



Current Scenario:

- ✘ Average Crude Oil price has hardened in the past couple of months

February	\$43 / bl
March	\$47 / bl
April	\$51 / bl
May (till date)	\$54 / bl
- ✘ OMCs have once again begun reporting under-recoveries on sale of subsidized petro-products
- ✘ Current under-recoveries: Petrol-INR 0.5/lt, Kerosene INR 12/lt, LPG INR 32 /cylinder
- ✓ Diesel is still earning surplus of INR 3/lt, however on account of lower benchmark prices globally
- ✘ GRMs also remain under pressure
- ✘ Government unable to pass-on fuel price hike due to precarious political environment

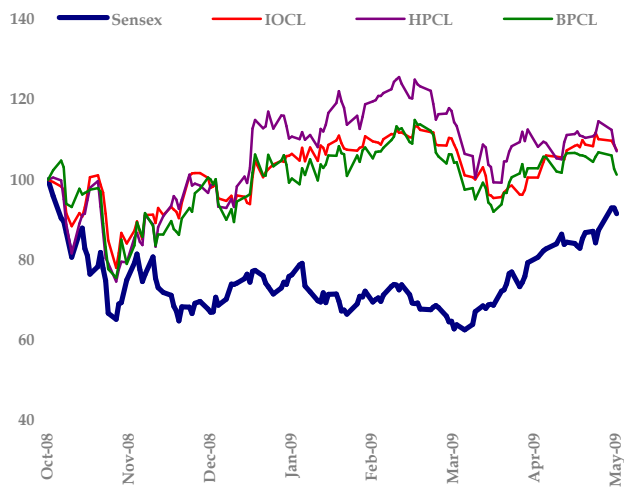
Outlook:

- ✘ Our Technical Desk is bullish on crude oil in near term forecasting \$64 /bl in the next month and \$75 per barrel over the next two months
- ✘ Based on the above forecast, we believe OMCs' under recoveries will start mounting in the near future
- ✘ New government may not be in a hurry to take unpopular measure to effect retail fuel price hike
- ✓ Fuel price hike imminent to mitigate mounting under recoveries mentioned above. However, it could be possible only after new government takes over the office and gets coalition partners to agree for a hike.

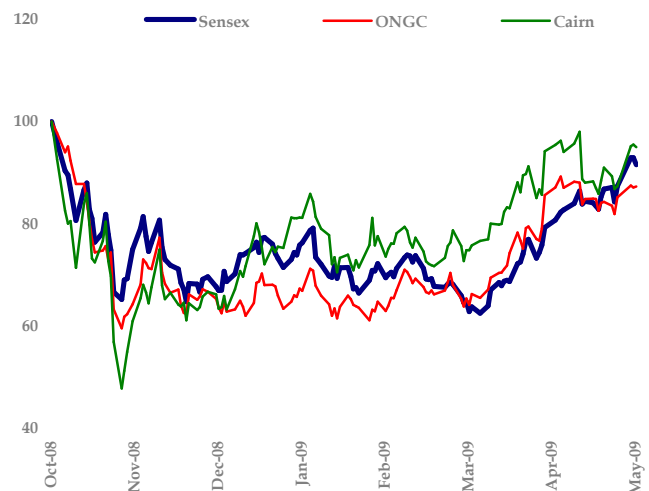
Strategy:

- ✓ Expect OMC stocks to underperform near term. These have outperformed the market over the last six months. **We suggest to book profits on BPCL, HPCL and IOC and go long on upstream stocks like CAIRN and ONGC instead.**

OMCs' outperformance over Sensex...



Likely to give way to upstream players



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After a brief honeymoon with excess recoveries on sale of petrol and diesel, the country's oil marketing companies – Indian Oil Corporation (IOC), Hindustan Petroleum Corporation (HPCL) and Bharat Petroleum Corporation (BPCL) – are back to square one, reporting under-recoveries on the sale of their subsidized products which include diesel, petrol, kerosene and LPG.

The under recoveries have begun all over again in Petrol due to spurt in crude oil prices. Currently with crude oil price at \$54 per barrel and INR at 49.5/\$ Petrol has begun incurring under recovery of INR 0.57/lt. Diesel is still earning surplus of INR 3/lt, however on account of lower benchmark prices globally and not because of lower crude oil prices as witnessed in the recent past. Consequently they are losing on diesel cracks on the other hand. They continue to bear under recoveries in Kerosene and LPG currently being INR 12/lt and INR 32 / cylinder respectively.

The refining margins are also currently pressurized and will continue to be so in medium term. Crude has hardened in the past couple of weeks and if the spike continues OMCs will be back to square one earning negative marketing margins along with lower refining margins.

From an over-recovery of as high as Rs 12.35 on a litre of petrol and Rs 2.70 on diesel in December 2008, the OMCs are back to reporting under-recoveries currently. However, ironically the stocks seem to have outperformed the market in the same period. We believe next hike in fuel prices cannot be before crude oil reaches within the range of \$66-\$70 per barrel.

We suggest to book profits on BPCL, HPCL and IOC and go long on upstream stocks like CAIRN and ONGC instead on account of regulatory and industry headwinds and expected spurt in crude oil price.



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