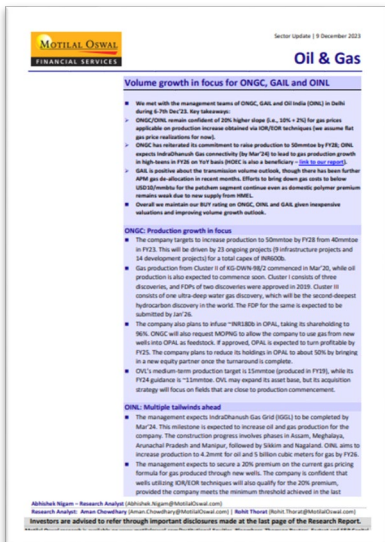
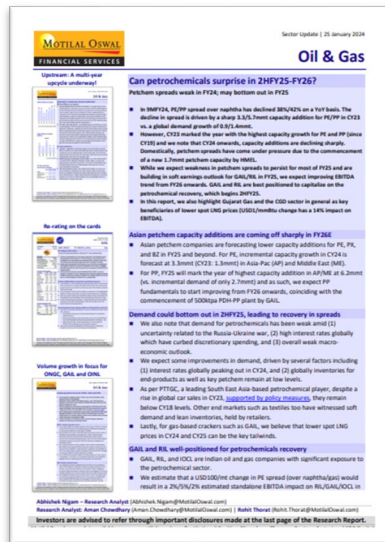
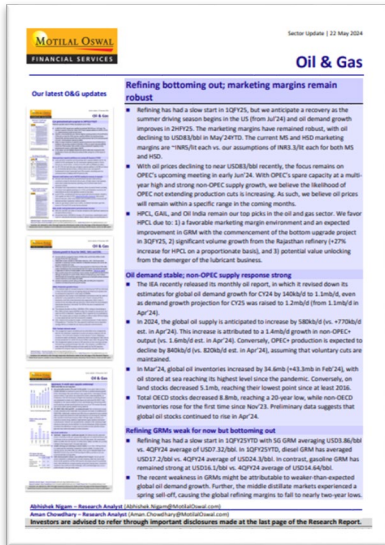


## Oil price outlook: Has the crude oil party peaked?

- **OPEC strategy shift can lead to lower oil prices in medium term:** We believe risks to a strong oil price outlook in the medium term are rising as OPEC+ strategy shifts from **“managing”** oil prices to **“protecting market share”**. The shift in strategy is being driven by OPEC+ production stagnating between 42-45mb/d since Jan’22 even as US oil production is set to rise 6% in the CY22-25 period.
- **Fiscal breakeven oil prices for Saudi Arabia/UAE down 10%/30% vs. 2015:** Fiscal breakeven oil prices for key OPEC economies, Saudi Arabia and UAE, have declined to USD85/bbl and USD54/bbl now, respectively, from USD94/bbl and USD78/bbl in 2015. Thus, a USD90/bbl oil price level, which was a **compulsion in 2015, is a mere wish in 2024** for the Middle East producers.
- **Non-OPEC supply growth will strengthen further in CY25 but especially beyond:** Lastly, with USD40-50/bbl free cash flow (FCF) breakeven for US shale players and their robust balance sheets, we think non-OPEC supply growth, especially from the US, will continue to accelerate in CY25 and beyond, posing risk of a supply glut.
- **What does this mean for stocks?** We think a sub-USD80/bbl oil price environment can herald a new era of earnings stability and visibility for oil marketing companies (OMCs; **HPCL** is our preferred pick). While we remain constructive on upstream (*we do not see a sharp collapse in oil prices yet*) amid rising volume growth and continuation of the theme of catch-up in valuations, we do believe risks to net realizations of USD74/bbl in FY26E have risen.

## OPEC’s strategy shift can lead to oil price volatility

- We believe fundamentals are shifting in favor of OMCs — a combination of multi-year high OPEC+ spare capacity (May’24: 5.6mb/d) and a robust non-OPEC supply response (CY24: +1.4mb/d) are driving market share loss concerns for OPEC and could be a key hurdle to oil spiking toward the USD90-100/bbl range. ***This, in turn, can herald a new era of profitability and stability for OMCs.***
- About 78% of OPEC spare capacity is held by just three countries – Saudi Arabia, UAE and Kuwait. IEA expects non-OPEC supply to rise by a robust 1.4mb/1.5mb per day in CY24/CY25 vs. -0.74mb/+0.3mb per day from OPEC+. Effectively, while these three countries have lost out on production growth, rival US is set to increase its production by 1.8mb/d in the CY22-25 period.
- Overall, OPEC spare capacity is at the highest level in the last two years. OPEC now needs to unwind spare capacity at a time when oil demand growth remains softer (IEA CY24 projection: +1mb/d).
- We believe first signs of nervousness from OPEC are already emerging: 1) Saudi Arabia recently cut Jul’24 Arab Light OSP to Asia ([link](#)) and 2) the 2nd Jun’24 meeting laid out a clear plan to unwind 2.2mb/d of output cuts starting from Oct’24 and to be completed by Sep’25.



### OPEC+ lays out plans to unwind voluntary production cuts

- On 2nd Jun'24, OPEC+ reached a consensus to prolong the majority of its significant oil production cut of 3.66mb/d until 2025-end while allowing a gradual easing of voluntary cuts by eight core members starting from Oct'24. Additionally, the group established a fresh output objective for UAE, responding to its advocacy for an increased quota. UAE shall increase its production by 300kb/d gradually from Jan'25 (current production is 2.9mb/d).
- The eight core members convened in Riyadh during the sidelines of the 37<sup>th</sup> OPEC and non-OPEC Ministerial Meeting (ONOMM) and agreed to prolong the supplementary voluntary reductions of 1.65mbpd, announced in Apr'23, until Dec'25, alongside the ONOMM resolution. *Furthermore, these nations will maintain their supplementary voluntary cuts of 2.2mbpd until Sep'24, with a gradual phase-out of cuts on a monthly basis until Sep'25 end.*
- Next ONOMM will be held on 1st Dec'24.

### Fiscal breakeven oil prices for Middle East countries down 10-30% vs. 2015

- We also note that fiscal breakeven oil prices for core OPEC members, Saudi Arabia and UAE, now stand at USD85/USD54 per bbl in 2024, significantly lower than the 2015 level of USD94/USD78 per bbl.
- Over the years, both OPEC members have tightened spending, diversified economies and attempted to reduce their dependence on oil. These efforts are finally bearing fruit now.
- As such, while oil price closer to USD 90/bbl is desirable for key OPEC players, it is not the compulsion that it was in 2014-15.

### Shale key risk to oil price outlook with FCF breakeven at USD 40-45/bbl

- Our analysis of production costs of US shale players indicates: 1) leading US shale player Marathon Oil (MRO) has FCF breakeven of barely USD40-45/bbl, 2) cumulative cash and non-cash cost for players such as MRO and EOG Resources ranges USD 35-45/bbl.
- As such, even at a USD75/bbl oil price, we do not expect the non-OPEC US supply to slow down. In fact, as cash rises on the balance sheet, the focus on production growth may accelerate, in our view.
- Note that *IEA is forecasting non-OPEC supply growth of 1.4mb/1.5mb per day in CY24/CY25 vs. oil demand growth of only 1mb per day in CY24/CY25.*

### OMCs: Strong marketing margin outlook as balance sheets strengthen

- *We see OMCs as the best way to play a range-bound crude oil price environment with rising downside risks.*
- Note that in 1QFY25, MS/HSD marketing margins have averaged INR4.9/INR2.7 per liter, while the current MS/HSD marketing margins are even higher at INR10.3/INR5.7 per liter (our assumption: INR3.3/lit for both MS and HSD for FY25 and FY26).
- Also, OMCs have continued to strengthen their balance sheets as we estimate a consolidated ND-to-equity ratio of 1x/0.4x/0.6x for HPCL/BPCL/IOC in FY26.
- For context, FY22 corresponding metrics were 1.1x/1x/0.9x for HPCL/BPCL/IOC; as such OMCs' balance sheets are no longer fragile.

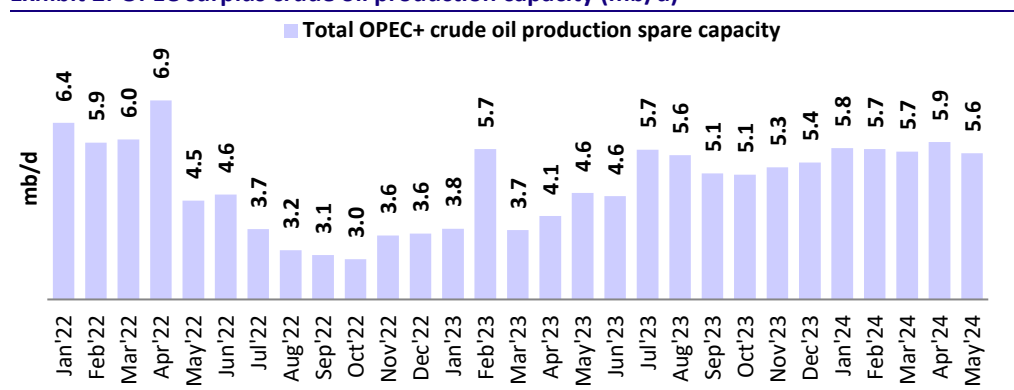
**Valuation and view: HPCL remains our top pick, followed by IOCL**

- **HPCL (BUY):** HPCL remains our preferred pick among the three OMCs. We see the following as key catalysts for the stock: 1) demerger and potential listing of lubricant business, 2) the commissioning of its bottom upgrade unit, and 3) the start of Rajasthan refinery in 4QFY25. **We reiterate our BUY rating on the stock, valuing it at 1.4x FY26E P/BV to arrive at our TP of INR600.**
- **IOCL (BUY):** IOCL is set to commission various projects over the next two years, driving further growth. Refinery projects, currently under way, are expected to be completed as follows: Panipat refinery (25mmtpa) by Dec'25, Gujarat refinery (18mmtpa) by Oct'24, and Baruni refinery (9mmtpa) by Dec'24. **We reiterate our BUY rating on the stock, valuing it at 1.3x FY26E P/B to arrive at our TP of INR195.**
- **BPCL (Neutral):** BPCL's GRMs have been at a premium to SG GRM on account of the continuous optimization of refinery production, product distribution and crude procurement. The use of advanced processing capabilities of Bina and Kochi refineries allows BPCL to process 100% of high sulphur crude and 50% Russian crude. However, with minimal volume growth, rising capex and volatility in earnings from the marketing division, **we maintain our Neutral rating with a TP of INR660, valuing the stock at 1.5x FY26E BV.**

**Exhibit 1: Valuation snapshot**

Oil & Gas	Reco	TP (INR)	EPS (INR)			P/E (x)			P/BV (x)			EV/EBITDA (x)			ROE (%)		
			FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
B P C L	Neutral	660	129.3	72.3	73.3	4.6	8.2	8.1	1.6	1.5	1.4	2.8	4.7	4.6	41.9	19.0	17.6
H P C L	Buy	600	112.9	71.9	72.1	4.4	7.0	6.9	1.5	1.3	1.2	5.4	7.1	6.9	40.4	20.2	17.6
I O C L	Buy	194	29.5	12.5	13.4	39.6	41.0	41.3	5.7	13.5	12.6	1.3	1.2	1.1	72.0	5.4	10.3

Source: Company, MOFSL

**Exhibit 2: OPEC surplus crude oil production capacity (mb/d)**

Source: IEA, MOFSL

Exhibit 3: OPEC+ May'24 crude production spare capacity break-up (mb/d)

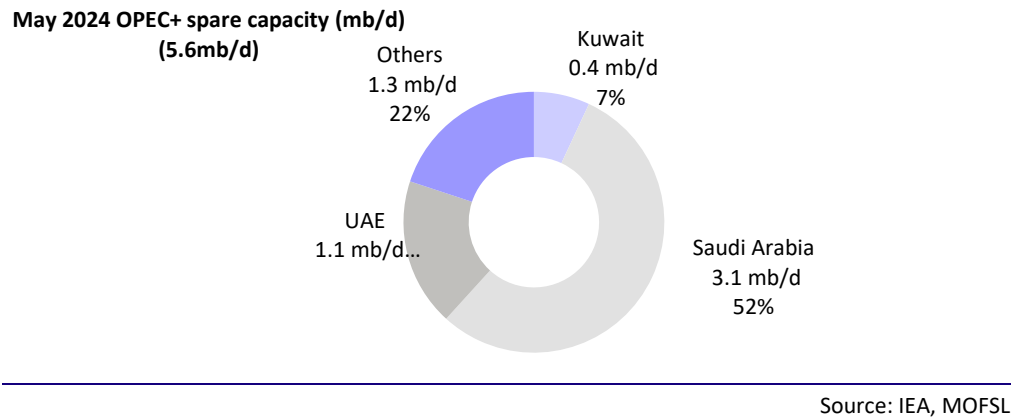


Exhibit 4: OPEC+ crude oil production (mb/d)

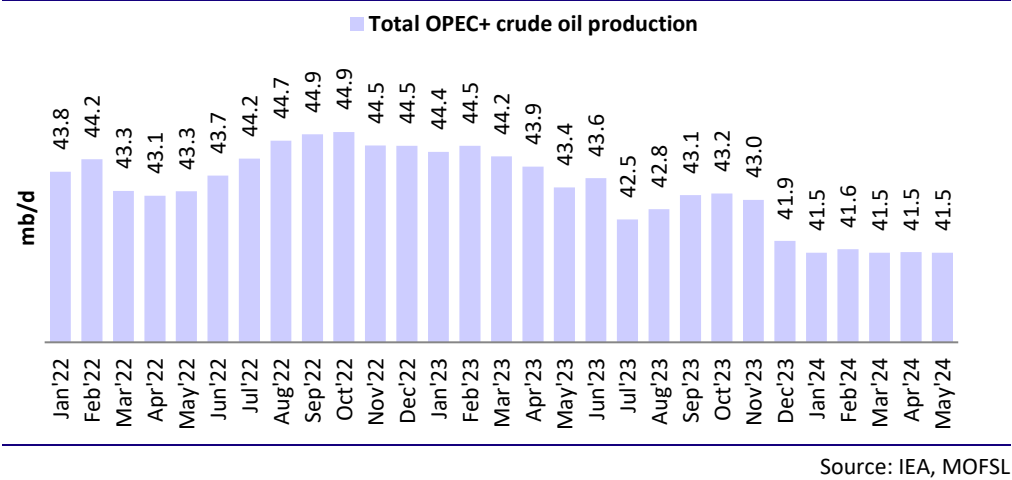
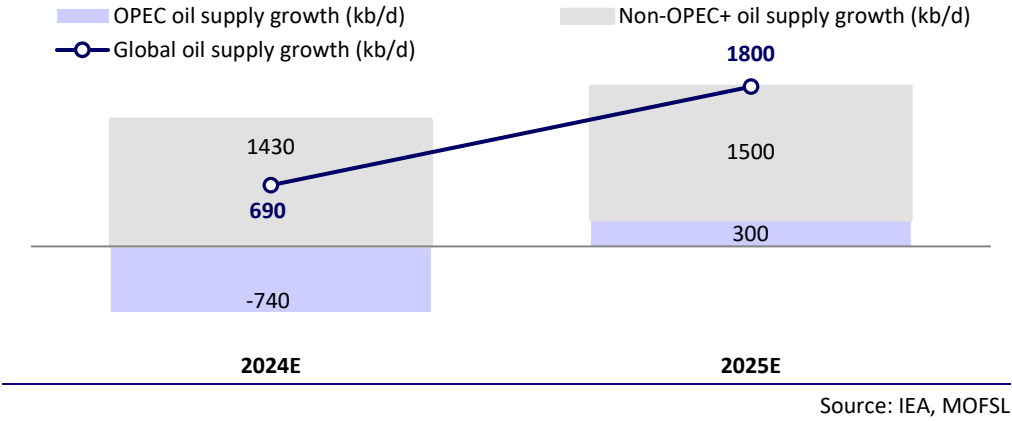
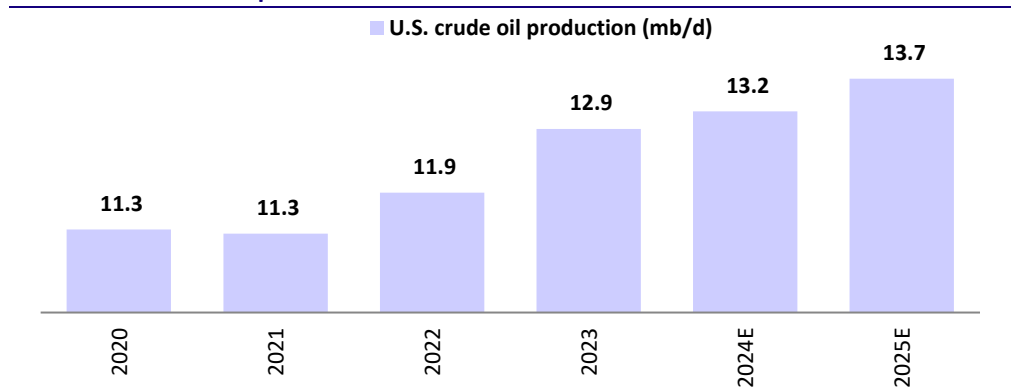
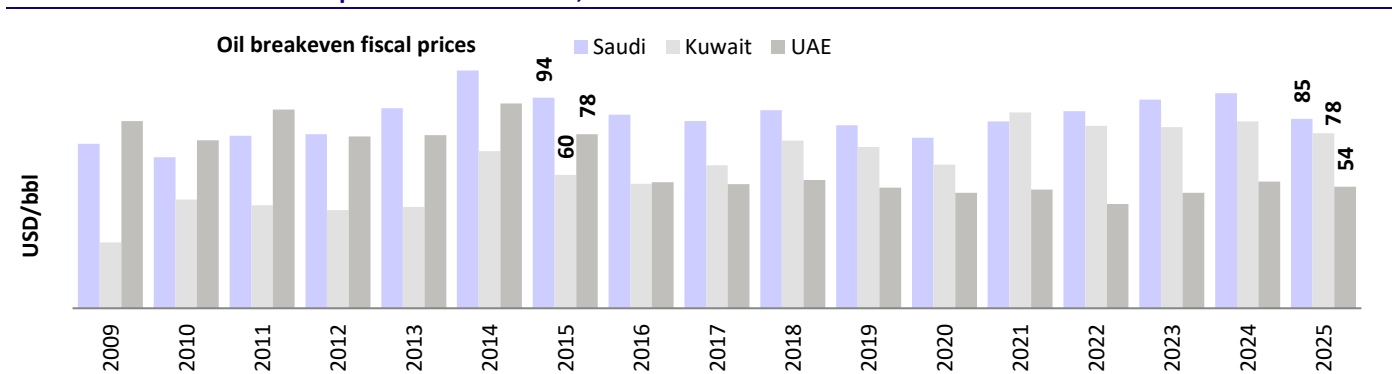


Exhibit 5: Global oil supply expected to increase by 690kb/d in CY24 and 1.8mb/d in CY25

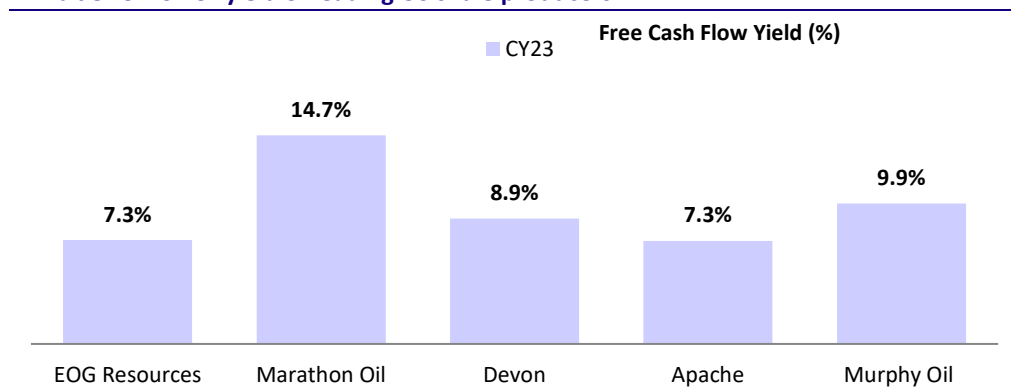


**Exhibit 6: US crude oil production trend**

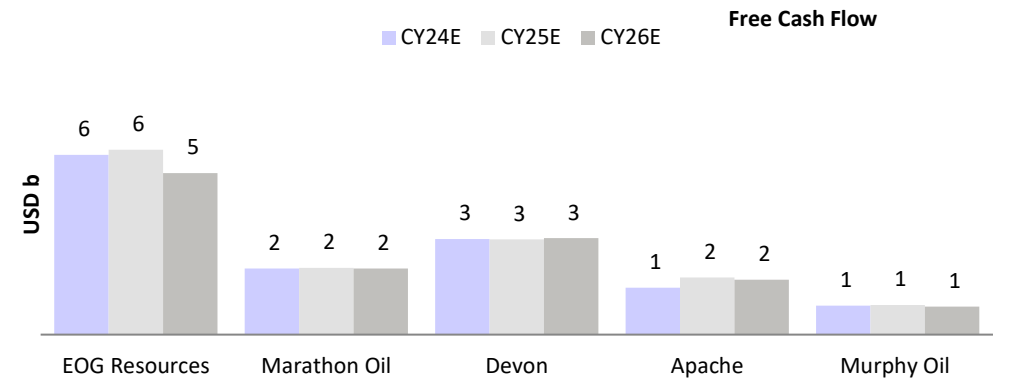
Source: U.S. EIA, Short-Term Energy Outlook, MOFSL

**Exhibit 7: Oil fiscal breakeven prices in Saudi Arabia, Kuwait and UAE**

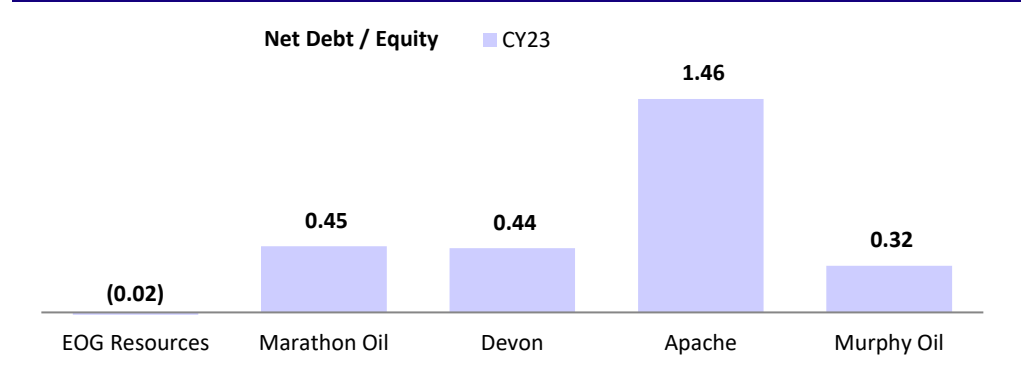
Source: Bloomberg, MOFSL

**Exhibit 8: CY23 FCF yield of leading US shale producers**

Source: Bloomberg, MOFSL

**Exhibit 9: Expected FCF trend for leading US shale producers**

Source: Bloomberg, MOFSL:

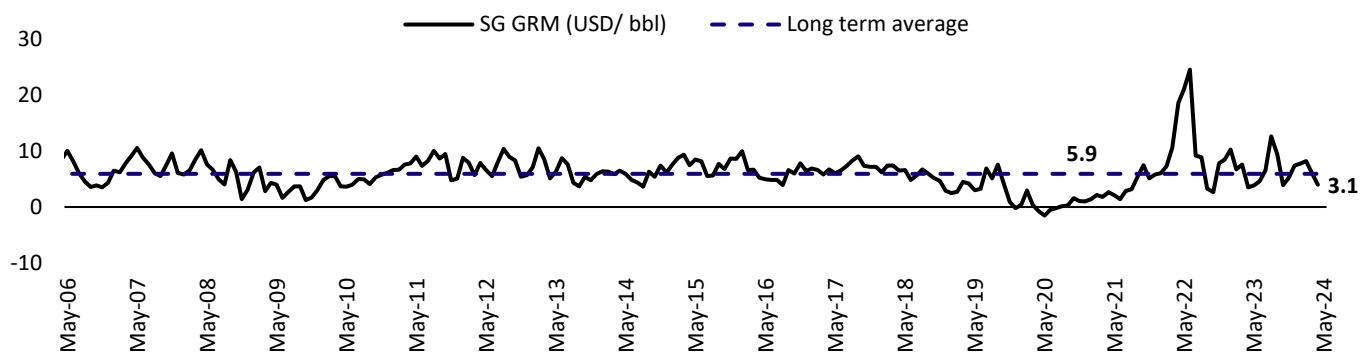
**Exhibit 10: CY23 net debt-to-equity ratio of leading US shale producers**

Source: Bloomberg, MOFSL

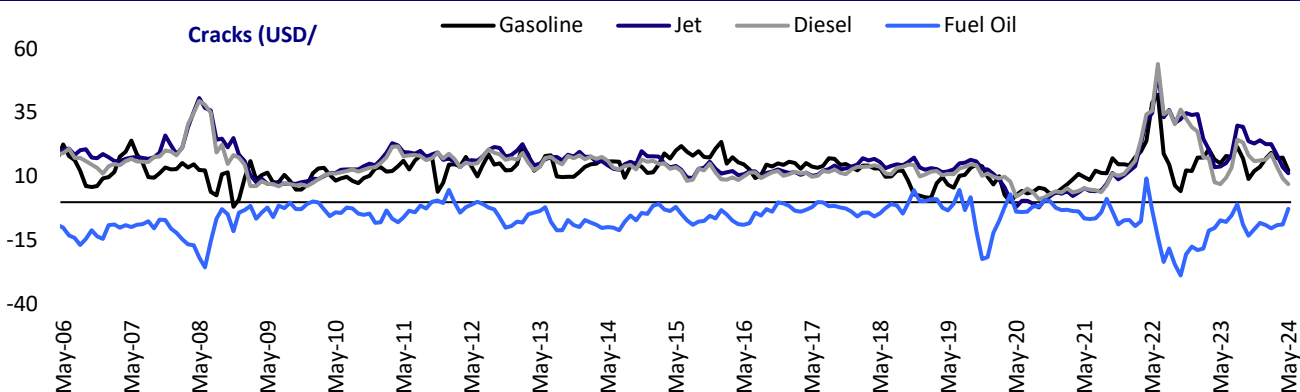
**Exhibit 11: OPEC production cuts shall phase out from Oct'24 (kb/d)**

2024															2025															Required Production Level as per 37th ONOMM
Country	Jun-Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	July	Aug	Sept	Oct-Dec																
Algeria	906	912	917	921	925	929	934	938	942	946	951	955	959	959	1,007 *															
Iraq	4000	4018	4037	4055	4073	4092	4110	4128	4147	4165	4183	4202	4220	4220	4,431 *															
Kuwait	2413	2424	2436	2447	2459	2409	2481	2492	2500	2514	2526	2537	2548	2548	2,676 *															
KS.A	8978	9061	9145	9228	9311	9395	9478	9561	9645	9728	9811	9895	9978	9978	10,478 *															
LIAE	2912	2926	2939	2953	3000	3047	3094	3140	3187	1334	3781	3378	3375	3375	3,519 * #															
Kazakhstan	1468	1475	1482	1489	1495	1502	1.5	1516	1.52	1530	1.53	1543	1550	1550	1,628 *															
Oman	759	783	786	770	773	777	780	784	787	791	794	798	801	801	841 *															
Russia	8978	9017	9057	9096	9135	9174	9214	9253	9992	9331	9371	9410	9449	9449	9,949 *															

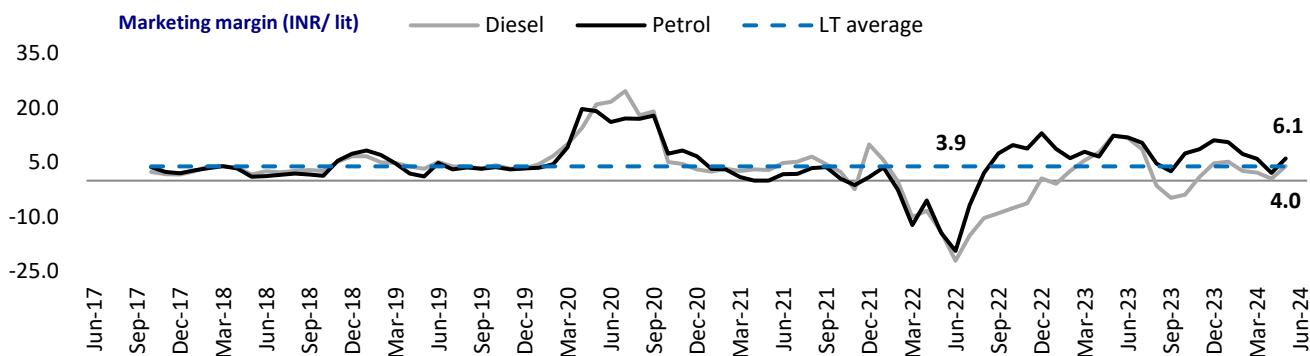
d level of production cuts as per 37th ONOMM before applying additional voluntary cuts; Source: U.S. EIA, Short-Term Energy Outlook, MOFSL  
 # UAE to increase production by 300kbd gradually from Jan'25 till Sep'25

**Exhibit 12: SG GRM has gone below long term average of USD5.9/bbl**

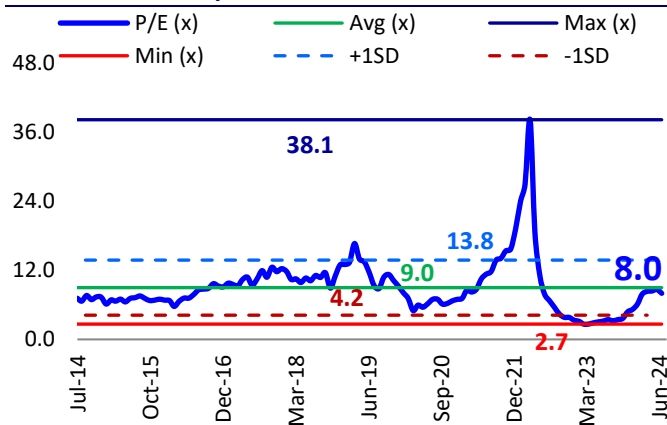
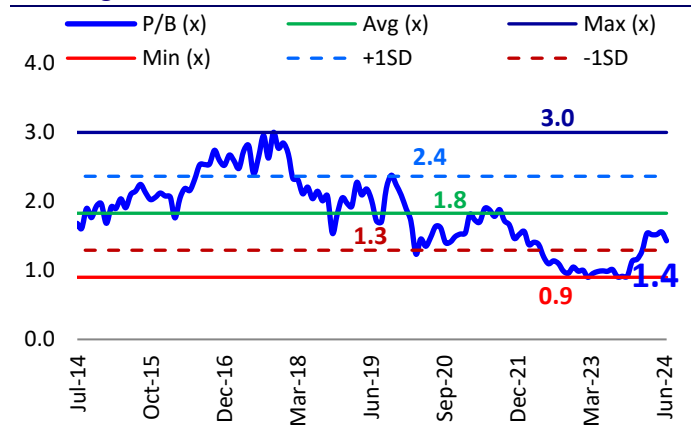
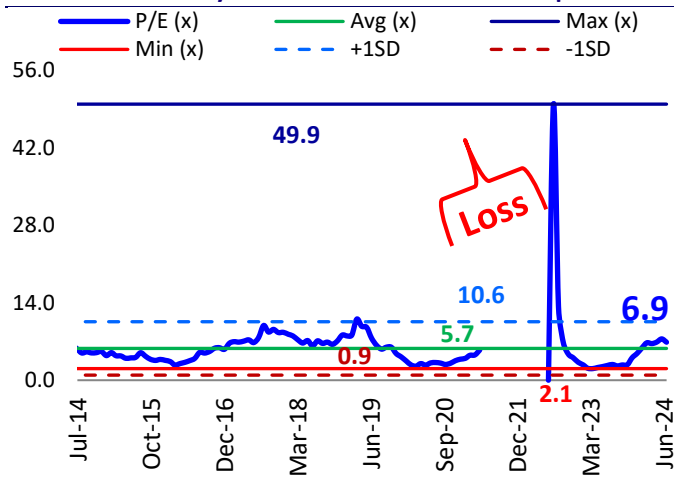
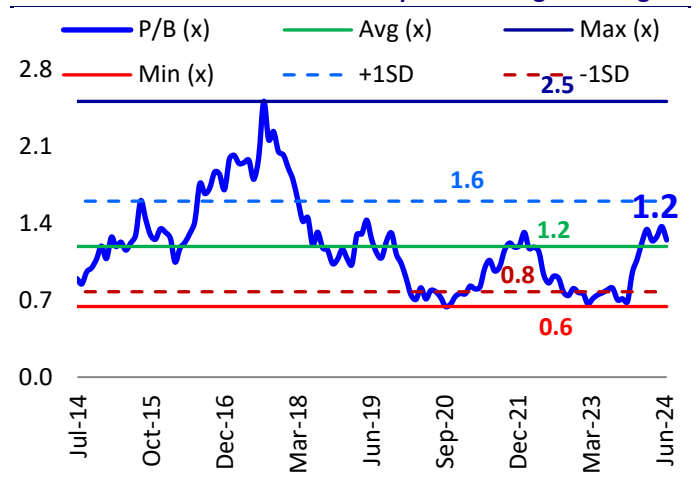
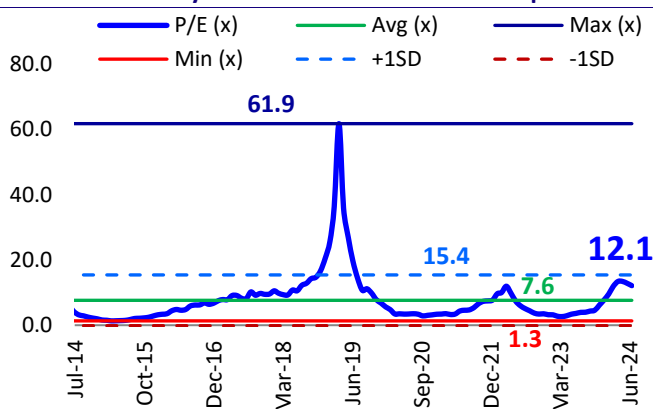
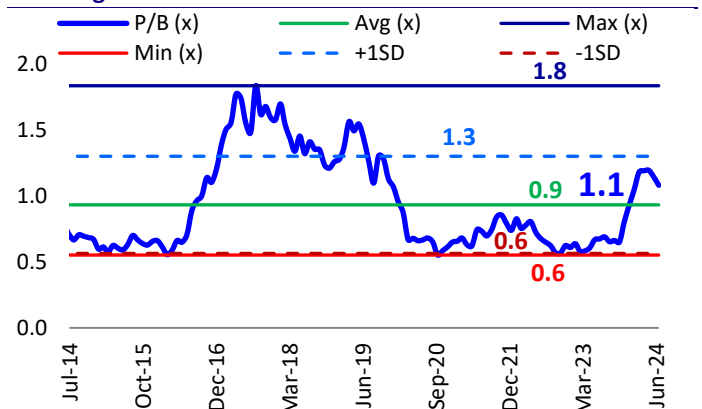
Source: Reuters, MOFSL

**Exhibit 13: Various product cracks, except fuel oil, have declined in May'24**

Source: Reuters, MOFSL

**Exhibit 14: Marketing margin has increased for both petrol and diesel in May'24end and June'24TD**

Source: Bloomberg, MOFSL

**Exhibit 15: BPCL 1 year forward PE trades at 11% discount...****Exhibit 16: ...while on PB trades at 22% discount to the long term avg.****Exhibit 17: HPCL 1 year forward PE trades at 20% premium...****Exhibit 18: ...while on PB trades at par with long term avg.****Exhibit 19: IOCL 1 year forward PE trades at 59% premium...****Exhibit 20: ...while on PB trades at 16% premium to the long term avg.**



## HPCL: Financial summary and assumptions – BUY (TP: INR600)

### Exhibit 21: Key assumptions

Particulars	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Exchange Rate (INR/USD)	70.0	70.9	74.3	74.5	80.4	82.8	83.9	85.0
Brent Crude (USD/bbl)	70.1	61.2	44.4	80.5	96.1	83.4	85.0	85.0
Market Sales (MMT)	38.7	39.6	36.6	39.1	43.5	46.8	48.7	50.6
YoY (%)	5	2	(8)	7	11	8	4	4
<b>GRM (USD/bbl)</b>	5.0	1.0	3.9	7.2	12.1	9.1	8.0	8.0
Singapore GRM (USD/bbl)	4.9	3.2	0.5	5.0	10.7	6.6	6.0	6.0
Prem/(disc) (USD/bbl)	0	(2)	3	2	1	2	2.0	2.0
Total Refinery throughput (MMT)	18.4	17.2	16.4	14.0	19.1	22.3	24.5	24.5
YoY (%)	1%	-7%	-4%	-15%	37%	17%	10%	0%
<b>Refining capacity utilization (%)</b>	117%	109%	104%	88%	85%	91%	100%	100%
<b>Blended marketing margin incld inventory (INR/lit)</b>	4.3	4.0	6.3	4.3	(0.8)	5.4	4.5	4.5
<b>Consolidated EPS</b>	<b>47.2</b>	<b>25.7</b>	<b>75.1</b>	<b>51.4</b>	<b>-49.2</b>	<b>112.9</b>	<b>71.9</b>	<b>72.1</b>

Source: Company, MOFSL

### Exhibit 22: Financial summary (INR b)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Sales	2,755	2,691	2,332	3,499	4,407	4,339	4,197	4,317
EBITDA	115.3	56.6	160.0	102.4	-72.1	249.3	188.4	193.6
Adj. PAT	66.9	36.4	106.6	72.9	-69.8	160.1	102.0	102.3
Adj. EPS (INR)	47.2	25.7	75.1	51.4	-49.2	112.9	71.9	72.1
EPS Gr. (%)	-7.3	-45.6	192.8	-31.6	PL	LP	-36.3	0.3
BV/Sh.(INR)	214.2	218.3	268.4	291.8	227.4	330.7	382.8	434.6
<b>Ratios</b>								
Net D:E	0.8	1.3	1.1	1.1	2.1	1.3	1.1	1.0
RoE (%)	23.9	11.9	30.9	18.4	-19.0	40.4	20.2	17.6
RoCE (%)	12.9	12.0	14.9	8.3	-7.8	15.9	9.2	8.5
Payout (%)	43.0	76.0	30.3	27.2	0.0	27.9	27.6	28.2
<b>Valuations</b>								
P/E (x)	10.6	19.6	6.7	9.8	-10.2	4.4	7.0	6.9
P/BV (x)	2.3	2.3	1.9	1.7	2.2	1.5	1.3	1.2
EV/EBITDA (x)	8.4	19.5	7.1	11.3	-19.1	5.4	7.1	6.9
Div. Yield (%)	3.2	1.9	4.5	2.8	0.0	6.3	3.9	4.0
FCF Yield (%)	-3.8	-11.7	8.7	5.3	-18.0	19.5	7.4	7.1

Source: Company, MOFSL

## IOCL – Financial summary and assumptions – BUY (TP: INR195)

### Exhibit 23: Key assumptions

FY End: March 31	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Exchange Rate (INR/USD)	70.0	70.9	74.3	74.5	80.4	82.8	83.9	85.0
Brent Crude (USD/bbl)	70.1	61.2	44.4	80.5	96.1	83.0	85.0	85.0
Domestic direct sales refined pdts (MMT)	85	84	76	80	91	92	96	100
YoY (%)	10%	0%	-10%	6%	13%	2%	4%	4%
Reported GRM (USD/bbl)	5.4	0.1	5.6	11.3	19.5	12.1	9.0	9.0
Singapore GRM (USD/bbl)	4.9	3.2	0.5	5.0	10.7	6.6	6.0	6.0
Prem./(disc) (USD/bbl)	0.5	(3.1)	5.1	6.3	8.8	5.5	3.0	3.0
Refining capacity utilization (%)	104%	100%	90%	98%	105%	106%	104%	104%
Total Refinery throughput (MMT)	71.8	69.4	62.4	67.7	72.3	73.3	72.0	72.0
YoY (%)	4%	-3%	-10%	9%	7%	1%	-2%	0%
<b>Marketing Margin (INR/lit)</b>								
Blended gross marketing margin incld inventory	5.0	5.8	6.2	4.4	-1.1	6.0	4.1	4.1
Consolidated EPS	12.5	1.8	15.8	18.7	6.6	29.5	12.5	13.4

Source: Company, MOFSL

### Exhibit 24: Financial summary (INR b)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Sales	5,281.6	4,837.6	3,639.5	5,893.4	8,418	7,764	10,621	11,418
EBITDA	352.2	168.4	405.9	477.4	306	768	440	458
Adj. PAT	172.7	24.1	217.6	257.3	91	406	172	185
Adj. EPS (INR)	12.5	1.8	15.8	18.7	6.6	29.5	12.5	13.4
EPS Gr. (%)	(23.7)	(86.0)	801.4	18.2	-64.5	344.7	-57.6	7.4
BV/Sh.(INR)	81.7	69.3	81.2	97.0	101.5	133.2	140.6	148.4
<b>Ratios</b>								
Net D:E	0.8	1.3	0.9	0.9	1.0	0.7	0.7	0.6
RoE (%)	15.3	2.3	21.0	21.0	6.7	25.1	9.1	9.3
RoCE (%)	10.6	2.4	10.0	12.4	8.4	16.6	7.5	7.2
Payout (%)	57.5	NM	59.2	52.6	42.2	39.6	41.0	41.3
<b>Valuations</b>								
P/E (x)	9.0	18.3	7.1	9.0	25.5	5.7	13.5	12.6
P/BV (x)	2.1	2.4	2.1	1.7	1.7	1.3	1.2	1.1
EV/EBITDA (x)	7.0	16.6	6.4	5.8	9.6	3.6	8.2	7.9
Div. Yield (%)	5.5	2.5	7.1	7.5	2.7	10.7	3.0	3.3
FCF Yield (%)	1.6	(2.9)	28.5	12.7	15.8	42.6	3.2	6.1

Source: Company, MOFSL

### Exhibit 25: IOCL project updates

<b>REFINING</b>			
Project	Capex (INR b)	Progress as on Mar-24	Commissioning date
Capacity Expansion of Panipat Refinery From 15 To 25 MMTPA	382	57.30%	Dec-25
Petrochemical And Lube Integration Project at Gujarat Refinery	189	68.10%	Dec-25
Barauni Refinery Capacity Expansion From 6.0 To 9.0 MMTPA	148	75.40%	Dec 24

**PETROCHEMICAL**

Project	Capex (INR b)	Progress as on Mar-24	Commissioning date	Capacity (KTA)
Ethylene Glycol Project, Paradip Refinery	NA	NA	Started already	357
Acrylics/Oxo Alcohol Project at Dumad near Gujarat Refinery	58	96.50%	Jul-24	162
PX-PTA at Paradip Refinery	138	81.40%	Arp-25	1200

**CNG stations****Standalone basis**

At present, CNG Sales have commenced in 248 CNG stations across 26 out of 26 GAs in SA basis. Total capex on CGD approved by department stood at INR210b.

**GAS PIPELINE**

Project	Capex (INR b)	Progress as on Mar-24	Commissioning date	Capacity
Ennore-Tuticorn-Bengalaru Gas Pipeline	60	99%	Dec-24	84.67 MMSCMD 23.52 mmt

Source: Company, MOFSL

## BPCL– Financial summary and assumptions – Neutral (TP: INR660)

### Exhibit 26: Key assumptions

Y End: March 31	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Exchange Rate (INR/USD)	70.0	70.9	74.3	74.5	80.4	82.9	84.6	86.0
Crude cost (USD/bbl)	70.1	61.2	44.4	80.5	96.1	82.9	85.0	85.0
Domestic Market Sales (mmt)	43.1	43.1	38.7	42.5	48.9	51.0	53.1	55.2
YoY (%)	5%	0%	-10%	10%	15%	4%	4%	4%
<b>Reported GRM (USD/bbl)</b>	<b>4.6</b>	<b>2.5</b>	<b>4.1</b>	<b>9.5</b>	<b>20.3</b>	<b>14.1</b>	<b>9.0</b>	<b>9.0</b>
Singapore GRM (USD/bbl)	4.9	3.2	0.5	5.0	10.7	6.4	6.0	6.0
Prem/(disc) (USD/bbl)	(0.3)	(0.7)	3.6	4.5	9.6	7.8	3.0	3.0
Refinery throughput (mmt)	31.0	31.9	26.4	34.1	38.5	39.2	40.0	40.0
YoY (%)	9%	3%	-17%	29%	13%	2%	2%	0%
<b>Marketing Margin (INR/ltr)</b>								
Blended gross marketing margin incld inventory	4.8	4.7	6.9	5.0	(1.4)	3.2	4.1	4.1
<b>Consolidated EPS</b>	<b>40.7</b>	<b>23.8</b>	<b>63.2</b>	<b>52.0</b>	<b>9.4</b>	<b>129.3</b>	<b>72.3</b>	<b>73.3</b>

Source: Company, MOFSL

### Exhibit 27: Financial summary (INR b)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Sales	2,982.3	2,845.7	2,301.6	3,467.9	4,731.9	4,480.8	4,252.3	4,394.8
EBITDA	158.1	100.2	211.0	188.5	93.8	442.6	262.0	268.6
Adj. PAT	85.3	49.8	132.4	108.9	19.7	270.6	151.3	153.4
EPS (INR)	40.7	23.8	63.2	52.0	9.4	129.3	72.3	73.3
EPS Gr.%	-12.9	-41.6	165.6	-17.8	-81.9	1271.9	-44.1	1.4
BV/Sh. (INR)	185.2	174.6	255.9	248.0	255.7	361.4	397.7	434.8
<b>Ratios</b>								
Net D:E	1.1	1.5	0.6	1.0	1.1	0.5	0.5	0.4
RoE (%)	22.6	13.2	29.4	20.6	3.7	41.9	19.0	17.6
RoCE (%)	11.8	9.1	15.9	10.9	-0.4	24.8	12.7	12.1
Payout (%)	54.6	110.2	95.5	28.7	98.2	32.7	49.7	49.4
<b>Valuation</b>								
P/E (x)	14.5	24.9	9.4	11.4	62.8	4.6	8.2	8.1
P/BV (x)	3.2	3.4	2.3	2.4	2.3	1.6	1.5	1.4
EV/EBITDA (x)	7.4	11.6	5.9	6.6	13.2	2.8	4.7	4.6
Div. yield (%)	3.4	3.0	13.3	2.7	1.7	7.1	6.1	6.1
FCF yield (%)	-0.3	-3.7	11.6	9.6	3.2	21.3	9.7	10.8

Source: Company, MOFSL

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Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
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SELL	< - 10%
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