

OIL AND GAS MONTHLY

AUGUST



Monthly Highlights

* Exploration & Production (E&P)

Crude prices averaged USD 72.6/bbl in July, lower by 2.2% compared to USD 74.2/bbl in July.

* Refining

Indian simple GRMs for August averaged USD 4.8/bbl compared to USD 4.2/bbl in July 2007, due to higher light-heavy crude spread increasing margins for entire product range using the typical Indian crude basket. The margins increased despite reduced gasoline-WTI spreads for Aug-07 at USD 4.7/bbl compared to USD 11.3/bbl for Jul-07.

* Marketing

Gasoline under-recoveries decreased to INR 3.4/ltr from INR 5.0/ltr while diesel under-recoveries increased marginally from INR 4.1/lt (Jul-07) to INR 4.2/lt (Aug-07). Gasoline under-recovery decreased due to reduced gasoline spreads.

News during the month

- 10% Oil India Ltd sell-off cleared by Cabinet Panel (Aug 31)
- 26% stake picked up in Nagarjuna oil by the Tatas (Aug 30)
- Government clears Cairn's crude oil pipeline (Aug 24)
- ONGC discovers gas reserves in Tripura (Aug 21)
- Govt proposes new guidelines for determining unfinished MWP (Aug 14)
- Great Offshore to acquire Norwegian rig major (Aug 13)

Recent research

- Aug 01:** Cairn India-steady progress; result update Q2CY07; upgrade to 'BUY'

Oil & Gas Snapshot

	Aug-07	Jul-07	Aug-06	Y-o-Y %	M-o-M %
WTI (USD/bbl)	72.6	74.2	73.3	(1.0)	(2.2)
Indian Crude (USD/bbl)	68.9	72.9	71.0	(3.0)	(5.4)
Light-Heavy Spread (Usd/bbl)	9.6	9.1	10.3	(6.7)	5.4
GRMs:					
Indian Simple (USD/bbl)	4.8	4.2	3.5	34.7	13.8
Indian Complex (USD/bbl)	6.7	6.6	6.0	11.6	1.9
Marketing under-recovery*					
MS (INR/ltr)	3.4	5.0	4.8	(28.8)	(31.2)
HSD (INR/ltr)	4.2	4.1	6.6	(36.0)	3.6
LPG (INR/cyl)	162.9	159.9	179.8	(9.4)	1.9
SKO (INR/ltr)	14.3	13.4	17.8	(19.7)	6.5

*Negative number implies over-recovery

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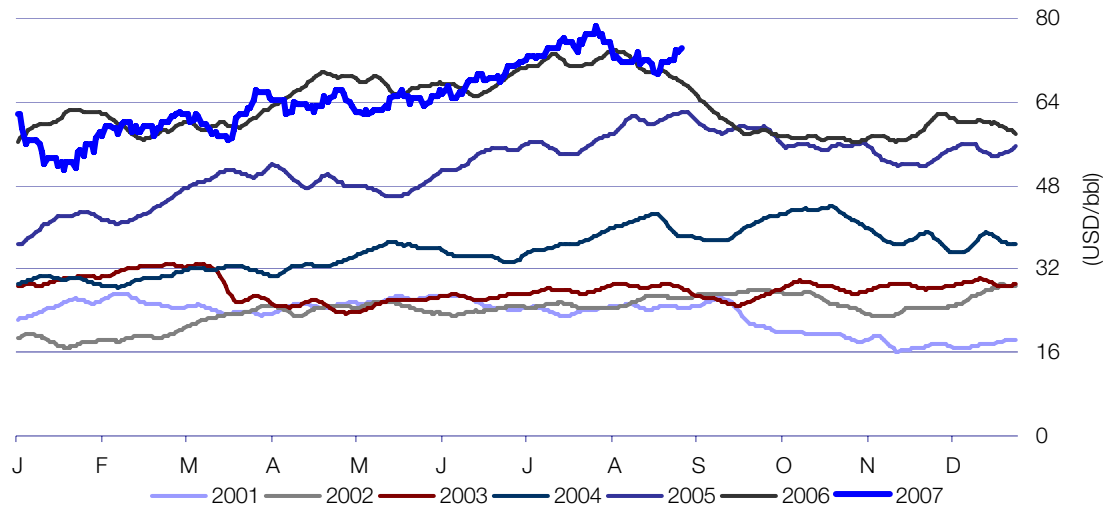
Monthly stock performance

Company	MoM returns (%)
Gujarat State Petronet	4.8
Reliance Petroleum	3.7
Reliance Industries	3.6
Indraprastha Gas	2.7
Cairn India	0.8
Guj Gas	(1.6)
Petronet LNG	(2.6)
MRPL	(2.6)
Bharat Petroleum Corp.	(3.1)
Indian Oil Corporation	(3.9)
Hindustan Petroleum	(4.5)
Chennai Petroleum	(5.1)
ONGC	(6.2)
GAIL	(7.8)

Exploration and Production

WTI crude price

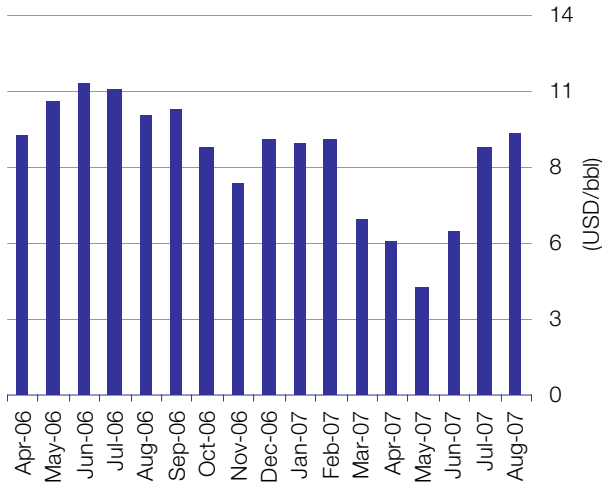
WTI crude prices averaged USD 72.6/bbl in August, compared to USD 74.2/bbl in July



Source: Bloomberg, Edelweiss research

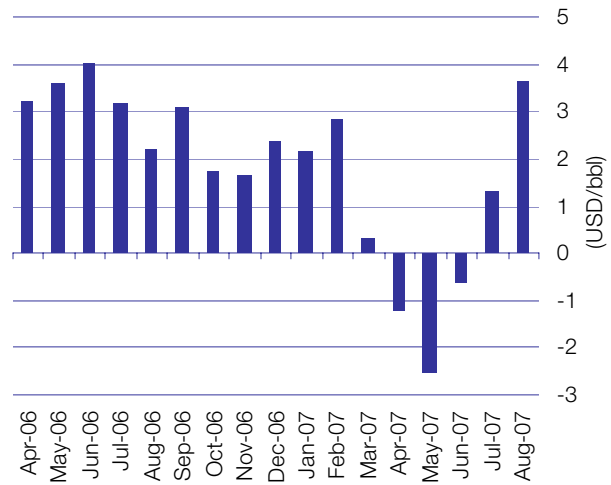
Crude price spreads: The spread between WTI and the Indian basket improved further from USD 1.3/bbl (Jul-07) to USD 3.6/bbl (Aug-07) due to reversion of WTI-Brent crude price from discounts to premium.

WTI—Arab heavy spread



Source: Bloomberg, Edelweiss research

WTI—Indian basket spread

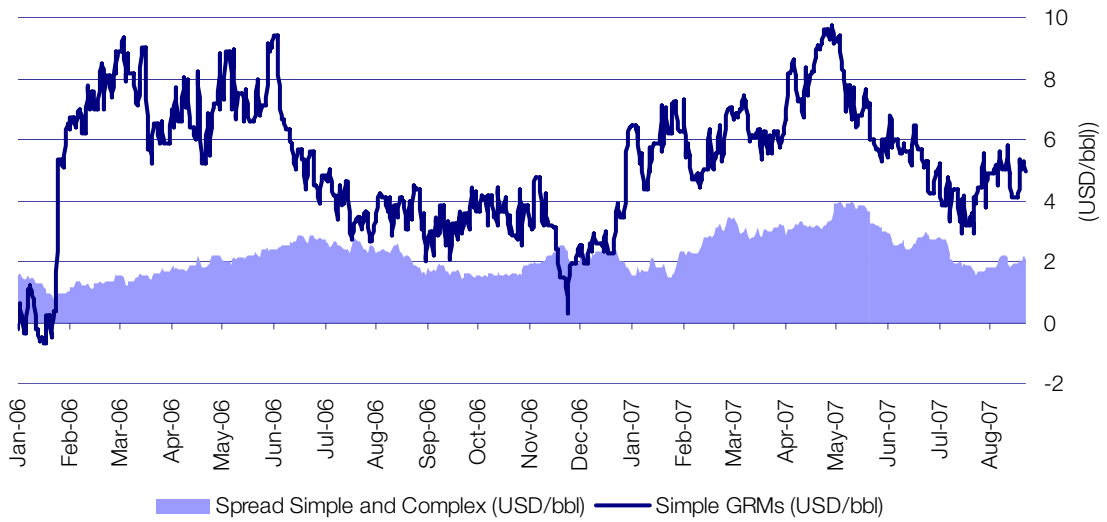


Refining

Indian simple GRMs

Refining margins improved from USD 4.2/bbl in July to USD 4.8/bbl in August.

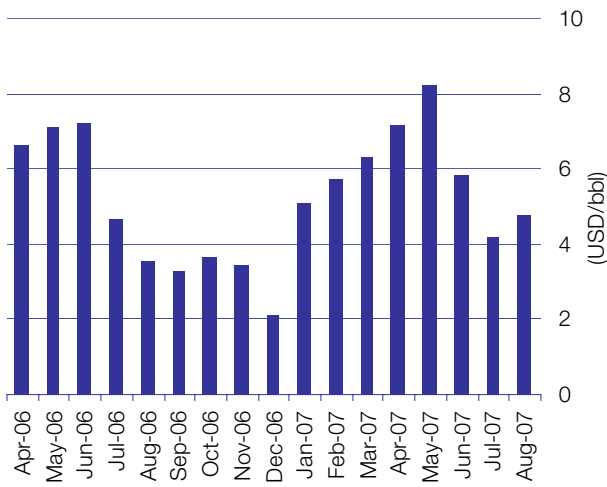
Complex and simple refining spread decreased to USD 1.9/bbl from USD 2.4/bbl as gasoline and naphtha spreads corrected further.



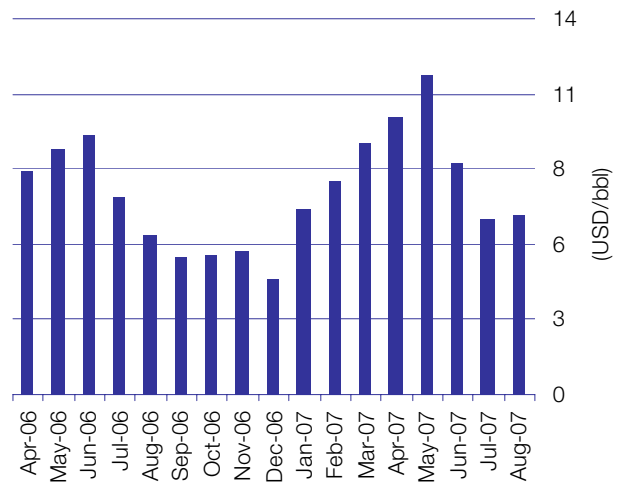
Source: Bloomberg, Edelweiss research

Monthly refining margins

Indian simple GRMs



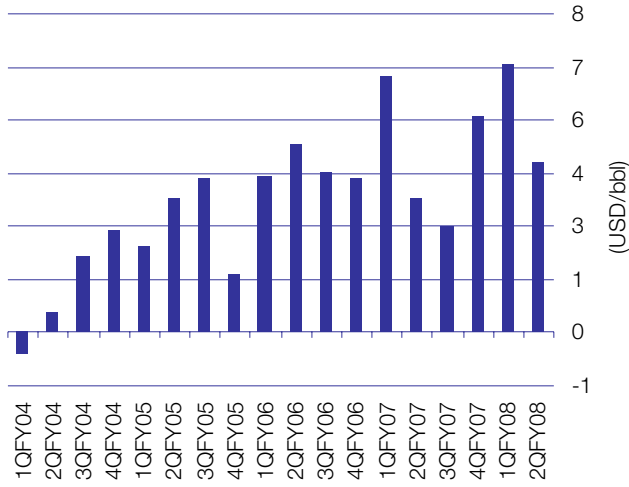
Indian complex GRMs



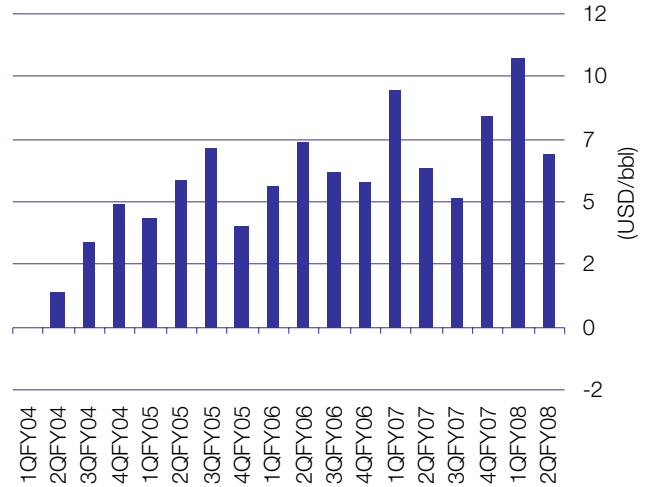
Source: Bloomberg, Edelweiss research

Quarterly refining margins

Indian simple GRMs



Indian complex GRMs



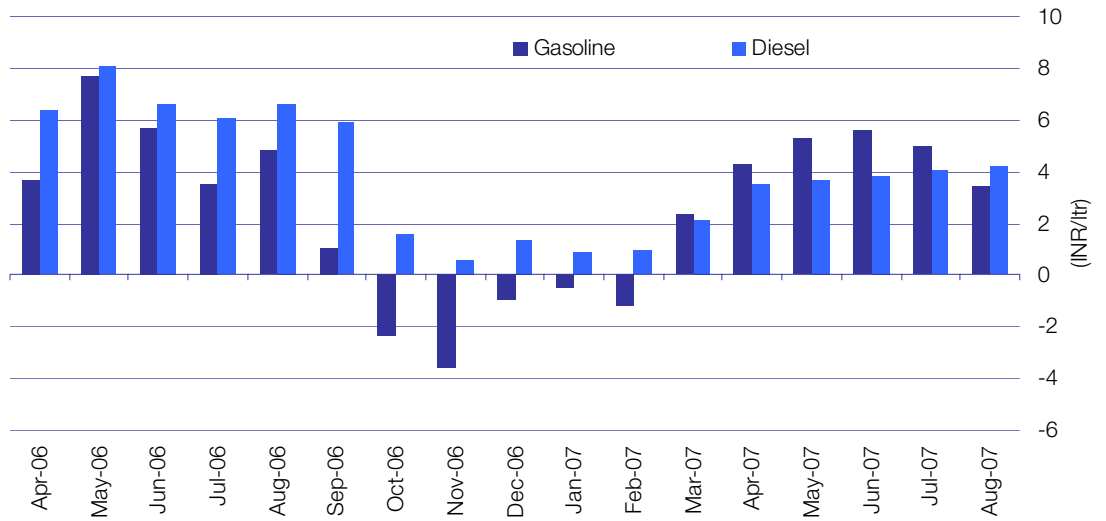
Source: Bloomberg, Edelweiss research

Marketing

Under-recoveries on gasoline (petrol) decreased in spite of rising crude price as gasoline spreads corrected further. Gasoline under-recoveries reduced from INR 5.6/lt in Jun-07 and INR 5.0/lt in Jul-07 to INR 3.4/lt in Aug-07. Diesel under-recovery increased by 3.6% M-o-M due to increase in crude and product prices.

Under-recovery in auto fuels (gasoline and diesel)

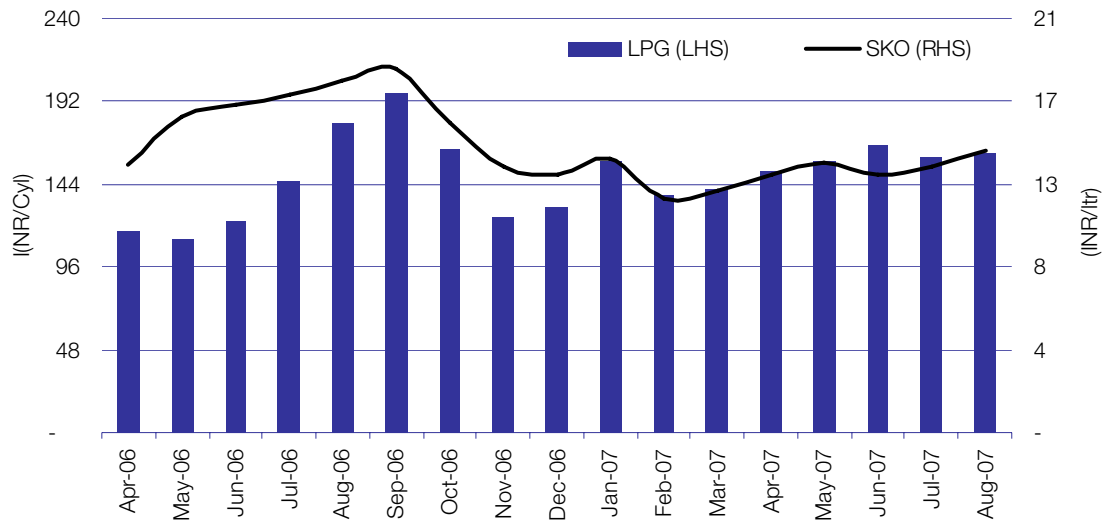
Under-recoveries for gasoline and diesel stood at INR 3.4/lt and INR 4.2/lt, respectively.



Source: Bloomberg, Edelweiss research

Under-recovery in domestic fuels (LPG and SKO)

LPG under-recovery was at INR 163/cyl and SKO under-recovery was at INR 14.3/ltr.



Source: Bloomberg, Edelweiss research

Oil and gas valuation

Company / Sector	Rating	Price (INR)	P/E (x)		EV/EBITDA (x)	
			FY08E	FY09E	FY08E	FY09E
Exploration & production*						
ONGC	Buy	858	9.2	9.0	3.9	3.8
Cairn India**	Buy	150	137.6	26.6	49.9	13.9
International Median			14.1	12.8	6.1	5.5
Refining & Marketing						
Bharat Petroleum Corporation	Accumulate	311	7.7	6.9	7.0	6.4
Hindustan Petroleum Corporation	Accumulate	234	7.1	4.9	9.6	7.2
Indian Oil Corporation	Accumulate	387	7.0	6.4	3.3	3.0
Reliance Industries	Accumulate	1,960	24.9	22.6	16.5	14.9
Chennai Petroleum Corporation	Buy	261	5.8	6.7	3.9	4.4
Asian median			9.3	8.6	7.7	8.1
US & Europe median			11.6	10.4	6.9	5.8
International median			11.0	10.4	7.4	6.5
Petrochemicals						
Reliance Industries	Accumulate	1,960	24.9	22.6	16.5	14.9
Finolex Industries	Reduce	73	13.7	10.9	8.9	7.1
International median			13.3	12.2	6.4	6.4

Source: Bloomberg, Edelweiss research

* EV/EBITDA for E&P denotes EV/EBITDAX

** year ending December

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Coverage group(s) of stocks by primary analyst(s): Oil & Gas, Petrochemicals

Bharat Petroleum Corporation, Cairn India, Chennai Petroleum Corp., Engineers India, Finolex Industries, Hindustan Petroleum Corporation, Indian Oil Corporation, Indraprastha Gas, ONGC, PSL, Reliance Industries

Date	Report	Title	Price (INR)	Recos
07-Aug-07	Sector	<i>Monthly Update</i>		
31-Jul-07	Cairn India	Steady progress <i>Result Update</i>	145	Buy
31-Jul-07	Indian Oil	GRMs and forex gains come to rescue; <i>Result Update</i>	395	Accumulate
31-Jul-07	Hindustan Petroleum Corpn.	Absence of oil bonds spoils the party; <i>Result Update</i>	257	Accumulate

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Accumulate	Reduce	Sell	Total
Rating Distribution*	94	44	23	6	177

* 8 stocks under review / 2 rating withheld

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	76	66	35

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 20% over a 12-month period
Accumulate	appreciate up to 20% over a 12-month period
Reduce	depreciate up to 10% over a 12-month period
Sell	depreciate more than 10% over a 12-month period

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