

Oil & Gas



Manthan

The Three Body Problem - Oil Prices & OMCs

The Three Body Problem is an unsolved scientific challenge where predicting orbital movements of three planetary bodies exhibiting significant gravitational pull on each other has been impossible. The term was popularized in the masses through Cixin Liu's fiction series by the same name, one of the best-selling science fiction of all times.

The world has also been facing a similar chaotic scenario with conflicting interests of three super-powers- the US, Russia and China. In a bipolar world post World War II, tensions remained largely localized with parts of the world being theatres of the US-Russia cold war. However, with the economic and military might that China has developed in the past two decades, global alignments have become fragile with unpredictable outcomes.

As a result, the ME crisis which began on 28th Feb'26 first appeared like a fleeting moment. However, the recent lack of progress in discussions suggests that it is expected to sustain much longer. Rising prices of crude oil, basic petrochemical feedstock/intermediates, fertilizers (and feedstocks) are expected to linger for longer.

The self-correcting nature of oil markets

Global oil markets are entering a phase where elevated prices are beginning to undermine their own sustainability. According to the IEA, demand expectations have deteriorated sharply—from projected growth of 730kbpd to a contraction of 420kbpd in 2026, representing a 1.3mbpd downgrade versus pre-war forecasts. The steepest weakness is expected during Apr–Jun'26, with petrochemicals and aviation seeing the most pronounced impact.

Initially, demand was supported through stock releases, panic buying and government subsidies across several developing economies. However, these measures appear increasingly difficult to sustain. As households and industries absorb persistently higher fuel costs, consumption patterns are beginning to adjust, and price-sensitive sectors are reducing usage.

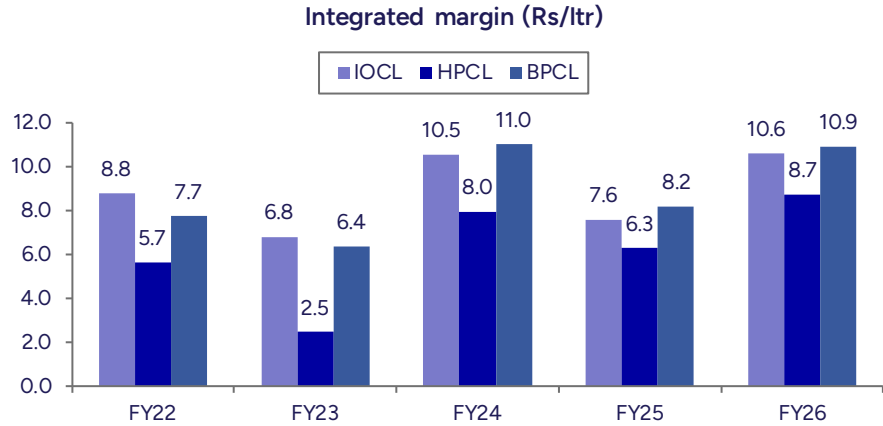
History suggests that when energy prices rise too far and too fast, demand eventually becomes the balancing mechanism. Unlike supply disruptions, which can take years to resolve, demand reacts almost immediately through lower industrial activity, reduced discretionary consumption and weaker transport demand. As this demand destruction broadens, market tightness could ease, inventory draws may moderate and oil prices are likely to soften from elevated levels. What began as a supply-driven price spike can eventually evolve into a demand-led correction.

Germany capped pump price increases, and the EU Commission explicitly urged member states to encourage reduced driving, reduced flying, and remote-work arrangements. In APAC, the response has been even more aggressive. Australia made public transport entirely free to pull commuters off the roads. Across Southeast Asia, Thailand, Indonesia, the Philippines and Vietnam adopted mandatory WFH policies for government and public sectors. In India, PM Modi has urged citizens to use petrol and diesel sparingly, recalling the Covid era when remote work had become the norm and framing behavioural change explicitly as a short-term demand management tool. Corporates have responded in kind, the Finance Ministry directed PSU banks and insurers to cut official travel and shift meetings online.

Recent petrol and diesel price hikes of ~Rs7.38/ltr and Rs7.52/ltr respectively, along with expectations of further increases, are expected to partially offset under-recovery losses. However, LPG under-recoveries continue to remain a key drag. Over the medium term, persistently elevated fuel prices could begin to impact consumption patterns and broader economic activity, particularly across price-sensitive sectors. Such demand-side adjustments may gradually moderate global oil demand growth, potentially easing market tightness and softening crude and product prices. However, the timing and magnitude of such a correction remain uncertain and would depend on the extent of demand destruction relative to prevailing supply constraints. Any moderation in international prices could provide additional relief to OMCs through lower input costs and reduced under-recoveries.

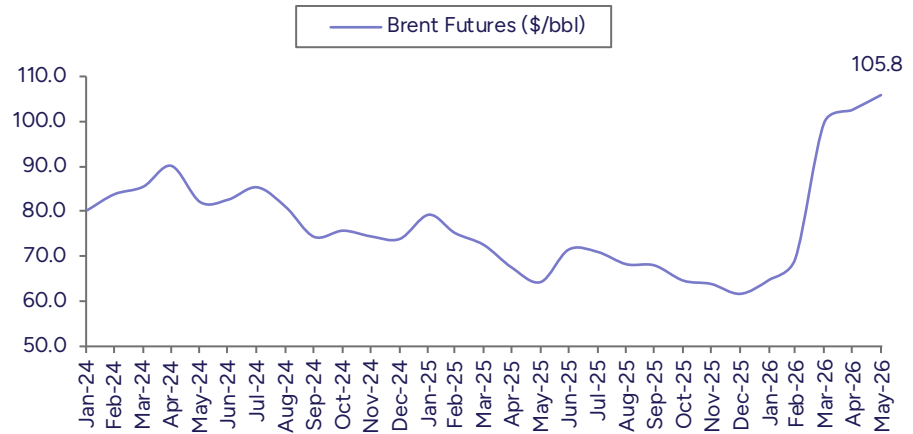
Given the near-term support from fuel price hikes and the potential for incremental relief from softer international prices over time, we continue to remain constructive on OMCs and maintain our **Accumulate** rating on IOCL, BPCL and HPCL.

Exhibit 1 : Integrated margin of IOCL, BPCL and HPCL



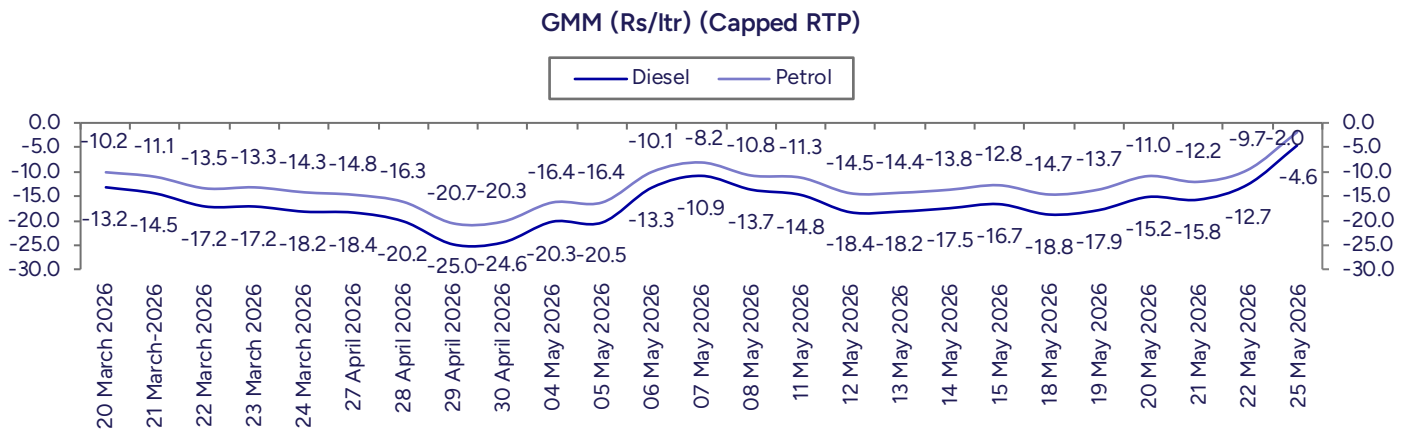
Source: Company, PL

Exhibit 2 : Brent futures stood at USD105.8 as of 25thMay'26



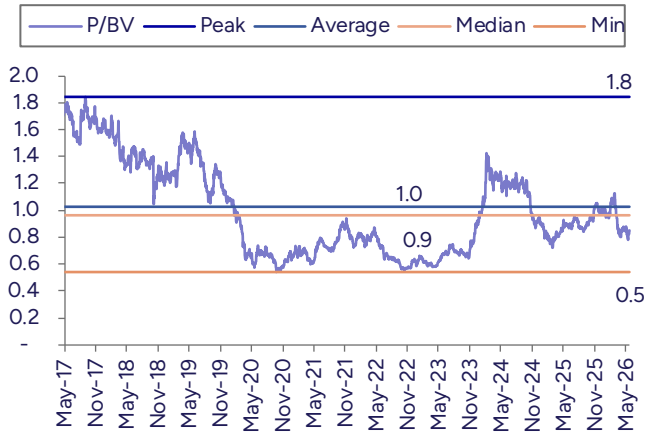
Source: Bloomberg, PL

Exhibit 3 : Petrol/Diesel GMM's. It includes GRM capping and excise duty cut of Rs10/ltr



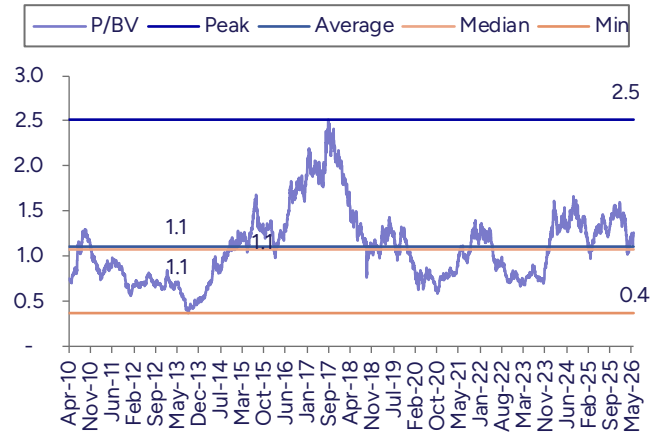
Source: Bloomberg, PL Note: GRM capping of USD10/bbl for petrol and USD15/bbl for Diesel

Exhibit 4 : IOCL at 0.8x FY27 P/BV



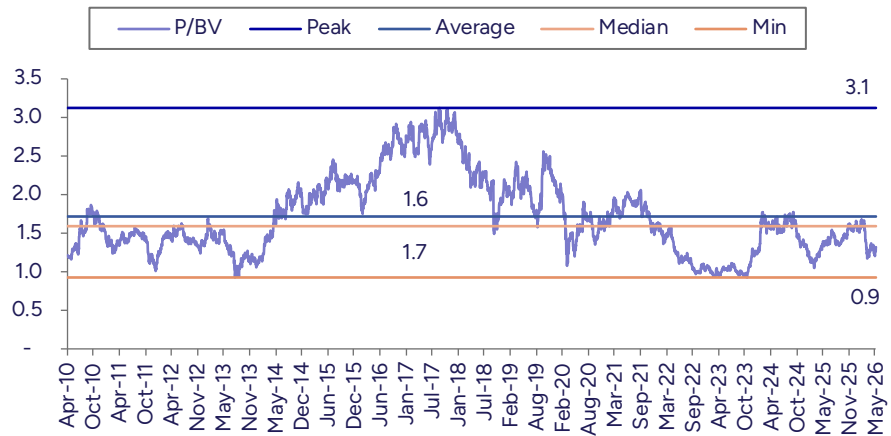
Source: Company, PL

Exhibit 5 : HPCL at 1.3x FY27 P/BV



Source: Company, PL

Exhibit 6 : BPCL at 1.3x FY27 P/BV



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	Accumulate	342	313
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	309	287
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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