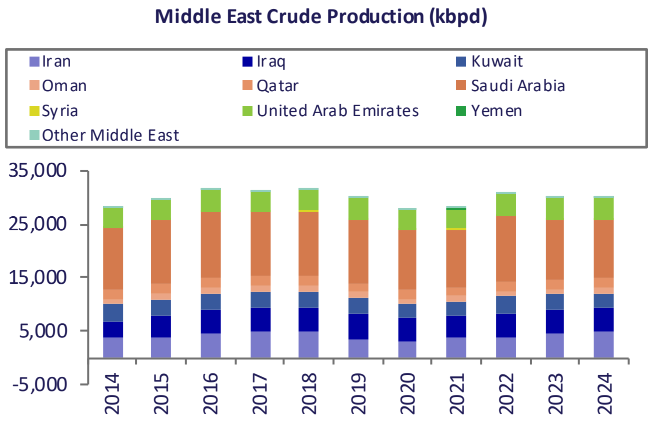
Source: Company, PL. *Data for March'26 is average until 12th March'26*

Exhibit 2: **Strait of Hormuz and key attacked area's by Iran**



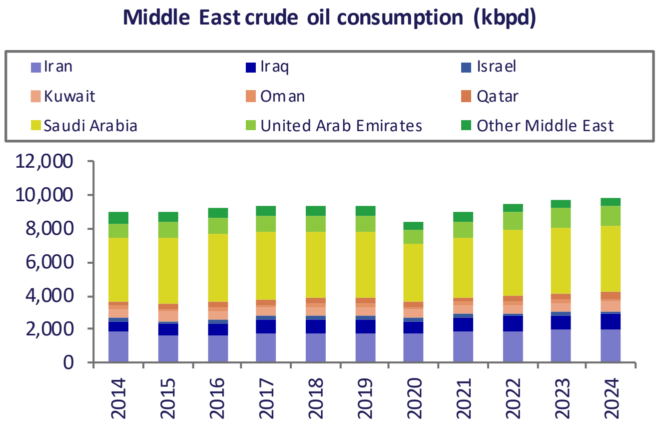
Source: BI, PL

Exhibit 3: Crude oil production – Middle East (kbpd)



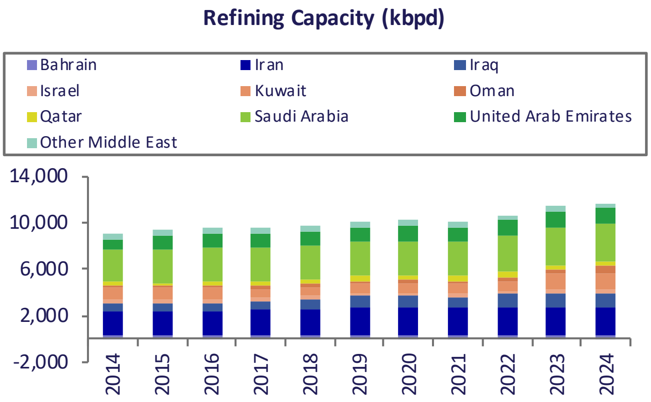
Source: BP statistical report, PL

Exhibit 4: Crude oil consumption – Middle East (kbpd)



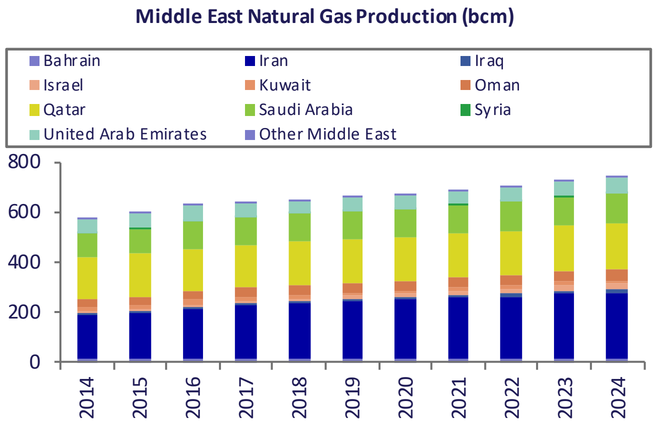
Source: BP statistical report, PL

Exhibit 5: Middle East Refining Capacity (kbpd)



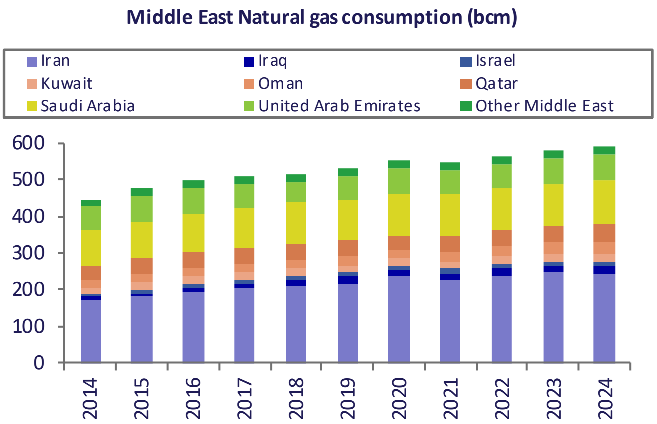
Source: BP statistical report, PL

Exhibit 6: Middle east gas consumption (bcm)



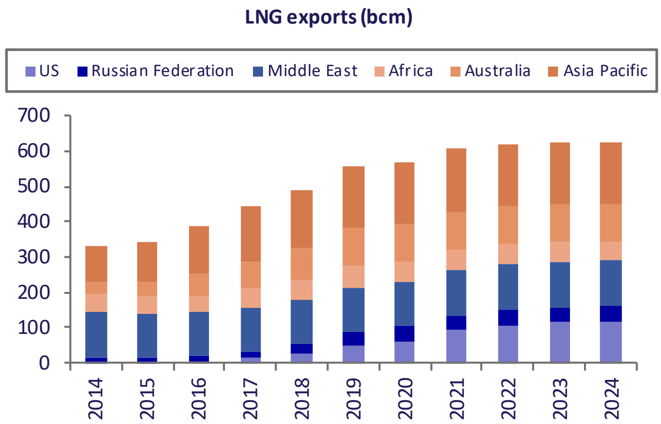
Source: BP statistical report, PL

Exhibit 7: Middle East natural gas consumption (bcm)



Source: BP statistical report, PL

Exhibit 8: LNG exports (bcm)



Source: BP statistical report, PL

Exhibit 9: Refinery attacks in Middle East by Iran

Refinery	Country	Status / Damage Type	Impacted Volume (kbpd)
Ruwais	UAE	Shut down; Direct drone strike/fire (March 10)	~830
Al-Zour	Kuwait	Curtailed; Storage full due to Hormuz blockade	~615
Ras Tanura	Saudi Arabia	Shut down; Drone debris/fire (March 2)	550
Sitra (Bapco)	Bahrain	Force Majeure; Missile/drone strikes (March 9)	400
Tehran	Iran	Damaged; Retaliatory air strikes (March 11)	250
Bazan (Haifa)	Israel	Partial shutdown; Missile strike on power/pipes	197
Mesaieed	Qatar	Operations Ceased; Collateral industrial strike	100
Fujairah Terminals	UAE	Partial Damage; Storage tank fires (March 3)	(Storage/Bunkering)
Duqm Port	Oman	Minor Damage; Fuel tank strike (March 3)	(Storage/Bunkering)

Source: Multiple News Source, PL

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (INR)	Share Price (INR)
1	Aarti Industries	Accumulate	466	430
2	Bharat Petroleum Corporation	Accumulate	406	373
3	Bharti Airtel	Accumulate	2313	2038
4	Clean Science and Technology	Hold	841	861
5	Deepak Nitrite	Hold	1673	1634
6	Fine Organic Industries	BUY	5117	4423
7	GAIL (India)	BUY	190	160
8	Gujarat Fluorochemicals	Hold	3434	3360
9	Gujarat Gas	Accumulate	422	399
10	Gujarat State Petronet	Hold	296	303
11	Hindustan Petroleum Corporation	Accumulate	457	428
12	Indian Oil Corporation	Accumulate	195	176
13	Indraprastha Gas	Accumulate	191	167
14	Jubilant Ingrevia	Hold	657	626
15	Laxmi Organic Industries	Reduce	125	143
16	Mahanagar Gas	Accumulate	1305	1181
17	Mangalore Refinery & Petrochemicals	Accumulate	162	151
18	Navin Fluorine International	Accumulate	7038	6387
19	NOCIL	Hold	159	153
20	Oil & Natural Gas Corporation	Accumulate	297	267
21	Oil India	Accumulate	527	479
22	Petronet LNG	Hold	288	290
23	Reliance Industries	BUY	1688	1423
24	SRF	Hold	2894	2883
25	Vinati Organics	Accumulate	1671	1496

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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