

# Oil Explorers Have Edge Over Marketers as Crude Boils

OMCs' margins can come under pressure even after price hikes; stocks to be in favour only if crude falls, say analysts

**Sanam.Mirchandani**  
@timesgroup.com

**Mumbai:** Investors prefer oil exploration and production companies over marketers even after the increase in retail prices of petrol and diesel for the first time since November, said analysts.

While the move removes an overhang of marketing losses of over ₹12 per litre being borne by oil marketing and upstream companies, analysts said upstream companies such as Oil India, GAIL India and Oil & Natural Gas Corp are on a stronger footing because of elevated crude oil and gas prices.

Money managers said shares of oil marketing companies (OMCs) HPCL, BPCL and Indian Oil Corp

should be considered only if there is a fall in crude oil prices.

"OMCs are not the better bet at this point, they will benefit only if there is a fall in crude oil prices. Oil explorers will be in demand because every \$10 increase in crude oil prices boosts their EPS by 20%," said Amit Gupta, vice-president and fund manager, ICICI Securities PMS.

Global crude oil prices rose to as high as \$139 per barrel recently amid the Russia-Ukraine war tensions. There are reports that the European Union nations may consider joining the United States in a Russian oil embargo.

Oil companies have not borne any losses since FY16 due to low crude oil prices and a regular increase in retail prices in the event of a rise in crude oil prices. Retail prices were

## Producers Flare Bright

Company	CMP (₹)	1-year Chg (%)	YTD Chg (%)
Oil & Natural Gas	175.55	67.59	22.72
Indian Oil Corporation	121.45	28.38	7.48
Reliance Industries	2539.69	24.05	5.63
Hindustan Petroleum	284.55	22.15	-4.13
GAIL (India)	143.55	9.58	9.25
Bharat Petroleum	366.25	-14.83	-5.13

left unchanged for over four months due to state elections in Uttar Pradesh, Goa, Manipur, Punjab and Uttarakhand. Moreover, OMCs will have to consistently raise prices in the near term to return to black, said analysts.

"We prefer upstream companies as they benefit from rising crude oil and gas prices. GAIL also benefits from high gas trading and LPG (liquefied petroleum gas) realisations," said Avishek Datta of Prabhudas Lilladher in a

note to investors.

"The oil marketing companies will also benefit from strong gross refining margins, but marketing margins are likely to come under pressure in a high crude inflationary environment."

The BSE Oil and Gas index has gained 5.45% to 18,463.17 so far this year while the Sensex has declined 1% in the period.

Indian Oil reported a 19% rise in December quarter profit while HPCL and BPCL posted a 63% and 11%, respectively.

Kotak Institutional Equities said OMCs holding back on retail price hikes after state elections were disappointing given the impact on margins but these price hikes should give some respite if the trend sustains in the coming days.