

OIL AND GAS MONTHLY

MAY



Monthly Highlights

* Exploration & Production (E&P)

Crude prices averaged USD 63.5/bbl in May down 1.1% compared to USD 64.2/bbl in April.

* Refining

Indian simple GRMs increased further to USD 8.2/bbl from USD 7.2/bbl in April 2007 due to 31% and 16% increase in Gasoline-WTI and Diesel-WTI spread respectively. The spreads had increased due to low gasoline inventories in the US and have started receding.

* Marketing

Gasoline under-recoveries have increased to INR 5.4/ltr from INR 4.4/ltr and diesel under-recoveries have increased to INR 3.6/ltr from INR 3.5/ltr. Under-recoveries have increased due to rising product spreads despite appreciation of the rupee.

News during the month

- HPCL declared Q4FY07 result with net profit of INR 5.5 bn down 72% Y-o-Y. (May 29)
- IGL declared Q4FY07 result with net profit of INR 0.4 bn up 35.6% Y-o-Y. (May 28)
- IOCL declared Q4FY07 result with net profit of INR 16.1 bn down 60% Y-o-Y (May 28)
- BPCL declared Q4FY07 result with net profit of INR 6.7 bn down 60% Y-o-Y. (May 24)
- Cairn pipeline approval differed due to possibility of a 7.5 mmtpa refinery in Rajasthan (May 17)

Research

- May 30: Oil Marketing Companies- risk of under-recovery support lingers; result update Q4FY07; downgrade HPCL, BPCL & IOCL to 'ACCUMULATE'
- May 30: Indraprastha Gas - fundamentals intact; result update Q4FY07; maintain 'BUY'
- May 17: Indraprastha Gas - stable growth story; company update; maintain 'BUY'
- May 14: Chennai Petroleum: refining margins rebound; result update Q4FY07; upgrade to 'BUY'

Oil & Gas Snapshot

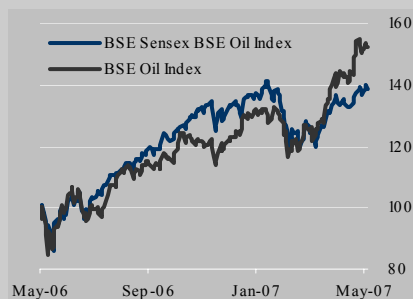
	May-07	Apr-07	May-06	YoY %	MoM %
WTI (USD/bbl)	63.5	64.2	70.9	(10.5)	(1.1)
Indian Crude (USD/bbl)	66.0	65.4	67.3	(1.9)	1.0
Light-Heavy Spread (Usd/bbl)	3.9	5.7	10.8	(63.6)	(30.8)
GRMs:					
Indian Simple (USD/bbl)	8.2	7.2	7.1	15.4	14.6
Indian Complex (USD/bbl)	11.9	10.3	9.2	29.4	15.2
Marketing Under-recovery*					
MS (INR/ltr)	5.4	4.4	7.6	(29.8)	22.0
HSD (INR/ltr)	3.6	3.5	8.0	(54.7)	2.1
LPG (INR/cyl)	166.1	159.6	119.6	38.9	4.1
SKO (INR/ltr)	13.5	12.9	15.8	(14.7)	4.8

*Negative number implies over-recovery

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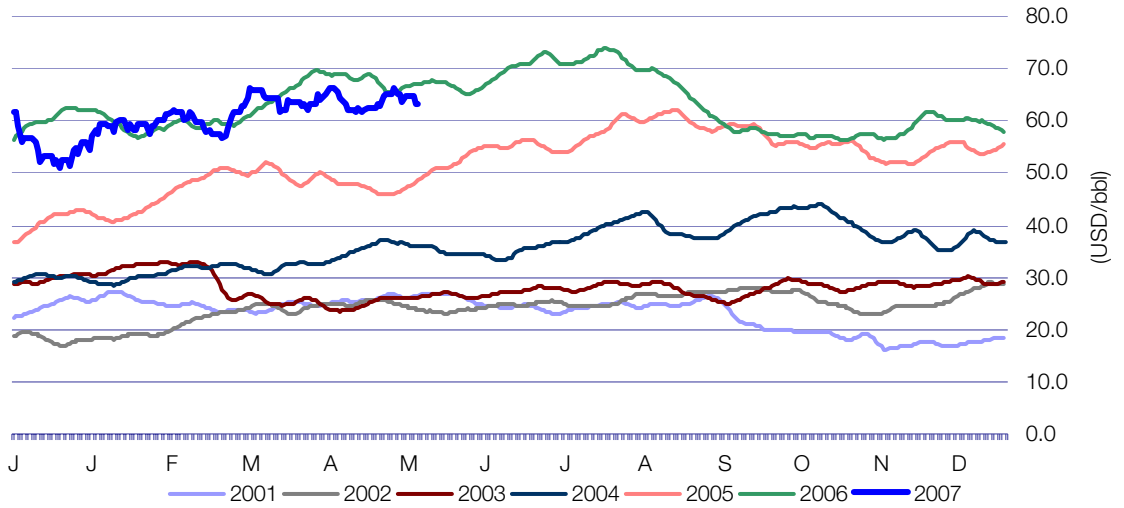
Monthly stock Performance

Company	MoM returns (%)
Reliance Petro	24.1
Indraprastha Gas	19.2
Petronet LNG	17.0
Chennai Petro.	16.6
RIL	12.8
BPCL	7.9
HPCL	7.6
Cairn	7.1
IOC	6.0
GAIL	2.4
ONGC	0.3

Exploration and Production

WTI crude price

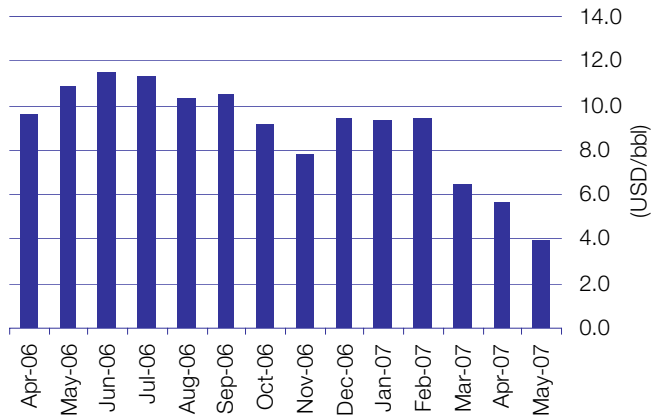
WTI Crude prices averaged USD 63.5/bbl in May 2007 compared to USD 64.2/bbl in April 2007.



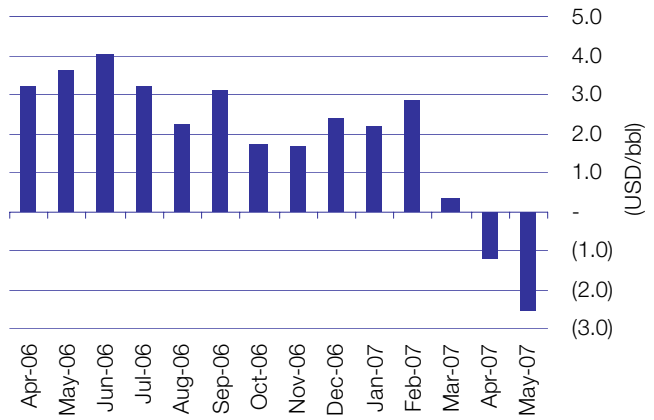
Source: Bloomberg, Edelweiss research

Crude price spreads: The spread between WTI and Indian basket continued to remain negative due to (1) higher increase in Brent prices and (2) the spread between WTI and Dubai & Oman crude also turning negative in May. (Brent, Dubai and Oman constitute the Indian Crude basket). Spread between WTI and Brent averaged USD 4.6/bbl compared to USD 3.7/bbl in April.

WTI - Arab Heavy spread



WTI - Indian basket spread



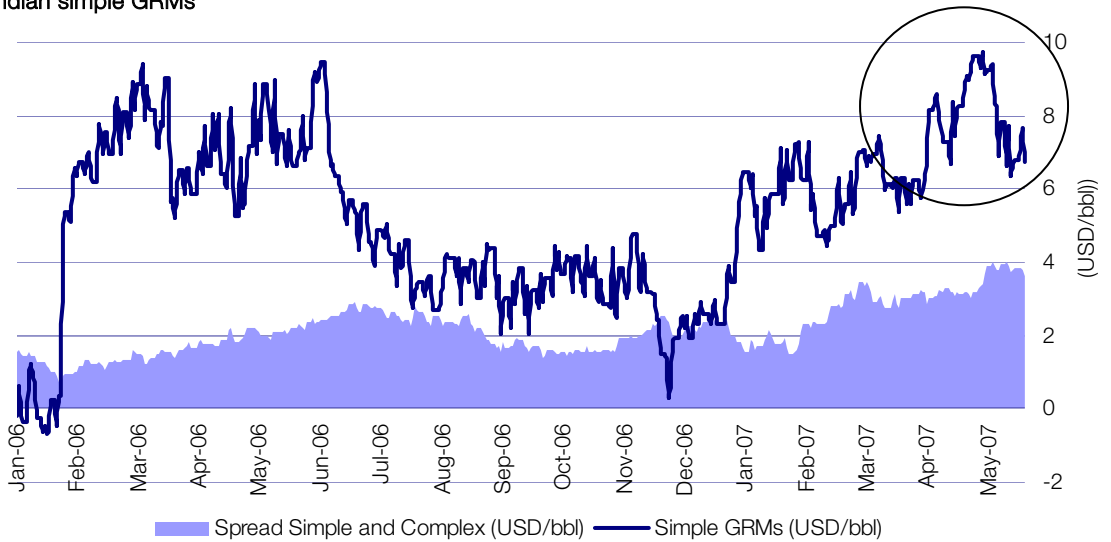
Source: Bloomberg, Edelweiss research

Refining:

Indian simple GRMs

Refining margins sustained high levels in May with Indian GRMs averaging USD 8.2/bbl compared to USD 7.2/bbl in April

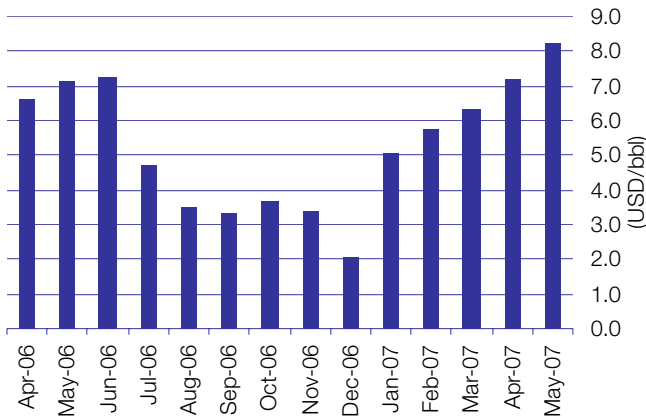
Complex and Simple refining spread increased to USD 3.6/bbl from USD 3.1/bbl due to widening Gasoline and Naphtha spreads



Source: Bloomberg, Edelweiss research

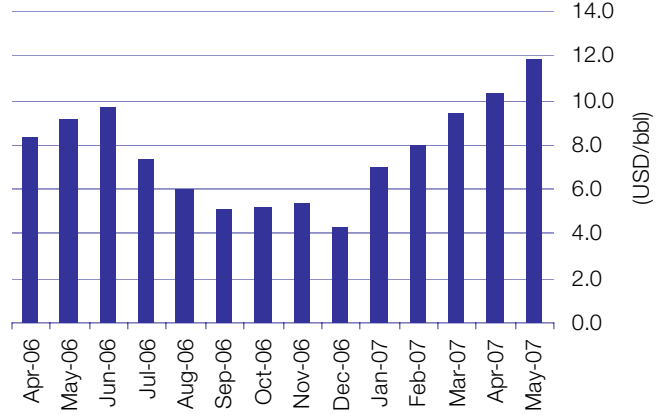
Monthly refining margins:

Indian simple GRMs



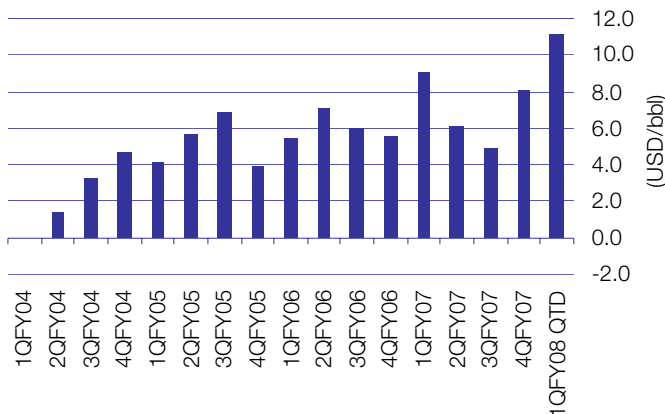
Source: Bloomberg, Edelweiss research

Indian complex GRMs



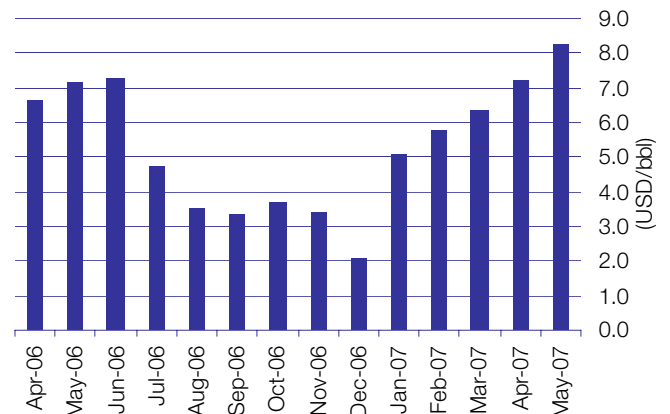
Quarterly Refining margins: Refining margins have sustained the high levels in May with the QTD average GRMs increasing to USD 7.7/bbl compared to USD 5.7/bbl in 4QFY07.

Indian simple GRMs



Source: Bloomberg, Edelweiss research

Indian complex GRMs

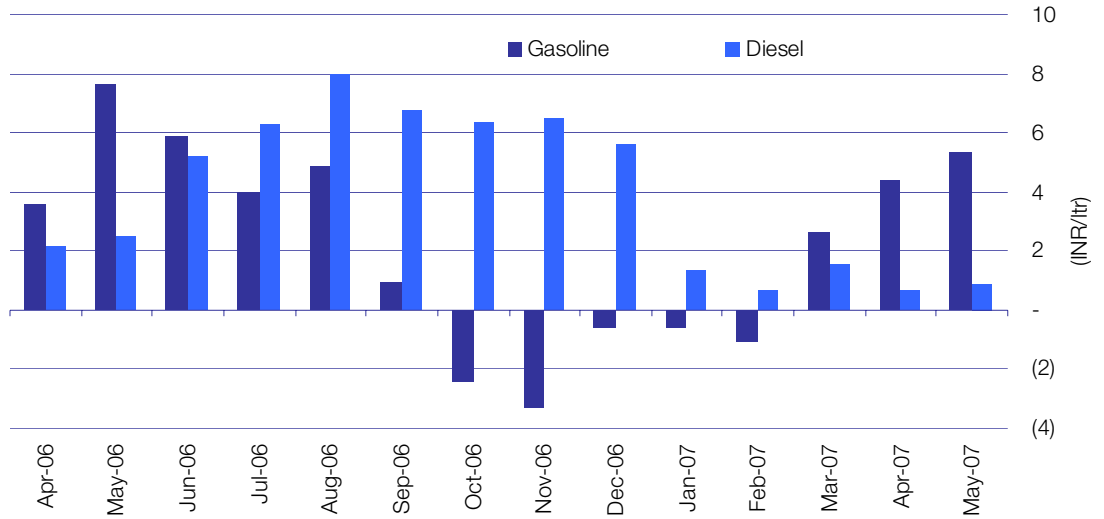


Marketing

Under-recoveries for auto fuels have increased in May due to increasing gasoline and diesel premium over Crude price. Though WTI crude prices decreased by 1%, gasoline and diesel spreads increased by 31% and 16% in May leading to increased under-recoveries. (Gasoline-WTI spread of USD 25.5/bbl compared to USD 19.4/bbl in April and Diesel-WTI spread of USD 15.9/bbl compared to USD 13.8/bbl in April)

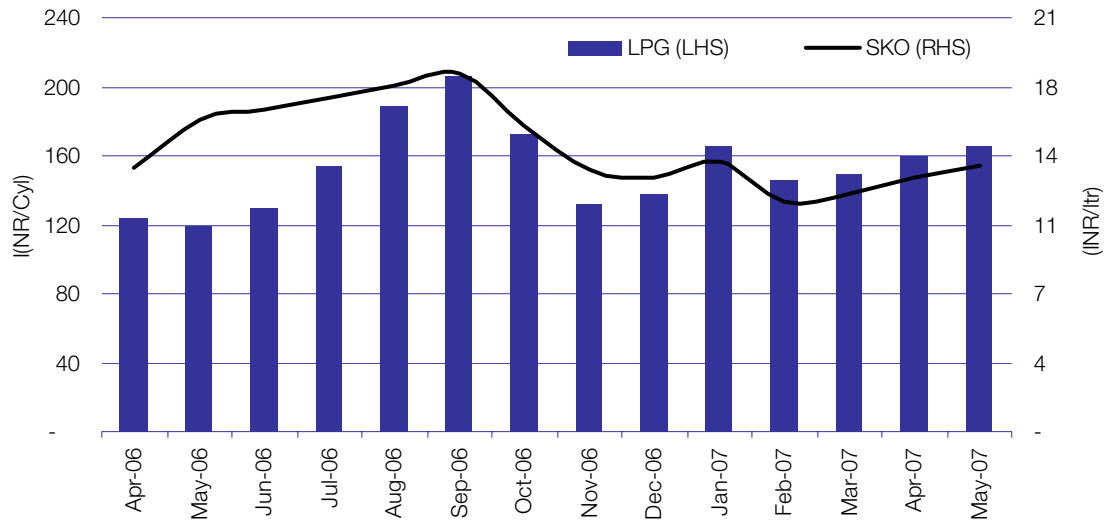
Under-recovery in auto fuels (Gasoline and Diesel)

Under-recoveries for Gasoline and Diesel have increased to INR 5.4/ltr and INR 3.6/ltr.



Under-recovery in domestic fuels (LPG and SKO)

LPG under-recovery at INR 166/cyl and SKO under-recovery at INR 13.5/ltr



Source: Bloomberg, Edelweiss research

Oil and Gas Valuation

Company	Rating	Price	P/E		EV/ EBITDA (x)	
			FY08	FY09	FY08	FY09
Exploration and Production						
ONGC	Accumulate	898	11.6	12.6	5.8	6.1
Chinese Median			12.9	12.7	5.8	5.4
Asian Median			12.9	12.7	5.8	5.4
International Median			13.5	12.8	4.9	4.6
Refining and Marketing						
BPCL	Accumulate	348	6.9	5.8	4.3	3.5
HPCL	Accumulate	279	7.8	5.3	5.9	3.7
IOCL	Accumulate	447	7.8	7.3	5.3	4.8
RIL	Accumulate	1731	23.9	22.7	15.0	13.9
CPCL	Buy	245	7.2	7.1	4.6	4.1
Asian Median			9.7	10.2	7.4	7.5
US and Europe Median			12.3	11.8	6.3	5.8
International Median			10.7	11.7	7.1	6.7
Petrochemicals						
RIL	Accumulate	1731	23.9	22.7	15.0	13.9
Finolex Industries	Reduce	82	13.6	9.6	8.4	6.4
International Median			13.3	13.2	6.4	6.4

Source: Bloomberg, Edelweiss research

Note : EV/EBITDA for E&P companies denotes EV/EBITDAX

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RATING INTERPRETATION

Buy	Expected to appreciate more than 20% over a 12-month period	Reduce	Expected to depreciate up to 10% over a 12-month period
Accumulate	Expected to appreciate up to 20% over a 12-month period	Sell	Expected to depreciate more than 10% over a 12-month period
Trading Buy	Expected to appreciate more than 10% over a 45-day period	Trading Sell	Expected to depreciate more than 10% over a 45-day period

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