28 January 2013 | 30 pages

Exploration & Production (Citi)
Asia Pacific | India

Indian Upstream & Downstream

Reforms, Rewards, and Risks

- **Of small steps & giant leaps —** On the back of the govt's recent decision allowing OMCs to raise diesel prices in 'small steps' with the intention of moving to mkt-based pricing (and doing away with under-recoveries of the order of ~Rs960bn/yr on it), the entire state-owned oil pack has witnessed a material re-rating, with stocks having run up ~15-25% over the last one month. While some of these 'small steps' will require giant leaps of faith on the part of investors going forward given uncertainties around: 1) subsidy sharing; 2) OMCs' ability to continue hiking diesel prices given the experience with petrol; and 3) introduction of export parity pricing for fuels, we believe the speed with which the gov't has initiated these reforms as well as magnitude of the (incremental) upsides are too material to ignore. We would, however, recommend being more selective with the stocks, and prefer ONGC.
- **Subsidy sharing a key unknown —** The largest unknown could be the subsidy-sharing formula. The govt's commitment to fiscal discipline could make it a disproportionate beneficiary of lower subsidies at the expense of upstream. So while implementation of diesel hikes could reduce under-recoveries to ~Rs1.2/0.9tr by FY14/15E, we assume a base case of the upstream share staying at $56/bbl.
- **ONGC: long-term opportunity but near-term headwinds —** While the key near-term overhang for ONGC is the likelihood of higher FY13E upstream subsidy share (-Rs12/sh one-time impact at 50% share), which tempted us to revisit our Buy rating following the stock rally, we believe potentially there are material upsides thereafter from lower diesel losses (+Rs20/sh recurring by FY15E) and gains from higher APM gas prices (+Rs5/sh recurring if hiked to ~$6). Hence, despite near-term headwinds, we see upside over the next 1-2 yrs. Maintain Buy with a probability-wtd Rs377 TP.
- **BPCL: downgrade to Neutral —** While we have hitherto found greater comfort in BPCL amongst OMCs given its robust upstream portfolio, we believe a stellar run (+27% 12-mth outperformance) has priced in a substantial portion of the positives. BPCL also has relatively lower leverage to reforms than HPCL. E&P upsides, however, remain possible, given strong prospectivity in Mozambique and Brazil, which precludes us from downgrading to Sell, and we recommend staying invested. Our TP of Rs454 is based on core P/B (1.1x) given continued uncertainties around timeliness of gov't compensation, which make earnings-based multiples futile.
- **HPCL: still offers risked upside —** While we prefer BPCL's more well-rounded business profile, stock-wise HPCL is likely to be a bigger beneficiary of lower under-recoveries, given its low refining/mktg mix of ~55% (vs. ~75% for BPCL). We raise our TP to Rs407 and also apply a P/B valtn, albeit ascribing a lower 0.9x multiple.

Figure 1. Valuation Summary

	Rating (Old)	Rating (New)	TP (Old)	TP (New)	FY14E P/E	FY14E P/B	Div yld FY14E
ONGC	1	1	309	377	10.9	1.7	3.0%
BPCL	1	2	430	454	26.8	0.9*	1.3%
HPCL	1	1	335	407	12.8	0.7*	2.3%

Source: Citi Research estimates *Core P/B

Saurabh Handa
+91-22-6631-9858
saurabh.handa@citi.com

Graham Cunningham
+852-2501-2744
graham.cunningham@citi.com

Abhishek Sahoo
+91-22-6631-9856
abhishek.sahoo@citi.com

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

Reforms, Rewards, and Risks

Subsidy-sharing assumptions

- **What has changed –** As highlighted in our 17 Jan note, *Hiking the Stakes - Gov't Moves Towards Deregulating Diesel*, the gov't has recently taken significant steps towards reducing fuel under-recoveries. OMCs have been authorised to raise diesel prices in 'small steps' (cRs0.5/ltr per month) and the oil minister has reportedly (*source: FE*) said that, in around two years, diesel will sell at market rates (i.e., OMCs will no longer make under-recoveries on the fuel). The gov't has already allowed OMCs to sell diesel to bulk buyers (railways, industries etc. which account for ~17% of diesel sales; see Figure 10) at market prices. Simultaneously, as an offset to consumers, the gov't has increased the cap on subsidised LPG cylinders per household to nine per year (from six earlier).

- **What are the implications? –** We believe that if the gov't allows OMCs to continue with the monthly diesel hikes (the first hike of Rs0.45/ltr was carried out immediately post the announcement), under-recoveries on diesel (which currently accounts for ~60% of total losses) could halve in FY14E to ~Rs480bn, (~Rs960bn in FY13E) and fall sharply to ~Rs180bn by FY15E (as OMCs move to full market rates by 2HFY15E). This could pull down total under-recoveries from ~Rs1.7tr in FY13E to ~Rs1.2tr by FY14E and further to ~Rs0.9tr in FY15E, even as LPG and kerosene losses remain high (given the govt's partial rollback of the subsidised LPG cap to nine per household per year).

Figure 2. Under-recovery break-up (product-wise)

Year to 31-Mar	FY11		FY12		FY13E		FY14E		FY15E	
	Rs bn	% of total	Rs bn	% of total	Rs bn	% of total	Rs bn	% of total	Rs bn	% of total
Petrol	20	3%	0	0%	0	0%	0	0%	0	0%
Diesel	345	44%	812	59%	959	57%	484	41%	183	20%
LPG	220	28%	300	22%	391	23%	370	31%	388	43%
Kerosene	197	25%	273	20%	323	19%	326	28%	329	37%
Total	**782**	**100%**	**1385**	**100%**	**1673**	**100%**	**1180**	**100%**	**900**	**100%**

Source: Company, Citi Research estimates

Figure 3. Key pricing assumptions

Year to 31-Mar	FY11	FY12	FY13E	FY14E	FY15E
Crude prices (US$/bbl)	87	115	110	110	110
INR/USD	45.6	47.9	54.0	54.0	54.0
Diesel loss (Rs/ltr)	3.4	8.8	10.4	4.9	0.7
LPG loss (Rs/cyl)	248	322	395	395	395
Kerosene loss (Rs/ltr)	16.6	25.8	30.1	30.1	30.1

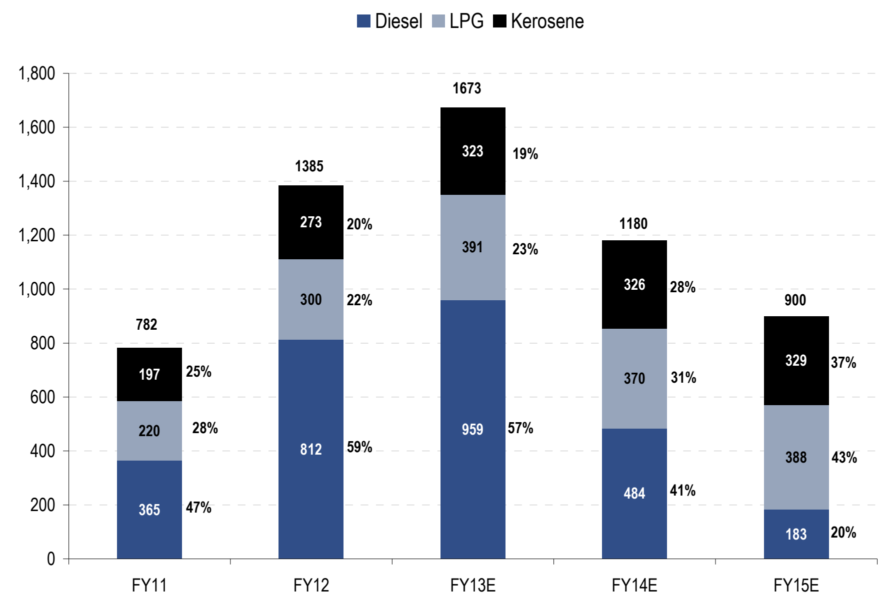
Source: Company, Citi Research estimates

Figure 4. Subsidy-sharing mechanism (Rs bn)

Year ending 31-Mar	FY10	FY11	FY12	FY13E	FY14E	FY15E
Gross under-recoveries	**461**	**782**	**1,385**	**1,673**	**1,180**	**900**
Less: upstream sharing	144	303	550	609	640	686
% of total	*31%*	*39%*	*40%*	*36%*	*54%*	*76%*
Less: oil bonds/cash	260	410	835	1,065	540	215
% of total	*56%*	*52%*	*60%*	*64%*	*46%*	*24%*
Net under (over)-recoveries	56	69	-	-	-	-

Source: Company, Citi Research estimates

Figure 5. Under-recoveries by fuel (Rs bn)



Source: Company, Citi Research estimates

- **Our assumptions –** In our base case, we assume that:
  - OMCs are allowed to gradually do away with losses on diesel, hiking prices by Rs0.5/ltr every month.
  - Upstream continues to provide discounts of US$56/bbl of their production to OMCs (though we factor in probability-weighted upsides to this scenario in stock TPs). Thus, on a relative basis, gov't share of cash subsidies falls to ~46%/24% by FY14/15E (given that the recent moves have come in the backdrop of increased focus on fiscal deficit control) while upstream share rises to ~54/76% (from ~35% in 1HFY13).

Figure 6. Subsidy shares for gov't-owned upstream firms

Year ending 31-Mar		FY11	FY12	FY13E	FY14E	FY15E
By upstream companies	Rs bn	303	550	609	640	686
-ONGC	Rs bn	249	445	492	523	567
% of upstream	*%*	*82.2%*	*80.8%*	*80.9%*	*81.8%*	*82.7%*
-Smaller upstream peer	Rs bn	33	74	84	85	86
% of upstream	*%*	*10.9%*	*13.4%*	*13.8%*	*13.3%*	*12.6%*
-GAIL	Rs bn	21	32	32	31	32
% of upstream	*%*	*7.0%*	*5.8%*	*5.3%*	*4.9%*	*4.7%*

Source: Company, Citi Research estimates

  - As a sensitivity, however, we illustrate the potential upside to upstream net realisations and earnings in case their subsidy share remains unchanged at the FY12 level of ~40%. The FY15E gov't share at Rs540bn in this scenario would still, on an absolute level, be ~35% below its FY12 share of Rs835bn.

Figure 7. Upstream metrics – Base case and upside from subsidy sharing (at US$110 crude)

Year to 31-Mar	Base Case		Upside Case	
	FY14E	**FY15E**	**FY14E**	**FY15E**
Gov't share (Rs bn)	540	215	708	540
% sharing	*46%*	*24%*	*60%*	*60%*
Upstream subsidy share (Rs bn)	Based on US$56/bbl of production		Based on upstream share at 40%	
- ONGC	523	567	382	292
- Smaller upstream peer	85	86	64	49
- GAIL	31	32	26	20
- Total	640	686	472	360
% sharing	*54%*	*76%*	*40%*	*40%*
Net realisation (US$/bbl)				
- ONGC	47.3	48.1	64.6	78.9
- Smaller upstream peer	53.9	53.9	67.7	77.9
EPS (Rs/sh)				
- ONGC	**30.6**	**34.8**	**40.4**	**54.4**
% upside			*33%*	*57%*

Source: Citi Research estimates

- **Upsides from lower crude –** We currently assume that crude prices and the exchange rate remain around current levels of ~US$110/bbl and 54 INR/US$ respectively. We have deliberately assumed crude prices to remain at current levels to focus purely on the benefits accruing from the govt's announcements. A decline in crude prices could be an added positive for the companies. If crude prices were to fall to ~US$100/bbl over FY14/15E (our global commodity price forecasts call for crude falling to these levels by 2HCY13), under-recoveries could drop even further to ~Rs800/710bn, largely led by diesel (diesel currently breaks even at ~US$88/bbl of crude). In the event, it would be more likely that the gov't shares some of these benefits with upstream, lest net realizations fall to extremely unremunerative levels.

Figure 8. Downside to under-recoveries with crude at US$100/bbl (Rs bn)

Year to 31-Mar	FY13E	FY14E		FY15E	
Crude price (US$/bbl)	110	110	100	110	100
Diesel	959	484	224	183	117
LPG	391	370	287	388	301
Kerosene	323	326	289	329	292
Gross under-recoveries	**1,673**	**1,180**	**800**	**900**	**710**

Source: Company, Citi Research estimates

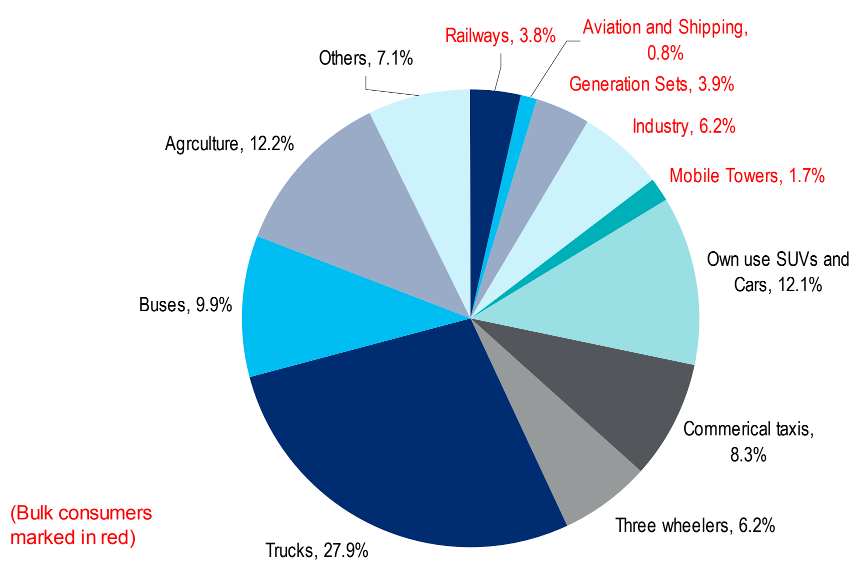
Figure 9. Upstream sensitivity if crude falls to US$100/bbl

	If upstream subsidy share stays at US$56/bbl		If upstream subsidy share is at 40%	
	FY14E	FY15E	FY14E	FY15E
Subsidy shares (Rs bn)				
- ONGC	523	567	259	230
- Smaller upstream peer	85	86	43	38
Net realisation (US$/bbl)				
- ONGC	37.4	38.1	69.8	75.8
- Smaller upstream peer	43.9	43.9	71.0	74.4
EPS (Rs/sh)				
- ONGC	**22.6**	**25.9**	**41.2**	**50.1**
% upside/downside vs. current base case assumptions	*-26%*	*-26%*	*35%*	*44%*

Source: Citi Research estimates

- **Bulk diesel sales deregulated –** In a move that could help contain under-recoveries on diesel, the gov't has now deregulated bulk sales of the fuel. Bulk buyers currently account for ~17% of total diesel sales in India. While OMCs have recently raised concerns around diversion of retail sales to bulk users through leakages at the pump level, diesel under-recoveries should nonetheless fall meaningfully, given that many of the bulk buyers are either gov't entities (railways, state transport corporations) or large private corporations (mobile towers, cement firms) where the chances of diversion could be low.

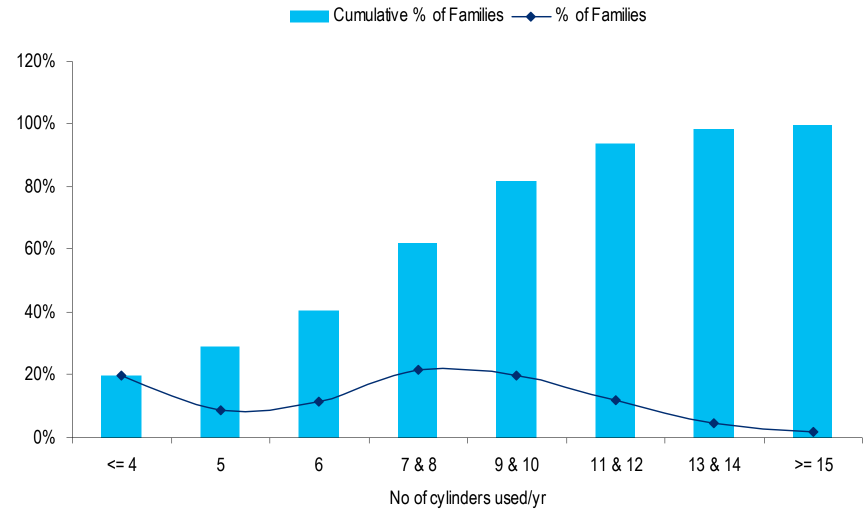
Figure 10. India diesel consumption by sector



Source: Citi Research, PPAC

- **LPG cap raised to nine –** In Sep-13, the gov't, while capping the number of subsidised LPG cylinders per household to nine per year, had indicated that this could help reduce LPG losses by around one third. However, given that the cap has now been raised to nine cylinders per year, we expect savings to be only ~10%.

Figure 11. LPG usage distribution



Source: Citi Research, UIDAI

Key uncertainties

Besides the uncertainties surrounding subsidy sharing, we highlight below some of the other key imponderables:

- **Export parity pricing for fuels –** The finance ministry has reportedly been considering a move to export parity pricing of fuels for the calculation of under-recoveries. Currently, under-recoveries on diesel are calculated on the basis of trade parity prices (80% import parity and 20% export parity). This gives OMCs the benefit of duty protection despite the product not actually being imported into the country. If implemented, export parity pricing could lead to lower GRMs for the refining divisions of the OMCs, while the equivalent benefit accruing to the marketing divisions through lower under-recoveries will largely flow to the gov't, thereby further raising the risks on upstream subsidy sharing.

- **Implementation of price hikes in APM gas not a given –** The Rangarajan committee had, in its recent report, suggested market-linked prices for domestic gas in India (see our note: *Indian Oil & Gas - Fuel(ling) Reforms*), which could lead to domestic gas prices of ~US$8/mmbtu (vs. current levels of ~US$4.2/mmbtu). While this could imply significant upsides for Indian upstream players (ONGC's EPS could rise ~30%), it would lead to fertilizer subsidies rising by ~US$0.9bn or ~0.04% of GDP (taking into account the impact of APM price hikes only) and could impact gas-based power tariffs by ~40% (impacting SEB financials). Therefore, the implementation of these gas price hikes, in the face of opposition from consumer industries, could be an uphill task, and we ascribe a low (20%) probability of these hikes happening earlier than or in tandem with a hike in KG gas prices. However, we note that on our calculations, the gov't could gain ~US$1.8bn through higher royalties, taxes, and dividends from the upstream companies following such a hike, and it is therefore not as inconceivable as it initially appears.

- **Frequency of diesel price hikes –** The ability of OMCs to continue hiking diesel prices will ultimately define the level of under-recoveries in FY14-15E, and while a substantial part of the positive thesis for OMCs and upstream is predicated on lower diesel under-recoveries, any political interference in the path to diesel deregulation is likely to impact fundamentals as well as sentiment on these stocks. While the past experience with petrol deregulation where prices were initially raised only in fits and starts is not too comforting, the govt's recent track record on this, with OMCs now being able to raise prices in line with international market movements since Sep-12, does improve the degree of comfort. Diesel, however, is arguably more politically sensitive given its impact on inflation, and the govt's discipline and resilience could therefore be tested.

Valuation methodologies

We have changed our valuation methodologies for ONGC, BPCL, and HPCL, which are described below:

ONGC – probability-weighted TP of Rs377

1. We ascribe a 10x FY14E P/E multiple to earnings in our base case, which is based on subsidy sharing of US$56/bbl, i.e., upside from lower under-recoveries on potential diesel price hikes is entirely retained by the gov't. This imputes upstream share of 54% in FY14E and yields a value of Rs306/sh.

2. To the base case, we then add the value of potential upsides accruing from ONGC getting some benefit of the lower under-recoveries through the upstream share being capped at 40%. In FY15E, this could lead to the upstream share on an absolute level being nearly half of our base case (Rs360bn vs. Rs686bn). As shown in Figure 7, this could drive >50% upside to ONGC's earnings vis-à-vis our base case. We value these potential incremental earnings at 10x P/E discounted back by a year, ascribing, however, a probability of just 40% of this happening, which yields a value of Rs71/sh.

3. To this, we add the value of potential upside from a hike in APM gas prices. However, instead of the hike to ~US$8 levels with immediate effect (i.e., w.e.f. FY14E) that the oil ministry's proposal to the Cabinet reportedly entails, we assume a hike to only ~US$6 levels, that too in tandem with (and not earlier than) the KG gas price hike (i.e., w.e.f. FY15E). We ascribe a lower 20% probability of this happening, ascribe a 10x P/E multiple, and discount it back by a year, yielding a value of Rs9/sh.

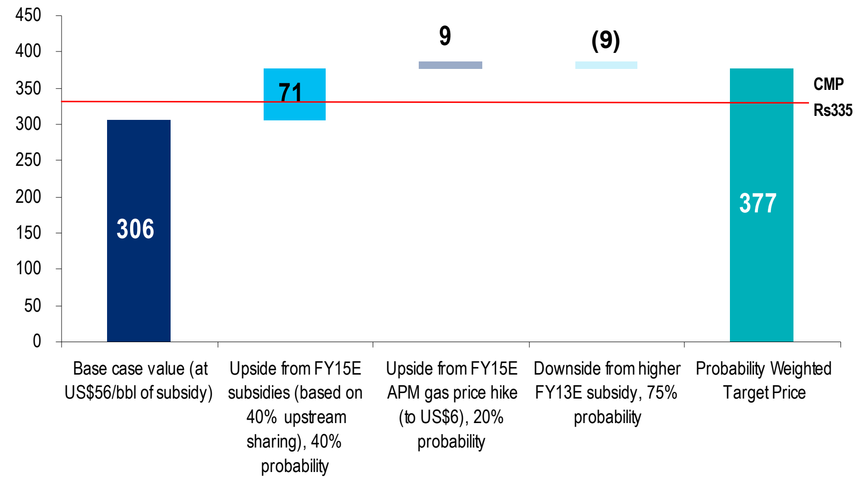
4. We acknowledge concerns on near-term (FY13E) subsidy sharing are quite real and also factor in these risks into our target price by assuming the upstream share for FY13E increases to 50% and ascribing a 75% probability to the resulting one-time hit, yielding an impact of –Rs9/sh.

Figure 12. ONGC – Probability-weighted valuation

	Base Case	Upside from FY15E subsidies	Upside from FY15E APM gas price hike	Downside from FY13E subsidy sharing
ONGC FY14E EPS	30.6	19.6	4.9	(12.1)
Probability attached	100%	40%	20%	75%
Target P/E (x)	10.0	10.0*	10.0*	1.0**
Value contribution	**306**	**71**	**9**	**(9)**
Target price	**377**			

Source: Citi Research estimates. *FY15E multiples discounted back by one year. **One-time impact.

Figure 13. ONGC – Target Price Build-up (Rs/sh)



Source: Citi Research estimates

BPCL – SOTP-based value of Rs454 using 1.1x core P/B

Our TP of Rs454 for BPCL is based on a SOTP valuation where we value the core refining and marketing business at 1.1x FY14E P/B and separately add the value of investments as well as the E&P business. While the OMCs have been nearly fully compensated for their marketing under-recoveries in recent times, the delay in receiving compensation from the gov't, which is often with a 2-3 qtr lag, has led to rising debt levels for meeting their working capital requirements, leading to a ballooning in interest expenses and driving down ROEs from ~12% levels in FY10-11 (when the subsidy situation was fairly benign given low crude prices) to 7-9% in FY12 for BPCL and HPCL. We estimate the impact of higher interest costs on account of delayed receipt of gov't compensation to be ~35-40% of earnings for BPCL and HPCL. Savings of interest costs on this count could therefore theoretically drive ROEs back to ~12% levels for both companies. Our core 1.1x P/B multiple for BPCL is premised on this.

Figure 14. BPCL – P/B based valuation

	Rs/sh	Comments
FY14E BVPS	225	
BVPS of Investments	76	
Core BVPS	**149**	
Core P/B	1.1	
Core value (A)	**164**	
Mkt value of investments (B)	**290**	
- Petronet LNG (12.5% stake)	16	At 20% discount to CMP
- IGL (22.5% stake)	9	At 20% discount to CMP
- BORL (Bina refinery)	21	At 0.8x P/B
- NRL (61.65% stake)	18	At 0.8x P/B
- Treasury stock	31	At 20% discount to CMP
- Listed upstream (2.23% stake)	7	At 20% discount to CMP
- E&P (Bharat PetroResources Ltd)	188	Net of debt – see Figure 15
TP (A) + (B)	**454**	

Source: Citi Research estimates

Figure 15. BPCL's E&P Valuation

Estimated gross resource potential - Rovuma Basin (tcf)	60.0
EV/boe (US$)	2.2
BPRL stake	10.0%
Value (US$m)	2,376
Value per share (Rs) – (A)	**177**
Estimated gross resource potential - BM-C-30 (mmboe)	200
EV/boe (US$)	5.0
BPRL stake	12.5%
Value (US$m)	125
Value per share (Rs) – (B)	**9**
Estimated gross resource potential - Indonesia (mmboe)	100
EV/boe (US$)	5.0
BPRL stake	12.5%
Value (US$m)	63
Value per share (Rs) – (C)	**5**
Estimated gross resource potential - Sergipe-Alagoas Basin (mmboe)	300
EV/boe (US$)	6.0
BPRL stake	20.0%
Value (US$m)	360
Value per share (Rs) – (D)	**27**
Net debt per share – (E)	**(30)**
Total E&P Value – (A) + (B) + (C) + (D) + (E)	**188**

Source: Company Reports, Citi Research estimates

HPCL – SOTP-based value of Rs407 using 0.9x core P/B

Our TP of Rs407 for HPCL follows a similar valuation methodology to BPCL except for the lower (0.9x) core P/B multiple we ascribe here, given the company's ROEs have historically been a notch lower than BPCL's.

Figure 16. HPCL – P/B based valuation

	Rs/sh	Comments
BVPS	422	
BVPS of Inv	103	
Core BVPS	**319**	
P/B	0.9	
Core Value (A)	**287**	
Mkt value of investments (B)	**120**	
- MRPL (16.95% stake)	45	At 20% discount to CMP
- New refinery (49% stake)	59	At 0.8x P/B
- Listed upstream (2.23% stake)	16	At 20% discount to CMP
TP (A) + (B)	**407**	

Source: Citi Research

Company Focus

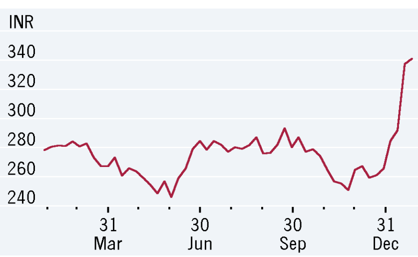
Oil & Natural Gas (ONGC.BO)

Large Potential Gains; Near-Term Caution Warranted

- Company Update
- Target Price Change
- Estimate Change

Buy	**1**
Price (28 Jan 13)	Rs334.50
Target price	Rs377.00
from Rs309.00	
Expected share price return	12.7%
Expected dividend yield	3.1%
Expected total return	**15.8%**
Market Cap	Rs2,861,811M
	US$53,194M

Price Performance
(RIC: ONGC.BO, BB: ONGC IN)



- **The rewards of rising diesel prices… —** As the gov't gradually moves towards mkt-linked prices of diesel, OMC under-recoveries (which ONGC has to share) could fall significantly to ~Rs1.2/0.9tr in FY14/15E vs. ~Rs1.7tr in FY13E. In the event of the gov't refraining from disproportionately appropriating these benefits, ONGC could be a major gainer. If upstream subsidy is maintained at FY12 levels of ~40%, and ONGC continues to contribute ~81% within upstream, its subsidy burden could fall to ~Rs380/290bn by FY14/15E (Rs445bn subsidy in FY12), leading to substantial improvements in net realization to ~US$65/79/bbl (vs. just ~US$46 in 1HFY13Y), driving material earnings upside. In this case, while upstream does get to proportionately share ensuing benefits, the govt's subsidy share of Rs540bn in FY15E isn't too excessive either (65% of their FY12 share), implying that such a scenario isn't completely inconceivable or unfathomable.

- **…and the risks —** However, one must be cognisant of the fact that the gov't has never spelled out a clear formula for upstream subsidy sharing and, given its fiscal compulsions, the gov't could well continue demanding of upstream a subsidy of US$56/bbl (the formula adopted in FY12 and 1HFY13), which could see it limit its own share to just ~46%/24% in FY14/15E, with the upstream share commensurately rising to ~54/76%. In the event (which we take to be our base case), despite falling under-recoveries, ONGC's subsidy share could actually increase to Rs520-570bn over FY14-15E (vs Rs445bn in FY12), with net realisations stagnating at ~US$47-48/bbl, and precluding earnings upgrades.

- **APM gas price hike proposal a surprise—** While the Rangarajan committee had recently proposed a move to market-linked pricing of domestic gas (see our note: *Fuel(ling) Reforms*), we were (positively) surprised at the speed with which the oil ministry has accepted these recommendations and (reportedly) also moved a Cabinet note to hike APM gas prices from FY14. If prices are indeed hiked to the ~US$8/mmbtu levels imputed in the Rangarajan report, ONGC's FY14-15E EPS could rise ~30%. While not a part of our base case, we factor in this upside, albeit partially (by assuming a lower hike to ~US$6/mmbtu w.e.f. FY15E) in our TP and also assign it a low 20% probability, given uncertainty regarding Cabinet approval. Our caution is predicated on: 1) the fact that ONGC's existing gas producing blocks were given to it on a nomination basis (and not on a bidding basis for NELP blocks, like KG-D6) and do not provide for profit sharing with the gov't except to the extent of a 10% royalty payment, and 2) an increase in gas prices will also result in ~US$0.9bn (0.04% of GDP) rise in fertilizer subsidies and a ~40% rise in gas-based power tariffs. However, as noted earlier, the ensuing gains to the gov't from higher royalties, taxes, and dividends could soften the impact considerably.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2011A	224,559	26.25	15.7	12.7	2.5	20.8	2.6
2012A	281,436	32.90	25.3	10.2	2.1	22.4	2.9
2013E	271,124	31.69	-3.7	10.6	1.9	18.7	3.1
2014E	261,973	30.62	-3.4	10.9	1.7	16.3	3.0
2015E	297,605	34.79	13.6	9.6	1.5	16.7	3.4

Source: Powered by dataCentral

ONGC.BO: Fiscal year end 31-Mar — **Price: Rs334.50; TP: Rs377.00; Market Cap: Rs2,861,811m; Recomm: Buy**

Profit & Loss (Rsm)	**2011**	**2012**	**2013E**	**2014E**	**2015E**
Sales revenue	1,227,686	1,473,057	1,609,195	1,644,807	1,688,950
Cost of sales	-949,437	-1,120,268	-1,226,974	-1,260,742	-1,246,155
Gross profit	278,248	352,789	382,221	384,066	442,794
Gross Margin (%)	22.7	23.9	23.8	23.4	26.2
EBITDA (Adj)	**484,512**	**493,718**	**607,584**	**630,373**	**704,342**
EBITDA Margin (Adj) (%)	39.5	33.5	37.8	38.3	41.7
Depreciation	-206,263	-140,929	-225,364	-246,308	-261,548
Amortisation	0	0	0	0	0
EBIT (Adj)	**278,248**	**352,789**	**382,221**	**384,066**	**442,794**
EBIT Margin (Adj) (%)	22.7	23.9	23.8	23.4	26.2
Net interest	-4,374	-4,349	-6,072	-21,913	-22,304
Associates	0	0	0	0	0
Non-op/Except	69,319	79,595	45,130	41,913	44,252
Pre-tax profit	**343,193**	**428,035**	**421,279**	**404,066**	**464,743**
Tax	-114,913	-143,757	-146,535	-137,137	-161,551
Extraord./Min.Int./Pref.div.	-3,720	-2,842	-3,620	-4,956	-5,587
Reported net profit	**224,559**	**281,436**	**271,124**	**261,973**	**297,605**
Net Margin (%)	18.3	19.1	16.8	15.9	17.6
Core NPAT	224,559	281,436	271,124	261,973	297,605
Per share data	**2011**	**2012**	**2013E**	**2014E**	**2015E**
Reported EPS (Rs)	26.25	32.90	31.69	30.62	34.79
Core EPS (Rs)	26.25	32.90	31.69	30.62	34.79
DPS (Rs)	8.75	9.75	10.46	10.10	11.48
CFPS (Rs)	58.40	56.21	59.90	60.56	66.50
FCFPS (Rs)	20.72	7.84	11.28	11.44	17.11
BVPS (Rs)	134.80	159.47	178.96	197.85	219.21
Wtd avg ord shares (m)	8,556	8,556	8,556	8,556	8,556
Wtd avg diluted shares (m)	8,556	8,556	8,556	8,556	8,556
Growth rates	**2011**	**2012**	**2013E**	**2014E**	**2015E**
Sales revenue (%)	15.6	20.0	9.2	2.2	2.7
EBIT (Adj) (%)	8.4	26.8	8.3	0.5	15.3
Core NPAT (%)	15.7	25.3	-3.7	-3.4	13.6
Core EPS (%)	15.7	25.3	-3.7	-3.4	13.6
Balance Sheet (Rsm)	**2011**	**2012**	**2013E**	**2014E**	**2015E**
Cash & cash equiv.	210,238	287,691	186,964	163,838	166,274
Accounts receivables	99,730	117,143	110,219	112,658	115,681
Inventory	85,676	131,680	120,298	119,148	115,117
Net fixed & other tangibles	1,186,421	1,411,066	1,703,381	2,176,883	2,377,123
Goodwill & intangibles	91,663	79,340	79,340	79,340	79,340
Financial & other assets	256,961	289,577	301,045	312,660	324,436
Total assets	**1,930,689**	**2,316,497**	**2,501,247**	**2,964,528**	**3,177,972**
Accounts payable	186,540	119,241	119,118	132,454	139,842
Short-term debt	20,843	100,146	100,146	100,146	100,146
Long-term debt	39,771	52,086	57,294	333,024	339,326
Provisions & other liab	510,371	658,549	668,687	677,640	689,696
Total liabilities	**757,525**	**930,021**	**945,246**	**1,243,264**	**1,269,011**
Shareholders' equity	1,153,272	1,364,391	1,531,075	1,692,718	1,875,459
Minority interests	19,891	22,084	24,926	28,546	33,502
Total equity	**1,173,164**	**1,386,476**	**1,556,001**	**1,721,264**	**1,908,961**
Net debt	**-149,624**	**-135,459**	**-29,523**	**269,332**	**273,198**
Net debt to equity (%)	-12.8	-9.8	-1.9	15.6	14.3

Valuation ratios	**2011**	**2012**	**2013E**	**2014E**	**2015E**
PE (x)	12.7	10.2	10.6	10.9	9.6
PB (x)	2.5	2.1	1.9	1.7	1.5
EV/EBITDA (x)	5.6	5.5	4.6	4.8	4.5
FCF yield (%)	6.2	2.3	3.4	3.4	5.1
Dividend yield (%)	2.6	2.9	3.1	3.0	3.4
Payout ratio (%)	33	30	33	33	33
ROE (%)	20.8	22.4	18.7	16.3	16.7
Cashflow (Rsm)	**2011**	**2012**	**2013E**	**2014E**	**2015E**
EBITDA	484,512	493,718	607,584	630,373	704,342
Working capital	69,577	60,161	16,854	9,385	8,676
Other	-54,466	-73,008	-111,973	-121,633	-144,098
Operating cashflow	**499,623**	**480,872**	**512,465**	**518,126**	**568,919**
Capex	-322,353	-413,809	-415,961	-420,236	-422,514
Net acq/disposals	0	0	-48,648	-261,129	-261
Other	-13,231	-13,231	-13,231	-13,230	-13,230
Investing cashflow	**-335,584**	**-427,041**	**-477,840**	**-694,596**	**-436,005**
Dividends paid	-87,387	-97,027	-105,218	-101,666	-115,495
Financing cashflow	**-69,866**	**-83,017**	**-98,314**	**175,758**	**-107,497**
Net change in cash	**94,173**	**-29,187**	**-63,689**	**-711**	**25,417**
Free cashflow to s/holders	**177,270**	**67,062**	**96,504**	**97,890**	**146,405**

For further data queries on Citi's full coverage universe please contact Citi Research Data Services at CitiRsch.DataServices.Global@citi.com
For definitions of the items in this table, please click here.

Powered by: dataCentral

- **Disappointments on the operational front —** From an earlier expectation of domestic (ex-JV) crude production rising from ~23-24 MMTPA currently to ~27-28 by FY14E, ONGC has now pushed back this target by a year, citing delays in completion of facilities and drilling of wells in its marginal field projects. FY13YTD production has also been disappointing, trending at -6% yoy. Additionally, we have conservative estimates for OVL earnings. Production in FY13E could remain flat at ~8.8 MMTOE (incl. contribution from ACG) before rising to ~11.2/12.9 MMTOE by FY14/15E. However, funding costs and DD&A expenses over FY14-15E could partly offset incremental revenues from the recently-acquired ACG and Kashagan fields (with full approvals for the latter yet to come through).

- **Maintain Buy —** While we were inclined to revisit our Buy recommendation on ONGC given the risks outlined above (combined with the fact that the stock has rallied 27% over the last one month), we have refrained from doing so given: 1) the surprising pace with which the gov't has acted to implement reforms, and 2) the fact that large additional upsides could accrue to ONGC if some of the aforementioned risks do not play out. Accordingly, despite the overhang of a negative subsidy surprise in the near term given the govt's fiscal commitment, we remain optimistic on the longer-term outlook for the stock, and would recommend any weakness as a good buying opportunity from a ~1-2 year perspective. We also like ONGC for its defensive appeal, with upsides from potentially lower crude prices in the event of global macro concerns resurfacing not being included in our valuation.

- **TP of Rs377 —** We now value the stock at 10x FY14E P/E, while factoring in a US$56/bbl subsidy (equates to 54% upstream share) in our base case, which yields a value of Rs306/sh. To this, we add probability-weighted upsides/downsides from: 1) upstream share declining to 40% in FY15E (+Rs71/sh, 40% probability); 2) APM price hikes to US$6/mmbtu w.e.f. FY15E (+Rs9/sh, 20% probability), and 3) higher one-time subsidy in FY13E (-Rs9/sh, 75% probability).

Figure 17. ONGC – Probability-weighted valuation

	Base Case	Upside from FY15E subsidies	Upside from FY15E APM gas price hike	Downside from FY13E subsidy sharing
ONGC FY14E EPS	30.6	19.6	4.9	(12.1)
Probability attached	100%	40%	20%	75%
Target P/E (x)	10.0	10.0*	10.0*	1.0**
Value contribution	**306**	**71**	**9**	**(9)**
Target price	**377**			

Source: Citi Research estimates. *FY15E multiples discounted back by one year. **One-time impact.

Figure 18. ONGC – Key Assumptions

Yr ending Mar-31	2010	2011	2012	2013E	2014E	2015E
INR/US$	47.5	48.6	48.0	54.0	54.0	54.0
Brent (US$/bbl)	69.7	86.6	114.5	110.0	110.0	110.0
Subsidy (Rs bn)	116	249	445	492	523	567
Net realisation on domestic crude (US$/bbl)	**56.3**	**53.8**	**54.7**	**48.8**	**47.3**	**48.1**
Standalone production						
Crude (MMT)	26.5	27.3	26.9	27.5	29.5	31.7
- Own	**24.7**	**24.4**	**23.7**	**23.6**	**25.0**	**27.0**
- JV	1.6	1.5	1.3	1.3	1.3	1.3
- Rajasthan	0.1	1.3	1.9	2.7	3.2	3.5
Gas (bcm)	25.6	25.3	25.5	25.7	26.5	27.6
- Own	**23.1**	**23.1**	**23.3**	**23.5**	**24.6**	**25.6**
- JV	2.5	2.2	2.2	2.2	2.0	2.0
OVL production						
Oil (MMT)	6.5	6.8	6.2	5.4	6.2	7.5
Gas (bcm)	2.4	2.7	2.5	3.5	5.0	5.3
Oil + gas (MMToe)*	8.9	9.5	8.7	8.8	11.2	12.9
Consol production						
Oil (MMT)	33.0	34.0	33.1	32.9	35.7	39.3
Gas (bcm)	28.0	28.0	28.0	29.1	31.5	32.9
Oil + gas (MMToe)	**60.9**	**62.1**	**61.2**	**62.1**	**67.1**	**72.2**

Source: Citi Research estimates, Company. *Including ACG w.e.f. FY13E and Kashagan w.e.f. FY14E.

We make changes to ONGC's earnings in line with: 1) our new subsidy-sharing estimates, which are based on US$56/bbl of production; 2) FY13E YTD production trends; 3) revised production guidance from mgmt; and 4) contributions from OVL's recent ACG and Kashagan acquisitions.

Figure 19. ONGC – Earnings changes

Year to	EBITDA (Rs Mils.)			Net Profit (Rs Mils.)			Diluted EPS (Rs)			Divi/Sh (Rs)	
31-Mar	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg	Old	New
2013E	605,822	607,584	0.3%	264,414	271,124	2.5%	30.91	31.69	2.5%	10.2	10.5
2014E	661,630	630,373	-4.7%	277,155	261,973	-5.5%	32.39	30.62	-5.5%	10.7	10.1
2015E	678,532	704,342	3.8%	285,583	297,605	4.2%	33.38	34.79	4.2%	11.0	11.5

Source: Citi Research estimates

Company Focus

Bharat Petroleum (BPCL.BO)

Sound Business Mix, But Downgrade to Neutral Post Stellar Run

- Company Update
- Rating Change
- Target Price Change
- Estimate Change

Neutral	**2**
from Buy	
Price (28 Jan 13)	Rs419.00
Target price	Rs454.00
from Rs430.00	
Expected share price return	8.4%
Expected dividend yield	1.3%
Expected total return	**9.7%**
Market Cap	Rs302,972M
	US$5,631M

Price Performance
(RIC: BPCL.BO, BB: BPCL IN)

- **Under-recoveries could fall sharply… —** OMC under-recoveries could fall sharply to ~Rs1.2/0.9tr by FY14/15E from ~Rs1.7tr in FY13E on the back of the recent move towards deregulation of diesel prices. Losses on diesel, which now account for ~60% of under-recoveries, could fall steeply from ~Rs960bn in FY13E to ~Rs480/180bn over the next two years. Following the recent gov't directive, OMCs are already selling ~17% of diesel vols to bulk buyers at full market prices. However, the hike in the LPG cap from six to nine cylinders per year for every household will erase most of the forecast gains on the fuel (now just ~10% saving on LPG under-recoveries is likely).

- **…driving an improvement in profits, ROEs —** While OMCs have been hitherto compensated for under-recoveries on diesel, LPG, and kerosene by the gov't and by upstream firms, the cash subsidy from the former has always come at a substantial lag (sometimes as high as ~2-3 qtrs), leading OMCs to borrow heavily to finance their working capital cycles (BPCL had an interest coverage ratio of just ~1x in FY12). Therefore, lower under-recoveries could drive material improvements in ROEs for OMCs (from ~9% in FY12 for BPCL potentially to the ~12% levels seen in FY10-11 when under-recoveries had fallen in line with crude prices), potentially also driving valuation re-ratings.

- **Export parity pricing could be a negative —** The proposed move to export parity pricing for the purpose of calculation of under-recoveries could be a negative for OMCs. While export parity prices of diesel could reduce the magnitude of under-recoveries, the benefits from this would simply accrue to the gov't, even as the profits of the refining division could fall due to lower GRMs (no customs duty protection).

- **Downgrade to Neutral after a stellar 2-yr run —** After a stellar two-year run (+27% outperformance), we now downgrade BPCL to Neutral. We believe HPCL would be a larger beneficiary of incremental fuel-price reforms. We now value BPCL on a P/B basis (ex-value of investments), assigning a 1.1x P/B multiple to core BV (yielding Rs164/sh) and separately adding the value of investments (Rs290/sh) to arrive at our TP of Rs454. The stock is already trading at a core P/B of ~0.85x and upsides from improvement in the core business are limited relative to HPCL (trading at ~0.7x core P/B).

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2011A	15,366	21.25	-0.1	19.7	2.2	11.3	1.7
2012A	13,113	18.13	-14.7	23.1	2.0	9.1	1.3
2013E	11,366	15.72	-13.3	26.7	1.9	7.5	1.3
2014E	11,303	15.63	-0.6	26.8	1.9	7.1	1.3
2015E	16,309	22.55	44.3	18.6	1.8	9.7	1.9

Source: Powered by dataCentral

BPCL.BO: Fiscal year end 31-Mar — Price: Rs419.00; TP: Rs454.00; Market Cap: Rs302,972m; Recomm: Neutral

Profit & Loss (Rsm)	2011	2012	2013E	2014E	2015E
Sales revenue	1,515,451	2,118,662	2,073,044	2,190,723	2,310,829
Cost of sales	-1,497,489	-2,099,910	-2,053,514	-2,176,538	-2,294,207
Gross profit	17,962	18,752	19,530	14,185	16,621
Gross Margin (%)	1.2	0.9	0.9	0.6	0.7
EBITDA (Adj)	**34,516**	**37,601**	**39,024**	**35,525**	**38,896**
EBITDA Margin (Adj) (%)	2.3	1.8	1.9	1.6	1.7
Depreciation	-16,554	-18,849	-19,495	-21,340	-22,275
Amortisation	0	0	0	0	0
EBIT (Adj)	**17,962**	**18,752**	**19,530**	**14,185**	**16,621**
EBIT Margin (Adj) (%)	1.2	0.9	0.9	0.6	0.7
Net interest	-11,170	-17,996	-20,641	-15,120	-9,653
Associates	0	0	0	0	0
Non-op/Except	17,158	18,085	17,349	17,082	16,330
Pre-tax profit	**23,949**	**18,842**	**16,237**	**16,147**	**23,299**
Tax	-8,482	-5,729	-4,871	-4,844	-6,990
Extraord./Min.Int./Pref.div.	-101	0	0	0	0
Reported net profit	**15,366**	**13,113**	**11,366**	**11,303**	**16,309**
Net Margin (%)	1.0	0.6	0.5	0.5	0.7
Core NPAT	15,366	13,113	11,366	11,303	16,309
Per share data	**2011**	**2012**	**2013E**	**2014E**	**2015E**
Reported EPS (Rs)	21.25	18.13	15.72	15.63	22.55
Core EPS (Rs)	21.25	18.13	15.72	15.63	22.55
DPS (Rs)	7.00	5.50	5.50	5.47	7.89
CFPS (Rs)	98.56	-36.18	54.69	95.29	150.78
FCFPS (Rs)	67.53	-70.85	-10.03	30.57	86.06
BVPS (Rs)	194.41	206.25	215.68	225.06	238.58
Wtd avg ord shares (m)	723	723	723	723	723
Wtd avg diluted shares (m)	723	723	723	723	723
Growth rates	**2011**	**2012**	**2013E**	**2014E**	**2015E**
Sales revenue (%)	23.9	39.8	-2.2	5.7	5.5
EBIT (Adj) (%)	50.7	4.4	4.1	-27.4	17.2
Core NPAT (%)	-0.1	-14.7	-13.3	-0.6	44.3
Core EPS (%)	-0.1	-14.7	-13.3	-0.6	44.3
Balance Sheet (Rsm)	**2011**	**2012**	**2013E**	**2014E**	**2015E**
Cash & cash equiv.	3,800	9,798	12,189	15,602	6,817
Accounts receivables	25,327	63,783	68,880	52,504	57,696
Inventory	153,751	159,481	160,721	157,512	173,088
Net fixed & other tangibles	169,717	177,314	203,834	229,294	253,821
Goodwill & intangibles	0	0	0	0	0
Financial & other assets	206,165	245,693	239,746	234,394	159,577
Total assets	**558,760**	**656,070**	**685,371**	**689,307**	**650,998**
Accounts payable	84,145	127,899	132,589	140,552	148,195
Short-term debt	113,074	173,401	180,937	160,937	90,937
Long-term debt	51,506	39,063	39,063	39,063	39,063
Provisions & other liab	169,458	166,568	176,827	186,021	200,290
Total liabilities	**418,183**	**506,931**	**529,416**	**526,573**	**478,484**
Shareholders' equity	140,576	149,139	155,955	162,733	172,514
Minority interests	0	0	0	0	0
Total equity	**140,576**	**149,139**	**155,955**	**162,733**	**172,514**
Net debt	**160,781**	**202,666**	**207,811**	**184,398**	**123,183**
Net debt to equity (%)	114.4	135.9	133.3	113.3	71.4

Valuation ratios	2011	2012	2013E	2014E	2015E
PE (x)	19.7	23.1	26.7	26.8	18.6
PB (x)	2.2	2.0	1.9	1.9	1.8
EV/EBITDA (x)	11.3	10.4	10.8	11.8	9.9
FCF yield (%)	16.1	-16.9	-2.4	7.3	20.5
Dividend yield (%)	1.7	1.3	1.3	1.3	1.9
Payout ratio (%)	33	30	35	35	35
ROE (%)	11.3	9.1	7.5	7.1	9.7
Cashflow (Rsm)	**2011**	**2012**	**2013E**	**2014E**	**2015E**
EBITDA	34,516	37,601	39,024	35,525	38,896
Working capital	39,347	-58,124	8,684	36,259	70,444
Other	-2,596	-5,640	-8,164	-2,882	-312
Operating cashflow	**71,267**	**-26,163**	**39,545**	**68,902**	**109,028**
Capex	-22,440	-25,068	-46,801	-46,801	-46,801
Net acq/disposals	14,643	11,196	5,947	5,352	4,817
Other	0	0	0	0	0
Investing cashflow	**-7,797**	**-13,871**	**-40,853**	**-41,448**	**-41,983**
Dividends paid	-5,772	-4,549	-4,550	-4,525	-6,529
Financing cashflow	**-63,144**	**43,335**	**2,986**	**-24,525**	**-76,529**
Net change in cash	**326**	**3,301**	**1,677**	**2,929**	**-9,484**
Free cashflow to s/holders	**48,827**	**-51,230**	**-7,256**	**22,101**	**62,227**

For further data queries on Citi's full coverage universe please contact Citi Research Data Services at CitiRsch.DataServices.Global@citi.com
For definitions of the items in this table, please click here.

Powered by: dataCentral

- **Why not a Sell? —** We continue to see significant progress and positive newsflow on the E&P front for BPCL. In Dec-12, BPCL had announced that the consortium in its Mozambique block (Area 1) reached an agreement with Eni (operator of the adjacent Area 4 block) to jointly develop liquefaction facilities for the blocks. BPCL also announced the award of FEED contracts for the LNG project, with long-term production plans of ~50 MMTPA (~30-60 tcf recoverable resources in the block). The company has also made progress in its Brazil blocks (four discoveries announced in CY12 – three in Sergipe-Alagaos Basin and one in Espirito Basin). We now value BPCL's E&P business at Rs188/sh, with a substantial Rs177/sh of value coming from the Mozambique block, where we have seen good progress on monetization of reserves. We also now include potential upsides from the company's acreage in the Sergipe-Alagaos Basin (four discoveries so far) in Brazil where the company has a 20% stake.

BPCL – SOTP-based TP of Rs454

Figure 20. BPCL – P/B-based valuation

	Rs/sh	Comments
FY14E BVPS	225	
BVPS of Investments	76	
Core BVPS	**149**	
Core P/B	1.1	
Core value (A)	**164**	
Mkt value of investments (B)	**290**	
- Petronet LNG (12.5% stake)	16	At 20% discount to CMP
- IGL (22.5% stake)	9	At 20% discount to CMP
- BORL (Bina refinery)	21	At 0.8x P/B
- NRL (61.65% stake)	18	At 0.8x P/B
- Treasury stock	31	At 20% discount to CMP
- Listed upstream (2.23% stake)	7	At 20% discount to CMP
- E&P (Bharat PetroResources Ltd)	188	Net of debt – see Figure 15
TP (A) + (B)	**454**	

Source: Citi Research estimates

Figure 21. BPCL's E&P Valuation

Estimated gross resource potential - Rovuma Basin (tcf)	60.0
EV/boe (US$)	2.2
BPRL stake	10.0%
Value (US$m)	2,376
Value per share (Rs) – (A)	**177**
Estimated gross resource potential - BM-C-30 (mmboe)	200
EV/boe (US$)	5.0
BPRL stake	12.5%
Value (US$m)	125
Value per share (Rs) – (B)	**9**
Estimated gross resource potential - Indonesia (mmboe)	100
EV/boe (US$)	5.0
BPRL stake	12.5%
Value (US$m)	63
Value per share (Rs) – (C)	**5**
Estimated gross resource potential - Sergipe-Alagoas Basin (mmboe)	300
EV/boe (US$)	6.0
BPRL stake	20.0%
Value (US$m)	360
Value per share (Rs) – (D)	**27**
Net debt per share – (E)	**(30)**
Total E&P Value – (A) + (B) + (C) + (D) + (E)	**188**

Source: Company Reports, Citi Research estimates

We make changes to BPCL's earnings in line with: 1) recent trends on under-recoveries and subsidy sharing, gov't moves towards deregulation of diesel, and capping of LPG subsidies, and 2) our revised estimates of crude prices, under-recoveries, and subsidy sharing.

Figure 22. BPCL Earnings changes

Year to	**EBITDA (Rs Mils.)**			**Net Profit (Rs Mils.)**			**Diluted EPS (Rs)**			**Div/Sh (Rs)**	
31-Mar	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg	Old	New
2013E	40,268	39,024	-3.1%	13,171	11,366	-13.7%	18.22	15.72	-13.7%	6.4	5.5
2014E	44,203	35,525	-19.6%	13,940	11,303	-18.9%	19.28	15.63	-18.9%	6.7	5.5
2015E	49,028	38,896	-20.7%	15,333	16,309	6.4%	21.21	22.55	6.4%	7.4	7.9

Source: Citi Research estimates

Company Focus

- Company Update
- Target Price Change
- Estimate Change

Buy	**1**
Price (28 Jan 13)	Rs339.80
Target price	Rs407.00
from Rs335.00	
Expected share price return	19.8%
Expected dividend yield	2.4%
Expected total return	**22.2%**
Market Cap	Rs115,066M
	US$2,139M

Price Performance
(RIC: HPCL.BO, BB: HPCL IN)

Hindustan Petroleum (HPCL.BO)

Higher Leverage to Reforms; Maintain Buy

- **Larger beneficiary of falling under-recoveries —** HPCL has a larger leverage to falling under-recoveries than BPCL, given that its refining division only covers ~55% of marketing vols (vs. ~75% for BPCL), with the rest being purchased from private refiners. In addition, BPCL's core refining & marketing business contributes just ~35% of our target market value for the company compared to nearly double (~70%) in the case of HPCL which, while significantly increasing the risk profile of HPCL and making BPCL a 'safer' bet in uncertain times, nevertheless makes the former more leveraged in the event of an upturn in the core business led by fuel pricing reforms, as is currently the case. We expect under-recoveries to fall ~30% in FY14E if OMCs are able to continue hiking diesel prices in a phased manner, which should benefit the HPCL stock more than BPCL.

- **Improving ROEs to drive valuation re-rating —** With lower subsidy requirements from the gov't, HPCL could also gain from lower interest costs, akin to BPCL. HPCL reported ROEs of ~7% in FY12 vs the 12-13% levels which were witnessed in the relatively more benign FY10-11 period. This could drive a re-rating in the stock, which at current levels trades at just ~0.7x on an adjusted P/B basis (i.e., ex-investments) vs ~0.85x for BPCL.

- **Maintain Buy —** Given extant uncertainties around under-recoveries and subsidies over the next 1-2 years, we move to a P/B-based valuation methodology for HPCL. We assign it a 0.9x FY14E P/B on core BV, yielding a Rs287/sh value, to which we add Rs120/sh value for the company's investments. Our TP on the stock is now Rs407 and we maintain Buy as we believe HPCL still offers significant upside risks on incremental reforms. ONGC, however, is now our preferred stock among the government-owned companies.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2011A	16,324	48.15	25.4	7.1	0.9	13.5	4.1
2012A	10,078	29.73	-38.3	11.4	0.9	7.9	2.5
2013E	9,295	27.42	-7.8	12.4	0.8	6.9	2.4
2014E	9,016	26.60	-3.0	12.8	0.8	6.4	2.3
2015E	13,694	40.40	51.9	8.4	0.8	9.3	3.6

Source: Powered by dataCentral

HPCL.BO: Fiscal year end 31-Mar — Price: Rs339.80; TP: Rs407.00; Market Cap: Rs115,066m; Recomm: Buy

Profit & Loss (Rsm)	2011	2012	2013E	2014E	2015E
Sales revenue	1,334,989	1,781,392	1,844,788	1,943,735	2,046,098
Cost of sales	-1,240,122	-1,678,386	-1,736,602	-1,834,717	-1,929,424
Gross profit	94,868	103,006	108,186	109,018	116,674
Gross Margin (%)	7.1	5.8	5.9	5.6	5.7
EBITDA (Adj)	**34,018**	**39,461**	**37,652**	**34,135**	**38,379**
EBITDA Margin (Adj) (%)	2.5	2.2	2.0	1.8	1.9
Depreciation	-14,070	-17,129	-18,208	-18,295	-19,543
Amortisation	0	0	0	0	0
EBIT (Adj)	**19,949**	**22,332**	**19,444**	**15,839**	**18,836**
EBIT Margin (Adj) (%)	1.5	1.3	1.1	0.8	0.9
Net interest	-8,921	-21,392	-23,187	-18,900	-13,750
Associates	0	0	0	0	0
Non-op/Except	13,435	12,222	17,021	15,941	15,053
Pre-tax profit	**24,464**	**13,161**	**13,278**	**12,880**	**20,139**
Tax	-7,987	-3,078	-3,983	-3,864	-6,444
Extraord./Min.Int./Pref.div.	-152	-5	0	0	0
Reported net profit	**16,324**	**10,078**	**9,295**	**9,016**	**13,694**
Net Margin (%)	1.2	0.6	0.5	0.5	0.7
Core NPAT	16,324	10,078	9,295	9,016	13,694

Per share data	2011	2012	2013E	2014E	2015E
Reported EPS (Rs)	48.15	29.73	27.42	26.60	40.40
Core EPS (Rs)	48.15	29.73	27.42	26.60	40.40
DPS (Rs)	14.00	8.50	8.23	7.98	12.12
CFPS (Rs)	-133.07	-42.39	205.92	102.99	309.62
FCFPS (Rs)	-258.50	-176.06	102.68	29.24	235.88
BVPS (Rs)	370.07	387.08	404.91	422.20	448.47
Wtd avg ord shares (m)	339	339	339	339	339
Wtd avg diluted shares (m)	339	339	339	339	339

Growth rates	2011	2012	2013E	2014E	2015E
Sales revenue (%)	24.0	33.4	3.6	5.4	5.3
EBIT (Adj) (%)	44.7	11.9	-12.9	-18.5	18.9
Core NPAT (%)	25.4	-38.3	-7.8	-3.0	51.9
Core EPS (%)	25.4	-38.3	-7.8	-3.0	51.9

Balance Sheet (Rsm)	2011	2012	2013E	2014E	2015E
Cash & cash equiv.	790	2,264	5,899	5,643	13,800
Accounts receivables	30,769	35,652	28,245	32,202	35,309
Inventory	166,223	194,545	181,573	184,013	201,767
Net fixed & other tangibles	224,499	252,475	268,592	275,297	280,753
Goodwill & intangibles	1,182	1,141	0	0	0
Financial & other assets	184,148	224,997	222,110	219,512	142,173
Total assets	**607,611**	**711,073**	**706,419**	**716,667**	**673,803**
Accounts payable	90,294	126,977	140,498	149,295	156,977
Short-term debt	182,110	211,879	233,567	223,567	153,567
Long-term debt	68,101	86,434	86,434	86,434	86,434
Provisions & other liab	141,647	154,560	108,652	114,241	124,793
Total liabilities	**482,153**	**579,848**	**569,150**	**573,536**	**521,769**
Shareholders' equity	125,458	131,225	137,268	143,130	152,034
Minority interests	0	0	0	0	0
Total equity	**125,458**	**131,225**	**137,268**	**143,130**	**152,034**
Net debt	**249,421**	**296,049**	**314,101**	**304,357**	**226,200**
Net debt to equity (%)	198.8	225.6	228.8	212.6	148.8

Valuation ratios	2011	2012	2013E	2014E	2015E
PE (x)	7.1	11.4	12.4	12.8	8.4
PB (x)	0.9	0.9	0.8	0.8	0.8
EV/EBITDA (x)	7.4	7.6	9.0	10.2	8.0
FCF yield (%)	-76.1	-51.8	30.2	8.6	69.4
Dividend yield (%)	4.1	2.5	2.4	2.3	3.6
Payout ratio (%)	29	29	30	30	30
ROE (%)	13.5	7.9	6.9	6.4	9.3

Cashflow (Rsm)	2011	2012	2013E	2014E	2015E
EBITDA	34,018	39,461	37,652	34,135	38,379
Working capital	-75,504	-41,578	42,308	7,602	71,727
Other	-3,625	-12,254	-10,149	-6,823	-5,141
Operating cashflow	**-45,111**	**-14,371**	**69,811**	**34,913**	**104,965**
Capex	-42,523	-45,315	-35,000	-25,000	-25,000
Net acq/disposals	522	9,645	2,887	2,598	2,339
Other	0	0	0	0	0
Investing cashflow	**-42,001**	**-35,670**	**-32,113**	**-22,402**	**-22,661**
Dividends paid	-5,534	-3,360	-3,252	-3,154	-4,791
Financing cashflow	**31,653**	**44,741**	**18,436**	**-13,154**	**-74,791**
Net change in cash	**-55,458**	**-5,300**	**56,134**	**-643**	**7,513**
Free cashflow to s/holders	**-87,633**	**-59,686**	**34,811**	**9,913**	**79,965**

For further data queries on Citi's full coverage universe please contact Citi Research Data Services at CitiRsch.DataServices.Global@citi.com
For definitions of the items in this table, please click here.

Powered by: dataCentral

HPCL – SOTP-based TP of Rs407

Figure 23. . HPCL – P/B based valuation

	Rs/sh	Comments
BVPS	422	
BVPS of Inv	103	
Core BVPS	**319**	
P/B	0.9	
Core Value (A)	**287**	
Mkt value of investments (B)	**120**	
- MRPL (16.95% stake)	45	At 20% discount to CMP
- New refinery (49% stake)	59	At 0.8x P/B
- Listed upstream (2.23% stake)	16	At 20% discount to CMP
TP (A) + (B)	**407**	

Source: Citi Research estimates

We make changes to HPCL earnings in line with: 1) recent trends on under-recoveries and subsidy sharing, gov't moves towards deregulation of diesel and capping of LPG subsidies; and 2) our revised estimates of crude prices, under-recoveries, and subsidy sharing.

Figure 24. HPCL – Earnings changes

Year to	EBITDA (Rs Mils.)			Net Profit (Rs Mils.)			Diluted EPS (Rs)			Div/Sh (Rs)	
31-Mar	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg	Old	New
2013E	35,577	37,652	5.8%	10,698	9,295	-13.1%	31.56	27.42	-13.1%	9.5	8.2
2014E	39,719	34,135	-14.1%	12,370	9,016	-27.1%	36.49	26.60	-27.1%	10.9	8.0
2015E	44,955	38,379	-14.6%	14,873	13,694	-7.9%	43.87	40.40	-7.9%	13.2	12.1

Source: Citi Research estimates

Oil & Natural Gas

Company description

ONGC is India's largest E&P company. Through its subsidiary ONGC Videsh, it has invested in overseas crude equity. It has ventured downstream, picking up a majority stake in Mangalore Refineries, and intends to set up a petro-products retailing network.

Investment strategy

We rate ONGC Buy (1) with a target price of Rs377. While subsidy sharing remains uncertain, ONGC stands to benefit in the longer term from the recent moves towards diesel deregulation, as well gas-pricing reforms. In the near term ONGC could see a negative surprise on FY13E subsidy sharing. ONGC's earnings stream is turning progressively deregulated, with the OVL+Rajasthan JV likely to contribute >30% earnings over FY13-14E. While OVL's recent ACG and Kashagan are likely to contribute to production, earnings contributions could remain muted due to higher DD&A and funding costs.

Valuation

Our target price of Rs377 is calculated on a probability-weighted basis. We value our base case EPS of Rs30.6 (based on subsidy sharing of US$56/bbl) in FY14E at a P/E of 10x, yielding Rs306/sh. We continue to value ONGC on traditional valuation parameters as against NAV/SOTP approach due to it being a going concern. Given that its existing fields face declining or mature production profiles, it would be incorrect to value the new discoveries (say KG gas) separately in a SOTP since new fields would anyway be required to compensate for the decline in mature fields. To this core value of Rs306, we add probability weighted upsides/downsides from: 1) upstream share declining to 40% in FY15E (+Rs71/sh, 40% probability); 2) APM price hikes to US$6/mmbtu w.e.f. FY15E (+Rs9/sh, 20% probability), and 3) higher one-time subsidy in FY13E (-Rs9/sh, 75% probability).

Risks

The key downside risks to our investment thesis on ONGC are: 1) Adverse government policy which could increase the company's subsidy burden and impact net realizations; 2) Delays in new production coming on-stream; and 3) Risks of higher dry well write-offs as ONGC increases exploratory drilling, esp. in offshore deep waters. If any of these risk factors has a greater downside impact than we anticipate, the share price will likely have difficulty attaining our target price.

Bharat Petroleum

Company description

Bharat Petroleum (BPCL) is an oil refining and marketing company, with around 22% share of the Indian petro-products market. BPCL has controlling interest in another refining company, Numaligarh Refineries. Besides, BPCL also has a 49% stake in BORL, which has set up a greenfield 6 MMTPA refinery at Bina in central India. BPCL is also diversifying into E&P, and has already made discoveries in offshore Brazil, Mozambique and Indonesia.

Investment strategy

We rate BPCL as Neutral (2) with a target price of Rs454. BPCL is likely to benefit from the recent moves towards deregulation of diesel prices, which could drive improvements in profits and RoEs. However, the proposed move to export parity pricing for calculating under-recoveries could be a -ve. BPCL has been a strong E&P growth story on the back of new discoveries in the Rovuma basin in offshore Mozambique and in its blocks in Brazil. While monetization of these discoveries could still be some time away, we view BPCL's evolving E&P portfolio positively, helping it diversify from core R&M business. The company is also investing in growth by planning expansions in its refinery and retail businesses. However, we now downgrade the stock to Neutral following a stellar run which has priced in most of these positives.

Valuation

Our TP of Rs454 for BPCL is based on an SOTP valuation where we value the core refining and marketing business at 1.1x FY14E P/B (yielding a value of Rs164/sh) and separately add the value of investments as well as the E&P business (adding up to Rs290/sh). BPRL (the E&P division) is now valued at Rs188/sh, with a major portion of the value coming from the Mozambique block (Rs177/sh), where we have seen progress towards monetisation of reserves.

Risks

The key downside risks to our investment thesis on BPCL are: (i) A sharp rise in crude prices which increases the overall losses for the OMCs; (ii) Any roll-backs of price hikes and/or duty cuts; (iii) Continued lack of clarity on compensation of under-recoveries and subsidy-sharing mechanism; and (iv) Sharp rupee depreciation. If any of these risk factors has a greater downside impact than we anticipate, the share price will likely have difficulty attaining our target price.

Key upside risks to our thesis include: (i) greater clarity on subsidy sharing and fuel pricing; (ii) appreciation of the rupee or a fall in crude in prices and (iii) positive surprises on discoveries and reserve estimates from its E&P portfolio.

Hindustan Petroleum

Company description

Hindustan Petroleum (HPCL) is an oil refining and marketing company with around 20% of the Indian petro-product market. The company has two refineries in Mumbai and Vizag, has a strategic stake in MRPL, and has more than 8,500 retail outlets selling automotive fuels.

Investment strategy

We rate HPCL as Buy (1) with a target price of Rs407. HPCL is most leveraged to the marketing part of the business given its lowest refining/marketing split amongst peers. Consequently, the stock would be the biggest near-term beneficiary of any further government actions and also if crude were to weaken further from current levels. Deregulation of diesel prices could lead to an improvement in RoEs and subsequently to a re-rating in valuations.

Valuation

Our TP of Rs407 for HPCL is now based on a P/B valuation methodology. We use a slightly lower (0.9x) core P/B multiple compared to BPCL's core P/B multiple of 1.1x given the company's ROEs have historically been a notch lower than BPCL's. This yields a core value of Rs287/sh, to which we add Rs120, the value we assign to the investments of the company.

Risks

The key downside risks to our investment thesis on HPCL are: (i) A sharp rise in crude prices which increases the overall losses for the OMCs; (ii) Any roll-backs of price hikes and/or duty cuts; (iii) Continued lack of clarity on compensation of under-recoveries and subsidy sharing mechanism; and (iv) Sharp rupee depreciation. If any of these risk factors has a greater downside impact than we anticipate, the share price will likely have difficulty attaining our target price.

Appendix A-1

Analyst Certification

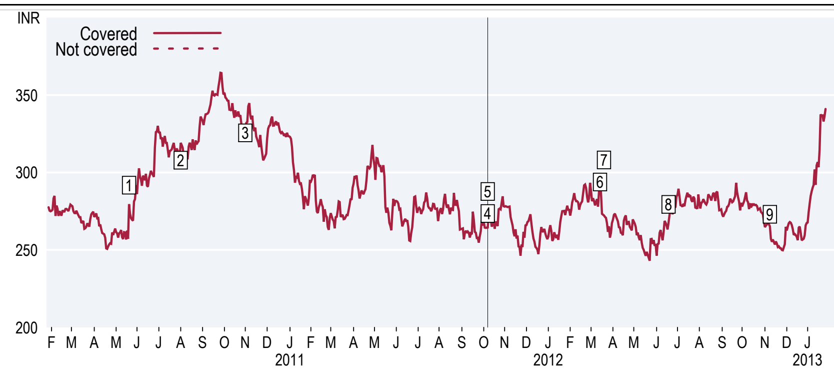
The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

Oil & Natural Gas (ONGC.BO)

Ratings and Target Price History
Fundamental Research

Analyst: Saurabh Handa
Covered since June 18 2010



	Date	Rating	Target Price	Closing Price
1	20-May-10	*2L	*292.50	279.55
2	2-Aug-10	*3L	*296.25	319.13
3	1-Nov-10	*2L	*328.75	329.51

	Date	Rating	Target Price	Closing Price
4	7-Oct-11	Stock rating system changed		
5	7-Oct-11	*1	328.75	264.45
6	14-Mar-12	1	*321.00	293.85

	Date	Rating	Target Price	Closing Price
7	20-Mar-12	1	*313.00	272.25
8	19-Jun-12	1	*317.00	267.60
9	8-Nov-12	1	*309.00	265.20

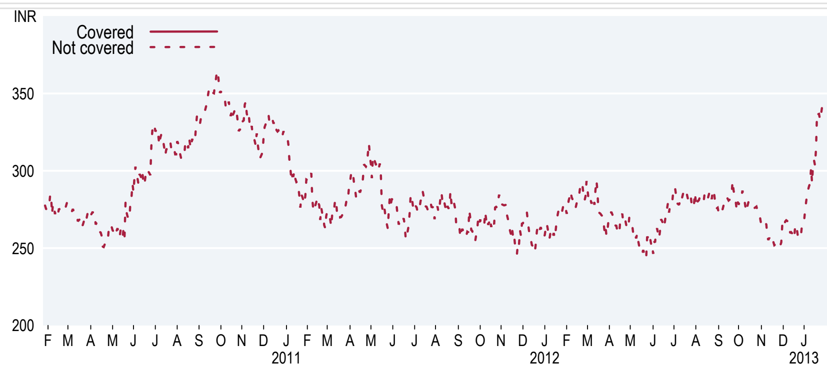
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Oil & Natural Gas (ONGC.BO)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Saurabh Handa
Covered since June 18 2010



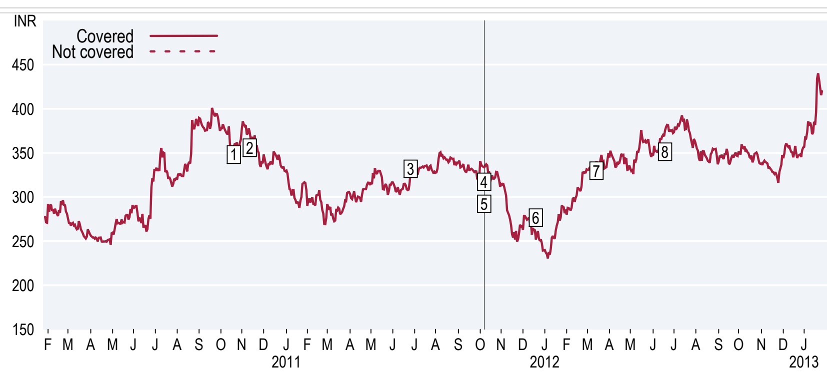
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Bharat Petroleum (BPCL.BO)

Ratings and Target Price History
Fundamental Research

Analyst: Saurabh Handa



	Date	Rating	Target Price	Closing Price
1	20-Oct-10	*2L	*373.00	357.10
2	11-Nov-10	2L	*395.00	373.15
3	26-Jun-11	*1L	*392.00	317.20

	Date	Rating	Target Price	Closing Price
4	7-Oct-11	Stock rating system changed		
5	7-Oct-11	*1	392.00	333.60
6	20-Dec-11	1	*370.00	251.85

	Date	Rating	Target Price	Closing Price
7	14-Mar-12	1	*421.00	340.63
8	19-Jun-12	1	*430.00	375.55

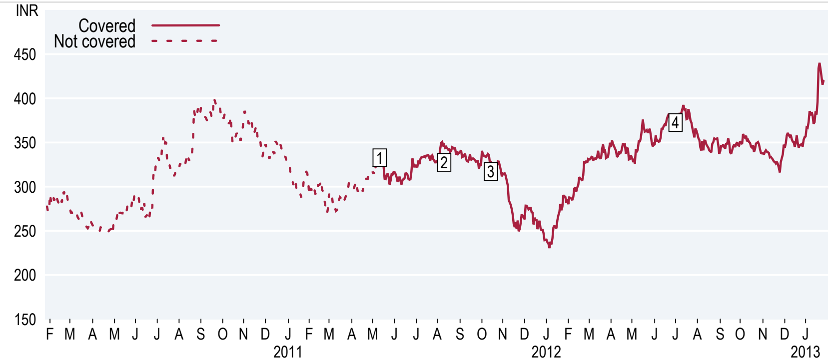
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Bharat Petroleum (BPCL.BO)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Saurabh Handa



	Date	Rating	Target Price	Closing Price
1	11-May-11	*ADD LP	-	329.13
2	10-Aug-11	*ADD MP	-	347.03
3	14-Oct-11	*REM MP	-	327.75
4	30-Jun-12	*N	-	372.50

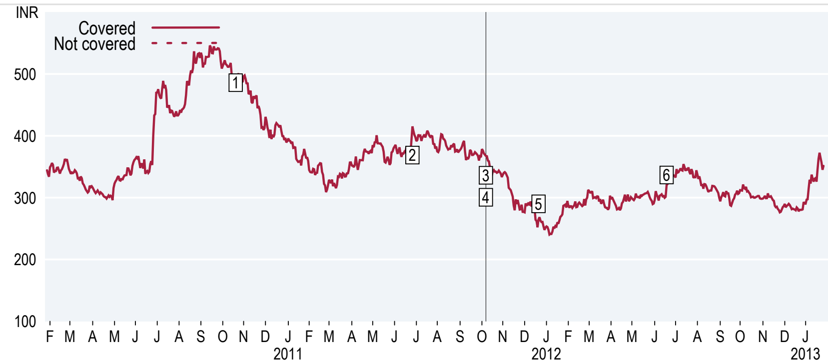
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Hindustan Petroleum (HPCL.BO)

Ratings and Target Price History
Fundamental Research

Analyst: Saurabh Handa



	Date	Rating	Target Price	Closing Price
1	20-Oct-10	*3L	*511.00	490.75
2	27-Jun-11	*1L	*471.00	415.25
3	7-Oct-11	Stock rating system changed		
4	7-Oct-11	*1	471.00	367.40
5	21-Dec-11	1	*360.00	264.85
6	19-Jun-12	1	*335.00	320.45

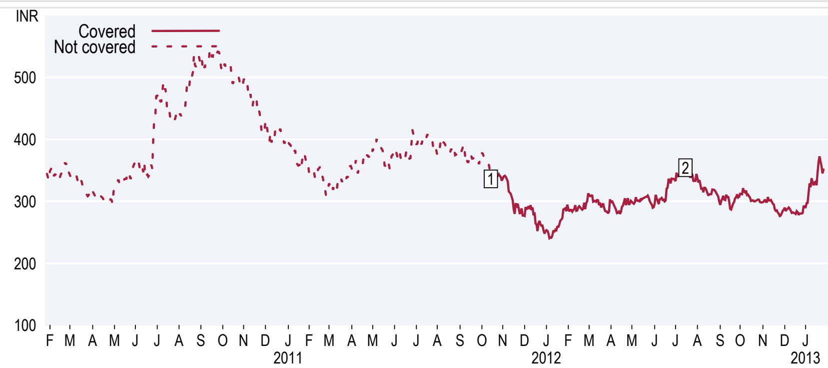
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Hindustan Petroleum (HPCL.BO)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Saurabh Handa



	Date	Rating	Target Price	Closing Price
1	14-Oct-11	*ADD MP	-	348.70
2	16-Jul-12	*REM MP	-	343.30

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Citigroup Global Markets Inc. or its affiliates beneficially owns 1% or more of any class of common equity securities of Hindustan Petroleum. This position reflects information available as of the prior business day.

Within the past 12 months, Citigroup Global Markets Inc. or its affiliates has acted as manager or co-manager of an offering of securities of Oil & Natural Gas, Bharat Petroleum.

Citigroup Global Markets Inc. or its affiliates has received compensation for investment banking services provided within the past 12 months from Oil & Natural Gas, Bharat Petroleum, Hindustan Petroleum.

Citigroup Global Markets Inc. or its affiliates expects to receive or intends to seek, within the next three months, compensation for investment banking services from Bharat Petroleum, Hindustan Petroleum.

Citigroup Global Markets Inc. or an affiliate received compensation for products and services other than investment banking services from Oil & Natural Gas, Bharat Petroleum, Hindustan Petroleum in the past 12 months.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as investment banking client(s): Oil & Natural Gas, Bharat Petroleum, Hindustan Petroleum.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as clients, and the services provided were non-investment-banking, securities-related: Oil & Natural Gas, Bharat Petroleum, Hindustan Petroleum.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as clients, and the services provided were non-investment-banking, non-securities-related: Oil & Natural Gas, Bharat Petroleum, Hindustan Petroleum.

Analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Citigroup Global Markets Inc. and its affiliates ("the Firm"). Like all Firm employees, analysts receive compensation that is impacted by overall firm profitability which includes investment banking revenues.

For important disclosures (including copies of historical disclosures) regarding the companies that are the subject of this Citi Research product ("the Product"), please contact Citi Research, 388 Greenwich Street, 28th Floor, New York, NY, 10013, Attention: Legal/Compliance [E6WYB6412478]. In addition, the same important disclosures, with the exception of the Valuation and Risk assessments and historical disclosures, are contained on the Firm's disclosure website at https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures. Valuation and Risk assessments can be found in the text of the most recent research note/report regarding the subject company. Historical disclosures (for up to the past three years) will be provided upon request.

Citi Research Equity Ratings Distribution

	12 Month Rating			*Relative Rating*		
Data current as of 31 Dec 2012	**Buy**	**Hold**	**Sell**	**Buy**	**Hold**	**Sell**
Citi Research Global Fundamental Coverage	49%	38%	12%	7%	86%	7%
% of companies in each rating category that are investment banking clients	53%	49%	45%	60%	49%	55%

Guide to Citi Research Fundamental Research Investment Ratings:
Citi Research stock recommendations include an investment rating and an optional risk rating to highlight high risk stocks.
Risk rating takes into account both price volatility and fundamental criteria. Stocks will either have no risk rating or a High risk rating assigned.
Investment Ratings: Citi Research investment ratings are Buy, Neutral and Sell. Our ratings are a function of analyst expectations of expected total return ("ETR") and risk. ETR is the sum of the forecast price appreciation (or depreciation) plus the dividend yield for a stock within the next 12 months. The Investment rating definitions are: Buy (1) ETR of 15% or more or 25% or more for High risk stocks; and Sell (3) for negative ETR. Any covered stock not assigned a Buy or a Sell is a Neutral (2). For stocks rated Neutral (2), if an analyst believes that there are insufficient valuation drivers and/or investment catalysts to derive a positive or negative investment view, they may elect with the approval of Citi Research management not to assign a target price and, thus, not derive an ETR. Analysts may place covered stocks "Under Review" in response to exceptional circumstances (e.g. lack of information critical to the analyst's thesis) affecting the company and / or trading in the company's securities (e.g. trading suspension). As soon as practically possible, the analyst will publish a note re-establishing a rating and investment thesis. To satisfy regulatory requirements, we correspond Under Review and Neutral to Hold in our ratings distribution table for our 12-month fundamental rating system. However, we reiterate that we do not consider Under Review to be a recommendation.
Relative three-month ratings: Citi Research may also assign a three-month relative call (or rating) to a stock to highlight expected out-performance (most preferred) or under-performance (least preferred) versus the geographic and industry sector over a 3 month period. The relative call may highlight a specific near-term catalyst or event impacting the company or the market that is anticipated to have a short-term price impact on the equity securities of the company. Absent any specific catalyst the analyst(s) will indicate the most and least preferred stocks in the universe of stocks under consideration, explaining the basis for this short-term view. This three-month view may be different from and does not affect a stock's fundamental equity rating, which reflects a longer-term total absolute return expectation. For purposes of NASD/NYSE ratings-distribution-disclosure rules, most preferred calls correspond to a buy recommendation and least preferred calls correspond to a sell recommendation. Any stock not assigned to a most preferred or least preferred call is considered non-relative-rated (NRR). For purposes of NASD/NYSE ratings-distribution-disclosure rules we correspond NRR to Hold in our ratings distribution table for our 3-month relative rating system. However, we reiterate that we do not consider NRR to be a recommendation.

Prior to October 8, 2011, the firm's stock recommendation system included a risk rating and an investment rating. **Risk ratings,** which took into account both price volatility and fundamental criteria, were: Low (L), Medium (M), High (H), and Speculative (S). **Investment Ratings** of Buy, Hold and Sell were a function of the Citi Research expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating. Additionally, analysts could have placed covered stocks "Under Review" in response to exceptional circumstances (e.g. lack of information critical to the analyst's thesis) affecting the company and/or trading in the company's securities (e.g. trading suspension). Stocks placed "Under Review" were monitored daily by management and as practically possible, the analyst published a note re-establishing a rating and investment thesis. For securities in developed markets (US, UK, Europe, Japan, and Australia/New Zealand), investment ratings were:Buy (1) (expected total return of 10% or more for Low-Risk stocks, 15% or more for Medium-Risk stocks, 20% or more for High-Risk stocks, and 35% or more for Speculative stocks); Hold (2) (0%-10% for Low-Risk stocks, 0%-15% for Medium-Risk stocks, 0%-20% for High-Risk stocks, and 0%-35% for Speculative stocks); and Sell (3) (negative total return). For securities in emerging markets (Asia Pacific, Emerging Europe/Middle East/Africa, and Latin America), investment ratings were:Buy (1) (expected total return of 15% or more for Low-Risk stocks, 20% or more for Medium-Risk stocks, 30% or more for High-Risk stocks, and 40% or more for Speculative stocks); Hold (2) (5%-15% for Low-Risk stocks, 10%-20% for Medium-Risk stocks, 15%-30% for High-Risk stocks, and 20%-40% for Speculative stocks); and Sell (3) (5% or less for Low-Risk stocks, 10% or less for Medium-Risk stocks, 15% or less for High-Risk stocks, and 20% or less for Speculative stocks).

Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in investment and/or risk rating, or a change in target price (subject to limited management discretion). At other times, the expected total returns may fall outside of these ranges because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

NON-US RESEARCH ANALYST DISCLOSURES
Non-US research analysts who have prepared this report (i.e., all research analysts listed below other than those identified as employed by Citigroup Global Markets Inc.) are not registered/qualified as research analysts with FINRA. Such research analysts may not be associated persons of the member

organization and therefore may not be subject to the NYSE Rule 472 and NASD Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account. The legal entities employing the authors of this report are listed below:

Citigroup Global Markets India Private Limited	Saurabh Handa; Abhishek Sahoo
Citigroup Global Markets Asia	Graham Cunningham

OTHER DISCLOSURES

The subject company's share price set out on the front page of this Product is quoted as at 28 January 2013 01:09 PM on the issuer's primary market.

Citigroup Global Markets Inc. and/or its affiliates has a significant financial interest in relation to Bharat Petroleum, Hindustan Petroleum. (For an explanation of the determination of significant financial interest, please refer to the policy for managing conflicts of interest which can be found at www.citiVelocity.com.)

For securities recommended in the Product in which the Firm is not a market maker, the Firm is a liquidity provider in the issuers' financial instruments and may act as principal in connection with such transactions. The Firm is a regular issuer of traded financial instruments linked to securities that may have been recommended in the Product. The Firm regularly trades in the securities of the issuer(s) discussed in the Product. The Firm may engage in securities transactions in a manner inconsistent with the Product and, with respect to securities covered by the Product, will buy or sell from customers on a principal basis.

Securities recommended, offered, or sold by the Firm: (i) are not insured by the Federal Deposit Insurance Corporation; (ii) are not deposits or other obligations of any insured depository institution (including Citibank); and (iii) are subject to investment risks, including the possible loss of the principal amount invested. Although information has been obtained from and is based upon sources that the Firm believes to be reliable, we do not guarantee its accuracy and it may be incomplete and condensed. Note, however, that the Firm has taken all reasonable steps to determine the accuracy and completeness of the disclosures made in the Important Disclosures section of the Product. The Firm's research department has received assistance from the subject company(ies) referred to in this Product including, but not limited to, discussions with management of the subject company(ies). Firm policy prohibits research analysts from sending draft research to subject companies. However, it should be presumed that the author of the Product has had discussions with the subject company to ensure factual accuracy prior to publication. All opinions, projections and estimates constitute the judgment of the author as of the date of the Product and these, plus any other information contained in the Product, are subject to change without notice. Prices and availability of financial instruments also are subject to change without notice. Notwithstanding other departments within the Firm advising the companies discussed in this Product, information obtained in such role is not used in the preparation of the Product. Although Citi Research does not set a predetermined frequency for publication, if the Product is a fundamental research report, it is the intention of Citi Research to provide research coverage of the/those issuer(s) mentioned therein, including in response to news affecting this issuer, subject to applicable quiet periods and capacity constraints. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in the Product must take into account existing public information on such security or any registered prospectus.

Investing in non-U.S. securities, including ADRs, may entail certain risks. The securities of non-U.S. issuers may not be registered with, nor be subject to the reporting requirements of the U.S. Securities and Exchange Commission. There may be limited information available on foreign securities. Foreign companies are generally not subject to uniform audit and reporting standards, practices and requirements comparable to those in the U.S. Securities of some foreign companies may be less liquid and their prices more volatile than securities of comparable U.S. companies. In addition, exchange rate movements may have an adverse effect on the value of an investment in a foreign stock and its corresponding dividend payment for U.S. investors. Net dividends to ADR investors are estimated, using withholding tax rates conventions, deemed accurate, but investors are urged to consult their tax advisor for exact dividend computations. Investors who have received the Product from the Firm may be prohibited in certain states or other jurisdictions from purchasing securities mentioned in the Product from the Firm. Please ask your Financial Consultant for additional details. Citigroup Global Markets Inc. takes responsibility for the Product in the United States. Any orders by US investors resulting from the information contained in the Product may be placed only through Citigroup Global Markets Inc.

Important Disclosures for Morgan Stanley Smith Barney LLC Customers: Morgan Stanley & Co. LLC (Morgan Stanley) research reports may be available about the companies that are the subject of this Citi Research research report. Ask your Financial Advisor or use smithbarney.com to view any available Morgan Stanley research reports in addition to Citi Research research reports.
Important disclosure regarding the relationship between the companies that are the subject of this Citi Research research report and Morgan Stanley Smith Barney LLC and its affiliates are available at the Morgan Stanley Smith Barney disclosure website at www.morganstanleysmithbarney.com/researchdisclosures.
For Morgan Stanley and Citigroup Global Markets, Inc. specific disclosures, you may refer to www.morganstanley.com/researchdisclosures and https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures.
This Citi Research research report has been reviewed and approved on behalf of Morgan Stanley Smith Barney LLC. This review and approval was conducted by the same person who reviewed this research report on behalf of Citi Research. This could create a conflict of interest.

The Citigroup legal entity that takes responsibility for the production of the Product is the legal entity which the first named author is employed by. The Product is made available in **Australia** through Citi Global Markets Australia Pty Ltd. (ABN 64 003 114 832 and AFSL No. 240992), participant of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in Australia to Private Banking wholesale clients through Citigroup Pty Limited (ABN 88 004 325 080 and AFSL 238098). Citigroup Pty Limited provides all financial product advice to Australian Private Banking wholesale clients through bankers and relationship managers. If there is any doubt about the suitability of investments held in Citigroup Private Bank accounts, investors should contact the Citigroup Private Bank in Australia. Citigroup companies may compensate affiliates and their representatives for providing products and services to clients. The Product is made available in **Brazil** by Citigroup Global Markets Brasil - CCTVM SA, which is regulated by CVM - Comissão de Valores Mobiliários, BACEN - Brazilian Central Bank, APIMEC - Associação dos Analistas e Profissionais de Investimento do Mercado de Capitais and ANBID - Associação Nacional dos Bancos de Investimento. Av. Paulista, 1111 - 11º andar - CEP. 01311920 - São Paulo - SP. If the Product is being made available in certain provinces of **Canada** by Citigroup Global Markets (Canada) Inc. ("CGM Canada"), CGM Canada has approved the Product. Citigroup Place, 123 Front Street West, Suite 1100, Toronto, Ontario M5J 2M3. This product is available in **Chile** through Banchile Corredores de Bolsa S.A., an indirect subsidiary of Citigroup Inc., which is regulated by the

Superintendencia de Valores y Seguros. Agustinas 975, piso 2, Santiago, Chile. The Product is made available in **France** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 1-5 Rue Paul Cézanne, 8ème, Paris, France. The Product is distributed in **Germany** by Citigroup Global Markets Deutschland AG ("CGMD"), which is regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin). CGMD, Reuterweg 16, 60323 Frankfurt am Main. Research which relates to "securities" (as defined in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)) is issued in **Hong Kong** by, or on behalf of, Citigroup Global Markets Asia Limited which takes full responsibility for its content. Citigroup Global Markets Asia Ltd. is regulated by Hong Kong Securities and Futures Commission. If the Research is made available through Citibank, N.A., Hong Kong Branch, for its clients in Citi Private Bank, it is made available by Citibank N.A., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. Citibank N.A. is regulated by the Hong Kong Monetary Authority. Please contact your Private Banker in Citibank N.A., Hong Kong, Branch if you have any queries on or any matters arising from or in connection with this document. The Product is made available in **India** by Citigroup Global Markets India Private Limited, which is regulated by Securities and Exchange Board of India. Bakhtawar, Nariman Point, Mumbai 400-021. The Product is made available in **Indonesia** through PT Citigroup Securities Indonesia. 5/F, Citibank Tower, Bapindo Plaza, Jl. Jend. Sudirman Kav. 54-55, Jakarta 12190. Neither this Product nor any copy hereof may be distributed in Indonesia or to any Indonesian citizens wherever they are domiciled or to Indonesian residents except in compliance with applicable capital market laws and regulations. This Product is not an offer of securities in Indonesia. The securities referred to in this Product have not been registered with the Capital Market and Financial Institutions Supervisory Agency (BAPEPAM-LK) pursuant to relevant capital market laws and regulations, and may not be offered or sold within the territory of the Republic of Indonesia or to Indonesian citizens through a public offering or in circumstances which constitute an offer within the meaning of the Indonesian capital market laws and regulations. The Product is made available in **Israel** through Citibank NA, regulated by the Bank of Israel and the Israeli Securities Authority. Citibank, N.A, Platinum Building, 21 Ha'arba'ah St, Tel Aviv, Israel. The Product is made available in **Italy** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. Via dei Mercanti, 12, Milan, 20121, Italy. The Product is made available in **Japan** by Citigroup Global Markets Japan Inc. ("CGMJ"), which is regulated by Financial Services Agency, Securities and Exchange Surveillance Commission, Japan Securities Dealers Association, Tokyo Stock Exchange and Osaka Securities Exchange. Shin-Marunouchi Building, 1-5-1 Marunouchi, Chiyoda-ku, Tokyo 100-6520 Japan. If the Product was distributed by SMBC Nikko Securities Inc. it is being so distributed under license. In the event that an error is found in an CGMJ research report, a revised version will be posted on the Firm's Citi Velocity website. If you have questions regarding Citi Velocity, please call (81 3) 6270-3019 for help. The Product is made available in **Korea** by Citigroup Global Markets Korea Securities Ltd., which is regulated by the Financial Services Commission, the Financial Supervisory Service and the Korea Financial Investment Association (KOFIA). Citibank Building, 39 Da-dong, Jung-gu, Seoul 100-180, Korea. KOFIA makes available registration information of research analysts on its website. Please visit the following website if you wish to find KOFIA registration information on research analysts of Citigroup Global Markets Korea Securities Ltd. http://dis.kofia.or.kr/fs/dis2/fundMgr/DISFundMgrAnalystPop.jsp?companyCd2=A03030&pageDiv=02. The Product is made available in Korea by Citibank Korea Inc., which is regulated by the Financial Services Commission and the Financial Supervisory Service. Address is Citibank Building, 39 Da-dong, Jung-gu, Seoul 100-180, Korea. The Product is made available in **Malaysia** by Citigroup Global Markets Malaysia Sdn Bhd (Company No. 460819-D) (“CGMM”) to its clients and CGMM takes responsibility for its contents. CGMM is regulated by the Securities Commission of Malaysia. Please contact CGMM at Level 43 Menara Citibank, 165 Jalan Ampang, 50450 Kuala Lumpur, Malaysia in respect of any matters arising from, or in connection with, the Product. The Product is made available in **Mexico** by Acciones y Valores Banamex, S.A. De C. V., Casa de Bolsa, Integrante del Grupo Financiero Banamex ("Accival") which is a wholly owned subsidiary of Citigroup Inc. and is regulated by Comision Nacional Bancaria y de Valores. Reforma 398, Col. Juarez, 06600 Mexico, D.F. In **New Zealand** the Product is made available to ‘wholesale clients’ only as defined by s5C(1) of the Financial Advisers Act 2008 (‘FAA’) through Citigroup Global Markets Australia Pty Ltd (ABN 64 003 114 832 and AFSL No. 240992), an overseas financial adviser as defined by the FAA, participant of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in **Pakistan** by Citibank N.A. Pakistan branch, which is regulated by the State Bank of Pakistan and Securities Exchange Commission, Pakistan. AWT Plaza, 1.1. Chundrigar Road, P.O. Box 4889, Karachi-74200. The Product is made available in the **Philippines** through Citicorp Financial Services and Insurance Brokerage Philippines, Inc., which is regulated by the Philippines Securities and Exchange Commission. 20th Floor Citibank Square Bldg. The Product is made available in the Philippines through Citibank NA Philippines branch, Citibank Tower, 8741 Paseo De Roxas, Makati City, Manila. Citibank NA Philippines NA is regulated by The Bangko Sentral ng Pilipinas. The Product is made available in **Poland** by Dom Maklerski Banku Handlowego SA an indirect subsidiary of Citigroup Inc., which is regulated by Komisja Nadzoru Finansowego. Dom Maklerski Banku Handlowego S.A. ul.Senatorska 16, 00-923 Warszawa. The Product is made available in the **Russian Federation** through ZAO Citibank, which is licensed to carry out banking activities in the Russian Federation in accordance with the general banking license issued by the Central Bank of the Russian Federation and brokerage activities in accordance with the license issued by the Federal Service for Financial Markets. Neither the Product nor any information contained in the Product shall be considered as advertising the securities mentioned in this report within the territory of the Russian Federation or outside the Russian Federation. The Product does not constitute an appraisal within the meaning of the Federal Law of the Russian Federation of 29 July 1998 No. 135-FZ (as amended) On Appraisal Activities in the Russian Federation. 8-10 Gasheka Street, 125047 Moscow. The Product is made available in **Singapore** through Citigroup Global Markets Singapore Pte. Ltd. (“CGMSPL”), a capital markets services license holder, and regulated by Monetary Authority of Singapore. Please contact CGMSPL at 8 Marina View, 21st Floor Asia Square Tower 1, Singapore 018960, in respect of any matters arising from, or in connection with, the analysis of this document. This report is intended for recipients who are accredited, expert and institutional investors as defined under the Securities and Futures Act (Cap. 289). The Product is made available by The Citigroup Private Bank in Singapore through Citibank, N.A., Singapore Branch, a licensed bank in Singapore that is regulated by Monetary Authority of Singapore. Please contact your Private Banker in Citibank N.A., Singapore Branch if you have any queries on or any matters arising from or in connection with this document. This report is intended for recipients who are accredited, expert and institutional investors as defined under the Securities and Futures Act (Cap. 289). This report is distributed in Singapore by Citibank Singapore Ltd ("CSL") to selected Citigold/Citigold Private Clients. CSL provides no independent research or analysis of the substance or in preparation of this report. Please contact your Citigold//Citigold Private Client Relationship Manager in CSL if you have any queries on or any matters arising from or in connection with this report. This report is intended for recipients who are accredited investors as defined under the Securities and Futures Act (Cap. 289). Citigroup Global Markets (Pty) Ltd. is incorporated in the **Republic of South Africa** (company registration number 2000/025866/07) and its registered office is at 145 West Street, Sandton, 2196, Saxonwold. Citigroup Global Markets (Pty) Ltd. is regulated by JSE Securities Exchange South Africa, South African Reserve Bank and the Financial Services Board. The investments and services contained herein are not available to private customers in South Africa. The Product is made available in **Spain** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 29 Jose Ortega Y Gasset, 4th Floor, Madrid, 28006, Spain. The Product is made available in the **Republic of China** through Citigroup Global Markets Taiwan Securities Company Ltd. ("CGMTS"), 14 and 15F, No. 1, Songzhi Road, Taipei 110, Taiwan and/or through Citibank Securities (Taiwan) Company Limited ("CSTL"), 14