

OIL AND GAS MONTHLY

MARCH

*Highest-ever diesel/kerosene refining spreads** **March crude prices averaged at USD 105.1/bbl (+10.6% M-o-M)**

Crude prices for March 2008 averaged at USD 105.1/bbl compared with USD 95/bbl in February 2008. WTI crude premium over Oman, Dubai, and Brent increased to USD 7.6/bbl (USD 4.9/bbl), USD 8.4/bbl (USD 5.9/bbl), and USD 1.2/bbl (USD 0/bbl), respectively. Consequently, the spreads between WTI crude and the Indian crude basket widened to USD 5.1/bbl compared with USD 3.1/bbl in February 2008. The light-heavy spread (Arab light – Arab heavy) narrowed from USD 6.4/bbl in February 2008 to USD 5.9/bbl in March.

* **Refining: Highest-ever diesel and kerosene spreads**

Indian simple refining margins increased from USD 5/bbl in February 2008 to USD 7.6/bbl in March. Complex refining margins increased from USD 8.3/bbl in February to USD 10.5/bbl in March. The rise in refining margins was on account of increased kerosene (SKO) and diesel (HSD) spreads, and partially offset by lower gasoline (MS), naphtha, and fuel oil spreads. Complex simple refining spreads decreased 11.8% M-o-M to USD 2.9/bbl. Diesel and kerosene spreads were at their peak.

* **Marketing: Highest-ever gasoline and diesel under-recoveries**

Higher crude prices have led to an increase in under recoveries in all products (except LPG) - MS (+37.6% to INR 8.6/lt), HSD (+50.2% to INR 11.2/lt), SKO (+6.0% to INR 19.3/lt), and LPG (-7% to INR 276/cyl). Under-recoveries for gasoline and diesel were the highest-ever.

* **News during the month**

- ◆ Reliance Industries to shut down 900 fuel retail outlets (March 26)
- ◆ Bharat Petroleum Corporation to set up 7 mmtpa refinery (March 25)
- ◆ Oil bonds of INR 92.97 bn to be issued (March 13)
- ◆ Ratnagiri Gas plans INR 10 bn IPO (March 12)
- ◆ Government allows ONGC Videsh to invest USD 102 mn in Qatar (March 4)
- ◆ Oil and Natural Gas Corporation assessed reserves of 6.76 tcf in the recent KG-basin discoveries (March 5)
- ◆ No tax sop for new refinery projects (March 4)

Oil & gas snapshot

	Mar-08	Feb-08	Mar-07	Y-o-Y %	M-o-M %
WTI (USD/bbl)	105.1	95.0	60.6	73.4	10.6
Indian crude (USD/bbl)	100.0	91.9	60.3	65.9	8.8
Light-heavy spread (Usd/bbl)**	12.5	9.8	6.5	91.7	28.3
GRMs					
Indian simple (USD/bbl)	7.6	5.0	6.2	22.3	51.4
Indian complex (USD/bbl)	10.5	8.3	9.6	9.9	26.3
Marketing under-recovery*					
MS (INR/ltr)	8.6	6.3	2.4	256.2	37.6
HSD (INR/ltr)	11.2	7.5	1.9	505.0	50.2
LPG (INR/cyl)	276	297	144	92.6	(7.0)
SKO (INR/ltr)	19.3	18.2	12.3	57.0	6.0

*Negative implies over-recovery

**WTI minus Arab Heavy

April 2, 2008

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Monthly stock performance

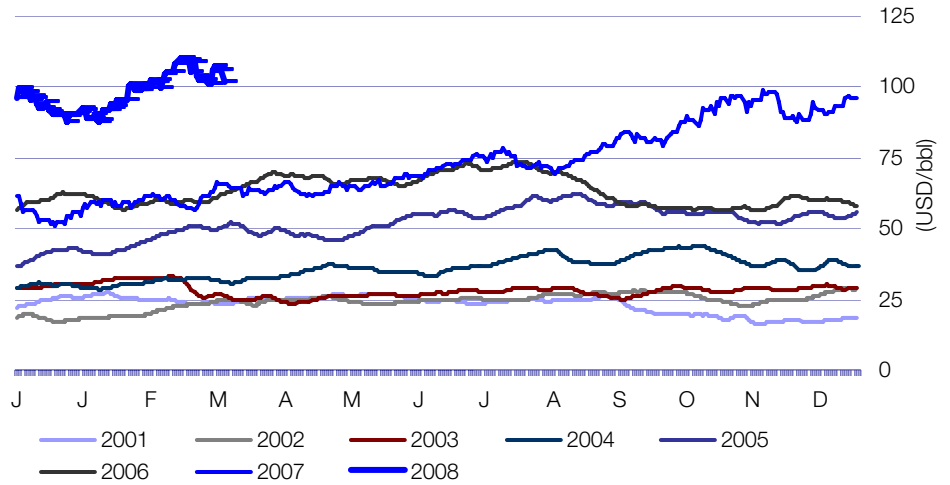
Company	MoM returns (%)
GAIL	0.5
Caim India	(1.8)
ONGC	(3.1)
Petronet LNG	(4.8)
Chennai Petroleum	(6.9)
Reliance Industries	(7.9)
MRPL	(9.7)
Indraprastha Gas	(9.8)
Bharat Petroleum Corp.	(10.6)
Reliance Petroleum	(10.8)
Hindustan Petroleum	(14.6)
Indian Oil Corporation	(20.5)
Gujarat State Petronet	(24.5)
Guj Gas	(24.5)

*** Exploration and production**

Crude prices for March 2008 averaged USD 105.1/bbl compared with USD 95/bbl in February 2008. They increased due to geopolitical tensions and OPEC's decision to rollover targets until the end of summer.

Chart 1: WTI crude price

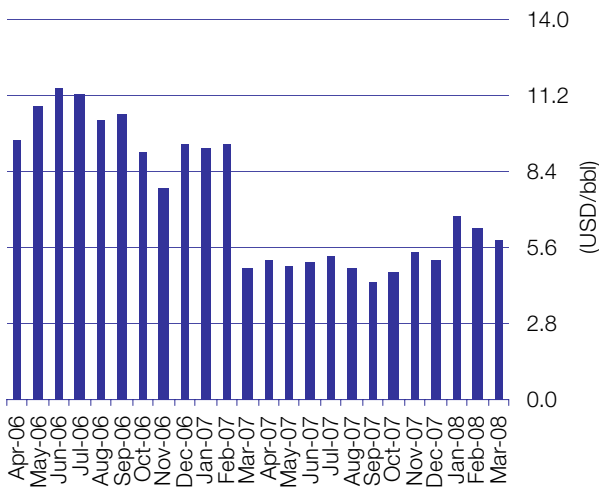
WTI crude prices averaged at USD 105.1/bbl in March compared with USD 95/bbl in February.



Source: Bloomberg, Edelweiss research

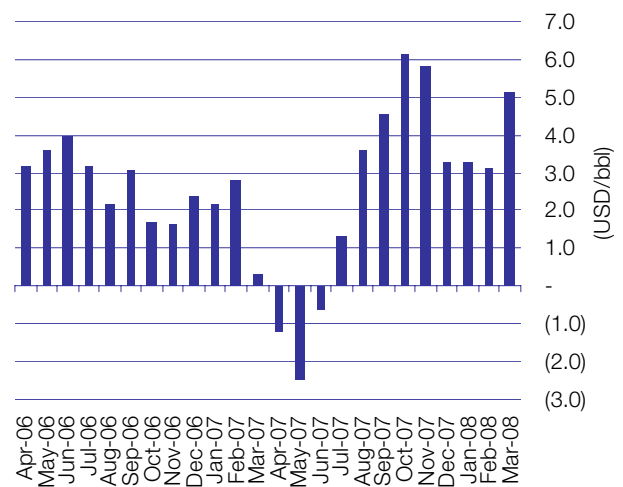
Light-heavy crude spreads fell while premium for WTI and Brent crude increased: WTI crude premium over Oman, Dubai, and Brent increased to USD 7.6/bbl (USD 4.9/bbl), USD 8.4/bbl (USD 5.9/bbl), and USD 1.2/bbl (USD 0/bbl), respectively. Consequently, the spreads between WTI crude and the Indian crude basket widened to USD 5.1/bbl (USD 3.1/bbl in February 2008). Light-heavy spread (Arab light – Arab heavy) narrowed from USD 6.4/bbl in February 2008 to USD 5.9/bbl in March.

Chart 2: Arab light-heavy spread



Source: Bloomberg, Edelweiss research

Chart 3: WTI-Indian basket spread



Source: Bloomberg, Edelweiss research

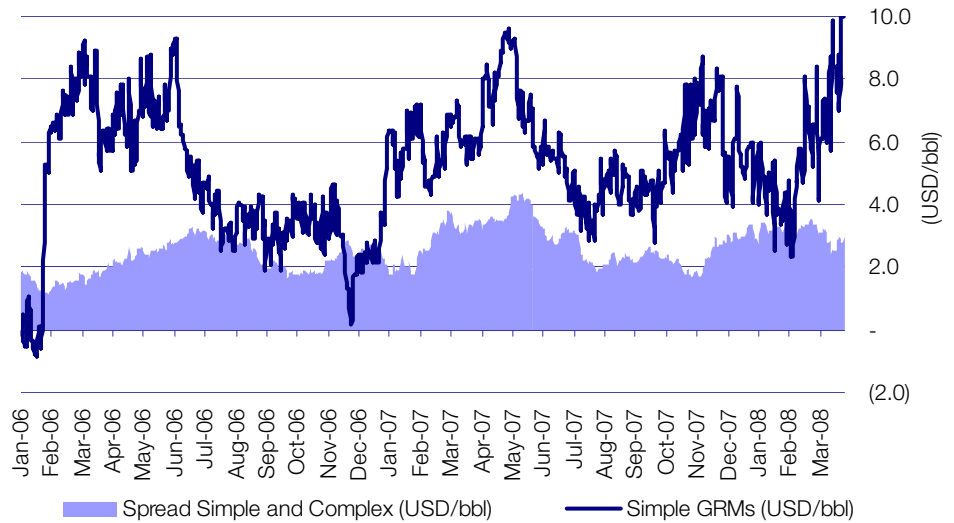
*** Refining**

Indian simple refining margins increased from USD 5/bbl in February 2008 to USD 7.6/bbl in March 2008. Complex refining margins increased from USD 8.3/bbl in February to USD 10.5/bbl in March (+26.3% M-o-M). The rise in refining margins was on account of increased kerosene (SKO) and diesel (HSD) spreads. This rise was, however, partially offset by lower spreads of gasoline (MS), naphtha, and fuel oil. Complex-simple refining spreads decreased by 11.8% M-o-M to USD 2.9/bbl (March 2008). Diesel and kerosene spreads were the highest-ever.

Chart 4: Indian simple GRMs

Simple refining margins increased from USD 5/bbl in February to USD 7.6/bbl in March.

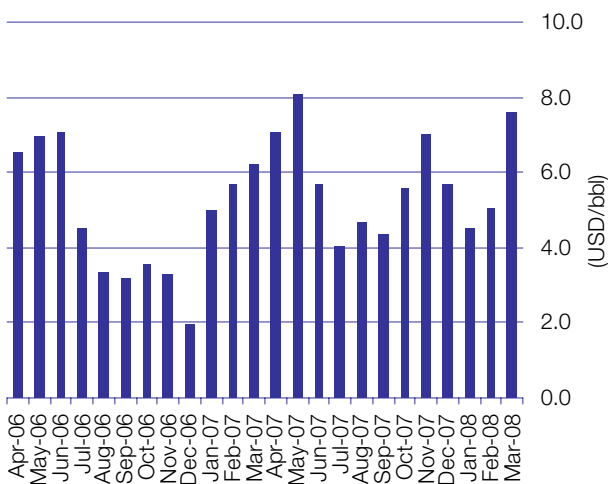
Complex-simple spread decreased from USD 3.3/bbl to USD 2.9/bbl.



Source: Bloomberg, Edelweiss research

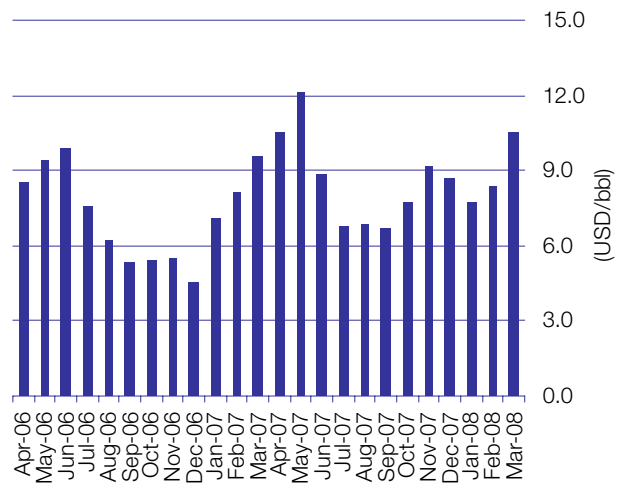
*** Monthly refining margins**

Chart 5: Indian simple GRMs



Source: Bloomberg, Edelweiss research

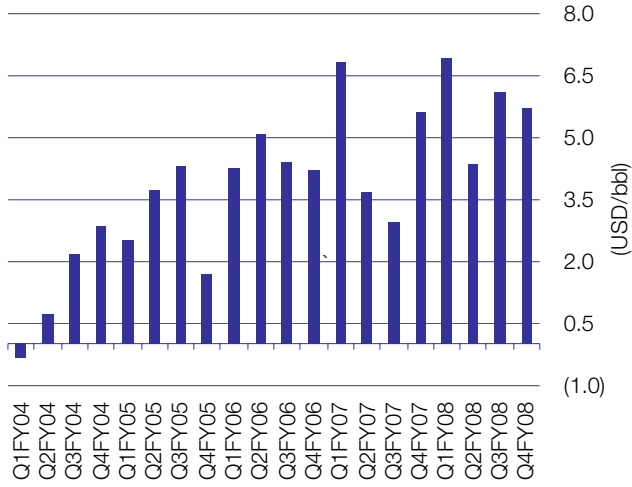
Chart 6: Indian complex GRMs



Source: Bloomberg, Edelweiss research

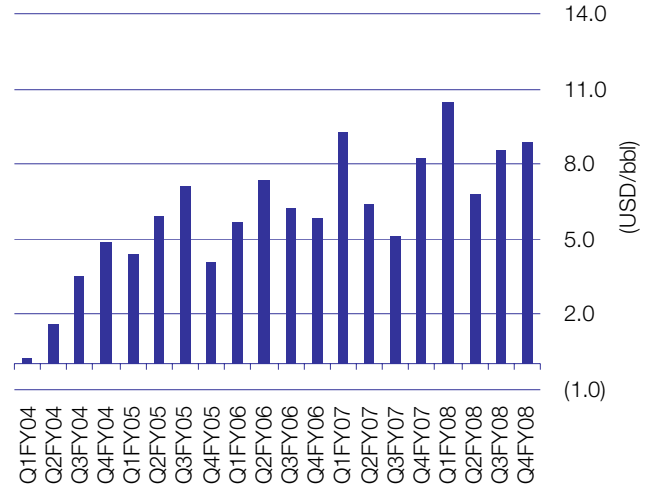
* Quarterly refining margins

Chart 7: Indian simple GRMs



Source: Bloomberg, Edelweiss research

Chart 8: Indian complex GRMs

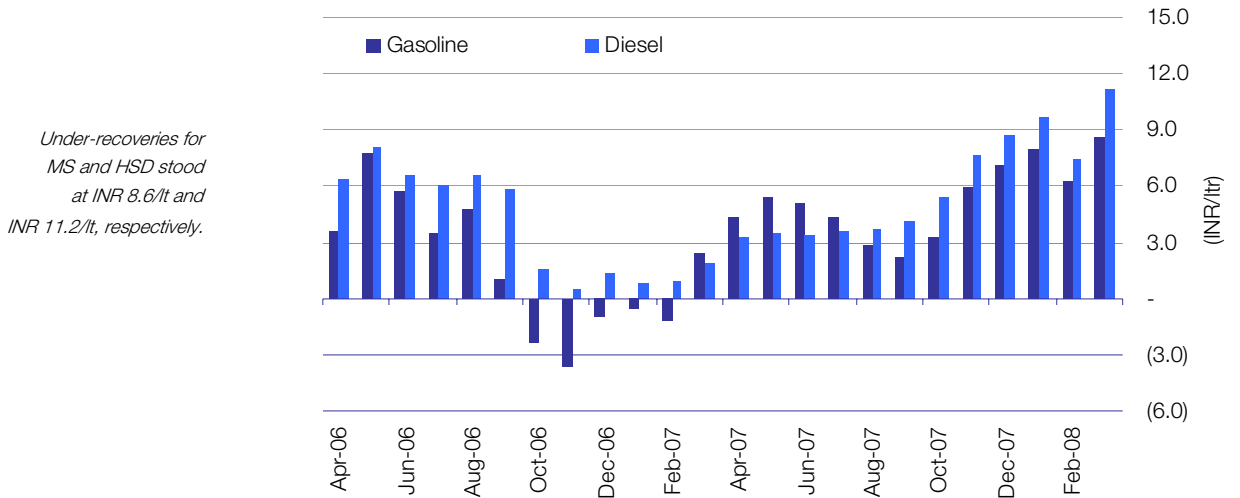


Source: Bloomberg, Edelweiss research

* Marketing

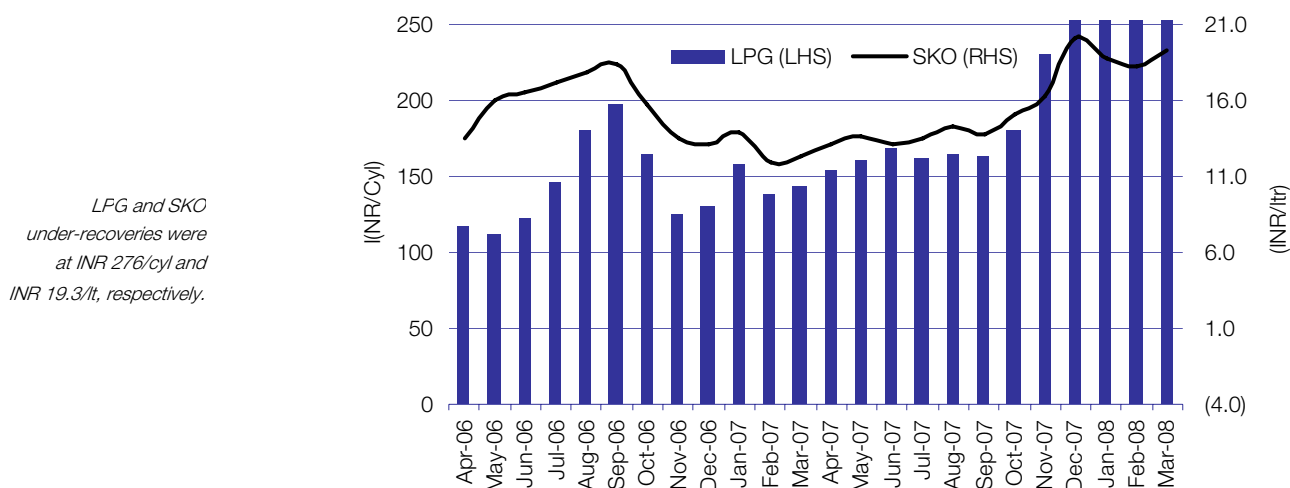
Higher crude prices have led to an increase in under-recoveries in all products (except LPG) - MS (+37.6% to INR 8.6/lt), HSD (+50.2% to INR 11.2/lt), SKO (+6.0% to INR 19.3/lt), and LPG (-7% to INR 276/cyl). Gasoline and diesel under-recoveries were at their peak.

Chart 9: Under-recovery in auto fuels (MS and HSD)



Source: Bloomberg, Edelweiss research

Chart 10: Under-recovery in domestic fuels (LPG and SKO)



Source: Bloomberg, Edelweiss research

Table 1: Oil and gas valuations

Company / Sector	Rating	Price (INR)	P/E (x)		EV/EBITDA (x)	
			FY09E	FY10E	FY09E	FY10E
Exploration & Production*						
ONGC	Buy	981	8.7	8.2	3.9	3.5
Cairn India**	Buy	224	136.3	18.3	55.5	12.1
International Median (Independents)			12.7	12.7	5.8	5.3
Refining & Marketing						
Bharat Petroleum Corporation	Accumulate	411	7.3	7.2	4.4	3.8
Hindustan Petroleum Corporation	Accumulate	256	5.0	4.1	3.9	3.1
Indian Oil Corporation	Accumulate	446	6.1	6.8	4.3	4.6
Reliance Industries^	Accumulate	2,265	23.9	18.2	14.5	10.9
Chennai Petroleum Corporation	Buy	280	5.2	7.6	3.9	5.9
Asian median			7.1	9.8	5.2	5.6
US & Europe median			9.5	8.7	5.0	4.7
International median			8.3	9.4	5.2	5.3
Petrochemicals						
Reliance Industries^	Accumulate	2,265	23.9	18.2	14.5	10.9
Finolex Industries	Reduce	66	9.4	5.6	7.9	4.5
International median			11.1	11.4	6.3	6.6

Source: Bloomberg, Edelweiss research

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

** year ending December

(Market price as on 31 Mar 2008)

^standalone numbers

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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
31-Mar-08	Cairn India	Fairly valued <i>Result Update</i>	224	Accumulate
3-Mar-08	Oil & Gas Monthly	Auto fuel prices increased <i>Monthly Update</i>		
18-Feb-08	Reliance Industries	Incorporating D9 & D3 reserves; <i>Company Update</i>	2,552	Accumulate
14-Feb-08	Oil & Gas	Fuel price hike & higher govt. support increases visibility; <i>Sector Update</i>		

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Accumulate	Reduce	Sell	Total
Rating Distribution*	110	49	10	1	190

* 14 stocks under review / 6 rating withheld

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	96	70	24

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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