

Industry Flash

29 November 2006 | 5 pages

Indian Downstream R&M

Sell: Oil Price Cut Negative for Sentiment

- **Oil prices cut** — The government has announced a cut of 3-4% on auto fuels (Rs2/liter on petrol, Re1/litre on diesel ex-Delhi) following the decline in crude prices (-16% since the price hike in June). The decision to cut prices underlines continued political interference in retail fuel pricing and reinforces our view that introduction of pricing reform is unlikely in the near future.
- **Cut in diesel prices not expected** — In the past, the government had allowed OMCs to recoup their losses in a declining crude environment. In this light, while a token cut in petrol prices was expected, the cut in diesel prices came as a surprise and will have a big negative impact on the marketing margins of the OMCs, given the much higher proportion of diesel sales vis-à-vis petrol.
- **Blended margins down to ~US\$2/bbl** — Margins on the marketing of auto fuels had turned positive following the cool-off in crude over the last few months – ~Rs4/liter on petrol and ~Re1/liter on diesel in November (blended margins of ~US\$5/bbl). Marketing margins will now likely decline to ~US\$2/bbl, with diesel margins likely to reduce to near break even levels.
- **Reiterate Sell** — Constrained profitability of the oil marketing companies will continue to put pressure on oil sector earnings and impact market sentiment towards the public sector oil companies. Coupled with the recent waiver of subsidy sharing for pure refiners and the likely reduction in oil bonds in 2HFY07, we reiterate our Sell on BPCL, HPCL, and IOC.

Rahul Singh¹

+91-22-6631-9863
rahul.r.singh@citigroup.com

Pradeep Mirchandani, CFA¹

+91-22-6631-9877
pradeep.mirchandani@citigroup.com

Saurabh Handa¹

saurabh.handa@citigroup.com

See page 2 for Analyst Certification and important disclosures.

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Analyst Certification Appendix A-1

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Indian Oil Corp. (IOC.BO)

Ratings and Target Price History - Fundamental Research

Analyst: Rahul Singh (covered since October 6 2005)



#	Date	Rating	Target Price	Closing Price
1:	30 Apr 04	*2M	*606.00	516.80
2:	21 Jun 04	*2H	*420.00	368.05
3:	4 Aug 04	2H	*457.00	417.75
4:	1 Aug 05	*2M	*446.00	409.40
5:	5 Oct 05	2M	*515.00	451.20
6:	21 Mar 06	2M	*590.00	545.00
7:	15 Jun 06	*1M	*427.00	368.20

*Indicates change.

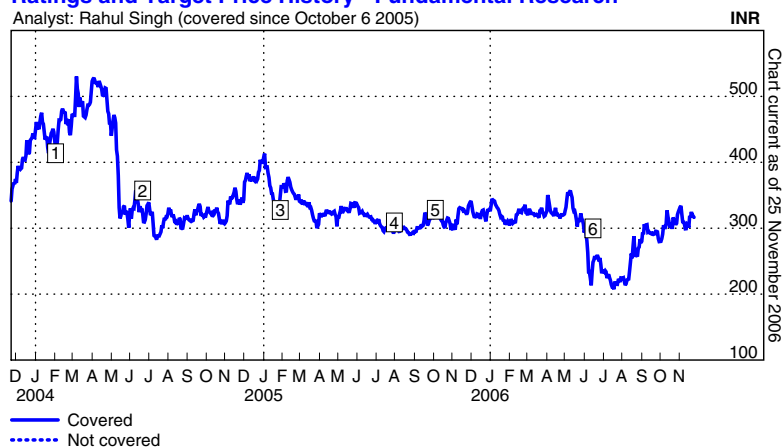
— Covered

..... Not covered

Hindustan Petroleum (HPCL.BO)

Ratings and Target Price History - Fundamental Research

Analyst: Rahul Singh (covered since October 6 2005)



#	Date	Rating	Target Price	Closing Price
1:	3 Feb 04	*1H	*585.00	420.55
2:	22 Jun 04	1H	*415.00	322.25
3:	28 Jan 05	*2H	415.00	349.75
4:	1 Aug 05	*2M	*325.00	295.65
5:	5 Oct 05	2M	*344.00	322.15
6:	15 Jun 06	2M	*260.00	248.40

*Indicates change.

— Covered

..... Not covered

Bharat Petroleum (BPCL.BO)

Ratings and Target Price History - Fundamental Research

Analyst: Rahul Singh (covered since October 6 2005)



#	Date	Rating	Target Price	Closing Price
1:	4 Feb 04	2M	*500.00	435.95
2:	26 May 04	*2H	*400.00	339.60
3:	1 Aug 05	*2M	400.00	374.10
4:	5 Oct 05	2M	*465.00	411.55
5:	15 Jun 06	2M	*354.00	327.50

*Indicates change.

— Covered

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