



Company
ONGC

Also Noteworthy
CFTC Crude Oil Positions

Top Call

Oil & Natural Gas Corp (Buy)— One-Time Adjustments Distort Core Performance

Consolidated FY06 EPS stood at Rs108.0. We retain our FY07 EPS estimate at Rs130.9 and FY08 at Rs137.7. ONGC remains one of the cheapest E&P stocks with dividend yield of 4.5% acting as downside support. While more clarity on subsidy discounts should emerge in the next few days, we believe that the worst is already priced in. **Rahul Singh +91-22-5631-9863**

Also Noteworthy Today

CFTC Crude Oil Positions—Crude traded over US\$70 again, but net-long retreat continued

CL1 rose 1.42% last week to close at US\$70.87. NYMEX futures curve is US\$69.8 for '06 and US\$73.3 for '07. 1H06TD, WTI average is ~US\$67.29, above our 1H06 US\$66.67/bbl forecast. **Thomas Hilboldt, +852-2501-2729**

Key Market Data

Markets & Currency			
26-Jun	Close	1 Day	YTD
BSE Sensex	10042	-3.56	6.9
BSE 100	5100	-3.73	3.0
S&P CNX Nifty	2943	-3.51	3.8
BSE 500	3844	-3.84	1.3
Rs/US\$	46.39	-0.59	-3.0
Institutional Activity			
(US\$ Mils.)	22-Jun	MTD	YTD
FIIs			
Purchase	294.7	6,362.7	54,213.8
Sale	338.6	5,962.8	51,490.7
Net	(43.9)	399.9	2,723.1
Local MFs			
Purchase	108.4	1,174.2	15,649.6
Sale	90.4	1,622.0	13,022.5
Net	18.0	(447.8)	2,627.1
Total - Net	(25.9)	(47.9)	5,350.3

Source: Bloomberg

Major Gainers & Losers*

Gainers	%	Losers	%
HDFC BANK LT	2.7	SUZLONENERGY	12.4
SHIPPING COR	1.9	HIND.ZINC	11.1
DREDG CORP I	1.7	SIEMENS LTD	10.9
GLAXOSMI CON	1.4	STERLITE IN	10.0
ASIAN PAINTS	1.2	MAHARASH SEA	9.9
J&K BANK	0.9	INGERSOL RND	9.5
PROCTOR GAMB	0.9	JINDAL STEEL	9.2
SUN TV	0.4	BIRLA CORPOR	9.0
APOLLO TYRE.	0.2	ALSTOM PROJE	8.8

Source: BSE. *BSE-Group 'A'

See page Appendix A-1 for Analyst Certification and important disclosures.

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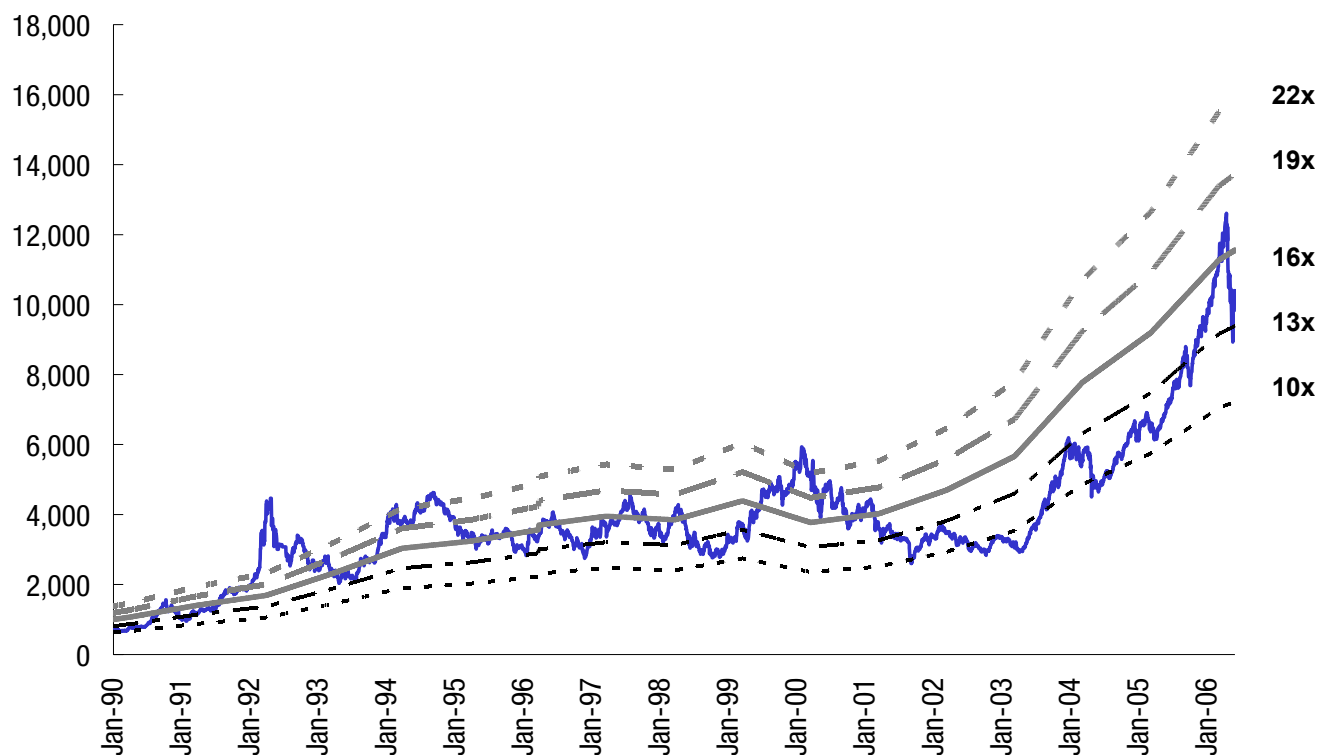
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BSE- Sensex 12-Month Forward PE Band Chart



Source: Bloomberg, Citigroup Investment Research estimates

India News

Economics

- **Inflation** – CPI (UNME) for May 06 shows inflation rising to 5.8% (ET)

Industry

- **Telecom** – DoT to raise Rs10bn from 3G spectrum licenses (FE)
- **Oil and Gas** – Panel lowers transport tariff for KG gas supply (FE)
- **Realty** – Mutual funds get SEBI approval to invest in realty (ET)

Company

- **ONGC** – Has made 5 gas discoveries in the KG basin off Andhra coast (BS)
- **BHEL**- has received an ADB contract worth Rs550m (BS)
- **VSNL** – Q4 Net profit down 72% (BS)
- **Dabur** – to demerge its foods division into a separate company (BS)
- **TVS Motor**- FY06 net profit down by 15% (FE)

Fresh Money Ideas

The Citigroup Asia Fresh Money Ideas list contains the highest conviction stock ideas of our equity research analysts. Fresh Money Ideas has been designed to be highly focused (a maximum of 10 stocks), to include buys and sells and to be of higher turnover than a regular model portfolio. The Fresh Money Buy list is maintained by Citigroup's Asia Pacific Equity Research Investment Committee in conjunction with our analysts.

Name	Bloomberg Code	Rating	Price 25-Jun-2006	Target Price	ETR (%)	Prospective			Our Reasons to Buy/Sell
						P/E	P/BV	EPS Growth %	
Buys									
Guangzhou Inv	123 HK	Buy/H	HK\$1.33	HK\$1.91	46	10.7	0.8	93.8	Highest discount to NAV among Tony Tsang's China coverage
Tata Tea	TT IN	Buy/L	Rs754.90	Rs960.00	29	13.0	2.3	8.6	Princy Singh turns positive on consumers; pick for smaller market cap exposure
Cathay Red	2501 TT	Buy/M	NT\$23.90	NT\$30.00	27	29.3	1.9	14.5	Under-researched Taiwan small-cap; Andre Chang notes liquidity at US\$3.6m/day
Hindustan Lever	HLVR IN	Buy/L	Rs221.55	Rs253.00	17	22.9	20.0	22.6	Princy Singh turns positive on consumers; pick for big cap exposure
Esprit Holdings	330 HK	Buy/L	HK\$59.25	HK\$65.80	16	15.0	7.5	27.3	Peter Williamson likes defensives qualities, visibility
Sells									
Vision Grande	2300 HK	Sell/M	HK\$7.45	HK\$6.80	-7	14.2	2.4	22.9	Clement Wong only Sell on Street; re-rating unwarranted
Lenovo Group	992 HK	Sell/M	HK\$2.53	HK\$2.20	-11	20.9	1.9	611.6	Kirk Yang sees operational benefits only several Qs away; Weak on quant view
ITC	ITC IN	Sell/L	Rs171.05	Rs92.00		26.3	6.1	7.5	Princy Singh one of 2 Sells vs. 13 Buys; valuations still stretched

Additions: None; **Deletions:** None

L = Low Risk, M = Medium Risk, H = High Risk

ETR = Estimated Total Return (Expected share price return + expected dividend yield)

dataCentral is Citigroup Investment Research's proprietary database that includes Citigroup Investment Research estimates, data from company reports, and feeds from Reuters and Datastream.

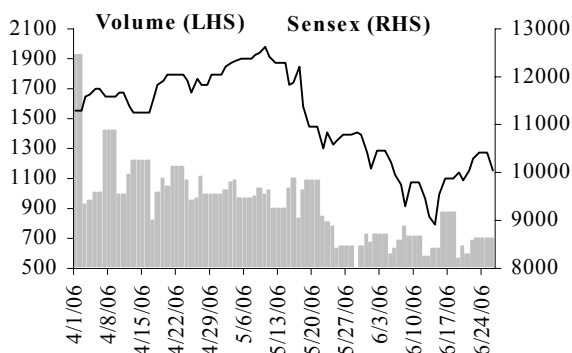


Market Snapshot

Performance (%)	1-Day	1-Week	1-Mth	3-Mth	6-Mth	12-Mth	YTD	Mkt Volume	(Rs Mils.)
Absolute								BSE	38,400
BSE Sensex	(3.5)	0.4	(7.5)	(9.4)	10.5	40.5	6.9	NSE	61,070
CIR India Index	(3.2)	1.0	(9.4)	(13.1)	1.8	27.9	(1.1)	Top Volume* (Rs Mils.)	
Aluminum	(6.2)	0.4	(13.9)	(14.2)	9.4	39.8	5.7	STEEL AUTHOR	587.8
Auto	(4.2)	(3.2)	(10.8)	(13.6)	12.0	65.4	9.8	TATA STL	2246.7
Banks	(2.9)	(0.4)	(11.6)	(16.6)	(9.7)	10.9	(12.4)	UTI BANK	1062.3
Capital Goods	(3.1)	(2.2)	(21.1)	(27.4)	12.1	77.4	8.1	RELIANCE	3274.2
Cement	(5.2)	(1.8)	(7.9)	(5.4)	43.4	90.4	38.6	ISPAT INDUST	39.4
Consumer	(2.7)	(2.0)	(10.1)	(18.1)	5.8	30.9	1.9	HINDALCO IN	339.4
Hotels	(2.8)	2.5	(10.2)	(17.7)	10.4	64.6	5.3	INDIA CEMENT	315.0
IT Services	(2.9)	2.2	(3.6)	(7.7)	(2.8)	22.7	(5.2)	RELIANCE	985.4
Media	(3.8)	(0.5)	(10.5)	(6.6)	44.0	44.5	40.9	CAPITAL LTD.	
Oil & Gas	(2.5)	3.2	(11.4)	(19.1)	(13.8)	4.2	(14.2)	HMT LTD	138.6
Petrochemical	(3.1)	5.0	2.6	22.3	17.7	50.0	10.2	REL PET	123.4
Pharmaceutical	(2.7)	(0.2)	(10.8)	(15.8)	7.2	13.2	3.8	Top Gainers* Close (Rs) Chg (%)	
Power	(5.1)	(0.9)	(15.6)	(27.8)	(10.3)	(10.6)	(14.0)	HDFC BANK LT	761 2.7
Steel	(4.1)	6.1	(11.2)	(8.3)	40.3	41.8	36.2	SHIPPING COR	141 1.9
Telecom Equipment	(3.3)	16.4	(18.2)	(9.0)	(5.2)	33.6	(14.6)	DREDG CORP I	533 1.7
Telecom	(3.4)	(0.6)	(7.4)	(10.5)	7.0	48.4	2.9	GLAXOSMI CON	510 1.4
Relative to BSE-30 Sensex								ASIAN PAINTS	577 1.2
CIR India Index	0.3	0.5	(1.9)	(3.7)	(8.7)	(12.6)	(8.0)	J&K BANK	386 0.9
Aluminum	(2.8)	(0.0)	(6.4)	(4.9)	(1.1)	(0.7)	(1.1)	PROCTOR GAMB	812 0.9
Auto	(0.7)	(3.6)	(3.3)	(4.3)	1.5	24.9	3.0	SUN TV	978 0.4
Banks	0.6	(0.8)	(4.1)	(7.3)	(20.3)	(29.6)	(19.2)	APOLLO TYRE.	239 0.2
Capital Goods	0.3	(2.7)	(13.6)	(18.0)	1.6	36.9	1.2	Top Losers* Close (Rs) Chg (-%)	
Cement	(1.7)	(2.2)	(0.5)	4.0	32.8	49.9	31.7	SUZLONENERGY	815 12.4
Consumer	0.8	(2.5)	(2.6)	(8.8)	(4.8)	(9.5)	(4.9)	HIND.ZINC	520 11.1
Hotels	0.6	2.1	(2.7)	(8.3)	(0.1)	24.1	(1.5)	SIEMENS LTD	810 10.9
IT Services	0.6	1.7	3.9	1.6	(13.3)	(17.8)	(12.0)	STERLITE IN	365 10.0
Media	(0.3)	(0.9)	(3.0)	2.8	33.5	4.1	34.0	MAHARASH SEA	289 9.9
Oil & Gas	0.9	2.8	(3.9)	(9.7)	(24.3)	(36.3)	(21.1)	INGERSOL RND	243 9.5
Petrochemical	0.4	4.5	10.1	31.7	7.2	9.5	3.3	JINDAL STEEL	1,305 9.2
Pharmaceutical	0.8	(0.7)	(3.3)	(6.5)	(3.4)	(27.3)	(3.0)	BIRLA CORPOR	222 9.0
Power	(1.7)	(1.3)	(8.1)	(18.4)	(20.8)	(51.1)	(20.8)	ALSTOM PROJE	226 8.8
Steel	(0.7)	5.6	(3.7)	1.1	29.7	1.3	29.4	CENTU TEXTILES	335 8.7
Telecom Equipment	0.2	16.0	(10.7)	0.3	(15.7)	(6.9)	(21.4)	*BSE-Group A	
Telecom	0.1	(1.0)	0.1	(1.1)	(3.5)	8.0	(4.0)	Source: The Economic Times, www.bseindia.com.	

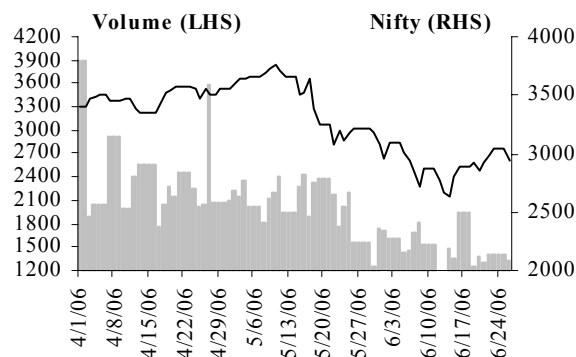
Source: Citigroup Investment Research estimates

BSE-30 – Performance & Volume (US\$ Mils.)



Source: Bloomberg, Citigroup Investment Research estimates

NIFTY – Performance & Volume (US\$ Mils.)



Source: Bloomberg, Citigroup Investment Research estimates

Company Flash

26 June 2006 | 6 pages

Oil & Natural Gas Corp (ONGC.BO)

One-Time Adjustments Distort Core Performance

- High D&A depresses profitability** — ONGC's standalone FY06 EPS at Rs96.7 and 4Q earnings (pre-extraordinary) at Rs17.1 were below expectations as high depreciation and amortization spoiled strong operating quarter. Change in depreciation policy on certain pipeline assets (Rs4.3bn) and higher depletion on account of revaluation of producing properties (Rs4.5bn) were the main reasons.
- Net crude realization at US\$44.7/bbl** — ONGC incurred a subsidy discount of US\$19.5/bbl during 4Q (US\$17.3/bbl for full year) with net realization standing at US\$44.7/bbl (US\$42.3/bbl for full year). Gas realizations (see table overleaf) were up on a yoy basis, reflecting the partial deregulation of gas prices during the year.
- Year-end cost adjustments depressed operating profits**— Gross sales and statutory levies were on the lower side due to non-inclusion of VAT though it did not impact profits. The 4Q operating profits were, however, affected by higher other expenditure (up Rs4.7bn) and employee arrears (Rs2.0bn).
- Retain FY07-08 estimates, Buy** —Consolidated FY06 EPS stood at Rs108.0. We retain our FY07 EPS estimate at Rs130.9 and FY08 at Rs137.7. ONGC remains one of the cheapest E&P stocks with dividend yield of 4.5% acting as downside support. While more clarity on subsidy discounts should emerge in the next few days, we believe that the worst is already priced in. Retain Buy with a target price of Rs1300.

Buy/Medium Risk	1M
Price (26 Jun 06)	Rs1,098.00
Target price	Rs1,300.00
Expected share price return	18.4%
Expected dividend yield	5.0%
Expected total return	23.4%
Market Cap	Rs1,565,655M US\$34,021M

Figure 1. ONGC – Quarterly Results Trend (Rs million)

Rs m	Mar'05	Jun'05	Sep'05	Dec'05	Mar'06	yoy
Net sales	121,489	108,697	126,798	124,761	118,984	-2.1%
Operating profit	63,773	61,051	71,553	73,611	67,254	5.5%
Interest	(102)	(22)	(55)	(70)	(323)	217.1%
Depreciation	(17,584)	(13,517)	(19,364)	(20,118)	(31,574)	79.6%
Other income	4,931	2,986	8,635	5,619	6,299	27.7%
Profit before tax	51,017	50,498	60,770	59,042	41,656	-18.3%
Net profit	37,977	33,189	41,383	38,878	24,454	-35.6%
Extra-ordinary					6,405	
Reported Net Profit	37,977	33,189	41,383	38,878	30,859	-18.7%

Source: Company Reports

See page 4 for Analyst Certification and important disclosures.

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Industry Flash

26 June 2006 | 5 pages

CFTC Crude Oil Positions

Crude traded over US\$70 again, but net-long retreat continued

WTI Crude 2006E – CL1 rose 1.42% last week to close at US\$70.87. NYMEX futures curve is US\$69.8 for '06 and US\$73.3 for '07. 1H06TD, WTI average is ~US\$67.29, above our 1H06 US\$66.67/bbl forecast.

New CIR WTI Forecasts – We raised our WTI Forecasts on 9 June 06 to US\$66 in '06, US\$60 in '07E and US\$55 in '08E, US\$50 in '09E; LT US\$45; while Consensus WTI is US\$65+ in '06 and US\$62 in '07.

Crude futures and options (F&O) – Combined Open Interest (OI) is 1.560m, down 137k wow (Fig 5). Combined net large speculative F&O's are net long 45k, down 8k wow, or down 86k since the first week of May (Fig 1 and 10).

What's new – US inventories of crude oil, gasoline, heating oil and diesel were above the 5-year average for the week ended Jun 16, US DOE says. A tropical storm could develop north of the Bahamas, US National Hurricane Center says.

Events – Oilfield service workers in Norway, the world's third largest oil exporter, may start a strike this week. South American energy ministers will meet on Tue to discuss plans for a pipeline to ship Venezuelan natural gas across the continent.

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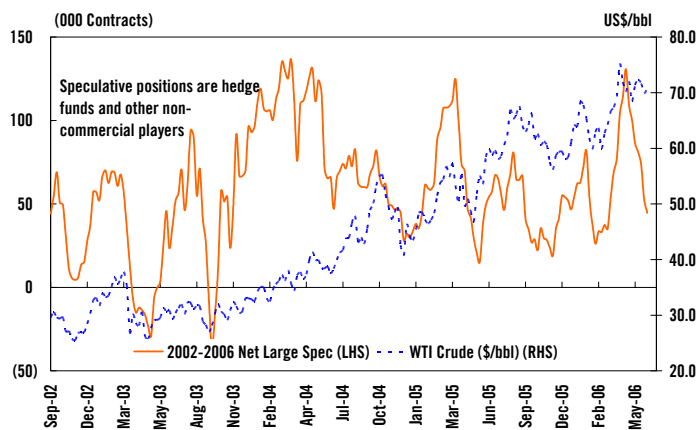
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Figure 1. Large Non commercial Crude Oil Futures and Options Combined vs. WTI Price, Sep02-Jun06 (Thousand Contracts and US Dollars per Barrel)



Source: CFTC, Bloomberg and Citigroup Investment Research estimates

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Data current as of 5 May 2006

	Buy	Hold	Sell
Citigroup Investment Research Global Fundamental Coverage (2722)	41%	41%	17%
<i>% of companies in each rating category that are investment banking clients</i>	45%	42%	33%

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Citigroup Investment Research's stock recommendations include a risk rating and an investment rating.

Risk ratings, which take into account both price volatility and fundamental criteria, are: Low (L), Medium (M), High (H), and Speculative (S).

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