SSKI

INDIA RESEARCH

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Sector strategy

Oil Marketing Companies

Not out of the woods yet

Oil prices are off the recent highs as signs of slowdown in the US economy and brimming product stocks bring comfort to the tight markets. However, the approaching winter season and a proposed oil production cut by OPEC will test crude prices at these levels. Even if crude prices stabilize at ~$60/bbl in the medium term, we believe OMCs will still not be better off as the oil bond support could likely be softened. That, along with a fall in refining margins and inventory losses, will mean continued burden for OMCs till under-recoveries are stemmed. We believe that at CMP, IOC, HPCL and BPCL factor in sub $50/bbl average oil prices for FY08. We downgrade our rating on OMC stocks to Underperformer.

Average crude price should fall below $50/bbl for OMC stocks to gain: Though crude prices have eased by 26% to $60/ bbl since August 2006, the approaching winter season and a production cut by OPEC would decide the floor prices. The current stock prices of IOC, HPCL and BPCL factor in a sub $50/bbl average crude price for FY08 (FY07 YTD average is $69/bbl), a level building in too many concerns on the US economy.

Risks casting a long shadow on gain from softer crude prices: Even as OMCs stand to benefit from softer crude prices, risks ranging from reduction in amount of oil bonds, cut in retail prices of auto fuels, increase in excise, softer refining margins and inventory losses will negate the gains. We believe the benefit of falling crude prices is not likely to be passed on to downstream companies in the medium term.

Uncertainties lead to cut in earnings estimates: On account of near-term uncertainty on crude oil price outlook and the government's placid stance, we believe the run up in stock prices of OMCs is not backed by actual structural changes. While OMCs trade at a 20-40% discount to their replacement cost, they continue to be plagued by massive under-recoveries and government interference in fixing retail product prices. We downgrade IOC, BPCL and HPCL to Underperformer.

Key valuation metrics

	Price (Rs)	Reco*	FY08E EPS (Rs)	PE (x)	EV/EBITDA (x)	Target price (Rs)	Potential upside (%)
IOC	536	UP	57.0	9.4	5.4	547	2.1
HPCL	304	UP	26.1	11.6	5.8	288	(5.3)
BPCL	395	UP	44.3	8.9	5.5	392	(0.8)

*IOC and BPCL numbers are consolidated; *UP=Underperformer*

Harshad Katkar
harshad@sski.co.in
91-22-66 38 3358

Avishek Datta
avishek@sski.co.in
91-22-66 38 3217

S.S. Kantilal Ishwarlal Securities Pvt. Ltd. (SSKI)
701-702 Tulsiani Chambers,
7th Floor (East Wing),
Nariman Point,
Mumbai 400 021.
Fax: 91-22-2204 0282

INVESTMENT ARGUMENT

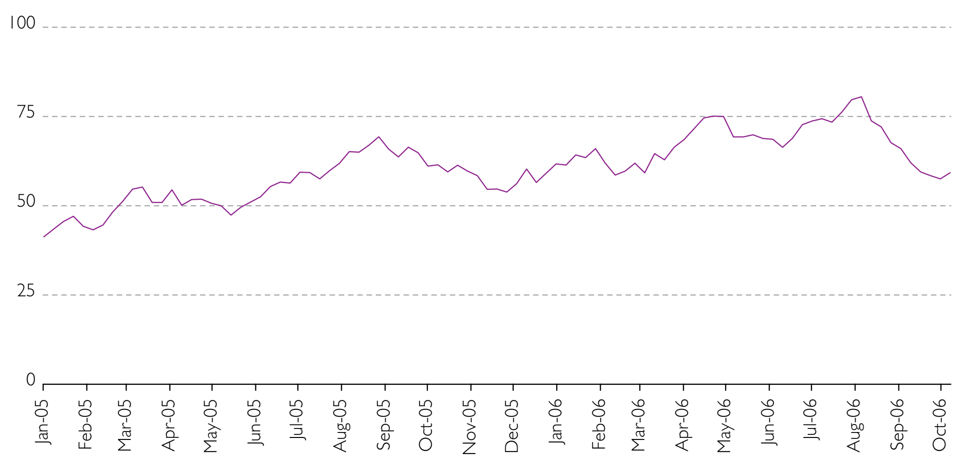
Oil prices, after touching new highs, have come off on concerns of the US economy slowing down and a milder hurricane season. With US product inventories well above their 5-year average for this time of the year, crude prices have retreated to lower levels. However, the approaching winter season and a proposed production cut of 1m bpd by OPEC will decide the floor for crude prices. Even if prices stabilize at ~$60/bbl, or fall in the medium term, we believe OMCs are unlikely to be better off as we expect the government to soften its oil bond support in that scenario. Coupled with falling refining margins, inventory losses and a likely retail price cut given the impending elections in key states, this would mean no respite for OMCs till the structural issue of under-recoveries is addressed.

❑ Crude prices correct off the highs

Concerns on US economy slow down and robust product inventories lead to softer crude prices

Much to the delight of oil importing countries, crude prices have come off ~26% from the highs registered in August 2006 on concerns of US economy slowing down. Robust product inventories built in anticipation of a strong hurricane season and the receding threat of supply disruptions due to geopolitical tensions have also contributed to the fall in crude prices.

Exhibit 1: Crude prices have fallen 26% since August 2006



Source: Argus

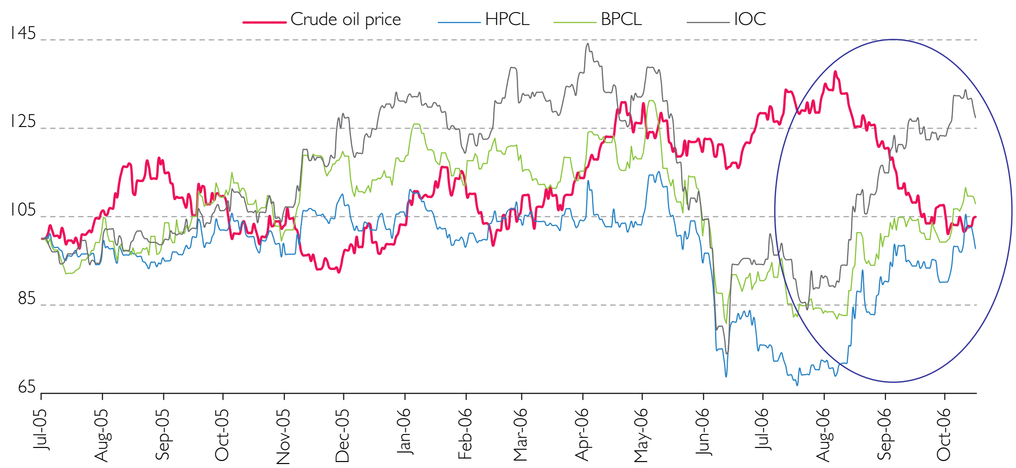
However, with OPEC mulling over a 1m barrel per day cut in its output and in view of the approaching winter season, the chances of crude prices tanking appear less likely. In fact, we see prices moving up from the existing level of $60/bbl in the medium term.

❑ OMCs unlikely to gain from crude price correction in the near term

We do not see OMCs gaining from softer crude prices unless under-recoveries are stemmed

The soft international crude prices also brought cheer to OMCs like IOC, HPCL and BPCL, stock prices of which have run up 30-50% over August-October on the premise that that they will pocket the entire incremental benefit of the crude price correction. However, we believe the run up is not justified and that OMCs will be at the receiving end till structural issues of under-recoveries and excess government interference are addressed.

Exhibit 2: Inverse crude oil and oil marketing stock price movement



Source: Bloomberg, SSKI Research

If crude prices were to fall, extent of oil bonds may be cut…

OMCs not to benefit from softer crude prices in the near term

We also expect that if crude prices stabilize at or correct below $60/bbl, the oil bond support of Rs280bn extended by the government to tide over the extreme situation will be cut. Given the precarious government finances, we believe these bonds were meant only for an emergency situation and not as a means to pump up the earnings of these companies. Also, the possibility of a roll back of excise duty cuts engineered by the government to make up for the loss incurred by it from crack in international crude prices cannot be overlooked.

If crude oil prices fall from the current levels, the government stands to lose out on part of revenues collected through excise and import duties. The government could, therefore, cut the level of support proposed to be extended in the form of oil bonds.

…no reduction in net under-recoveries till average crude price falls below $58/bbl

We do not expect a major fall in under-recovery burden for OMCs till oil prices drop below ~$58/bbl

We expect the share of upstream players in under-recoveries to remain at ~40% of the gross amount, and hence the losses to be borne by OMCs and upstream players to drop proportionately only after the oil bond amount is reduced.

Assuming that oil bond support is maintained at FY06 level (Rs115bn) and upstream contribution at 40% of the gross under-recoveries, Brent crude needs to average below $58/bbl for FY07 (FY07 YTD average Brent price is $69/bbl) for the net under-recovery burden on OMCs to come down to below Rs77bn. Hence, we do not expect any substantial positive impact on reduction of under-recovery burden for OMCs in FY07 till oil prices average below ~$58/bbl.

Exhibit 3: Sharing of under-recoveries

Rs bn		
Brent $/bbl	**68**	**58**
Gross under recoveries	582	344
Share of upstream	225	133
Oil bonds	260	114
Share of Refiners	20	20
Net under recoveries borne by OMCs	77	77

Source: SSKI Research

We expect oil bond support to reduce in line with under-recovery reduction and profit on auto fuel retailing

Thus, the amount of issuance of oil bonds even as oil prices retreat (and thereby losses on petrol and diesel turn to profits) remains the key to valuing OMCs. We expect the amount of oil bonds to go on reducing as under-recoveries on LPG and kerosene fall and as OMCs start making profit on auto fuel retailing. It is worth noting here that prior to FY06 (when margins on auto fuel retailing were positive), instead of issuing oil bonds, the government had insisted that OMCs should partly subsidize the losses on LPG and kerosene through auto fuel margins.

❑ <$50/bbl average crude price/ oil bonds required to prop OMC stocks

In absence of oil bonds in FY08, CMP of HPCL, BPCL and IOC factors in crude price of $45/bbl, $50/bbl and $46/bbl respectively

Assuming that the government will not issue any oil bonds next year, the current market price of HPCL, BPCL and IOC factors in average Brent crude price of $46/bbl, $51/bbl and $47/bbl respectively for FY08 (FY07 YTD average price is $69/bbl). Assuming average Brent crude price of $60/ bbl in FY08, the current market price of HPCL, BPCL and IOC factors in total oil bond issuance of Rs124bn, Rs110bn and Rs114.3bn respectively for the year.

If crude oil prices were to fall, the quality of earnings of OMCs would improve given that they will rely less on oil bonds.

Exhibit 4: IOC - FY08

Brent $/bbl	65	60	55	50
GRM	5.24	5.24	5.24	5.24
MS/HSD Margins	(1,000)	500	1,400	1,400
Oil Bonds	106,227	67,677	40,818	23,815
Oil Bonds to industry	187,000	115,000	67,000	38,000
Consolidated EPS	63.89	57.77	55.11	52.98

Source: SSKI Research

Exhibit 5: HPCL - FY08

Brent $/bbl	65	60	55	50
GRM	4.70	4.70	4.70	4.70
MS/HSD Margins	(1,000)	500	1,400	1,400
Oil Bonds	39,679	23,643	12,932	6,983
Oil Bonds to industry	187,000	115,000	67,000	38,000
Consolidated EPS	33.5	26.12	23.54	22.06

Source: SSKI Research

Exhibit 6: BPCL - FY08

Brent $/bbl	65	60	55	50
GRM	4.66	4.66	4.66	4.66
MS/HSD Margins	(1,000)	500	1,400	1,400
Oil Bonds	41,094	23,679	13,250	7,202
Oil Bonds to industry	187,000	115,000	67,000	38,000
Consolidated EPS	51.49	44.13	48.4	48.69

Source: SSKI Research

If crude prices were to fall below $50/bbl, product prices likely to be cut

❑ With approaching state elections, a retail price cut not ruled out

With elections round the corner in several key states like Uttar Pradesh and Punjab (from early 2007), retail product prices could be cut if crude price were to fall sharply from here. The government had last increased product prices in June 2006 to partly compensate for soaring under-recoveries. However, the petroleum ministry has ruled out a price cut till international crude prices settle below $50/bbl (source: *The Hindu*).

Exhibit 7: Key states go in for elections next year

States	Last election	Terms getting over
Punjab	March 2002	March 2007
Uttranchal	March 2002	March 2007
Manipur	March 2002	March 2007
Uttar Pradesh	May 2002	May 2007
Goa	June 2002	June 2007
Gujarat	December 2002	December 2007

Source: Election commission

High crude prices, impact of which is not passed on, prompt us to cut FY07 and FY08 earnings of OMCs

❑ Earnings estimates of OMCs revised downwards

FY06 has been a washout for OMCs in terms of earnings growth. Going forward, we believe earnings growth will hinge on stability of oil prices. We are downgrading our FY07 earnings estimates for OMCs by up to 40% to factor in the 26% increase in our crude price estimate (hence lower auto fuel margins and higher under-recovery on LPG and SKO).

For FY08, we have revised our standalone earnings estimates downwards by 13-50% on the back of a 36% increase in crude price forecast.

We have cut our earnings estimates by 40% for FY07 and 13-50% for FY08

Exhibit 8: Our revised earnings estimates

(Rs/share)	FY07 previous est	FY07 revised est	% chg	FY08 previous est	FY08 revised est	% chg
IOC	48.7	53.9	10.7	60.2	51.7	(14.1)
HPCL	31.3	31.2	(0.3)	45.9	26.1	(43.1)
BPCL	45.5	28.8	(36.7)	60.9	30.3	(50.2)

Source: SSKI Research

❑ What do our numbers factor in?

We are revising our numbers based on various assumptions ranging from a change in crude price estimate to refining margins to auto fuel margins as also the amount of oil bonds issued by the government.

Exhibit 9: Assumptions behind our estimates

	IOC		HPCL		BPCL	
	FY07E	FY08E	FY07E	FY08E	FY07E	FY08E
GRM-$/bbl	5.50	5.24	5.00	4.70	5.00	4.66
MS / HSD mktg margins-Rs/kl	(4,300)	500	(4,300)	500	(4,300)	500
Oil Bonds (Rs m)	142,644	67,677	56,631	23,643	60,725	23,679

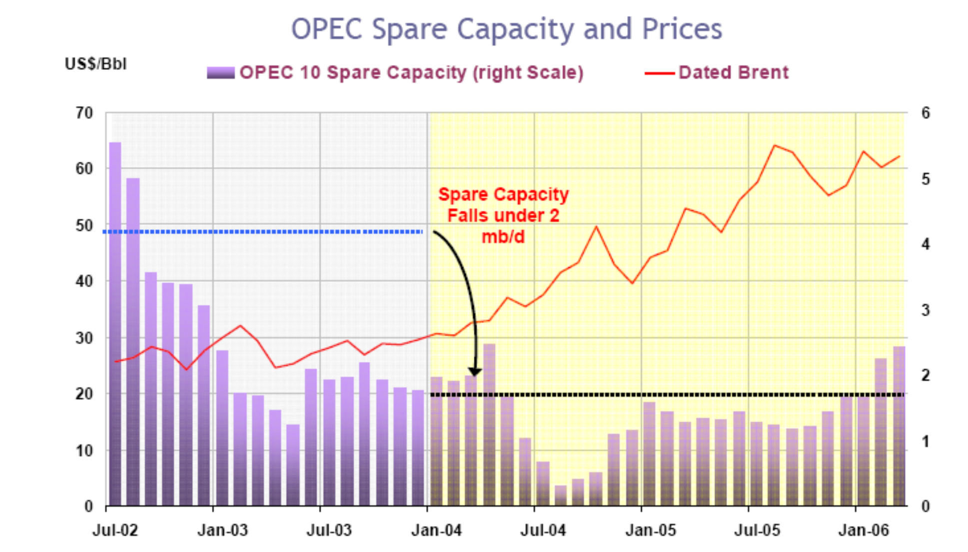
Source: SSKI Research

Crude prices likely to bounce back on OPEC production cuts and various non-OPEC issues

❑ …our crude price estimates revised upwards

Though crude prices have come off, we believe the correction is temporary. Crude prices will not only get a boost from OPEC production cuts, but also from non-OPEC production issues ranging from delays in development of new fields, offshore maintenance and depletion in older fields. Hence, we are upgrading our Brent crude price estimates for FY07 and FY08.

Exhibit 10: OPEC Spare capacity and prices



Source: IEA

We have increased crude price estimate for FY07 by 26% to $68/bbl

Rising demand for cleaner grades of transport fuel, coupled with a tight refining situation, is adding to demand for low sulphur crude, where supply is already tight. For FY07, we have revised our Brent crude oil price target to USD 68/bbl (up 26% from USD 54/bbl earlier).

For FY08, we have estimated crude price at lower average of USD60/bbl

For FY08, however, we estimate Brent crude to average at USD60/bbl (revised up by 36% from $44/bbl earlier). We have taken a comparatively lower average for FY08 as the persistently high prices, coupled with rising interest rates (to prevent inflation pangs), could impact petroleum product demand growth. That, along with new supplies coming on stream and dissipation of geopolitical risk premium, will likely douse the crude price increase.

❑ Refinery margins to remain tight

An estimated 10m bpd of refining capacity to be added by 2013 against incremental demand of 8.5bpd

With oil demand growth outpacing refinery capacity addition, spare refining capacity has been dwindling since 2002. World refinery capacity addition has been growing at 1% p.a. since 2000, whereas demand growth has easily outstripped addition. As a result, faster capacity additions are required to meet the increased oil demand.

Towards this end, around 60 refineries are due for completion worldwide by 2013, which would add an estimated 10m bpd, a CAGR of 1.6%, assuming all the projects are executed without any delay. GRMs will swing depending on timely completion of these projects. With most refineries being built by state-owned companies, delays (on account of financial closure, lack of construction equipment, etc) – especially for the ones in the Middle East – cannot be ruled out. Of the 10m bpd capacity addition, China is expected to add 3m bpd, India 2m bpd and the Middle East region 2.3m bpd over 2006-13. Completion of a substantial part of this capacity is bunched around 2009 (18%) and 2011 (20%).

We expect firm refining margins to continue in the medium term amid tight demand-supply scenario. However, in case of demand slackening from major oil consuming countries, margins will take a hit.

Exhibit 11: GRM estimates

	IOC		HPCL		BPCL	
	FY07	FY08	FY07	FY08	FY07	FY08
GRM-$/bbl	5.50	5.24	5.00	4.70	5.00	4.66

Source: SSKI Research

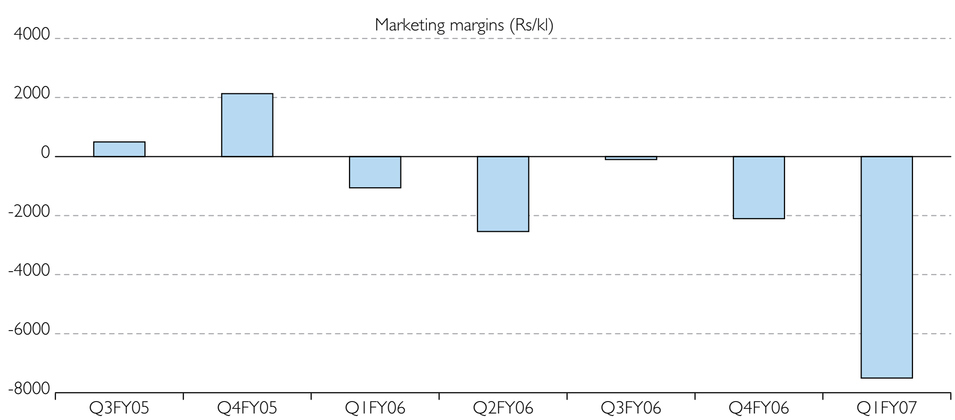
❑ Auto fuel margins – pain persists

As retail prices align with global prices, auto fuel margins to impact profits of downstream companies

Auto fuel margins have been a drag on profitability of downstream companies as controlled retail prices fail to track international prices. Compounded by government inaction, we have revised our FY07 auto fuel margin estimate from Rs1,000/kl earlier to Rs(4,300)/ kl.

For FY08 also, we have reduced our marketing margin estimate to Rs500/kl from Rs900/kl earlier (as we have revised our crude price estimate up for the year from $54/bbl earlier to $60/bbl). Marketing margins are expected to improve yoy in FY08 on the back of a fall in crude prices. However, even in the case of a sharp fall in crude prices, we do not expect marketing margins to expand proportionately as competition from private refiners, especially Reliance Industries, would cap margins.

Exhibit 12: High crude prices keep auto fuel margins in the red



Source: SSKI Research

Despite corrective measures, under-recoveries to remain OMCs' bane

❑ Under-recoveries – the pain factor

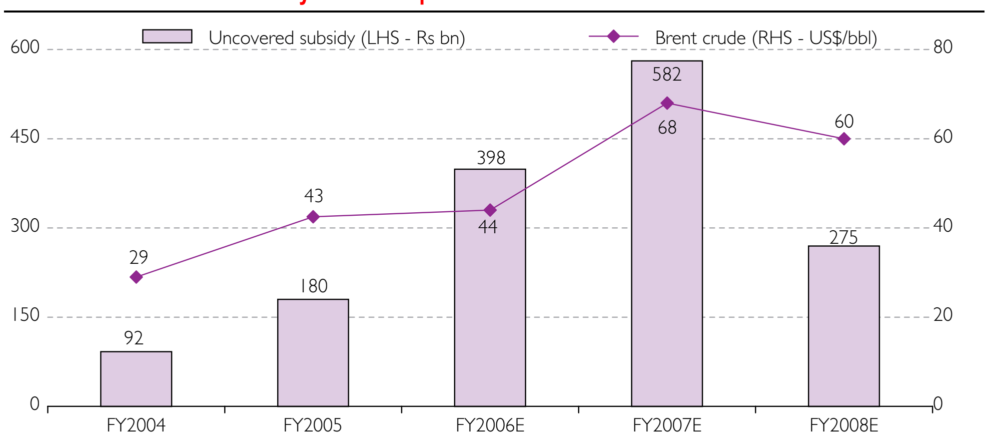
Under-recoveries (euphemism for losses) on cooking and auto fuels will continue to act as a drag on profitability of OMCs. The pace of crude price rise, coupled with government's dithering stand to pass on the price rise to consumers, has sent under-recoveries soaring to unprecedented levels. Even though crude prices have softened, high LPG prices would translate into under-recoveries of ~Rs160bn in Q2FY07 as against Rs174bn in Q1FY07. The Indian government, after much dilly-dally, had announced a host of measures in June 2006 (when crude prices were hovering around $70/bbl) to bring down the under-recoveries. The measures include the following:

- Price of diesel increased by Rs2/litre and of petrol by Rs4/litre. On account of this price hike, under-recovery on diesel and petrol to come down by ~Rs93bn.
- Customs duty on petrol and diesel reduced to 7.5% from 10% and trade parity pricing introduced (instead of import parity pricing earlier) as the method for calculating transfer prices of petrol and diesel from refineries to marketing companies. These measures would save ~Rs65bn for OMCs.
- The government will issue oil bonds amounting to ~Rs280bn in FY07 (Rs115bn in FY06).
- Upstream oil companies to contribute Rs240bn to under-recovery of subsidy in FY07 (Rs140bn in FY06).

We expect under-recoveries to fall to Rs582bn in FY07 and Rs275bn in FY08

In Q1FY07, the gross under-recoveries amounted to ~Rs165bn with OMCs bearing ~Rs102bn and upstream ~Rs60bn of the burden. The government had not issued oil bonds in Q1FY07, as the parliamentary approval was not in place. Oil bonds amounting to ~Rs140bn for H1FY07 are expected to be issued over October-December 2006. Post these measures, we expect under-recoveries to come down to Rs582bn in FY07 and Rs275bn in FY08.

Exhibit 13: Uncovered subsidy and Brent prices



Source: SSKI Research

Exhibit 14: Subsidy sharing

(Rs bn)	FY05	FY06	FY07E	FY08E
Gross uncovered subsidy	182	396	582	275
Government share	35	35	35	35
Upstream contribution	60	140	225	106
Refiners contribution	0	22	20	20
Oil bonds	0	115	260	115
Downstream contribution	**122**	**129**	**77**	**34**

Note: Gross under-recovery in FY05 includes that on MS & HSD

At $60/ bbl, under-recoveries expected to come down to Rs275bn in FY08

As we expect crude prices to retreat to $60/bbl in FY08, under-recoveries are expected to come down by 52% to Rs275bn. Leading the drop in under-recoveries will be a steep fall in MS and HSD under-recoveries (including notional marketing margins), which could decline from Rs265bn in FY07 to Rs33bn in FY08.

❑ Valuations and view

We are downgrading our recommendation on IOC, HPCL and BPCL from Outperformer to Underperformer given that all these stocks have appreciated significantly recently and now factor in crude oil price averaging at less than $50/bbl for FY08 (FY07 YTD average is $69/bbl). While the stocks continue to trade at a 20-40% discount to their replacement cost, we believe the full benefit of softer crude prices will accrue only if structural issues are addressed. However, with uncertainty regarding the government's policy on oil bonds, excise duty on petroleum products and retail auto fuel prices, crude price risk outweighs the gains at current stock prices of IOC, HPCL and BPCL.

We have downgraded IOC, HPCL and BPCL to Underperformer

IOC, HPCL and BPCL currently trade at FY08E EV/E of 5.4x, 5.75x and 5.54x respectively. Our target price for IOC, HPCL and BPCL is Rs547, Rs288 and Rs392 respectively based on FY08E EV/E of 5.5x and the value of investments. Among OMCs, we prefer BPCL, as its merger with Kochi Refineries will be earnings accretive.

	Price Target	Rating	CMP	Upside (%)
IOC	547	UP	536	2.1
HPCL	288	UP	304	(5.3)
BPCL	392	UP	395	(0.8)

Source: SSKI Research

BPCL (standalone)

Income statement

Year to March 31 (Rs m)	2004	2005	2006	2007E	2008E
Net Revenues	**479,530**	**578,774**	**723,956**	**861,571**	**756,889**
% YoY growth	*11.0*	*20.7*	*25.1*	*19.0*	*(12.2)*
Total expenditure	451,097	562,339	718,221	843,980	741,766
EBITDA	**28,433**	**16,435**	**5,735**	**17,590**	**15,122**
% of sales	5.9	2.8	0.8	2.0%	2.0%
Other income	4,669	4,584	4,303	3,806	6,361
Interest	1,050	1,398	2,122	2,854	2,095
Depreciation	5,612	5,960	6,408	7,017	7,261
PBT	26,440	13,661	1,508	11,525	12,127
Extra-ordinary items	(335)	(97)			
Tax	9,159	3,906	159	2,881	3,032
Tax rate	34.6	28.6	10.5%	25.0%	25.0%
Net Profit	**17,281**	**9,755**	**1,298**	**8,644**	**9,095**

Balance sheet

Year to March 31 (Rs m)	2004	2005	2006	2007E	2008E
Share Capital	3,000	3,000	3,000	3,000	3,000
Preference Share Capital	-	-			
Reserves and Surplus	55,497	60,884	61,683	66,999	72,592
Total Debt	26,897	38,816	51,855	69,595	19,546
Total Liabilities	**85,394**	**102,700**	**116,537**	**139,594**	**95,139**
Net Fixed Assets	60,331	70,001	77,551	79,411	79,027
CWIP	14,204	13,486	13,486	13,486	13,486
Investments	19,770	16,771	44,771	77,336	40,451
Gross Current Assets	83,415	103,519	96,538	108,623	105,540
Current Liabilities	92,325	101,077	115,808	139,262	143,364
Net Working Capital	(8,910)	2,442	(19,270)	(30,638)	(37,824)
Total Assets	**85,394**	**102,700**	**116,537**	**139,594**	**95,139**

Key ratios

Year to March 31 (%)	2004	2005	2006	2007E	2008E
EBITDA Margin	5.9	2.8	0.8	2.4	3.3
PAT Margin	3.6	1.7	0.2	1.2	1.6
RoNW	29.5	15.3	2.0	13.5	15.5
RoCE	26.7	10.2	(0.6)	10.8	13.0
Sales/GFA(x)	4.3	4.6	5.1	5.4	4.4
Gearing (x)	0.46	0.61	0.80	0.70	0.64

Valuations

Year to March 31	2004	2005	2006	2007E	2008E
EPS (Rs)	57.6	32.5	4.3	28.8	30.3
PER (x)	6.8	12.1	91.8	13.7	13.0
EV/ EBITDA (x)	4.3	8.5	22.1	6.4	6.1
EV/ sales(x)	0.3	0.2	0.2	0.1	0.1
Price/ BV(x)	2.1	1.9	1.9	1.7	1.6

HPCL

Income statement

Year to March 31 (Rs m)	2004	2005	2006	2007E	2008E
Net Revenues	**512,001**	**597,020**	**708,609**	**853,950**	**726,192**
% YoY growth	*5.7*	*16.6*	*18.7*	*20.5*	*(15.0)*
Total expenditure	479,380	576,509	700,566	827,742	704,269
EBITDA	**32,620**	**20,511**	**8,044**	**26,208**	**21,923**
% of sales	6.4	3.4	1.1	3.1	3.0
Other income	3,794	3,295	3,285	2,580	4,965
Interest	557	816	1,587	4,543	4,211
Depreciation	6,054	6,584	6,890	8,311	9,346
PBT	29,804	16,406	2,851	15,934	13,330
Extra-ordinary items	-	-	-	-	-
Tax	10,765	3,633	(1,302)	5,354	4,479
Tax rate	36.1	22.1	(45.7)	33.6	33.6
Net Profit	**19,039**	**12,773**	**4,056**	**10,580**	**8,851**

Balance sheet

Year to March 31 (Rs m)	2004	2005	2006	2007E	2008E
Share Capital	3,388	3,389	3,389	3,389	3,389
Preference Share Capital	-	-	-	-	-
Reserves and Surplus	62,563	69,511	72,456	74,627	85,858
Total Debt	17,008	21,854	66,638	115,084	53,352
Total Liabilities	**94,435**	**106,262**	**153,996**	**204,613**	**154,112**
Net Fixed Assets	65,781	69,436	73,374	97,702	93,355
CWIP	4,961	7,868	23,639	3,000	3,000
Investments	20,484	17,568	40,276	73,400	40,470
Gross Current Assets	94,302	95,023	110,100	107,248	94,495
Current Liabilities	64,481	61,778	73,947	53,657	54,890
Net Working Capital	29,820	33,245	36,153	53,592	39,606
Total Assets	**94,436**	**106,262**	**153,999**	**204,613**	**154,112**

Key ratios

Year to March 31 (%)	2004	2005	2006	2007E	2008E
EBITDA Margin	6.5	3.4	1.1	3.1	3.5
PAT Margin	3.7	2.0	0.6	1.3	1.4
RoNW	24.6	15.1	5.0	12.0	10.6
RoCE	28.1	13.1	0.7	10.9	11.0
Sales/GFA(x)	4.5	4.8	5.0	5.5	4.6
Gearing (x)	0.22	0.26	0.97	0.90	0.62

Valuations

Year to March 31	2004	2005	2006	2007E	2008E
EPS (Rs)	56.2	37.7	12.0	31.2	26.1
PER (x)	5.4	8.1	25.3	9.7	11.6
EV/ EBITDA (x)	3.1	5.3	16.5	5.6	5.4
EV/ sales(x)	0.2	0.2	0.2	0.2	0.2
Price/ BV(x)	1.4	1.3	1.2	1.2	1.1

IOC (standalone)

Income statement

Year to Mar 31 (Rs m)	2004	2005	2006	2007E	2008E
Net Revenues	**1,162,576**	**1,382,533**	**1,732,849**	**2,260,046**	**1,958,926**
% YoY growth	*7.4*	*18.9*	*25.3*	*30.4*	*(13.3)*
Total expenditure	1,059,667	1,310,613	1,658,844	2,135,357	1,842,315
EBITDA	**102,909**	**71,921**	**74,005**	**124,689**	**116,612**
% of sales	8.9	5.2	4.3	5.5	6.0
Other income	17,161	15,296	25,292	11,332	15,282
Interest	4,423	5,831	10,222	15,137	15,743
Depreciation	18,738	21,834	22,015	26,908	33,446
PBT	96,908	59,552	67,060	93,976	82,705
Tax	26,860	10,637	17,909	31,012	22,330
Tax rate (%)	27.7	17.9	26.7	33.0	27.0
Net Profit	**70,048**	**48,915**	**49,151**	**62,964**	**60,375**

Balance sheet

Year to Mar 31 (Rs m)	2004	2005	2006	2007E	2008E
Share Capital	11,680	11,680	11,680	11,680	11,680
Reserves and Surplus	218,794	248,164	281,347	315,749	358,012
Total Debt	121,786	173,202	264,043	341,426	288,282
Total Liabilities	**351,527**	**432,715**	**556,495**	**668,855**	**657,974**
Net Fixed Assets	220,018	233,037	249,194	369,779	436,332
CWIP	53,314	88,110	97,493	50,000	50,001
Investments	55,959	57,049	145,264	200,126	124,941
Gross Current Assets	252,362	316,868	364,831	396,723	363,721
Current Liabilities	231,321	263,304	300,993	348,479	317,727
Net Working Capital	21,041	53,564	63,838	48,244	45,993
Total Assets	**351,527**	**432,715**	**556,495**	**668,855**	**657,974**

Key ratios

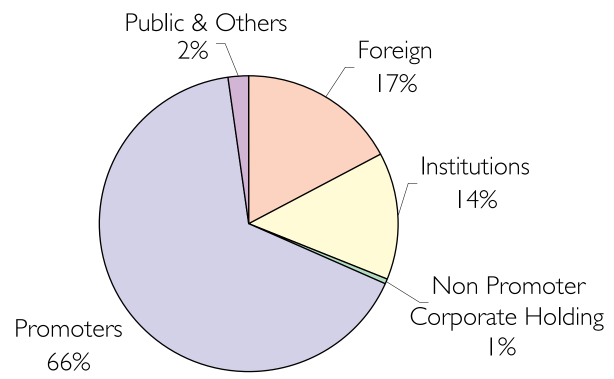
Year to March 31 (%)	2004	2005	2006	2007E	2008E
EBITDA Margin	8.9	5.2	4.4	4.8	5.9
PAT Margin	6.4	3.5	2.9	4.1	3.5
RoNW	33.5	20.0	17.9	26.8	18.0
RoCE	29.6	16.7	18.5	29.0	20.7
Sales/GFA(x)	3.2	3.5	3.5	3.8	3.0
Gearing (x)	0.53	0.67	0.39	0.29	0.28

Valuations

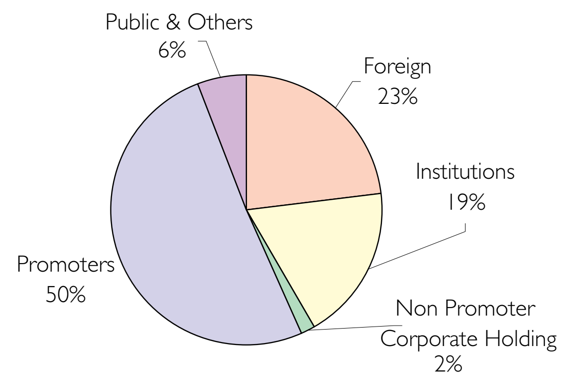
Year to March 31	2004	2005	2006	2007E	2008E
EPS (Rs)	60.0	41.9	42.1	53.9	51.7
PER (x)	8.9	12.8	12.7	9.9	10.4
EV/ EBITDA (x)	6.9	10.6	10.3	6.3	6.9
EV/ sales(x)	0.6	0.6	0.4	0.3	0.4
Price/ BV(x)	2.8	2.5	2.2	2.0	1.8

Shareholding

BPCL



HPCL



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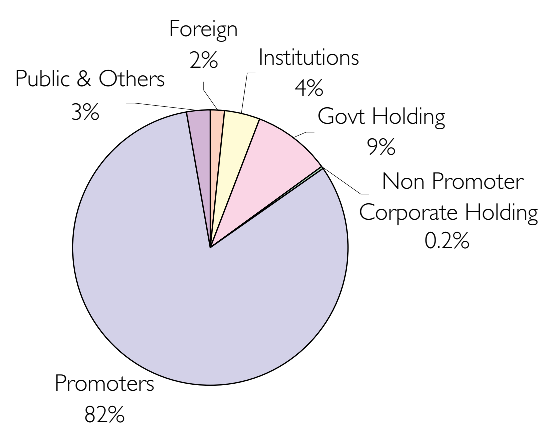

SSKI INDIA

Analyst	Sector/Industry/Coverage	E-mail	Tel. +91-22-6638 3300
Pathik Gandotra	Head of Research: Banking, Strategy	pathik@sski.co.in	Ext: 304
Shirish Rane	Cement, Construction, Power	shirish@sski.co.in	Ext: 313
Nikhil Vora	FMCG, Media, Retailing, Mid Caps	nikhilvora@sski.co.in	Ext: 308
Ramnath S	Automobiles, Auto ancillaries	ramnaths@sski.co.in	Ext: 380
Nitin Agarwal	Pharmaceuticals	nitinagarwal@sski.co.in	Ext: 395
Harshad Katkar	Oil & Gas, Engineering	harshad@sski.co.in	Ext: 358
Chirag Shah	Textiles, Metals	chiragshah@sski.co.in	Ext: 306
Bhoomika Nair	Construction, Power	bhoomika@sski.co.in	Ext: 337
Shiladitya Dasgupta	Mid Caps	shiladitya@sski.co.in	Ext: 365
Sandeep Rajani	Mid Caps	sandeeprajani@sski.co.in	Ext: 327
Avishek Datta	Oil & Gas, Engineering	avishek@sski.co.in	Ext: 217
Bhushan Gajaria	FMCG, Retailing, Media	bhushangajaria@sski.co.in	Ext: 367
Shreyash Devalkar	IT Services, Telecom	shreyashdevalkar@sski.co.in	Ext: 311
Hiren Dasani	Banking	hiren@sski.co.in	Ext: 325
Ashish Shah	Automobiles, Auto ancillaries	ashishshah@sski.co.in	Ext: 371
Salil Desai	Cement	salil@sski.co.in	Ext: 373
Uday Joshi	Technical Analyst	udayjoshi@sski.co.in	Ext: 392
Dharmendra Sahu	Database Manager	dharmendra@sski.co.in	Ext: 382

Equity Sales/Dealing	Designation	E-mail	Tel. +91-22-6638 3300
Naishadh Paleja	CEO	naishadh@sski.co.in	Ext: 211
GV Alankara	Head of Dealing	alankara@sski.co.in	Ext: 201-210
Vishal Purohit	VP - Sales	vishalp@sski.co.in	Ext: 212
Nikhil Gholani	VP - Sales	nikhilgholani@sski.co.in	Ext: 363
Sanjay Panicker	VP - Sales	sanjaypanicker@sski.co.in	Ext: 368
V Navin Roy	AVP - Sales	navin@sski.co.in	Ext: 370
Rohan Soares	AVP – Sales	rohan@sski.co.in	Ext: 310
Rishi Kohli	VP – Derivatives	rishikohli@sski.co.in	Ext: 201-210
Pawan Sharma	AVP – Derivatives	pawansharma@sski.co.in	Ext: 201-210
Sachin Kochhar	AVP – Derivatives	sachinkochhar@sski.co.in	Ext: 201-210
Dipesh Shah	AVP – Derivatives	dipeshshah@sski.co.in	Ext: 201-210

Explanation of Ratings:

1. Outperformer: More than 10% to Index
2. Neutral: Within 0-10% to Index
3. Underperformer: Less than 10% to Index

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