

**Energy****ONGC.BO, Rs865**

Rating	BUY
Sector coverage view	Cautious
Target Price (Rs)	1,200
52W High -Low (Rs)	1387 - 768
Market Cap (Rs bn)	1,851

**Financials**

March y/e	2008	2009E	2010E
Sales (Rs bn)	1,114	1,299	1,285
Net Profit (Rs bn)	199.2	285.7	327.5
EPS (Rs)	93.1	133.6	153.1
EPS gth	10	43.4	14.7
P/E (x)	9.3	6.5	5.7
EV/EBITDA (x)	3.5	2.7	2.2
Div yield (%)	3.7	4.6	4.9

**Shareholding, March 2008**

	Pattern	% of Portfolio	Over/(under) weight
Promoters	74.1	-	-
FIs	7.6	2.1	(3.4)
MFs	1.6	2.4	(3.1)
UTI	-	-	(5.5)
LIC	2.4	3.1	(2.4)

**Oil & Natural Gas Corporation: 4QFY08 results—The award for the most conservative accounting practice goes to ONGC**

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- **4QFY08 results dampened by higher-than-expected DD&A and one-off expenditure**
- **Consistent approach to depressing profits as much as possible**
- **Fine-tuned estimates; retain BUY and 12-month target price of Rs1,200**

ONGC reported disappointing 4QFY08 net income (standalone) at Rs26.3 bn (-39.8% qoq, -2% yoy) well below our estimate of Rs42.5 bn. The variance was on account of (1) higher-than-expected other expenditure at Rs38 bn (+107% qoq and +72% yoy) and (2) higher DD&A expenses at Rs38.5 bn (+74% qoq and +34% yoy). Adjusted for these changes, ONGC's 4QFY08 net income would have been well ahead of our estimates. We have fine-tuned consolidated FY2009E and FY2010E EPS estimates to Rs134 (Rs140 previously) and to Rs153 (Rs150 previously). We reiterate our BUY rating and 12-month target price of Rs1,200 based on 9X normalized FCF based on a low normalized crude price of US\$50/bbl. Key downside risks to our target price stem from higher-than-expected subsidy losses.

**Consistent pattern about conservatism in accounting policies.** Over the past several years, we have seen ONGC adopting extremely conservative accounting policies. We suspect this stems from its desire to show as low profits as possible in order to avoid a high subsidy burden. We give instances from the past three years.

- 1. Change in depreciation rate on trunk pipelines and onshore flow lines to 100% from the previous 27.82% in FY2006.** This had resulted in profits being significantly lower versus otherwise in FY2006 and FY2007. ONGC has applied the same rate to OVL's pipeline assets in FY2008, which has resulted in additional depreciation of Rs5.4 bn in FY2008. We doubt the life of any pipeline is one year.
- 2. Additional costs for dismantling and abandonment of wells provided for in FY2006.** ONGC had provided for Rs41.3 bn as abandonment costs in FY2006 and increased the gross producing properties by the same amount in FY2006. This has resulted in FY2006's net income being lower by Rs4.5 bn than otherwise. In FY2008, ONGC has revised down the eventual liability relating to dismantling, abandoning and restoring offshore well sites and allied facilities by Rs33.2 bn. This has resulted in additional pre-tax profits of Rs3.8 bn in FY2008. This figure is similar to the write-down in FY2007. However, the market had punished the stock heavily at the time of 4QFY06 results based on the higher-than-expected DD&A and well abandonment costs.
- 3. Write-off of Rs6.1 bn of a discovered field in FY2008.** ONGC has written off the cost of acquisition of 90% stake (Rs3.7 bn) and cost of drilling of three wells (Rs2.4 bn) in KG-DWN-98/2 block. ONGC follows the more conservative practice of successful efforts method under which costs relating to successful discoveries are capitalized (as they should be) and costs relating to survey expenses and dry wells written off in the year they are incurred. We are very surprised to see ONGC writing down Rs6.1 bn of expenses relating to a field where it has made discoveries and is in the process of finalizing the development concept.

ONGC management has clarified that it will not be able to develop the field over the next two years due to unavailability of rigs and hence, has opted to write down all associated costs in line with standard accounting policy. However, the same will be written back when the company eventually commences development work on the project.

**Key highlights of 4QFY08 and FY2008 results**

- 1. Steep increase in other expenditure.** ONGC's 4QFY08 other expenditure jumped by Rs20 bn qoq and Rs16 bn yoy to Rs38.5 bn. The steep increase reflects provision of Rs10.5 bn for pay revision of employees effective January 1, 2007 and provision of Rs8.85 bn of gratuities. However, we see this as a one-off expense.
- 2. Sharp increase in DD&A.** ONGC's 4QFY08 DD&A expenses increased by Rs16 bn qoq and Rs10 bn yoy to Rs38.5 bn. ONGC has provided for Rs6.1 bn pertaining to write-off of drilling and acquisition cost of KG-DWN-98/2 block, discussed above. In addition, expenditure on dry wells written off increased to Rs13.8 bn from Rs4.9 bn in 3QFY08 and Rs8.5 bn in 4QFY07. Expenditure on dry wells for FY2008 was Rs22.1 bn compared to Rs21.9 bn in FY2007.
- 3. Steep increase in other income.** Other income jumped up to Rs20.4 bn (+136% qoq) on account of ONGC charging 6% interest rate on loans to 100% subsidiary, OVL, versus negligible rate previously and receipt of Rs1.97 bn of oil bonds pertaining to FY997-2002. The change in interest rate on loan to OVL is applicable for the full year and the amount is Rs7.3 bn. However, we note this has no impact on consolidated earnings.
- 4. Net realization on crude oil.** ONGC's 4QFY08 net realized crude price was US\$49.7/bbl versus US\$54.5/bbl in 3QFY08. ONGC's subsidy burden per barrel of crude was US\$50.7/bbl.
- 5. Crude and natural gas volumes.** 4QFY08 crude sales increased 1.2% qoq but declined by 0.8% yoy to 6.06 mn tons. Crude oil production in FY2008 declined by 1.4% to 24.1 mn tons compared to 24.4 mn tons in FY2007. Gas sales decreased 8.1% qoq and 5.4% yoy to 4.9 bcm in 4QFY08 due to shutdown of operation at Mumbai High in February 2008.
- 6. Reserve accretion.** We are encouraged by the addition of 64 mn tons or 466 mboe of proved reserves in ONGC alone (without overseas and domestic joint ventures), which result in reserves replacement ratio of 1.32X. ONGC made 28 discoveries in FY2008 out of which 15 (three deep-water, five shallow-water and seven onshore) are new prospects and 13 are new pools of hydrocarbons within extant discovered areas. Out of the 182 mtoe of in-place reserves added in FY2008, 101 mtoe is from new finds and the balance 69 mtoe from extant areas.

**Key changes to and major assumptions behind earnings model**

We discuss our key assumptions and the major changes to our earnings model below. Exhibit 6 gives the major assumptions behind our earnings model and Exhibit 7 gives sensitivity of ONGC's EPS to key variables (rupee-dollar rate, crude oil price, natural gas price).

- 1. Subsidy amount.** We model subsidy amount at Rs500 bn, Rs350 bn and Rs290 bn for FY2009E, FY2010E and FY2011E, respectively. ONGC's FY2008 subsidy amount was Rs220 bn versus Rs170 bn in FY2007. We currently assume that the share of gross under-recoveries for upstream companies will be 33.33%. Although the government has announced that it will freeze the subsidy burden for upstream companies at Rs450 bn (about Rs380 bn for ONGC), we are building a more conservative case for subsidy losses by assuming Rs500 bn of subsidy loss to be borne by ONGC in FY2009E.
- 2. Crude oil price assumptions.** We retain our crude oil price (Dated Brent) forecasts for FY2009E, FY2010E and FY2011E at US\$110/bbl, US\$95/bbl and US\$90/bbl.
- 3. Exploratory drilling and survey expenses.** We have increased exploratory and survey expenses to Rs62 bn (Rs46 bn previously) in FY2009E in line with the planned expenditure announced by the company.

**4. Royalty and cess.** We model ONGC to bear the entire burden of royalty (Rs481/ton) and its share (30%) of cess (Rs2,575/ton) for RJ-ON-90/1 block for which Cairn India is the operator. However, ONGC's FY2011E and FY2012E earnings would be higher if the government decides that the joint venture partners will bear cess on crude oil in proportion to their ownership.

**5. Exchange rate.** We have revised our rupee-dollar exchange rates for FY2010E and FY2011E to Rs41.5/US Dollar and Rs41/US Dollar versus Rs41/US Dollar and Rs40/US Dollar, respectively, previously. We retain our rupee-dollar exchange rates for FY2009E at Rs42/US Dollar.

#### MRPL 4QFY08 results dampened by lower refining margins

MRPL, ONGC's 71.6% refining subsidiary, reported 4QFY08 net income at Rs2.3 bn compared to 3QFY08's Rs3.5 bn and 4QFY07's Rs1.8 bn. 4QFY08 refining margin was US\$6.7/bbl (computed) compared to US\$8.7/bbl in 3QFY08 and US\$8.6/bbl in 4QFY07. We model FY2009E and FY2010E EPS at Rs8.1 (Rs14 bn net income) and Rs4.2 (Rs7.4bn). The decline in net income in the next two years reflects lower refining margins, stronger rupee and increase in taxation. We model FY2009E and FY2010E refining margin at US\$6.2/bbl and US\$5.2/bbl versus US\$7.4/bbl in FY2008.

#### ONGC standalone interim results, March fiscal year-ends (Rs mn)

	2009E	qoq			yoy			yoy		
		4Q 2008	3Q 2008	% chg	4Q 2008	4Q 2007	% chg	2008	2007	% chg
Net sales	620,688	156,261	151,208	3.3	156,261	123,970	26.0	598,485	566,328	5.7
Total expenditure	(291,222)	(98,494)	(70,891)	38.9	(98,494)	(79,825)	23.4	(297,025)	(281,598)	5.5
Change in stock in trade	—	(382)	293		(382)	(209)		1,141	(197)	
Raw materials (a)	(3,551)	(2,468)	(2,156)	14.4	(2,468)	(894)	176.1	(6,817)	(3,928)	73.6
Trading purchase	(68,907)	(21,870)	(14,539)	50.4	(21,870)	(12,543)	74.4	(65,115)	(59,401)	9.6
Staff expenditure	(13,172)	(1,630)	(3,612)	(54.9)	(1,630)	(15,549)	(89.5)	(11,454)	(29,818)	(61.6)
Statutory levies	(135,145)	(33,802)	(32,314)	4.6	(33,802)	(28,392)	19.1	(127,080)	(119,930)	6.0
Other expenditure	(70,447)	(38,342)	(18,562)	106.6	(38,342)	(22,239)	72.4	(87,700)	(68,324)	28.4
<b>EBITDA</b>	<b>329,466</b>	<b>57,767</b>	<b>80,318</b>	<b>(28.1)</b>	<b>57,767</b>	<b>44,145</b>	<b>30.9</b>	<b>301,460</b>	<b>284,731</b>	<b>5.9</b>
Other income	50,018	20,337	8,630	135.7	20,337	21,790	(6.7)	49,455	42,431	16.6
Interest	(895)	(123)	(114)	8.2	(123)	(65)	91.3	(590)	(215)	174.3
DD&A	(96,565)	(38,445)	(22,118)	73.8	(38,445)	(28,637)	34.2	(97,979)	(94,994)	3.1
Depletion		(6,020)	(11,770)	(48.9)	(6,020)	(8,110)	(25.8)	(36,780)	(33,869)	8.6
Depreciation		(3,970)	(3,530)	12.5	(3,970)	(3,100)	28.1	(14,000)	(16,094)	(13.0)
Dry wells written off		(14,920)	(2,260)	560.2	(14,920)	(7,200)	107.2	(22,110)	(21,927)	0.8
Survey expenses		(13,790)	(4,920)	180.3	(13,790)	(8,450)	63.2	(25,770)	(21,119)	22.0
Impairment loss and other adjustments		250	350	(28.6)	250	(1,780)	(114.0)	660	(1,658)	(139.8)
<b>Pretax profits</b>	<b>282,023</b>	<b>39,536</b>	<b>66,716</b>	<b>(40.7)</b>	<b>39,536</b>	<b>37,232</b>	<b>6.2</b>	<b>252,346</b>	<b>231,952</b>	<b>8.8</b>
Extraordinary/Prior period adjustment	0	5	3,058		5	4,751		3,871	4,751	
Tax	(98,279)	(13,045)	(22,210)	(41.3)	(13,045)	(8,183)	59.4	(80,720)	(78,403)	3.0
Deferred tax	16,799	(225)	(3,899)	(94.2)	(225)	(6,983)	(96.8)	(8,480)	(1,870)	353.6
<b>Net income</b>	<b>200,543</b>	<b>26,271</b>	<b>43,665</b>	<b>(39.8)</b>	<b>26,271</b>	<b>26,816</b>	<b>(2.0)</b>	<b>167,017</b>	<b>156,430</b>	<b>6.8</b>
Tax rate (%)	28.9	33.6	37.4		33.6	36.1		34.8	33.9	
<b>Volume data</b>										
Subsidy loss		84,720	60,800	39.3	84,720	46,680	81.5	220,010	170,240	29.2
Crude sales ('000 tons)		6,060	5,990	1.2	6,060	6,110	(0.8)	24,080	24,410	(1.4)
Gas sales (mcm)		4,890	5,320	(8.1)	4,890	5,170	(5.4)	20,430	20,300	0.6
LPG ('000 tons)		265	275	(3.6)	265	263	0.8	1,037	1,033	0.4
Naphtha/NGL		372	376	(1.1)	372	396	(6.1)	1,442	1,442	0.0
C2/C3		135	142	(4.9)	135	141	(4.3)	520	548	(5.1)
SKO		36	46	(21.7)	36	42	(14.3)	168	156	7.7

Note:

(a) represents consumption of stores & spares.

Source: Company data, Kotak Institutional Equities estimates.

**We value ONGC stock at Rs1,200 on US\$50/bbl normalized crude price**

Estimation of fair value of ONGC stock based on normalized free cash flow (Rs mn)

	2009E	2010E	2011E
<b>A. Core business valuation</b>			
Normalized crude price assumption (US\$/bbl)	50.0	50.0	50.0
<b>Recurring operating cash flow</b>			
Operating cash flow = EBIT X (1-t) + D	(73,628)	64,002	118,886
Add: OCF after normalizing natural gas price	34,979	27,041	23,754
Add: OCF after removing subsidies	359,796	252,228	211,230
Recurring OCF	321,147	343,272	353,869
<b>Recurring capex</b>			
Production per annum (mn bbls)	397	390	392
Replacement or F&D costs (US\$/bbl)	9.0	9.0	9.0
Recurring capex	150,081	145,624	144,749
<b>Free cash flow</b>	<b>171,065</b>	<b>197,648</b>	<b>209,120</b>
Free cash flow multiple (X)	9	9	9
Enterprise value	1,539,589	1,778,833	1,882,080
(Net debt)/cash	390,802	552,597	730,282
Investments	90,514	95,457	100,398
Equity value	2,020,905	2,426,887	2,712,760
<b>Equity value of core business (Rs/share)</b>	<b>945</b>	<b>1,135</b>	<b>1,268</b>
<b>B. New discoveries valuation</b>			
KG-DWN-98/2 block (Rs/share)	49	55	62
MN-DWN-98/3 block (Rs/share)	15	16	18
<b>Equity value of new discoveries (Rs/share)</b>	<b>64</b>	<b>71</b>	<b>80</b>
<b>Total equity value per share (Rs/share)</b>	<b>1,008</b>	<b>1,206</b>	<b>1,348</b>

Source: Kotak Institutional Equities estimates.

**ONGC's valuation is highly leveraged to normalised crude prices**

Valuation sensitivity of ONGC to normalised crude price (Rs/share)

	Equity value (Rs/share)	Change from base case (%)
<b>Normalized crude prices</b>		
US\$90/bbl	2,343	94
US\$80/bbl	2,064	71
US\$70/bbl	1,784	48
US\$60/bbl	1,515	26
<b>US\$50/bbl</b>	<b>1,206</b>	
US\$45/bbl	1,096	(9)
US\$40/bbl	897	(26)

Source: Kotak Institutional Equities estimates.

**Reserve replacement ratio of 1.32X for FY2008 very encouraging**

ONGC's reserve accretion, production and reserve replacement ratio, March fiscal year-ends, 2006-2008

	2006	2007	2008
Ultimate reserve accretion (mn tons)	51.5	65.6	63.8
Production (mn tons)	47.0	48.5	48.3
<b>Reserve replacement ratio (X)</b>	<b>1.1</b>	<b>1.4</b>	<b>1.3</b>

Source: Company.

**ONGC's earnings are highly leveraged to crude prices**

Earnings sensitivity of ONGC to key variables

	2009E			2010E			2011E		
	Downside	Base case	Upside	Downside	Base case	Upside	Downside	Base case	Upside
<b>Exchange rate</b>									
Rs/US\$	41.0	42.0	43.0	40.5	41.5	42.5	40.0	41.0	42.0
Net profits (Rs mn)	268,699	285,657	302,600	311,946	327,550	343,145	342,184	357,846	373,501
Earnings per share (Rs)	125.6	133.6	141.5	145.8	153.1	160.4	160.0	167.3	174.6
% upside/(downside)	(5.9)		5.9	(4.8)		4.8	(4.4)		4.4
<b>Average crude prices</b>									
Crude price (US\$/bbl)	108.0	110.0	112.0	93.0	95.0	97.0	88.0	90.0	92.0
Net profits (Rs mn)	273,093	285,657	298,209	314,367	327,550	340,725	344,043	357,846	371,641
Earnings per share (Rs)	127.7	133.6	139.4	147.0	153.1	159.3	160.9	167.3	173.8
% upside/(downside)	(4.4)		4.4	(4.0)		4.0	(3.9)		3.9
<b>Cess</b>									
Cess on domestic crude (Rs/ton)	3,090	2,575	2,060	3,090	2,575	2,060	3,090	2,575	2,060
Net profits (Rs mn)	277,234	285,657	294,080	318,972	327,550	336,128	349,156	357,846	366,536
Earnings per share (Rs)	129.6	133.6	137.5	149.1	153.1	157.2	163.2	167.3	171.4
% upside/(downside)	(2.9)		2.9	(2.6)		2.6	(2.4)		2.4
<b>Natural gas prices</b>									
Natural gas price ceiling (Rs/'000 cum)	3,750	4,250	4,750	4,250	4,750	5,250	4,500	5,000	5,500
Net profits (Rs mn)	280,030	285,657	291,278	322,228	327,550	332,867	352,628	357,846	363,059
Earnings per share (Rs)	130.9	133.6	136.2	150.7	153.1	155.6	164.9	167.3	169.7
% upside/(downside)	(2.0)		2.0	(1.6)		1.6	(1.5)		1.5

Source: Kotak Institutional Equities estimates.

**Natural gas price increase and moderate volume growth are key earnings drivers**

Key assumptions, March fiscal year-ends, 2005-2012E

	2005	2006	2007	2008E	2009E	2010E	2011E	2012E
Rs/US\$ rate	45.0	44.3	45.3	40.3	42.0	41.5	41.0	40.0
Subsidy share scheme loss (Rs bn)	41.0	119.6	170.2	220.0	500.0	350.0	290.0	290.0
Import tariff on crude oil (%)	9.7	5.1	5.1	5.2	0.9	—	—	—
<b>Crude/natural gas prices</b>								
<b>Crude price</b>								
Crude price, WTI (US\$/bbl)				78.9	112.0	97.0	92.0	92.0
Crude price, Dated Brent (US\$/bbl)	40.6	57.2	64.8	78.9	110.0	95.0	90.0	90.0
<b>Natural gas price</b>								
Ceiling natural gas price, India (Rs/cu m)	2.85	3.52	4.21	4.25	4.25	4.75	5.00	5.25
Ceiling natural gas price, India (US\$/mn BTU)	1.69	2.12	2.49	2.82	2.70	3.06	3.26	3.51
Net natural gas price, ONGC-India (Rs/cu m)	2.18	3.11	3.76	3.79	3.79	4.24	4.47	4.69
Net natural gas price, ONGC-India (US\$/mn BTU)	1.29	1.88	2.22	2.52	2.41	2.73	2.91	3.13
<b>International operations</b>								
Net natural gas price, OVL-Vietnam (Rs/cu m)	3.2	3.1	3.2	2.8	3.0	2.9	2.9	2.8
Net crude price, OVL-Sudan (Rs/ton)	5,893	8,118	9,384	10,142	14,710	12,567	11,767	11,480
Net crude price, OVL-Russia (Rs/ton)	—	8,320	9,633	10,434	15,177	12,951	12,122	11,826
<b>Sales volumes—Domestic fields (a)</b>								
Crude oil (mn tons)	24.1	22.5	24.4	24.1	25.0	25.0	24.9	24.8
Natural gas (bcm)	20.6	20.5	20.3	20.4	20.6	19.6	19.2	17.9
<b>Sales volumes—Overseas fields</b>								
Crude oil (mn tons)	3.7	4.6	5.8	7.8	8.8	8.6	8.6	8.6
Natural gas (bcm)	1.3	1.8	2.1	2.1	2.4	2.6	2.8	2.8
<b>Total sales</b>								
Crude oil (mn tons)	27.8	27.0	30.2	31.9	33.8	33.6	33.5	33.4
Natural gas (bcm)	22.0	22.3	22.5	22.6	23.0	22.2	22.0	20.7
<b>Total sales (mn toe)</b>	<b>47.4</b>	<b>46.9</b>	<b>50.3</b>	<b>52.0</b>	<b>54.4</b>	<b>53.4</b>	<b>53.2</b>	<b>51.9</b>
<b>Total sales (mn boe)</b>	<b>346</b>	<b>342</b>	<b>367</b>	<b>380</b>	<b>397</b>	<b>390</b>	<b>388</b>	<b>379</b>
Crude oil (%)	59	58	60	61	62	63	63	64
Natural gas (%)	41	42	40	39	38	37	37	36

(a) Includes ONGC's share of production from joint venture fields.

Source: Company data, Kotak Institutional Equities estimates.

**Consolidated profit model, balance sheet, cash model of ONGC, March fiscal year-ends, 2004-2012E (Rs mn)**

	2004	2005	2006	2007	2008E	2009E	2010E	2011E	2012E
<b>Profit model (Rs mn)</b>									
Net sales	467,124	707,083	807,603	968,227	1,114,284	1,299,050	1,284,718	1,335,750	1,331,785
<b>EBITDA</b>	<b>196,494</b>	<b>281,195</b>	<b>310,054</b>	<b>358,001</b>	<b>397,472</b>	<b>484,205</b>	<b>506,541</b>	<b>536,944</b>	<b>508,057</b>
Other income	23,752	17,595	27,350	45,377	55,402	52,143	60,318	58,487	58,356
Interest	(5,028)	(2,512)	(537)	394	(8,789)	(7,280)	(5,322)	(6,426)	(8,145)
Depreciation and depletion	(65,525)	(73,465)	(97,726)	(119,550)	(131,142)	(126,482)	(104,087)	(96,683)	(94,423)
Pretax profits	149,693	222,813	239,141	284,222	312,943	402,586	457,449	492,321	463,845
Tax	(46,101)	(74,690)	(71,196)	(88,987)	(103,319)	(130,329)	(137,907)	(137,020)	(129,933)
Deferred tax	(7,779)	(4,744)	(13,612)	(9,264)	(7,799)	17,441	10,120	3,295	4,679
Net profits	95,523	143,175	154,596	178,412	204,507	289,698	329,662	358,596	338,592
<b>Net profits after minority interests</b>	<b>94,219</b>	<b>140,670</b>	<b>153,542</b>	<b>176,921</b>	<b>200,921</b>	<b>285,657</b>	<b>327,550</b>	<b>357,846</b>	<b>338,854</b>
<b>Earnings per share (Rs)</b>	<b>44.1</b>	<b>65.8</b>	<b>71.8</b>	<b>82.7</b>	<b>93.9</b>	<b>133.6</b>	<b>153.1</b>	<b>167.3</b>	<b>158.4</b>
<b>Balance sheet (Rs mn)</b>									
Total equity	415,582	488,912	578,830	670,137	791,636	977,348	1,197,413	1,433,678	1,649,882
Deferred tax liability	54,250	57,911	71,557	80,976	88,775	71,333	61,214	57,919	53,239
Liability for abandonment cost	80,292	80,941	128,675	151,857	151,857	151,857	151,857	151,857	151,857
Total borrowings	60,961	39,028	28,767	21,826	41,123	51,545	83,673	120,073	114,473
Current liabilities	85,376	128,346	142,435	187,051	110,050	115,109	115,073	117,230	120,767
<b>Total liabilities and equity</b>	<b>696,461</b>	<b>795,138</b>	<b>950,264</b>	<b>1,111,847</b>	<b>1,183,440</b>	<b>1,367,193</b>	<b>1,609,230</b>	<b>1,880,756</b>	<b>2,090,217</b>
Cash	95,721	101,843	90,743	206,262	292,633	442,347	636,270	850,354	1,081,951
Current assets	133,039	178,421	240,210	192,652	197,401	206,506	204,708	232,187	234,542
Total fixed assets	419,213	471,543	565,722	643,219	623,691	648,625	693,598	718,620	694,130
Goodwill	11,661	10,753	14,172	27,686	27,686	27,686	27,686	27,686	27,686
Investments	30,811	26,961	35,753	36,888	36,888	36,888	41,828	46,769	46,770
Deferred expenditure	6,017	5,617	3,663	5,141	5,141	5,141	5,141	5,141	5,141
<b>Total assets</b>	<b>696,461</b>	<b>795,138</b>	<b>950,264</b>	<b>1,111,848</b>	<b>1,183,440</b>	<b>1,367,193</b>	<b>1,609,230</b>	<b>1,880,757</b>	<b>2,090,220</b>
<b>Free cash flow (Rs mn)</b>									
Operating cash flow, excl. working capital	133,261	187,001	216,736	252,772	232,168	277,666	315,904	355,796	335,645
Working capital changes	25,630	18,787	46,461	(4,990)	(76,750)	(67,292)	32,731	(4,304)	1,182
Capital expenditure	(56,301)	(103,418)	(113,738)	(135,049)	(57,273)	(84,700)	(104,098)	(87,288)	(38,938)
Investments	(10,608)	(9,887)	(28,912)	53,822	—	—	(4,940)	—	—
Other income	9,767	13,049	14,537	20,422	56,057	52,518	60,318	58,487	58,356
<b>Free cash flow</b>	<b>101,749</b>	<b>105,532</b>	<b>135,083</b>	<b>186,976</b>	<b>154,202</b>	<b>178,192</b>	<b>299,914</b>	<b>322,691</b>	<b>356,245</b>
<b>Ratios (%)</b>									
Debt/equity	14.7	8.0	5.0	3.3	5.2	5.3	7.0	8.4	6.9
Net debt/equity	(8.4)	(12.8)	(10.7)	(27.5)	(31.8)	(40.0)	(46.1)	(50.9)	(58.6)
RoAE	21.6	28.0	25.9	25.5	24.9	30.0	28.8	26.3	21.4
<b>RoACE</b>	<b>20.6</b>	<b>24.6</b>	<b>22.0</b>	<b>22.1</b>	<b>21.4</b>	<b>26.4</b>	<b>25.5</b>	<b>23.8</b>	<b>19.7</b>
<b>Key assumptions</b>									
Rs/dollar rate	46.0	45.0	44.3	45.3	40.3	42.0	41.5	41.0	40.0
Crude fob price (US\$/bbl)	28.7	40.6	57.2	64.8	78.9	110.0	95.0	90.0	90.0
Ceiling/actual natural gas price (Rs/'000 cm)	2,850	2,850	3,515	4,211	4,250	4,250	4,750	5,000	5,250
Subsidy loss (Rs bn)	26.9	41.0	119.6	170.2	220.0	500.0	350.0	290.0	290.0

Source: Kotak Institutional Equities estimates.