

## Sector Update

April 7, 2022

### Exhibit 1: PL Universe

Companies	Rating	CMP (Rs)	TP (Rs)
BPCL	BUY	386	416
HPCL	BUY	291	349
Indian Oil Corporation	BUY	126	150
Oil India	BUY	237	360
ONGC	BUY	173	240

Source: PL

## Retail price hikes ease subsidy concerns

### Quick Pointers:

- Retail price hikes ease policy overhang
- Upstream companies better placed given geopolitical concerns which will keep commodity prices at elevated levels.

**Retail fuel prices are increased by Rs10/litre since 22<sup>nd</sup> March to compensate for rising marketing losses due to 1) high crude oil prices and 2) unchanged prices due to state elections. Despite hikes, current marketing losses are at ~Rs8/6litre for diesel and petrol. Fuel price hikes have eased concerns of policy overhang about subsidy sharing among oil companies given high marketing losses. Also, ~240mmbbls crude oil release from strategic reserves of US and other countries have softened crude prices. Fuel price hikes along with softening crude prices will ease concerns of marketing losses. However, we expect prices to remain stable at current levels due to ongoing geopolitical tensions. We prefer upstream companies as they will continue to benefit from high crude oil and gas prices. For OMCs marketing margins will remain muted in a crude inflationary period despite healthy refining profitability.**

**Retail price hikes eases subsidy concerns:** Retail fuel prices are increased by Rs10/litre over last fortnight. This follows months of unchanged fuel prices due to state elections despite sharp upmove in crude oil prices. Retail price hike removes an overhang of rising marketing losses being borne by the oil companies- OMCs and upstream companies. The oil companies have not borne any losses since FY16 due to low crude oil prices and regular increase in retail prices in case of rise in crude oil prices. Our estimates for the companies' don't factor in any subsidy sharing.

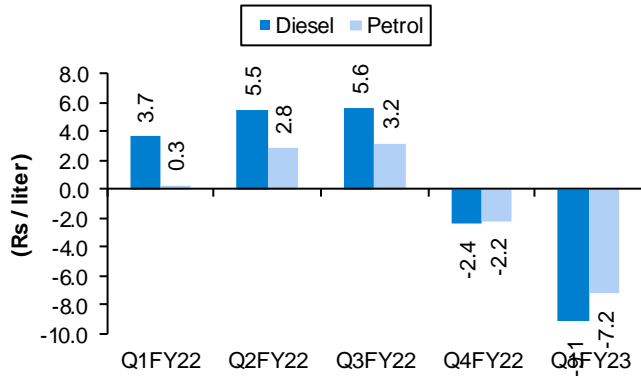
**Crude oil price softens as US release supplies and rise in OPEC supplies:** Crude oil prices have come off from recent peaks as US plans to release 1mbpd supplies from strategic storage for next six months. International Energy Agency (IEA) expects other developed nations to release 60mbpd. Along with monthly increase of 0.4mbpd supplies from OPEC countries, this move will prevent crude prices to flare. However, ongoing geopolitical tensions will keep crude oil prices range bound at current levels.

**Prefer upstream companies:** We reiterate our overweight stance on the sector but prefer upstream companies as they benefit from rising crude oil and gas prices. GAIL also benefits from high gas trading and LPG realisations. The OMCs will also benefit from strong GRMs, but marketing margins are likely to come under pressure in a high crude inflationary environment. We had recently trimmed our marketing margin assumptions to Rs3.0/3.5/litre for petrol and diesel for FY23/24E ([Refer our recent report](#)). We maintain our estimates on OMCs and upstream companies.

**Avishek Datta**

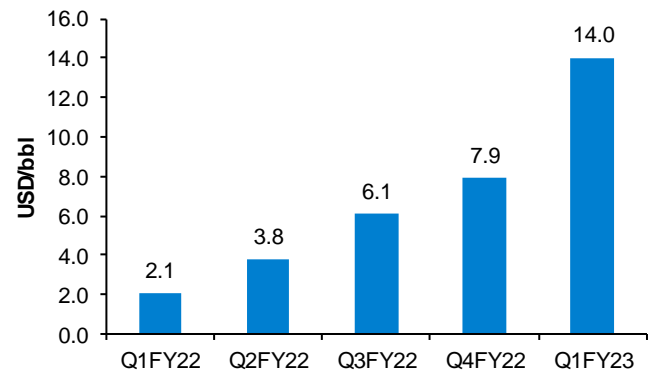
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**Exhibit 2: Marketing losses to remain at elevated levels**

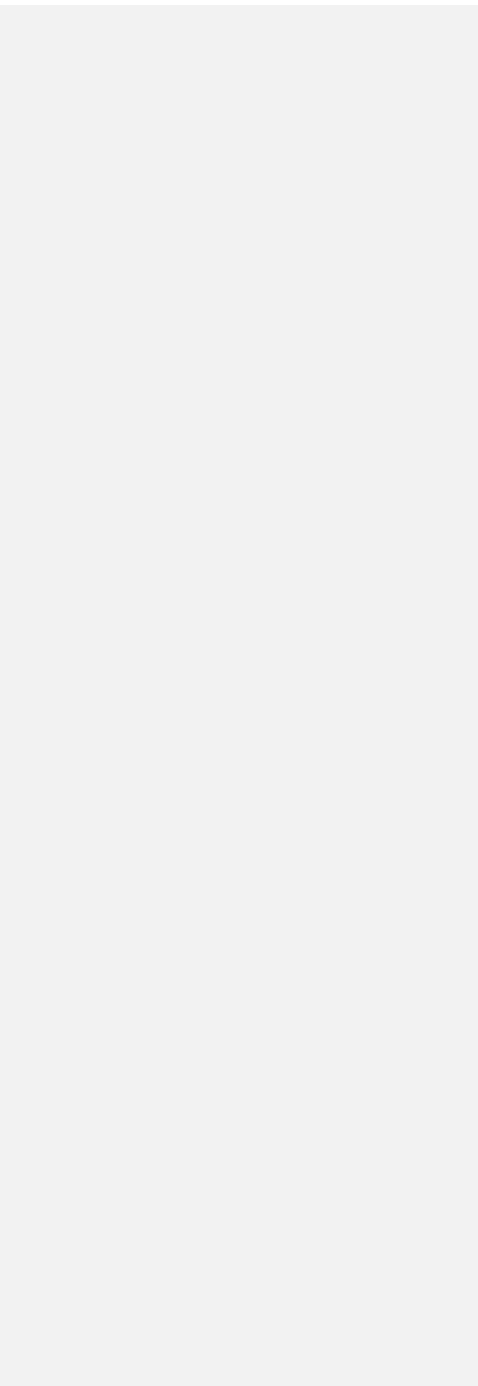


Source: Company, PL

**Exhibit 3: GRMs at healthy levels**



Source: Company, PL





## Exhibit 4: Valuation Summary

Company Names	S/C Rating	CMP (Rs)	TP (Rs)	MCap (Rs bn)	Sales (Rs bn)				EBITDA (Rs bn)				PAT (Rs bn)				EPS (Rs)				RoE (%)				PE (x)			
					FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
BPCL	S BUY	386	416	807.4	2,301.6	3,219.2	3,569.9	3,735.7	213.0	202.9	179.8	178.7	120.5	128.5	124.6	128.8	57.6	61.4	59.5	61.6	26.8	22.3	19.3	18.2	6.7	6.3	6.5	6.3
HPCL	S BUY	291	349	422.4	2,330.0	2,873.5	3,187.0	3,300.9	159.3	117.2	128.2	141.1	106.6	67.6	70.4	75.3	73.4	46.5	48.5	51.9	32.7	17.5	16.0	15.2	4.0	6.2	6.0	5.6
Indian Oil Corporation	S BUY	126	150	1,157.3	3,639.5	5,444.4	6,007.5	6,300.4	405.9	518.3	438.6	475.3	193.7	276.0	218.5	235.7	21.1	30.1	23.8	25.7	18.7	23.0	16.1	15.7	6.0	4.2	5.3	4.9
Oil India	C BUY	237	360	257.3	225.0	363.3	409.9	400.8	57.0	91.9	108.0	93.6	41.5	53.2	64.6	57.8	38.2	49.0	59.6	53.3	17.7	20.6	21.1	16.3	6.2	4.8	4.0	4.5
ONGC	S BUY	173	240	2,173.9	3,605.7	4,870.2	5,486.8	5,495.3	566.0	846.1	1,053.2	926.8	243.6	490.2	540.5	434.9	19.4	39.0	43.0	34.6	11.4	18.1	16.0	11.7	8.9	4.4	4.0	5.0

Source: Company, PL

S=Standalone / C=Consolidated

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bharat Petroleum Corporation	BUY	416	380
2	GAIL (India)	BUY	205	162
3	Gujarat Gas	BUY	675	512
4	Hindustan Petroleum Corporation	BUY	349	280
5	Indian Oil Corporation	BUY	150	122
6	Indraprastha Gas	BUY	660	392
7	Mahanagar Gas	BUY	1,187	828
8	Oil & Natural Gas Corporation	BUY	240	168
9	Oil India	BUY	360	237
10	Petronet LNG	BUY	356	198
11	Reliance Industries	BUY	3,045	2,664

**PL's Recommendation Nomenclature**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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