PL Capital
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Oil & Gas

Sector Update

November 04, 2026

Coverage Universe

Name of the Company	Rating	CMP (INR)	TP (INR)
Bharat Petroleum Corporation	Accumulate	297	305
GAIL (India)	BUY	182	206
Gujarat Energy	HOLD	219	239
Hindustan Petroleum Corporation	HOLD	352	342
Indian Oil Corporation	Accumulate	139	140
Indraprastha Gas	BUY	133	161
Mahanagar Gas	Accumulate	1,056	1,187
Mangalore Refinery & Petrochemicals	HOLD	180	180
Oil & Natural Gas Corporation	Accumulate	232	250
Oil India	Accumulate	456	512
Petronet LNG	Accumulate	303	322
Reliance Industries	BUY	1,308	1,490

Crack spreads to remain above long-term averages

Quick Pointers

- Crude oil price to remain elevated at US$90/bbl
- Latin America positioned to become the next Middle East

We hosted a roadshow with oil market expert Mukesh Sahdev, Founder, CEO and 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 global oil market is facing an increasingly complex supply-demand environment, with a sharper crude supply glut expected in 2027, coupled with persistent geopolitical disruption. As a result, crude prices are expected to remain near US$90–100/bbl. Refining operations are expected to recover faster than LNG infrastructure, although diesel cracks may remain above historical levels of US$18-20/bbl due to elevated freight costs and regional supply disruptions. Diesel cracks are expected to remain elevated for the next 12–18 months, supported by the demand from mining, agriculture, AI infrastructure, space applications and inventory accumulation. LNG markets remain constrained by prolonged repair timelines for Qatar's damaged cryogenic infrastructure, competition for specialized engineering resources and rising power demand from AI data centers and satellite launches. China's continued LNG consumption growth and Australia's export constraints provide additional support. Meanwhile, geopolitical competition between the US and China over energy, minerals and strategic influence is accelerating investment in Latin America, which is emerging as a major oil, gas and mining destination.

Crude oil balances, supply quality & pricing outlook: The global oil market is expected to face a sharper supply glut in 2027, potentially weighing on crude prices. However, persistent geopolitical tensions and elevated war-risk premiums are likely to support prices around US$90/bbl. US crude supply is projected to increase by ~1.5mn bpd by Dec'26; however, high availability of lighter, sweeter grade crude is creating a mismatch with refinery requirements for heavier crude to produce diesel.

Refining margins: Recovery to precede normalization: Global refining capacity stands at ~100mn bpd, with utilization of 80-85%. Peak refinery outages reached ~8mn bpd in Apr'26, of which ~50% has normalized. Refining cracks remain elevated due to higher freight costs and supply-chain disruptions, with normalization of diesel to historical levels of US$18–20/bbl unlikely in the near term. Russian refineries could recover faster, while severely damaged facilities, including Jazan in Saudi Arabia, may take longer. Current supply chain disruption is more prolonged than in 2022, with Middle Eastern exports declining from ~2mn bpd to ~1mn bpd and crude shortage affecting China and Japan.

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Diesel cracks: Elevated levels to persist: Diesel cracks are expected to remain elevated for 12-18 months, supported by the demand from mining, agriculture, AI infrastructure and space-related applications, alongside strategic inventory building. Incremental light/sweet crude supply is yielding less middle distillate, while South Korean refiners' shift toward lubricants has reduced diesel output. Meanwhile, diesel production in China and India is expected to increase, with Chinese diesel exports rising in 2026 vs. 2025.

Freight, storage & regional market dislocations: Elevated freight rates and war-risk premiums are likely to persist amid tighter VLCC availability, with Middle Eastern players increasing vessel purchases. China's crude oil storage capacity is ~15x India's, while several countries are building inventories; storage also helps moderate volatility during contango. Ship-to-ship (STS) transfers have increased from ~2mn bpd to ~12mn bpd. While ~70% of crude flows through the Strait of Hormuz have resumed, only ~40% of refined product flows have returned, prolonging product-market disruptions. Higher freight costs are fragmenting global markets into regional markets, with Singapore cracks potentially softer than those in the Atlantic Basin.

LNG & natural gas dynamics: Gas prices are unlikely to decline materially, as LNG infrastructure recovery is expected to lag refinery recovery due to damage to Qatar's cryogenic equipment. Repairs could be further delayed by the competition for specialized engineering materials, cooling equipment and EPC resources from the AI infrastructure build-out. Incremental LNG supply could be absorbed by rising power demand from AI data centers and satellite launches, while China's LNG consumption continues to grow. Meanwhile, domestic power-price volatility in Australia is constraining LNG exports. Higher oil-linked LNG pricing slopes are also expected to persist.

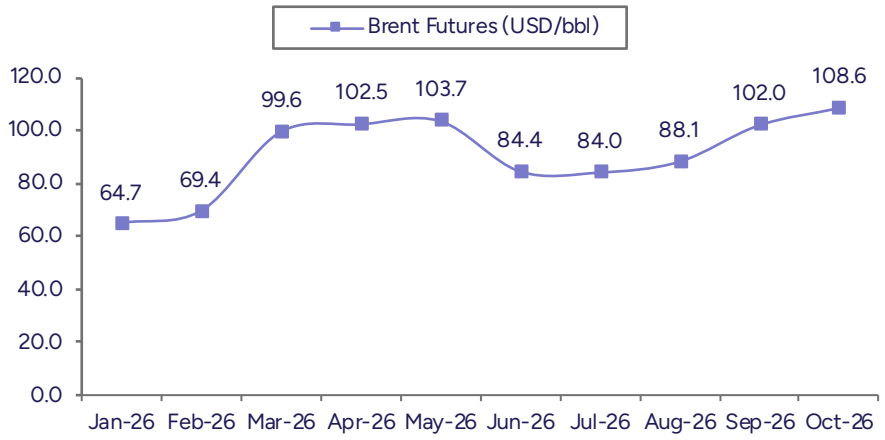
Geopolitics, energy transition & resource competition: Global rebalancing is becoming increasingly difficult amid intensifying US-China competition for strategic resources and leadership in energy transition. Access to minerals and mining resources remains central to geopolitical tensions, including the Russia-Ukraine conflict. Latin America is emerging as a key destination for oil and gas and mining investments, with higher crude prices and export volumes supporting the region. The US is seeking to strengthen its influence across the Western Hemisphere and reduce Chinese and Russian influence in Latin America. Oil and gas revenues are expected to provide capital for subsequent mining and energy-transition investments in LATAM. Continued Middle East instability could further redirect investment toward Latin America. The US mid-term election outcome is not expected to materially alter the broader macro trajectory, while US attack on Iran post-midterms is considered unlikely.

China's refining pivot & diesel exports: China had shifted toward petrochemicals and reduced diesel yields from historical levels of ~35%, partly reflecting concerns over the reliability of US petrochemical feedstock supplies routed through the Panama Canal. However, Chinese refiners remain opportunistic, adjusting production according to market economics. Crude runs and diesel production have increased from Sep'26, contributing to higher diesel exports in 2026 vs. 2025. China is expected to focus on incremental exports of diesel, rather than petrol and jet fuel, while India and China are expected to continue increasing diesel production and exports. Chinese refiners have also historically benefited from discounted Venezuelan, Iranian and Russian crude.

Global inventories in turmoil: Global oil inventories have declined by ~500mn bbl, leading to a limited buffer. The US is running refineries at high utilization and has introduced regulatory waivers covering red diesel, fuel quality and the Jones Act to insulate its domestic economy. The Russian diesel deal is viewed primarily as a signal for crude-market dynamics, indicating the potential for higher Russian crude purchases by India and China.

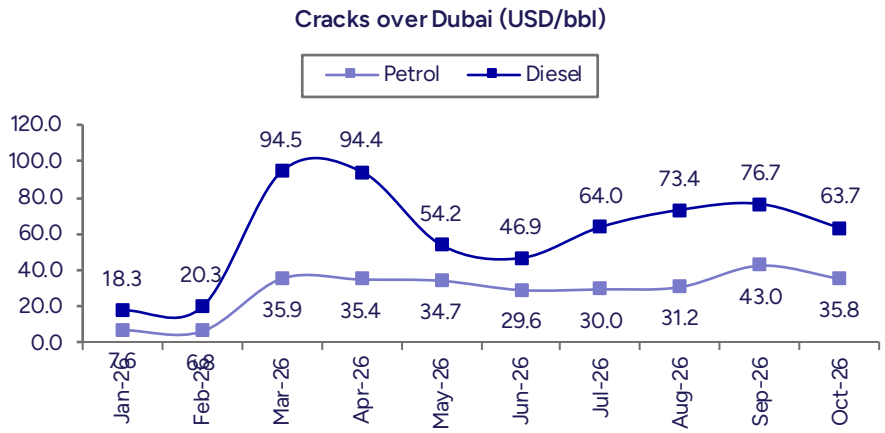
Trade flows & supply disruptions: Geopolitical disruptions have damaged the physical supply chain between upstream production and downstream refining. While ~70% of crude flows through the Strait of Hormuz have resumed, only ~40% of refined-product flows have returned, leaving product markets more constrained due to lower volumes and STS transfer complexities. STS transfers have increased from ~2mn bpd to ~12mn bpd. Middle Eastern players are aggressively acquiring VLCCs to facilitate these transfers, keeping freight rates elevated. If the Hormuz disruption persists, Latin America could invest in dedicated VLCC terminal infrastructure.

Exhibit 1: Brent Futures average US$108.6/bbl in Oct'26



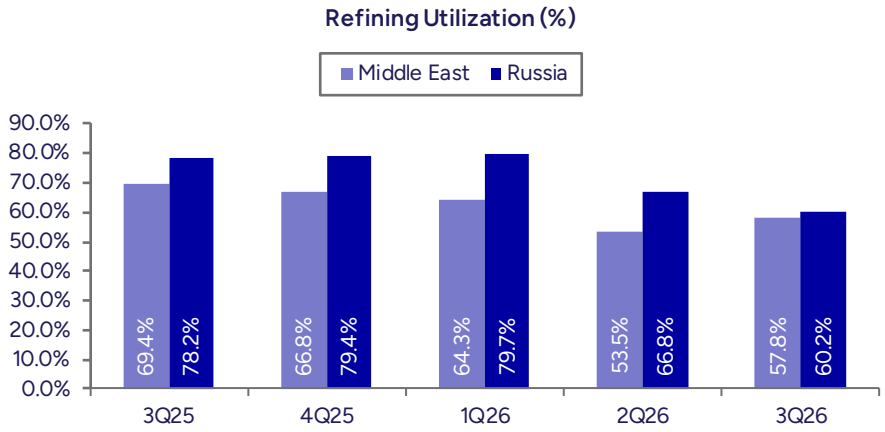
Source: Bloomberg, PL

Exhibit 2: Crack spreads remain elevated



Source: Bloomberg, PL

Exhibit 3: Refining utilization declines for Middle East and Russia



Source: IEA, BP Stats, OPEC, PL. Quarters are based on CY

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (INR)	Share Price (INR)
1	Aarti Industries	Accumulate	476	429
2	Bharat Petroleum Corporation	Accumulate	305	290
3	Bharti Airtel	BUY	2367	1834
4	Clean Science and Technology	Accumulate	769	715
5	Deepak Nitrite	REDUCE	1419	1519
6	Fine Organic Industries	BUY	6629	5626
7	GAIL (India)	BUY	206	168
8	Gujarat Energy	HOLD	239	228
9	Gujarat Fluorochemicals	HOLD	4548	4464
10	Hindustan Petroleum Corporation	HOLD	342	338
11	Indian Oil Corporation	Accumulate	140	130
12	Indraprastha Gas	BUY	161	133
13	Jubilant Ingrevia	HOLD	649	632
14	Laxmi Organic Industries	REDUCE	177	190
15	Mahanagar Gas	Accumulate	1187	1039
16	Mangalore Refinery & Petrochemicals	HOLD	180	185
17	Navin Fluorine International	Accumulate	9554	8680
18	NOCIL	HOLD	140	137
19	Oil & Natural Gas Corporation	Accumulate	250	222
20	Oil India	Accumulate	512	454
21	P.I. Industries	HOLD	2305	2210
22	Petronet LNG	Accumulate	322	303
23	Reliance Industries	BUY	1490	1165
24	SRF	HOLD	2349	2331
25	Sudeep Pharma	SELL	943	1130
26	Vinati Organics	Accumulate	1278	1142

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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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