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SECTOR UPDATE | Oil & Gas

Indian Refiners in Sweet Spot

CPCL & MRPL Positioned to Leverage Buoyant GRM Environment

Global refining dynamics remain favourable for Indian refiners, with middle distillate cracks (diesel/ATF) sustaining strength above USD17/bbl amid tight inventories, and renewed demand in the West. At the same time, China's reported push to consolidate its refining sector by shutting smaller teapots and upgrading outdated capacity is more of a structural realignment than a meaningful supply cut, ensuring global balances remain tight in the near term. Against this backdrop, Indian refiners in Q2FY26, especially CPCL and MRPL, are well-positioned to capture elevated GRMs USD7.3-7.5/bbl (based on Indian basket) versus Singapore's ~USD4.1/bbl), aided by flat crude prices and a return of higher Russian crude sourcing with higher discounts. Our top picks include CPCL > MRPL while amongst the OMCs, BPCL followed HPCL. RIL could gain from higher GRMs in their O2C segment.

China: Noise of Shutdowns but No Real Supply Relief

Recent commentary around China's plan to "trim" its refining sector has added noise to global refining markets. However, the picture is nuanced:

- **Policy Intent:** Beijing reportedly wants to shut smaller, inefficient "teapot" refineries (which run ~55-60% capacity utilization) and upgrade aging capacity (~40% of total). The push is not toward net curtailment but restructuring toward petrochemicals and specialty chemicals. A restructuring by the government who is encouraging a shift towards producing specialty chemicals for industries like AI, robotics, and semiconductors, rather than bulk refined products.
- **Reality Check:** China today has the largest refining capacity globally, with its refining capacity to reach ~21mb/d in 2025 from current ~19mb/d, and a possible cut of 10% over longer period would take back the capacity to ~19mb/d to support the domestic consumption (~15 mb/d, would require 79% capacity utilization) remains strong, in 2023 the utilization had peaked near 88%. Chinese refineries ran at only ~75% of their capacity in 2024, the second-lowest utilization rate since 2017. New mega plants and petchem-integrated complexes are still coming online.
- **Implication:** Global product tightness will not increase or decrease by these adjustments. At best, there's a churn older inefficient capacity may fade, but new plants will keep headline capacity elevated. However, the medium-term impact is constructive for middle distillates, as teapots often less efficient and more gasoline-heavy face rising costs and compliance hurdles. For Indian refiners, this strengthens the case for diesel/ATF-led margin support for the near term.

Russian Crude: Back in Play, Feeding Indian Margins

On crude, the return of Russian barrels into the Indian slate is proving accretive. Discounts, which had briefly compressed to ~USD1.5/bbl earlier this quarter, have started widening back toward ~USD2–3/bbl (a 30% sourcing could benefit USD0.6-0.9/bbl), creating a feedstock advantage even as Brent stabilizes below USD67/bbl. Shipments for Sept-Oct'25 already being loaded as per media articles which will support Q3FY26, higher than Q2FY26 which dropped over Q1FY26.

What's Unchanged

Indian refiners continue to sit in a sweet spot as global product cracks, particularly diesel and ATF, remain elevated amid supply dislocations, with ICE gasoil premiums still hovering close to USD17/bbl. This strength is underpinned by outages in Europe, lean inventories in the West. For India, where diesel/gasoline/ATF account for ~45%/~16%/~8% of the yield mix, every USD1/bbl move in cracks translates into a 0.5/0.2/0.1 USD/bbl swing in GRMs. As a result, QTD Q2FY26 Singapore benchmarks at ~USD4.1/bbl are translating into USD7.3-7.5/bbl GRMs (based on Indian basket) for the Indian refiners, materially ahead of global averages and flat crude prices QoQ.

STOCK VIEW

Stock	Rating	TP (Rs)
CPCL	BUY	1,100
MRPL	BUY	180
BPCL	BUY	370
HPCL	BUY	495
RIL	BUY	1,640
IOCL	NEUTRAL	139

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CPCL – pure play refinery, could provide higher returns and dividends

CPCL stands out tactically among Indian refiners due to its slate profile, cost-efficient crude sourcing, and cleaner operating structure. For CPCL specifically, the current environment is highly supportive. Its Manali refinery (10.5mmtpa) is a secondary unit–rich site with high distillate yields, enabling it to maximize diesel/ATF uplift from today's cracks. Additionally, the 9mmtpa Cauvery Basin Refinery (Nagapattinam), targeted for commissioning around FY28-29, is designed as a modern complex with higher conversion and petchem integration, positioning CPCL well for the evolving product mix in Asia as China tilts more toward specialties. Until then, CPCL remains one of the purest listed plays on distillate led GRMs.

Sensitivity: The GRM sensitivity for the stock is very high; our base case GRM assumption is of USD7.4/bbl for FY26. For every USD1/bbl GRM increase, the EPS increases by ~Rs38/shr (~28% higher than our calculated) and EBITDA by Rs7.5bn. With a 30% dividend payout, the DPS could be over Rs40/shr (~6% yield on CMP).

Valuation: The BV/share for FY26e/27e: Rs 617/688, the lower debt on books is towards working capital requirements. At CMP, the stock trades at 3.4x/3.5x FY26e/27e EV/EBITDA and 1.1x/1.0x P/BV. On our FY27 numbers we assign a multiple of 1.6x P/BV (implied EV/EVBITDA of 5.5x) to arrive a **target of Rs 1,100/share with a BUY Rating.**

CPCL Sensitivity to GRMs

Exhibit 1: EBITDA sensitivity to GRM

Refining capacity utilization (%)		EBITDA (Rs bn)					
		78.0	**88.0**	**98.0**	**108.0**	**118.0**	**128.0**
GRMs (USD / bbl)	**3.9**	7.1	8.0	9.0	9.9	10.8	11.7
	4.9	12.5	14.1	15.7	17.4	19.0	20.6
	5.9	17.9	20.2	22.5	24.8	27.1	29.4
	6.9	23.4	26.3	29.3	**32.3**	35.3	38.3
	7.9	28.8	32.4	36.1	39.8	43.5	47.2
	8.9	34.2	38.5	42.9	47.3	51.7	56.1

Source: Company, YES Sec

Exhibit 2: Target price sensitivity to GRM

Refining capacity utilization (%)		Target (Rs / sh)					
		78.0	**88.0**	**98.0**	**108.0**	**118.0**	**128.0**
GRMs (USD / bbl)	**3.9**	(1)	39	79	118	158	198
	4.9	235	305	375	446	516	586
	5.9	471	572	672	773	873	974
	6.9	708	838	969	**1,100**	1,231	1,361
	7.9	944	1,105	1,266	1,427	1,588	1,749
	8.9	1,180	1,372	1,563	1,754	1,946	2,137

Source: Company, YES Sec

MRPL – higher earnings could reduce debt

MRPL stands to benefit tactically from the recent surge in refining margins, driven by geopolitical risk premium on crude (post Israel–Iran escalation) and resilient diesel/ATF cracks. With Brent ~67/bbl, near-term GRMs could remain elevated, supporting earnings in Q2FY26. The company sources over 30% of its crude requirements from Russia at a discount, thereby boosting GRMs, one of the highest amongst Indian refiners at a single location, though it could be lower in Q2FY26. The benchmark Singapore GRM and the company's GRM are trending higher than their last 7-year averages, supported by stronger demand, reduced supply, and lower stocks.

Based on our current assumptions of GRMs at USD6.5/bbl for FY26 we arrive at an EPS of Rs9/shr. Given debt on books and lower earnings, the dividend payout has been minimal is last few years.

Sensitivity: A USD1/bbl change in GRM, EBITDA moves by Rs 11.4bn over our considered GRM of USD6.5/bbl for FY26. For every USD1/bbl GRM increase, the EPS increases by ~Rs4/shr.

For MRPL, strong GRMs are expected to translate into robust profitability, which should aid in deleveraging the balance sheet. Of the total debt of ~Rs135bn, ~Rs75bn is working capital related. As earnings improve, we expect net debt reduction to accelerate, with elevated cash flows replacing long-term borrowings. Effectively, higher GRMs could lead to a shift from debt-funded capital to equity-funded operations.

Valuation: BV/share for FY26e/27e: Rs 83/94; net debt:equity at 0.7/0.6x FY26e/27e. At CMP, stock trades at 7x/6.1x FY26e/27e EV/EBITDA & 1.5x/1.4x P/BV. We maintain a **BUY rating with a TP of Rs180,** valuing the stock at 1.9x FY27e P/BV (an implied EV/EBITDA of 8x).

MRPL Sensitivity to GRMs

Exhibit 3: EBITDA sensitivity to GRM

Refining capacity utilization (%)		EBITDA (Rs bn)					
		85.3	95.3	105.3	115.3	125.3	135.3
GRMs (USD / bbl)	**3.8**	13.0	14.6	16.1	17.6	19.1	20.7
	4.8	21.5	24.0	26.5	29.0	31.6	34.1
	5.8	29.9	33.4	36.9	40.4	44.0	47.5
	6.8	38.4	42.9	47.4	**51.9**	56.4	60.9
	7.8	46.8	52.3	57.8	63.3	68.8	74.3
	8.8	55.3	61.7	68.2	74.7	81.2	87.6

Source: Company, YES Sec

Exhibit 4: Target price sensitivity to GRM

Refining capacity utilization (%)		Target (Rs / sh)					
		85.3	95.3	105.3	115.3	125.3	135.3
GRMs (USD / bbl)	**3.8**	1	8	15	22	29	36
	4.8	40	51	63	74	86	98
	5.8	79	95	111	127	143	159
	6.8	117	138	158	**180**	200	220
	7.8	156	181	206	231	256	282
	8.8	195	224	254	284	313	343

Source: Company, YES Sec

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