Planets are aligned

After a turbulent FY22-24, crude oil market is now normalizing and we expect Brent to average US$75/bbl in FY25-30E. This would lead to higher marketing margin for OMCs despite government intervention. Also, GRMs would be above mid-cycle level till FY30E. These would drive integrated margin 13-26% higher in FY25-27E vs past 7 years. Despite 67% increase in capex to ₹4.5tn in FY25-29E vs last 5 years, aggregate OMC pre-tax RoCE would be largely stable at ~11%. Valuation of all three is marginally below long-term average and would rerate as market acknowledges these factors. Reinstating BUY on all three stocks. Our top pick is HPCL as it is expected to report 36%/19% EPS CAGR in FY25-27E/FY25-30E with RoCE of ~15%. Prefer IOCL>BPCL given superior FCF profile; but return would be under pressure for them given high capex intensity. We value HPCL, IOCL and BPCL at 1.7x, 1.4x and 1.7x FY26E P/B respectively.

OMCs' GRMs would be higher vs mid-cycle scenario

We increased Singapore GRM assumptions by 9%/17% to US$6/US$7 per bbl for FY25-27E/FY28-34E due to a balanced global refining market. OMCs would continue to outperform Singapore GRM because of superior product yield, operational efficiency, and usage of cheaper Russian crude albeit with lower discounts of US$2-4/bbl. Considering all these, we increase our estimates for OMC GRMs by 6-8% for the next three years, with BPCL, IOCL and HPCL at US$10, US$9, and US$8 per barrel. Also, India's refining capacity would increase by 20% over 2024-2029 to 310MMtpa and OMCs would be at the forefront with 67% addition with 12% of it being from RIL.

Crude and government are enablers of above-average marketing margin

We have increased OMCs' overall gross marketing margin by 3-9% for FY25-27E. This is despite 25% reduction in FY25E, and higher crude and higher crack estimates as we now don't expect government intervention in FY26E. OMCs' marketing margin would improve gradually from FY27E to above ₹5/litre due to declining crude prices. Benign excise duty increases would enable OMCs to improve profitability as the government would want them to fund their capex and consumers' affordability rises with in tandem with per capita GDP. Amid profitable refining and marketing outlook, integrated margins would be 13-26% higher in FY25-27E vs the past 7 years.

Focusing on conventional while gradually moving towards greener assets

OMCs are embracing an approach akin to the U.S. oil supermajors by investing in decarbonizing their existing operations via efficiency improvements and additional infrastructure and preparing themselves for a gradual energy transition with gas acting as a transition fuel. About 75% of FY25-29E capex (vs 90% in FY20-24) would be for high-RoCE core operations. This along with higher integrated margins would allow them to earn pre-tax RoCE of 11% in FY25-29E despite a 67% increase in capex to ₹4.5tn.

Prefer HPCL given better earnings and return profile

In the last 9 months, OMC stock prices saw a massive jump given government support, lower crude prices, and above mid-cycle refining margins. Hereon, triggers would be continuation of all these, and we are confident about this. HPCL is our top pick now due to improvement across earnings growth trajectory as well as return and leverage profile (net debt/equity expected to be below 1x in FY27E vs 1.4x in FY24). IOCL/BPCL are expected to report 9%/10% EPS CAGR in FY25-30E but higher capex intensity would be return-dilutive. We prefer IOCL>BPCL on superior FCF profile as BPCL needs massive borrowings to fund its capex program. In our coverage, we prefer OMCs (HPCL>IOCL>BPCL) followed by ONGC>GGas. Remain SELLers on GAIL>MGL>IGL>PLNG>RIL.

Key Recommendations

Bharat Petroleum	**BUY**
Target Price: ₹750	Upside: 27%
Hindustan Petroleum	**BUY**
Target Price: ₹650	Upside: 29%
Indian Oil Corp	**BUY**
Target Price: ₹200	Upside: 27%

We prefer HPCL>IOCL>BPCL

Particular	IOCL	HPCL	BPCL
Ref. and Mark.	◑	○	●
Ref. Cover	●	◑	○
Pipeline and Petchem	◑	●	○
CGDs, E&P and Rene.	●	○	◑
Dvd. Cover and Lev.	●	◑	○
Earnings Trajectory	○	●	◑
RoCE Trajectory	○	●	◑
Valuation	○	◑	●

Source: Company, Ambit Capital research.
Note: ● - Strong; ◑ - Average; ○ - Weak

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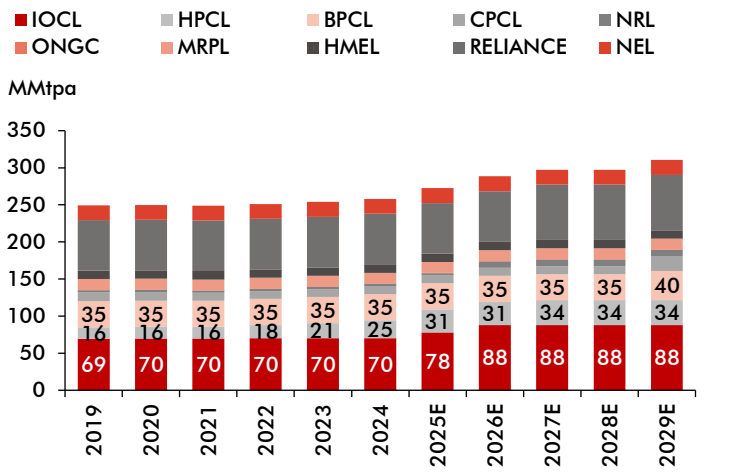
The Narrative in Charts

Exhibit 1: India's refining capacity to increase by 20% between 2024-29; 67% from OMCs and 12% from RIL



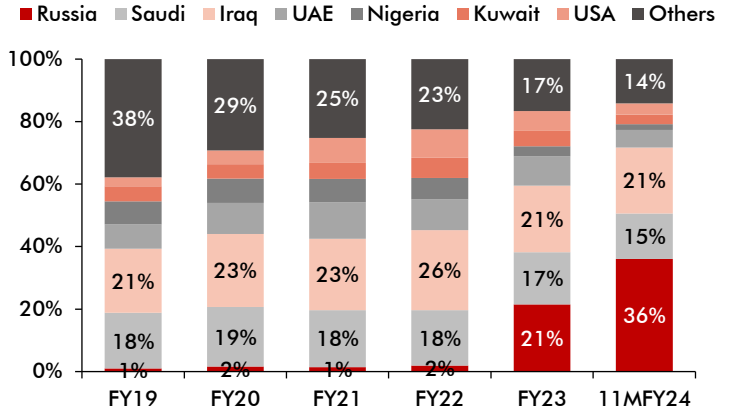
Source: PPAC, Company, Ambit Capital research. Note: Capacity as on 1st April of respective year and HPCL includes HRRL while CPCL includes Cauvery refinery

Exhibit 2: Details of refining expansion projects - IOCL to contribute 47% of new refining capacity additions

Name of the company	Location	Increase in capacity (MMtpa)
IOCL	Digboi	0.350
IOCL	Guwahati	0.200
IOCL	Koyali	4.300
IOCL	Barauni	3.000
IOCL	Panipat	10.000
HRRL	Barmer	9.000
BPCL	Bina	4.200
NRL	Numaligarh	6.000
CPCL	Cauvery Basin	9.000
Reliance	Gujarat	6.500
Total	**India**	**52.550**

Source: PPAC, Company, Ambit Capital research

Exhibit 3: Russian crude import was inconsistent due to multiple factors but contributed 36% in 11MFY24; we expect largely same share in the near to medium term



Source: Ministry of Commerce, Ambit Capital research

Exhibit 4: Russia beat Iraq to become the lowest-cost supplier to India; but benefits reduced in recent months. We expect the discount to continue albeit at recent level of US$2-4/bbl

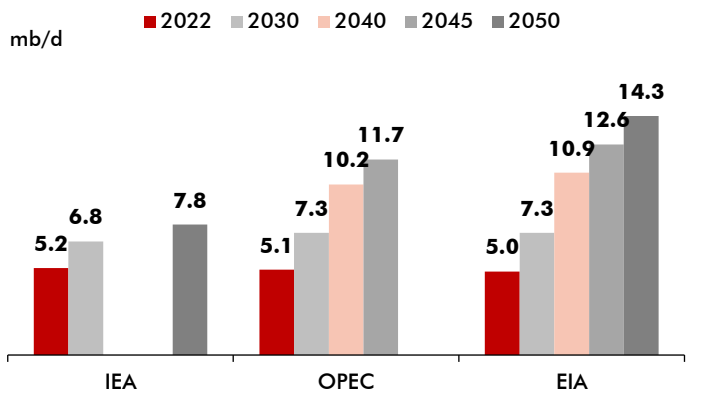
Source: Ministry of Commerce, Ambit Capital research

Exhibit 5: Refining margins - OMCs consistently outperformed Singapore benchmark; we expect the trend to continue due to superior product yield as well as cheaper source of crude; we increase our GRM estimates by 6-8%

Particular (US$/bbl)	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Singapore GRMs	7.5	5.8	7.2	4.9	3.2	0.5	5.0	10.8	6.6	**6.0**	**6.0**	**6.0**
IOCL - S	5.1	7.8	8.5	5.4	0.1	5.6	11.3	19.7	12.0	**9.0**	**9.0**	**9.0**
BPCL - S	6.6	5.3	6.9	4.6	2.5	4.1	9.1	20.2	14.1	**10.0**	**10.0**	**10.0**
HPCL - S	6.7	6.2	7.4	5.0	1.0	3.9	7.2	12.1	9.1	**8.0**	**8.0**	**8.0**

Source: Bloomberg, Company, Ambit Capital research

Exhibit 6: India's oil demand forecast by three major agencies – we rely on EIA which expects 5% CAGR over 2022-2030



Source: IEA, OPEC, EIA, Ambit Capital research. Note: IEA forecast under stated policies scenarios and blank indicates no forecast for the respective period by a particular agency

Exhibit 7: India's share in world oil demand is expected to be about 7%/10%/12% in 2030/2040/2050 vs 5% in 2022 as per EIA; this is due to increasing energy demand in the country

Particular	2022	2030	2040	2045	2050
World oil demand (mb/d)					
IEA	96.5	101.5			97.4
OPEC	99.6	112.0	115.4	116.0	
EIA	99.1	105.5	112.1	116.7	121.5
India as % of total					
IEA	5.4%	6.7%			8.0%
OPEC	5.1%	6.5%	8.8%	10.1%	
EIA	5.0%	6.9%	9.7%	10.8%	11.8%

Source: IEA, OPEC, EIA, Ambit Capital research. Note: IEA forecast under stated policies scenarios and blank indicates no forecast for the respective period by a particular agency

Exhibit 8: OMCs expected to expand retail network by about 21k outlets (95% of total) in FY25-30E to tap growing demand; this would also help them regain some lost market share

Particular	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E
Petroleum products demand (MMT)												
IOCL	79.5	79.0	69.4	73.7	84.0	83.3	86.2	89.2	92.4	95.6	98.9	102.4
BPCL	43.1	43.1	38.7	42.5	48.9	51.0	53.1	55.2	57.4	59.7	62.1	64.6
HPCL	37.9	37.8	35.2	37.5	42.2	44.7	46.5	48.3	50.2	52.3	54.3	56.5
Overall India	**213.2**	**214.1**	**194.3**	**201.7**	**223.0**	**233.3**	**241.4**	**249.9**	**258.6**	**267.7**	**277.1**	**286.8**
OMCs' share	**75.3%**	**74.7%**	**73.7%**	**76.2%**	**78.5%**	**76.7%**	**76.9%**	**77.1%**	**77.3%**	**77.5%**	**77.7%**	**77.9%**
Retail outlets												
IOCL	27,702	29,085	32,062	34,559	36,285	37,473	38,973	40,473	41,973	43,173	44,373	45,573
BPCL	14,802	16,234	18,637	20,063	21,031	21,840	23,040	24,240	25,440	26,440	27,440	28,440
HPCL	15,440	16,476	18,634	20,025	21,186	22,022	23,022	24,022	25,022	26,022	27,022	28,022
Overall India	**64,625**	**69,089**	**77,095**	**83,027**	**86,855**	**90,084**	**93,984**	**97,884**	**101,784**	**105,184**	**108,584**	**111,984**
OMCs' share	**89.7%**	**89.4%**	**89.9%**	**89.9%**	**90.4%**	**90.3%**	**90.5%**	**90.7%**	**90.8%**	**90.9%**	**91.0%**	**91.1%**

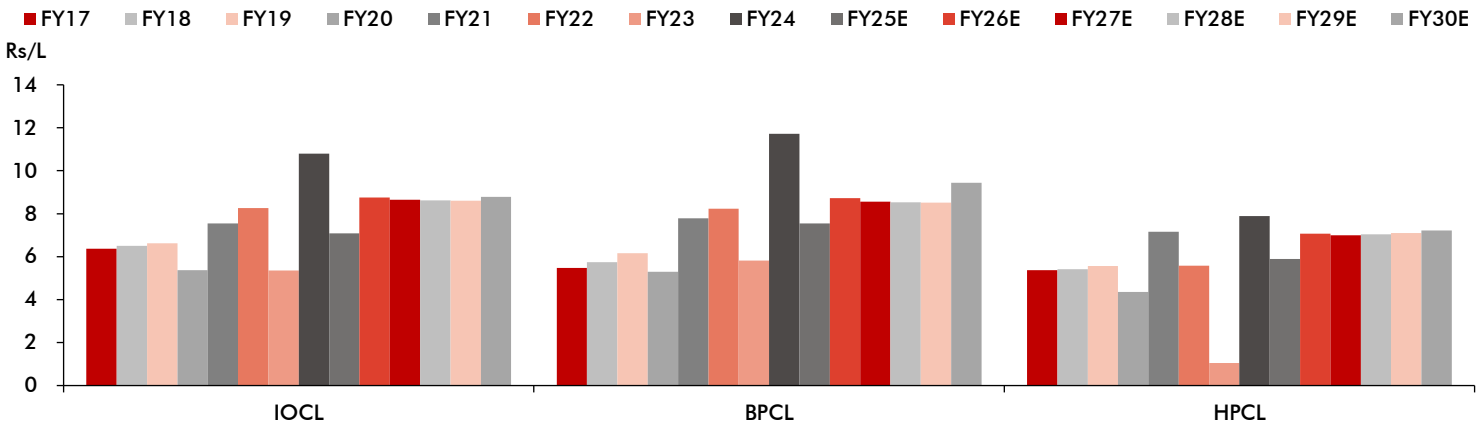
Source: PPAC, Company, Ambit Capital research. Note: Only domestic consumption of petroleum products have been considered

Exhibit 9: Below-average GMM in FY25E and near average in FY26E; we were expecting a price cut in FY26E previously but not now. Despite government intervention in FY27E through excise increase of ₹5/L, GMM would be near average

Particular	FY20	FY21	FY22	FY23	FY24	1QFY25E	2QFY25E	3QFY25E	4QFY25E	FY25E	FY26E	FY27E
Macros												
Brent (US$/bbl)	60.9	44.8	80.0	95.6	83.1	88.0	88.0	85.0	80.0	85.3	80.0	75.0
SGD gasoil cracks (US$/bbl)	13.4	4.3	9.9	36.1	23.3	15.0	15.0	18.0	18.0	16.5	15.0	15.0
SGD gasoline cracks (US$/bbl)	9.4	4.1	13.7	17.0	15.4	16.0	16.0	10.0	15.0	14.3	12.0	12.0
Diesel GMM (₹/L)	4.2	6.5	3.6	(7.2)	3.1	2.8	2.8	2.8	4.5	3.2	4.5	4.5
Petrol GMM (₹/L)	2.6	7.4	1.9	3.1	8.5	2.1	2.1	5.5	5.5	3.8	5.5	5.5
OMCs' GMM (₹/L)												
New Estimates												
IOCL	5.3	5.4	3.8	(2.6)	5.6	2.7	2.7	3.6	4.5	3.4	4.5	4.5
BPCL	4.8	6.9	5.7	(2.2)	6.1	3.0	3.0	4.0	5.0	3.8	5.0	5.0
HPCL	4.4	5.1	4.4	(1.7)	5.6	3.0	3.0	4.0	5.0	3.8	5.0	5.0

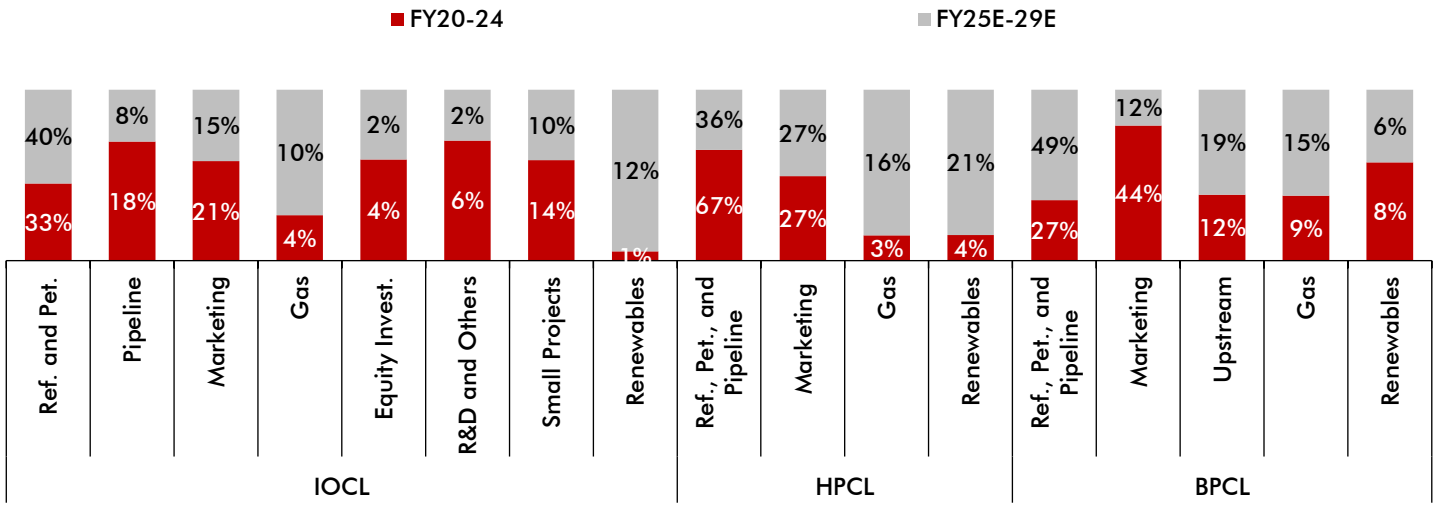
Source: IOCL, Bloomberg, Ambit Capital research. Note: FY23 excludes LPG subsidy benefits for OMCs, GMM is gross marketing margin and it is based on fortnightly average prices. Also, considered overall marketing volumes (domestic + export).

Exhibit 10: Consistent improvement in integrated margins for all three OMCs due to favourable outlook for both refining and marketing segments; BPCL would have highest integrated margins due to better refining assets followed by IOCL>HPCL



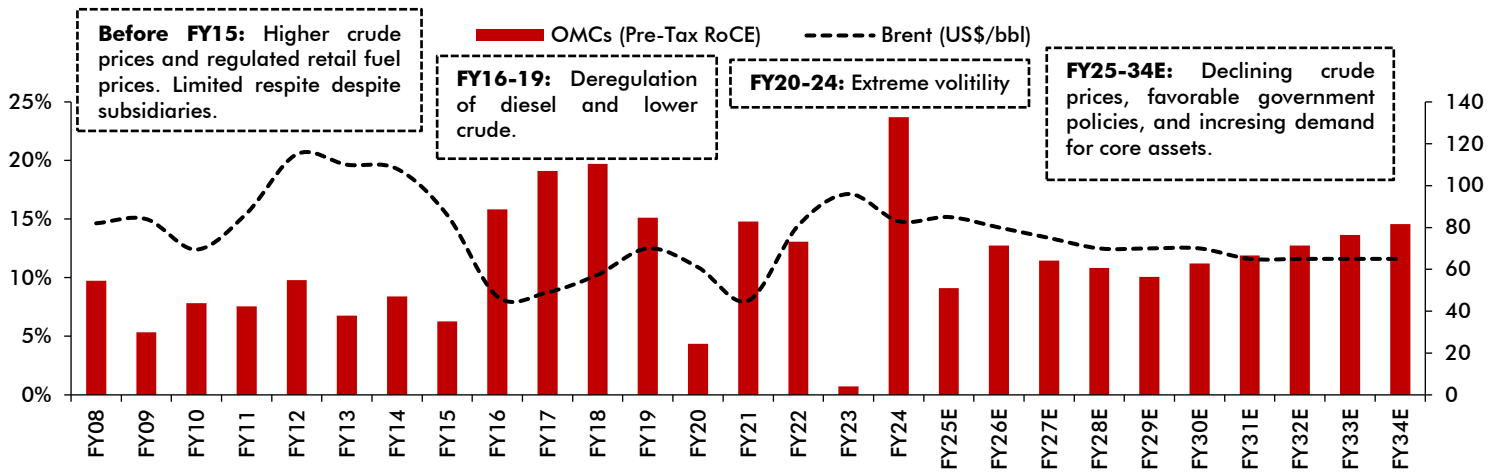
Source: Company, Ambit Capital research

Exhibit 11: IOCL/HPCL/BPCL total capex of ₹2,020bn/₹770bn/₹1,700bn in FY25-29E; about 45%/4%/203% higher vs. FY20-24; all increased spending toward new energy businesses, but about 75% of total capex would be for refining, marketing and pipelines



ource: Company, Ambit Capital research

Exhibit 12: Despite 67% higher overall capex in FY25-29E vs FY20-24, OMCs' RoCE is expected to be much more stable and higher than in the past due to government support, declining crude and focus on core operations



Source: Bloomberg, Company, Ambit Capital research

Exhibit 13: Summary of analysis of value drivers for OMCs; HPCL tops followed by IOCL>BPCL

Particular	IOCL	HPCL	BPCL	Comments
Refining and Marketing	Average	Weak	Strong	Among OMCs, BPCL has the best refining assets and the highest throughput per outlet. IOCL's refining supremacy over HPCL is due to its Koyali, Haldia, Panipat, and Paradip refineries.
Refining Cover	Strong	Average	Weak	IOCL continues to have the highest refining cover among OMCs; improvement for HPCL with expansion at MR and VR, and commissioning of HRRL. Expect a gradual decline for BPCL as Bina expansion is not sufficient.
Pipeline and Petchem	Average	Strong	Weak	HPCL is expected to have the highest petchem intensity, IOCL would maintain the biggest portfolio and BPCL is expected to lag.
CGDs, E&P and Renewables	Strong	Weak	Average	IOCL is best placed as it has the highest number of retail outlets and large-scale project management capabilities. Similar to IOCL, BPCL has a strong presence in CGDs and E&P while HPCL lags.
Dividend Cover and Leverage	Strong	Average	Weak	IOCL is superior to HPCL on both dividend cover and leverage profile. BPCL would need to borrow in FY28-29E given massive capex for Bina expansion and other projects.
Earnings Trajectory	Weak	Strong	Average	19%/10%/9% EPS CAGR in FY25-30E for HPCL/BPCL/IOCL.
RoCE Trajectory	Weak	Strong	Average	15%/13%/9% pre-tax RoCE in FY25-30E for HPCL/BPCL/IOCL.
Valuation	Weak	Average	Strong	IOCL is trading at near long-term average and BPCL at a discount.

Source: Company, Ambit Capital research. Note: Strong – 3, Average—2 and Weak – 1

Exhibit 14: We prefer OMCs (HPCL>IOCL>BPCL) followed by ONGC>GGas; SELLers on the remaining (GAIL>MGL>IGL>PLNG>RIL)

Particulars	Rating	CMP/TP (₹/share)	TSR (%)	Thesis
OMCs				
HPCL	BUY	505/650	32%	After investments in both legacy refineries and a new refinery and petrochemical complex at Barmer, we believe HPCL is poised to emerge stronger with higher GRMs and higher distillate yield as well as improved refining cover and return profile.
IOCL	BUY	159/200	30%	Huge refining portfolio will boost earnings in above mid-cycle refining margin scenario while strong refining cover provides safety during high crude prices. While earnings are expected to increase, return would be under pressure given high capex.
BPCL	BUY	580/750	31%	BPCL is best among OMCs on refining utilization, distillate production and throughput per outlet. However, huge capex would impact FCF profile and will lead to borrowings.
Gas Utilities				
GAIL	SELL	195/170	-10%	Improved performance in the utility business would be earnings accretive. However, lower profitability from non-utility would continue to cap overall earnings. Apart from this, high capex would put pressure on FCF and dent return ratios.
PLNG	SELL	287/220	-20%	Due to petchem and multiple ongoing projects, FCF would be negative from FY27-30E and put pressure on leverage and dividends. We believe that pre-tax RoCE of petchem project is around 5% in the initial years, and there are multiple risks due to complexity and lack of experience. This would be exaggerated because of lower utilization for incremental Dahej capacity and Kochi terminal.
IGL	SELL	448/400	-9%	New GAs should drive growth in both CNG and PNG volumes. However, slowdown in NCT and pressure on margins would keep earnings suppressed.
MGL	SELL	1310/1250	-2%	The company has started focusing on volumes and hence we expect higher volume CAGR. However, lack of attractive GAs and reversion of margins to historical average remain challenges.
GGas	BUY	548/650	20%	GGas is India's largest CGD retailing gas company. The company suffered the most because of the Russia-Ukraine war. However, we expect a revival now. Unlike the other two CGDs, GGas is expected to perform well on both volume and margins.
ONGC	BUY	247/320	30%	Near-term boost is due to KG-D5 production ramp-up while long-term growth would be driven by increasing focus on domestic operations after the Russia-Ukraine war. We expect 47.3 MMToe FY27E production vs 41.8 MMToe in FY24. Also, we are confident of strong oil and gas prices.
Diversified				
Reliance	SELL	2839/2238	-21%	RIL's revenue growth from consumer businesses is slowing despite increased support from standalone operations. It is unable to achieve non-linear scalability/success with digital revenue streams for Jio and new commerce for retail. So we don't see the company pulling off any surprises with consumer IPO valuations.

Source: Company, Ambit Capital research. Note: TSR stands for Total Shareholders Return

OMCs' refining competitiveness to remain high

Global refined oil product markets are on track to remain balanced until the end of the decade given a strong demand outlook (4.1mb/d net increase over 2023-28) with limited refinery additions (4.4mb/d net addition in the same period), Chinese policy toward refined product exports, and largely stagnant Russian supply. Hence, we increase our Singapore GRM estimates from US$5.5/bbl to US$6.0/bbl for FY25-27E and US$6.0/bbl to US$7.0/bbl for FY28-34E. Indian refining capacity is expected to increase by 20% to 310MMtpa over the next five years to accommodate the country's rising demand for petroleum products. Unlike past expansion, OMCs would be at the forefront this time and are expected to add ~67% of incremental capacity. Traditionally, OMCs are better vs. other Asian refiners due to superior product yield and consistent improvement in operational efficiency. Since Feb-22, they have been supported by benefits of discounted Russian crude which we expect to continue at recent level of US$2-4/bbl. Considering all these, we increase our estimates for OMC GRMs by 6-8%.

Refining's storm passes but market to remain balanced

Near-term to medium-term demand outlook remains robust...

Despite uncertainties related to global economic outlook and increasing usage of renewable sources of energy, overall oil and liquid demand is expected to increase by 5.9mb/d in 2022-28. Of this, 1.8mb/d would be met through biofuels and NGL (Natural Gas Liquids) fractionation plants, leaving 4.1mb/d to be met through refined oil products.

Exhibit 15: IEA projects 2-5% CAGR for key oil products in 2022-28; overall annual demand increase of 680kb/d for oil refined products

Particular (mb/d)	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2022-28 Growth Rate	2022-28 Growth
LPG/Ethane	13.2	13.2	13.8	14.2	14.4	14.6	14.8	15.1	15.5	15.9	1.9%	1.7
Naphtha	6.6	6.4	6.9	6.8	7.0	7.4	7.8	8.0	8.2	8.3	3.4%	1.5
Gasoline	26.7	23.7	25.6	26.0	26.6	26.6	26.6	26.4	26.1	25.8	-0.2%	-0.3
Jet/Kerosene	8.0	4.7	5.2	6.2	7.3	7.5	7.6	7.9	8.0	8.2	4.7%	2.0
Gasoil/Diesel	28.3	26.1	27.5	28.3	28.4	28.5	28.7	28.7	28.8	28.9	0.4%	0.6
Residual fuel oil	6.2	5.6	6.2	6.5	6.7	6.7	6.7	6.7	6.7	6.7	0.4%	0.2
Other products	11.8	11.9	12.2	11.8	11.9	11.9	11.9	12.0	12.0	12.0	0.3%	0.2
Total products	**100.7**	**91.7**	**97.5**	**99.8**	**102.3**	**103.1**	**104.1**	**104.8**	**105.3**	**105.7**	**1.0%**	**5.9**
Annual change	*0.6*	*-9.0*	*5.8*	*2.3*	*2.4*	*0.9*	*1.0*	*0.7*	*0.5*	*0.4*		

Source: IEA's Oil Report 2023, Ambit Capital research

...while net refining capacities additions are just matching demand...

Net refinery capacity growth rebounded in 2022-23 after the first fall in 30 years in 2021 and almost nil additions in 2020. More than 6.0mb/d of new crude distillation capacity is scheduled to be completed during 2022-28. At the same time, 1.6mb/d capacity is slated to shut, leaving a 4.4mb/d net increase.

- Around 3.3mb/d net refinery capacity growth is located east of Suez.
  - China contributes 1.5mb/d or 34% to net global additions through 2028. The Middle East adds 900kb/d, while Other Asia adds 1.1mb/d. India also accounts for a significant share of the increase, with a net add of 1.0mb/d, of which 880kb/d are expansion projects.
  - The addition of several world class refineries underpins China's capacity increase, which has the flexibility to produce both oil products and petrochemical feedstock. The Yulong Petrochemical (2025), the Saudi Aramco/Norinco Panjin (2026) and Sinopec Zhangzhou (2027) will each boost capacity by more than 300kb/d each. In the case of India, new capacity comes mostly from expansions at existing sites, with only 180kb/d Barmer greenfield project coming online.
- By contrast, the Atlantic Basin is expected to add only 1.1mb/d net capacity.

- Start-up of two world-scale refineries in Nigeria (650kb/d) and Mexico (340kb/d), plus expansion of ExxonMobil's Beaumont refinery (+250kb/d) and the completion of first and second train of RNEST refinery in Brazil (+160kb/d).

- Al Zour refinery in Kuwait, Dos Bocas refinery in Mexico, Exxon's Beaumont expansion, and the first train (+15kb/d) of RNEST refinery in Brazil have already started operations in 2023, and are now producing at near peak capacity. In the case of Nigeria, the refinery has started operations but peak is expected in 2024/2025.

Exhibit 16: Regional refinery capacity and utilization 2022-2028; net refining capacity to increase at an annual rate of 730kb/d and about 55% from China and India

Particular	2022	2028	Change	2022	2028	Change	2022	2028
	Total capacity (mb/d)			Refinery throughput (mb/d)			Utilization rate	
U.S.	17.7	17.6	-0.1	15.9	15.2	-0.8	90%	86%
Other North America	3.4	3.8	0.3	2.6	2.8	0.2	74%	73%
Europe	14.6	14.3	-0.2	12.2	11.4	-0.8	84%	80%
FSU	9.1	9.2	0.2	6.5	6.3	-0.2	72%	68%
China	18.2	19.7	1.5	13.7	16.5	2.9	75%	84%
India	5.2	6.2	1.0	5.1	6.2	1.1	98%	100%
Other Asia	14.6	14.5	-0.1	11.0	11.0	0.0	76%	76%
Middle East	10.5	11.4	0.9	8.5	9.8	1.3	80%	86%
Latin America	6.1	6.3	0.2	3.6	3.7	0.1	58%	58%
Africa	3.2	4.0	0.8	1.8	2.4	0.6	55%	60%
World	**102.6**	**107.1**	**4.5**	**80.8**	**85.2**	**4.4**	**79%**	**80%**
Atlantic Basin	**54.2**	**55.3**	**1.1**	**42.4**	**41.5**	**-0.9**	**78%**	**75%**
East of Suez	**48.4**	**51.7**	**3.3**	**38.4**	**43.7**	**5.3**	**79%**	**84%**

Source: IEA's Oil Report 2023, Ambit Capital research

Based on the above discussion, net refinery capacity additions will average 730kb/d per year during 2023-28, on par with historical averages. This is slightly higher vs. refined oil products' demand growth of 680kb/d during the same period.

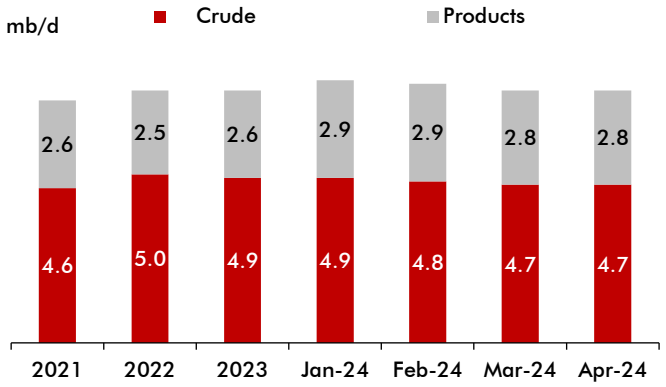
- In our view, the refined oil products market is largely balanced despite a marginal mismatch between demand and supply growth as we expect refiners to adjust utilization.

- We also believe that refining sector's capital discipline approach is not expected to reverse despite 2022-23's record middle and light distillate cracks to justify capacity additions.

...no supply surprises expected from Russia and China...

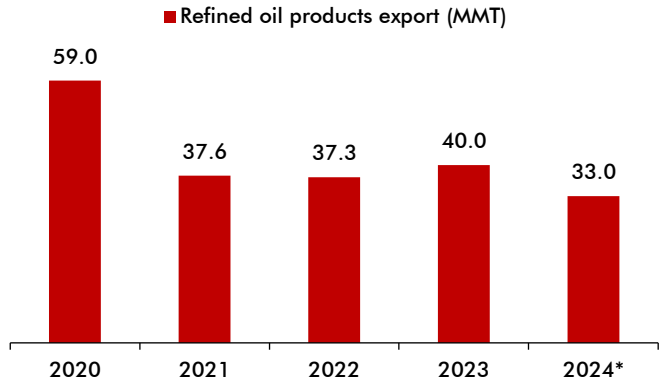
The impact of Western sanctions and price cap on Russian crude oil and refined products exports are almost nil. Despite this, Russian volumes doesn't have further scope to grow due to impact on investments in oil & gas sector in the country as well as OPEC+ production cut commitments. Change in Chinese policy over refined products export quotas also resulted in supply tightness in recent times. In 2HCY21, China began tightening refined products export quotas it sets for its domestic refiners, cutting total 2021 quotas by 36% vs. 2020. After that, volumes remained at almost same level in 2022-2023 despite highly attractive refining market. We expect largely stagnant exports in future in line with the government's long term policy stance, though sudden changes in policy in one period could increase volumes, albeit temporarily.

Exhibit 17: Russian crude oil and oil product exports; no upside left given investment concerns and OPEC+ production commitments



Source: IEA, Ambit Capital research. Note: Monthly average for 2021, 2022, and 2023

Exhibit 18: Despite unprecedented margins, China exported limited oil products in 2022-23 and is expected to maintain the same volumes

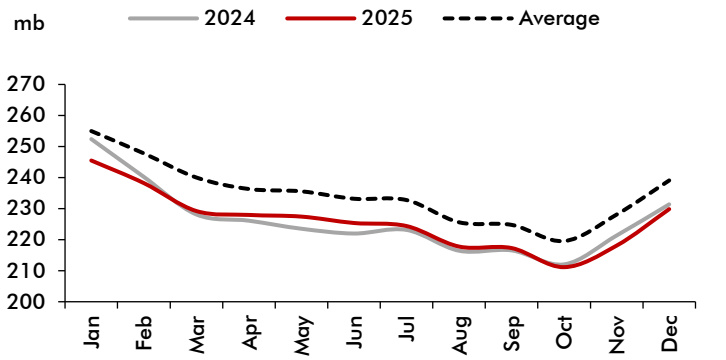


*Source: Reuters, Bloomberg, Ambit Capital research. Note: * only 1st and 2nd batch have been considered, and China will also declare 3rd batch for 2024*

...inventories are below historical average in all major geographies

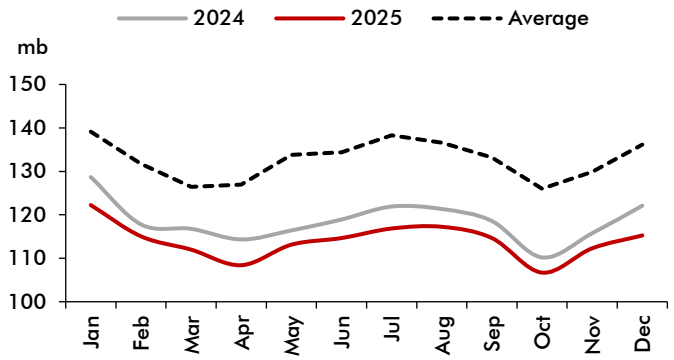
EIA expects both gasoline and gasoil inventories to be lower vs. the last 5-year average in the U.S. until the end of 2025, indicating continuous tightness in the market. The gasoline market looks more tight in 2024 and gasoil from Oct-2024 to the end of 2025.

Exhibit 19: U.S. gasoline inventories expected to be lower in 2024-25 vs the average in 2019-23...



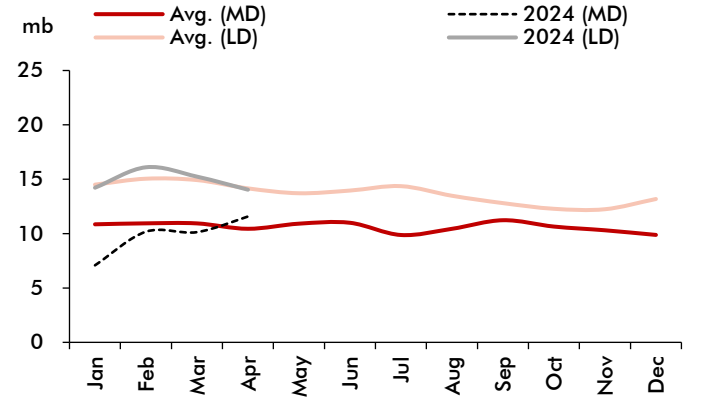
Source: EIA's STEO May-24, Ambit Capital research. Note: Estimates from May-24 onwards, and average of 2019-2023

Exhibit 20: ...and the same is the case for gasoil inventories; 2025 looks tighter



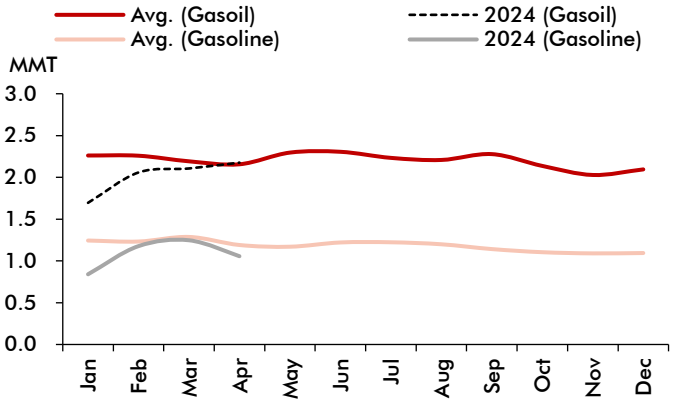
Source: EIA's STEO May-24, Ambit Capital research. Note: Estimates from May-24 onwards and average of 2019-2023

xhibit 21: Singapore: Middle distillate inventories were igher vs. last 5-year average in Apr-24 while light distillate s near 5-year average



ource: Bloomberg, Ambit Capital research. Note: Average of 2019-2023

Exhibit 22: Europe: Gasoline inventories were lower vs. last 5-year average in Apr-24 while gasoil is near 5-year average

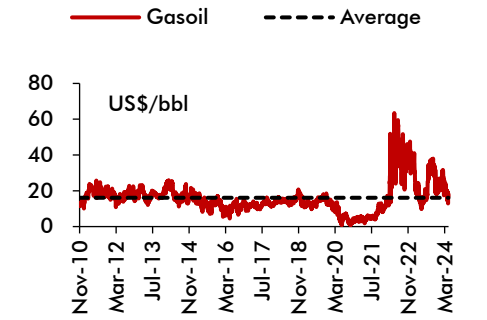


Source: Bloomberg, Ambit Capital research. Note: Average of 2019-2023

FY23 refining spike…

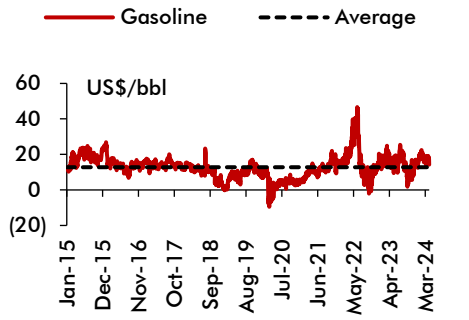
CY22 saw a series of unprecedented events disrupting demand and supply patterns and leading to an extremely tight global oil products market. After a sharp collapse in demand due to COVID-19, a stronger-than-expected demand rebound came at a time when the refining industry was aggressively trimming its asset footprint. In addition, the invasion of Ukraine and subsequent sanctions on Russian crude and product exports added to global market tightness already under way and pushed product prices to new highs.

Exhibit 23: Singapore Dubai Gasoil cracks (US$/bbl); long-term average is US$16/bbl



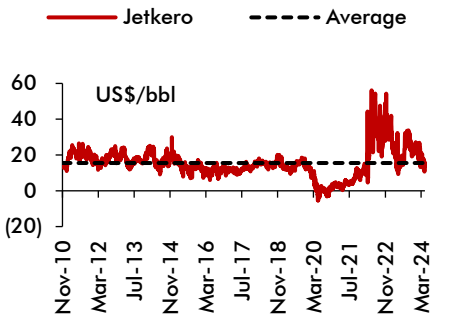
Source: Bloomberg, Ambit Capital research

Exhibit 24: Singapore Dubai Gasoline cracks (US$/bbl); long-term average is US$13/bbl



Source: Bloomberg, Ambit Capital research

Exhibit 25: Singapore Dubai Jetkero cracks (US$/bbl); long-term average is US$16/bbl



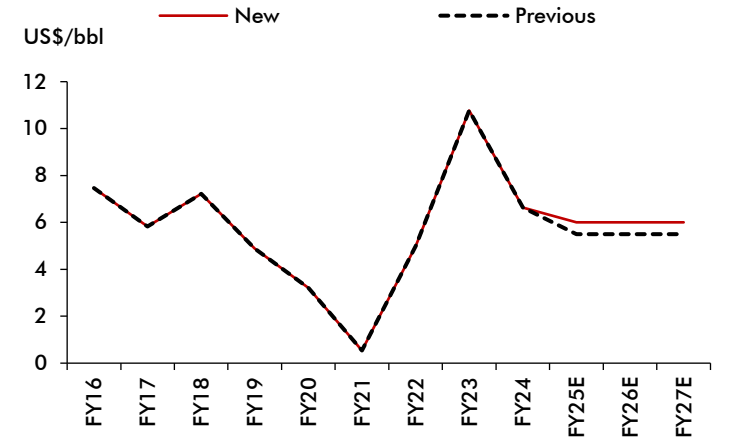
Source: Bloomberg, Ambit Capital research

…moderated sharply in FY24 but remain near average

We expect refining margins continue to be near historical averages based on the factors highlighted above – balanced market, lower inventories, limited incremental volumes from Russia and China, and uncertainties associated with refining capacity commissioning. Hence, we increase our Singapore GRMs estimate from US$5.5/bbl to US$6.0/bbl for FY25-27E.

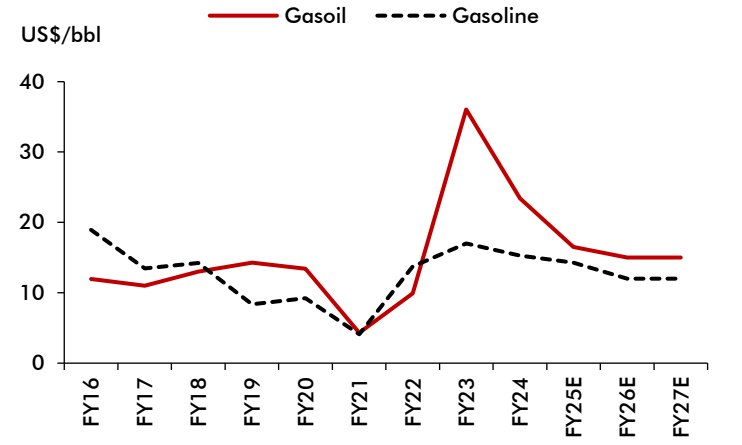
We increased our long-term Singapore GRMs estimates from US$6.0/bbl to US$7.0/bbl due to expectations of peak oil demand after 2030 while no major refinery projects after 2028.

Exhibit 26: Singapore Dubai GRMs; we increase our estimate for FY25-27E from US$5.5/bbl to US$6.0/bbl



Source: IOCL, Bloomberg, Ambit Capital research

Exhibit 27: Gasoil cracks raised to US$16/bbl vs. US$15/bbl for FY25-27E; gasoline at US$13/bbl vs. US$12/bbl



Source: Bloomberg, Ambit Capital research

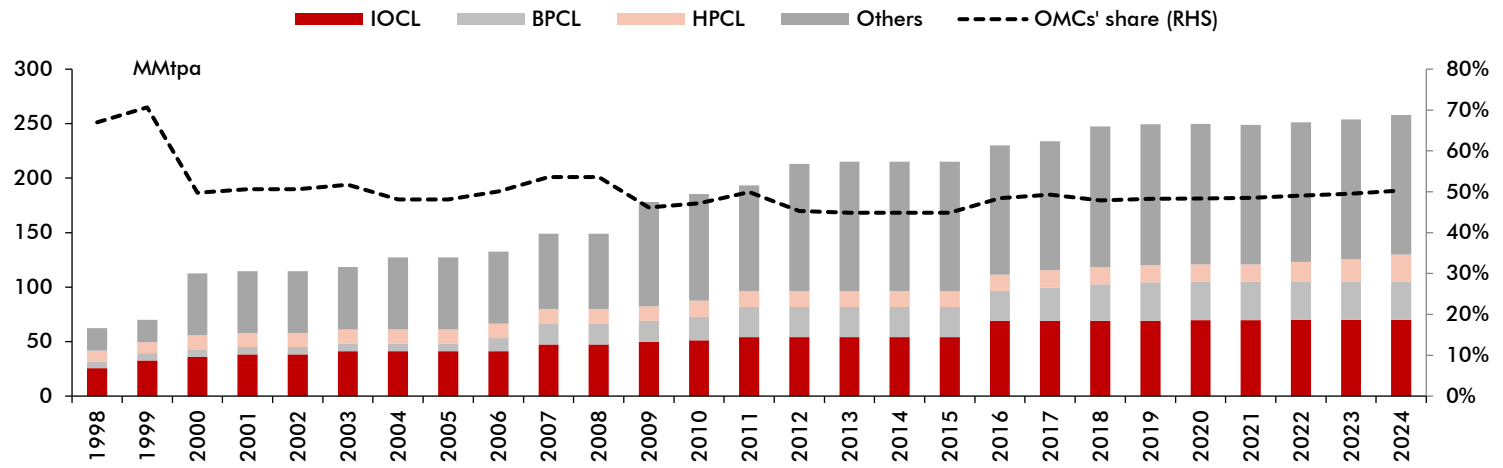
Indian refiners continue to expand given increasing demand

Both OMCs and private players added refining capacity in the last 25 years...

The Indian refining industry has established itself as a major player globally and refining capacity in the country exceeds domestic demand.

- India has witnessed a spectacular growth in the refining sector over the years. The country's refining capacity increased from a modest 62MMtpa in 1998 to 258MMtpa in 2024, a CAGR of 6%.
- OMCs' capacity increased at a CAGR of 4% from 42MMtpa to 130MMtpa; however, their share in India's total refining capacity reduced to 50% from 67%. Despite this, IOCL remains the largest refiner in the country.
- From nil capacity in 1998, RIL added 68MMtpa and became the second largest refiner. During the same time, NEL added 20MMtpa refining capacity.

Exhibit 28: India's refining capacity expansion over the years – 6% CAGR in FY98-24 and both OMCs and private players made significant additions



Source: PPAC, Ambit Capital research. Note: Capacity as on 1st April of respective year

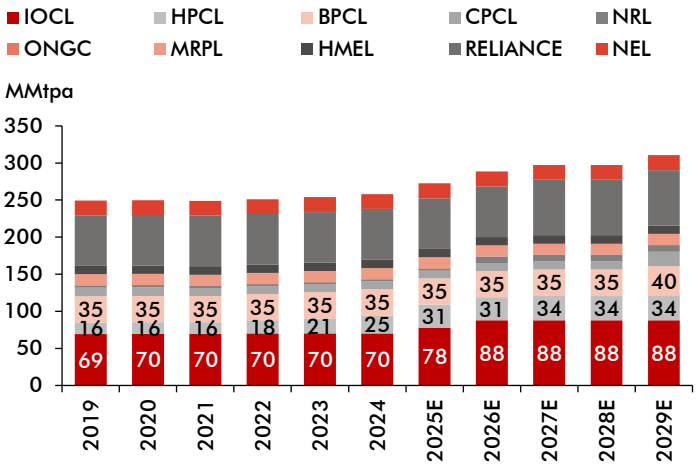
...now OMCs would be at forefront...

India will be one of the few countries to witness refining capacity growth over the next few years. India's refining capacity increased by 4MMtpa in the last one year because of HPCL's Vizag refinery expansion, and stands at 258MMtpa in 2024. On the basis of announced projects, we expect capacity to increase by 53MMtpa and reach 310MMtpa in 2029. About 84% will be through brownfield expansion as there is construction of only one new refinery, in Barmer, Rajasthan (HRRL).

- **Indian Oil Corporation Limited:** The company has plans to increase its refining capacity from 70.1MMtpa to 87.9MMtpa at the standalone level. IOCL (75% stake) is also constructing a 9MMtpa refinery in Tamil Nadu with CPCL and expects completion in 2028. With the completion of the expansion, petchem capacity is expected to increase from 4.1MMtpa to 5.5MMtpa at the consolidated level. The company has received stage 1 approval for a petrochemical plant at Paradip refinery in Odisha. We haven't considered the same yet as the final approval is pending.
- **Bharat Petroleum Corporation Limited:** Expansion at Bina refinery would increase its throughput capacity to 12.0MMtpa from 7.8MMtpa by May-28. Overall petchem capacity is expected to be 2.8MMtpa (from 0.3MMtpa currently) after the Bina refinery expansion.
- **Hindustan Petroleum Corporation Limited:** The company completed expansion at both Mumbai and Vizag refineries in the last 2 years. HPCL is expected to start the Rajasthan refinery (HRRL) by Jan-25 and commissioning of full capacity in 2027. Petchem capacity will be 4.6MMtpa after HRRL full capacity commissioning, including Punjab refinery (HEML).

- **Reliance:** Reliance has plans to increase crude oil to chemical (COTC) integration with ₹750bn capex. After this, petchem intensity would increase to 26% from 20% now.
  - 3MMtpa PTA plant and 1MMtpa PET plant at Dahej by 2026.
  - 1MMtpa PFY and PSF expansion by 2026.
  - 1.5MMtpa PVC expansion at Dahej and Jamnagar by 2026.
  - Addition of capacities to make EDC and PVC at Ruwais.
  - Carbon fibre plants at Hazira with a capacity of 20,000mtpa based on acrylonitrile feedstock. Targets to be among the top three players globally in carbon fibre and carbon fibre reinforced plastics composites.

Exhibit 29: India's refining capacity to increase by 20% between 2024-29; 67% from OMCs and 12% from RIL



Source: PPAC, Company, Ambit Capital research. Note: Capacity as on 1st April of respective year and HPCL includes HRRL while CPCL includes Cauvery refinery

Exhibit 30: Details of refining expansion projects - IOCL to contribute 47% of new refining capacity additions

Name of the company	Location	Increase in capacity (MMtpa)
IOCL	Digboi	0.350
IOCL	Guwahati	0.200
IOCL	Koyali	4.300
IOCL	Barauni	3.000
IOCL	Panipat	10.000
HRRL	Barmer	9.000
BPCL	Bina	4.200
NRL	Numaligarh	6.000
CPCL	Cauvery Basin	9.000
Reliance	Gujarat	6.500
Total	**India**	**52.550**

Source: PPAC, Company, Ambit Capital research

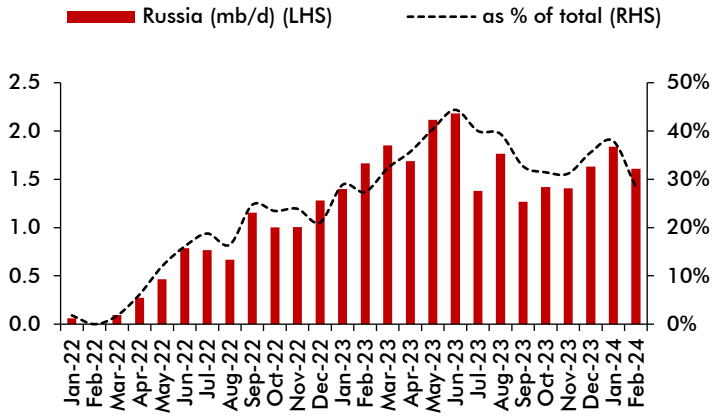
Multiple structural benefits for Indian refiners

Crude sourcing is a huge new advantage...

Apart from the favourable drivers highlighted above, Indian refiners would continue to benefit from usage of discounted Russian crude.

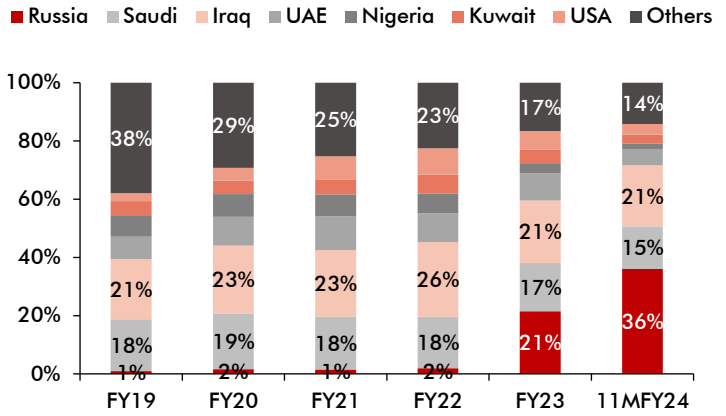
- Russia used to contribute about 1% to India's total crude oil imports before the invasion of Ukraine in Feb-22. After the war started, Russian crude share increased sharply and contributed 21%/36% to India's total crude oil imports in FY23/11MFY24.
- Due to higher Russian crude imports, the share of traditional partners like Saudi Arabia, Iraq and UAE decreased marginally. However, this significantly impacted small partners like Nigeria, Kuwait and others.

Exhibit 31: Russian crude imports remain inconsistent due to multiple factors...



Source: Ministry of Commerce, Ambit Capital research

Exhibit 32: ...however, contributed 36% in 11MFY24, and we expect a similar share in the near to medium term

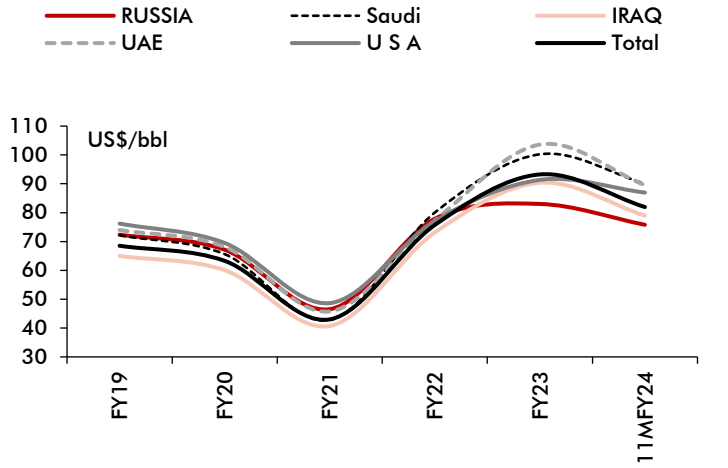


Source: Ministry of Commerce, Ambit Capital research

Iraq used to be the lowest-cost supplier to India until FY22 due to geographical proximity, heavy crude grades, and trade relationship between the countries. There was largely no difference in landing costs of other countries' crude but this changed dramatically after the Russia-Ukraine war and Russia becoming the lowest cost supplier to India.

- Landing cost of Russian crude was US$88/bbl in FY23, while for other countries it was US$97/bbl. The benefit continues in 11MFY24. Russian crude was about US$8/bbl cheaper vs rest of the world.
- To protect market share, both Iraq and UAE were willing to offer discounts as well as longer credit periods to Indian refiners.

Exhibit 33: Iraq used to be the cheapest source until FY22 and largely no difference in other countries; Russia-Ukraine war changed this...



Source: Ministry of Commerce, Ambit Capital research. Note: Data is for landing costs on Indian shores

Exhibit 34: ...and Russia became the lowest-cost supplier, but benefits reduced in recent months; we expect Russian discount to continue at recent level of US$2-4/bbl

Source: Ministry of Commerce, Ambit Capital research

...BPCL has best refining assets among OMCs; improvement at all three...

- Indian refiners are more competitive than other Asian players due to high complexity index. While Reliance has the best refining assets in the country with Nelson Complexity Index (NCI) of 21, BPCL ranks the highest among OMCs. The refineries at Mumbai and Kochi are located near the coast, which provides an advantage in terms of saving transportation costs. Bina is in a strategic location and acts as a lifeline for meeting the demand of markets in the central region.

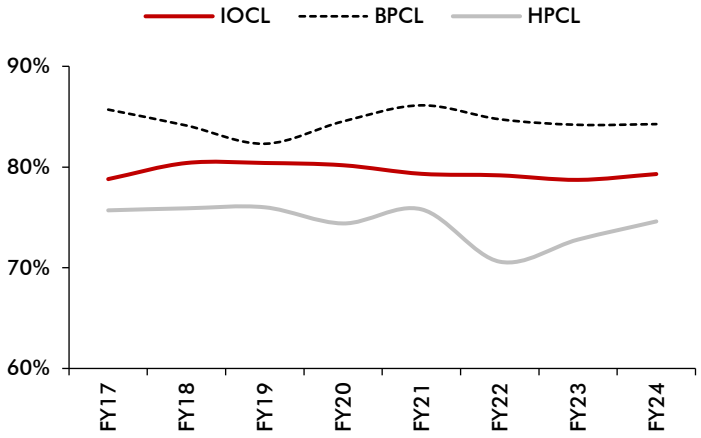
Exhibit 35: Nelson Complexity Index (NCI) highest for BPCL followed by IOCL>HPCL; expected to increase for HPCL after Vizag's bottom upgradation

Company	Refinery Location	Year of Commissioning	NCI	Capacity (MMtpa)
IOCL	Digboi	1901	7.6	0.7
	Guwahati	1962	8.4	1.2
	Barauni	1964	6.1	6.0
	Koyali	1965	9.0	13.7
	Bongaigon	1979	8.4	2.7
	Haldia	1975	9.9	8.0
	Mathura	1982	7.2	8.0
	Panipat	1998	9.4	15.0
	Paradip	2016	10.8	15.0
	Overall		**9.1**	**70.3**
HPCL	Mumbai	1954	9.2	9.5
	Visakhapatnam	1957	7.6	13.7
	Overall		**8.3**	**23.2**
BPCL	Mumbai	1955	8.5	12.0
	Kochi	1963	10.9	15.5
	Bina	2011	11.8	7.8
	Overall		**10.3**	**35.3**

Source: Centre for High Technology, Ambit Capital research

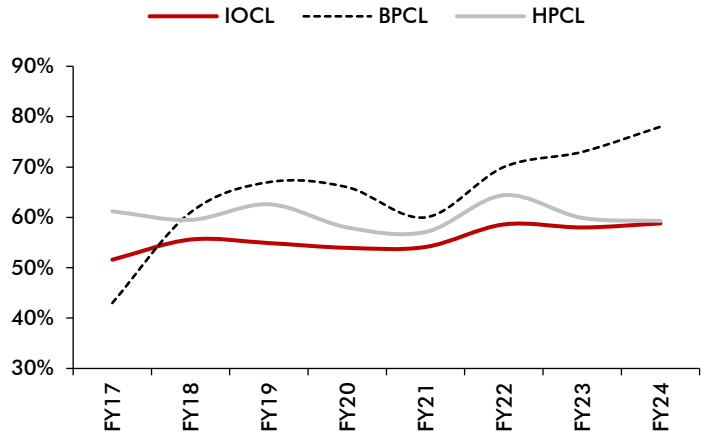
- OMCs have invested significantly in upgrading refining capabilities during the last 10 years. Distillate output has increased with these investments, and the OMCs can process a wider variety of crude, especially cheap high-sulphur crude.

Exhibit 36: BPCL has the highest distillate yield (%) followed by IOCL>HPCL; improvement expected for HPCL after Vizag bottom upgradation and HRRL commissioning



Source: Company, Ambit Capital research

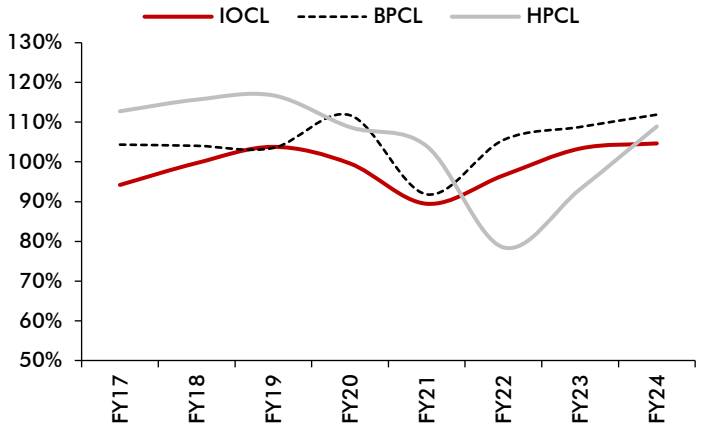
Exhibit 37: Sharp increase in heavy crude processing capabilities (%) for all three, highest increase for BPCL>IOCL; temporary problems for HPCL in FY23-24



Source: Company, Ambit Capital research

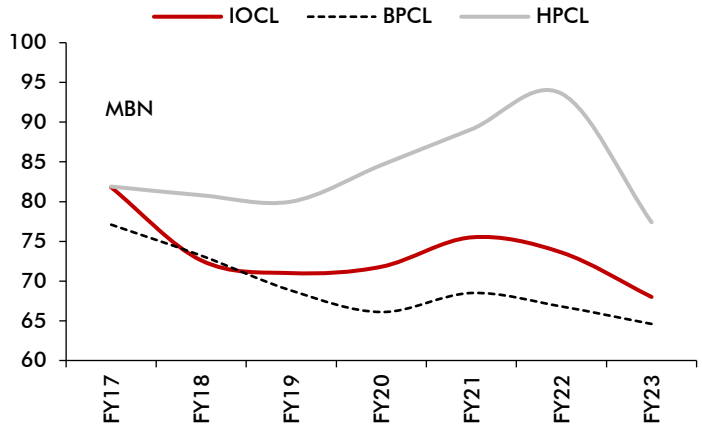
- Capacity utilisation for refineries of OMCs has been consistently high, indicating strong operating efficiency. Also, specific energy consumption has been declining, which highlights improved energy efficiency.

Exhibit 38: Refining utilization consistently around 100% for all three, BPCL>HPCL>IOCL



Source: PPAC, Ambit Capital research

Exhibit 39: OMCs' specific energy consumption; BPCL is the best followed by IOCL; improvement at HPCL in FY23



Source: Centre for High Technology, Ambit Capital research

...which are expected to benefit OMCs

OMCs' GRMs consistently outperformed Singapore GRMs due to superior product yield and improved operational efficiency. Outperformance increased sharply from FY23 on usage of discounted Russian crude.

- Initially, BPCL was the biggest beneficiary of discounted Russian crude due to superior Kochi and Bina refineries. The company sourced about 30-35% of its crude throughput from Russia; 40-45% for Kochi and Bina refineries, and 20% for the Mumbai refinery.
- In the case of IOCL, only the new refineries like Paradip, Panipat and Haldia can process Russian crude while it is difficult for older ones like Guwahati and others. However, the company increased Russian crude share in overall throughput from about 20% in FY23 to around 30% in FY24.
- HPCL's Russian crude processing capabilities would increase after Vizag bottom upgradation, and more benefits would accrue from FY25E.
- Based on recent trends as well as management commentary, Russian crude as a % of total throughput is expected to be about 30%/30%/25% for BPCL/IOCL/HPCL in the near to medium term.

Exhibit 40: Refining margins: OMCs consistently outperformed Singapore benchmark; we expect the trend to continue due to superior product yields as well as cheaper source of crude; we increase our GRM estimates by 6-8%

Particular (US$/bbl)	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Singapore GRMs	7.5	5.8	7.2	4.9	3.2	0.5	5.0	10.8	6.6	**6.0**	**6.0**	**6.0**
IOCL - S	5.1	7.8	8.5	5.4	0.1	5.6	11.3	19.7	12.0	**9.0**	**9.0**	**9.0**
BPCL - S	6.6	5.3	6.9	4.6	2.5	4.1	9.1	20.2	14.1	**10.0**	**10.0**	**10.0**
HPCL - S	6.7	6.2	7.4	5.0	1.0	3.9	7.2	12.1	9.1	**8.0**	**8.0**	**8.0**

Source: Bloomberg, Company, Ambit Capital research. Note: GRMs are on reported basis

Cheap crude = Greater marketing profitability

India will overtake China as the biggest driver of global oil demand as transportation and industry consumption will drive growth despite a big push for renewable energy. EIA expects India's crude consumption to reach 7.3mb/d in 2030 vs. 5.0mb/d in 2022, a CAGR of 5%. After struggling until FY17, OMCs have been maintaining market share in domestic petroleum products sales, and have plans to expand retail network by about 21k outlets (95% of total) in FY25-30E. This would allow them to tap the growing petroleum products' demand and regain some lost market share. We expect OMCs' marketing margins to improve gradually given declining crude prices; we increase our estimates by 3-9% for FY25-27E. The government would continue to intervene through excise from FY27E given lowering crude prices but would also allow OMCs to reap the benefits due to their capex requirements and increasing consumer purchasing power with rising GDP per capita. Unlike in the past, both refining and marketing segments are expected to be profitable and would lead to 13-26% higher integrated margins in FY25-27E vs. the last 7 years.

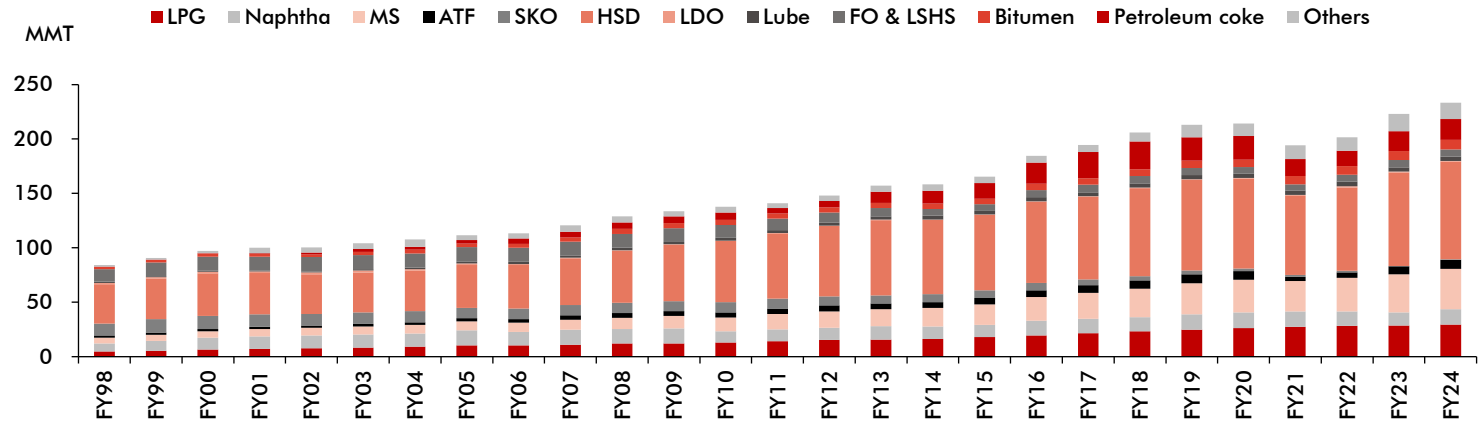
India to lead world oil demand growth

Consistent increase in consumption of petroleum products in the last 25 years...

India's domestic consumption of petroleum products increased from a meagre 84MMtpa in FY98 to 233MMtpa in FY24, a CAGR of 4%.

- Consumption of all petroleum products increased during the time period except SKO and FO. SKO registered an annual decline of 11% as consumers shifted to LPG, which grew at a CAGR of 7%.
- Petroleum coke saw the sharpest increase in consumption at a CAGR of 19%; however, it has been in declining mode since FY19 given environmental concerns.
- Transportation fuels' (MS, HSD, and ATF) share increased from 51% to 58%. While HSD maintains its dominance with market share of 38% (vs. 43%), MS's share increased sharply from 6% to 16% because of increased mobility demand and it is the second most consumed petroleum product now.

Exhibit 41: India's domestic petroleum products consumption grew at a CAGR of 4% in FY98-24; transportation fuels were the major contributor



Source: PPAC, Ambit Capital research

...largely same growth trend is expected to continue...

As per IEA, India is forecast to be the single largest source of global oil demand growth from 2023 to 2030, narrowly ahead of China. Underpinned by strong economic and demographic growth, the country is on track to post an increase in oil demand of almost 1.2mb/d, accounting for more than one-third of the projected 3.2mb/d global gains. Notably, India's additional demand will be more diversely spread across product categories than in other major economies. Only 18% of the country's demand growth will be for petrochemical feedstock use while globally this figure will be in excess of 90%, and in China virtually all net gains will be for chemical production.

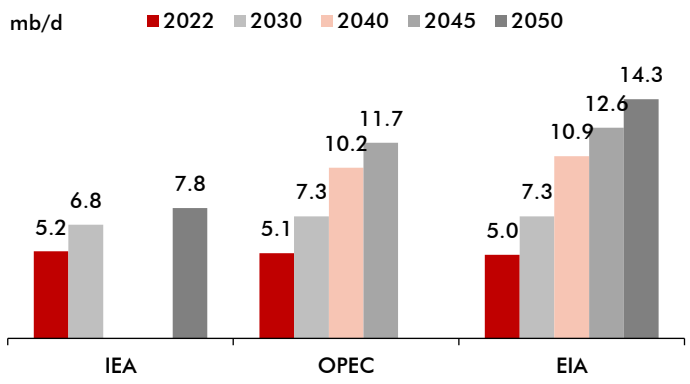
Exhibit 42: India's oil demand by product; diesel would be the largest contributor followed by LPG/Ethane

Particular (mb/d)	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2023-30 Growth
LPG/Ethane	0.8	0.9	0.9	0.9	0.9	1.0	1.0	1.0	1.0	1.1	1.1	1.1	0.2
Naphtha	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.1
Gasoline	0.7	0.7	0.8	0.9	0.9	0.9	1.0	1.0	1.0	1.0	1.0	1.0	0.0
Jet/Kerosene	0.2	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.1
Gasoil/Diesel	1.6	1.5	1.5	1.7	1.8	1.8	1.9	2.0	2.1	2.2	2.2	2.3	0.5
Residual fuel oil	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.0
Other products	1.1	1.0	1.0	1.1	1.2	1.2	1.2	1.2	1.2	1.3	1.3	1.3	0.2
Total products	**5.0**	**4.6**	**4.9**	**5.3**	**5.5**	**5.7**	**5.9**	**6.0**	**6.2**	**6.3**	**6.5**	**6.6**	**1.2**

Source: IEA, Ambit Capital research

No major difference in forecasts of all three major agencies until 2030 even as IEA differs sharply after that from the other two. Both IEA and OPEC have hidden motives w.r.t. sources of energy, hence we rely more on EIA. The U.S. agency expects India's oil demand to increase at a CAGR of 4% over 2022-50.

Exhibit 43: India's oil demand forecast by three major agencies; we rely on EIA which expects a CAGR of 5% over 2022-2030



Source: IEA, OPEC, EIA, Ambit Capital research. Note: IEA forecast under stated policies scenarios and blank indicates no forecast for the respective period by a particular agency

Exhibit 44: India's share in world oil demand is expected to be about 7%/10%/12% in 2030/2040/2050 vs. 5% in 2022 as per EIA; this is due to increasing energy demand in the country

Particular	2022	2030	2040	2045	2050
World oil demand (mb/d)					
IEA	96.5	101.5			97.4
OPEC	99.6	112.0	115.4	116.0	
EIA	99.1	105.5	112.1	116.7	121.5
India as % of total					
IEA	5.4%	6.7%			8.0%
OPEC	5.1%	6.5%	8.8%	10.1%	
EIA	5.0%	6.9%	9.7%	10.8%	11.8%

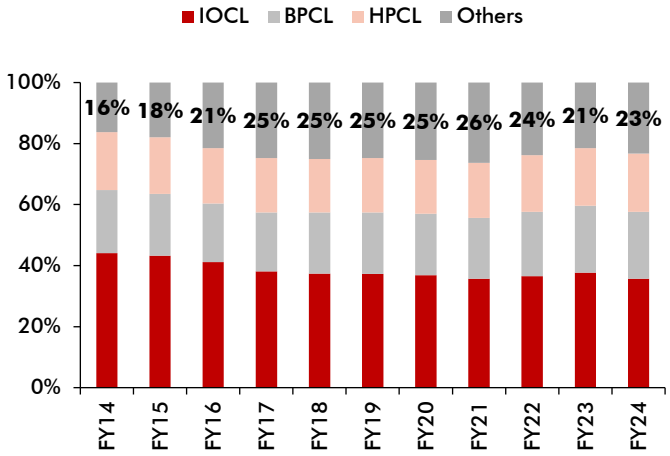
Source: IEA, OPEC, EIA, Ambit Capital research. Note: IEA forecast under stated policies scenarios and blank indicates no forecast for the respective period by a particular agency

…and OMCs would remain main marketers

OMCs were able to defend their market share in transportation fuels while private players made a big impact on other fuel categories. This was mainly due to purchase of lubricants, petcoke and other products directly by the end-user industry. Due to this, OMCs consistently lost market share until FY17, with largely no change after that.

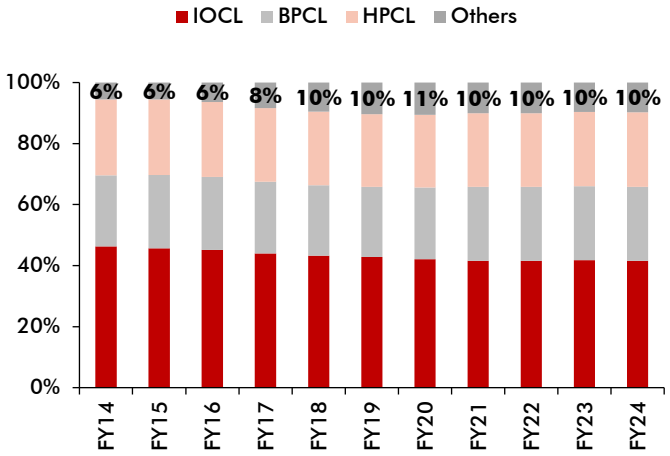
- Sale of transportation fuels and LPG increased while it came under pressure for petcoke, lubes and FO. This was the prime reason for OMCs' protection of market share since FY17.
- Despite leadership, OMCs maintained continued aggressive retail outlet expansion to cover underpenetrated areas. All three added about 27k retail outlets in FY18-24; around 88% of total new additions.

Exhibit 45: OMCs have been maintaining market share in the sale of overall petroleum products in the domestic market since FY17...



Source: PPAC, Company, Ambit Capital research. Note: Only domestic consumption of petroleum products have been considered

Exhibit 46: ...as they maintained largely the same share in retail outlets; OMCs' share would increase as they are still expanding marketing infrastructure unlike private players



Source: PPAC, Company, Ambit Capital research

We believe that obviously underpenetrated areas have been covered and competition will intensify hereon. Private players and OMCs are now attempting to differentiate with new ROs acting as energy centres with multiple fuel options, viz. MS/HSD, CNG, EV charging infrastructure and convenience retail. In our view, OMCs would continue to maintain their dominance as they are focusing on all sources of energy at their retail outlets and also targeting retail footprint expansion.

- India's domestic petroleum products consumption would increase from 233MMtpa in FY24 to 287MMtpa in FY30E, and this would be mainly driven by transportation fuels and LPG. During the same period, OMCs' share would reach 78% from the current 77%.
- During the last 7 years, the nation added 30.5k retail outlets and we expect the trend to continue (expected addition of 21.9k retail outlets in FY25-30E).

Exhibit 47: OMCs expected to expand retail network by about 21k outlets (95% of total) in FY25-30E to tap growing demand, and this would also help them regain some lost market share

Particular	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E
Petroleum products demand (MMT)												
IOCL	79.5	79.0	69.4	73.7	84.0	83.3	86.2	89.2	92.4	95.6	98.9	102.4
BPCL	43.1	43.1	38.7	42.5	48.9	51.0	53.1	55.2	57.4	59.7	62.1	64.6
HPCL	37.9	37.8	35.2	37.5	42.2	44.7	46.5	48.3	50.2	52.3	54.3	56.5
Overall India	**213.2**	**214.1**	**194.3**	**201.7**	**223.0**	**233.3**	**241.4**	**249.9**	**258.6**	**267.7**	**277.1**	**286.8**
OMCs' share	**75.3%**	**74.7%**	**73.7%**	**76.2%**	**78.5%**	**76.7%**	**76.9%**	**77.1%**	**77.3%**	**77.5%**	**77.7%**	**77.9%**
Retail outlets												
IOCL	27,702	29,085	32,062	34,559	36,285	37,473	38,973	40,473	41,973	43,173	44,373	45,573
BPCL	14,802	16,234	18,637	20,063	21,031	21,840	23,040	24,240	25,440	26,440	27,440	28,440
HPCL	15,440	16,476	18,634	20,025	21,186	22,022	23,022	24,022	25,022	26,022	27,022	28,022
Overall India	**64,625**	**69,089**	**77,095**	**83,027**	**86,855**	**90,084**	**93,984**	**97,884**	**101,784**	**105,184**	**108,584**	**111,984**
OMCs' share	**89.7%**	**89.4%**	**89.9%**	**89.9%**	**90.4%**	**90.3%**	**90.5%**	**90.7%**	**90.8%**	**90.9%**	**91.0%**	**91.1%**

Source: PPAC, Company, Ambit Capital research. Note: Only domestic consumption of petroleum products have been considered

Structural decline in crude is the big positive

Both crude and refining cracks are major drivers of marketing margins...

Refining cracks are determined by demand and supply of individual products, while OMCs' gross marketing margins (GMM) are dependent on crude prices, refining cracks, and retail selling prices of refined products.

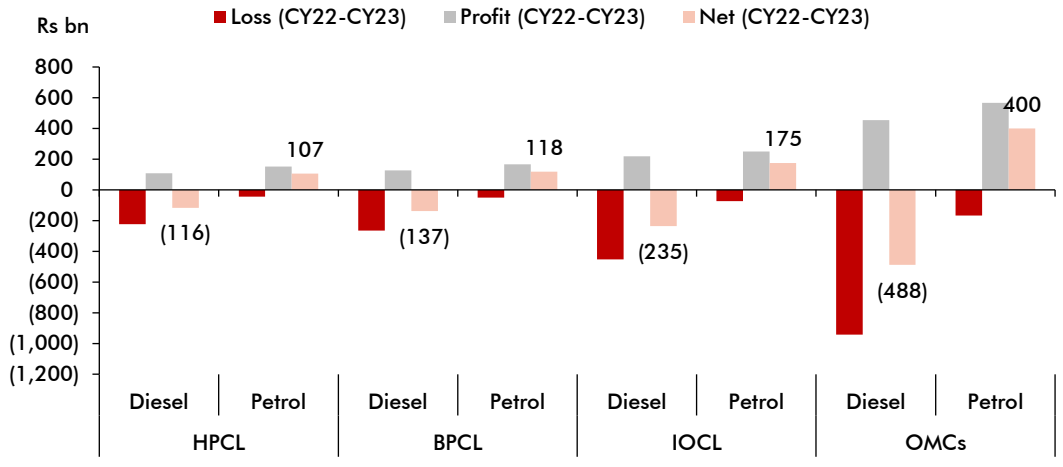
Exhibit 48: Crude prices and product cracks are major determinants of OMCs' GMM, and both have negative correlation with OMCs' GMM

Particular	Brent (US$/bbl)	Gasoil crack (US$/bbl)	Gasoline crack (US$/bbl)	GMM (₹/L)	Diesel Margin (₹/L)	Petrol Margin (₹/L)
2HFY18	64.3	13.6	13.7	2.3	2.3	2.4
1HFY19	74.9	14.2	12.0	1.9	2.1	1.5
2HFY19	65.4	14.3	4.8	4.9	4.8	5.1
1HFY20	65.1	14.0	9.0	3.3	3.8	2.2
2HFY20	56.8	12.9	9.7	4.2	4.7	3.0
1HFY21	37.2	4.7	2.5	9.3	9.4	9.0
2HFY21	52.5	3.9	5.7	4.3	3.6	5.8
1HFY22	70.8	5.3	11.2	3.9	4.6	2.3
2HFY22	89.2	14.4	16.2	2.3	2.6	1.5
1HFY23	106.2	39.7	22.0	(10.0)	(12.8)	(3.5)
2HFY23	84.9	32.4	12.1	1.8	(1.6)	9.7
1HFY24	82.4	21.7	16.8	6.2	5.0	8.8
2HFY24	83.7	25.0	14.0	3.3	1.2	8.2

Source: Bloomberg, IOCL, Ambit Capital research

Due to double whammy of high crude prices & refining cracks and stagnant retail fuel prices, OMCs incurred huge losses in overall marketing segment in CY22. However, they recovered in CY23 due to energy market normalization and unchanged retail fuel prices. Excluding LPG subsidy, OMCs marketing segment gross profitability was ₹600bn in CY22-23. The recovery was due to petrol and other products except diesel which remained under pressure even in CY23 due to higher gasoil cracks.

Exhibit 49: Aggregate under-recoveries of ₹89bn for petrol and diesel in CY22-CY23; the overall marketing segment is profitable



Source: PPAC, Bloomberg, Company, Ambit Capital research. Note: Figures are at gross level

...as well as regulations but intervention only during extremes

The Indian domestic fuel retail business has come a long way. The Indian government took a bold step to deregulate petrol (in June 2010) and diesel (in October 2014) to eliminate under-recoveries. Petroleum product under-recoveries proved to be a huge burden on companies and the government, and also stymied growth of downstream private sector entities.

- Diesel and petrol prices have been largely aligned with Brent and Exchange Rate since the diesel de-regulation in Oct-14. However, the government asked OMCs to cut retail fuel prices of both diesel and petrol by ₹1.0 per litre in Oct-18. Also, the government reduced excise duty by ₹1.5 per litre and state governments reduced VAT by ₹2.5 per litre. This move was due to Lok Sabha election in Apr-May of 2019.
- Due to the fall in crude prices in 2020-21 because of Covid-19, both central and state governments increased taxes instead of allowing OMCs to make supernormal marketing margins.
- The situation reversed from late 2021. Due to increase in crude prices in 2021-22 and no marketing margin buffer for OMCs, both central and state governments had to reduce taxes. In first round, excise duty was cut on petrol by ₹5/L and diesel by 10/L in Nov-21 while in second round, excise duty was slashed on petrol by ₹8/L and diesel by 6/L in May-22.
- Just before implementation of the model code of conduct on 15th Mar-24 for Lok Sabha Election 2024, OMCs have decided to reduce retail prices of petrol and diesel by ₹2/L. This was also possible because of favourable crude prices.

Exhibit 50: Price build of petroleum products – the government has been keeping in consideration OMCs' interests too despite OMCs having been an excise machine

Particular	Petrol price in Delhi (₹/L)						Diesel price in Delhi (₹/L)					
	PBTC	Central taxes	State Taxes	Dealer Comm.	Taxes as % of RFP	RFP	PBTC	Central taxes	State Taxes	Dealer Comm.	Taxes as % of RFP	RFP
Sep-14	44.1	9.5	11.1	2.0	31%	66.7	43.5	4.4	6.4	1.2	19%	55.5
Dec-14	29.2	17.9	9.8	2.0	47%	58.9	30.6	10.8	5.6	1.3	34%	48.3
Jun-15	33.4	18.1	13.4	2.1	47%	66.9	30.3	10.8	7.3	1.3	36%	49.7
Jun-16	25.0	21.9	13.3	2.3	56%	62.5	27.1	17.8	8.0	1.5	48%	54.3
Dec-16	31.4	22.1	15.1	2.6	52%	71.1	30.7	17.9	8.7	1.7	45%	59.0
Dec-17	32.4	20.1	15.2	3.6	50%	71.3	34.2	16.0	9.1	2.5	41%	61.9
Dec-18	**33.8**	**18.0**	**15.0**	**3.6**	**47%**	**70.3**	**38.7**	**13.8**	**9.5**	**2.5**	**36%**	**64.6**
Dec-19	35.9	20.0	16.1	3.6	48%	75.6	40.4	15.8	10.1	2.5	38%	68.9
Dec-20	**27.7**	**33.0**	**19.3**	**3.7**	**62%**	**83.7**	**28.7**	**31.8**	**10.9**	**2.5**	**58%**	**73.9**
Sep-21	41.6	32.9	23.5	3.9	55%	101.9	42.6	31.8	13.2	2.6	50%	90.2
Dec-21	**48.2**	**27.9**	**15.5**	**3.8**	**45%**	**95.4**	**49.6**	**21.8**	**12.7**	**2.6**	**40%**	**86.7**
Jul-22	**57.4**	**19.9**	**15.7**	**3.8**	**37%**	**96.7**	**58.2**	**15.8**	**13.1**	**2.6**	**32%**	**89.6**
Dec-22	57.4	19.9	15.7	3.8	37%	96.7	58.2	15.8	13.1	2.6	32%	89.6
Jun-23	57.4	19.9	15.7	3.8	37%	96.7	58.2	15.8	13.1	2.6	32%	89.6
Dec-23	57.3	19.9	15.7	3.8	37%	96.7	58.1	15.8	13.1	2.6	32%	89.6
Apr-24	**55.6**	**19.9**	**15.4**	**3.8**	**37%**	**94.7**	**56.4**	**15.8**	**12.8**	**2.6**	**33%**	**87.6**

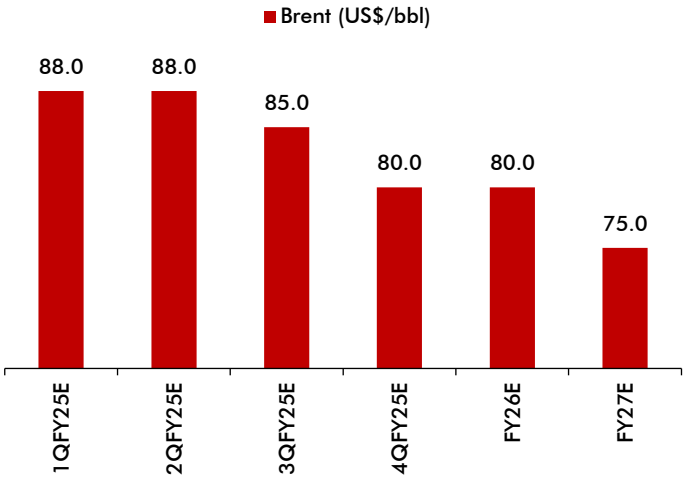
Source: PPAC, Ambit Capital research. Note: RFP is Retail Fuel Price, PBTC is Price Before Taxes and Commissions, and highlighted ones indicates government intervention

We expect crude to decline gradually...

In our recent oil price note (Oil Price Forecast: OPEC+ unity will last long), we increased our Brent estimate for FY25-27E.

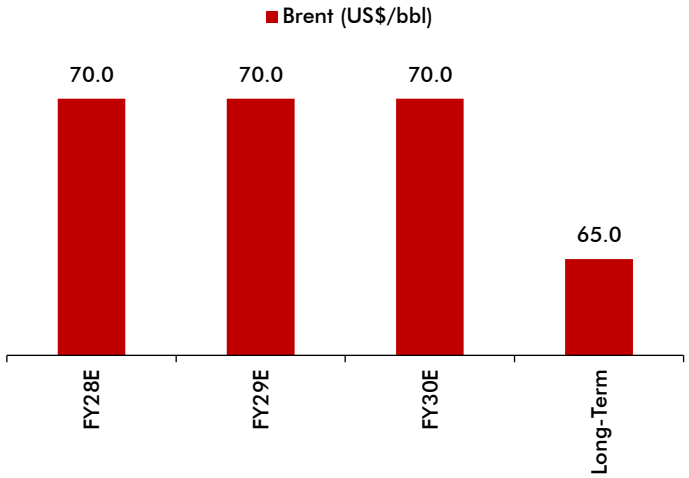
- The oversupplied oil market in 2022-23 will turn into a deficit in 2024 aggravated by OPEC+ supply management. Supply will undershoot demand by 0.6mb/d and lead to inventory withdrawal. U.S. Shale and Non-OPEC+ can't counter this. The former remains cautious while the latter lacks scalability. Hence, we increased our Brent estimate to US$85/bbl in FY25E from US$80/bbl. We expect balanced oil market vs. oversupply previously in 2025-26, and increased our Brent estimate by US$5/bbl to US$80/US$75 per barrel for FY26E/FY27E. We haven't changed our forecast after that.
- Our Brent estimate is gradually declining as new sources of supply are expected to have lower cost of production. As per IHS Markit, most sources of global crude oil supply projected until 2040 can break even below $50/bbl Brent.

Exhibit 51: OPEC+ supply management to play a bigger role in the next 3 years...



Source: Bloomberg, Ambit Capital research

Exhibit 52: ...and marginal cost of production and demand in the long term



Source: Bloomberg, Ambit Capital research

...favourable macros and regulations would lead to higher marketing margins...

OMCs' GMM is superior vs. their counterparts in developing countries like Brazil but more volatile. However, margins are inferior vs. developed countries like U.S., Canada, and Australia. This is due to government regulation and lower purchasing power of consumers.

Exhibit 53: OMCs' GMM is most volatile across the globe and sharply lower vs. developed economies; we expect margins to increase gradually due to rising purchasing power of consumers

Company Name	Country	CY-2017	CY-2018	CY-2019	CY-2020	CY-2021	CY-2022	CY-2023
Clean Energy Fuels	U.S.A	-	-	5.3	4.7	5.4	5.3	3.3
Delek US Holdings	U.S.A	12.0	13.5	13.5	17.2	19.1	20.6	20.8
World Fuel Services Corp.	U.S.A	0.8	0.9	1.1	1.1	1.0	1.3	1.3
Phillips 66	U.S.A	1.1	1.6	1.5	1.7	1.7	2.6	2.4
Sunoco LP	U.S.A	2.4	2.8	2.6	2.9	3.5	3.9	3.6
Murphy USA Inc	U.S.A	4.3	4.7	4.8	7.1	8.4	11.0	10.6
Par Pacific Holdings Inc	U.S.A	14.0	16.9	19.0	24.2	21.5	29.3	29.0
Ampol Limited	Australia	8.0	8.2	7.4	11.2	10.2	11.8	12.4
Parkland Fuel Corp	Canada	4.1	6.1	7.0	6.3	7.3	7.8	9.0
Empresas Copec S.A.	Chile	5.5	6.2	5.6	5.7	7.0	8.2	8.6
Ultrapar	Brazil	3.5	2.6	2.6	1.7	1.9	3.2	4.8
VIBRA	Brazil	2.8	2.5	2.6	1.7	2.4	3.0	3.9
ADNOC Distribution	U.A.E	-	13.8	14.8	20.0	20.0	19.4	13.9
Bharat Petroleum	India	3.6	4.1	4.2	5.3	4.6	0.1	3.5
Hindustan Petroleum	India	3.5	4.0	4.1	5.0	4.2	(0.1)	3.5
Indian Oil	India	-	4.0	4.4	4.8	3.8	(0.6)	3.0
Average		**5.0**	**6.2**	**6.3**	**7.5**	**7.6**	**7.9**	**8.4**
Median		**3.6**	**4.1**	**4.6**	**5.2**	**5.0**	**4.6**	**4.3**

Source: Visible Alpha, Ambit Capital research. Note: Gross marketing margin is in ₹/L.

As highlighted above, we have increased our Brent and refining margin estimates considering OPEC+ supply management and the balanced refining market.

- This would put pressure on GMM in FY25E as OMCs won't be able to increase retail fuel prices because of Lok Sabha and other major state (including Maharashtra) elections.
- Despite higher crude and refining margin estimates vs. previous projections, we expect higher GMM in FY26E as we don't expect a cut in retail fuel price.

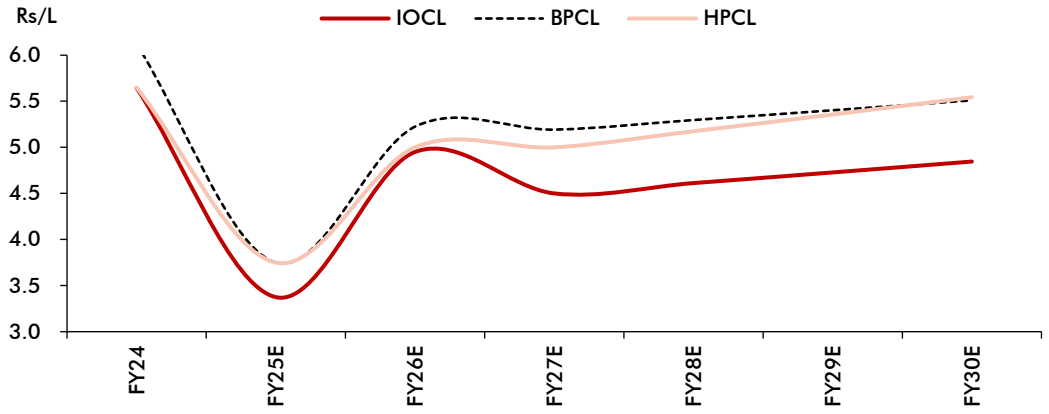
Exhibit 54: Below-average GMM in FY25E, near average in FY26E and government intervention in FY27E through excise increase of ₹5/L; we were expecting a price cut in FY26E previously but not now

Particular	FY20	FY21	FY22	FY23	FY24	1QFY25E	2QFY25E	3QFY25E	4QFY25E	FY25E	FY26E	FY27E
Macros												
Brent (US$/bbl)	60.9	44.8	80.0	95.6	83.1	88.0	88.0	85.0	80.0	85.3	80.0	75.0
SGD gasoil cracks (US$/bbl)	13.4	4.3	9.9	36.1	23.3	15.0	15.0	18.0	18.0	16.5	15.0	15.0
SGD gasoline cracks (US$/bbl)	9.4	4.1	13.7	17.0	15.4	16.0	16.0	10.0	15.0	14.3	12.0	12.0
Diesel GMM (₹/L)	4.2	6.5	3.6	(7.2)	3.1	2.8	2.8	2.8	4.5	3.2	4.5	4.5
Petrol GMM (₹/L)	2.6	7.4	1.9	3.1	8.5	2.1	2.1	5.5	5.5	3.8	5.5	5.5
OMCs' GMM (₹/L)												
New Estimates												
IOCL	5.3	5.4	3.8	(2.6)	5.6	2.7	2.7	3.6	4.5	3.4	4.5	4.5
BPCL	4.8	6.9	5.7	(2.2)	6.1	3.0	3.0	4.0	5.0	3.8	5.0	5.0
HPCL	4.4	5.1	4.4	(1.7)	5.6	3.0	3.0	4.0	5.0	3.8	5.0	5.0
Old Estimates												
IOCL										4.5	4.0	4.0
BPCL										5.0	4.0	4.0
HPCL										5.0	4.0	4.0

Source: IOCL, Bloomberg, Ambit Capital research. Note: FY23 excludes LPG subsidy benefits for OMCs, GMM is based on fortnightly average prices and it is on overall marketing volumes (domestic + export)

We expect softening of crude from FY27E as mentioned above but some part of the profit would be taken by the government through increase in excise. This is expected to continue even after that. In case of a sustained pressure on crude prices, the government has the option to increase excise duty; and given the fiscal condition, it could do that. Thus, even if the price of crude falls or remains low, it would be erroneous to build in stellar, sustained marketing margins for OMCs.

Exhibit 55: OMCs' GMM to increase gradually from FY27E due to decrease in crude; the government would reap some benefits through excise but would allow OMCs also to participate given their capex requirements and increasing GDP per capita



Source: Company, Ambit Capital research. Note: GMM is based on overall marketing volumes (domestic + export)

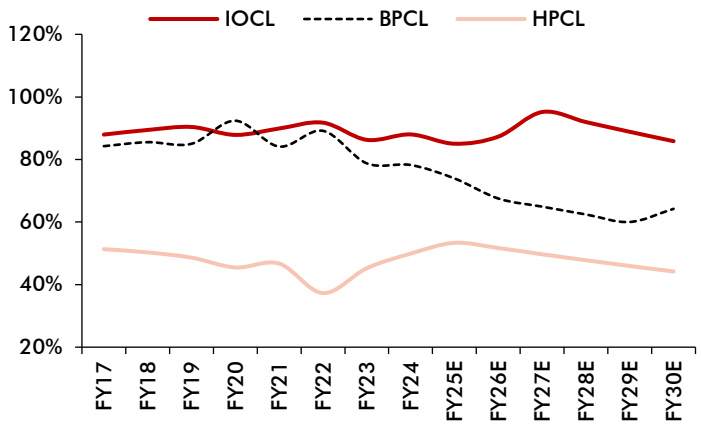
Net result: OMCs integrated margins to steadily increase

OMCs reported heavy losses in FY23 due to the marketing segment which was exacerbated by weak refining cover (refining volumes/marketing volumes). Given the vast difference between refining and marketing volumes, HPCL was the worst impacted followed by BPCL>IOCL.

- HPCL's refining cover at the standalone level was only 45%/50% in FY23/FY24 but about 70% at the consolidated level. The company recently completed expansion at Mumbai and Vizag refineries, and is about to commission Rajasthan refinery in 1 year. Due to this, we expect refining cover remain above 70% at the consolidated level until the end of this decade.
- There is no difference between standalone and consolidated for BPCL. Its refining cover was about 80% in FY24 but BPCL will lose out as Bina refinery expansion is not enough and its refining cover would reduce to 65% in FY30E. However, the company can easily improve its refining cover by expanding Bina capacity.
- IOCL has the strongest refinery cover among OMCs and will continue to lead due to its Koyali and Panipat capacity upgrades and a new refinery at Nagapattinam.

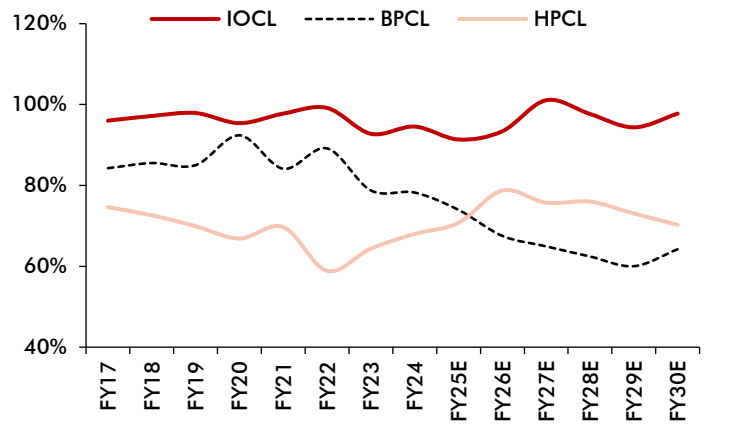
We believe these investments will help OMCs better manage oil market volatility.

Exhibit 56: OMCs refining cover at standalone level - stable for IOCL due to addition of 18MMtpa new refining capacity and decrease for BPCL and HPCL in the next 6 years



Source: Company, Ambit Capital research. Note: Only domestic consumption has been considered for marketing volumes

Exhibit 57: OMCs refining cover at consolidated level – will continue to be about 95%/70% for IOCL/HPCL but decrease for BPCL as Bina expansion is not enough

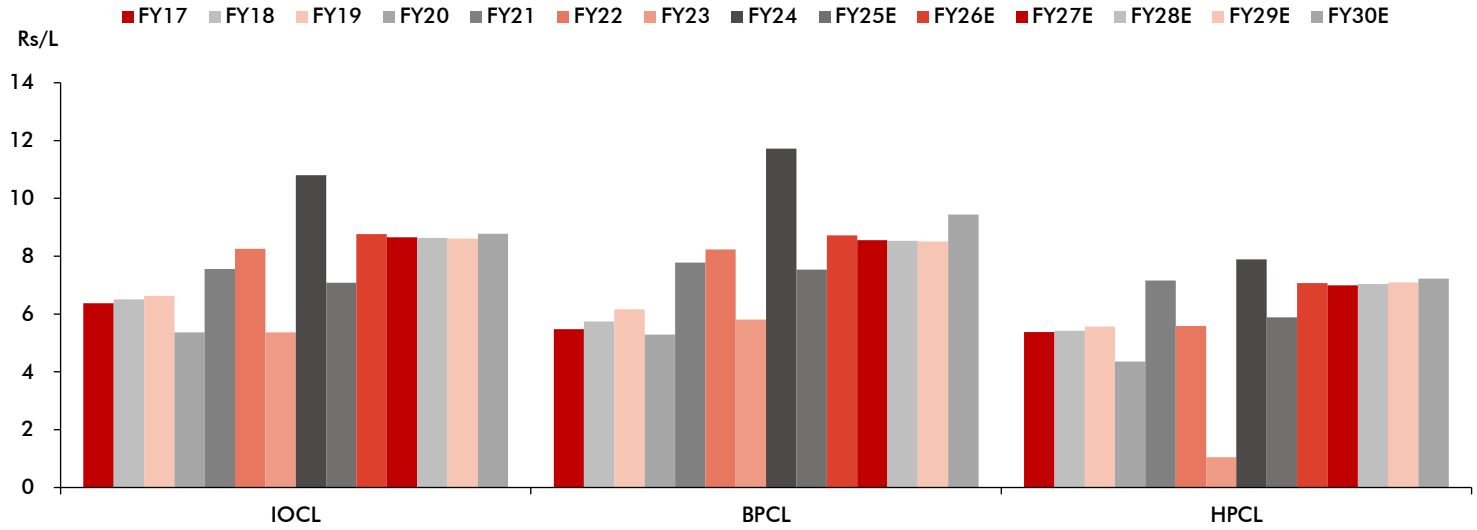


Source: Company, Ambit Capital research. Note: Only domestic consumption has been considered for marketing volumes

Whilst segments like refining and marketing have a favourable outlook, we note that integrated margins are the best barometer to gauge the overall profitability of OMCs.

- OMCs' integrated margins are expected to be about 18-30% higher in FY25-30E vs. FY17-24; IOCL/BPCL/HPCL improvement at 18%/22%/30%.
- IOCL had the highest integrated margins but BPCL will surpass it after the Bina expansion commissioning.
- HPCL integrated margins continue to be about 20% lower vs. IOCL/BPCL due to relatively weak refining margins but would be about 30% higher vs. the past.

Exhibit 58: Consistent improvement in integrated margins for all three OMCs due to favourable outlook for both refining and marketing segments; BPCL would have highest integrated margins due to better refining assets followed by IOCL>HPCL



Source: Company, Ambit Capital research. Note: GMM is based on overall marketing volumes (domestic + export)

Better returns given continuous focus on core

OMCs remain at the forefront of India's energy landscape, especially catering to retail demand. Both IOCL and HPCL have been expanding refining capacities while all three are growing marketing infrastructure and investing in petrochemicals. They have taken small steps towards clean energy transition, largely focused on CGDs. Despite investments gradually shifting to low-return greener assets, about 75% of FY25-29E capex would be for profitable core operations. This along with favourable crude prices and government support would allow them to earn pre-tax RoCE of 11% in FY25-29E despite a 67% increase in capex to ₹4.5tn vs. FY20-24. All three need to borrow in FY25E to make dividend payments. Dividend cover for IOCL/HPCL will be above 100% from FY26E. In spite of fund-raise in FY28-29E given Bina expansion and dividend payment, BPCL's leverage to remain below 1x.

Strategy: Both energy addition and energy transition

OMCs expanding conventional energy infrastructure to meet energy demand

The scale of OMCs is unmatched owing to their wide retail presence, ability to manage complex supply chains for multiple fuels (petroleum products and natural gas) and larger balance sheets and cash flows. They also have stellar project management capabilities, enabling them to execute projects across oil, gas and alternate fuel. We expect their refining and marketing businesses to remain a key driver of earnings and cash flows over the next decade.

Refining expansion to continue: India's refining capacity exceeds domestic demand. However, given continuous increase in demand, OMCs have decided to expand refining capacity.

- HPCL's two refineries, Visakh and Mumbai, are being expanded; the former to 15MMtpa from 8.3MMtpa and the latter to 9.5MMtpa from 7.5MMtpa. It is also constructing a new 9MMtpa refinery in Rajasthan with an ownership stake of 74%.
- IOCL is expanding its refining capacities by about 18MMtpa, and constructing a new 9MMtpa refinery in Chennai with an ownership stake of 75%. BPCL is expanding its Bina refinery capacity by 4.2MMtpa.

Petchem is the need of the hour: A key investment area which is cyclical but lower in volatility than plain vanilla refining is petchem operations. OMCs have planned multi-billion dollar investments in petchem plants.

- With the completion of expansion, IOCL's consolidated petchem capacity is expected to increase from 4.1MMtpa to 5.5MMtpa. The overall petchem capacity for BPCL is expected to be 2.8MMtpa, vs 0.3MMtpa now, after the Bina refinery expansion.
- HPCL's petchem capacity would be 4.6MMtpa after HRRL full capacity commissioning including Punjab refinery (HEML) vs 2.2MMtpa now.
- This would allow IOCL to maintain its petchem integration at about 5% at the consolidated level. HPCL/BPCL's petchem intensity would increase to 10%/7% from 6%/1% now.

Growing traditional businesses like marketing and pipeline: Marketing and pipelines aid in value creation. The former presents multiple cross-selling opportunities whilst the latter provides a predictable revenue stream, operations and reduction of logistics costs. OMCs have continued to expand their marketing and pipeline presence.

- IOCL is the biggest marketer in the country and owned about 42% of retail outlets (ROs) at the end of FY24 while BPCL and HPCL have similar shares of 24%. IOCL is planning to add on average 1.5k ROs annually over the next 5 years and BPCL/HPCL about 1.0k ROs annually.
- IOCL has about 60% share in crude oil + product pipelines in the country and is still constructing two more pipelines with an investment of ₹15bn. HPCL is planning to expand its pipeline length by 1k to 6k over next 5 years.

Exhibit 59: Majority of capex would be for core refining, marketing, and pipeline businesses. Capex for core assets would be about 75% of the total in FY25-29E vs 90% in FY20-24; however, the absolute amount increased 37% to ₹3.4tn

Particular (₹ bn)	FY20-24	Share	FY25-29E	Share	Comments
Indian Oil Corporation Limited					
Refining and Petchem	456	33%	802	40%	
Pipeline	251	18%	159	8%	
Marketing infrastructure	294	21%	306	15%	
Gas infrastructure	50	4%	200	10%	
Equity Investment in JVs	50	4%	50	2%	
R&D and Others	81	6%	50	2%	
Small Projects	199	14%	203	10%	
Renewables	10	1%	250	12%	
Total	**1,391**		**2,020**		
Hindustan Petroleum Corporation Limited					
Refining, Petchem, and Pipeline	495	67%	280	36%	
Marketing infrastructure	198	27%	210	27%	
Gas infrastructure	20	3%	120	16%	
Biofuels, Renewables, and R&D	27	4%	160	21%	
Total	**740**		**770**		
Bharat Petroleum Corporation Limited					
Refining, Petchem, and Pipeline	150	27%	830	49%	
Marketing infrastructure	250	44%	200	12%	
Upstream	66	12%	320	19%	
Gas infrastructure	51	9%	250	15%	
Biofuels, Renewables, R&D, Others	45	8%	100	6%	
Total	**561**		**1,700**		

- Capex to increase because of expansion of refining & petchem capacities, gas infrastructure, and renewable business.
- Decline in pipeline capex as most of the projects have been completed. May consider further expansion if required.
- Largely same budget for marketing infrastructure.
- Refining and petchem capex cycle is behind as expansion completed at MR and VR. Also, a large part of capex spent on HRRL.
- No change in core marketing infrastructure. The focus shifted to gas and renewables (about 37% of total capex in FY25-29E vs. 7% in FY20-24).
- About 50% of capex to be spent on refining, petchem and pipeline next 5 years, and a majority of that is because of Bina refinery expansion from 7.8MMtpa to 12.0MMtpa.
- Massive increase in the Upstream budget; however, actual spending depends on the situation in Mozambique and Brazil.
- Similar to upstream, a sharp increase in gas infrastructure and renewable business. However, spending is more certain vs. upstream.

Source: Company, Ambit Capital research

...as well as taking baby steps in new energy businesses

Apart from conventional energy, we expect OMCs to gradually deploy monies in marginally lower RoCE but more predictable projects (vs. existing business) like gas infrastructure (CGDs, and LNG terminals), and yet-to-be-proven businesses ranging from EV charging to hydrogen.

Gas is the next big energy source in the country: The government has been pushing for proliferation of gas in India with a goal of increasing its share in India's primary energy consumption to 15% in 2030 from 6% now. OMCs are getting involved by leveraging on their marketing prowess and are also setting up ancillary infrastructure. Given the stability of returns and limited incremental investments required, this is an attractive business model and OMCs have actively, directly or indirectly participated in the same.

- In our note (CGDs: Volume sustenance is key), we highlighted that OMCs would now play a bigger game in the CGD industry while specialists (IGL and MGL) continue to grow marginally in their existing areas. After 12th CGD bidding round, geographical areas (GAs) authorizations are 26, 27, and 14 for IOCL, BPCL, and HPCL; 22% of the total. This would be 49, 53, and 25 after considering JVs and associates.
- Both IOCL and BPCL have entered into LNG regasification business through stake in Petronet LNG. IOCL also own Ennore LNG terminal while BPCL's have stake in Swan Energy. HPCL recently completed construction of Chhara LNG terminal.

Increasing focus on green initiatives: OMCs marketing breadth can be further leveraged to offer lots of alternatives to fuels and CNG, i.e. EV charging, LNG and Compressed Biogas (CBG). OMCs have been making investments in renewables too.

Exhibit 60: OMCs' green initiatives are currently at an early stage but should expand over time

Company	Projects
IOCL	▪ Set up a gas-to-ethanol production facility at Panipat refinery. ▪ IOCL is putting up a 10 KTPA Green Hydrogen Electrolyser-based facility at Panipat Refinery. ▪ Target capacity of 5GW by 2026 and 12GW by 2046. ▪ Currently, EV charging/CBG have 9,542/73 ROs. Planning for further expansion. ▪ Collaborated with Panasonic Energy to establish a JV aimed at producing lithium-ion cells in India.
BPCL	▪ Target capacity of 1GW by 2025 and 10GW by 2040. ▪ Currently, EV charging/CBG have 3,135/40 ROs. Targeting 7k 'Energy Stations' which would dispense MS, HSD, CNG, Flexi fuels, Electric, and Hydrogen. ▪ Setting up 2G ethanol bio-refineries in the states of Orissa, Madhya Pradesh and Maharashtra.
HPCL	▪ Target capacity of 2.4GW by 2028 ▪ Targets 16,870TPA green hydrogen production capacity by 2027-28, vs 3.5TPA in 2022-23. Green hydrogen plants/capacities under execution or planning include 12,200TPA and another 370TPA at Visakh Refinery and 4,300TPA at Rajasthan Refinery. ▪ Currently, EV charging/CBG have 3,603/1 ROs. ▪ Setting up 2G ethanol bio-refinery at Bathinda, Punjab. CBG plants in UP, Rajasthan and AP.

Source: PPAC, Company, Ambit Capital research

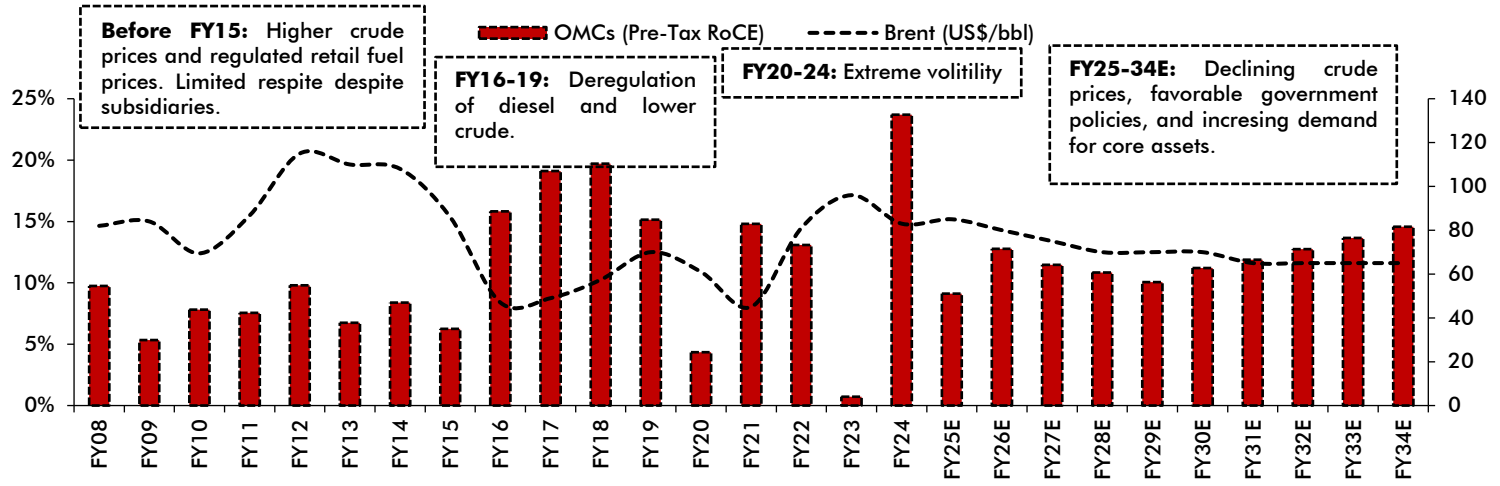
Despite higher capex, return profile to improve

Higher profitability to improve RoCE...

A series of reforms made OMCs investable and enabled them to earn respectable RoCE during FY16-19, a stark contrast to pre-diesel deregulation days. This was interpreted during the last 5 years because of the extremely volatile crude market. In our view, OMCs' return profile would become much more stable and better given declining crude prices, favourable government support, and focus on core refining and marketing businesses.

- **Before FY15:** During the 2008 Global Financial Crisis (GFC), Brent decreased sharply but recovered in 2009. After that, Brent was in a structural upcycle from 2010-14 due to soaring oil consumption in countries like China and conflicts in key oil nations like Iraq. Despite the Government of India and ONGC subsidies to OMCs for under-recoveries, RoCE remained suppressed as OMCs were allowed to make limited profits during this period.
- **FY16-19:** As per capita income of Indians rose, the government chose to embark on an ambitious path of cutting oil subsidies. The reforms in oil PSUs took off from 2014 when diesel de-regulation was introduced as this was necessary given the strain on government finances in the previous five years. This resulted in a dramatic improvement in OMCs' RoCE since 2015, and they were also supported by lower crude prices due to a market share war between OPEC+ and U.S. shale.
- **FY20-24:** This was the most turbulent time in their history as they faced an extremely volatile crude market because of Covid-19 and the Russia-Ukraine war and government interventions through excise duties and retail fuel prices. Unlike in the past when RoCE was largely range-bound in certain years, this period saw a range of 1-24%.
- **FY25-34E:** Despite higher capex intensity in the next 5 years, we expect OMCs' RoCE profile to gradually improve due to declining crude prices. While the government continues to intervene through excise, it would allow OMCs to make higher marketing margins due to rising GDP per capita and capex requirements.

Exhibit 61: Despite 67% higher overall capex in FY25-29E vs. FY20-24, OMCs' RoCE is expected to be much more stable and higher vs. the past due to government support, declining crude and focus on core operations



Source: Company, Ambit Capital research

...and also keep leverage under control and dividend cover above 100%

OMCs have been considered as dividend plays. But their ability to pay dividends were hampered in FY23 due to low profitability. HPCL didn't declare dividend while BPCL and IOCL declared DPS of ₹4/₹3; the lowest in the last 7 years. With the revival in profitability in FY24, payout for BPCL and HPCL was about 30% and for IOCL 43%. We expect dividend payout would be about 30% but their abilities differs due to varying debt levels and capex plans.

Exhibit 62: All three OMCs need to borrow in FY25E to make dividend payments. Dividend cover above 100% for IOCL and HPCL from FY26E while BPCL needs huge borrowings in FY28-29E due to the Bina expansion

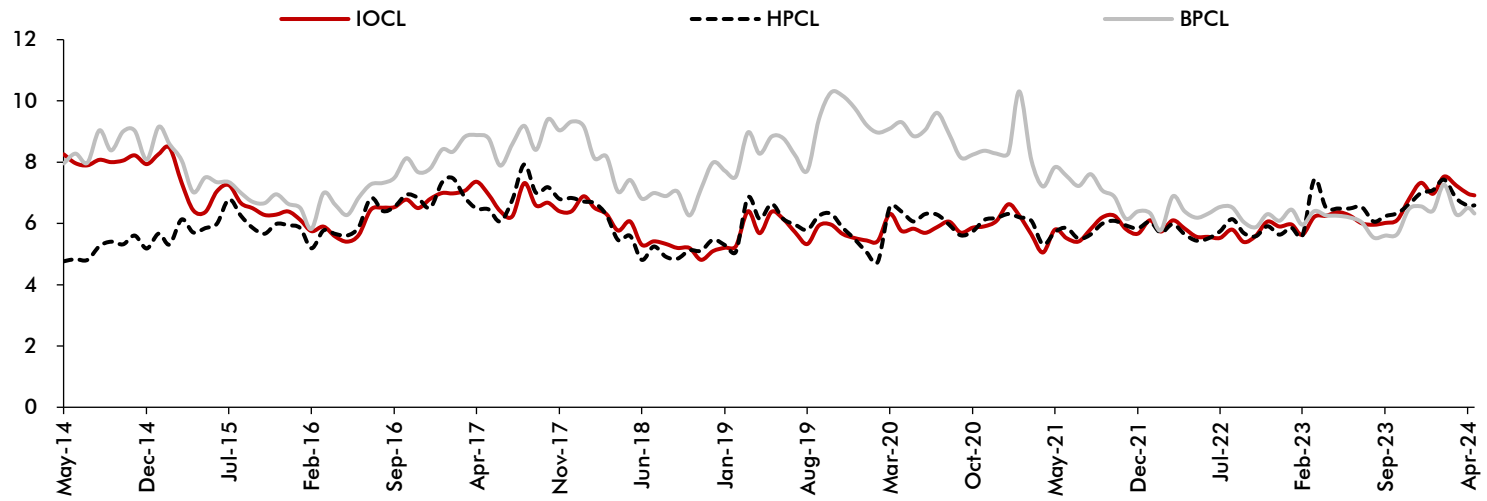
Particular	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Indian Oil Corporation Limited								
DPS (₹/share)	3.4	6.8	6.8	3.0	12.0	3.6	4.8	4.5
Capex (₹ bn)	296	222	248	335	402	300	300	300
Net debt (₹ bn)	1,160	1,007	1,186	1,408	1,250	1,452	1,404	1,366
Net debt/equity (x)	1.2	0.9	0.9	1.0	0.7	0.8	0.7	0.6
FCF (₹ bn)	(243)	279	(45)	(160)	269	(80)	123	126
Dividend (₹ bn)	48	96	96	33	110	99	51	67
Dividend Cover (%)	-504%	289%	-47%	-484%	244%	-81%	244%	187%
Hindustan Petroleum Corporation Limited								
DPS (₹/share)	9.8	22.8	14.0	0.0	31.5	12.8	23.2	23.8
Capex (₹ bn)	178	121	133	104	106	150	150	150
Net debt (₹ bn)	376	373	411	623	586	706	696	692
Net debt/equity (x)	1.3	1.0	1.1	2.2	1.4	1.6	1.3	1.1
FCF (₹ bn)	(112)	49	15	(123)	57	(28)	32	35
Dividend (₹ bn)	17	15	32	20	21	23	18	33
Dividend Cover (%)	-646%	328%	46%	-621%	266%	-119%	178%	107%
Bharat Petroleum Corporation Limited								
DPS (₹/share)	16.5	79.0	16.0	4.0	42.0	13.0	21.7	20.1
Capex (₹ bn)	140	108	244	90	69	155	180	250
Net debt (₹ bn)	477	271	483	427	234	142	106	162
Net debt/equity (x)	1.4	0.5	0.9	0.8	0.3	0.2	0.1	0.2
FCF (₹ bn)	(52)	93	(56)	(9)	287	134	56	(18)
Dividend (₹ bn)	62	46	148	13	53	45	28	46
Dividend Cover (%)	-84%	204%	-38%	-68%	539%	298%	200%	-38%

Source: Company, Ambit Capital research

Valuations: Primed for higher multiples

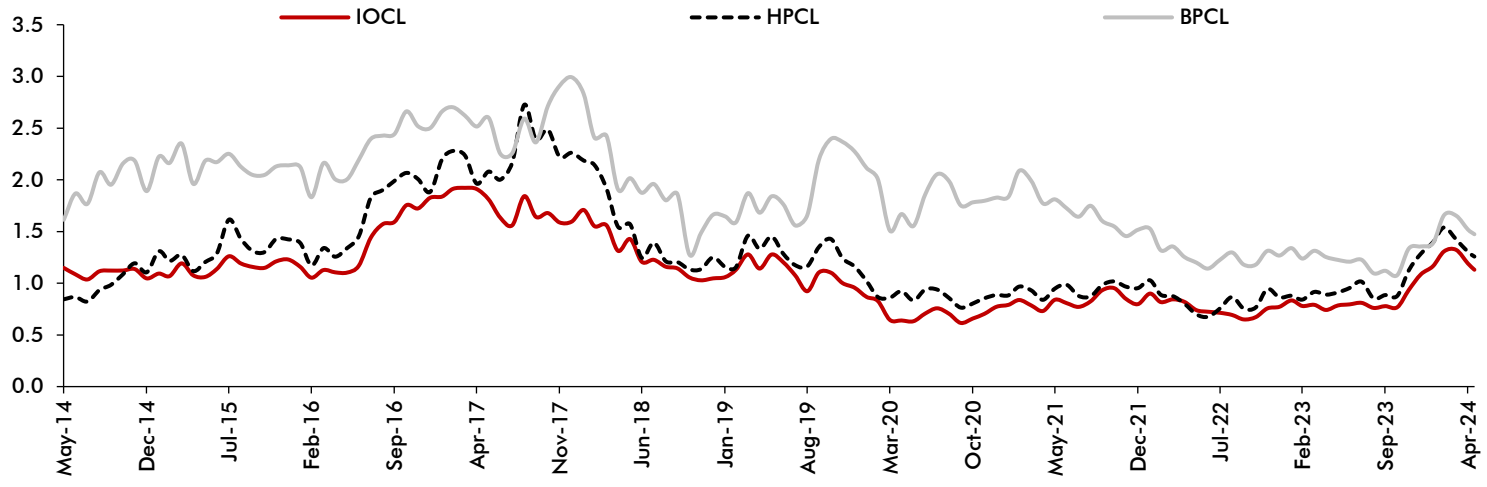
OMCs are well-managed companies whose valuations ranged from exuberant retail plays (FY16-19) to un-investable low-return PSUs (before FY15). Valuations remained suppressed for most of the last five years (about 40% lower vs. FY16-19) due to COVID-19 and the Russia-Ukraine war. However, it recovered from Dec-23. Unlike in the past, both refining and marketing segments are expected to be profitable and would lead to better integrated margins. Valuations of all three OMCs are marginally below long-term averages and would rerate as the market acknowledges refining & marketing prowess and consistent RoCE/earnings ramp-up. We prefer HPCL as it is expected to report 36% EPS CAGR in FY25-27E as well as a 600bps improvement in RoCE to 16%. While we expect 12%/24% EPS CAGR for IOCL/BPCL, RoCE would be under pressure in the medium term due to high capex intensity. We value HPCL, IOCL and BPCL at 1.7x, 1.4x, and 1.7x 1-year fwd P/B; we ascribe similar multiples to HPCL as BPCL due to prudent capital allocation and improved refining assets.

Exhibit 63: Comparative 1-year fwd EV/EBITDA valuation of three OMCs; marginal discount for IOCL and HPCL while 23% lower for BPCL on the basis of last 10-year average...



Source: Bloomberg, Ambit Capital research

Exhibit 64: ...same is the case on the basis of 1-year fwd P/B; current multiples for HPCL/IOCL/BPCL are 1.3x/1.1x/1.4x vs. long-term multiples of 1.3x/1.1x/1.9x



Source: Bloomberg, Ambit Capital research

Exhibit 65: Assessment of OMCs on various parameters; HPCL is at the top followed by IOCL>BPCL

Particular	IOCL	HPCL	BPCL
Refining and Marketing	IOCL to maintain its supremacy over HPCL due to its Koyali, Haldia, Panipat, and Paradip refineries. The biggest marketer in the country and throughput per outlet is at 2nd place. ◐	The quality of refining assets is expected to improve after Vizag's bottom upgradation and commissioning of HRRL. Massive expansion but still lowest throughput per outlet. ○	BPCL has the best refining assets with higher distillate yield, lower energy consumption, and high heavy sulphur crude processing capabilities. Highest throughput per outlet. ●
Refining Cover	IOCL continues to have the highest refining cover among OMCs, and hence safety during higher crude prices. ●	HPCL to increase its refining cover with expansion at MR and VR, and commissioning of HRRL. ◐	Expect a gradual decline in refining cover as Bina expansion is not sufficient. ○
Pipeline and Petchem	Biggest petrochemical and pipeline portfolio among OMCs, and expected to be over next 6 years. ◐	Petchem intensity is expected to be at 10% after multiple project completion; the highest among OMCs. ●	Lagging vs. the other two in both pipeline and petchem assets. ○
CGDs, E&P and Renewables	IOCL is best-placed for CGD expansion. Along with its JV partners, it has authorization for 49 GAs, which will translate into significant volume growth. 2,114 ROs have CNG facilities as of 1st May 24. 22 E&P blocks with production of about 4.3 MMToe in FY23, and plans to have 5 GW of renewable capacity by 2026. ●	Relative to other two OMCs, HPCL has authorization for a fewer number of GAs (25) along with its JV. 1,705 ROs have CNG facilities as of 1st May-24. Of the three OMCs, HPCL has the least presence in E&P activities through equity investment in Prize Petroleum. Planning to have 2.4 GW of renewable capacity by 2028. ○	BPCL has a first-mover advantage in CGD due to its investment in IGL in 1998. We believe volumes will continue to grow as it has authorization for 53 GAs along with its JV. 2,038 ROs have CNG facilities as of 1st May-24. 17 E&P blocks along with equity stake in 2 Russian entities, and plans to have 1 GW by 2025. ◐
Dividend Cover and Leverage	Dividend cover above 100% from FY26E, and better leverage profile vs. HPCL. ●	Dividend cover above 100% from FY26E but lower vs. IOCL. ◐	Need to borrow in FY28-29E given massive capex for Bina expansion and other projects. ○
Earnings Trajectory	9% EPS CAGR in FY25-30E but consistent growth due to the commissioning of multiple refinery projects over the next 6 years. ○	19% EPS CAGR in FY25-30E as multiple projects are expected to start. ●	10% EPS CAGR in FY25-30E but a sharp jump in FY30E after the Bina expansion. ◐
RoCE Trajectory	Pre-tax RoCE of 9% in FY25-30E vs. 11% in FY20-24. ○	Pre-tax RoCE of 15% in FY25-30E vs. 8% in FY20-24. ●	Pre-tax RoCE of 13% in FY25-30E vs. 15% in FY20-24. ◐
Valuation	Trading at near long-term average on basis of both 1-yr fwd EV/EBITDA and 1-yr fwd P/B. ○	Trading at a marginal discount on the basis of both 1-yr fwd EV/EBITDA and 1-yr fwd P/B. ◐	Trading at a huge discount based on both 1-yr fwd EV/EBITDA and 1-yr fwd P/B. ●

Source: Company, Ambit Capital research. Note: ● - Strong; ◐ - Average; ○ - Weak

Exhibit 66: Valuation summary - OMCs trade at a premium to Asian refiners but at a discount to U.S. independent refiners; we expect multiples to move towards U.S. counterparts given superior assets and favourable macros

Company	Rating	M Cap. ($ bn)	Valuation Ratios						Return Ratios		EPS CAGR FY25-27E
			P/B (x)		P/E (x)		EV/EBITDA (x)		ROE (%)		
			FY25/ CY24	FY26/ CY25	FY25/ CY24	FY26/ CY25	FY25/ CY24	FY26/ CY25	FY25/ CY24	FY26/ CY25	
Indian Companies											
CGDs											
Indraprastha Gas Ltd	SELL	3,699	3.1	2.7	16.4	15.3	11.1	10.2	20.3	19.1	12%
Mahanagar Gas Ltd	SELL	1,563	2.3	2.0	11.8	11.3	7.1	6.8	20.2	18.3	4%
Gujarat Gas Ltd	BUY	4,556	4.4	3.9	27.5	22.8	16.3	14.5	16.5	17.5	18%
Mean			**3.3**	**2.9**	**18.6**	**16.5**	**11.5**	**10.5**	**19.0**	**18.3**	**11%**
Median			**3.1**	**2.7**	**16.4**	**15.3**	**11.1**	**10.2**	**20.2**	**18.3**	**12%**
Gas Utilities											
GAIL India Ltd	SELL	16,084	2.0	1.8	13.9	12.7	10.6	9.9	14.7	14.5	8%
Petronet LNG Ltd	SELL	5,618	2.5	2.3	13.3	12.5	7.9	7.4	20.0	18.9	14%
GSPL	NR	1,998	1.5	1.5	18.6	16.8	12.9	11.6	7.6	7.8	16%
Mean			**2.0**	**1.8**	**15.2**	**14.0**	**10.5**	**9.6**	**14.1**	**13.8**	**13%**
Median			**2.0**	**1.8**	**13.9**	**12.7**	**10.6**	**9.9**	**14.7**	**14.5**	**14%**
Upstream											
ONGC	BUY	41,874	1.0	0.9	7.3	7.1	4.6	4.6	15.2	14.3	3%
Oil India Ltd	NR	8,318	1.4	1.3	8.9	7.9	7.0	6.1	17.3	17.3	20%
Mean			**1.2**	**1.1**	**8.1**	**7.5**	**5.8**	**5.4**	**16.2**	**15.8**	**11%**
Median			**1.2**	**1.1**	**8.1**	**7.5**	**5.8**	**5.4**	**16.2**	**15.8**	**11%**
OMCs											
Indian Oil	BUY	27,792	1.2	1.1	10.2	9.6	7.1	6.9	12.6	12.0	3%
Bharat Petroleum	BUY	16,351	1.6	1.5	10.2	10.6	6.4	6.3	16.0	14.8	-11%
Hindustan Petroleum	BUY	8,627	1.4	1.3	7.6	6.9	7.2	6.6	20.6	19.4	10%
Mean			**1.4**	**1.3**	**9.3**	**9.0**	**6.9**	**6.6**	**16.4**	**15.4**	**1%**
Median			**1.4**	**1.3**	**10.2**	**9.6**	**7.1**	**6.6**	**16.0**	**14.8**	**3%**
Diversified											
Reliance Industries	SELL	233,080	2.1	1.9	24.0	20.8	12.2	10.9	9.7	10.1	14%
Global Companies											
Asia											
S-Oil Corp*	NR	5,708	0.8	0.7	6.4	6.0	4.8	4.5	13.1	12.8	2%
Thai Oil PCL*	NR	3,216	0.7	0.6	7.4	5.4	8.5	6.4	9.1	11.7	26%
IRPC PCL*	NR	1,087	0.5	0.5	26.6	10.6	9.5	7.9	2.1	4.9	58%
Idemitsu Kosan Co	NR	9,004	0.7	0.7	8.2	8.2	7.2	7.4	9.4	9.0	3%
Star Petroleum*	NR	950	0.9	0.8	6.6	6.8	4.8	4.8	13.5	12.4	2%
PTG Energy PCL*	NR	398	1.5	1.4	13.2	11.4	6.8	6.3	12.0	13.1	13%
Mean			**0.9**	**0.8**	**11.4**	**8.1**	**6.9**	**6.2**	**9.9**	**10.7**	**17%**
Median			**0.8**	**0.7**	**7.8**	**7.5**	**7.0**	**6.3**	**10.7**	**12.0**	**8%**
U.S.											
Phillips 66*	NR	61,833	2.0	1.8	12.1	10.3	8.2	7.6	16.6	18.6	10%
Valero Energy Corp*	NR	51,829	1.9	1.8	9.5	10.8	5.9	6.7	19.7	16.8	-10%
Marathon Petroleum *	NR	61,577	2.6	2.7	9.8	10.5	6.2	6.9	25.4	23.7	-4%
Mean			**2.2**	**2.1**	**10.4**	**10.5**	**6.7**	**7.1**	**20.6**	**19.7**	**-1%**
Median			**2.0**	**1.8**	**9.8**	**10.5**	**6.2**	**6.9**	**19.7**	**18.6**	**-4%**

Company	Rating	M Cap. ($ bn)	Valuation Ratios						Return Ratios		EPS CAGR FY25-27E
			P/B (x)		P/E (x)		EV/EBITDA (x)		ROE (%)		
			FY25/ CY24	FY26/ CY25	FY25/ CY24	FY26/ CY25	FY25/ CY24	FY26/ CY25	FY25/ CY24	FY26/ CY25	
EMEA											
Abu Dhabi National Oil Co for Distribution PJSC*	NR	11,979	14.1	13.3	17.7	15.7	12.7	12.0	71.0	81.7	8%
ORLEN SA*	NR	20,588	0.5	0.4	7.3	5.8	2.9	2.5	6.7	7.6	9%
Saras SpA*	NR	1,818	1.2	1.2	8.6	15.9	3.1	4.2	13.9	7.5	-28%
Tupras*	NR	11,132	1.4	1.4	8.7	8.7	3.9	4.6	19.1	18.9	7%
Mean			**4.3**	**4.1**	**10.6**	**11.6**	**5.7**	**5.8**	**27.7**	**28.9**	**-1%**
Median			**1.3**	**1.3**	**8.6**	**12.2**	**3.5**	**4.4**	**16.5**	**13.3**	**8%**
Integrated Oil											
Shell PLC*	NR	225,849	1.2	1.1	8.6	8.6	4.1	4.2	14.5	13.5	3%
BP Plc*	NR	104,079	1.4	1.2	7.7	7.0	3.6	3.6	17.6	17.1	8%
TotalEnergies SE*	NR	173,390	1.4	1.3	8.0	7.9	4.5	4.5	16.6	15.3	1%
Equinor ASA*	NR	83,642	1.7	1.6	8.2	7.9	1.8	1.8	19.8	18.7	1%
Eni SpA*	NR	52,742	0.8	0.8	6.8	6.8	3.5	3.6	12.7	11.8	1%
Repsol SA*	NR	19,452	0.6	0.6	4.7	5.1	3.0	3.2	13.3	10.8	-2%
Exxon Mobil Corp*	NR	528,756	2.0	1.9	12.6	11.9	7.0	6.5	17.2	15.8	3%
Chevron Corp*	NR	297,585	1.7	1.8	12.4	11.1	6.3	5.4	14.4	16.2	7%
China Petroleum & Chemical Corp*	NR	101,692	0.7	0.7	8.6	8.1	5.4	5.2	8.2	8.3	4%
Mean			**1.3**	**1.2**	**8.6**	**8.3**	**4.3**	**4.2**	**14.9**	**14.2**	**3%**
Median			**1.4**	**1.2**	**8.2**	**7.9**	**4.1**	**4.2**	**14.5**	**15.3**	**3%**

*Source: Bloomberg, Ambit Capital research. Note: * indicates December year end companies and NR is not rated*

Catalysts and Risks

Catalysts to our view

Crude not averaging above US$85/bbl and refining cracks near long-term average: OMCs' profitability in FY23 was hit due to both high crude oil prices and unprecedented high refining cracks. Our thesis is based on softness in crude prices (US$85/US$80/US$75 per barrel in FY25E/26E/FY27E vs. US$96/US$83 per barrel in FY23/FY24) and stabilization of Singapore refining margins near to long-term average. This would lead to normalized marketing margins despite price cuts.

Above mid-cycle GRMs: We expect lower GRMs vs. FY23-24 but above mid-cycle due to continuous usage of discounted Russian crude, balanced global refining outlook and OMCs' superior product yield.

Resumption of dividends: Dividend payments were under immense pressure in FY23 but resumed in FY24. We expect normal payout in FY25-27E despite huge capex plans.

Timely commissioning of additional refining capacity: All three OMCs have multiple ongoing refinery expansion projects. We expect timely commissioning of these projects: 1) HPCL's Vizag bottom upgradation and commissioning of HRRL in FY25E, 2) IOCL's major expansion by FY27E and 3) BPCL's Bina expansion by FY29E.

Risks to our view

Higher crude prices: We expect Brent to average US$85/bbl in FY25E and then gradually decline. Higher-than-expected increase in global oil demand, OPEC+'s stringent supply control, and lower Non-OPEC+ production can keep crude higher for longer. This would be negative for OMCs as it would be hard for them to increase retail fuel prices.

Government intervention: We expect the government to increase excise from FY27E. Sonner-than-expected and higher excise would be detrimental for OMCs.

Reduction in Russian crude discount: Indian refiners have been enjoying a huge discount in procurement of Russian crude. Any impact on this due to U.S. sanctions, Russia finding more buyers, and higher share for traders/shippers/insurers due to increase in risk for them would impact prices of other import sources too, especially of Middle East.

Increase in capex: All three OMCs have elevated capex budgets for FY25-29E mainly for refinery expansions and gas infrastructure. Any further upgradation would be detrimental for FCF and dividends.

Hindustan Petroleum Corporation Limited

After investments in both legacy refineries and a new refinery and petrochemical complex at Barmer, we believe HPCL is poised to emerge stronger with higher GRMs (US$8.0/bbl in FY25-27E vs. US$6.0/bbl in FY16-24) and higher distillate yield. HPCL was the most impacted by the Russia-Ukraine war due to weak refining cover; however, it is expected to increase now with expansion. Given the major refining capex has already been spent, we believe its capex risks are the least among peers. Both refining and marketing segments are expected to be profitable and would lead to EPS CAGR of 36%/19% in FY25-27E/FY25-30E. This along with largely stable capex would result in pre-tax RoCE of 14%/15% vs 8% in FY20-24, the highest among OMCs. While it needs to borrow in FY25E, both leverage profile and dividend cover are expected to be strong after that. We had put it under review in Apr-24 and are now reinstating BUY. Our valuation implies 1.7x FY26E P/B vs. current and long-term multiple of 1.3x.

Exhibit 67: Summary of operational and financial metrics - improvement expected across all parameters like volumes, margins, leverage and returns

Particular (₹ bn)	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Overall business								
Revenue	2,688	2,330	3,497	4,404	4,335	4,579	4,469	4,357
EBITDA	51	159	102	(75)	248	150	222	224
PAT	26	107	64	(90)	147	60	108	111
Refining Division								
Throughput (MMT)	17	16	14	19	22	25	25	25
GRMs (US$/bbl)	1	4	7	12	9	8	8	8
Gross profit	9	35	55	136	123	122	123	123
Pipeline Division								
Throughput (MMT)	21	19	20	23	26	26	26	26
Margin (₹/MMT)	900	945	993	1,042	1,095	1,149	1,207	1,267
Gross profit	19	18	20	24	28	30	32	33
Marketing Division								
Volumes (MMT)	40	37	39	43	47	49	51	53
Margin (₹/L)	4.4	5.1	4.4	(1.7)	5.6	3.8	5.0	5.0
Gross Profit	207	219	202	(83)	311	215	298	310
Important metrics								
Refining cover (%)	45%	47%	37%	45%	50%	53%	52%	50%
Capex	178	121	133	104	106	150	150	150
FCF	(112)	49	15	(123)	57	(28)	32	35
Net debt	376	373	411	623	586	706	696	692
Net debt/EBITDA (x)	7.3	2.3	4.0	(8.3)	2.4	4.7	3.1	3.1
Net debt/equity (x)	1.3	1.0	1.1	2.2	1.4	1.6	1.3	1.1
DPS (₹/share)	10	23	14	0	32	13	23	24
Dividend Cover (%)	-646%	328%	46%	-621%	266%	-119%	178%	107%
Pre-Tax ROCE (%)	3%	18%	9%	-16%	24%	10%	16%	15%

Source: Company, Ambit Capital research. Note: Overall volumes (domestic + exports) considered for marketing division while only domestic for refining cover

Exhibit 68: SoTP valuation - 75% of value from standalone operations and the remaining 25% from investments in HMEL, HRRL and others

Particulars	Value of equity (₹ mn)	Value/ Share (₹)	Comments
Core business			
Refining, pipeline, and marketing	681,976	481	Book value adjusted for cost of investments which has been valued separately.
Joint Ventures			
HMEL (48.9% stake)	31,516	22	At 20% holding discount and 1.0x of BV
MRPL (16.9% stake)	50,278	35	At 20% holding discount and CMP
Oil India (2.5% stake)	13,230	9	At 20% holding discount and CMP
Subsidiaries			
HRRL (74% stake)	108,392	76	At 1.5x of BV
Other investments	36,574	26	At 20% holding discount and 1.0x of BV
Total	**921,966**	**650**	

Source: Company, Ambit Capital research

Exhibit 69: Summary of changes in our estimates and target price - reduced profitability in FY25E but increased for other years, which lead to an 88% jump in TP

Particulars	New Estimates			Old Estimates			Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Rating	**BUY**			**BUY**			**UNCHANGED**		
Target Price	**650**			**345**			**88%**		
Net Sales	4,579	4,469	4,357	3,814	3,437	3,288	20%	30%	33%
EBITDA	150	222	224	224	186	194	-33%	19%	15%
EBITDA (%)	3.3%	5.0%	5.1%	5.9%	6.0%	6.8%	-260bps	-102bps	-166bps
PBT	80	144	148	168	130	136	-53%	11%	9%
PAT	60	108	111	126	97	101	-53%	12%	10%
EPS	42	76	78	88.8	68.2	71.1	-53%	12%	10%

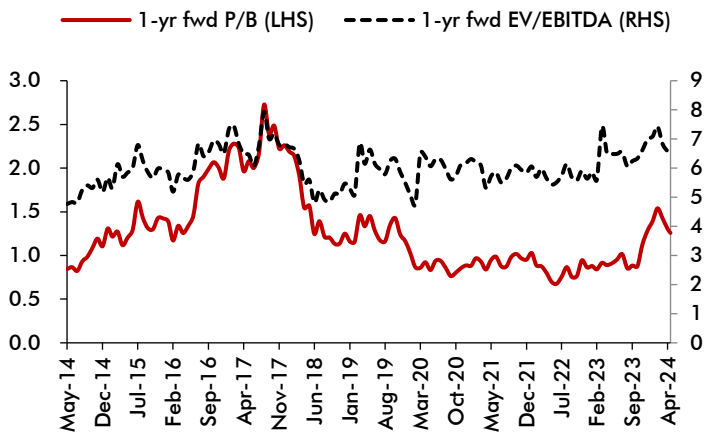
Source: Company, Ambit Capital research

Exhibit 70: Ambit vs. Consensus - we are below consensus for FY25E but higher for the next 2 years

Particular (₹ bn)	Ambit	BBG	Divergence (%)	VA	Divergence (%)
Revenue					
FY25E	4,579	4,105	12%	4,298	7%
FY26E	4,469	4,161	7%	4,381	2%
FY27E	4,357	4,168	5%	4,154	5%
EBITDA					
FY25E	150	180	-16%	168	-11%
FY26E	222	198	12%	185	20%
FY27E	224	215	4%	197	14%
EPS (₹)					
FY25E	42.1	66.3	-36%	56.2	-25%
FY26E	76.3	72.8	5%	62.4	22%
FY27E	78.4	80.8	-3%	74.4	5%

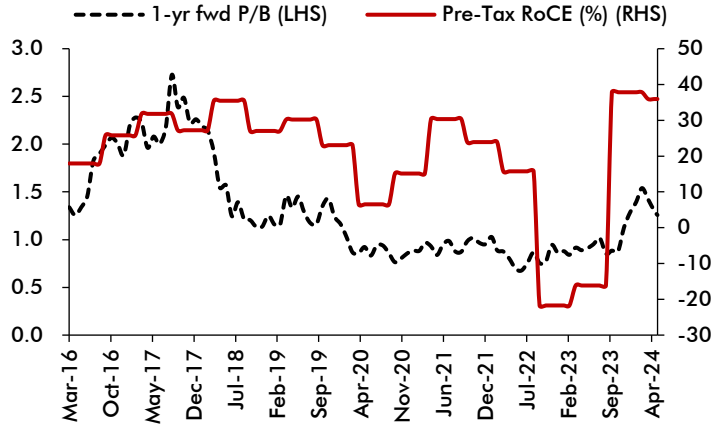
Source: Bloomberg, Visible Alpha, Ambit Capital research

Exhibit 71: Trading at 1% discount on P/B and 9% premium on EV/EBITDA; still sharply lower vs peak of last 10 years



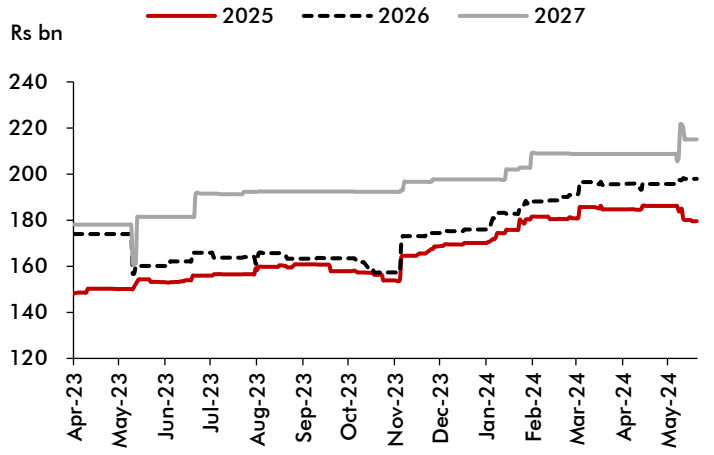
Source: Bloomberg, Ambit Capital research

Exhibit 72: Multiple has been largely moving in tandem with return profile



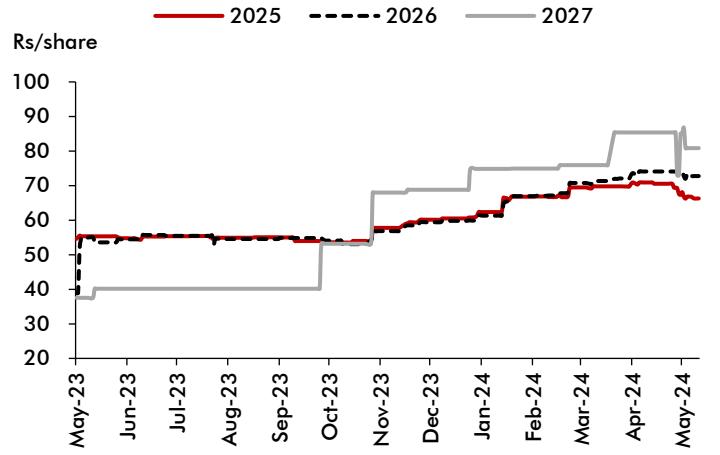
Source: Bloomberg, Ambit Capital research

Exhibit 73: Consistent increase in EBITDA estimates for the last one year due to expectations of higher GRM and higher GMM as well as commissioning of new capacity...



Source: Bloomberg, Ambit Capital research

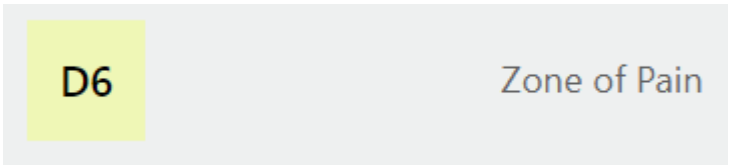
Exhibit 74: ...same is the case for EPS - minor setback in FY25E due to higher crude prices; we expect some more pressure but see improvement in FY26-27E



Source: Bloomberg, Ambit Capital research

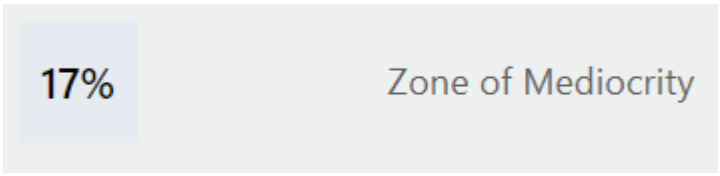
Ambit HAWK

Exhibit 75: Forensic Accounting Decline



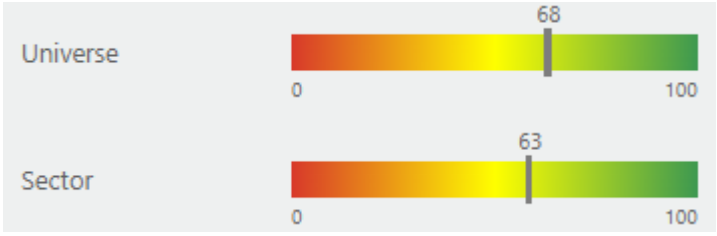
Source: Ambit HAWK, Company

Exhibit 76: Greatness Score



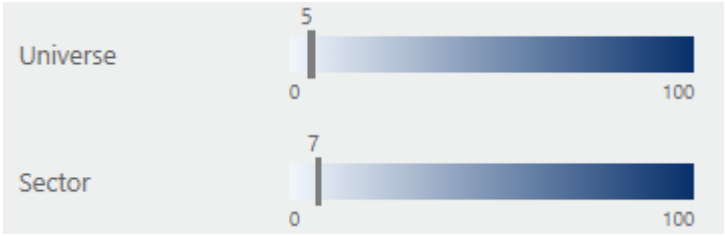
Source: Ambit HAWK, Company

Exhibit 77: Forensic Score Percentile



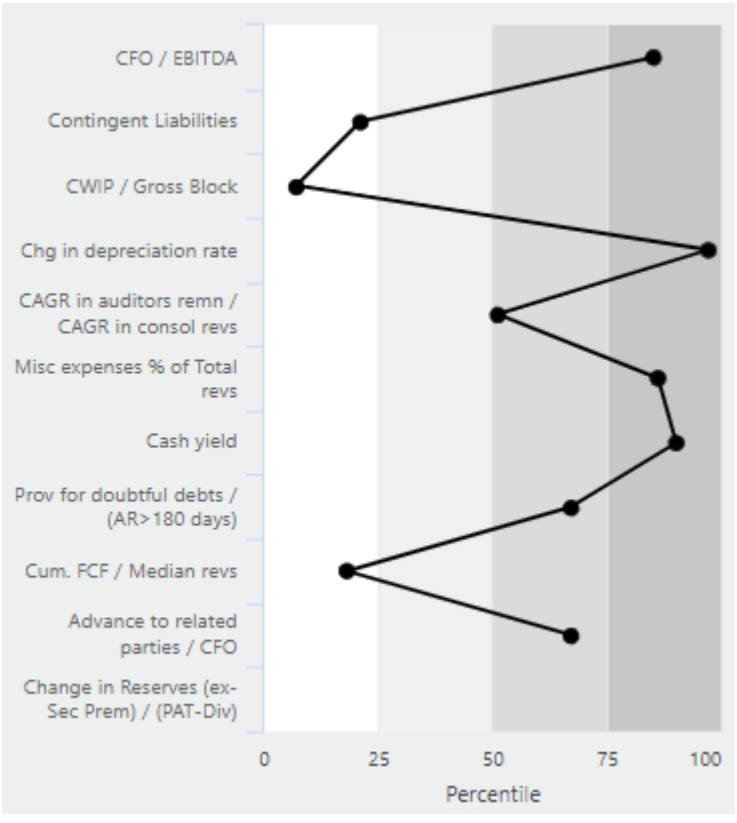
Source: Ambit HAWK, Company

Exhibit 78: Greatness Score Percentile



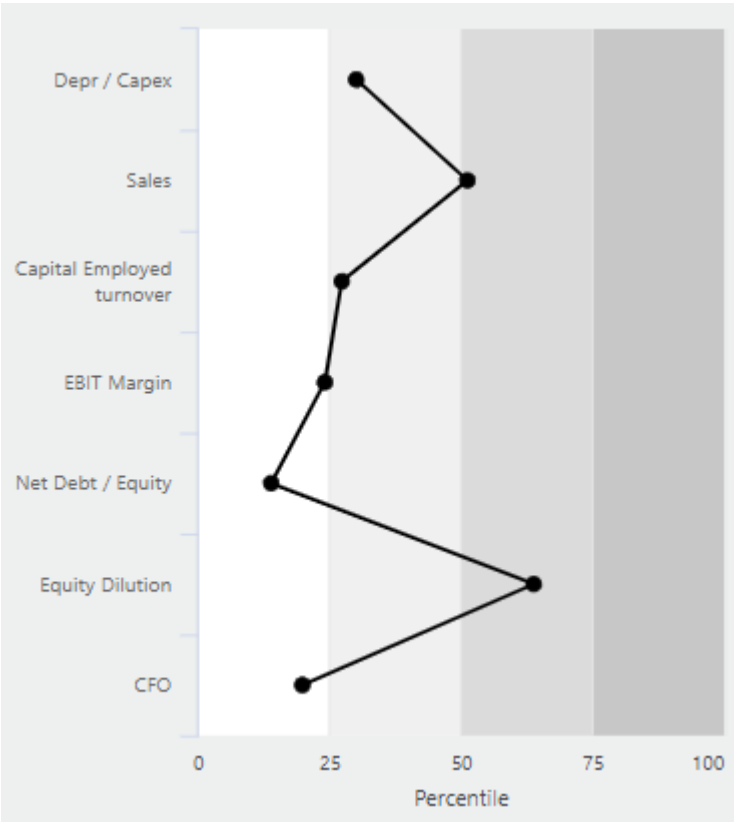
Source: Ambit HAWK, Company

Exhibit 79: Forensic Accounting Contributors



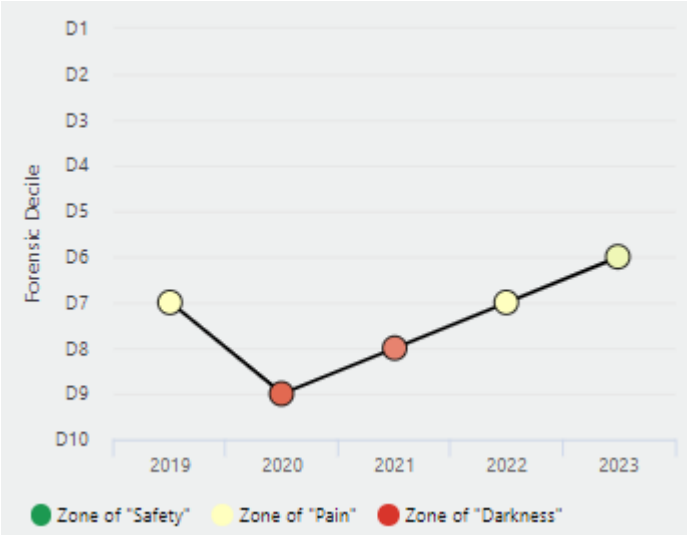
Source: Ambit HAWK, Company

Exhibit 80: Greatness Score Contributors



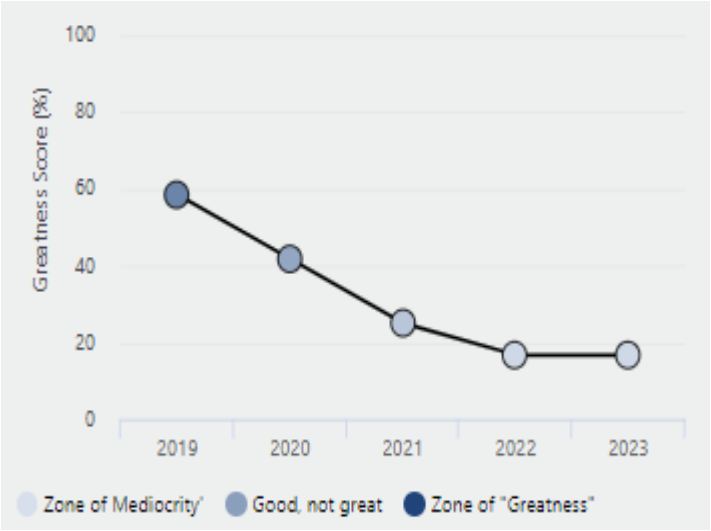
Source: Ambit HAWK, Company

Exhibit 81: Forensic Score – Evolution



Source: Ambit HAWK, Company

Exhibit 82: Greatness Score – Evolution



Source: Ambit HAWK, Company

Financial Statements – Standalone

Income Statement

Particulars (₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	**4,404,030**	**4,335,249**	**4,579,238**	**4,469,121**	**4,357,393**
Operating Expenses	(4,479,252)	(4,086,859)	(4,429,133)	(4,247,060)	(4,133,377)
EBIDTA	**(75,222)**	**248,390**	**150,105**	**222,062**	**224,016**
Interest	(21,319)	(25,157)	(29,360)	(31,844)	(31,844)
Depreciation	(43,300)	(55,524)	(66,080)	(71,894)	(77,708)
Other Income	20,691	23,822	25,013	25,920	33,773
PBT	**(119,149)**	**191,531**	**79,676**	**144,244**	**148,237**
Tax	29,409	(44,593)	(19,919)	(36,061)	(37,059)
PAT	**(89,740)**	**146,938**	**59,757**	**108,183**	**111,178**
EPS (₹)	(63.3)	103.6	42.1	76.3	78.4

Source: Ambit Capital research, Company

Balance Sheet

Particulars (₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
Shareholders' fund	277,134	410,298	446,649	536,659	614,937
Debt	680,051	641,195	741,195	741,195	741,195
Deferred Tax liability	30,110	69,899	69,899	69,899	69,899
Capital employed	**987,295**	**1,121,392**	**1,257,743**	**1,347,753**	**1,426,031**
Fixed Assets	903,857	954,775	988,695	1,016,801	1,039,092
Investments	160,418	204,954	254,954	304,954	354,954
Net Current Assets	(134,054)	(93,687)	(86,810)	(84,723)	(82,604)
Cash	57,075	55,351	35,206	45,023	48,891
Capital deployed	**987,295**	**1,121,392**	**1,257,743**	**1,347,753**	**1,426,031**

Source: Ambit Capital research, Company

Cash Flow Statement

Particulars (₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
Net profit before tax	(119,149)	191,531	79,676	144,244	148,237
Depreciation	43,300	55,524	66,080	71,894	77,708
Tax	(1,598)	(2,835)	(19,919)	(36,061)	(37,059)
(Incr)/decr in net working capital	13,860	(26,846)	(6,877)	(2,088)	(2,118)
Others	22,195	20,851	23,320	25,844	25,844
Cash flow from operations	**(41,392)**	**238,225**	**142,280**	**203,834**	**212,612**
Capex (net)	(89,900)	(97,167)	(150,000)	(150,000)	(150,000)
(Incr)/decr in investments	(19,427)	3,641	6,041	6,000	6,000
Cash flow from investments	**(109,328)**	**(93,526)**	**(143,959)**	**(144,000)**	**(144,000)**
Issue of equity	-	-	-	-	-
Net borrowings	205,732	(98,315)	100,000	0	0
Interest paid	(31,101)	(38,482)	(29,360)	(31,844)	(31,844)
Dividend paid	(19,857)	(21,305)	(23,406)	(18,173)	(32,900)
Cash flow from financing	**154,774**	**(158,103)**	**47,234**	**(50,017)**	**(64,744)**
Net change in cash	**4,054**	**(13,404)**	**45,554**	**9,817**	**3,868**

Source: Ambit Capital research, Company

Ratio Analysis

Particulars	FY23	FY24	FY25E	FY26E	FY27E
EBITDA margin (%)	-2%	6%	3%	5%	5%
Net profit margin (%)	-2%	3%	1%	2%	3%
RoCE (%)	-16%	24%	10%	16%	15%
RoE (%)	-27%	43%	14%	22%	19%
Net debt/ EBITDA (x)	(8.3)	2.4	4.7	3.1	3.1
Gross block turnover (x)	5.2	4.3	4.0	3.6	3.3
P/E (x)	(8.1)	4.9	12.1	6.7	6.5
EV/EBITDA (x)	(17.9)	5.3	9.5	6.4	6.3
P/B (x)	2.6	1.8	1.6	1.3	1.2

Source: Ambit Capital research, Company

Hindustan Petroleum (HPCL IN, BUY)

Valuation Methodology

We value HPCL on sum-of-parts. We calculate DCF value of standalone business and assume a 1% long-term growth rate and 11% WACC. We value other listed and unlisted investments by using different valuation methodologies. 75% of our valuation is from standalone business while the rest from investments in HMEL, HRRL, and others. Our valuation implies 1.7x FY26E P/B vs. current and long-term multiple of 1.3x.

Risks

1) Higher crude prices and below mid-cycle GRMs, 2) less-than-expected increase in marketing volumes and 3) delay in commissioning of bottom upgradation at VR and new refinery in Rajasthan.

Indian Oil Corporation Limited

Refining portfolio of 70MMtpa will boost earnings in an above mid-cycle refining margin scenario (US$9.0/bbl in FY25-27E) while refining cover of about 90% provides safety during times of high crude price. Whilst IOCL has announced refining capacity expansion plans of over 25MMtpa, we note that its capex is now more aligned with OCF, keeping leverage in control. Also, IOCL is best placed among OMCs for energy transition due to its wide network of retail outlets, large-scale project management capabilities, and a huge customer base. Both refining and marketing segments are expected to be profitable and would lead to an EPS CAGR of 12%/9% in FY25-27E/FY25-30E. However, pre-tax RoCE would be under pressure (9% vs. 11% in FY20-24) given high capex intensity. While it needs to borrow in FY25E, both leverage profile and dividend cover are expected to be strong after that. We put it under review in Apr-24 and are now reinstating BUY. Our valuation implies 1.4x FY26E P/B vs current and long-term multiple of 1.1x.

Exhibit 83: Summary of operational and financial metrics - improvement expected for all parameters like volumes, margins and leverage; however, return profile would be under pressure in the medium term given higher capex

Particular (₹ bn)	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Overall business								
Revenue	4,857	3,781	5,982	8,395	7,743	8,169	8,088	7,910
EBITDA	188	381	433	229	697	412	505	500
PAT	13	218	242	82	396	169	225	213
Refining Division								
Throughput (MMT)	69.4	62.4	67.7	72.4	73.3	73.3	77.9	87.9
GRMs (US$/bbl)	0.1	5.6	11.3	19.7	12.0	9.0	9.0	9.0
Gross profit	3	192	417	843	536	402	428	483
Marketing Division								
Volumes (MMT)	84.4	74.7	79.6	89.0	88.5	91.6	94.8	98.1
Margin (₹/L)	5.3	5.4	3.8	(2.6)	5.6	3.4	4.5	4.5
Gross Profit	529	472	356	(282)	587	363	552	519
Pipeline Division								
Throughput (MMT)	85	76	83	97	99	99	99	99
Margin (₹/MMT)	1,082	1,136	1,147	1,170	1,205	1,265	1,328	1,395
Gross profit	92	86	95	114	119	125	131	138
Petrochemical Division								
Throughput (MMT)	2.2	2.7	2.9	2.2	3.1	3.1	3.1	3.1
Margin (₹/MMT)	20,737	30,914	27,553	14,371	9,974	12,168	16,372	20,581
Gross profit	46	83	79	32	30	37	50	63
Important metrics								
Refining Cover (%)	88%	90%	92%	86%	88%	85%	87%	95%
Capex	296	222	248	335	402	300	300	300
FCF	(243)	279	(45)	(160)	269	(80)	123	126
Net debt	1,160	1,007	1,186	1,408	1,250	1,452	1,404	1,366
Net debt/EBITDA (x)	6.2	2.6	2.7	6.2	1.8	3.5	2.8	2.7
Net debt/equity (x)	1.2	0.9	0.9	1.0	0.7	0.8	0.7	0.6
DPS (₹/share)	3.4	6.8	6.8	3.0	12.0	3.6	4.8	4.5
Dividend Cover (%)	-504%	289%	-47%	-484%	244%	-81%	244%	187%
Pre-Tax RoCE (%)	5%	13%	14%	4%	19%	8%	10%	9%

Source: Company, Ambit Capital research. Note: Overall volumes (domestic + exports) have been considered for marketing division while only domestic for refining cover

Exhibit 84: SoTP valuation - about 70% of value from standalone operations and the remaining 30% from investments in ONGC, PLNG and others

Particular	Value of Equity (₹ mn)	Valuation (₹/share)	Comments
Standalone			
Refinery, Pipeline and Marketing	2,002,006	142	Book value adjusted for cost of investments which has been valued separately.
Listed investments			
ONGC	244,748	17	At 20% holding discount and our TP
PLNG	33,000	2	At 20% holding discount and our TP
Oil India	27,821	2	At 20% holding discount and CMP
GAIL	22,217	2	At 20% holding discount and our TP
CPCL	55,631	4	At 20% holding discount and CMP
Lanka IOC	8,206	1	At 20% holding discount and CMP
Other investments	427,841	30	1x P/B
TOTAL		**200**	

Source: Company, Ambit Capital research

Exhibit 85: Summary of changes in our estimates and target price; we reduce our estimates for FY25E but increase them for other years which leads to a 74% jump in TP

Particular (₹ bn)	New Estimates			Old Estimates			Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Rating	**BUY**			**BUY**			**UNCHANGED**		
Target Price (₹)	**200**			**115**			**74%**		
Net Sales	8,169	8,088	7,910	7,392	7,185	6,501	11%	13%	22%
EBITDA	412	505	500	500	437	451	-18%	15%	11%
EBITDA (%)	5.0%	6.2%	6.3%	6.8%	7.8%	8.7%	-172bps	-155bps	-240bps
PBT	225	300	284	335	284	271	-33%	6%	5%
PAT	169	225	213	252	197	203	-33%	14%	5%
EPS (₹)	12.0	15.9	15.1	17.8	13.9	14.4	-33%	14%	5%

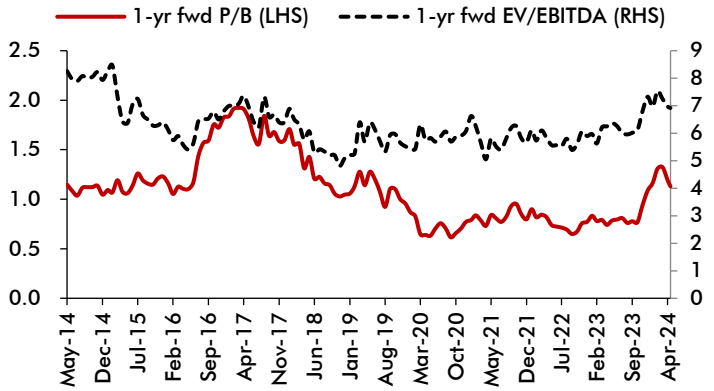
Source: Company, Ambit Capital research

Exhibit 86: Ambit vs. Consensus - we are below consensus for FY25-FY27E

Particular (₹ bn)	Ambit	BBG	Divergence (%)	VA	Divergence (%)
Revenue					
FY25E	8,169	7,753	5%	8,298	-2%
FY26E	8,088	7,624	6%	8,225	-2%
FY27E	7,910	7,495	6%	8,403	-6%
EBITDA					
FY25E	412	482	-15%	461	-11%
FY26E	505	501	1%	496	2%
FY27E	500	510	-2%	517	-3%
EPS (₹)					
FY25E	12.0	16.1	-26%	15.3	-22%
FY26E	15.9	17.0	-6%	16.5	-4%
FY27E	15.1	17.2	-12%	16.7	-10%

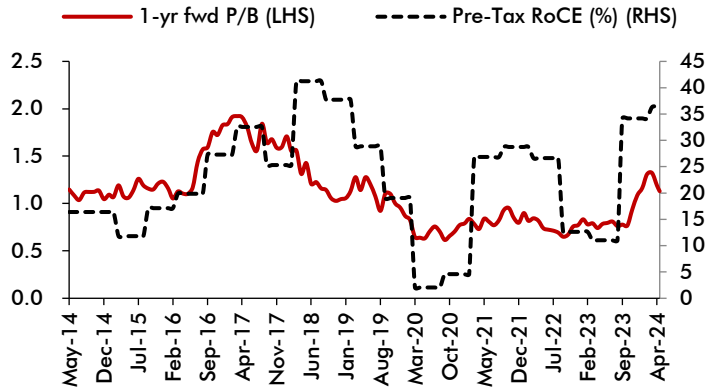
Source: Bloomberg, Visible Alpha, Ambit Capital research

Exhibit 87: Trading at 3%/10% premium on P/B and EV/EBITDA but sharply lower vs. peak of last 10 years



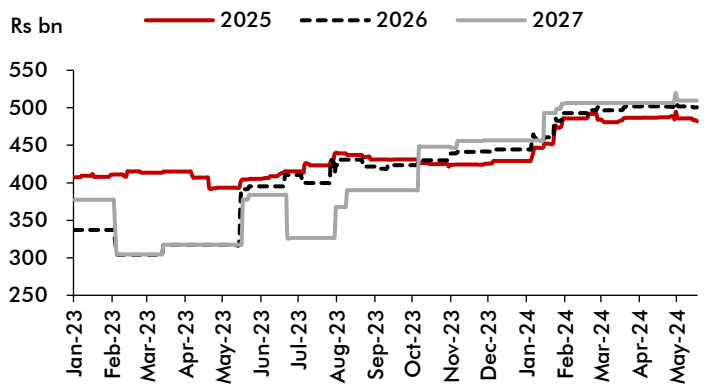
Source: Bloomberg, Ambit Capital research

Exhibit 88: Multiples have been largely moving in tandem with return profile



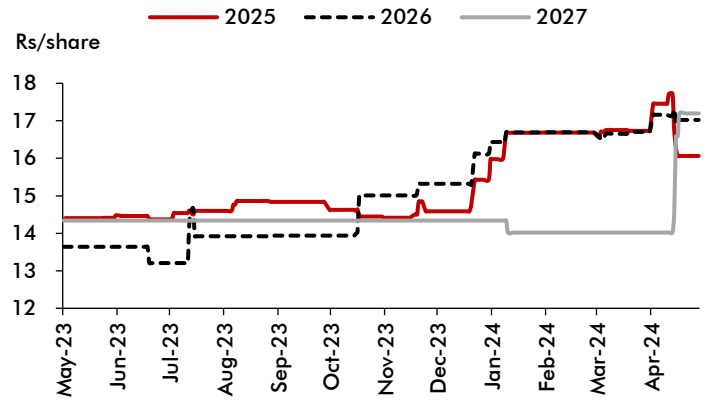
Source: Bloomberg, Ambit Capital research

Exhibit 89: Consistent increase in EBITDA estimates for last one year due to expectations of higher GRM and higher GMM as well as commissioning of new capacity...



Source: Bloomberg, Ambit Capital research

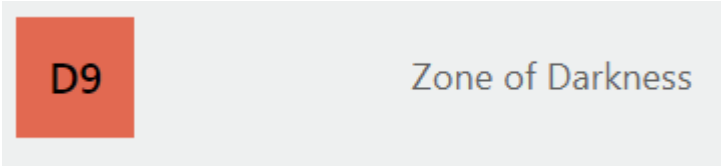
Exhibit 90: ...same is the case for EPS; minor setback for FY25E recently due to higher crude prices; we expect some more pressure but see improvement in FY26-27E



Source: Bloomberg, Ambit Capital research

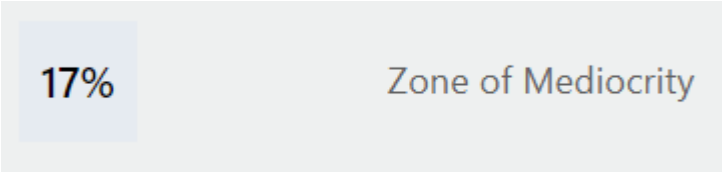
Ambit HAWK

Exhibit 91: Forensic Accounting Decline



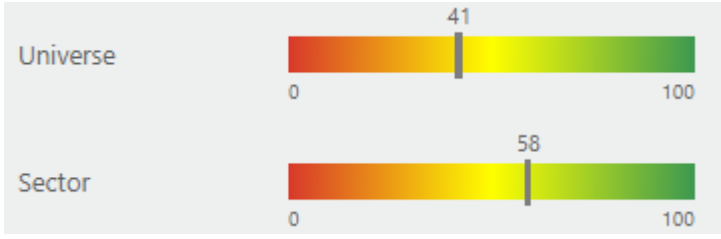
Source: Ambit HAWK, Company

Exhibit 92: Greatness Score



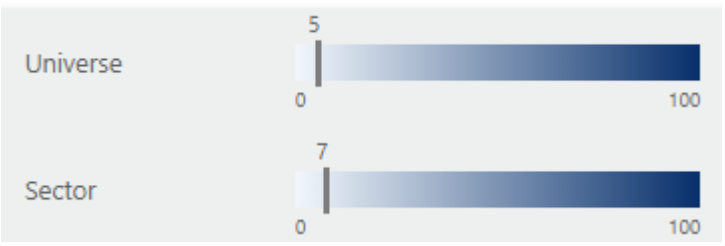
Source: Ambit HAWK, Company

Exhibit 93: Forensic Score Percentile



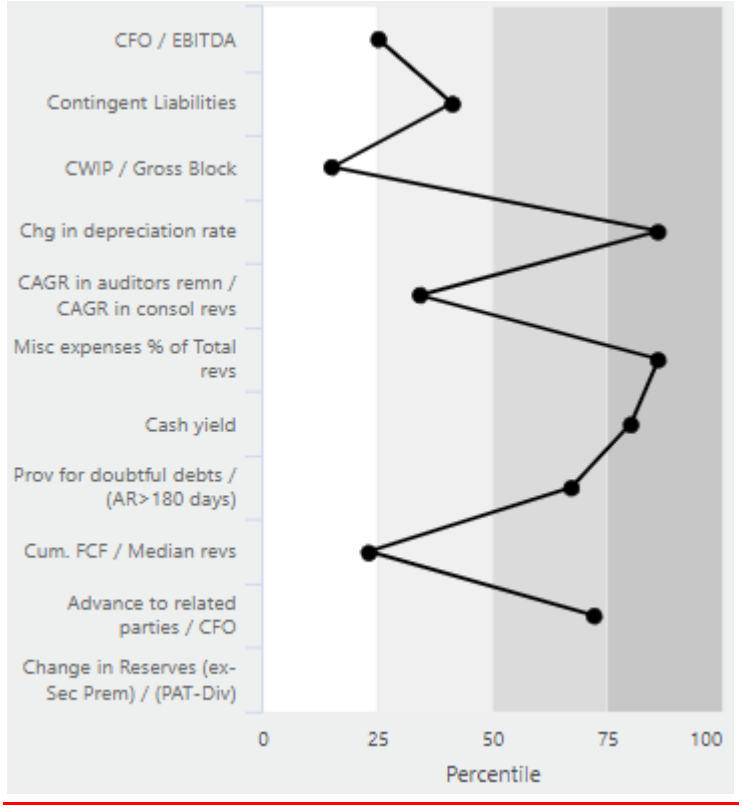
Source: Ambit HAWK, Company

Exhibit 94: Greatness Score Percentile



Source: Ambit HAWK, Company

Exhibit 95: Forensic Accounting Contributors

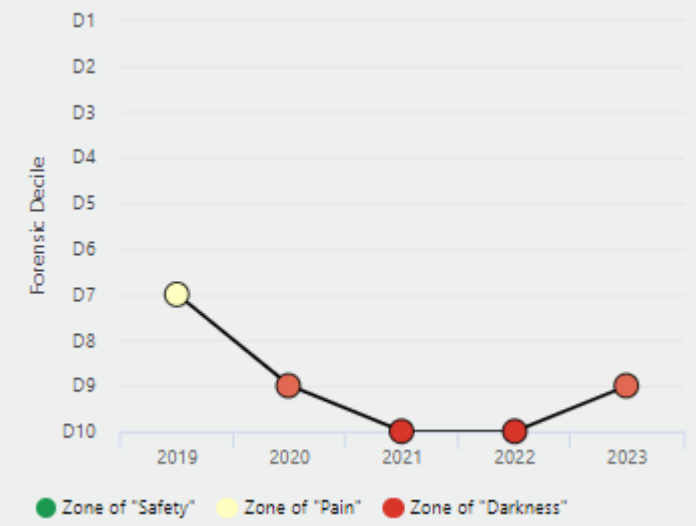


Source: Ambit HAWK, Company

Exhibit 96: Greatness Score Contributors

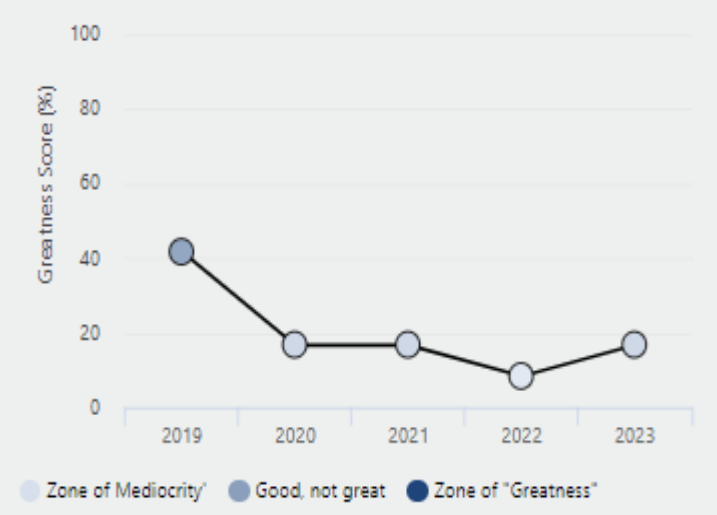
Source: Ambit HAWK, Company

Exhibit 97: Forensic Score – Evolution



Source: Ambit HAWK, Company

Exhibit 98: Greatness Score – Evolution



Source: Ambit HAWK, Company

Financial Statements - Standalone

Income Statement

Particular (₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
Net Revenue	8,394,722	7,743,486	8,169,112	8,087,778	7,909,873
Total Expenditure	8,166,084	7,046,757	7,757,246	7,583,194	7,410,014
EBIDTA	**228,638**	**696,729**	**411,866**	**504,584**	**499,860**
Depreciation	124,706	147,817	155,866	172,058	188,250
EBIT	**103,932**	**548,912**	**256,000**	**332,526**	**311,610**
Interest	69,303	73,278	80,936	85,404	82,872
Other income	62,352	47,808	50,199	52,709	55,344
PBT	**96,981**	**523,442**	**225,263**	**299,831**	**284,082**
Tax	14,563	127,254	56,316	74,958	71,020
PAT	**82,418**	**396,188**	**168,947**	**224,873**	**213,061**
Consolidated PAT	82,418	396,188	168,947	224,873	213,061
EPS (₹/share)	**5.8**	**28.1**	**12.0**	**15.9**	**15.1**

Source: Ambit Capital research, Company

Balance Sheet

Particular (₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	137,716	137,716	137,716	137,716	137,716
Reserves & surplus	1,209,860	1,629,434	1,699,533	1,873,722	2,019,321
Shareholders' fund	1,347,575	1,767,150	1,837,248	2,011,437	2,157,037
Debt	1,415,500	1,258,667	1,458,667	1,408,667	1,373,667
Deferred Tax Liability	146,130	166,371	166,371	166,371	166,371
Capital employed	**2,909,206**	**3,192,188**	**3,462,286**	**3,586,475**	**3,697,074**
Gross Fixed Assets	2,286,163	2,587,793	2,887,793	3,187,793	3,487,793
Accumulated Depreciation	631,309	779,126	934,991	1,107,049	1,295,299
Net fixed assets (incl.WIP)	2,144,761	2,399,324	2,543,458	2,671,400	2,783,150
Investments	575,193	710,882	710,882	710,882	710,882
Net working capital	181,522	73,660	201,430	199,425	195,038
Cash and bank balance	7,730	8,322	6,516	4,768	8,004
Capital deployed	**2,909,206**	**3,192,188**	**3,462,286**	**3,586,475**	**3,697,074**

Source: Ambit Capital research, Company

Cash Flow Statement

Particular (₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
Net profit before tax	82,418	396,188	168,947	224,873	213,061
Depreciation	103,653	147,817	155,866	172,058	188,250
Tax	(14,563)	(127,254)	(56,316)	(74,958)	(71,020)
(Incr)/decr in net working capital	(37,802)	107,862	(127,770)	2,005	4,387
Cash flow from operations	**133,706**	**524,614**	**140,727**	**323,979**	**334,678**
Capex (net)	(335,065)	(402,380)	(300,000)	(300,000)	(300,000)
(Incr)/decr in investments	2,674	(135,689)	-	-	-
Cash flow from investments	**(332,391)**	**(538,069)**	**(300,000)**	**(300,000)**	**(300,000)**
Net borrowings	220,872	(156,834)	200,000	(50,000)	(35,000)
Net Interest paid	(69,303)	(73,278)	(80,936)	(85,404)	(82,872)
Dividend paid	(33,050)	(110,218)	(98,849)	(50,684)	(67,462)
Cash flow from financing	118,520	(340,330)	20,215	(186,088)	(185,334)
Net change in cash	**(80,166)**	**(353,785)**	**(139,058)**	**(162,109)**	**(150,656)**

Source: Ambit Capital research, Company

Ratio Analysis

Particulars	FY23	FY24	FY25E	FY26E	FY27E
BV (₹)	95	125	130	142	153
Dividend yield (%)	2%	6%	2%	2%	2%
P/E (x)	34.3	7.1	16.7	12.6	13.3
EV/EBITDA (x)	18.5	5.8	10.4	8.4	8.4
P/B (x)	2.1	1.6	1.5	1.4	1.3
EBITDA margin (%)	3.3%	3.3%	3.3%	3.3%	3.3%
RoCE (%)	4%	19%	8%	10%	9%
RoE (%)	6%	25%	9%	12%	10%
Net Debt/Equity (%)	104%	71%	79%	70%	63%
Net debt/ EBITDA (x)	6.2	1.8	3.5	2.8	2.7

Source: Ambit Capital research, Company

Indian Oil Corp (IOCL IN, BUY)

Valuation Methodology

We value IOCL on sum-of-parts. We calculate DCF value of standalone business and assume a 1% long-term growth rate and 11% WACC. We value other listed and unlisted investments by using different valuation methodologies. 70% of our valuation is from standalone business while the rest from investments in ONGC, PLNG and others. Our valuation implies 1.4x FY26E P/B vs. current and long-term multiple of 1.1x.

Risks

1) Higher crude prices and below mid-cycle GRMs, 2) less-than-expected increase in marketing volumes, 3) delay in commissioning of new refining capacity and 4) sharp increase in capex from the current level

Bharat Petroleum Corporation Limited

Among OMCs, BPCL is best based on refining utilization (above 100%), distillate production (about 85%), and throughput per outlet. It has increased focus on petrochemicals, upstream and gas businesses while foraying into renewables. Given the government's focus on divestment, its capex risks used to be the least among peers. However, it is now entering into a new capex cycle to build both conventional and new energy assets; capex budget is ₹1.7tn in FY25-29E vs. ₹560bn in FY20-24. Despite earnings CAGR of 24%/10% in FY25-27E/FY25-30E given profitable refining and marketing businesses, high capex intensity would put pressure on the return profile. We expect pre-tax RoCE of 15%/13% vs. 15% in FY20-24. While it needs to borrow in FY25-29E to fund capex and dividends, debt/equity ratio remains below 1x. We had put it under review in Apr-24 and now reinstate BUY. Our valuation implies 1.7x FY26E P/B vs. current/long-term multiple of 1.4x/1.9x.

Exhibit 99: Summary of operational and financial metrics - improvement expected for most of parameters like volumes and margins; however, leverage and return profile would be under pressure from FY27-29E given high capex intensity

Particular (₹ bn)	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Overall business								
Revenue	2,844	2,325	3,466	4,731	4,480	4,815	4,808	4,714
EBITDA	65	171	190	110	442	190	273	269
PAT	27	190	114	19	267	93	155	143
Refining Division								
Throughput (MMT)	39.8	32.6	37.9	38.5	39.9	39.3	37.3	37.3
GRMs (US$/bbl)	2.5	4.1	9.1	20.2	14.1	10.0	10.0	10.0
Gross profit	52	72	188	461	343	242	232	232
Marketing Division								
Volumes (MMT)	45.7	40.7	44.6	50.2	52.2	54.3	56.5	58.7
Margin (₹/L)	4.8	6.9	5.7	(2.2)	6.1	3.8	5.0	5.0
Gross Profit	242	314	283	(118)	376	239	347	359
Important metrics								
Refining cover (%)	92%	84%	89%	79%	78%	74%	68%	65%
Capex	140	108	244	90	69	155	180	250
FCF	(52)	93	(56)	(9)	287	134	56	(18)
Net debt	477	271	483	427	234	142	106	162
Net debt/EBITDA (x)	7.4	1.6	2.5	3.9	0.5	0.7	0.4	0.6
Net debt/equity (x)	1.4	0.5	0.9	0.8	0.3	0.2	0.1	0.2
DPS (₹/share)	17	79	16	4	42	13	22	20
Dividend Cover (%)	-84%	204%	-38%	-68%	539%	298%	200%	-38%
Pre-Tax RoCE (%)	4%	15%	14%	5%	38%	12%	19%	16%

Source: Company, Ambit Capital research. Note: Overall volumes (domestic + exports) have been considered for marketing division while only domestic for refining cover

Exhibit 100: SoTP valuation - 87% of total value from standalone operations and the remaining 13% from investments in upstream business, IGL and others

Particular	Value of equity (₹ mn)	Value/ Share (₹)	Comments
Core business			
Refining and Marketing	1,397,881	654	Book value adjusted for cost of investments which has been valued separately
E&P business	35,285	17	Based on 20% discount to segment capital employed
Listed Investments			
PLNG (12.5% stake)	33,000	15	At 20% holding discount to our TP
IGL (22.5% stake)	50,400	24	At 20% holding discount to our TP
Oil India (2.5% stake)	13,910	7	At 20% holding discount to our CMP
Un-listed investments			
Bharat Gas Resources	39,807	19	2.0x P/B
Other Investments	32,947	15	1.0x P/B
TOTAL	**1,603,230**	**750**	

Source: Company, Ambit Capital research

Exhibit 101: Summary of changes in our estimates and target price - we reduced our estimates for FY25E but increased for other years and this led to a 56% jump in TP

Particulars(₹ bn)	New Estimates			Old Estimates			Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Rating	BUY			BUY			UNCHANGED		
TP (₹)	750			480			56%		
Revenue	4,815	4,808	4,714	4,772	4,355	4,203	1%	10%	12%
EBITDA	190	273	269	237	236	246	-20%	15%	10%
EBITDA (%)	3.9%	5.7%	5.7%	5.0%	5.4%	5.8%	-102bps	25bps	-13bps
PBT	124	206	191	162	152	145	-24%	35%	31%
PAT	93	155	143	122	114	109	-24%	35%	31%
EPS (₹)	43.5	72.3	67.1	57.2	53.6	51.2	-24%	35%	31%

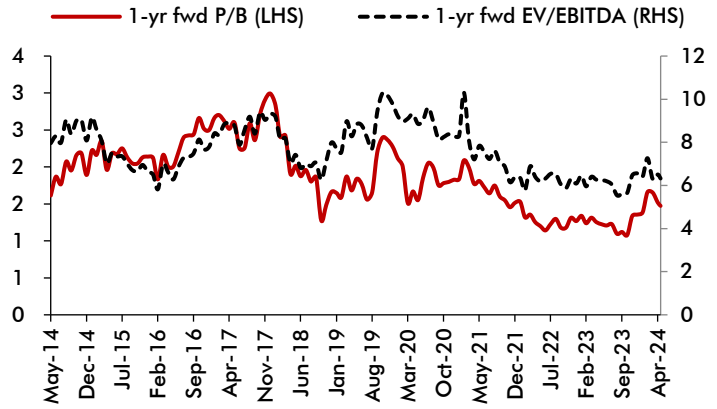
Source: Company, Ambit Capital research

Exhibit 102: Ambit vs. consensus - we are below consensus for FY25E, higher for FY26-27E

Particular (₹ bn)	Ambit	BBG	Divergence (%)	VA	Divergence (%)
Revenue					
FY25E	4,815	4,406	9%	5,073	-5%
FY26E	4,808	4,514	7%	5,132	-6%
FY27E	4,714	4,446	6%	5,135	-8%
EBITDA					
FY25E	190	243	-22%	240	-21%
FY26E	273	246	11%	249	10%
FY27E	269	244	10%	262	3%
EPS (₹)					
FY25E	43.5	61.6	-29%	63.2	-31%
FY26E	72.3	59.5	22%	64.9	12%
FY27E	67.1	49.3	36%	68.1	-1%

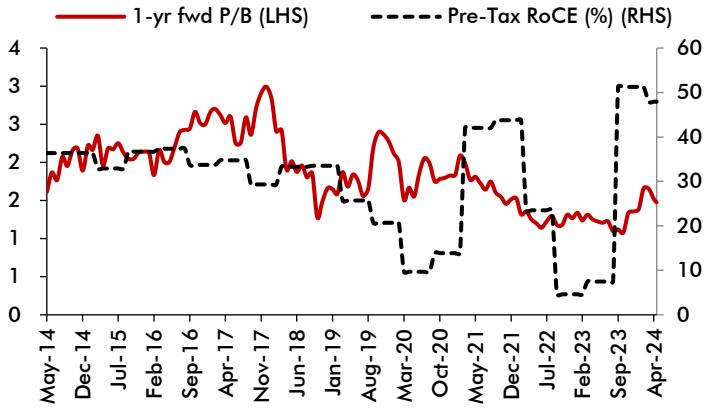
Source: Bloomberg, Visible Alpha, Ambit Capital research

Exhibit 103: Trading at 21%/17% discount on P/B and EV/EBITDA, and sharply lower vs peak of the last 10 years



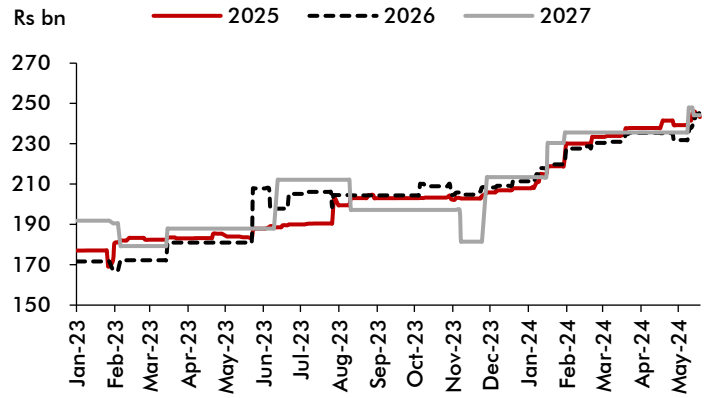
Source: Bloomberg, Ambit Capital research

Exhibit 104: Multiples have been moving in tandem with return profile



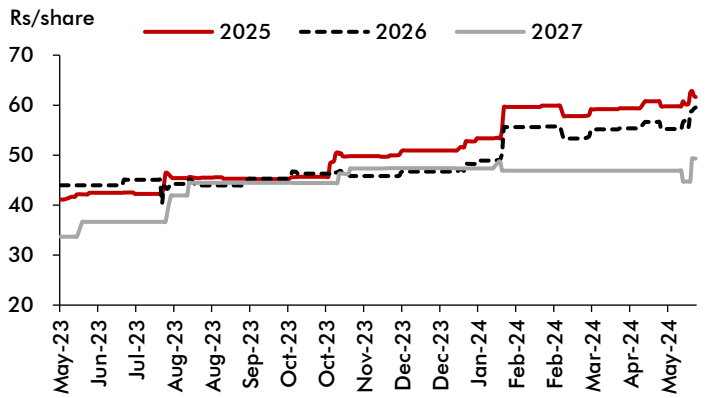
Source: Bloomberg, Ambit Capital research

Exhibit 105: Consistent increase in EBITDA estimates for the last one year due to expectation of higher GRM and higher GMM…



Source: Bloomberg, Ambit Capital research

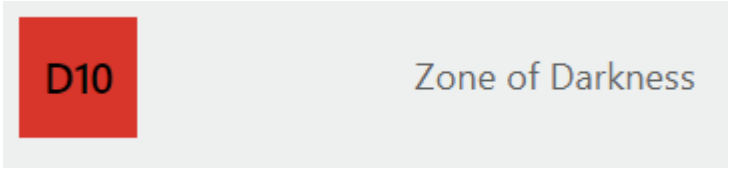
Exhibit 106: …same is the case for EPS; minor setback for FY25E recently due to higher crude prices; we expect some more pressure but see improvement for FY26-27E



Source: Bloomberg, Ambit Capital research

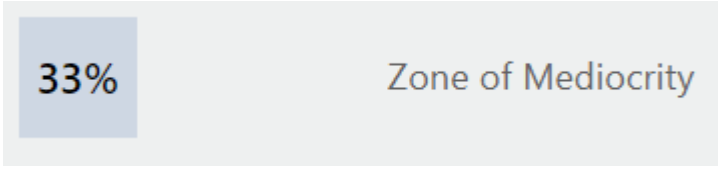
Ambit HAWK

Exhibit 107: Forensic Accounting Decile



Source: Ambit HAWK, Company

Exhibit 108: Greatness Score

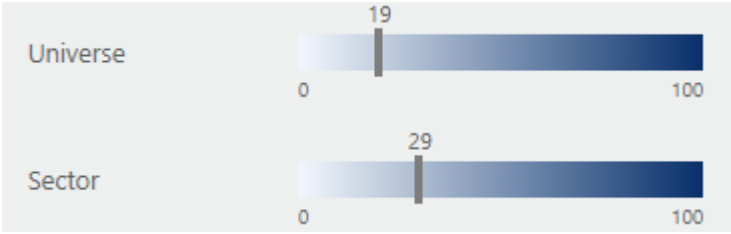


Source: Ambit HAWK, Company

Exhibit 109: Forensic Score Percentile

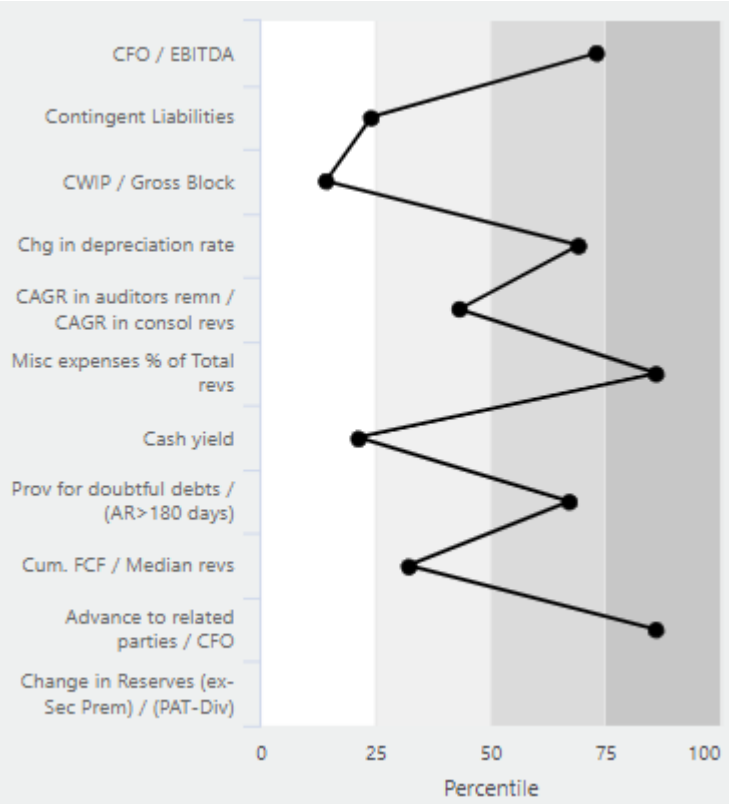
Source: Ambit HAWK, Company

Exhibit 110: Greatness Score Percentile



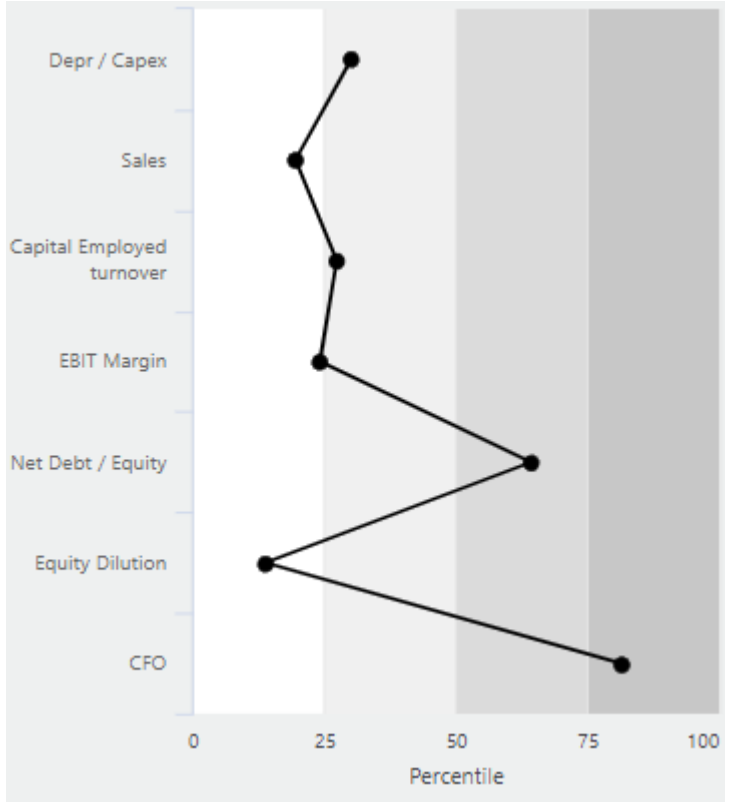
Source: Ambit HAWK, Company

Exhibit 111: Forensic Accounting Contributors



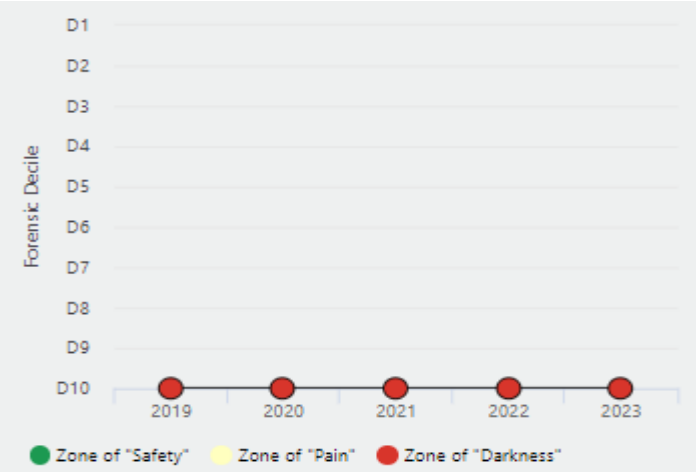
Source: Ambit HAWK, Company

Exhibit 112: Greatness Score Contributors



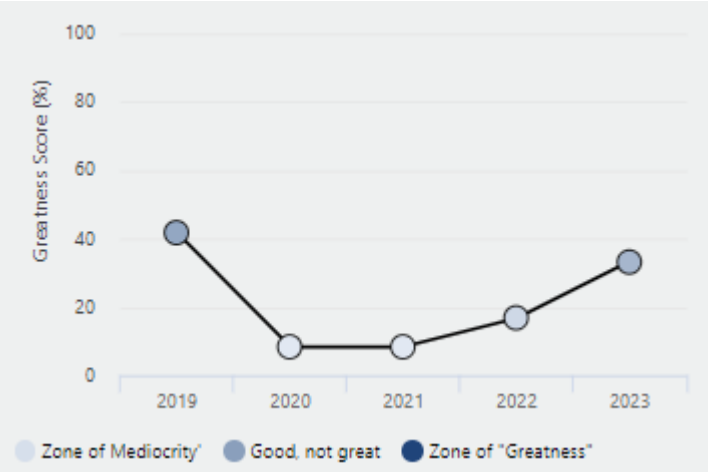
Source: Ambit HAWK, Company

Exhibit 113: Forensic Score – Evolution



Source: Ambit HAWK, Company

Exhibit 114: Greatness Score – Evolution



Source: Ambit HAWK, Company

Financial Statements - Standalone

Income Statement

Particular (₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	**4,731,247**	**4,480,132**	**4,814,909**	**4,808,415**	**4,714,304**
Operating Expenses	(4,621,680)	(4,038,561)	(4,625,000)	(4,535,367)	(4,444,939)
EBITDA	**109,566**	**441,571**	**189,910**	**273,048**	**269,366**
Interest	(32,165)	(24,730)	(20,970)	(16,388)	(16,388)
Depreciation	(63,475)	(67,501)	(70,395)	(77,183)	(89,683)
Other Income/Exceptional	8,240	6,144	25,331	26,597	27,927
PBT	**22,167**	**355,484**	**123,876**	**206,074**	**191,222**
Tax	(3,466)	(88,749)	(30,969)	(51,519)	(47,806)
PAT	**18,701**	**266,735**	**92,907**	**154,556**	**143,417**
EPS (₹)	13.0	130.8	43.5	72.3	67.1

Source: Ambit Capital research, Company

Balance Sheet

Particular (₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
Shareholders' fund	519,963	746,748	794,793	921,476	1,018,526
Debt	447,751	278,806	178,806	178,806	178,806
Deferred Tax liability	70,683	66,706	66,706	66,706	66,706
Capital employed	**1,038,398**	**1,092,261**	**1,040,305**	**1,166,989**	**1,264,039**
Fixed Assets	922,696	955,190	1,039,796	1,142,613	1,302,930
Investments	138,724	144,580	144,580	144,580	144,580
Net Current Assets	(44,226)	(52,416)	(181,020)	(192,610)	(200,527)
Cash	21,204	44,906	36,950	72,405	17,056
Capital deployed	**1,038,398**	**1,092,261**	**1,040,305**	**1,166,989**	**1,264,039**

Source: Ambit Capital research, Company

Cash Flow Statement

Particular (₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
Net profit before tax	22,167	355,484	123,876	206,074	191,222
Depreciation	63,475	67,501	70,395	77,183	89,683
Tax	(3,466)	(88,749)	(30,969)	(51,519)	(47,806)
(Incr)/decr in net working capital	(17,109)	8,190	128,604	11,589	7,918
Others	54,973	(3,977)	20,970	16,388	16,388
Cash flow from operations	**120,040**	**338,450**	**312,876**	**259,715**	**257,405**
Capex (net)	(96,605)	(99,995)	(155,000)	(180,000)	(250,000)
(Incr)/decr in investments	(48,447)	5,857	-	-	-
Cash flow from investments	**(48,158)**	**(105,852)**	**(155,000)**	**(180,000)**	**(250,000)**
Others	-	-	-	-	-
Net borrowings	(49,994)	(168,945)	(100,000)	-	-
Net Interest paid	10,325	606	(4,360)	(10,209)	(11,539)
Dividend paid	(13,016)	(53,288)	(44,862)	(27,872)	(46,367)
Cash flow from financing	**(52,685)**	**(221,628)**	**(149,222)**	**(38,081)**	**(57,906)**
Net change in cash	19,197	10,970	8,653	41,634	(50,501)

Source: Ambit Capital research, Company

Ratio Analysis

Particular	FY23	FY24	FY25E	FY26E	FY27E
EBITDA margin (%)	2%	10%	4%	6%	6%
Net profit margin (%)	0%	6%	2%	3%	3%
RoCE (%)	5%	38%	12%	19%	16%
RoE (%)	4%	42%	12%	18%	15%
Net debt/ EBITDA (x)	3.9	0.5	0.7	0.4	0.6
Gross block turnover (x)	4.2	3.7	3.5	3.1	2.6
P/E (x)	66.1	4.6	13.3	8.0	8.6
EV/EBITDA (x)	11.5	2.4	5.1	3.4	3.7
P/B (x)	2.4	1.7	1.6	1.3	1.2

Source: Ambit Capital research, Company

Bharat Petroleum (BPCL IN, BUY)

Valuation Methodology

We value BPCL on sum-of-parts. We calculate DCF value of standalone business and assume a 1% long-term growth rate and 11% WACC. We value other listed and unlisted investments by using different valuation methodologies. 87% of our valuation is from standalone business while the rest from investments in IGL, PLNG and others. Our valuation implies 1.7x FY26E P/B vs. current/long-term multiples of 1.4x/1.9x.

Risks

1) Higher crude prices and below mid-cycle GRMs, 2) less-than-expected increase in marketing volumes, 3) further increase in capex intensity and 4) issue in building petrochemical capacity.

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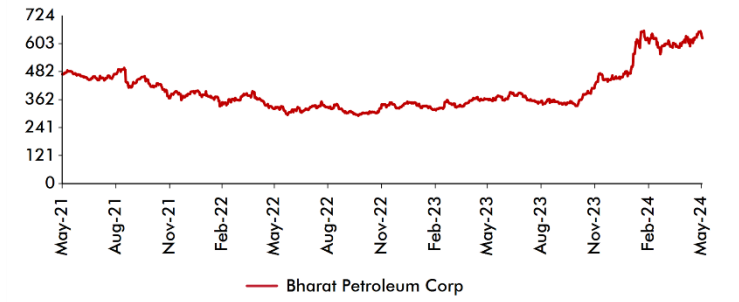
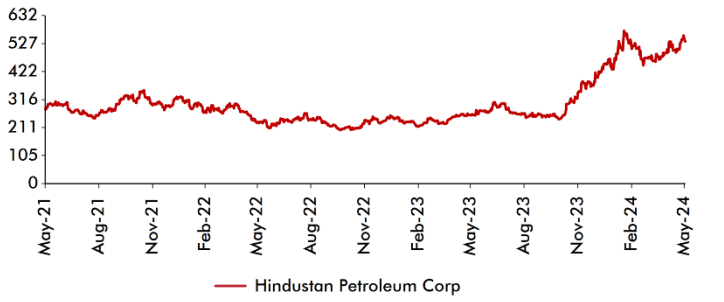
Bharat Petroleum Corp (BPCL IN, BUY, CMP: ₹ 626)



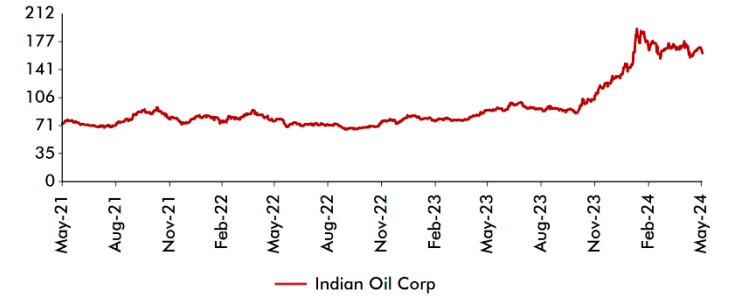
Source: ICE, Ambit Capital research

Hindustan Petroleum Corp (HPCL IN, BUY, CMP: ₹ 534)



Source: ICE, Ambit Capital research

Indian Oil Corp (IOCL IN, BUY, CMP: ₹ 162)



Source: ICE, Ambit Capital research

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SELL	We expect this stock to deliver less than or equal to 10 % returns over the next 12 months
UNDER REVIEW	We have coverage on the stock but we have suspended our estimates, TP and recommendation for the time being NOT
NOT RATED	We do not have any forward-looking estimates, valuation, or recommendation for the stock.

Note: At certain times the Rating may not be in sync with the description above as the stock prices can be volatile and analysts can take time to react to development.

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