

## OIL &amp; GAS MONTHLY

APRIL



## Monthly highlights

\* **Exploration & Production (E&P)**

Crude prices averaged USD 64.2/bbl in April up 6.2% compared to USD 60.4/bbl in March.

\* **Refining**

Indian simple GRMs improved to USD 7.2/bbl from USD 6.4/bbl in March 2007 mainly due to increase in Gasoline and Diesel spreads in April by USD 1.8/bbl.

\* **Marketing**

Gasoline under-recoveries have increased to INR 4.4/ltr from INR 2.6/ltr and Diesel under-recoveries have increased to INR 3.5/ltr from INR 2.2/ltr. Under-recoveries have increased despite appreciation of rupee, due to rising international product prices.

## News during the month

- RIL reported 4QFY07 results with net profit of 28.5 bn up 14% Y-o-Y and 2% Q-o-Q (April 26)
- Petronet LNG declared 4QFY07 results with net profit of INR 1.06 bn up 60% Y-o-Y and 25% Q-o-Q (April 16)
- RIL, GAIL to implement national gas grid together (April 4)
- RIL signs pact with GSPL and GSPC for Gas transportation (April 2)

## Research

- April 28: Reliance Industries: Earnings growth muted; result update Q4FY07; downgrade to Accumulate
- April 3: Oil & Gas - good refining quarter; result preview.

## Oil &amp; Gas Snapshot

	Apr-07	Mar-07	Apr-06	YoY %	MoM %
WTI (USD/bbl)	64.2	60.4	69.8	(8.0)	6.2
Indian crude (USD/bbl)	65.4	60.1	66.5	(1.7)	8.8
Light-Heavy spread (Usd/bbl)	5.7	6.5	9.6	(40.7)	(12.4)
<b>GRMs:</b>					
Indian Simple (USD/bbl)	7.2	6.4	6.7	8.0	13.1
Indian Complex (USD/bbl)	10.3	9.4	8.3	23.7	9.6
<b>Marketing Under-recovery*</b>					
MS (INR/ltr)	4.4	2.6	3.6	23.2	68.9
HSD (INR/ltr)	3.5	2.2	6.1	(42.2)	61.7
LPG (INR/cyl)	159.6	149.4	124.0	28.7	6.8
SKO (INR/ltr)	12.9	12.1	13.4	(3.7)	6.4

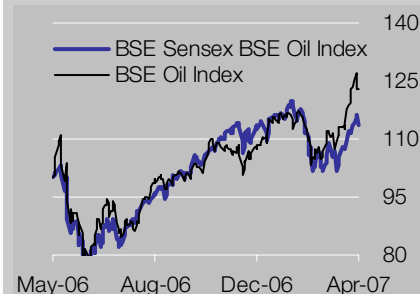
Source: Bloomberg, Edelweiss research

\*Negative number implies over-recovery

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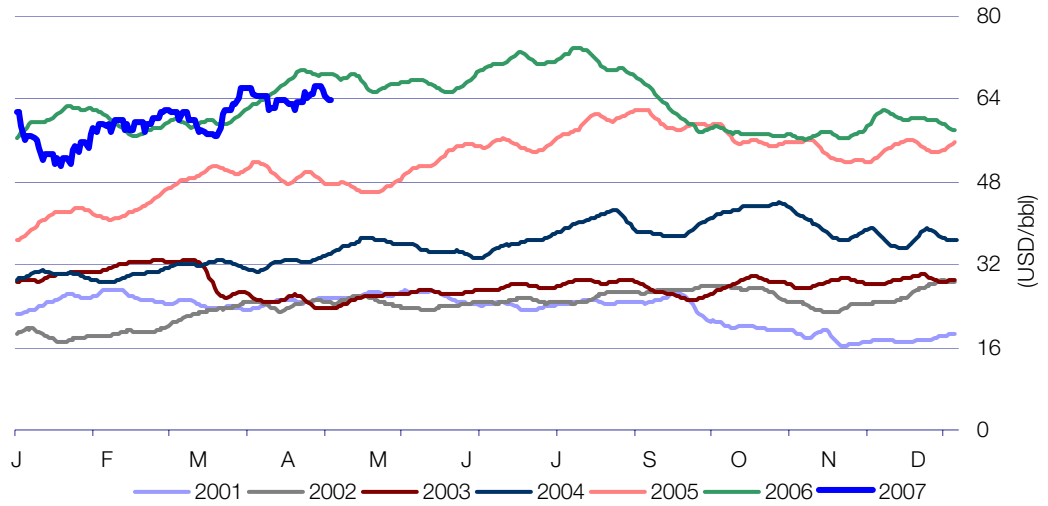
## Monthly stock performance

Company	MoM returns (%)
RIL	14.0
Chennai Petro.	13.8
Reliance Petro	13.2
GAIL	11.8
BPCL	10.3
IOC	10.2
HPCL	9.5
Petronet LNG	8.1
ONGC	3.8
Cairn	2.4
Indraprastha Gas	(0.6)

Exploration and production

WTI crude price

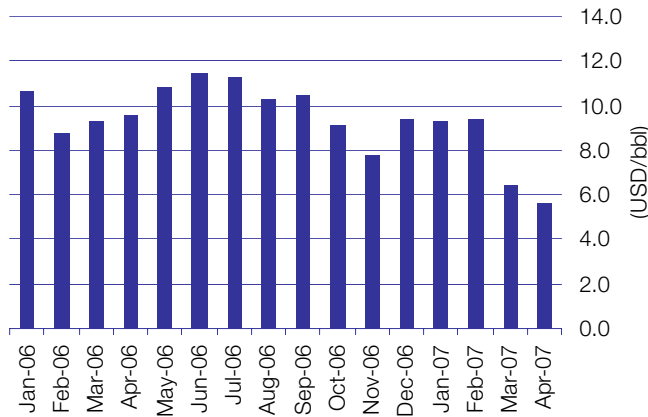
WTI Crude prices averaged USD 64.2/bbl in April 2007 compared to USD 60.4/bbl in March 2007.



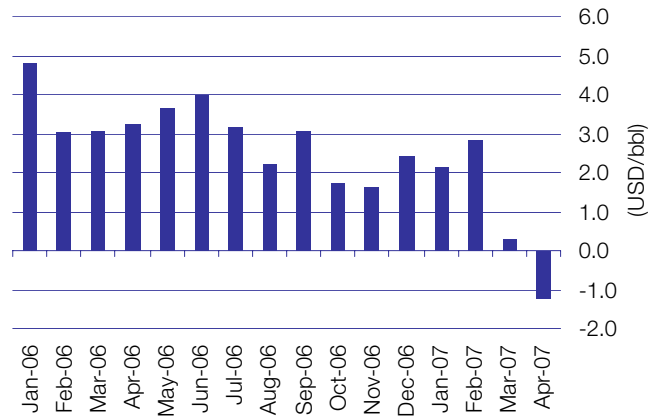
Source: Bloomberg, Edelweiss research

**Crude price spreads:** The spread between WTI and Indian basket have turned negative due to higher increase in Brent prices (a component of Indian crude basket) in April. The spread between Brent and WTI have increased to USD 3.7/bbl from USD 1.8/bbl in March.

WTI - Arab heavy spread



WTI - Indian basket spread



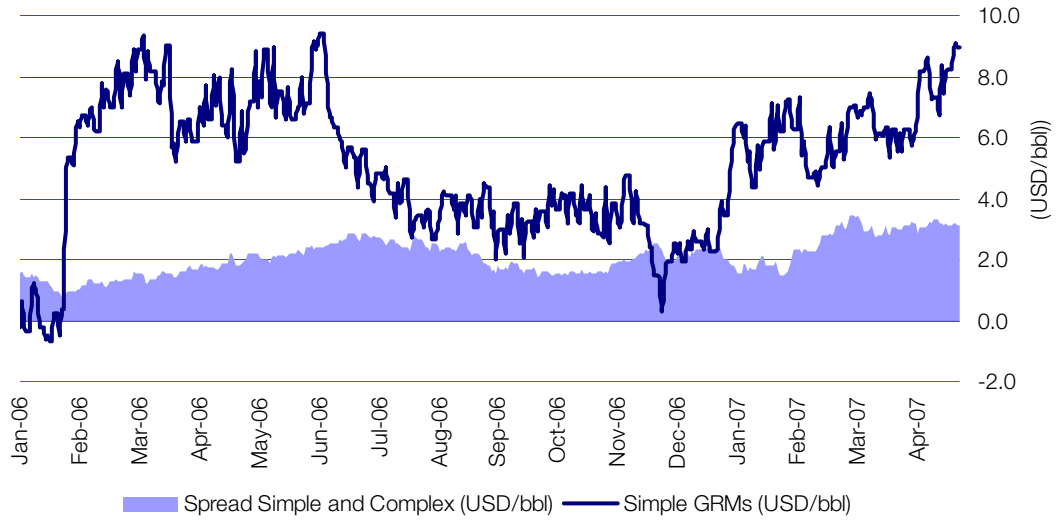
Source: Bloomberg, Edelweiss research

Refining

Indian simple GRMs

Refining margins have improved in April to USD 7.2/bbl from USD 6.4/bbl in March.

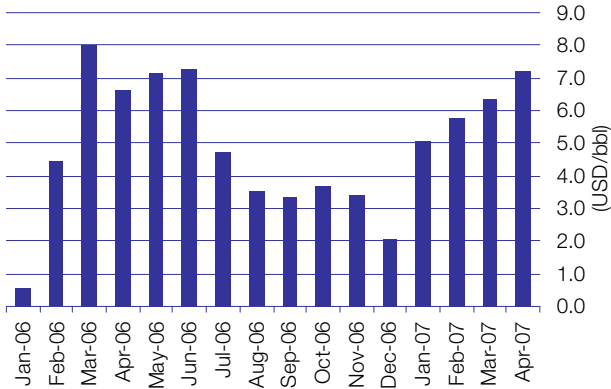
The high spread of USD 3.0/bbl between Simple and Complex GRMs was sustained in April due to increasing Gasoline-WTI spread



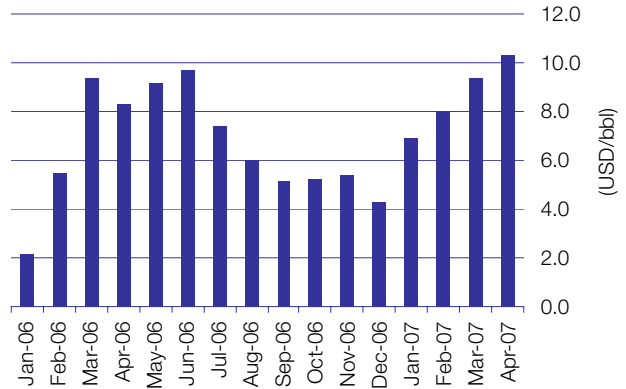
Source: Bloomberg, Edelweiss research

Monthly refining margins

Indian simple GRMs



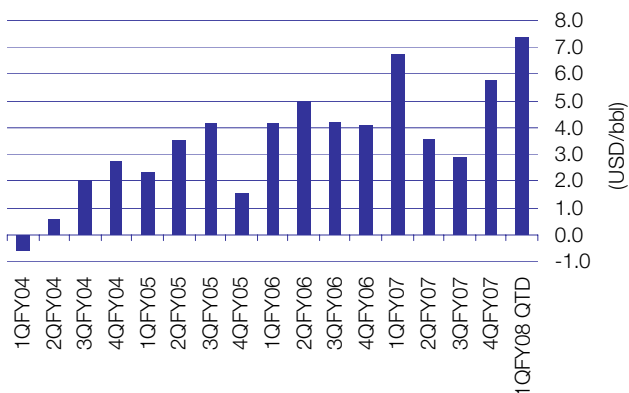
Indian complex GRMs



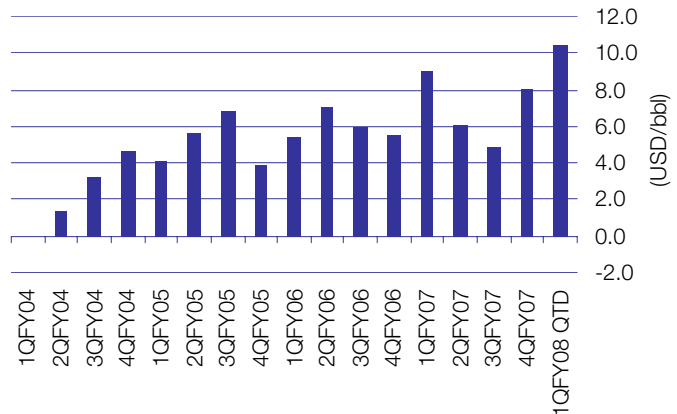
Source: Bloomberg, Edelweiss research

**Quarterly refining margins:** Refining companies have outperformed the oil and gas universe in April due to increasing regional refining margins. Current refining margins are near the highs witnessed in June 2006.

Indian simple GRMs



Indian complex GRMs

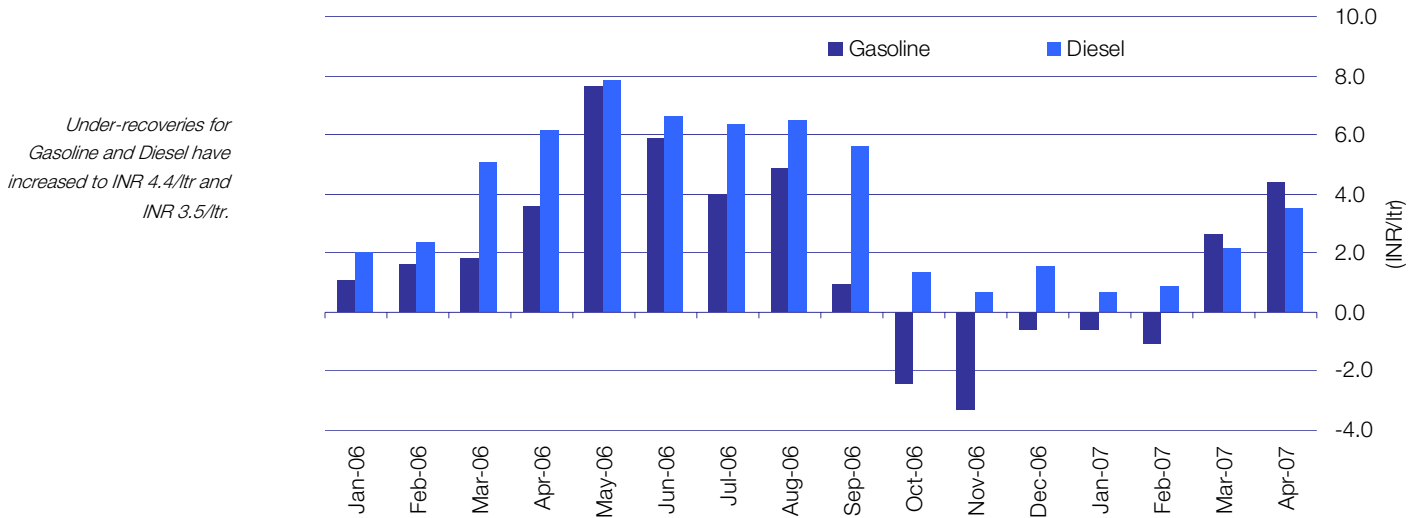


Source: Bloomberg, Edelweiss research

### Marketing

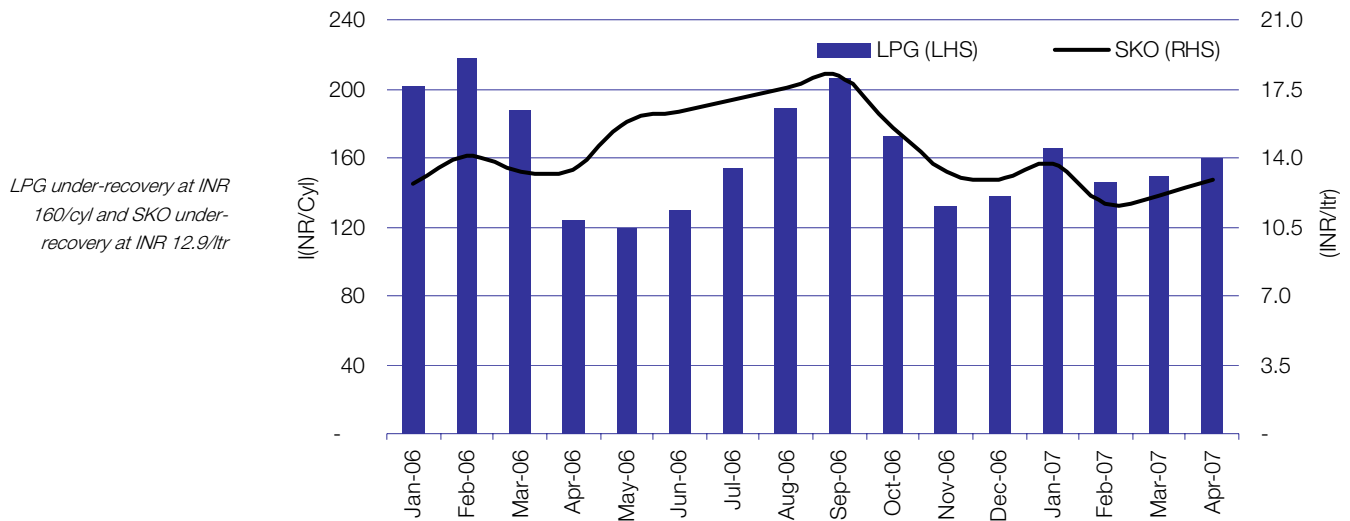
Under-recoveries for Auto and Domestic fuels have increased significantly over the past 2 months (March-April 2007) in spite of rupee appreciation of 7% mainly due to 11% increase in international crude prices during this period.

#### Under-recovery in auto fuels (Gasoline and Diesel):



Source: Bloomberg, Edelweiss research

#### Under-recovery in domestic fuels (LPG and SKO)



Source: Bloomberg, Edelweiss research

## Oil and gas valuation

Company	Rating	Price	P/E		EV/ EBITDA (x)	
			FY08	FY09	FY08	FY09
<b>Exploration and Production</b>						
ONGC	Accumulate	930	11.67	12.66	5.84	6.13
Chinese Median			10.97	10.43	5.76	5.44
Asian Median			10.97	10.43	5.09	5.06
International Median			12.09	11.78	4.70	4.47
<b>Refining and Marketing</b>						
BPCL	Buy	345	6.52	4.84	4.02	3.27
HPCL	Buy	276	7.13	4.74	4.46	2.76
IOCL	Buy	453	9.97	9.16	6.04	5.63
RIL	Accumulate	1,592	21.68	21.33	12.83	11.88
CPCL	Accumulate	213	7.20	8.20	4.51	4.63
Asian Median			9.67	10.15	7.72	7.82
US and Europe Median			12.03	11.80	6.26	5.76
International Median			10.97	11.24	6.91	6.23
<b>Petrochemicals</b>						
Finolex Industries	Reduce	75	12.12	8.52	7.68	5.83
International Median			11.34	12.30	6.36	6.46

Source: Edelweiss research

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

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*unless otherwise specified*

### RATING INTERPRETATION

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

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