

October 12, 2011

## 2Q FY12F results preview

# Likely another dismal quarter; muted q-q growth; OMCs may bleed again

### Oil and petchem prices moderate, refining margins stay firm

Oil prices remained range-bound during the quarter before coming off towards the end, owing to increasing global macro concerns. Brent prices were down 4% q-q in 2Q. Singapore complex refining margins firmed up in Aug/Sept after consecutive months of decline in June/July (overall up 5% q-q), on strengthening gasoline cracks. After a sharp run-up last year, key petchem prices and margins have seen some correction in the past few months. Sharp rupee depreciation towards the end of the quarter (rupee down 10% q-q on exit) was a key highlight of 2Q.

### No respite for OMCs – Likely hit from large U/Rs, inventory/FE losses

Post the fuel price hikes and duty cuts in June 2011, gross under-recoveries are likely to decline by ~50% q-q, in our view, but these still remain high. Likely sharing remains unclear and a concern. We assume 33% / 50% sharing by upstream / government. However, if the government delays or provides lesser support (34% in 1QFY12, we assume 50% for 2Q), OMCs could once again report losses (similar to 1Q).

### We expect dismal 2Q results

Despite an improvement in regional refining margins, we expect RIL to report muted growth (up 1% q-q). After five consecutive quarters of sequential PAT growth, Cairn India is likely to report a sharp 81% q-q decline in PAT in 2Q due to cost-recoveries on royalty and resulting one-off provisions (our est. INR17.3bn). Gas volumes are likely to remain flat q-q and we do not expect any big surprises in gas companies' earnings q-q, aside from IGL, where we expect 28% y-y and 6% q-q growth.

Fig. 1: Summary of 2Q FY12F earnings estimates

	Reco	PT	EBITDA (INR bn)			PAT (INR bn)			Consensus PAT	Ann. Date
			INR/sh	2QFY12F	y-y (%)	q-q (%)	2QFY12F	y-y (%)		
Reliance	BUY	1,060	97.3	4%	-2%	57.1	16%	1%	58.0	15-Oct
Cairn India	BUY	350	10.0	-54%	-69%	5.2	-67%	-81%	13.9	20-Oct
GAIL	BUY	565	15.6	9%	0%	10.0	8%	2%	10.3	TBA
PLNG	BUY	220	4.05	49%	-7%	2.24	71%	-13%	2.38	18-Oct
GSPL	BUY	135	2.55	9%	-4%	1.26	37%	-8%	1.24	TBA
IGL	BUY	550	1.68	37%	7%	0.85	28%	6%	0.86	20-Oct
GGAS	NEUTRAL	415	1.23	36%	-12%	0.82	45%	-15%	0.87	TBA
IOCL	NEUTRAL	365	31.0	-53%	nm	17.5	-67%	nm	(0.9)	TBA
BPCL	NEUTRAL	620	7.3	-71%	nm	3.7	-83%	nm	1.6	31-Oct
HPCL	NEUTRAL	380	5.5	-76%	nm	1.9	-91%	nm	(1.6)	TBA

Note: Pricing as of 11 October, 2011; ratings and valuations are as of the date of the most recently published report (<http://www.nomura.com>) rather than the date of this document

Source: Nomura estimates, Bloomberg for consensus estimates (as of 11 October)

### Anchor themes

We remain optimistic on gas companies and maintain our cautious stance on oil marketing companies.

### Nomura vs consensus

Except for OMCs, our estimates are largely in line with consensus. For OMCs, we assume 50% compensation from the government, which may be different from the Street's assumptions.

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See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

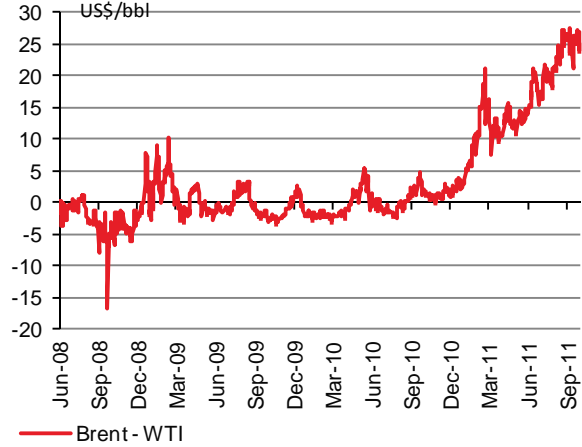
# Key industry trends

**Fig. 2: Brent: up 47% y-y and down 4% q-q in 2Q FY12F**



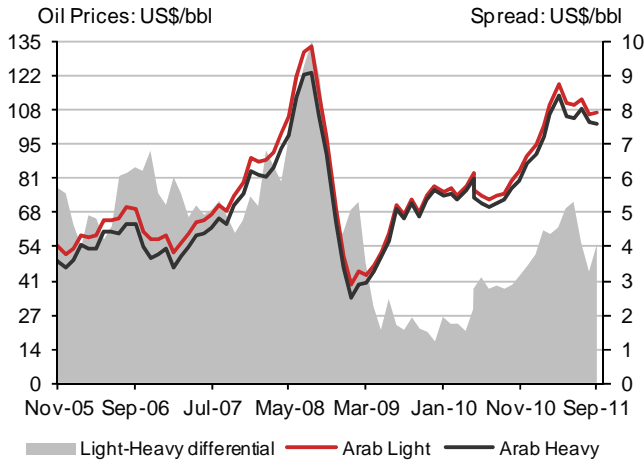
Source: Bloomberg, Nomura research

**Fig. 3: Brent- WTI differentials remain high during 2Q**



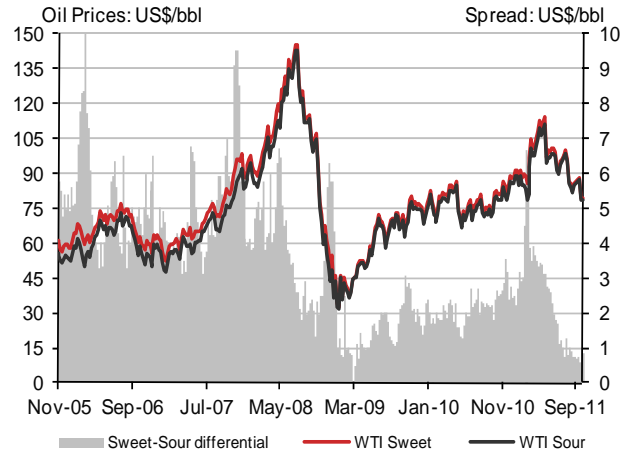
Source: Bloomberg, Nomura research

**Fig. 4: Light-heavy differentials have seen some moderation**



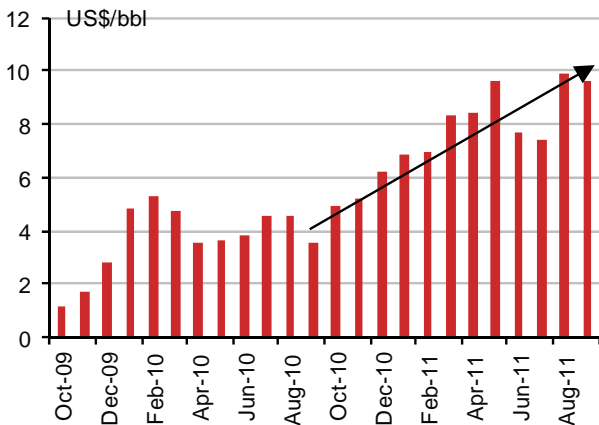
Source: Bloomberg, Nomura research

**Fig. 5: Sweet-sour differentials declined in 2Q**



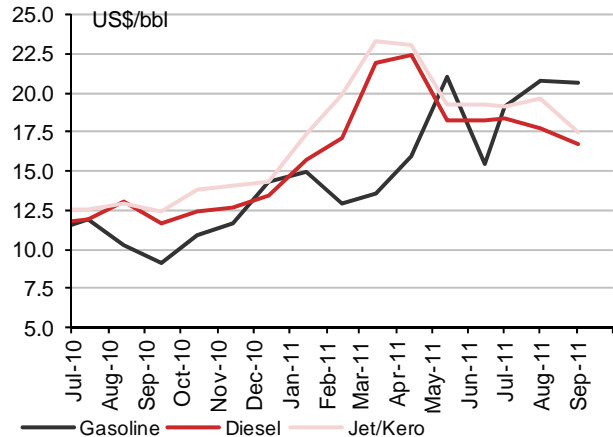
Source: Bloomberg, Nomura research

**Fig. 6: Singapore complex margins - up 112% y-y and 5% q-q**



Source: Reuters, Nomura research

**Fig. 7: Sharp rebound in gasoline cracks**



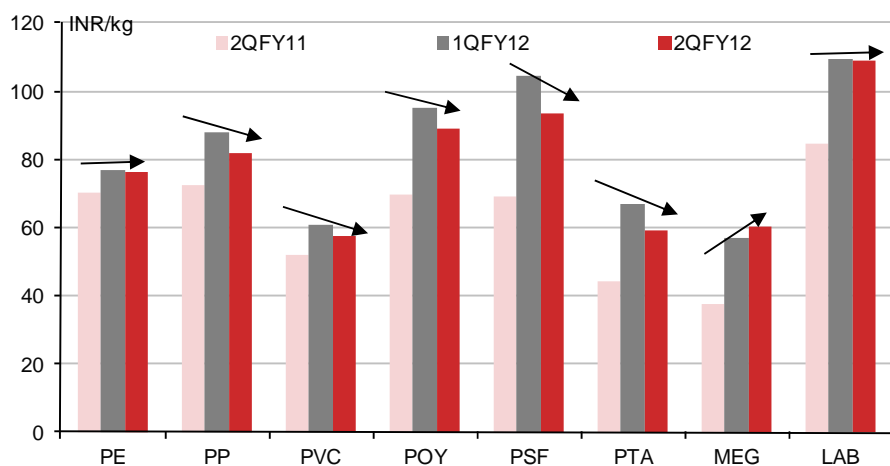
Source: Bloomberg, Nomura research

**Fig. 8: After a sharp run-up last year, key petchem prices have seen some moderation over the past few months**

US\$/MT	Prices						% Change				
	Sep-11	-1M	-2M	-3M	-6M	-12M	-1M	-2M	-3M	-6M	-12M
Naphtha	973	946	974	974	985	687	3	(0)	(0)	(1)	42
Ethylene	1,148	1,169	1,132	1,321	1,321	1,024	(2)	1	(13)	(13)	12
HDPE	1,380	1,378	1,332	1,338	1,338	1,110	0	4	3	3	24
LDPE	1,570	1,595	1,530	1,705	1,705	1,374	(2)	3	(8)	(8)	14
MEG	1,268	1,244	1,205	1,228	1,228	801	2	5	3	3	58
Propylene	1,567	1,576	1,471	1,546	1,546	1,175	(1)	6	1	1	33
Polystyrene	1,570	1,590	1,521	1,566	1,566	1,255	(1)	3	0	0	25
Para-Xylene	1,685	1,592	1,451	1,700	1,700	999	6	16	(1)	(1)	69
PVC	1,090	1,107	1,097	1,096	1,096	955	(1)	(1)	(1)	(1)	14
Benzene	1,158	1,158	1,142	1,189	1,189	871	0	1	(3)	(3)	33
Toluene	1,143	1,149	1,135	1,046	1,046	795	(1)	1	9	9	44
Poly-propylene	1,545	1,565	1,508	1,629	1,629	1,273	(1)	2	(5)	(5)	21
PTA	1,260	1,174	1,184	1,452	1,452	886	7	6	(13)	(13)	42
PET	1,603	1,590	1,543	1,789	1,789	1,117	1	4	(10)	(10)	44

Source: Thomson Reuters Datastream

**Fig. 9: Key domestic pet-chem prices have declined 1-12% q-q**



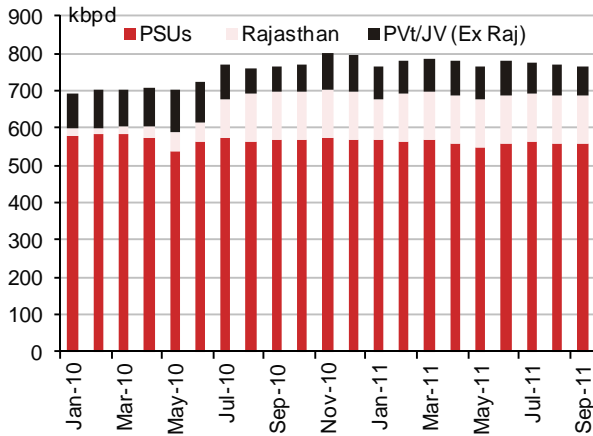
Source: Reliance Industries, Nomura research

**Fig. 10: Sharp rupee depreciation in Sept 11 – positive for upstream, negative for oil marketing companies**



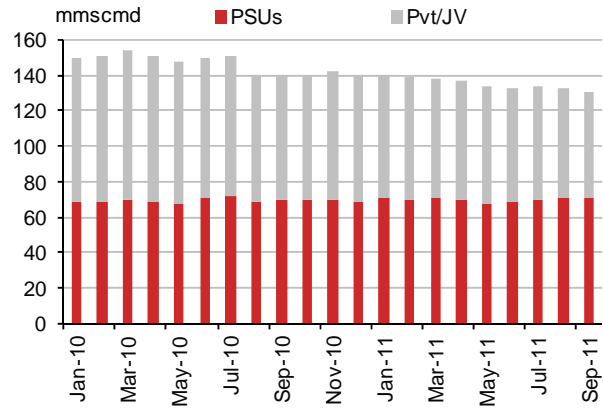
Source: Bloomberg, Nomura research

**Fig. 11: We expect ~1% q-q lower oil production in 2Q**



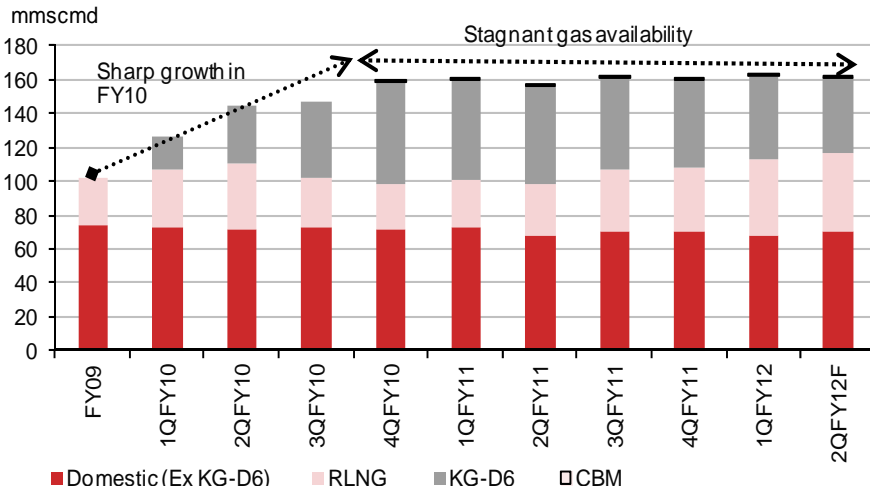
Source: Petroleum Planning & Analysis Cell, Nomura estimates

**Fig. 12: We expect ~1.5% lower gas volumes mainly due to lower production from KG-D6**



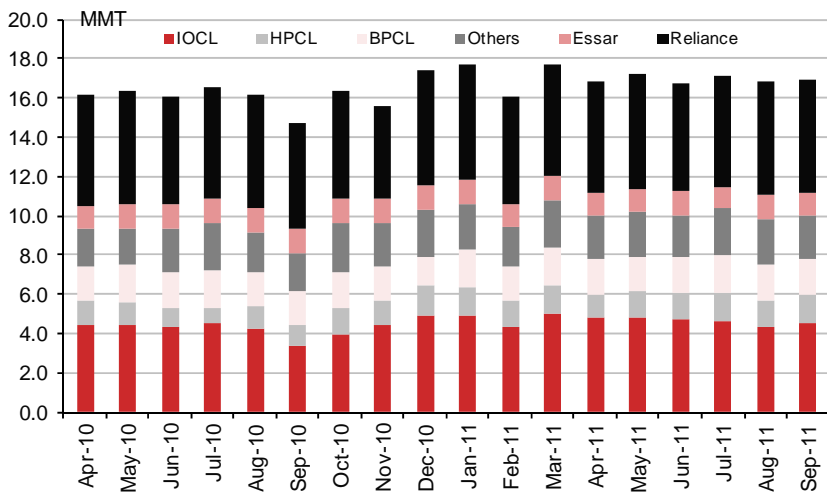
Source: Petroleum Planning & Analysis Cell, Nomura estimates

**Fig. 13: Gas availability remains stagnant as higher LNG imports offset the decline in domestic production**



Source: Petroleum Planning & Analysis Cell, Nomura estimates

**Fig. 14: Refinery throughput trends**



Source: Petroleum Planning & Analysis Cell, Nomura estimates

**Fig. 15: Under-recoveries likely to decline 50% q-q, yet remain at uncomfortable levels**

	2QFY11	1QFY12	2QFY12F	y-y	q-q
Brent (US\$/bbl)	76.3	117.8	112.5	47%	-4%
Exchange Rate (INR/USD)	46.5	44.7	45.8	-1%	2%
<b>Gross Underrecoveries (INR bn)</b>					
- Petrol	-	-	-		
- Diesel	37	287	99	166%	-65%
<b>Auto fuel</b>	<b>37</b>	<b>287</b>	<b>99</b>	<b>166%</b>	<b>-65%</b>
- PDS Kerosene	41	74	59	45%	-20%
- Domestic LPG	35	75	65	88%	-12%
<b>Cooking fuel</b>	<b>75</b>	<b>148</b>	<b>124</b>	<b>65%</b>	<b>-16%</b>
<b>Total</b>	<b>113</b>	<b>435</b>	<b>223</b>	<b>98%</b>	<b>-49%</b>
<b>Total (US\$bn)</b>	<b>2.4</b>	<b>9.7</b>	<b>4.9</b>	<b>101%</b>	<b>-50%</b>

Source: Company data, Petroleum Planning &amp; Analysis Cell, Nomura estimates

**Fig. 16: Subsidy-sharing mechanism remains ad-hoc – we assume 50% government support and 33% upstream discount in our 2Q FY12F estimates**

	2QFY11	1QFY12	2QFY12F	y-y	q-q
Gross URs (INR bn)	113	435	223	98%	-49%
<b>Sharing (INRbn)</b>					
- Govt. Compensation	130	150	112		
- Upstream	38	145	74		
- OMCs	(55)	140	37		
<b>Sharing (%)</b>					
- Govt. Compensation	115%	34%	50%		
- Upstream	33%	33%	33%		
- OMCs	-48%	32%	17%		

Source: Company data, Petroleum Planning &amp; Analysis Cell, Nomura estimates

**Fig. 17: Details of under-recovery sharing by OMCs for 2Q FY12F**

	2QFY11	1QFY12	2QFY12F
<b>Government compensation (INRbn)</b>			
IOC	72	82	61
BPCL	30	35	26
HPCL	28	33	24
<b>Total</b>	<b>130</b>	<b>150</b>	<b>112</b>
<b>Upstream support to OMCs (INRbn)</b>			
IOC	21	79	41
BPCL	8	34	17
HPCL	8	32	16
<b>Total</b>	<b>38</b>	<b>145</b>	<b>74</b>
<b>Net Under-recoveries of OMCs (INRbn)</b>			
IOC	(29)	77	21
BPCL	(13)	34	8
HPCL	(12)	31	9
<b>Total</b>	<b>(55)</b>	<b>140</b>	<b>37</b>

Source: Company data, Petroleum Planning &amp; Analysis Cell, Nomura estimates

We assume upstream companies will share one-third of total under-recoveries (after considering the impact of June 11 price hikes and duty cuts)

We assume government compensation to the extent of 50% of gross U/Rs in our 2Q FY12F estimates

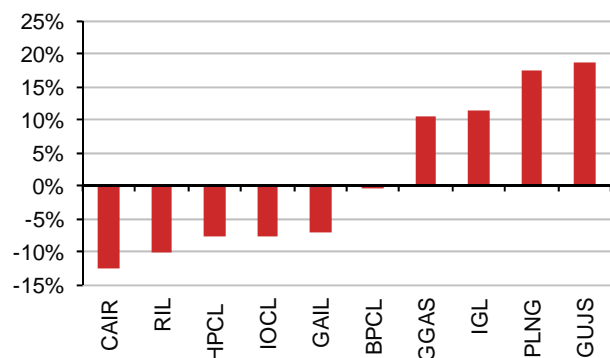
2Q FY12F earnings for oil marketing companies will critically depend on the government's decision on the subsidy-sharing mechanism

Oil marketing companies could report losses (similar to 1Q FY12), if the government reduces / delays compensation for 2Q

Inventory and foreign exchange losses are likely to impact 2Q results of OMCs

**Fig. 18: Absolute 3M stock performance**

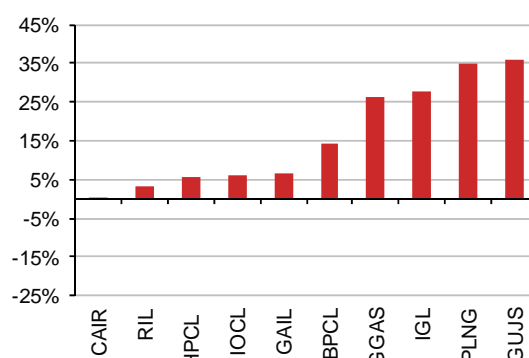
GUJS was the top performer, followed by PLNG



Note: Performance measured as of 30 Sept, 2011 close  
Source: Bloomberg, Nomura research

**Fig. 19: 3M performance relative to the Sensex**

Cairn India has been a market performer in 2Q



Note: Performance measured as of 30 Sept, 2011 close  
Source: Bloomberg, Nomura research

**Fig. 20: Key macro estimates for 2Q FY12F**

	2QFY11	1QFY12	2QFY12F	y-y	q-q
<b>Oil prices (US\$/bbl)</b>					
Brent	76.3	117.1	112.5	47%	-4%
WTI	76.0	102.5	89.5	18%	-13%
Dubai	74.1	110.6	107.0	44%	-3%
Bonny Light	78.0	119.8	115.4	48%	-4%
<b>Refining margins (US\$/bbl)</b>					
Singapore complex margins	4.2	8.6	9.0	112%	5%
Gasoline cracks	10.4	17.5	20.1	93%	15%
Diesel cracks	12.2	19.6	17.6	44%	-10%
Jet/Kero cracks	12.7	20.5	18.8	48%	-9%
Naphtha cracks	(1.6)	(2.1)	(2.8)	-76%	-32%
LPG cracks	(20.4)	(32.3)	(35.1)	-72%	-9%
HSFO cracks	(6.1)	(10.3)	(4.8)	21%	54%
<b>Petrochemical prices (US\$/MT)</b>					
HDPE	1,065	1,331	1,363	28%	2%
LDPE	1,288	1,614	1,565	22%	-3%
Propylene	1,133	1,534	1,538	36%	0%
Polypropylene	1,214	1,600	1,539	27%	-4%
Benzene	846	1,161	1,153	36%	-1%
Paraxylene	928	1,537	1,576	70%	3%
PTA	859	1,271	1,206	40%	-5%
PVC	917	1,227	1,098	20%	-10%
Butadiene	1,746	3,500	3,807	118%	9%
INR/USD exchange rate	46.5	44.7	45.8	-1%	2%
Subsidy burden (INR bn)	113	435	223	98%	-49%

Source: Bloomberg, Reuters, Datastream, Nomura estimates

Oil prices weakened in 2Q, but adjusted for rupee appreciation remained largely flat

Singapore complex margin continued to increase

Key-petchem prices moderated

The rupee depreciated sharply against the US dollar towards the end of the quarter

## 2Q FY12F earnings preview

### Reliance Industries (RIL IN, BUY, TP: INR1,060)

Fig. 21: RIL – 2Q FY12F results preview

	2QFY11	1QFY12	2QFY12F	y-y	q-q	Comments
<b>Financial summary (INR bn)</b>						
Revenue	574.8	810.2	810.0	41%	0%	We expect earnings to grow 1% q-q - increase in refining segment likely to be offset by a decline in petchem.
EBITDA	94.0	99.3	97.3	4%	-2%	
Net Profit	49.2	56.6	57.1	16%	1%	We expect GRM of US\$10.8/bbl (up 37% y-y, 5% q-q). Premium to Singapore complex likely to remain flat q-q at ~US\$1.8/bbl.
EPS (INR/sh)	15.1	17.3	17.4	16%	1%	
<b>Key Assumptions</b>						
GRM (US\$/bbl)	7.9	10.3	10.8	37%	5%	We estimate Pet-chem EBIT to decline ~8% q-q due to declines in key petchem prices and margins.
Singapore Margin (US\$/bbl)	4.2	8.6	9.0	112%	5%	
Premium over Singapore complex	3.7	1.7	1.8	-51%	6%	Post the RIL-BP deal approval in end-August, we expect RIL to account for a reduced 60% stake in the KG-D6 block from September.
Refining throughput (MMT)	16.9	17.0	17.2	2%	1%	
KG-D6 oil production (kbpd)	23.5	15.4	13.0	-45%	-16%	
KG-D6 gas production (mmscmd)	57.9	48.6	44.8	-23%	-8%	
PMT oil production(kbpd)	10.0	33.0	32.3	224%	-2%	
PMT gas production (mmscmd)	8.5	11.7	11.0	29%	-6%	

Source: Company data, Nomura estimates

### GAIL (GAIL IN, BUY, TP: INR565)

Fig. 22: GAIL - 2Q FY12F results preview

	2QFY11	1QFY12	2QFY12F	y-y	q-q	Comments
<b>Financial summary (INR bn)</b>						
Revenue	81.0	88.7	97.6	20%	10%	We estimate PAT at INR10.0bn (up 8% y-y, 2% q-q). We estimate gas transmission volumes (at 118mmscmd) to remain flat as higher LNG imports offset lower domestic gas production.
EBITDA	14.3	15.6	15.6	9%	0%	
Net Profit	9.2	9.8	10.0	8%	2%	
EPS (INR/sh)	7.3	7.8	7.9	8%	2%	
<b>Key Assumptions</b>						
Gas transmission vol (mmscmd)	115	117	118	3%	1%	We expect pet-chem sales volumes to increase 25% q-q on de-stocking of inventories accumulated in 1Q.
Petrochemical sales (KT)	107	88	110	3%	25%	
LPG & Other HC Sales (KT)	347	343	350	1%	2%	We assume upstream sharing at 1/3rd of under-recoveries (post price hikes and duty cuts) and GAIL sharing only for cooking fuels under-recoveries (13.7% of upstream share)
Avg transmission tariff (INR/mscm)	927	881	890	-4%	1%	
LPG realisation (US\$/MT)	671	976	895	33%	-8%	
Polymer realisation (INR/kg)	67	72	72	7%	0%	
Subsidy (INRbn)	3.5	6.8	5.7	65%	-16%	

Source: Company data, Nomura estimates

### Cairn India (CAIR IN, BUY, TP: INR350)

Fig. 23: CAIR - 2Q FY12F results preview

	2QFY11	1QFY12	2QFY12F	y-y	q-q	Comments
<b>Financial summary (INR bn)</b>						
Revenue	26.9	37.1	15.6	-42%	-58%	We estimate PAT at INR5.2bn - down 67% y-y, 81% q-q.
EBITDA	21.7	31.7	10.0	-54%	-69%	
Net Profit	15.9	27.3	5.2	-67%	-81%	We assume royalty as a cost-recoverable item. We also assume one-off provision of INR17.3bn to account for cost-recovery of royalty till 1QFY12.
EPS (INR/sh)	8.4	14.3	2.8	-67%	-81%	
<b>Key Assumptions</b>						
Total Gross Production (kbpd)	165	172	172	4%	0%	We assume 2Q Mangala production at 125kbpd and Cairn's total working interest production at 100kbpd (up 6% y-y).
Mangala Gross Production (kbpd)	116	125	125	8%	0%	
Cairn's working interest prod(kbpc)	94	100	100	6%	0%	
Avg. oil realisation (US\$/bbl)	69.5	105.9	100.5	45%	-5%	
Avg. gas realisation (US\$/mcf)	4.4	4.4	4.4	0%	0%	We assume 12% discount for waxy Mangala crude
Avg realisation (US\$/boe)	67.8	103.6	98.2	45%	-5%	

Source: Company data, Nomura estimates

## Petronet LNG (PLNG IN, BUY, TP: INR220)

Fig. 24: PLNG - 2Q FY12F results preview

	2QFY11	1QFY12	2QFY12F	y-y	q-q	Comments
<b>Financial summary (INR mn)</b>						
Revenue	30,567	45,609	54,918	80%	20%	We estimate PAT at INR2.2bn (up 71% y-y, down 13% q-q).
EBITDA	2,716	4,381	4,054	49%	-7%	
Net Profit	1,311	2,567	2,240	71%	-13%	We estimate 2Q volumes at 140TBTUs (2.75mmt) implying ~110% of capacity utilisation.
EPS (INR/sh)	1.7	3.4	3.0	71%	-13%	
<b>Key Assumptions</b>						
Sales volume (TBTUs)	99.5	114.7	122.0	23%	6%	We expect 8-9 spot/short-term LNG cargoes in 2Q.
Re-gasification services (TBTUs)	0.3	18.7	18.4	nm	-2%	
<b>Total (TBTUs)</b>	<b>99.8</b>	<b>133.4</b>	<b>140.3</b>	<b>41%</b>	<b>5%</b>	As spot LNG prices continue to strengthen in 2Q, we assume marketing margins on spot cargoes to moderate in 2Q from high levels of 1Q.
<b>Total (mmt)</b>	<b>1.96</b>	<b>2.62</b>	<b>2.75</b>	<b>41%</b>	<b>5%</b>	
Re-gas charges (INR/mmbtu)	31.8	33.4	33.4	5%	0%	
Gross Margin (INR/mmbtu)	30.4	37.3	32.0	5%	-14%	

Source: Company data, Nomura estimates

## Gujarat State Petronet (GUJS IN, BUY, TP: INR135)

Fig. 25: GUJS - 2Q FY12F results preview

	2QFY11	1QFY12	2QFY12F	y-y	q-q	Comments
<b>Financial summary (INR mn)</b>						
Revenue	2,530	2,843	2,779	10%	-2%	We estimate 2Q PAT at INR1.3bn.
EBITDA	2,336	2,652	2,554	9%	-4%	
Net Profit	915	1,374	1,257	37%	-8%	We expect flat transmission volumes at 36mmcmd.
EPS (INR/sh)	1.6	2.4	2.2	37%	-8%	
<b>Key Assumptions</b>						
Transmission vol (mmscm)	3,250	3,345	3,307	2%	-1%	We expect average tariff realisation to remain largely flat q-q at INR810/mscm.
Transmission vol (mmcmd)	35	37	36	2%	-2%	
Average tariff (INR/mscm)	771	803	810	5%	1%	

Source: Company data, Nomura estimates

## Indraprastha Gas (IGL IN, BUY, TP: INR550)

Fig. 26: IGL - 2Q FY12F results preview

	2QFY11	1QFY12	2QFY12F	y-y	q-q	Comments
<b>Financial summary (INR mn)</b>						
Revenue	4,451	5,364	6,175	39%	15%	We estimate 28% y-y and 6% q-q PAT growth.
EBITDA	1,230	1,573	1,680	37%	7%	
Net Profit	663	801	850	28%	6%	
EPS (INR/sh)	4.7	5.7	6.1	28%	6%	
<b>Key Assumptions</b>						
CNG Sales (mn kgs)	155.6	161.3	177.3	14%	10%	We expect 14% y-y growth in CNG volumes and sharp ~80% y-y growth in PNG volumes
PNG Sales (mn scm)	42.0	64.8	75.0	79%	16%	
Total sales (mmcmd)	2.7	3.1	3.4	28%	10%	We expect per unit EBITDA margins (EBITDA/scm) to moderate in 2Q from high levels of INR5.6/scm in 1Q due to increasing share and prices of LNG.
Blended realisation (INR/scm)	18.1	19.0	19.7	9%	3%	
Average gas price (INR/scm)	10.4	10.7	11.7	13%	9%	
Blended gross margins (INR/scm)	7.7	8.4	8.0	4%	-4%	
Blended EBITDA (INR/scm)	5.0	5.6	5.4	7%	-4%	

Source: Company data, Nomura estimates



## Gujarat Gas (GGAS IN, NEUTRAL, TP: INR415)

Fig. 27: GGAS - 3Q CY11F results preview

	3QCY10	2QCY11	3QCY11F	y-y	q-q	Comments
<b>Financial summary (INR mn)</b>						
Revenue	4,985	5,766	6,344	27%	10%	We estimate 3QCY11 PAT at INR815mn.
EBITDA	903	1,403	1,230	36%	-12%	
Net Profit	564	963	815	45%	-15%	
EPS (INR/sh)	4.4	7.5	6.3	45%	-15%	
<b>Key Assumptions</b>						
Sales volume (mscm)	316.0	302.0	319.8	1%	6%	Gas sales at 3.5mmscmd.
Sales volume (mmscmd)	3.4	3.3	3.5	1%	5%	
Blended net realisation (INR/scm)	15.8	19.1	19.8	26%	4%	We expect gross margins to moderate in 2Q due to sharp increase in spot LNG prices and rupee depreciation apart from delay in price hikes (Sept 11 - impact of only 1M).
Average gas cost (INR/scm)	12.0	13.2	14.8	23%	12%	
Blended gross margins(INR/scm)	3.7	5.9	5.0	34%	-15%	

Source: Company data, Nomura estimates

## Indian Oil (IOCL IN, NEUTRAL, TP: INR365)

Fig. 28: IOCL - 2Q FY12F results preview

	2QFY11	1QFY12	2QFY12F	y-y	q-q	Comments
<b>Financial summary (INR bn)</b>						
Revenue	769.7	1007.2	1046.5	36%	4%	We estimate gross under-recovery of INR 123bn, and assume 1/3rd upstream discount and 50% govt compensation
EBITDA	65.2	-24.2	31.0	-53%	nm	
Net Profit	52.9	-37.2	17.5	-67%	nm	
EPS (INR/sh)	21.8	-15.3	7.2	-67%	nm	
<b>Key Assumptions</b>						
Refinery thrupt (MMT)	12.1	14.3	13.5	11%	-6%	Sharing mechanism remains a big unknown and lower compensation from Government could lead to reported losses in 2QFY12, similar to 1QFY12.
Market sales (MMT)	16.9	19.3	18.2	8%	-5%	
Pipeline thrupt (MMT)	15.5	19.3	18.5	19%	-4%	
Gross U/Rs (INRbn)	64.1	238.1	122.6	91%	-48%	Inventory losses (due to q-q decline in oil prices) and foreign exchange losses (due to significant rupee depreciation) could pose downside risks to our estimates
Upstream discount (INR bn)	21.4	79.3	40.9	91%	-48%	
Govt. compensation (INR bn)	72.2	82.0	61.3	-15%	-25%	
Net U/Rs (INRbn)	-29.5	76.7	20.4	nm	-73%	

Source: Company data, Nomura estimates

## BPCL (BPCL IN, NEUTRAL, TP: INR620)

Fig. 29: BPCL - 2Q FY12F results preview

	2QFY11	1QFY12	2QFY12F	y-y	q-q	Comments
<b>Financial summary (INR bn)</b>						
Revenue	354.2	461.2	473.3	34%	3%	We estimate gross under-recovery of INR 51bn, and assume 1/3rd upstream discount and 50% govt compensation
EBITDA	24.7	-21.9	7.3	-71%	nm	
Net Profit	21.4	-25.6	3.7	-83%	nm	
EPS (INR/sh)	59.3	-70.9	10.1	-83%	nm	
<b>Key Assumptions</b>						
Refinery thrupt (MMT)	5.6	5.2	5.6	0%	8%	Sharing mechanism remains a big unknown and lower compensation from the government could lead to reported losses in 2QFY12, similar to 1QFY12.
Market sales (MMT)	7.5	8.5	8.1	9%	-5%	
Gross U/Rs (INRbn)	24.6	102.9	51.4	109%	-50%	Inventory losses (due to q-q decline in oil prices) and foreign exchange losses (due to significant rupee depreciation) could pose downside risks to our estimates.
Upstream discount (INR bn)	8.2	34.1	17.1	109%	-50%	
Govt. compensation (INR bn)	29.5	35.2	25.7	-13%	-27%	
Net U/Rs (INRbn)	-13.1	33.6	8.6	nm	-74%	

Source: Company data, Nomura estimates

**HPCL (HPCL IN, NEUTRAL, TP: INR380)****Fig. 30: HPCL - 2Q FY12F results preview**

	2QFY11	1QFY12	2QFY12F	y-y	q-q	Comments
<b>Financial summary (INR bn)</b>						
Revenue	307.1	408.0	435.7	42%	7%	We estimate gross under-recovery of INR 49bn, and assume 1/3rd upstream discount and 50% govt compensation
EBITDA	23.2	-26.9	5.5	-76%	nm	
Net Profit	20.9	-30.8	1.9	-91%	nm	
EPS (INR/sh)	61.7	-91.0	5.7	-91%	nm	
<b>Key Assumptions</b>						
Refinery thruput (MMT)	3.0	4.0	4.2	39%	6%	Sharing mechanism remains a big unknown and lower compensation from Government could lead to reported losses in 2QFY12, similar to 1QFY12.
Market sales (MMT)	6.0	7.3	6.9	14%	-5%	
Pipeline thruput (MMT)	3.0	3.4	3.1	2%	-9%	
Gross U/Rs (INRbn)	24.2	95.0	49.4	104%	-48%	Inventory losses (due to q-q decline in oil prices) and foreign exchange losses (due to significant rupee depreciation) could pose downside risks to our estimates .
Upstream discount (INR bn)	8.1	31.7	16.5	104%	-48%	
Govt. compensation (INR bn)	28.3	32.8	24.7	-13%	-25%	
Net U/Rs (INRbn)	-12.2	30.6	8.2	nm	-73%	

Source: Company data, Nomura estimates

# Appendix A-1

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Cairn India	CAIR IN	INR 277	11-10-2011	Buy	Not rated	
GAIL	GAIL IN	INR 417	11-10-2011	Buy	Not rated	
Gujarat Gas	GGAS IN	INR 420	11-10-2011	Neutral	Not rated	
Gujarat State Petronet	GUJS IN	INR 104	11-10-2011	Buy	Not rated	
Hindustan Petroleum Corporation	HPCL IN	INR 360	11-10-2011	Neutral	Not rated	
Indraprastha Gas	IGL IN	INR 426	11-10-2011	Buy	Not rated	
Indian Oil Corporation	IOCL IN	INR 309	11-10-2011	Neutral	Not rated	
Petronet LNG	PLNG IN	INR 158	11-10-2011	Buy	Not rated	
Reliance Industries	RIL IN	INR 827	11-10-2011	Buy	Not rated	

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Issuer name	Previous Rating	Date of change
Bharat Petroleum Corporation	Buy	12-5-2011
Cairn India	Reduce	27-8-2009
GAIL	Reduce	27-8-2009
Gujarat Gas	Reduce	05-5-2011
Gujarat State Petronet	Not Rated	11-5-2010
Hindustan Petroleum Corporation	Reduce	12-5-2011
Indraprastha Gas	Not Rated	11-5-2010
Indian Oil Corporation	Reduce	12-5-2011
Petronet LNG	Not Rated	11-5-2010
Reliance Industries	Neutral	05-4-2010

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