

## Foundation Alert

### Oil Marketing: In principle approval for revision in OMC margins

#### Event

- Economic Coordination Committee of the Cabinet gave in-principle approval for the revision of oil marketing companies (OMC) margins on petroleum products to Rs6/ltr.

#### Impact

- Economic Coordination Committee of the Cabinet gave in-principle approval for the revision of oil marketing companies (OMC) margins on petroleum products to Rs6/ltr from current Rs3.68/ltr.
- However, implementation of this revision will be subject to fiscal space in POL prices.
- As per our calculations, the impact of this upward revision in OMC margins by ~63% to Rs6/ltr would have annualized EPS impact of Rs32.0/sh for PSO and Rs20.7/sh for APL.

#### Outlook

- We expect decline in petroleum products demand during FY23 given (1) record floods, (2) slowdown in economic activity due to high interest rates and (3) elevated oil prices amid Ukraine-Russia war. However, we have an outperform stance on the sector due to expected improvement in cashflows of PSO amid (1) likely increase in gas prices and (2) expected resolution of circular debt given implementation of Weighted Average Cost of Gas.

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#### Recommendations definitions

Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.