



Oil & Gas

Bullish on ONGC, Oil India pre-Q2 results

Upstream figures out, strong Q2FY12E results for ONGC, Oil India

The Petroleum Ministry and ONGC management recently released the Q2FY12 upstream sharing figures. While there has been no announcement on Government's contribution towards under-recoveries, it has maintained the 1/3rd sharing formula for the upstream PSUs. The upstream PSUs will be sharing INR71.24bn in Q2FY12, while the gross under-recoveries for Q2FY12 are INR213.7bn. Based on these numbers, we expect very strong Q2FY12 results for ONGC and Oil India driven by significantly higher net realizations. In Q2FY12, **we expect both ONGC and Oil India to report their highest net realizations in the last 10-12 quarters.**

ONGC: USD75-80/bbl in Q2FY12 vs. USD48.7/bbl in Q1FY12

Oil India: USD78-82/bbl in Q2FY12 vs. USD59.6/bbl in Q1FY12.

FY12 under-recoveries likely to be ~USD1,150bn at current rate

Based on PPAC estimates, OMCs are losing INR2.72bn daily, implying potential H2FY12 under-recoveries of INR490bn. With H1FY12 losses of INR649bn, the annual losses could reach ~INR1.150bn at the current oil price levels. Post the June-end EGoM decision on price hikes and duty cuts, we had arrived at the same figure and we continue maintain this for all our estimates. Also, based on this, we expect the Q3/Q4 results for ONGC and Oil India to be only slightly lower than the upcoming Q2FY12 results, while we continue to stress that EPS estimates for both stocks will be upgraded post the Q2FY12 results.

Oil India is our top pick, significant re-rating on the cards

With Oil India's Q2FY12 Street EPS already at INR49/sh, we rule out a big estimate beat for Q2FY12 results. However, we find the annual consensus FY12 EPS estimate of INR150 to be very low and achievable for Oil India. We expect Oil India to deliver EPS of INR82-85 in H1FY12, and report an EPS of atleast INR80/sh in H2FY12, despite assuming upstream share of 40% in H2FY12. If the current 1/3rd upstream sharing system continues in H2FY12, Oil India may deliver an EPS of INR165+. As a result, we believe that the **stock is likely to be significantly re-rated post the Q2FY12 results with earnings upgrade potential of 9-12%.** Currently Oil India trades at a P/E of 8.7x on Street estimates; assuming upgraded estimates gives us 10-12% upside from current levels. Additionally, Oil India has **cash of ~INR525/sh** on its books, lending strong downside support as seen in the YTD stock price performance. Furthermore, a 30-33% dividend payout strategy would mean **~INR50/sh dividend for FY12, implying 4% dividend yield.**

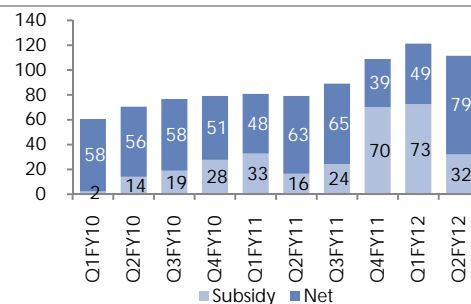
ACTION POINTS: Accumulate Oil India pre-Q2FY12 results on Nov 14th

Upstream subsidy sharing trends

	Q1 FY11	Q2 FY11	Q3 FY11	Q4 FY11	Q1 FY12	Q2 FY12
Total losses (INR bn)	201	113	156	312	435	214
Upstream (INR bn)	67	38	52	146	145	71
Upstream share (%)	33.3	33.3	33.3	46.9	33.3	33.3
ONGC (INR bn)	55.2	30.2	42.2	121.4	120.5	57.1
Oil India (INR bn)	7.3	4.0	5.6	16.1	17.8	8.4
GAIL (INR bn)	4.5	3.5	4.2	9.0	6.8	5.7
ONGC (%)	82.4	80.2	81.2	82.9	83.0	80.2
Oil India (%)	10.9	10.6	10.7	11.0	12.3	11.9
GAIL (%)	6.7	9.2	8.0	6.2	4.7	8.0

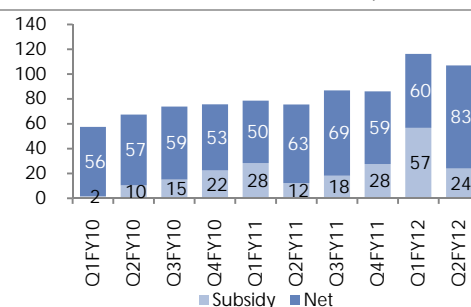
Source: PPAC; Elara Securities Research

ONGC net realization trends (USD/bbl)



Source: Company; Elara Securities Estimates

Oil India net realization trends (USD/bbl)



Source: Company; Elara Securities Estimates

Key Financials

Company	Rating	Mcap		CMP (INR)	Target (INR)	Upside (%)	P/E (x)			EV/EBITDA (x)			ROE (%)		
		INR bn	USD mn				FY11	FY12E	FY13E	FY11	FY12E	FY13E	FY11	FY12E	FY13E
ONGC	Accumulate	2,378	49,541	278	300	7.9%	10.2	7.9	7.8	4.3	3.3	3.2	19.5	21.3	18.6
Oil India	Accumulate	306	6,368	1,271	1,500	18.0%	10.6	7.8	8.1	4.8	3.2	3.3	18.5	21.1	17.8

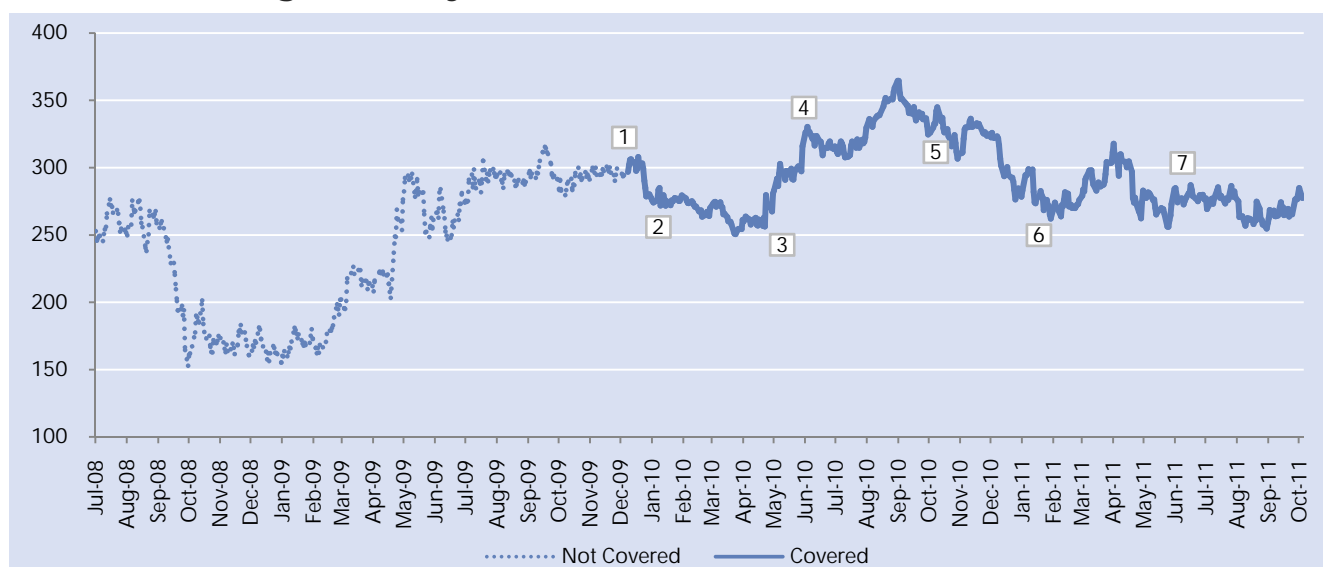
Source: Company, Elara Securities Estimate

Alok Deshpande • alok.deshpande@elaracapital.com • +91 22 4062 6804

Stuart Murray • stuart.murray@elaracapital.com • +91 22 4062 6898

Elara Securities (India) Private Limited

ONGC Coverage History

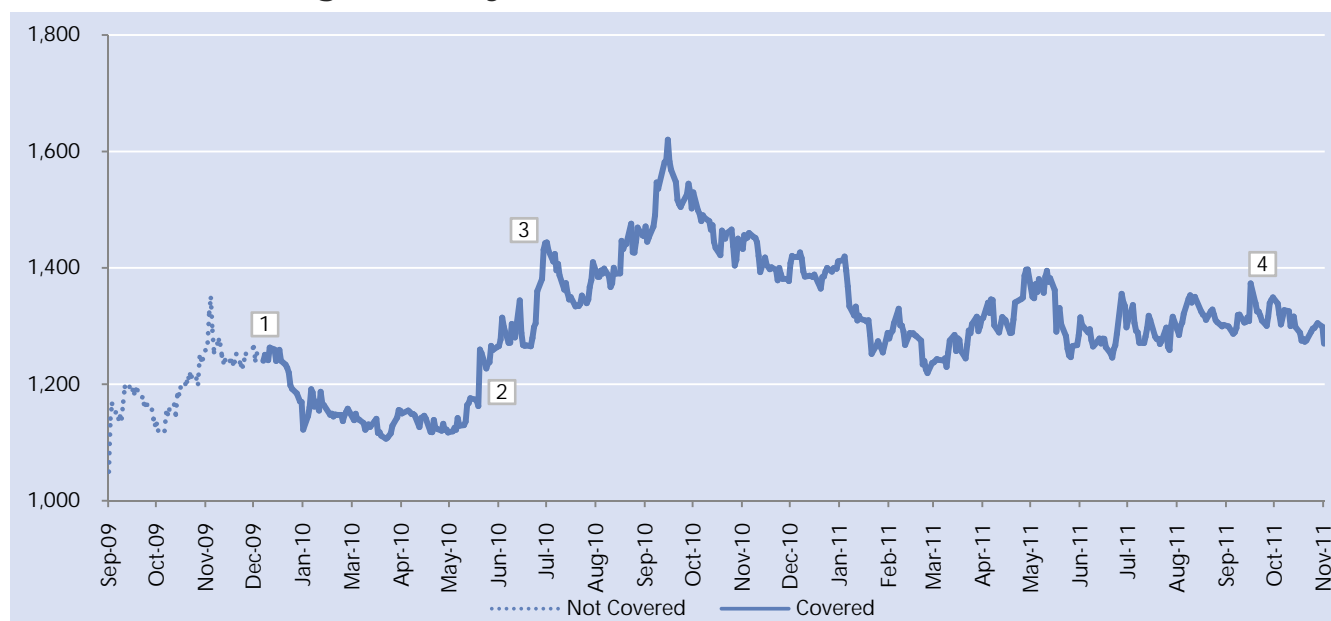


	Date	Rating	Target Price	Closing Price
1	04-Jan-2010	Reduce	INR 296	INR 297
2	22-Jan-2010	Reduce	INR 288	INR 279
3	24-May-2010	Accumulate	INR 308	INR 269
4	25-Jun-2010	Accumulate	INR 334	INR 316
5	29-Oct-2010	Accumulate	INR 375	INR 326
6	28-Jan-2011	Accumulate	INR 325	INR 284
7	25-Jun-2011	Accumulate	INR 300	INR 273

Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

Oil India Coverage History



	Date	Rating	Target Price	Closing Price
1	04-Jan-2010	Sell	INR1,075	INR1,240
2	24-May-2010	Accumulate	INR1,350	INR1,225
3	25-Jun-2010	Accumulate	INR1,430	INR1,360
4	20-Sep-2011	Accumulate	INR1,500	INR1,325

Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

Disclosures & Confidentiality for non U.S. Investors

The Note is based on our estimates and is being provided to you (herein referred to as the "Recipient") only for information purposes. The sole purpose of this Note is to provide preliminary information on the business activities of the company and the projected financial statements in order to assist the recipient in understanding / evaluating the Proposal. Nothing in this document should be construed as an advice to buy or sell or solicitation to buy or sell the securities of companies referred to in this document. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and should consult its own advisors to determine the merits and risks of such an investment. Nevertheless, Elara or any of its affiliates is committed to provide independent and transparent recommendation to its client and would be happy to provide any information in response to specific client queries. Elara or any of its affiliates have not independently verified all the information given in this Note and expressly disclaim all liability for any errors and/or omissions, representations or warranties, expressed or implied as contained in this Note. The user assumes the entire risk of any use made of this information. Elara or any of its affiliates, their directors and the employees may from time to time, effect or have effected an own account transaction in or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for or solicit investment banking or other business from any company referred to in this Note. Each of these entities functions as a separate, distinct and independent of each other. This Note is strictly confidential and is being furnished to you solely for your information. This Note should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This Note is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Elara or any of its affiliates to any registration or licensing requirements within such jurisdiction. The distribution of this document in certain jurisdictions may be restricted by law, and persons in whose possession this document comes, should inform themselves about and observe, any such restrictions. Upon request, the Recipient will promptly return all material received from the company and/or the Advisors without retaining any copies thereof. The Information given in this document is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This Information is subject to change without any prior notice. Elara or any of its affiliates reserves the right to make modifications and alterations to this statement as may be required from time to time. However, Elara is under no obligation to update or keep the information current. Neither Elara nor any of its affiliates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. This Note should not be deemed an indication of the state of affairs of the company nor shall it constitute an indication that there has been no change in the business or state of affairs of the company since the date of publication of this Note. The disclosures of interest statements incorporated in this document are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. Elara Securities (India) Private Limited generally prohibits its analysts, persons reporting to analysts and their family members from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Any clarifications / queries on the proposal as well as any future communication regarding the proposal should be addressed to Elara Securities (India) Private Limited / the company.

Disclaimer for non U.S. Investors

The information contained in this note is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

Disclosures for U.S. Investors

The research analyst did not receive compensation from Oil and Natural Gas Corporation Limited and Oil India Limited.

Elara Capital Inc.'s affiliate did not manage an offering for Oil and Natural Gas Corporation Limited and Oil India Limited.

Elara Capital Inc.'s affiliate did not receive compensation from Oil and Natural Gas Corporation Limited and Oil India Limited in the last 12 months.

Elara Capital Inc.'s affiliate does not expect to receive compensation from Oil and Natural Gas Corporation Limited and Oil India Limited in the next 3 months.

Disclaimer for U.S. Investors

This material is based upon information that we consider to be reliable, but Elara Capital Inc. does not warrant its completeness, accuracy or adequacy and it should not be relied upon as such.

This material is not intended as an offer or solicitation for the purchase or sale of any security or other financial instrument. Securities, financial instruments or strategies mentioned herein may not be suitable for all investors. Any opinions expressed herein are given in good faith, are subject to change without notice, and are only correct as of the stated date of their issue. Prices, values or income from any securities or investments mentioned in this report may fall against the interests of the investor and the investor may get back less than the amount invested. Where an investment is described as being likely to yield income, please note that the amount of income that the investor will receive from such an investment may fluctuate. Where an investment or security is denominated in a different currency to the investor's currency of reference, changes in rates of exchange may have an adverse effect on the value, price or income of or from that investment to the investor. The information contained in this report does not constitute advice on the tax consequences of making any particular investment decision. This material does not take into account your particular investment objectives, financial situations or needs and is not intended as a recommendation of particular securities, financial instruments or strategies to you. Before acting on any recommendation in this material, you should consider whether it is suitable for your particular circumstances and, if necessary, seek professional advice.

Certain statements in this report, including any financial projections, may constitute "forward-looking statements." These "forward-looking statements" are not guarantees of future performance and are based on numerous current assumptions that are subject to significant uncertainties and contingencies. Actual future performance could differ materially from these "forward-looking statements" and financial information.

India Elara Securities (India) Pvt. Ltd. Kalpataru Synergy, 6th Level, East Wing, Opp Grand Hyatt, Santacruz East, Mumbai – 400 055, India Tel : +91 22 4062 6868	Europe Elara Capital Plc. 29 Marylebone Road, London NW1 5JX, United Kingdom Tel : +4420 7486 9733	USA Elara Securities Inc. 477 Madison Avenue, 220, New York, NY 10022, USA Tel :212-430-5870	Asia / Pacific Elara Capital (Singapore) Pte.Ltd. 30 Raffles Place #20-03, Chevron House Singapore 048622 Tel : +65 6536 6267
--	--	--	---

Harendra Kumar **MD - Institutional Equities & Global Research** harendra.kumar@elaracapital.com +91 22 4062 6871

Sales

Joseph K. Mammen	Global Head Sales & Trading			
	London	+44 78 5057 7329	joseph.mammen@elaracapital.com	+44 20 7467 5578
Anuja Sarada	London	+44 77 3819 6256	anuja.sarada@elaracapital.com	+44 20 7299 2577
David Somekh	New York	+1 646 808 9217	david.somekh@elaracapital.com	+1 212 430 5872
Nikhil Bhatnagar	New York	+1 718 501 2504	nikhil.bhatnagar@elaracapital.com	+1 212 430 5876
Samridh Sethi	New York	+1 718 300 0767	samridh.sethi@elaracapital.com	+1 212 430 5873
Amit Mamgain	India	+91 98676 96661	amit.mamgain@elaracapital.com	+91 22 4062 6843
Koushik Vasudevan	India	+91 98676 96668	koushik.vasudevan@elaracapital.com	+91 22 4062 6841
Prashin Lalvani	India	+91 9833477685	prashin.lalvani@elaracapital.com	+91 22 4062 6844
Saira Ansari	India	+91 98198 10166	saira.ansari@elaracapital.com	+91 22 4062 6812

Sales Trading & Dealing

Ananthanarayan Iyer	India	+91 98334 99217	anathanarayan.iyer@elaracapital.com	+91 22 4062 6856
Dharmesh Desai	India	+91 98211 93333	dharmesh.desai@elaracapital.com	+91 22 4062 6852
Manoj Murarka	India	+91 99675 31422	manoj.murarka@elaracapital.com	+91 22 4062 6851
Vishal Thakkar	India	+91 98694 07973	vishal.thakkar@elaracapital.com	+91 22 4062 6857

Research

Abhinav Bhandari	Analyst	Construction, Infrastructure	abhinav.bhandari@elaracapital.com	+91 22 4062 6807
Aliasgar Shakir	Analyst	Mid caps	aliasgar.shakir@elaracapital.com	+91 22 4062 6816
Alok Deshpande	Analyst	Oil & Gas	alok.deshpande@elaracapital.com	+91 22 4062 6804
Anand Shah	Analyst	Paints, Fertilizers	anand.shah@elaracapital.com	+91 22 4062 6821
Ashish Kumar	Economist		ashish.kumar@elaracapital.com	+91 22 4062 6836
Henry Burrows	Analyst	Derivative Strategist	henry.burrows@elaracapital.com	+91 22 4062 6854
Himani Singh	Analyst	FMCG, Hotels, Hospitals	himani.singh@elaracapital.com	+91 22 4062 6801
Mohan Lal	Analyst	Media , Automobiles	mohan.lal@elaracapital.com	+91 22 4062 6802
Pankaj Balani	Analyst	Derivative Strategist	pankaj.balani@elaracapital.com	+91 22 4062 6811
Pralay Das	Analyst	Information Technology, Strategy	pralay.das@elaracapital.com	+91 22 4062 6808
Ravindra Deshpande	Analyst	Metals & Cement	ravindra.deshpande@elaracapital.com	+91 22 4062 6805
Ravi Sodah	Analyst	Cement	ravi.sodah@elaracapital.com	+91 22 4062 6817
Sumant Kumar	Analyst	FMCG	sumant.kumar@elaracapital.com	+91 22 4062 6803
Surajit Pal	Analyst	Pharmaceuticals, Real Estate	surajit.pal@elaracapital.com	+91 22 4062 6810
Mona Khetan	Associate	Strategy	mona.khetan@elaracapital.com	+91 22 4062 6814
Pooja Sharma	Associate	Automobiles	pooja.sharma@elaracapital.com	+91 22 4062 6819
Stuart Murray	Associate	Oil & Gas	stuart.murray@elaracapital.com	+91 22 4062 6898

Access our reports on Bloomberg: Type **ESEC <GO>**

Also available on **Thomson & Reuters**

Member (NSE, BSE)
 Regn Nos: CAPITAL MARKET SEBI REGN. NO.: BSE: INB 011289833, NSE: INB231289837 DERIVATIVES SEBI REGN. NO.: NSE: INF 231289837
 CLEARING CODE: M51449.

Website: www.elaracapital.com Investor Grievance Email ID: investor.grievances@elaracapital.com