

Sector Update

LPG distributors demand doubling of commission

Quick Pointers:

- Current distributor margin stands at Rs73.08/cyl
- Distributors are asking to double the same, which if not passed could raise under-recoveries of the OMCs

LPG distributors are demanding a sharp increase in commission to Rs150/cyl, nearly double the current Rs73.08/cyl. With OMCs already estimated to face under-recoveries of ~Rs400bn in FY25 due to constrained pricing flexibility, any further increase in distributor margins—if not passed through—could worsen the financial stress. Given the stretched valuations that the companies are trading at currently and expectations of a bounce back in crude prices to USD70-80/bbl in the near term amid inability to pass on increase in fuel cost to customers, we maintain our cautious view on OMCs. We downgrade rating on BPCL/IOCL from 'HOLD' to 'Reduce' post run-up in stock with a TP of Rs261/125 based on 1.2/0.8x FY27 P/BV. Similarly, we downgrade rating on HPCL from 'HOLD' to 'SELL' post run-up in stock with a TP of Rs322 based on 1x FY27 P/BV.

Current scenario: As per [source](#), LPG distributors are demanding the commission to be almost doubled to Rs150/cylinder. The current commission stands at Rs73.08/cylinder. Last hike of Rs8.24/cyl was done in Oct'23. However, the retail prices of cylinders were not changed at that point of time. One may recall that LPG retail prices have been raised by Rs50/cyl a few days back. Since then, oil prices have also been rising, which anyway would result in higher benchmark LPG prices.

Impact on under-recoveries: Due to inability in market pricing of LPG, OMCs are estimated to have run under-recoveries of ~Rs400bn in FY25. Considering the quantum of increase in past few years, it does not look possible that the government may double the commission. Nonetheless, a rise in Rs10/cyl in commission, if not passed on to retail prices, would raise the under-recovery of OMCs by ~Rs20bn ceteris paribus.

Valuation and view: Considering that 1) we expect Brent to rise to USD70-80/bbl in few weeks, 2) inability of OMCs to pass on rise in prices of petrol and diesel to retail customers, 3) continued under-recoveries on LPG and 4) rich valuations, we reiterate our cautious stand on the OMCs. IOCL/BPCL/HPCL are trading at 0.9/1.5/1.4x FY26 PBV. We value the stocks at 0.8/1.2/1x FY27 PBV.

April 22, 2025

Bharat Petroleum Corporation (BPCL IN)

Rating: REDUCE | CMP: Rs304 | TP: Rs261

Key Financials - Consolidated

Y/e Mar	FY24	FY25E	FY26E	FY27E
Sales (Rs. bn)	4,481	4,310	3,721	3,760
EBITDA (Rs. bn)	441	212	195	198
Margin (%)	9.8	4.9	5.2	5.3
PAT (Rs. bn)	271	111	96	101
EPS (Rs.)	62.5	25.7	22.2	23.4
Gr. (%)	733.0	(58.9)	(13.5)	5.3
DPS (Rs.)	42.8	13.2	10.1	10.3
Yield (%)	14.1	4.4	3.3	3.4
RoE (%)	42.0	14.0	11.2	11.1
RoCE (%)	31.7	11.1	8.9	8.3
EV/Sales (x)	0.4	0.4	0.5	0.5
EV/EBITDA (x)	3.9	8.2	9.4	9.8
PE (x)	4.9	11.8	13.7	13.0
P/BV (x)	1.7	1.6	1.5	1.4

Hindustan Petroleum Corporation (HPCL IN)

Rating: SELL | CMP: Rs395 | TP: Rs322

Key Financials - Consolidated

Y/e Mar	FY24	FY25E	FY26E	FY27E
Sales (Rs. bn)	4,339	4,332	3,920	4,007
EBITDA (Rs. bn)	249	147	177	180
Margin (%)	5.7	3.4	4.5	4.5
PAT (Rs. bn)	160	73	99	99
EPS (Rs.)	75.3	34.4	46.5	46.8
Gr. (%)	(329.4)	(54.3)	35.2	0.5
DPS (Rs.)	21.0	7.3	11.0	10.8
Yield (%)	5.3	1.8	2.8	2.7
RoE (%)	40.4	14.6	17.3	15.4
RoCE (%)	18.5	7.1	8.8	8.2
EV/Sales (x)	0.3	0.3	0.4	0.4
EV/EBITDA (x)	5.9	10.1	8.5	8.6
PE (x)	5.2	11.5	8.5	8.4
P/BV (x)	1.8	1.6	1.4	1.2

Indian Oil Corporation (IOCL IN)

Rating: REDUCE | CMP: Rs139 | TP: Rs125

Key Financials - Consolidated

Y/e Mar	FY24	FY25E	FY26E	FY27E
Sales (Rs. bn)	7,764	7,531	8,456	7,712
EBITDA (Rs. bn)	756	315	471	500
Margin (%)	9.7	4.2	5.6	6.5
PAT (Rs. bn)	432	78	204	221
EPS (Rs.)	31.3	5.6	14.8	16.0
Gr. (%)	268.8	(82.0)	162.3	8.5
DPS (Rs.)	12.0	2.7	5.7	6.4
Yield (%)	8.7	1.9	4.1	4.6
RoE (%)	26.7	4.2	10.4	10.6
RoCE (%)	20.4	4.6	8.6	8.8
EV/Sales (x)	0.4	0.4	0.4	0.4
EV/EBITDA (x)	4.1	10.6	7.1	6.7
PE (x)	4.4	24.6	9.4	8.6
P/BV (x)	1.0	1.0	0.9	0.9

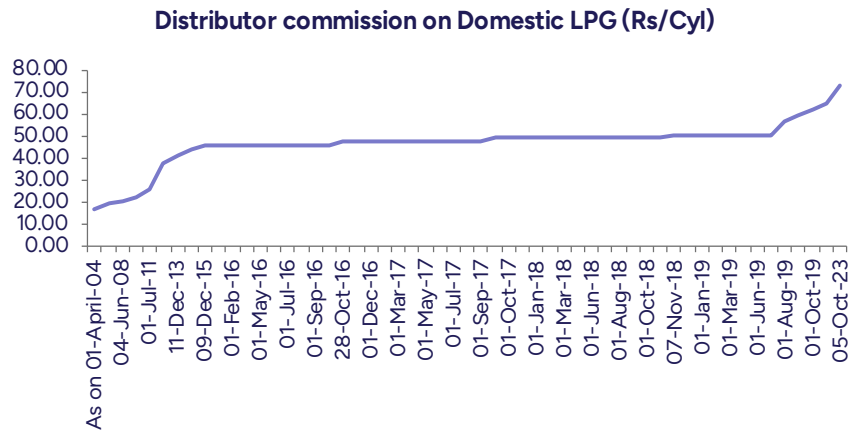
Swarnendu Bhushan

swarnendubhushan@plindia.com | 91-22-66322260

Payal Shah

payalshah@plindia.com |

Exhibit 1: LPG Distributors' Commission



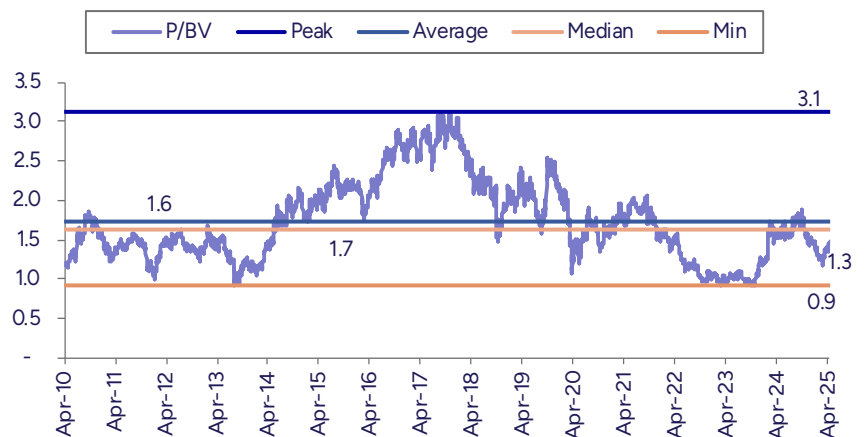
Source: Industry, PL

Exhibit 2: Rise in under-recoveries per Rs10/cyl absorption in dealer commission

	FY25
Total LPG consumed (mmt)	31
Domestic consumption (%)	90
Domestic consumption (mmt)	28
Cylinders consumed(mn)	1,985
Possible rise in under-recovery for Rs10 absorption (Rsmn)	19,851

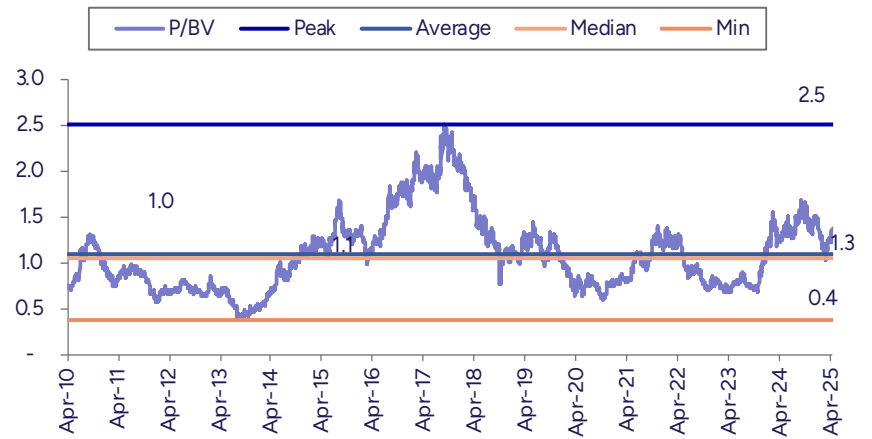
Source: Industry, PL

Exhibit 3: BPCL trading at 1.7x FY27 P/BV



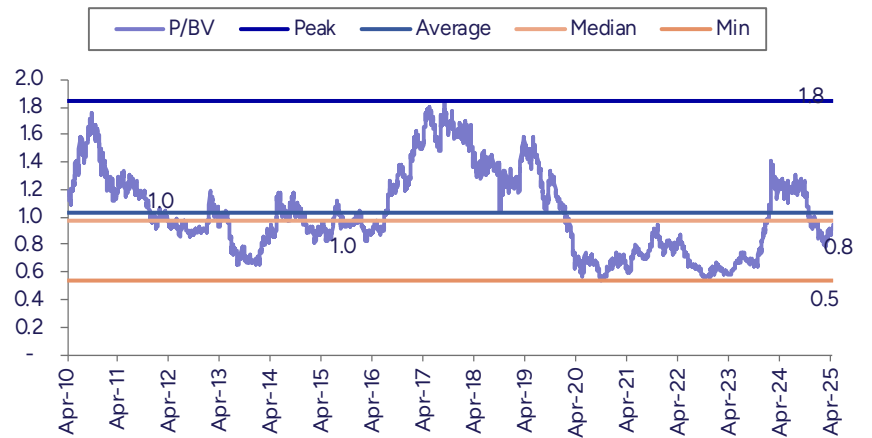
Source: Industry, PL

Exhibit 4: HPCL trading at 1.1x FY27 P/BV



Source: Industry, PL

Exhibit 5: IOCL trading at 1x FY27 P/BV



Source: Industry, PL

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Reduce	330	356
2	Bharat Petroleum Corporation	Hold	261	274
3	Bharti Airtel	Accumulate	1,916	1,720
4	Clean Science and Technology	Hold	1,224	1,167
5	Deepak Nitrite	Reduce	1,645	1,835
6	Fine Organic Industries	BUY	4,798	3,960
7	GAIL (India)	Accumulate	185	169
8	Gujarat Fluorochemicals	Reduce	3,328	3,671
9	Gujarat Gas	Hold	395	393
10	Gujarat State Petronet	Hold	288	288
11	Hindustan Petroleum Corporation	Hold	322	353
12	Indian Oil Corporation	Hold	125	128
13	Indraprastha Gas	Reduce	152	179
14	Jubilant Ingrevia	Hold	616	604
15	Laxmi Organic Industries	Reduce	160	169
16	Mahanagar Gas	Accumulate	1,393	1,316
17	Mangalore Refinery & Petrochemicals	Sell	109	129
18	Navin Fluorine International	Accumulate	4,454	3,880
19	NOCIL	Reduce	156	166
20	Oil & Natural Gas Corporation	BUY	264	220
21	Oil India	BUY	659	343
22	Petronet LNG	Reduce	248	278
23	Reliance Industries	BUY	1,481	1,166
24	SRF	Hold	2,780	2,721
25	Vinati Organics	Accumulate	1,620	1,459

PL's Recommendation Nomenclature

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

ANALYST CERTIFICATION

(Indian Clients)

We/I Mr. Swarnendu Bhushan- IIT, MBA Finance, Ms. Payal Shah- MMS-Finance Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

(US Clients)

The research analysts, with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is or will be directly related to the specific recommendation or views expressed in this research report.

DISCLAIMER

Indian Clients

Prabhudas Lilladher Pvt. Ltd, Mumbai, India (hereinafter referred to as "PL") is engaged in the business of Stock Broking, Portfolio Manager, Depository Participant and distribution for third party financial products. PL is a subsidiary of Prabhudas Lilladher Advisory Services Pvt Ltd. which has its various subsidiaries engaged in business of commodity broking, investment banking, financial services (margin funding) and distribution of third party financial/other products, details in respect of which are available at www.plindia.com.

This document has been prepared by the Research Division of PL and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accepts any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

PL may from time to time solicit or perform investment banking or other services for any company mentioned in this document.

PL is a registered with SEBI under the SEBI (Research Analysts) Regulation, 2014 and having registration number INH000000271.

PL submits that no material disciplinary action has been taken on us by any Regulatory Authority impacting Equity Research Analysis activities.

PL or its research analysts or its associates or his relatives do not have any financial interest in the subject company.

PL or its research analysts or its associates or his relatives do not have actual/beneficial ownership of one per cent or more securities of the subject company at the end of the month immediately preceding the date of publication of the research report.

PL or its research analysts or its associates or his relatives do not have any material conflict of interest at the time of publication of the research report.

PL or its associates might have received compensation from the subject company in the past twelve months.

PL or its associates might have managed or co-managed public offering of securities for the subject company in the past twelve months or mandated by the subject company for any other assignment in the past twelve months.

PL or its associates might have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months.

PL or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months

PL or its associates might have received any compensation or other benefits from the subject company or third party in connection with the research report.

PL encourages independence in research report preparation and strives to minimize conflict in preparation of research report. PL or its analysts did not receive any compensation or other benefits from the subject Company or third party in connection with the preparation of the research report. PL or its Research Analysts do not have any material conflict of interest at the time of publication of this report.

It is confirmed that Mr. Swarnendu Bhushan- IIT, MBA Finance, Ms. Payal Shah- MMS-Finance Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

The Research analysts for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

The research analysts for this report has not served as an officer, director or employee of the subject company PL or its research analysts have not engaged in market making activity for the subject company

Our sales people, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

PL and its associates, their directors and employees may (a) from time to time, have a long or short position in, and buy or sell the securities of the subject company or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company or act as an advisor or lender/borrower to the subject company or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

US Clients

This research report is a product of Prabhudas Lilladher Pvt. Ltd., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Prabhudas Lilladher Pvt. Ltd. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Prabhudas Lilladher Pvt. Ltd. has entered into an agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo").

Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer.

Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

www.plindia.com