MOTILAL OSWAL

GASOLINE
the oil & gas monthly

SUMMARY - FEBRUARY 2011

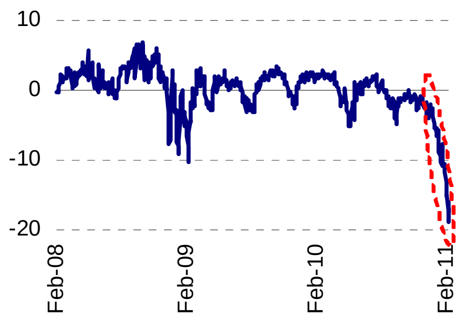
- **Special Section:** (1) India Budget 2011-12 impact; (2) Situation analysis of MENA crisis; (3) Understanding WTI -Brent differential
- **Brent at 30-month high; WTI-Brent price gap at US$18/bbl:** Brent crude rose 1.5x over the past 12 months, to US$116/bbl, of which ~50% rise came over the past two months, driven by unrest in MENA oil exporting countries. The WTI-Brent price gap reached US$18/bbl led by bottlenecks in Cushing, Oklahama where WTI is traded.
- **GRMs strong MoM at US$6.9/bbl:** Despite global refining overcapacity, margins were robust. February Singapore GRM was flat MoM at US$6.9/bbl led by improved cracks in middle distillates and fuel oil, compensated by a decline in gasoline, LPG and naphtha cracks. Arab light-heavy differentials rose to US$4.4/bbl against the last six-month average of US$3.1/bbl, which was positive for complex refiners like RIL.
- **Margin trend mixed for polymers; strong for polyesters:** Polymer spreads rose MoM. PE and PVC spreads were down 9% and up 7% YTD respectively. The price premium over imported polymers fell to 4-10% v/s 12-16% in FY10. Integrated polyester (POY, PSF) spreads were up 12-14% MoM and 12-23% YTD. Strong demand and high cotton prices will strengthen polyester spreads but polymer spreads will dampen on higher utilization of ME capacities, partly offset by Indian and Chinese demand.
- **Valuation and view:** Strong oil prices are positive for pure oil plays like Cairn India but news flow on the Cairn-Vedanta deal will dictate near term stock price moves. Though OMC stock prices fell sharply, lack of clarity on subsidy sharing will be an overhang. After the BP deal we expect positive news on RIL's E&P business. Sustained refining and petchem performance are good for the stock. We are positive about ONGC due to its attractive valuation and robust earnings under the one-third subsidy sharing formula.

GASOLINE TANK

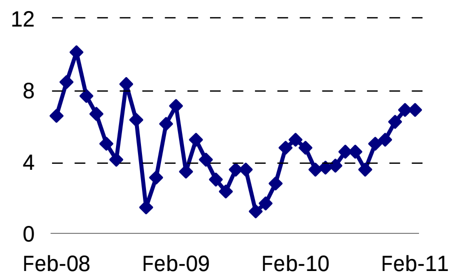
Data sources: Bloomberg, Reuters, Ministry of Petroleum, PPAC, various companies

KEY TRENDS

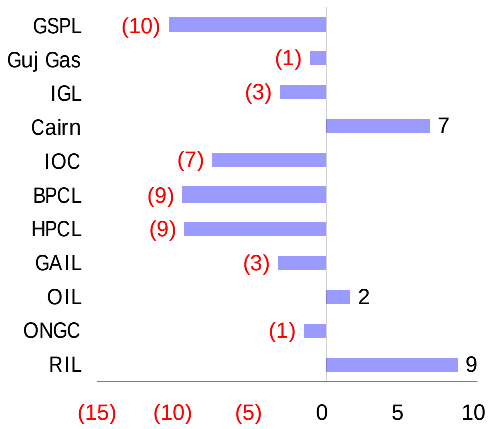
WTI - Brent spread reached US$18/bbl



Reuters Singapore GRM (US$/BBL)



1-M RELATIVE STOCK PERFORMANCE



Valuations: Coverage Universe

	M Cap	P/E (x)			EV/EBITDA (x)			P/B (x)		
	US$b	FY11	FY12E	FY13E	FY11	FY12E	FY13E	FY11	FY12E	FY13E
Integrated/Upstream										
Reliance Inds*	71.4	14.8	14.3	12.1	9.0	8.0	6.7	1.9	1.7	1.5
ONGC	53.8	10.7	9.2	9.0	4.3	3.9	3.6	2.2	1.9	1.7
Cairn India	13.6	10.7	7.0	7.0	7.4	4.7	4.1	1.6	1.4	1.2
OMC's										
IOC	17.3	9.4	8.1	7.2	7.0	5.8	4.6	1.4	1.2	1.1
BPCL	4.8	10.2	9.9	9.1	9.8	8.6	7.1	1.4	1.3	1.2
HPCL	2.6	9.3	8.8	8.9	8.0	7.2	6.8	1.0	0.9	0.8
Independent Refiners										
MRPL	2.7	18.8	14.5	12.4	12.8	11.5	8.5	2.0	1.8	1.7
CPCL	0.7	8.2	6.7	6.1	6.9	6.3	5.3	0.9	0.8	0.7
Gas Companies										
GAIL**	12.3	12.6	11.6	11.1	8.0	8.3	8.6	2.4	2.1	1.9
GSPL	1.3	15.2	17.5	14.5	7.6	7.0	6.0	3.0	2.7	2.3
Petronet LNG	2.1	16.1	13.8	11.4	10.1	9.0	6.6	3.7	3.2	2.7
IGL	1.0	17.1	14.8	12.7	8.7	7.4	6.1	4.5	3.7	3.1

*No. of shares adj. for treasury shares; **P/E adj. for investments

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SPECIAL REPORT

Budget 2010-11

Flashback

Budget Changes (2010)

- Increase in customs duty on crude from nil to 5%.
- Increase in customs duty on petrol and diesel from 2.5% to 7.5% and from 5% to 10% on other refined products.
- Specific duty hike of Rs1/ liter on petrol and diesel.

At a glance

Major proposals	Impact
➢ MAT to be applicable on developers of SEZs as well as units operating in SEZs (This could be negative for RIL's new 27mmtpa refinery; we await confirmation from the company.)	Negative
➢ Status quo on customs and excise duty structure for petroleum products (We believe government could tweak the duties towards the end of the year. It could also be a precursor to price hike of retailed fuels, since the under recovery in the system may not be sustainable.)	Neutral
➢ Decrease in excise duty on CNG conversion kits to 5% from 10%	Positive
➢ Decrease in customs duty on pet coke from 5% to 2.5	
➢ No update on tax holiday for natural gas production from the NELP blocks prior to NELP VIII.	

Source: India budget 2011-12/MOSL

Key budget proposals and impact

The Budget was neutral for the Oil & Gas sector. However, there was a disappointment as key expectations from the budget were not met i.e. 1) reduction in custom duty on crude and excise duty on diesel, and 2) clarity on the subsidy sharing mechanism.

Subsidy payouts to be in cash only; expect clarity on sharing mechanism by year-end

The Finance Minister reiterated that the subsidy payout to the oil companies will be in cash only, thereby moving away from any off-balance sheet items, the practice prevalent prior to FY10. For FY11, government has allocated budgetary support of Rs384b; however clarity is yet to emerge whether it includes Rs140b from FY10 (paid in FY11). If FY11 number includes Rs140b from FY10 and Rs237b provided in FY12 is actually for FY11, then government effectively has provided nil for FY12. We expect government to share Rs494b in FY11 as against Rs210b announced till date. Similar to previous years, we believe government sharing will be finalized at the end of the year when the OMCs finalize their annual accounts.

Impact: Negative; We expect OMCs' stock prices to be under pressure due to less than expected relief on under-recovery as well as delay in compensation from the government.

MAT to be applicable to SEZ units; could be negative for RIL

Budget proposes applicability of MAT from FY12 for all the developers of SEZ as well as for units operating in SEZ. Thus, RIL's SEZ refinery earnings might come under the ambit of MAT. However, we understand that the overall tax rate on a corporate level might not increase and could only result in cash outflow as companies can claim MAT credit.

Impact: Negative; MAT will be applicable on RIL's SEZ refinery earnings. The refinery currently enjoys exemptions under section 115JB(6) of the Income-Tax Act.

Other proposals for the sector

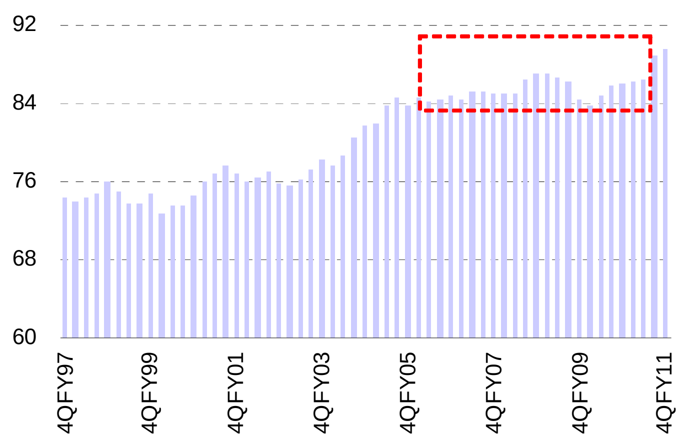
- Reduction of excise duty on CNG kits from 10% to 5%. This will be a positive for gas distribution companies.
- Reduction in custom duty on pet coke (a raw material for cement and aluminum). This will have marginal negative impact on RIL which produces ~3mmt of pet coke.
- Government to pay direct cash subsidy on kerosene and LPG to consumers in a phased manner from March 2012. This will prevent leakages/adulteration of fuels and help subsidy reach targeted beneficiaries, thus indirectly limiting the subsidy burden.
- No clarity on tax holiday for natural gas production from NELP blocks prior to NELP VIII and CBM-IV. The FM has also introduced a sunset clause to the income tax holiday on mineral oil, by making it unavailable for blocks contracted after March 31, 2011. This effectively denies tax holiday to all blocks being auctioned in NELP-IX.

SPECIAL REPORT

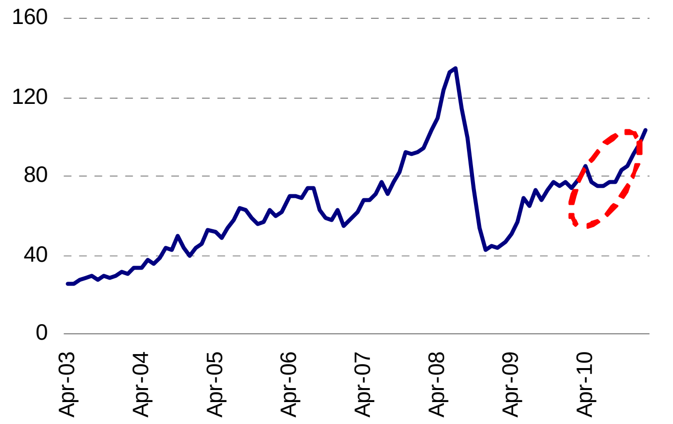
Situational analysis of the MENA crisis

Twist in the oil story: moving from economic recovery to supply concerns: The global oil story has suddenly shifted gears and, moving from demand growth led by the economy to supply-side issues. After the lows of US$34/bbl in December 2008, oil prices steadily inched upwards (up 2x in two years) and then suddenly increased ~25% over the past two months led by civil unrest in the Middle East and North African (MENA) oil exporters.

Restoring demand help oil prices to rise (mmbbl/d)



Unrest in MENA countries drive oil price rise



Source: Company/MOSL

The Libyan crisis puts 2% of the world oil consumption at risk: After the crisis in Egypt, Algeria and Tunisia, Libya is witnessing civil unrest resulting in the halt of most of its oil production. Libya has created the largest disruption in crude production in recent times. We understand that of its 1.6mmbbl/d of production capacity, ~1.2mmbbl/d production has been shut down, with a risk of total shut down. We believe the OPEC spare capacity is ~4.6mmbbl/d, which gives marginal comfort.

Civil unrest threatens crude supplies

	Oil Supply			Spare	Remarks
	Nov-10	Dec-10	Jan-11	Capacity	
Algeria	1.27	1.27	1.27	0.03	At risk
Angola	1.66	1.62	1.65	0.19	
Ecuador	0.47	0.48	0.48	0.02	
Iran	3.68	3.68	3.66	0.04	At risk
Kuwait	2.29	2.32	2.32	0.23	At risk
Libya	**1.56**	**1.56**	**1.58**	**0.22**	**Ongoing unrest, oil production disrupted**
Nigeria	2.18	2.26	2.24	0.26	
Qatar	0.82	0.82	0.82	0.18	At risk
Saudi Arabia	8.50	8.60	8.60	3.50	
UAE	2.29	2.32	2.37	0.33	
Venezuela	2.19	2.20	2.21	0.14	
Iraq	2.42	2.45	2.66	0.05	At risk
Total OPEC	**29.33**	**29.57**	**29.85**	**5.19**	
Sudan (non-OPEC)					**At risk**

Source: IEA, Bloomberg, MOSL

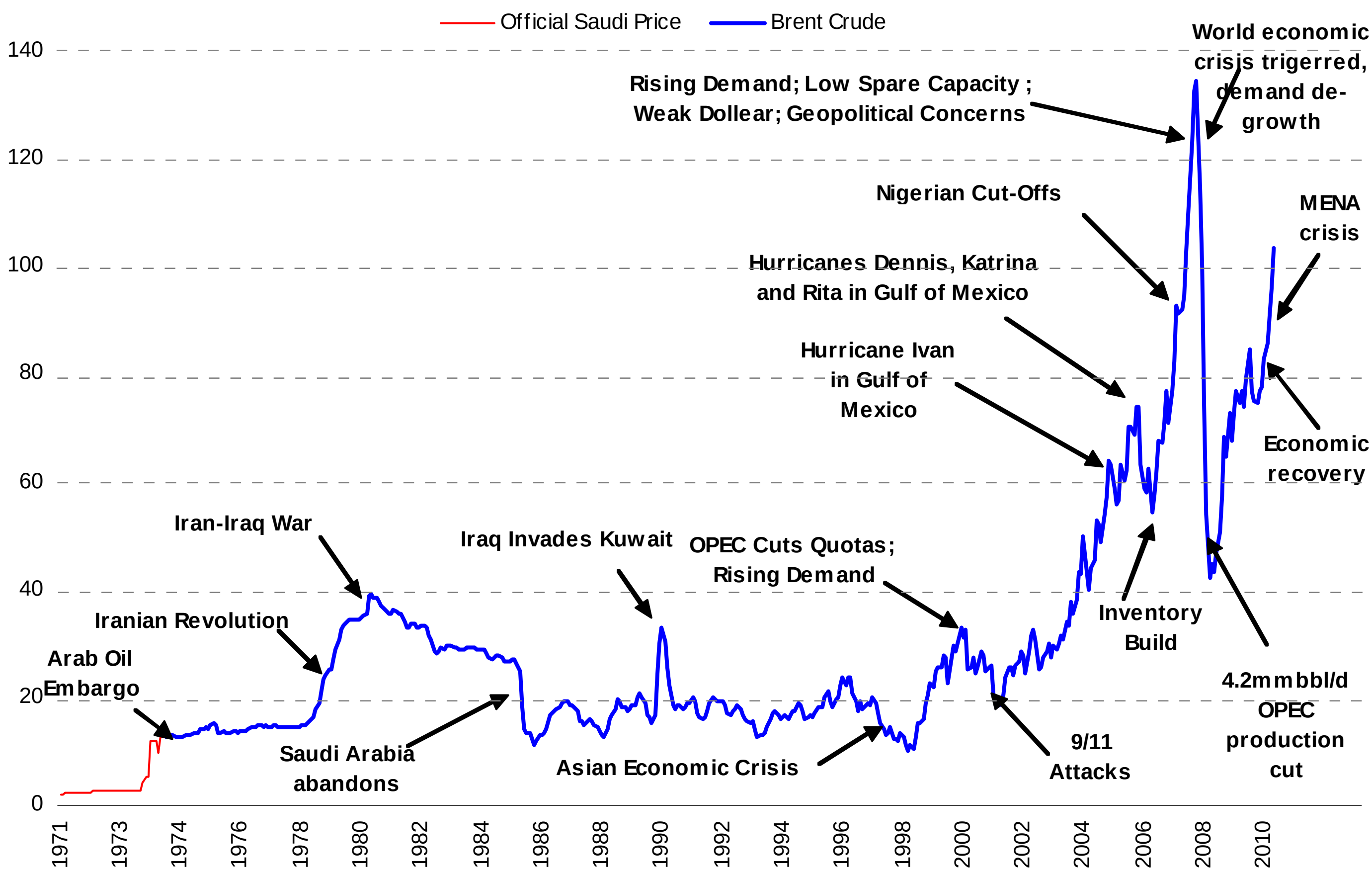
Who will be most impacted by the Libyan outage? Libyan crude was largely exported to European refiners, who stand to be most affected. We believe the Libyan light sweet crude will be replaced by oil of lower quality, heavier crude from Saudi Arabia and the other OPEC members. We believe, on an immediate basis, European refiners will replace Libyan light sweet crude with spot crude purchases from the North Sea and West Africa.

Global community efforts critical to thaw the crisis: Efforts of the global community to ease tensions in the MENA region seem to be slow, given the delay in consensus on action by the UN. The impact of civil unrest though negative for the global economy is not as bad as if this were to happen 2008 when oil reached US$145/bbl. Then the impact could have been catastrophic as spare capacity was at its lows.

Nevertheless, in terms of oil market impact we expect the OPEC and IEA to pitch in to neutralize an impact of the supply outage. Such a mechanism was nearly non-existent in the crisis of the 1970s.

Our oil price assumptions: We model Brent crude price of US$90/bbl for FY12 and US$80/bbl in the long term. Our FY12 price assumption is lower than the current price as we believe the OPEC spare capacity of 5.2mmbbl/d will provide some respite.

Key timelines for global oil prices (US$/bbl)



Source: IEA/Reuters/MOSL

SPECIAL REPORT

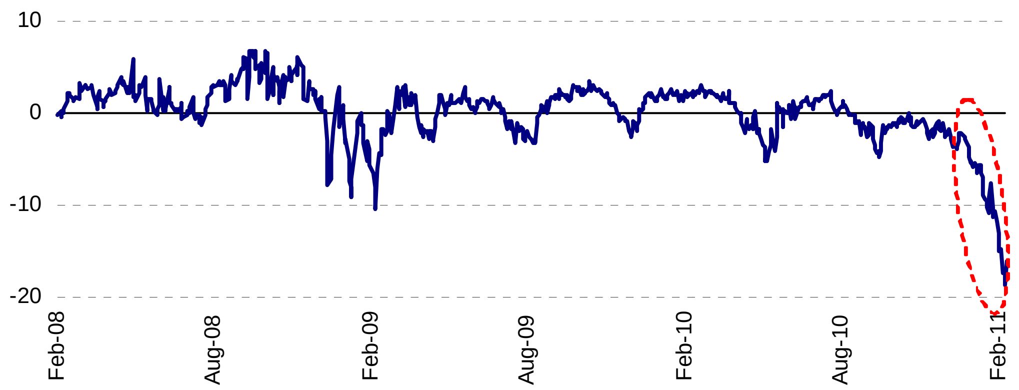
Understanding WTI -Brent differential

Brent crude: The true indicator of fundamentals and sentiment

The WTI-Brent differential has widened...

The price spread between Brent (European crude) and WTI (US crude) has reached record levels at ~US$18/bbl. Brent is trading at US$113/bbl and WTI is trading at US$96/bbl. Historically, WTIL has been at a slight premium to Brent due to its superior quality.

WTI-Brent spread reached US$18/bbl



Source: Bloomberg/MOSL

Similar wide spreads were observed in 2009, but they were largely attributed to financial contracts/speculative trading. Various reasons are offered for the current price differentials, but no clear explanation can be given for such differentials.

We believe WTI is trading away from crude market differentials, though it is difficult to predict whether the spreads will come down and when. A few pointers that lead to our belief that Brent is a better indicator are:

1. WTI is a landlocked crude and given the constraints in the US pipeline network free movement is restricted, resulting in oversupply and hence dampened price.
2. Other crude in the US, LLS (light Louisiana sweet) trades near the Brent price (even though it is of inferior quality to WTI, with API of 35.6 and sulfur content of 0.37%).

...Brent more relevant to Indian refiners

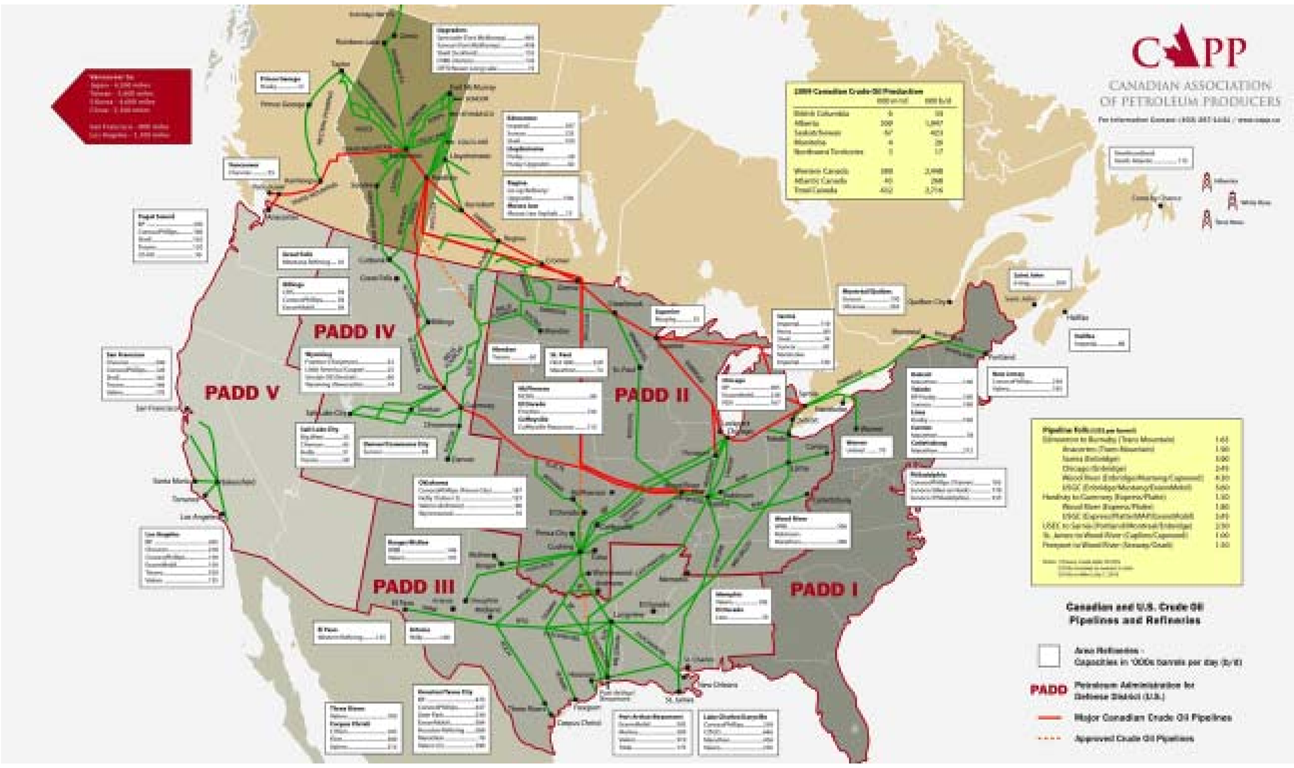
The Indian basket is benchmarked to a blend of Brent, Oman and Dubai crude. (The Indian basket is an average of Oman and Dubai for sour grades and Brent (dated) for sweet grade in the ratio of 67.6:32.4). We understand most refiners are benchmarked to Brent and hence the WTI price is not relevant for Indian refiners.

Comparing WTI with Brent

	WTI	Brent	Remarks
Price (US$/bbl)	96	113	Spread widened to ~US$18/bbl
Region	US	Europe	Brent is a blend of crude from 15 different oil fields
Quality Parameters			WTI is ideal for gasoline production while Brent is ideal for middle distillates
API gravity	39.6	38.3	WTI is lighter than Brent
Sulfur content (%)	0.24	0.37	Brent is less sweet than WTI
Logistics	Land locked; can only be moved through pipelines	Ease of transport by sea	WTI has transport limitations due to capacity constraints
Contract Trading	NYMEX Exchange	Intercontinental	WTI contract trading is more liquid than Brent; though Brent has picked up in recent months.

Source: Company/MOSL

WTI crude is landlocked US crude



US pipeline network

- US pipeline network converges at Cushing, Oklahoma, where WTI is traded. These pipelines are unidirectional.
- The storage capacity at Cushing is nearly full.
- Lack of crude offtake capacity resulted in oversupply at Cushing, driving prices down.

Who will benefit from this spread

- Crude benchmarks except some in the US are largely on Brent.
- Very few US refiners (only in the mid-West) have a physical pipeline network and benefit from this.
- Even the other US-based LLS crude price is connected to Brent.

What is the way out

- New capacity to be added in US pipelines.
- Make some pipelines bi-directional.

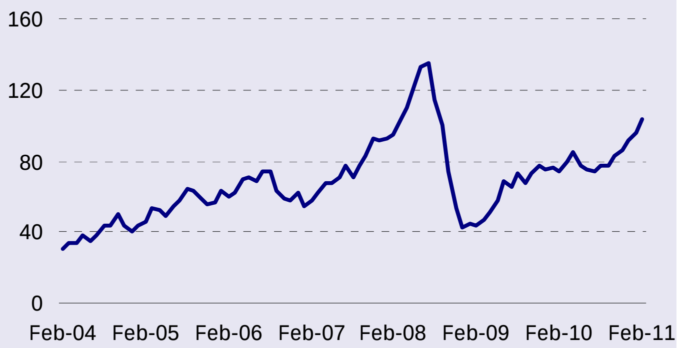
OIL MARKET TRENDS

Civil unrest in MENA region takes Brent to US$116/bbl

WTI price distortion makes its spreads irrelevant; Arab Light-Heavy moves up

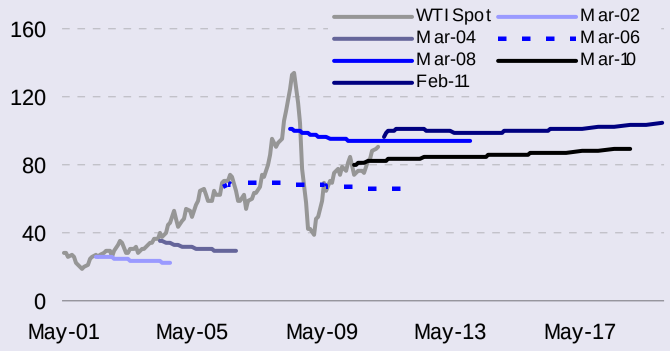
Brent oil price trend (US$/BBL)

- Feb-11 average at US$103/bbl (+8% MoM and +35% YoY); FYTD US$85.3/bbl v/s US$69.7/bbl in FY10.
- Brent oil price touched remained above US$100/bbl in Feb-11, while reaching to a high of ~US$116/bbl.



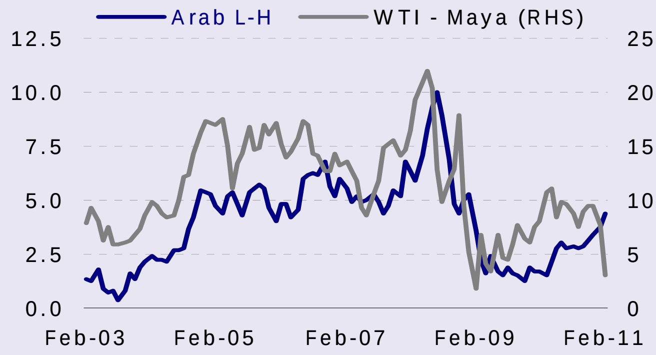
NYMEX WTI forward curve (US$/BBL)

- Oil futures continue to remain in contango in Feb-11 supported by upward demand revisions by IEA and OPEC.
- For 2010/2011 IEA expects oil demand growth of 2.8/1.5 while OPEC expects rise of 1.8/1.4mmbbl.



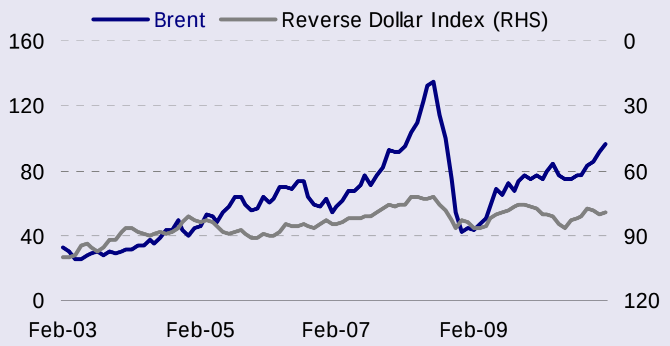
Crude price differentials (US$/BBL)

- Arab L-H differential was up 17% MoM at US$4.4/bbl; while WTI-Maya was down at US$3/bbl due to WTI woes.
- QTD Arab L-H avg at US$4.1/bbl (+30% QoQ, +147% YoY); WTI-Maya QTD at US$5.4/bbl (-43% QoQ and -39% YoY)



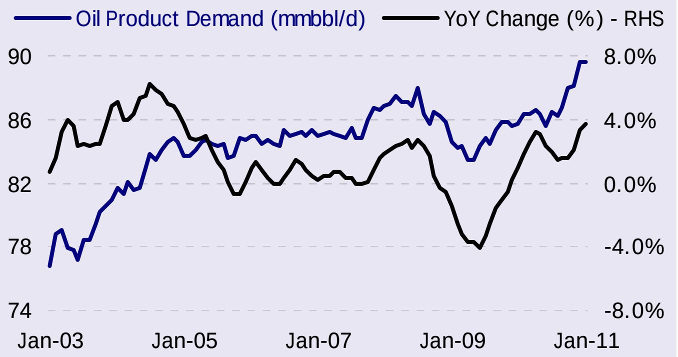
Brent and dollar index correlation

- Recent crude price strength can be largely attributed to MENA crisis. Also, as crude supply to increase as indicated by Saudi Arabia would help crude to soften in coming months



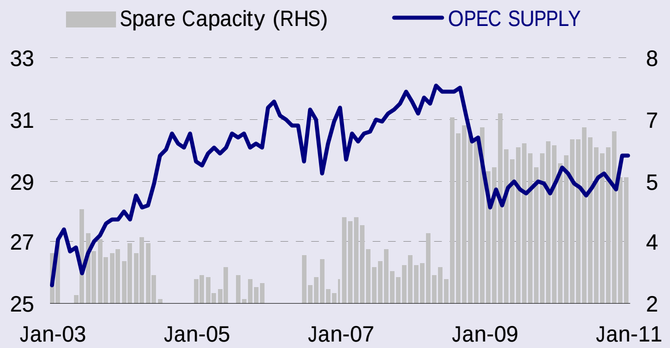
YoY oil production and demand change

- **Global crude demand:** Jan-11 average at 89.6mmbbl/d v/s 3-yr average of 86.2 and 5 yr average of 85.8.
- YTD oil demand has increased 2.6% YoY at 87.3mmbbl/d v/s 85.1mmbbl/d in FY10.



OPEC crude supply (US$/BBL)

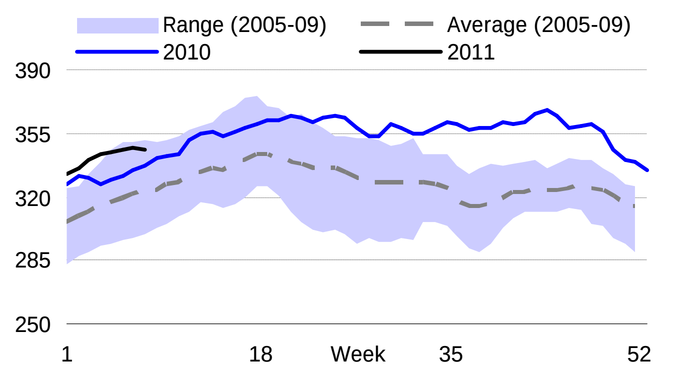
- OPEC spare capacity remains high at ~5.1mmbbl/s in Jan-11 v/s 5-yr avg of 4.3mmbbl/d.
- OPEC supply at 29.8mmbbl/d in Jan-11 is up 2.8% YoY but still 7% below over Jun-08 high of 32.1mmbbl/d.



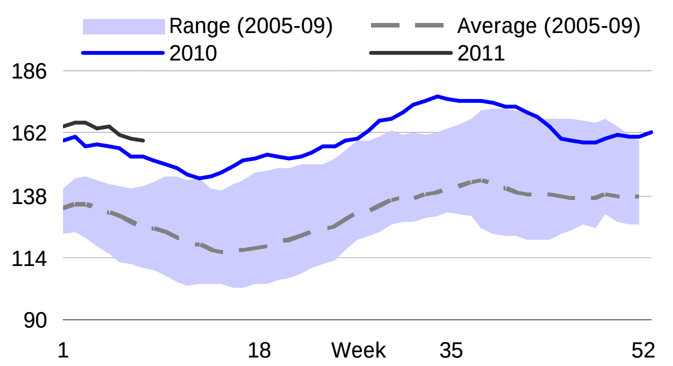
US weekly petroleum data

- Despite higher stockpiles at Cushing, EIA crude inventory showed a drop in the week ended Feb 25, 2011 to 346.4mmbbl could be due to fall in imports and increased refinery utilization levels.
- Gasoline stocks fell sharply by 3.6mmbbl and distillate stocks continued their decline in 2011 to 169mmbbl.
- Refinery utilization after averaging 84% in Jan-11 had fallen to 79% in week ended Feb 18, however improved to 80.9% in week ended Feb 25. utilization is 6% lower than 5 year average.

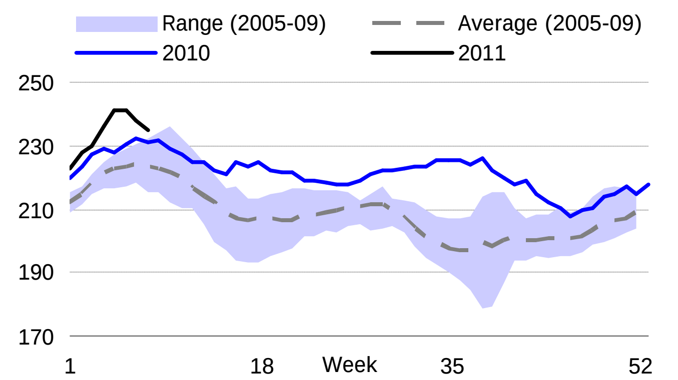
US crude oil inventory (mmbbl)



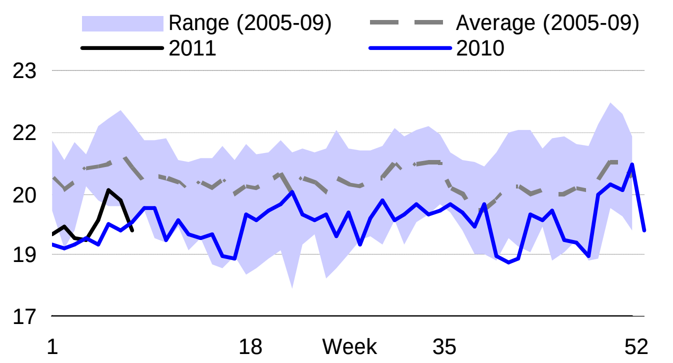
US distillate inventory (mmbbl)



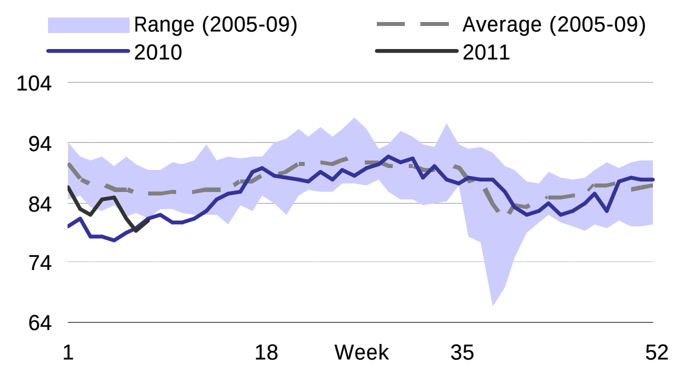
US gasoline inventory (mmbbl)



US total product supplied (mmbbl/d)



US refinery utilization (%)



US Weekly Data Summary (mmbbl)

	Week ended		Weekly variation		Yearly variation		Variation (%) from		
	25-Feb-11	18-Feb-11	WoW	WoW (%)	26-Feb-10	YoY (%)	1-Yr Avg	3-Yr Avg	5-Yr Avg
Inventory Data									
Crude Oil	346.4	346.7	-0.4	-0.1	341.6	1.4	-2.3	2.5	3.6
Gasoline	234.7	238.3	-3.6	-1.5	231.9	1.2	5.5	9.2	10.8
Distillates	159.2	159.9	-0.8	-0.5	151.8	4.9	-1.2	7.8	13.4
Products Supplied									
Total Products	19.1	19.8	-0.8	-3.9	19.6	-2.7	-1.3	-1.3	-4.4
Gasoline	9.2	9.1	0.1	0.7	8.9	3.2	0.6	0.8	-0.2
Distillates	3.7	3.7	0.0	1.2	3.8	-3.4	-2.1	-3.1	-7.3
Refinery									
Utilization (%)	80.9	79.4	1.5	1.9	81.9	-1.2	-5.8	-4.1	-6.2
Imports									
Crude Imports	8.0	8.1	-0.1	-1.2	9.2	-13.3	-58.5	-58.6	-59.9
Gasoline	0.8	0.8	0.0	0.0	0.8	4.3	-8.2	-15.3	-21.0

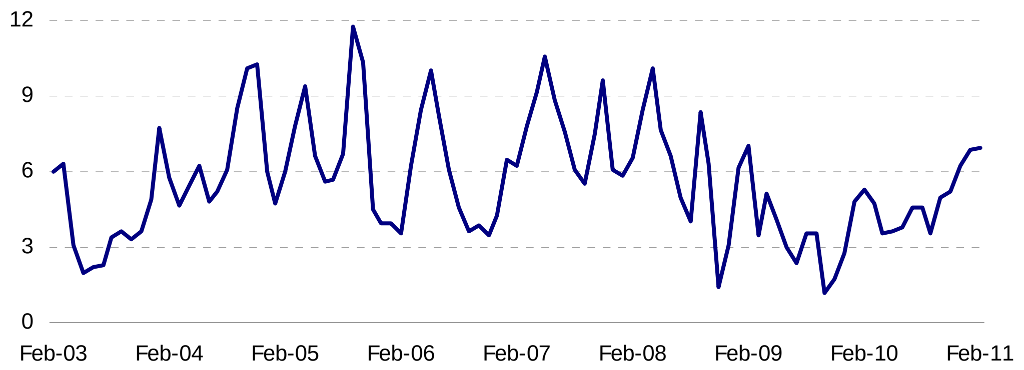
GRMs & PRODUCT SPREADS

Distillates and Fuel Oil supports robust GRMs

Middle Distillate, fuel oil performance boosts FY11 GRM till date

- Reuters Singapore GRM maintained its Jan-11 level on US$6.9/bbl even in Feb-11.
- 4QFY11 GRM average now stands at US$6.9/bbl v/s US$5.48/bbl in 3QFY11 and US$4.9/bbl in 4QFY10.
- MoM uptick in GRM was led by increase in Diesel cracks to 17/bbl, Jet/kero cracks to US$19.8/bbl and fuel oil cracks to US$-0.8/bbl.
- We model Singapore GRM at US$5.5/bbl and RIL's GRM at US$9/bbl for FY12.

Reuters Singapore GRM (US$/bbl)



Reuters Singapore GRM performance (US$/bbl)

(US$/bbl)	Feb-10	Jan-11	Feb-11	MoM (%)	YoY (%)	4QFY10	3QFY11	4QFY11	QoQ (%)	YoY (%)	FY10	FY11	YoY (%)	Variation (%) from 1-Yr Avg	3-Yr Avg	5-Yr Avg
Singapore GRM	5.3	6.9	6.9	0.6	31.5	4.9	5.5	6.9	26.1	-28.5	3.5	4.9	39.6	41.5	43.3	23.5

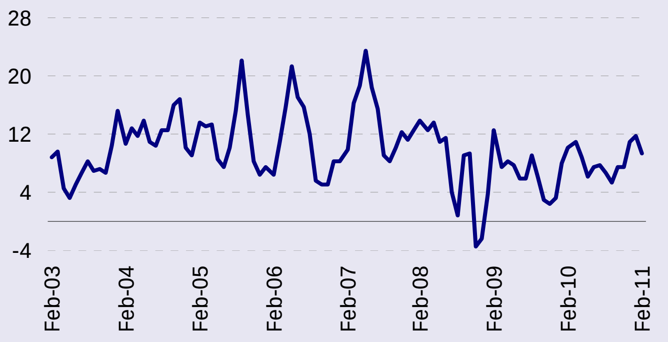
Oil, Product Prices and Cracks (US$/bbl) - 4QFY11 and FY11 values are till date

(US$/bbl)	Feb-10	Jan-11	Feb-11	M-o-M (%)	Y-o-Y (%)	3QFY10	3QFY11	4QFY11	Q-o-Q (%)	Y-o-Y (%)	FY10	FY11	Y-o-Y (%)
Oil Prices													
WTI	76.1	89.4	89.3	-0.1	17.4	76.0	84.9	89.3	5.2	17.6	70.5	82.1	16.4
Brent	74.0	96.0	103.3	7.6	39.7	74.8	86.6	99.7	15.1	33.2	69.7	85.3	22.5
Dubai	73.4	92.1	99.5	8.0	35.5	75.3	84.2	95.8	13.8	27.3	69.5	83.0	19.5
Indian Basket	73.9	92.4	99.8	8.0	35.1	75.9	84.5	96.1	13.7	26.6	70.0	83.3	18.9
Product Prices													
LPG	56.3	71.4	69.0	-3.4	22.5	57.9	72.0	70.2	-2.5	21.2	49.8	63.2	26.8
Gasoline	83.5	103.9	108.9	4.8	30.4	78.1	92.8	106.4	14.7	36.2	76.1	91.4	20.0
Diesel	82.1	107.8	116.6	8.2	42.1	81.4	97.0	112.2	15.6	37.8	76.7	96.2	25.4
Jet/Kero	81.9	109.4	119.3	9.1	45.6	82.5	98.2	114.3	16.3	38.5	77.2	97.2	25.9
Naphtha	74.9	94.9	97.2	2.4	29.7	73.8	87.4	96.1	9.9	30.1	68.6	83.3	21.5
Fuel Oil	67.8	89.5	98.7	10.3	45.7	64.2	79.9	94.1	17.8	46.4	60.5	78.1	29.2
Product Cracks (v/s Dubai)													
LPG	-17.1	-20.7	-30.5	-47.2	-78.0	-17.4	-12.2	-25.6	-109.4	-47.3	-19.6	-19.8	-0.9
Gasoline	10.1	11.8	9.4	-20.3	-6.3	2.8	8.6	10.6	24.2	273.9	6.7	8.3	24.9
Diesel	8.6	15.7	17.1	9.1	98.0	6.1	12.8	16.4	27.7	167.8	7.2	13.2	82.4
Jet/Kero	8.5	17.3	19.8	14.6	132.9	7.2	14.1	18.5	31.7	155.6	7.8	14.2	83.0
Naphtha	1.5	2.8	-2.3	FALSE	FALSE	-1.5	3.2	0.3	-91.8	nm	-0.8	0.3	nm
Fuel Oil	-5.7	-2.6	-0.8	69.7	86.0	-11.0	-4.3	-1.7	61	547	-9.0	-4.9	45.6

Petroleum product-wise spreads

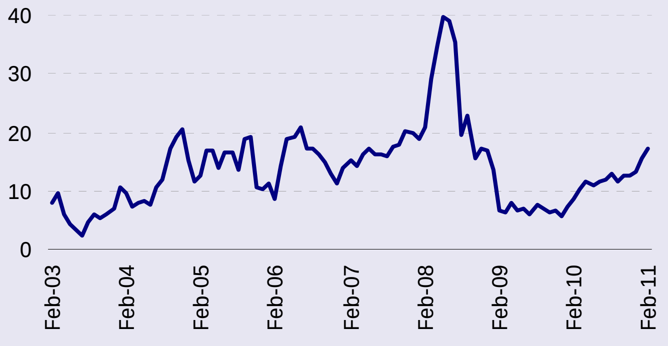
Gasoline spreads (US$/bbl)

- Feb-11 average at US$9.4/bbl v/s US$11.8/bbl in Jan-11 and US$10.1/bbl in Feb-10; YTD at US$8.3/bbl v/s US$6.7/bbl in FY10.



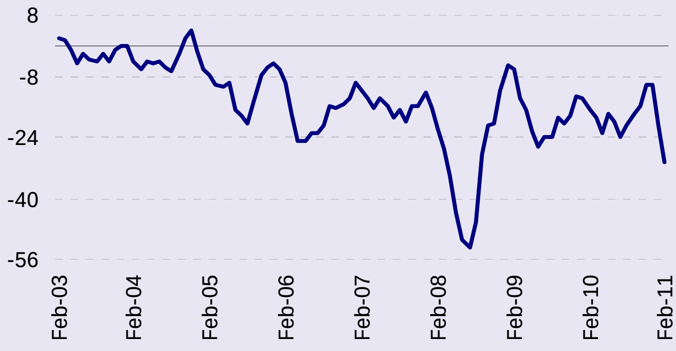
Diesel spreads (US$/bbl)

- Feb-11 average at US$17.1/bbl v/s US$15.7/bbl in Jan-11 and US$8.6/bbl in Feb-10; YTD at US$13.2/bbl v/s US$7.2/bbl in FY10.



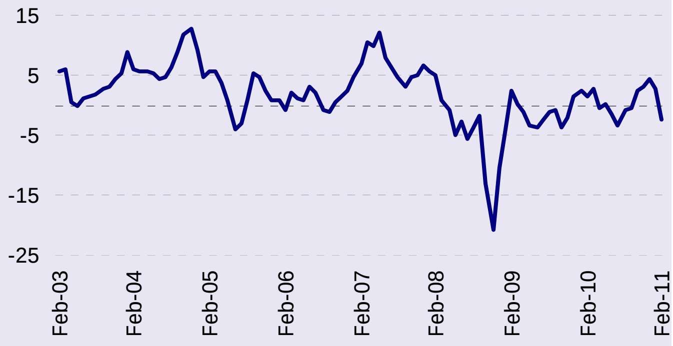
LPG spreads (US$/bbl)

- Feb-11 average at US$-30.7/bbl v/s US$-20.7/bbl in Jan-11 and US$-17.1/bbl in Feb-10.
- YTD at US$-19.8/bbl v/s US$-19.6/bbl in FY10.



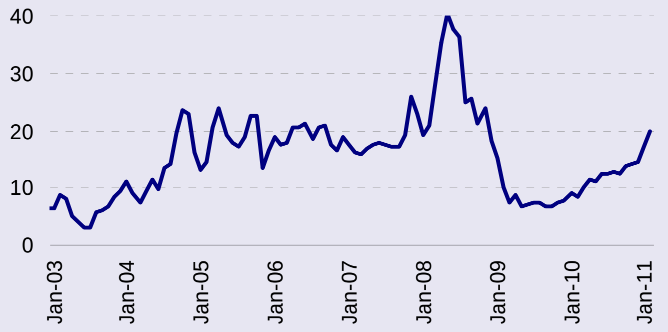
Naphtha spreads (US$/bbl)

- Feb-11 average at US$-2.3/bbl v/s US$2.8/bbl in Jan-11 and US$1.5/bbl in Feb-10; YTD at US$0.3/bbl v/s US$-0.8/bbl in FY10.



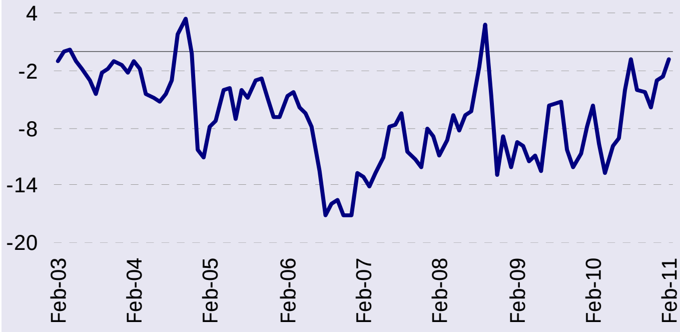
Jet/Kero spreads (US$/bbl)

- Feb-11 average at US$19.8/bbl v/s US$17.3/bbl in Jan-11 and US$8.5/bbl in Feb-10; YTD at US$14.2/bbl v/s US$7.8/bbl in FY10.



Fuel oil spreads (US$/bbl)

- Feb-11 average at US$-0.8/bbl v/s US$-2.6/bbl in Jan-11 and US$-5.7/bbl in Feb-10;
- Strong YoY uptick with YTD spreads at US$-4.9/bbl v/s US$-9.0/bbl in FY10.



Petchem margin trend

Polyester margins continues to be robust

Polymers

- International polymer prices are up 1 to 3% MoM and simple spreads excep for PE were up; 2% in PP and 1% in PVC.
- Domestic prices for key polymers were up 3-4%. Premium of domestic polymers over International prices was marginally up over the Jan-11 average at ~4-10%.
- On YTD basis, domestic PP spreads up 7% YoY, while PE and PVC spreads down ~9%.
- PE and PP margins are under slight pressure, while PP margins continue to sustain.

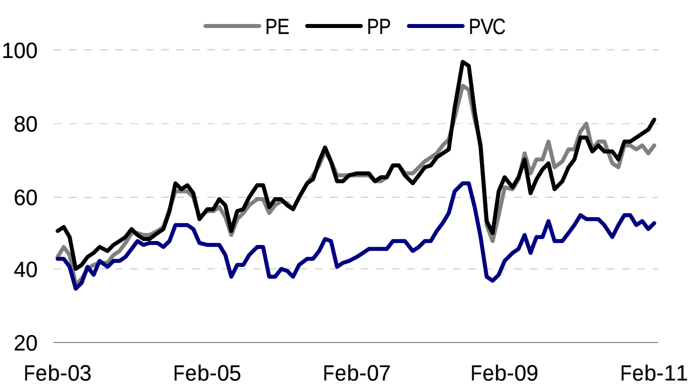
Polyesters

- Domestic prices of polyester and intermediates were up ~9-10% MoM and 32-47% YoY.
- Also, integrated polyester spreads were up ~12-14% MoM. On YTD basis, integrated spreads are up 12-23%. We expect the current high polyester margins to sustain in near term given the sustained demand and higher cotton prices.

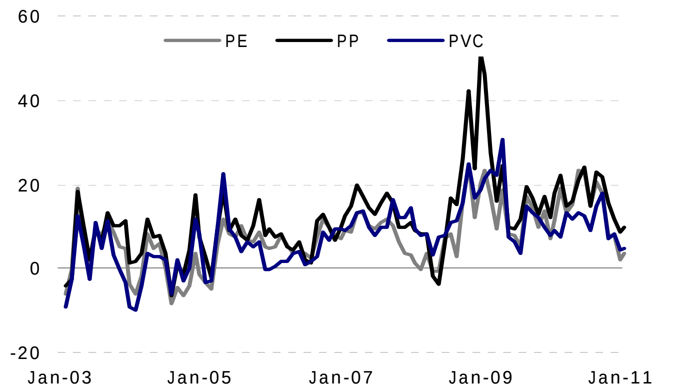
Polymer Prices and Spreads (4QFY11 and FY11 values are till date)

	Feb-10	Jan-11	Feb-11	MoM (%)	YoY (%)	4QFY10	3QFY11	4QFY11	QoQ (%)	YoY (%)	FY10	FY11	YoY (%)
Exch. Rate (Rs/US$)	46.3	45.4	45.4	0.1	(2.0)	45.9	44.8	45.4	1.3	(1.1)	47.4	45.6	(3.9)
Naphtha (US$/MT)	661	835	860	3.0	30.1	687	772	885	14.6	28.7	605	744	22.9
Naphtha (Rs/kg)	32	40	41	3.0	27.6	33	36	40	11.2	22.0	30	35	15.3
International Prices (US$/MT)													
PE	1,437	1,472	1,491	1.3	3.8	1,415	1,403	1,486	5.9	5.0	1,286	1,353	5.3
PP	1,325	1,509	1,548	2.6	16.9	1,308	1,390	1,539	10.7	17.7	1,176	1,364	16.0
PVC	1,036	1,024	1,050	2.6	1.3	1,029	1,021	1,048	2.7	1.9	898	1,001	11.5
Simple Spreads over Naphtha (US$/MT)													
PE	776	637	631	(0.9)	(18.7)	728	631	601	(4.8)	(17.4)	681	609	(10.5)
PP	664	673	688	2.2	3.6	620	618	654	5.8	5.5	571	620	8.6
PVC	375	188	190	0.8	(49.4)	341	249	163	(34.4)	(52.2)	293	258	(12.0)
Domestic Prices (Rs/kg)													
PE	77.8	71.8	73.8	2.8	(5.1)	76.8	73.4	72.8	(0.9)	(5.2)	71.5	72.6	1.5
PP	76.1	78.2	81.2	3.8	6.7	74.1	76.1	79.7	4.7	7.6	67.8	74.9	10.4
PVC	55.0	51.0	52.5	2.9	(4.5)	53.7	53.3	51.8	(3.0)	(3.6)	49.8	52.7	5.8
Simple Spreads over Naphtha (Rs/kg)													
PE	45.6	31.9	32.7	2.5	(28.3)	43.6	37.0	32.3	(12.8)	(25.9)	41.5	37.9	(8.6)
PP	43.9	38.3	40.1	4.7	(8.6)	40.9	39.7	39.2	(1.3)	(4.1)	37.7	40.2	6.5
PVC	22.8	11.1	11.4	2.6	(49.9)	20.5	16.9	11.3	(33.5)	(45.0)	19.7	18.0	(8.7)
Prem/(Disc) to International Prices (%)													
PE	11.1	2.1	3.6	67.3	(67.8)	12.4	11.2	2.9	(74.4)	(76.9)	11.8	13.5	14.9
PP	17.9	8.6	9.8	14.1	(45.2)	17.4	16.4	9.2	(43.8)	(47.0)	15.8	16.4	4.1
PVC	9.0	4.4	4.7	7.2	(47.6)	8.1	11.0	4.5	(58.6)	(43.7)	12.0	10.6	(11.9)

Key polymer price trends (Rs/kg)

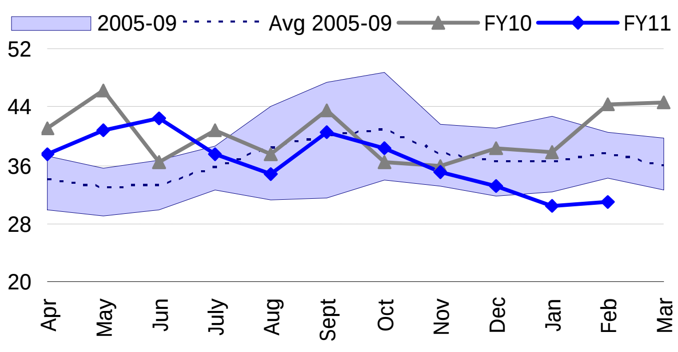


Premium/discount to international prices (Rs/kg)

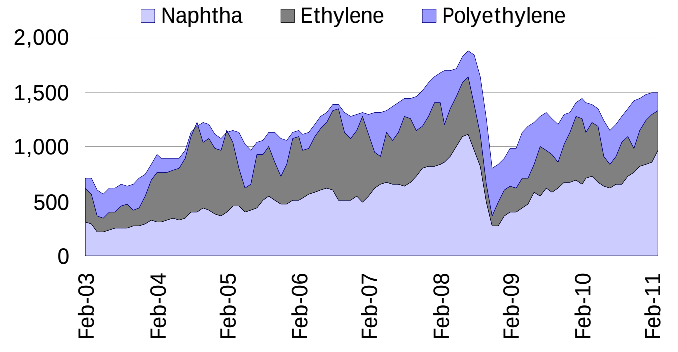


Polymer product-wise margins

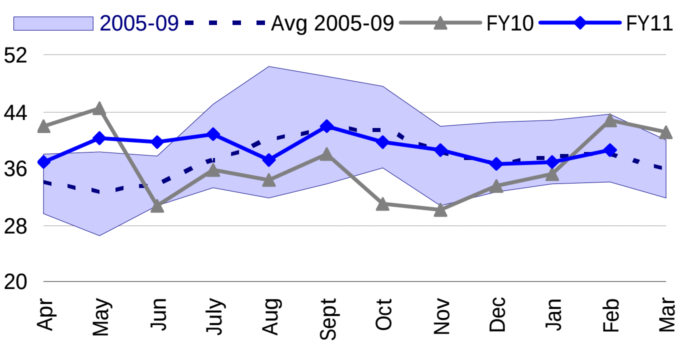
PE spread over naphtha (Rs/kg)



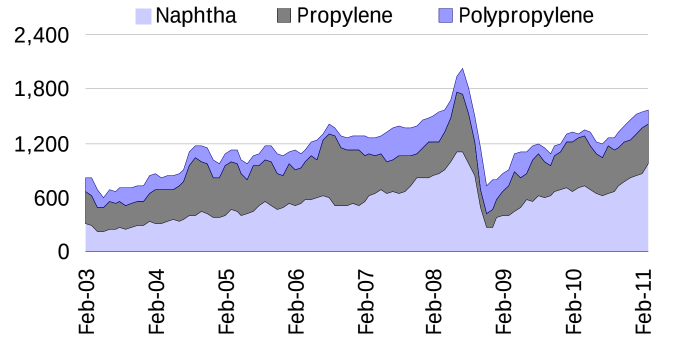
PE spread overn naphtha (US$/mt)



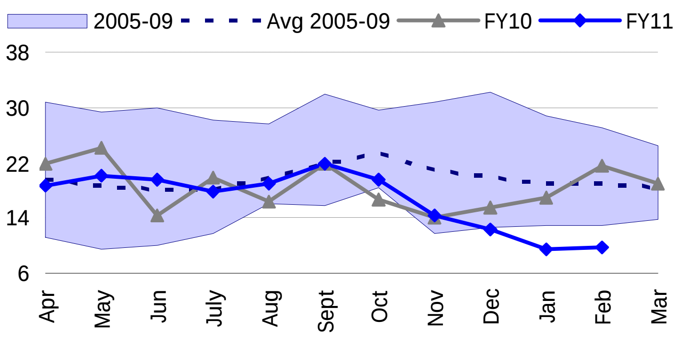
PP spread over naphtha (Rs/kg)



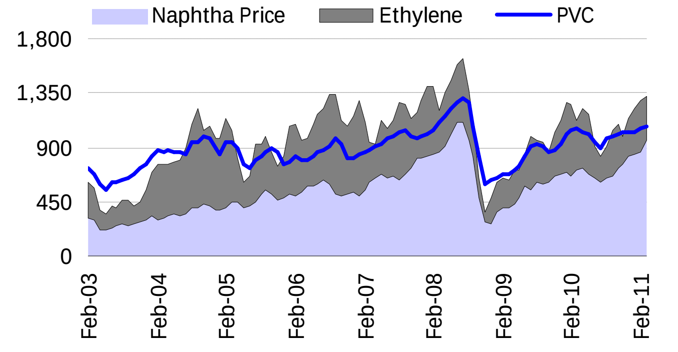
PP spread over naphtha (US$/mt)



PVC spread over naphtha (Rs/kg)



PVC spread over naphtha (US$/mt)

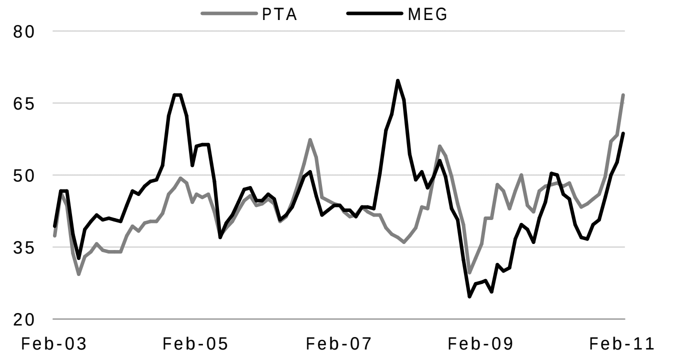


Polyester price and margin trends

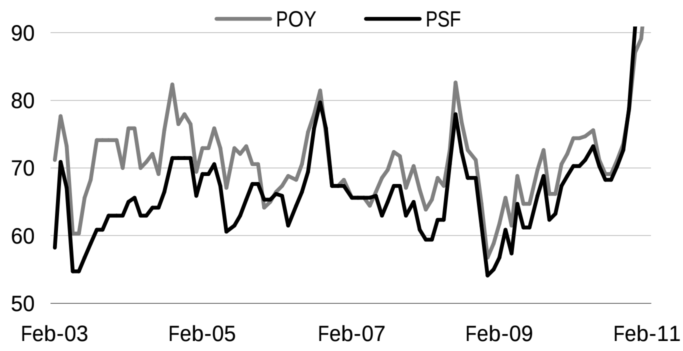
Polyester Prices and Spreads (Rs/kg)

	Feb-10	Jan-11	Feb-11	MoM (%)	YoY (%)	4QFY10	3QFY11	4QFY11	QoQ (%)	YoY (%)	FY10	FY11	YoY (%)
Polyester Intermediates Prices													
PTA	47.9	58.2	66.6	14.4	39.0	48.1	50.8	62.4	22.8	29.8	46.0	50.1	8.9
MEG	50.3	52.8	58.8	11.4	16.9	48.2	45.4	55.8	23.0	15.8	37.8	44.7	18.1
Polyester Prices													
POY	74.6	89.1	98.1	10.1	31.6	73.7	79.8	93.6	17.4	27.0	68.8	77.9	13.2
PSF	70.3	94.8	103.3	9.0	47.0	69.8	80.8	99.0	22.6	41.9	65.1	78.3	20.4
Integrated Polyester Spreads													
POY	49.2	57.7	65.9	14.3	33.9	47.6	51.0	61.8	21.1	29.9	45.2	50.6	11.9
PSF	44.9	63.3	71.1	12.2	58.2	43.6	52.0	67.2	29.2	54.1	41.5	51.0	23.1

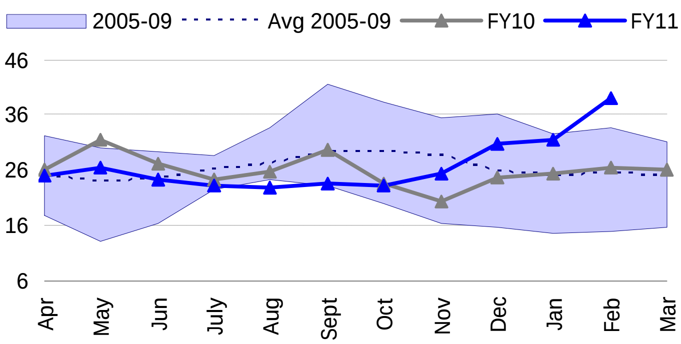
PTA and MEG price trend (Rs/kg)



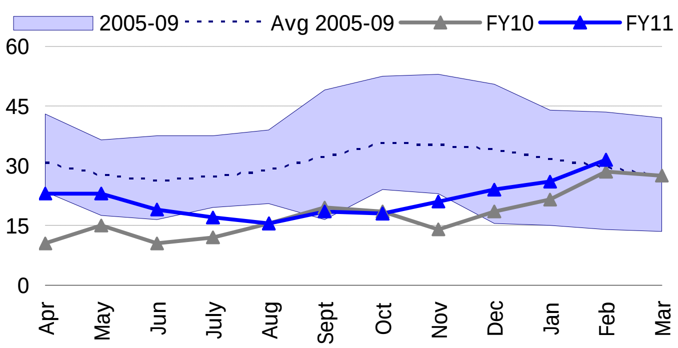
POY and PSF price trend (Rs/kg)



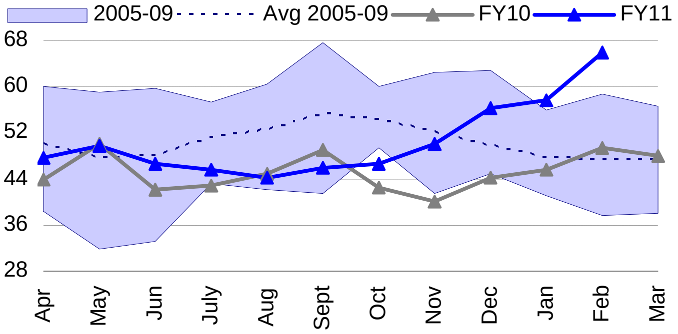
PTA spread over naphtha (Rs/kg)



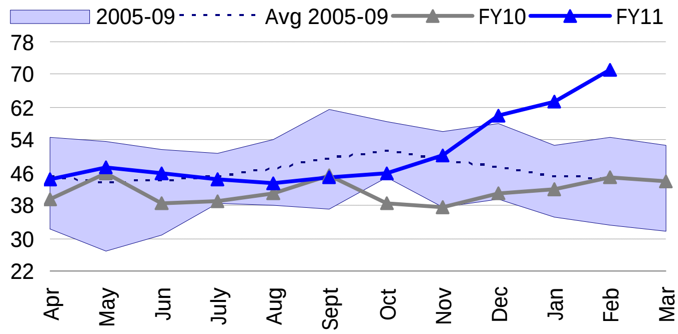
MEG spread over naphtha (Rs/kg)



POY spread over naphtha (Rs/kg)



PSF spread over naphtha (Rs/kg)



KEY INDIA STATISTICS

FY11 under recoveries could rise to Rs665b

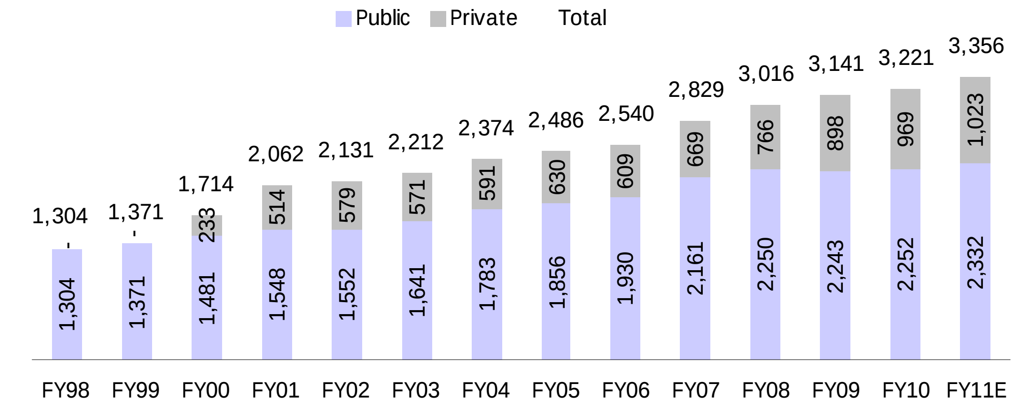
Refinery throughput trend

KBPD	Monthly Comparison					Quarterly Comparison					Annual Comparison		
	Jan-10	Dec-10	Jan-11	MoM (%)	YoY (%)	4QFY10	3QFY11	4QFY11	QoQ (%)	YoY (%)	FY10	FY11	YoY (%)
Total	3,329	3,417	3,482	1.9	4.6	3,342	3,274	3,482	6.3	4.2	3,236	3,299	1.9
PSU's													
HPCL	289	350	348	(0.6)	20.5	323	330	348	5.5	7.9	319	299	(6.1)
BPCL	461	355	444	25.2	(3.7)	470	404	444	10.1	(5.6)	413	437	5.9
IOC	1,071	1,176	1,172	(0.4)	9.5	1,088	1,067	1,172	9.8	7.7	1,026	1,071	4.4
MRPL	269	283	273	(3.7)	1.3	250	283	273	(3.5)	8.9	252	255	1.2
CPCL	169	228	224	(1.6)	32.8	154	226	224	(0.6)	46.0	203	216	6.2
Private													
RIL	727	665	667	0.2	(8.4)	714	606	667	10.1	(6.7)	696	675	(3.1)
ESSAR	285	299	299	0.2	5.1	295	299	299	0.1	1.5	273	298	9.3

**RIL SEZ refinery volumes not included*

Source: MoPNG, MOSL

Refinery production (kbpd)



Sensitivity of FY12 under recoveries to oil price

Base case

Fx rate (Rs/US$) \ Brent ($/bbl)	70	80	90	100	110
44	265	401	762	1,124	1,486
45	281	472	842	1,212	1,582
46	297	543	921	1,300	1,678

Assuming no diesel price hike

Fx rate (Rs/US$) \ Brent ($/bbl)	70	80	90	100	110
44	265	553	915	1,276	1,638
45	281	624	994	1,364	1,734
46	317	695	1,074	1,452	1,830

*Base case assumes Rs2/ltr hike in diesel prices

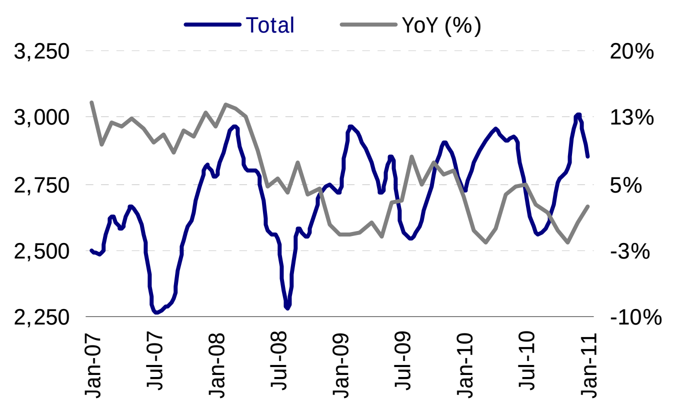
Source: Company/MOSL

Domestic fuel consumption statistics

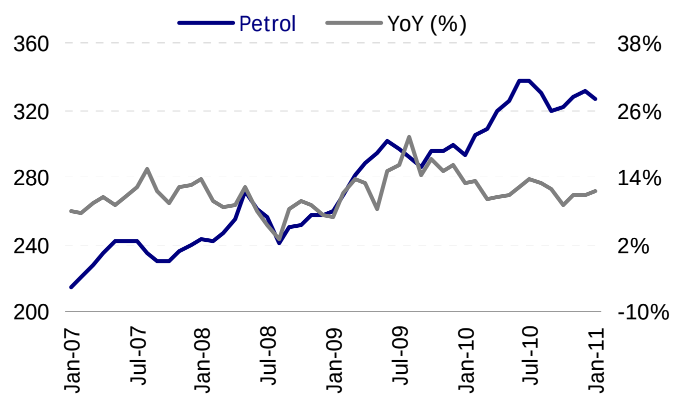
kbpd	Monthly Comparison					Quarterly Comparison					Annual Comparison		
	Jan-10	Dec-10	Jan-11	MoM (%)	YoY (%)	4QFY10	3QFY11	4QFY11	QoQ (%)	YoY (%)	FY10	FY11	YoY (%)
Total	2,724	3,012	2,848	(5.5)	4.6	2,822	2,858	2,848	(0.4)	0.9	2,762	2,815	1.9
Key Products													
Petrol	287	330	313	(5.0)	8.9	309	331	313	(5.4)	1.3	299	325	8.9
Diesel	1,140	1,336	1,211	(9.4)	6.2	1,212	1,254	1,211	(3.4)	(0.1)	1,158	1,215	4.9
Kerosene	194	185	192	3.5	(1.0)	200	190	192	1.2	(4.0)	199	190	(4.3)
ATF	100	114	112	(1.2)	12.4	104	112	112	0.5	8.2	99	108	8.7

- Overall petroleum consumption declined 5.5% MoM and increased 4.6% YoY. MoM decline was led by diesel which amounts to ~42% of the total volume
- Nevertheless, on YoY basis petrol sales are up 8.9% and diesel sales are up 6.2% supported by vehicle population growth.
- On a YTD basis, petrol, ATF and Naphtha have shown the largest growth of ~7-9%.

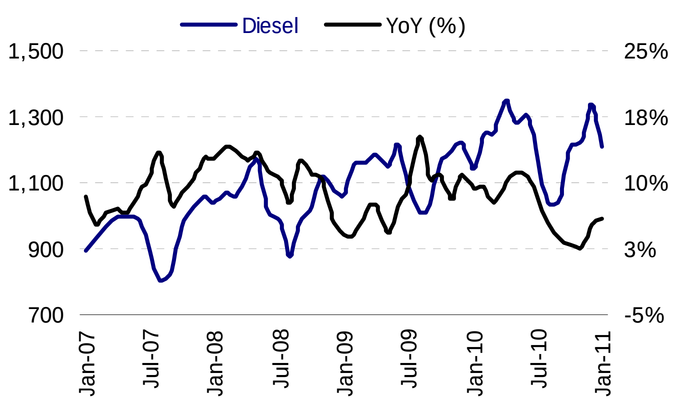
Total consumption (KBPD)



Petrol consumption (KBPD)



Diesel consumption (KBPD)



NEWS UPDATES

Industry news

BP to take a 30% stake in RIL's 23 NELP blocks and in JV

RIL has announced the sale of 30% stake in 23 NELP blocks (excludes pre-NELP and four NELP blocks) to British Petroleum at a consideration of (1) US$7.2b to be paid by FY12, and (2) future performance payment of US$1.8b based on exploration success, resulting in development of commercial discoveries.

The RIL-BP partnership aims an investment of US$11b towards exploration and development in these E&P blocks. RIL and BP are also forming a 50:50 JV for sourcing, transporting and marketing natural gas in India.

The 23 oil and gas blocks together cover approximately 270,000 square kilometres. This will make the partnership India's largest private sector holder of exploration acreage. So that the joint venture can capitalise on Reliance's outstanding project management track record and operations expertise, Reliance will continue to be the operator under the production sharing contracts, whose blocks lie in water depths ranging from 400 to over 3,000 metres.

BPCL commissions its 120kbpd Bina refinery

BPCL has commissioned its 120kbpd Bina refinery in central India in February. Bina Refinery is likely to start commercial production by this Feb-end or next month. The company has already done trial production.

The Rs 11,000 crore refinery, the first in central India, is coming up in Agasod village near Bina in Sagar district. The Bina refinery has a one-million-tonne-a-year naphtha hydrotreater, half-a-million-tonne continuous catalyst reformer, 1.95-million-tonne hydrocracker, a 1.63-million-tonne diesel hydrotreater and a 1.36-million-tonne delayed coker.

The new land-locked plant will ease BPCL's current need to source products through imports or purchase from other Indian refiners to top up its retail sales requirement to meet the growing fuel demand in Asia's third-largest oil consumer. Bina refinery started crude processing in mid-2010, but subsequently shut down as some secondary units were not ready. India imports fuel to meet local demand, despite having surplus refining capacity, as private firms prefer to export refined products, saying they do not get compensation from the government to sell fuel at subsidised rates.

R S Butola appointed as the Chairman of IOC

The government appointed ONGC Videsh Ltd Managing Director Ranbir Singh Butola as the new Chairman of Indian Oil Corp (IOC). The Cabinet Committee on Appointments (ACC) has approved Butola's appointment as the head of the nation's largest oil firm, official sources said. "The Department of Personnel (DoPT) has communicated the ACC decision and now now Petroleum Ministry will issue a formal order appointing Butola as IOC Chairman for five years or till he achieves retirement age of 60 years, whichever is earlier."

Essar Energy to buy Shell's Stanlow refinery for $350mL Cos sign exclusivity agreement that will last till April 1; $50-m break fee

London-listed Essar Energy has signed an exclusivity agreement to buy Royal Dutch Shell's Stanlow refinery for $350m. The exclusivity agreement will last till April 1, and has a break fee of $50m. Earlier, Shell had set a deadline of February-end to reach a deal. The new agreement would give Shell time to start its standard consultation exercise with employees, before the final signing. As much as $175m will be payable on completion of the acquisition, with the remainder plus interest a year later, and will be funded from existing cash resources and, potentially, a new debt facility.

The acquisition is expected to be completed in the second half of the year, subject to the approval of Essar Energy shareholders. "Many of the assets being shut down are low [Nelson] complexity, smaller assets. Stanlow has a complexity of around 8.2 and accounts for around 15 per cent of production from the UK, so this asset really does not fit into that [troubled] group," Mr Prashant Ruia, CEO of the Essar Group, said.

He added that the nature of the facilities, including the tankage capacity and distribution pipeline access meant the firm would have the flexibility to bring product from India. "We wanted to get into the UK market...It would give us the ability to bring in supplies whenever the UK is short." The firm is not looking at other European assets. "We are very much focused on this new acquisition." The Stanlow refinery, on the Manchester Ship Canal in the English county of Cheshire is Britain's second largest refinery, producing around 233kbpd, with the capacity of around 296kbpd. It produces around a sixth of Britain's petrol and has around 960 employees.

The purchase price amounts to around $1,182/bbl, based on a capacity of 296kbpd barrels a day, against around $8,140 a barrel for BP's 2007 sale of its Coryton refinery, and the $3,376/bbl paid by Rosneft for Ruhr Oel. The gross refining margins at the Stanlow refinery are also higher than many in the region " with gross refining margins in the first half of 2010 amounting to $4.90/bbl, against the $2.73/bbl benchmark." The acquisition will raise Essar Energy's refining capacity by two-thirds. With its distribution pipes and tankage capacity, it could provide a conduit for the company to export product from Vadinar to Europe. The firm plans to raise capacity at its Vadinar refinery to 20mmtpa by mid-2011, and will be capable of producing EU- standard clean petrol and diesel.

It is one of three refineries in Europe that Shell put up for sale in March 2009, as part of a strategy to cut net refining capacity by 15 per cent, in line with other oil majors, which have been selling out of their low-margin European refining processes. Apart from a brief spell in 2005 to 2008 due to rampant demand in China that caused spare capacity to go to zero levels, refining has always been incredibly low margin business, said Sanford Bernstein oil analyst Oswald Clint. With all the major integrated firms trying to exit the business, it is a good opportunity to buy assets at very low prices, says Brendan D'Souza, oil analyst at Seymour Pierce.

Petroleum and Natural Gas Regulatory Board (PNGRB) not to slow down city gas distribution bidding - Aim to cover 200 cities by 2015

With an aim to cover 200 cities by 2015, downstream oil regulator PNGRB has decided not to slow down the pace of city gas distribution (CGD) bidding though it cannot grant authorisation as per an interim order of the Supreme Court. Board is concluding the third round of CGD bidding in February and the fourth round will also conclude on March 30. Thereafter, it will organise a round every two-three months. Though the case is underway, PNGRB plans to be ready so that it can grant authorisation as and when the judgment comes.

The third round in which bids were invited for installing and running a CGD network in Asansol-Durgapur (in West Bengal), Bhavnagar, Gandhidham-Anjar, Bhuj-Mundra and Jamnagar (all in Gujarat), Ludhiana and Jalandhar (in Punjab) and Panipat (in Haryana) will conclude on February 18. In the fourth round, bids have been invited for Ernakulam (in Kerala), Rangareddy, Medak, Nalgonda and Khammam (all in Andhra Pradesh), Alibag/Pen, Lonavla/Khopoli (in Maharashtra), Guna (in Madhya Pradesh) and Shahjahanpur (in Uttar Pradesh).

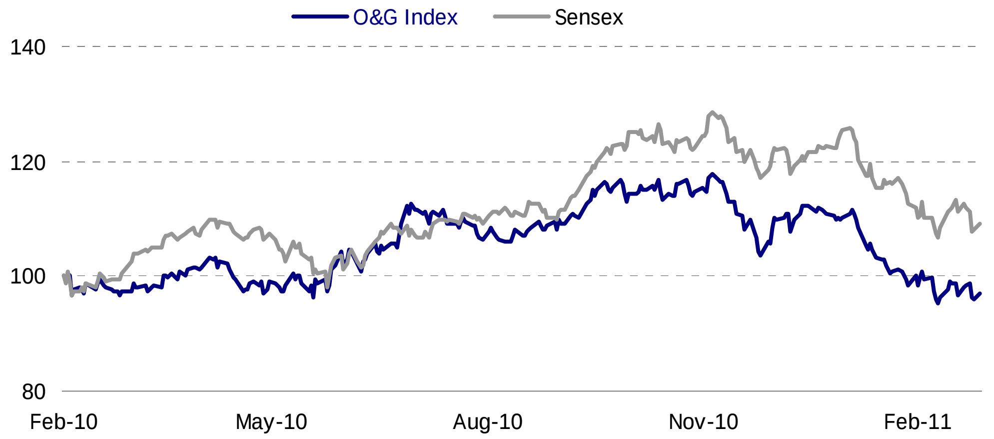
In the first round, completed in early 2009, the Board had invited bids for six cities - Kakinada in Andhra Pradesh, Mathura and Meerut in Uttar Pradesh, Kota in Rajasthan, Dewas in Madhya Pradesh and Sonepat in Haryana. GAIL Gas, a subsidiary of GAIL India, and Bhagyanagar Gas Ltd, a joint venture of GAIL India, had won the CGD rights in bids for five of the six cities. Another company, Saumya-DSM Infratech, had bagged CGD rights for Mathura. The high court had struck down the board's power to issue an authorisation for CGD business and the ministry went ahead to authorise IGL for Ghaziabad. In July last year, the legal lacuna was rectified, with a section of the PNGRB Act finally notified, and the Board now has all the powers to conduct CGD bidding.

Bids were invited for seven cities in the second round - Allahabad, Ghaziabad and Jhansi in Uttar Pradesh, Shahdol (Madhya Pradesh), Rajahmundry and Yanam (Andhra Pradesh) and Chandigarh. However, this round got stuck in a legal tussle between Indraprastha Gas Ltd (IGL) and the board on CGD rights for Ghaziabad. IGL, which was keen to enter the CGD business in Ghaziabad, approached the Delhi high court, claiming the board had no powers to conduct CGD bidding. The High Court's decision was challenged by Board at apex court. The March 15 (2010) interim order of the Supreme Court had said the Board can only process pending applications, but it cannot pass final orders. The matter is now at the Supreme Court.

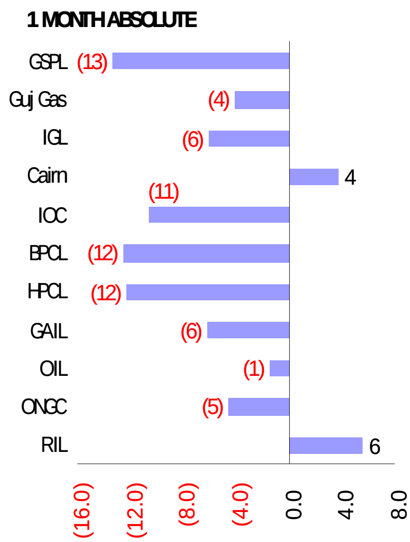
Stock Price Performance

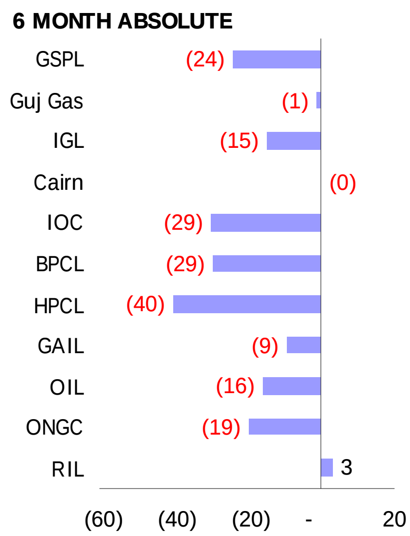
RIL, Cairn outperform in Feb-11

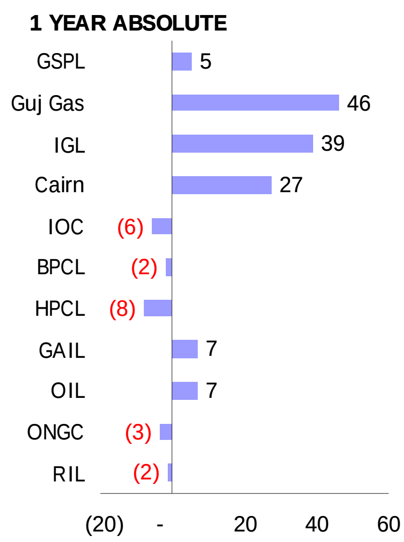
Broader markets outperform O&G Index



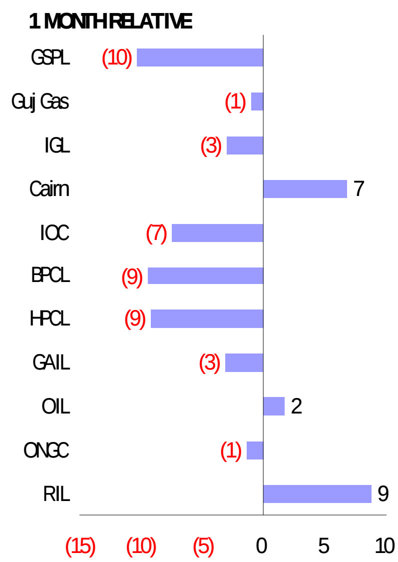
Absolute stock performance (%)

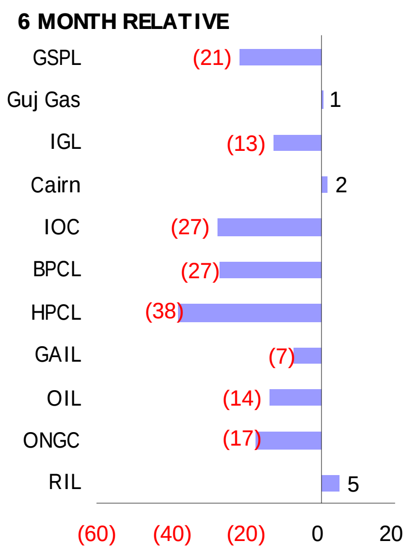


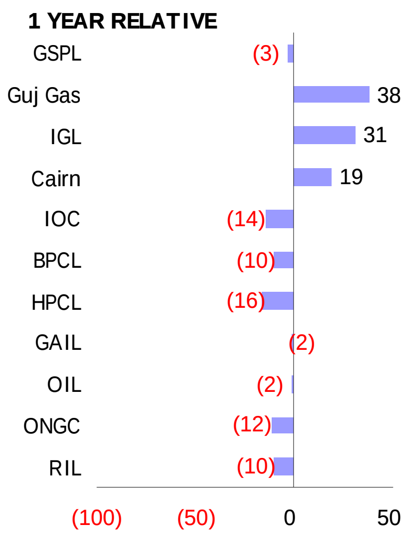




Relative stock performance (%)







GLOBAL PEER VALUATIONS

RIL at premium, ONGC at discount to global peers

	M. Cap	PE (x)			P/BV (x)			EV/EBIDTA (x)		
	(US$b)	CY10/ FY11	CY11/ FY12	CY12/ FY13	CY10/ FY11	CY11/ FY12	CY12/ FY13	CY10/ FY11	CY11/ FY12	CY12/ FY13
Integrated Oil Companies										
Reliance Industries	71.0	14.8	14.3	12.1	1.9	1.7	1.5	9.0	8.0	6.7
International Majors										
BP	153.4	7.2	7.5	7.0	1.6	1.4	1.2	4.5	4.2	4.0
Chevron	208.3	11.1	9.6	8.9	1.9	1.7	1.5	4.6	4.0	3.9
Exxon Mobil	423.6	14.2	11.6	10.4	2.8	2.6	1.9	6.4	5.3	5.0
Royal Dutch Shell	226.8	11.8	9.5	8.2	1.6	1.4	1.2	5.4	4.8	4.3
Total	146.0	9.8	8.8	8.0	1.8	1.5	1.4	4.5	3.8	3.5
Big 5 average		11.7	9.9	8.9	2.1	1.9	1.5	5.4	4.6	4.3
North America average		18.9	14.0	11.9	1.9	1.8	1.6	6.9	5.8	5.1
Europe average		13.6	9.6	8.4	1.3	1.2	1.1	5.5	4.2	3.9
Asia & Others average		10.9	10.2	9.4	1.7	1.6	1.4	7.4	6.5	6.0
Global Average		**13.4**	**11.1**	**9.9**	**1.7**	**1.6**	**1.4**	**7.0**	**6.0**	**5.5**
Upstream Companies										
ONGC	50.1	10.7	9.2	9.0	2.2	1.9	1.7	4.3	3.9	3.6
Cairn India	15.1	10.7	7.0	7.0	1.6	1.4	1.2	7.4	4.7	4.1
North America average		28.1	21.4	14.9	2.2	2.0	1.8	7.4	6.6	5.4
Europe average		16.1	13.9	12.1	2.8	2.3	2.0	6.4	5.4	4.7
Asia & Others average		15.9	14.9	12.7	2.6	2.2	2.0	7.9	7.1	6.1
Global Average		**21.8**	**17.8**	**13.6**	**2.5**	**2.2**	**1.9**	**7.3**	**6.5**	**5.5**
Refining and Marketing Companies										
BPCL	4.5	10.2	9.9	9.1	1.4	1.3	1.2	9.8	8.6	7.1
CPCL	0.6	8.2	6.7	6.1	0.9	0.8	0.7	6.9	6.3	5.3
HPCL	2.4	9.3	8.8	8.9	1.0	0.9	0.8	8.0	7.2	6.8
IOC	16.5	9.4	8.1	7.2	1.4	1.2	1.1	7.0	5.8	4.6
MRPL	2.3	18.8	14.5	12.4	2.0	1.8	1.7	12.8	11.5	8.5
North America average		21.8	13.0	10.8	1.4	1.3	1.1	8.0	5.3	5.1
Europe average		9.3	10.9	8.4	1.3	1.2	1.1	6.9	5.5	4.8
Japan average		13.6	8.1	13.7	1.7	1.3	1.2	7.2	5.5	7.2
Asia & Others average		20.5	13.8	12.2	2.9	2.5	2.3	12.4	9.6	8.8
Global Average		**17.4**	**12.4**	**11.1**	**2.1**	**1.8**	**1.7**	**9.7**	**7.4**	**6.9**
Gas Utilities										
GAIL	11.5	12.6	11.6	11.1	2.4	2.1	1.9	8.0	8.3	8.6
GSPL	1.1	15.2	17.5	14.5	3.0	2.7	2.3	7.6	7.0	6.0
IGL	0.9	17.1	14.8	12.7	8.7	7.4	6.1	4.5	3.7	3.1
Petronet LNG	1.9	16.1	13.8	11.4	3.7	3.2	2.7	10.1	9.0	6.6
North America average		25.1	20.2	18.2	2.7	2.4	2.4	10.7	9.4	8.8
Asia & Others average		19.1	14.6	13.6	4.2	3.5	3.1	10.4	8.6	8.1
Global Average		**24.2**	**19.4**	**17.5**	**2.9**	**2.6**	**2.5**	**10.6**	**9.3**	**8.7**
Petrochemical Companies										
North America average		19.1	14.7	12.2	2.4	2.2	1.9	8.8	7.7	7.0
Europe average		13.2	11.8	10.7	2.7	2.3	2.1	7.1	6.5	6.0
Japan average		50.5	18.5	13.5	1.4	1.2	1.1	11.2	6.9	6.4
Asia & Others average		16.2	12.8	11.7	2.5	2.2	2.0	14.9	12.5	12.5
Global Average		**20.4**	**13.6**	**11.7**	**2.4**	**2.1**	**1.9**	**10.9**	**9.0**	**8.7**

*All averages are weighted averages

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Disclosure of Interest Statement

The MOSt group and its Directors own shares in the following companies covered in this report: Nil
MOSt has no broking relationships with the companies covered in this report.
MOSt is engaged in providing investment-banking services in the following companies covered in this report: Nil