

## Weekly monitor Indian oil & gas weekly

June 24, 2013

### **CCEA is likely to consider gas pricing decision this week**

While a gas price hike was on the agenda for CCEA's meeting last week, the matter was not considered due to the absence of the petroleum minister.

**Nomura view:** *The CCEA is likely to take up the gas pricing issue this week. Ahead of the crucial meeting, there seems to be hectic lobbying, we believe. The fertiliser ministry has seemingly agreed to a price of USD6.78/mmbtu. But, the power ministry is vehemently opposing a price hike (especially an APM hike). Private players, on the other hand, are seeking import parity prices (USD12-14/mmbtu). While we don't see much rationale for an APM hike, we think the Gol will opt to play it safe and raise APM prices also.*

### **Muted consumption growth in May; decline for LPG, kero and diesel**

*Total petroleum product consumption grew by 2.3% y-y in May. But, all controlled products saw a y-y decline: LPG (-5.5%), kerosene (-2.1%) and diesel (-0.1%). Published numbers indicate a sharp 31% y-y growth for gasoline. Such a sharp increase seems erroneous, in our view. For more details, please see Fig 24 inside.*

### **May-13 production: Oil declines 2% y-y; gas declines sharp 19%**

*ONGC's oil production declined by 1% y-y. The decline in Oil India's oil production was much sharper at 5% y-y. Rajasthan block's oil production remained flat at ~175kbpd. ONGC's gas production saw a sharp 4% y-y decline in May. Private/JV sector gas production declined sharply by 42% primarily due to the KG-D6 field. For details, please see Fig 17-22 inside.*

### **Brent declined to ~USD100/bbl, SGP complex GRM at USD8.5/bbl**

- **Crude** – The average Brent at USD104/bbl was flat w-w. But over the weekend, Brent declined sharply to ~USD100 due to weak economic data, a strong dollar and the US Fed's comments on the scaling back of the quantitative easing programme. Henry-Hub gas price increased by 3% w-w to USD3.9/mmbtu.
- **Refining** – SGP complex margins increased (the eighth successive weekly increase) by 3% w-w to USD8.5/bbl, driven by firmed up middle distillates. From April-end, SGP complex margins are up ~78%.
- **Petrochem** – Ethylene prices were flat w-w.

### **Key stock movements**

- Except for Cairn, all other O&G stocks under our coverage declined w-w.
- PLNG and IOCL sharply underperformed the market by ~5% w-w.

### **Nomura research**

- [Quick Note - Asia polyester chain - Recovery is unlikely near term](#)

### **Anchor themes**

We remain positive on RIL and CAIR. Among oil PSUs, we prefer OMCs, and continue to believe that upstream PSUs are vulnerable to higher subsidy share. In the gas space, IGL and PLNG remain our favourites.

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

# Key news and events from the past week

## India and companies

### **CCEA defers decision on domestically produced natural gas pricing** (Business Line, 21 June)

The Cabinet Committee on Economic Affairs on Friday deferred a decision on domestically produced natural gas pricing. Finance Minister P. Chidambaram said after the CCEA meeting that “the paper (agenda) was there. But, the Minister for Petroleum & Natural Gas, M. Veerappa Moily had to go to Agartala. Hopefully, we would like to take a decision next week when the Minister is back.” Moily was in Tripura for the inauguration of ONGC’s power plant by President Pranab Mukherjee. What is amusing is the fact that the issue of gas pricing was pushed as part of additional items to be considered by the CCEA on June 20, at the behest of the Petroleum Ministry. On June 19, the Petroleum Ministry had circulated the CCEA note for considering the fixation of domestically produced natural gas based price on the recommendations of the C. Rangarajan Committee on Production Sharing Mechanism in the Petroleum Industry.

### **Power ministry against a gas price hike** (Financial Express, 24 June)

The power ministry has strongly opposed the proposal to increase the price of domestic natural gas especially that which comes from the fields of national oil firms like ONGC and OIL India where the pricing is regulated by the government as per the administered price mechanism (APM) regime. Currently, a proposal is under consideration to hike the price of domestic gas to \$6.77 per mmbtu from the existing \$4.22 per mmbtu level. Gas-generated electricity has to compete with cheaper power produced from coal for market. In that context, the power ministry has argued that any price beyond \$5 per mmbtu will not be affordable for the power sector. In light of that argument, the ministry has added that there should not be any increase in the price of APM gas being supplied to the power sector. It has argued that oil PSUs have already recovered their costs from these fields.

### **Gujarat State Petroleum Corp seeks government nod to sell KG gas at \$13** (Economic Times, 23 June)

Gujarat government company GSPC has asked the Central government to approve its plans to sell natural gas from a field in KG basin at \$13-14, three times the current gas price. The Gujarat State Petroleum Corp (GSPC) on June 10 wrote to Oil Secretary Vivek Rae seeking early approval for an imported LNG-linked pricing formula for the 5.24mmscmd of gas it plans to produce from its Deen Dayal West (DDW) gas field in block KG-OSN-2001/3 later this year. Stating that the company and its partners have already spent around \$2.8 billion on the DDW gas field, GSPC Managing Director Tapan Ray asked Oil Secretary to accord approval to the arm-length market price that was discovered in an e-tender in February. He told Rae that GSPC had on April 2 submitted the price formula and an approval is now needed so as to help the company begin the commercial production of gas from DDW field in the second half of 2013-14.

**Nomura view:** *The CCEA is likely to take up the gas pricing issue this week. Ahead of the crucial meeting, there seems to be hectic lobbying. The fertiliser ministry has seemingly agreed to a price of USD6.78/mmbtu. But, the power ministry is vehemently opposing a price hike (especially APM hike). Private players on the other hand are seeking import parity prices (USD12-14/mmbtu). While we don’t see much rationale for an APM hike, we think the Govt will opt to play it safe and raise APM prices also.*

### **Arbitration not yet commenced in KG-D6 output fall** (Economic Times, 20 June)

Nearly a year after arbitrators were appointed to decide whether Reliance Industries can be penalised for producing less than target, the arbitration has not yet commenced, the Petroleum Ministry has said. The Government had in May last year disallowed USD1.005 billion expense of RIL on the flagging KG-D6 gas fields for not implementing the approved field development plan. RIL had contested the move saying the Production Sharing Contract (PSC) does not provide for such a penalty in case of a shortfall in

production, and slapped an arbitration notice. The then Oil Minister S Jaipal Reddy had in June 2012 decided to join the arbitration proceedings and appointed former Chief Justice of India Justice V N Khare as the government's arbitrator. RIL had appointed former Chief Justice of India S P Bharucha but a third neutral referee has not yet been appointed and arbitration is yet to commence, the Oil Ministry said in a Chronological Sequence it released to rebut CPI leader Gurudas Dasgupta's allegation of Oil Minister M Veerappa Moily trying to sabotage the arbitration to help RIL.

**Nomura view:** *In our view, such controversies further vitiate the atmosphere, and can delay the E&P approval process and gas pricing decisions. Also, with the petroleum ministry under pressure to show that it is not giving any preference for private companies, the government will likely find it difficult to agree to a higher gas price (than the USD6.78 being contemplated for all domestic gas) for NELP blocks like KG-D6, in our view.*

#### **Indian court orders GAIL to implement the Kochi-Kottanad-Bangalore-Mangalore natural gas pipeline project on time** (Energy Business Review, 17 June)

The Madras High Court (HC) has ordered the Gas Authority of India (GAIL) along with the Union and the State governments to quickly implement the Kochi-Kottanad-Bangalore-Mangalore natural gas pipeline project in the state of Tamil Nadu. The HC order came after a public interest writ petition was filed by a Madurai-based advocate S. Thamizharasan seeking speedy implementation of the gas pipeline project. The petitioner through his counsel P. Veerakathiravan alleged that the machinery to install the gas pipeline had reached Coimbatore, Salem, Erode, Namakkal, Dharmapuri, Krishnagiri, and Tirupur districts, but the project has been stalled due to the non-cooperation of the state government.

Further, in the petition, it was mentioned that the Union Ministry of Transport and GAIL had spent huge amounts of public money for the project, but the state failed to provide the necessary administrative support to implement the project in Tamil Nadu. In 2007, the Indian Ministry of Petroleum and Natural Gas gave the authorization to install the pipeline, following which GAIL laid a gas grid covering more than 10,000km in various parts of India. The petitioner fears that if the Southern Gas Grid is not laid in the state, it will be totally cut off from the National Gas Grid and the state will not get the natural gas. The gas pipeline will supply compressed natural gas (CNG) that is expected to reduce pollution.

## **Oil & gas markets**

#### **Rosneft's \$270bn oil deal set to make china the biggest market** (Bloomberg, 21 Jun)

OAO Rosneft signed a \$270 billion supply deal with the China National Petroleum Corp, making the Asian nation Russia's biggest market for oil. State-run Rosneft, the biggest publicly traded oil producer by output, will get a \$70 billion prepayment under the deal, and will supply about 360 million metric tons of crude to China over 25 years, President Vladimir Putin said at the St. Petersburg International Economic Forum. The deal, following a government accord in April, will redirect Russia's oil away from Europe, where demand is stagnant, to the world's second-biggest crude market after the US.

#### **IEA sees growth of natural gas in power slowing over the next 5 years** (IEA, 20 June)

Natural gas will continue to increase its share of the global energy mix, growing at 2.4% per year between now and 2018, the IEA said in its Medium-Term Gas Market Report (MTGMR). However, the projected growth rate is lower than the IEA's forecast last year of 2.7%, due to persistent demand weakness in Europe as well as difficulties in upstream production growth in the Middle East and Africa. At the same time, the report sees gas emerging as a significant transportation fuel: Thanks to abundant shale gas in the United States and amid more stringent environmental policies in China, gas is expected to do more to slow oil demand growth than electric vehicles and biofuels combined.

“Even though we have revised our growth estimates downwards, the ‘Golden Age’ of gas remains in full swing,” said IEA Executive Director Maria van der Hoeven. “Gas is already a major fuel in power generation, but the next five years will also see it emerging as a significant transportation fuel, driven by abundant supplies as well as concerns about oil dependency and air pollution. Once the infrastructure barriers are tackled, natural gas has significant potential for clean-energy use in heavy-duty transport where electrification is not possible.”

“The persistent tightness of LNG markets is a major concern as it limits the contribution of gas to sustainable energy security,” Ms. Van der Hoeven said. “It also highlights the need to tackle energy subsidies and improve energy efficiency in major producing countries as well as to adopt supportive policies for LNG investment.”

**PIRA Energy: Asian LNG demand heads towards summer peak buying** (LNG World News, 19 June)

PIRA’s analysis of natural gas market fundamentals has revealed that Asian demand is heading towards summer peak buying: Time is running out to secure last minute spot deals ahead of the Asian summer peak, and it appears that buyers with last minute requirements for July and August remain unruffled, particularly as Shell has just announced the end of a May 19 force majeure for Nigeria LNG and operators of Norway’s Snohvit announced that the plant will be shipping LNG again in coming days. Asian spot price assessments for July are still hovering in place after gaining some strength in recent weeks on prolonged Nigerian shortfalls.

**Strong deep-sea naphtha inflows to worsen Asia supply glut** (ICIS, 24 June)

Asia is expected to receive close to a million tonnes of deep-sea naphtha supply from the western markets in July, further compounding the heavy supply situation that has been weighing on regional prices, traders said. The shipments may be more than what Asia could absorb at a time of a declining Chinese economy, traders said. Straining the supply situation further, Indian refiners are estimated to export 750,000-800,000 tonnes of naphtha supplies in July, traders said. The volumes are slightly higher than the 750,000 tonnes shipped out this month, they added. Lacklustre gasoline-blending demand in Europe led to earlier surplus bookings of naphtha supplies to Asia, traders said.

# Key macro trends

## Brent declined to ~USD100/bbl; H-H gas prices up ~3% w-w

Average Brent at USD104/bbl was flat w-w. But, over the weekend, Brent declined sharply to ~USD100/bbl due to weak economic data, a strong dollar and Ben Bernanke's comment on scaling back the quantitative easing programme later this year. 2QTD, Brent at USD103/bbl has declined by 9% q-q and 5% y-y. Henry Hub gas prices increased 3% w-w to US\$3.9/mmbtu.

Fig. 1: Key oil and gas prices

US\$/bbl/mmbtu	Weekly average			Quarterly average					Yearly average			Nomura forecasts	
	21-Jun-13	1 wk ago	% ch	2Q13TD	1Q13	2Q12	Q-o-Q	Y-o-Y	2013TD	2012	Y-o-Y	2013	2014
Brent crude	104.0	103.8	0.2%	103	113	109	-9%	-5%	108	112	-3%	105	100
WTI crude	96.7	96.3	0.4%	94	94	93	0%	1%	94	94	0%		
Dubai crude	102.0	100.8	1.2%	101	108	106	-7%	-5%	105	109	-4%		
Henry Hub gas	3.9	3.8	2.7%	4.0	3.5	2.3	14%	72%	3.8	2.8	37%		

Source: Bloomberg, Nomura estimates

## Refining margin – SGP complex GRM further improved

SGP refining margins have seen a sharp rebound over the past few weeks. Last week, the SGP complex margin increased by ~3% w-w to USD8.5/bbl, driven by the increase in middle distillate cracks. This is the eight consecutive weekly increase in SGP complex margins (up ~78% from the recent bottom in end April).

- Gasoline cracks further declined by ~6% w-w to USD19.2/bbl. Naphtha cracks further weakened as substantial imports and low demand weighed on the market.
- Middle distillate cracks increased by 1-4% w-w driven by seasonal demand.
- FO cracks increased sharply by 11x w-w to USD7/bbl (from USD0.6/bbl).

For 2Q13TD, at USD6.3, SGP complex margins have declined ~26% q-q and 5% y-y.

Fig. 2: Refining margins

SGP complex margins continued to improve (up ~3% w-w and ~78% over the past 8 weeks to USD8.5/bbl).

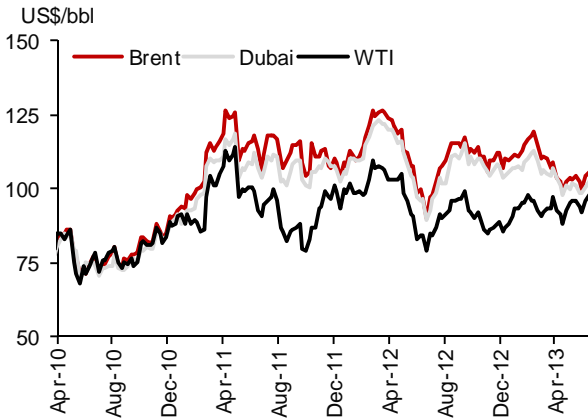
US\$/bbl	Weekly average			Quarterly average					Yearly average			Nomura forecast	
	21-Jun-13	1 wk ago	W-o-W	2Q13TD	1Q13	2Q12	Q-o-Q	Y-o-Y	2013TD	2012	Y-o-Y	2013	2014
Singapore													
- Complex	8.5	8.2	3.3%	6.3	8.5	6.7	-26%	-5%	7.5	7.5	0%	7.0	6.8
- Simple	3.8	3.2	18.9%	1.8	2.1	2.7	-14%	-35%	1.9	2.9	-33%	2.4	1.9
Product prices													
- Gasoline	121	121	0.1%	118	129	124	-8%	-5%	124	127	-2%		
- Diesel	121	120	1.2%	117	128	122	-8%	-4%	123	126	-3%		
- Jet/kerosene	119	117	1.6%	116	128	123	-10%	-5%	123	127	-4%		
- Fuel oil	109	101	7.5%	105	112	119	-7%	-12%	109	115	-6%		
- Naphtha	95	94	0.7%	93	105	98	-11%	-5%	99	103	-4%		
- LPG	68	68	-0.1%	67	76	67	-11%	0%	72	77	-7%		
Product cracks													
- Gasoline	19.2	20.3	-5.6%	17.3	20.8	17.7	-17%	-2%	19.1	17.7	8%	16.0	15.0
- Diesel	19.1	18.9	0.7%	16.5	19.6	15.6	-16%	6%	18.1	17.4	4%	15.0	14.0
- Jet/kerosene	16.9	16.3	3.7%	15.1	20.5	16.2	-26%	-6%	17.9	18.0	-1%	15.0	15.0
- Fuel oil	7.0	0.6	1026%	4.1	4.4	12.3	-6%	-67%	4.2	6.4	-33%	4.0	2.5
- Naphtha	(7.1)	(6.6)	nm	(7.8)	(3.4)	(8.8)	nm	nm	(5.5)	(6.0)	nm	(5.0)	2.0
- LPG	(34.1)	(32.8)	nm	(33.7)	(32.5)	(38.9)	nm	nm	(33.1)	(31.7)	nm	(30.0)	(28.0)

Source: Bloomberg, Reuters, Nomura estimates

# Key trends

**Fig. 3: Oil price trend**

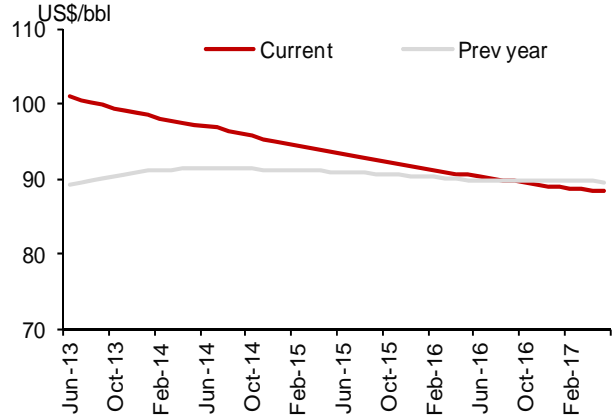
Brent prices were flat w-w at US\$104/bbl



Source: Bloomberg, Nomura research

**Fig. 4: Brent oil futures**

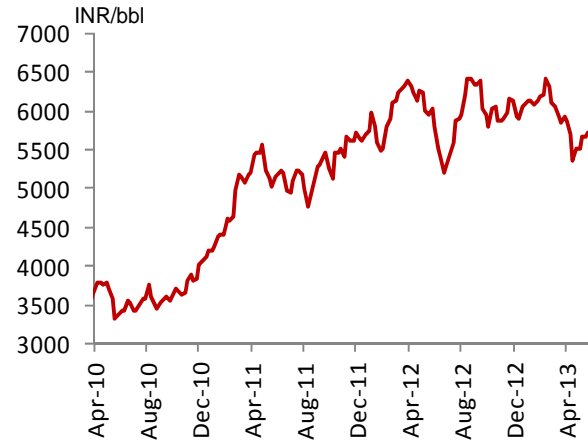
Oil futures market indicates near-term Brent price of ~US\$100/bbl



Source: Bloomberg, Nomura research

**Fig. 5: OIL in INR terms**

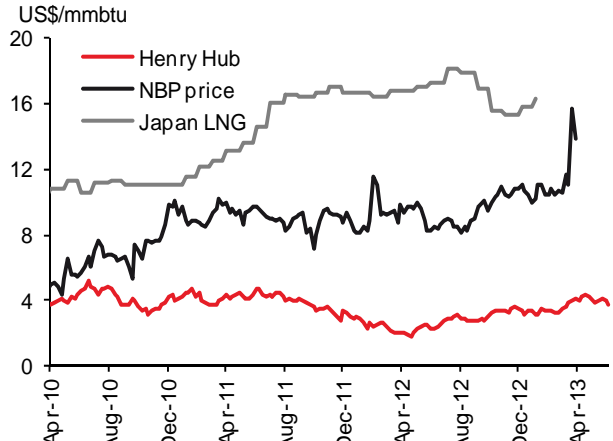
Up 2% w-w and 14% over the past 2 months due to sharp INR depreciation



Source: Bloomberg, Nomura research

**Fig. 6: Regional gas prices**

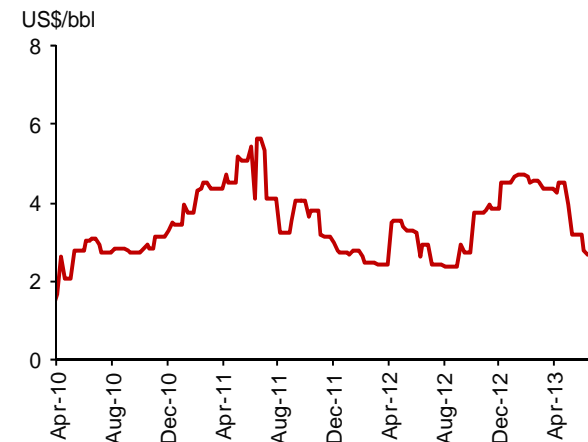
H-H gas prices increased 3% w-w to US\$3.9/mmbtu.



Source: Bloomberg, Nomura research

**Fig. 7: Arab light-heavy differentials**

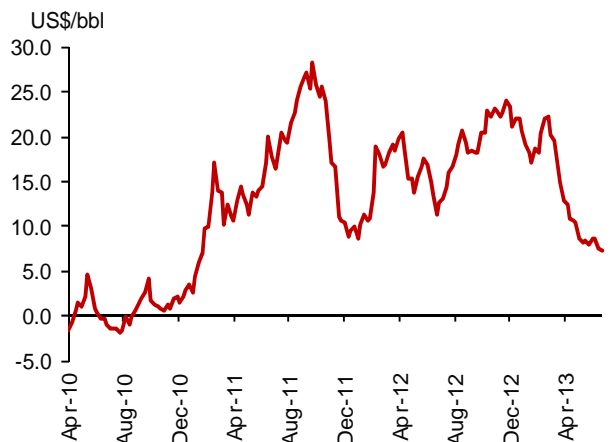
L-H differentials were flat w-w



Source: Bloomberg, Nomura research

**Fig. 8: Brent - WTI differentials**

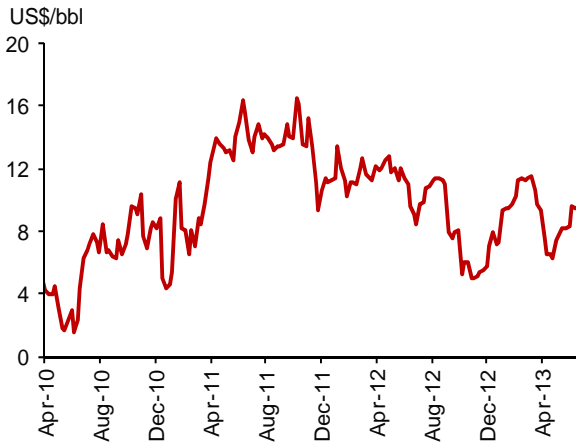
Brent - WTI differentials have seen a sharp decline over the past few weeks



Source: Bloomberg, Nomura research

**Fig. 9: Light (Tapis) – Heavy (Dubai) differentials**

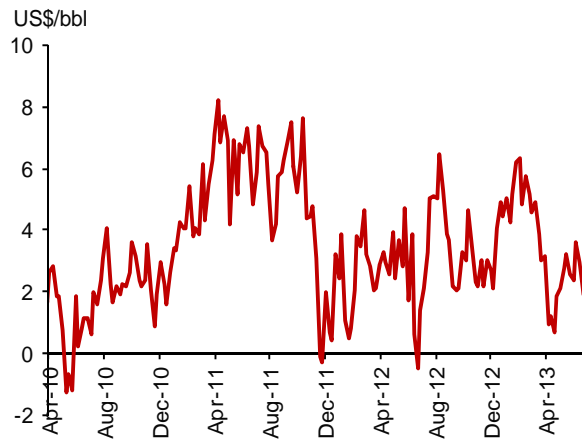
L-H differentials were flat w-w at US\$9.45/bbl.



Source: Bloomberg, Nomura research

**Fig. 10: Brent (sweet) – Dubai (sour) differentials**

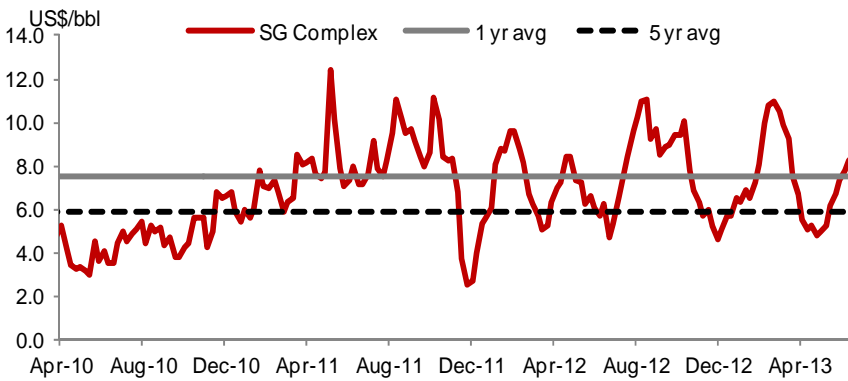
Brent – Dubai differentials declined by US\$1.0/bbl (35%) w-w



Source: Bloomberg, Nomura research

**Fig. 11: Singapore complex GRM trend**

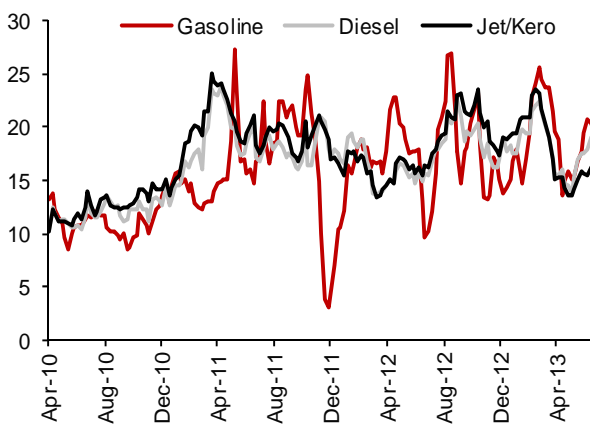
Steady improvement in SGP complex GRM over the past two months (up 78% from recent bottom in end April).



Source: Reuters, Nomura research

**Fig. 12: Recent trend in gasoline and middle distillate cracks**

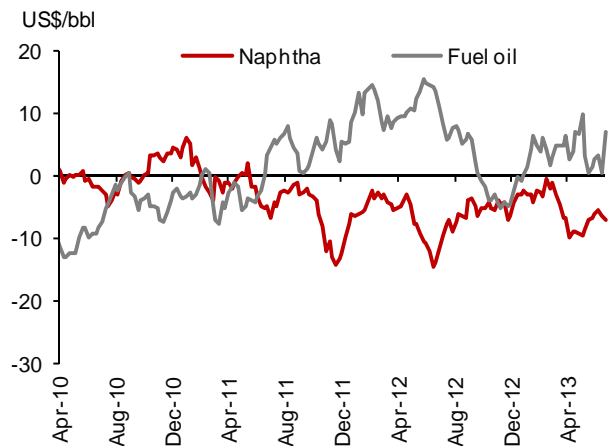
Gasoline (-6% w-w); diesel (+1% w-w); Jet/Kero (+4% w-w)



Source: Bloomberg, Nomura research

**Fig. 13: Recent trend in FO and naphtha cracks**

FO cracks shoot up ~11x w-w to US\$7/bbl (from US\$0.6/bbl).



Source: Bloomberg, Nomura research

## Petrochemicals

Ethylene-naphtha margins declined 2% w-w. PP-Propylene margins declined ~10% w-w. PE-naphtha margins were flat w-w.

Fig. 14: Petrochemicals prices and margins

US\$/MMT	Weekly average			Quarterly average					Yearly average		
	21-Jun-13	1 wk ago	W-o-W	2Q13TD	1Q13	2Q12	Q-o-Q	Y-o-Y	2013TD	2012	Y-o-Y
<b>Petrochemicals - prices</b>											
Naphtha	876	868	0.9%	864	973	900	-11%	-4%	921	949	-3%
Ethylene	1,210	1,210	0.0%	1,218	1,348	1,181	-10%	3%	1,286	1,224	5%
Propylene	1,375	1,363	0.9%	1,331	1,343	1,369	-1%	-3%	1,338	1,360	-2%
Polyethylene (LDPE)	1,438	1,430	0.6%	1,379	1,396	1,314	-1%	5%	1,388	1,309	6%
Polypropylene (PP)	1,430	1,424	0.4%	1,402	1,453	1,394	-4%	1%	1,428	1,391	3%
PVC	980	980	0.0%	976	1,046	992	-7%	-2%	1,013	980	3%
Paraxylene (PX)	1,442	1,446	-0.3%	1,447	1,640	1,437	-12%	1%	1,547	1,517	2%
PTA	1,060	1,060	0.0%	1,050	1,170	1,082	-10%	-3%	1,110	1,101	1%
Ethylene Glycol (EG)	948	945	0.3%	985	1,135	946	-13%	4%	1,063	1,025	4%
Benzene	1,285	1,289	-0.3%	1,309	1,409	1,131	-7%	16%	1,361	1,223	11%
Butadiene	1,360	1,410	-3.5%	1,439	1,841	2,504	-22%	-43%	1,648	2,423	-32%
<b>Petrochemicals - margins</b>											
Ethylene-Naphtha	335	342	-2.3%	355	375	282	-5%	26%	365	275	33%
LDPE-Naphtha (integrated)	562	562	0.0%	516	423	414	22%	25%	467	360	30%
LDPE-Ethylene	228	220	3.6%	161	48	132	235%	22%	102	85	20%
Propylene-Naphtha	500	495	0.8%	468	370	469	26%	0%	417	411	2%
PP-Naphtha (integrated)	555	556	-0.3%	538	480	494	12%	9%	508	442	15%
PP-Propylene	55	61	-9.8%	70	110	25	-36%	182%	91	31	189%
PX-Naphtha	566	579	-2.2%	583	667	537	-13%	9%	627	568	10%
PTA-PX	91	90	0.9%	80	64	101	24%	-21%	71	84	-16%
Benzene-Naphtha	410	421	-2.8%	445	436	231	2%	92%	440	273	61%

Source: Datastream, Nomura research

Fig. 15: Domestic pet-chem prices

INR/kg	PE	PP	PVC	POY	PSF	PTA	MEG	LAB
Jun-12	90.9	90.4	61.5	94.4	97.3	65.0	59.3	114.1
May-13	90.4	91.2	60.5	94.0	94.8	61.5	58.7	119.1
Jun-13	95.4	100.7	66.0	97.0	97.8	64.5	60.9	121.1
<b>Change %</b>								
<b>m-m</b>	<b>6%</b>	<b>10%</b>	<b>9%</b>	<b>3.2%</b>	<b>3.2%</b>	<b>4.9%</b>	<b>3.7%</b>	<b>1.7%</b>
<b>y-y</b>	<b>5.0%</b>	<b>11.4%</b>	<b>7.3%</b>	<b>2.7%</b>	<b>0.5%</b>	<b>-0.8%</b>	<b>2.7%</b>	<b>6.1%</b>
1QFY13	91.9	92.1	61.8	92.4	95.8	65.1	57.2	114.2
2QFY13	91.2	91.9	63.5	93.8	96.2	60.1	57.7	113.8
3QFY13	89.4	92.2	62.0	94.0	98.3	64.6	64.3	116.1
4QFY13	94.4	97.9	63.5	97.3	101.4	69.6	68.3	119.8
1QFY14	92.5	95.9	63.3	95.0	96.3	63.3	59.7	120.4
<b>Change %</b>								
<b>q-q</b>	<b>-2%</b>	<b>-2%</b>	<b>0%</b>	<b>-2%</b>	<b>-5%</b>	<b>-9%</b>	<b>-13%</b>	<b>1%</b>
<b>y-y</b>	<b>1%</b>	<b>4%</b>	<b>2%</b>	<b>3%</b>	<b>1%</b>	<b>-3%</b>	<b>4%</b>	<b>5%</b>

Source: Reliance Industries, Nomura research

RIL increased pet-chem prices by 2-10% in June. Polymer prices were increased by 6-10%, and polyester /polyester intermediaries' prices by 3-5%.

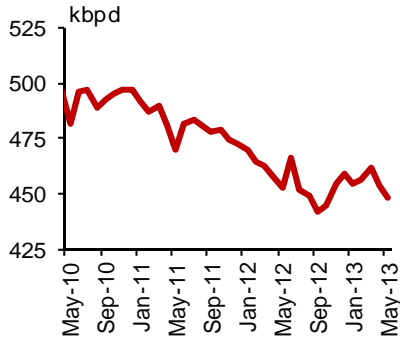
This increase was on a m-m price reduction of 3-12% in April and 0-5% in May.



# India – Key industry data

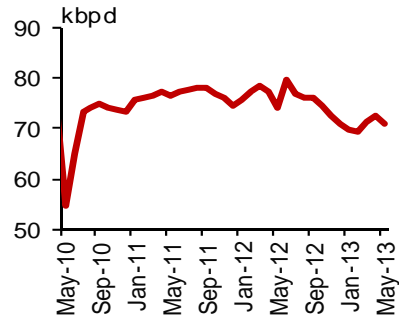
## Oil production trend

**Fig. 16: ONGC – Oil production trend**  
1% y-y decline in May 13



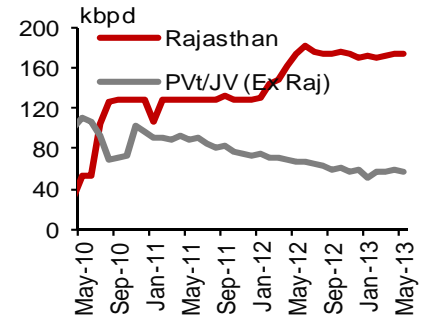
Source: PPAC, Nomura research

**Fig. 17: OINL – Oil production trend**  
5% y-y decline in May 2013



Source: PPAC, Nomura research

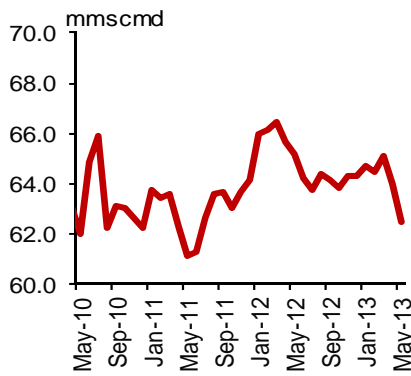
**Fig. 18: Pvt/JVs – Oil production trend**  
Rajasthan block production remains flat



Source: PPAC, Nomura research

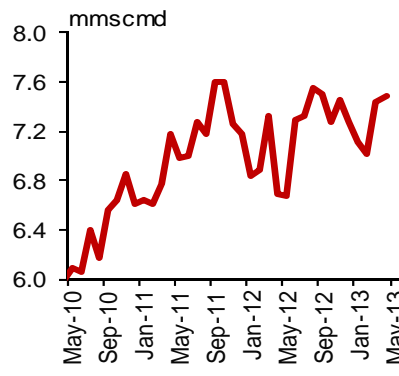
## Gas production trend

**Fig. 19: ONGC – Gas production trend**  
4% y-y decline in May13



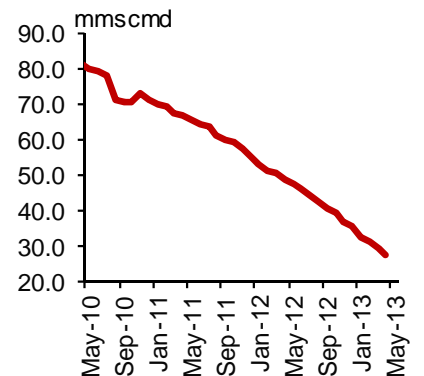
Source: PPAC, Nomura research

**Fig. 20: OINL – Gas production trend**  
Production increased ~7% y-y in May 13



Source: PPAC, Nomura research

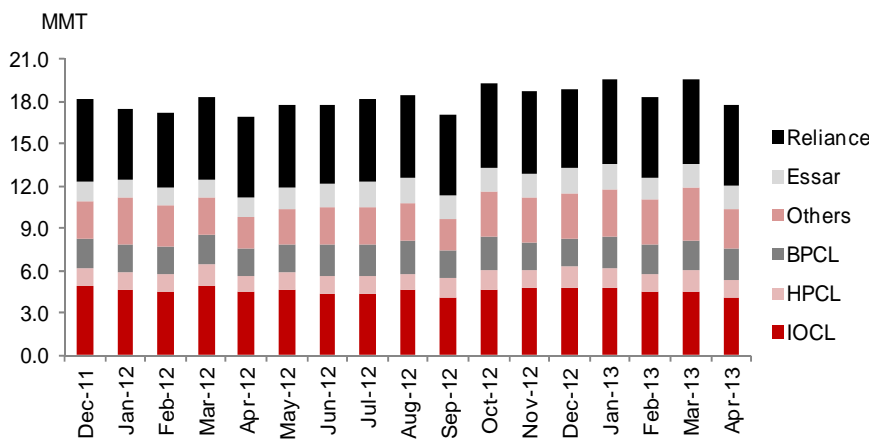
**Fig. 21: JVs – Gas production trend**  
KG-D6 - current volumes near ~15mmscmd



Source: PPAC, Nomura research

## Refining throughput trend

**Fig. 22: Refining throughput trend**



Source: Petroleum Planning & Analysis Cell, Nomura research

## Petroleum product consumption trend

**Fig. 23: Trend in petroleum product consumption**

Consumption declined for all controlled products in May 13 - LPG (down 5.5%), kerosene (down 2.1%) and diesel (down 0.1%)

(million tonnes)	FY10	FY11	FY12	FY13	Jan-13	Feb-13	Mar-13	Apr-13	May-13
LPG	13.1	14.3	15.4	15.6	1.3	1.3	1.4	1.2	1.2
	6.3%	9.2%	7.3%	1.6%	-1.8%	-4.2%	0.5%	0.3%	-5.5%
MS	12.8	14.2	15.0	15.7	1.3	1.3	1.4	1.3	1.7
	13.9%	10.8%	5.6%	5.0%	11.8%	4.0%	1.4%	1.9%	31.2%
Kerosene	9.3	8.9	8.2	7.5	0.6	0.6	0.6	0.6	0.6
	0.0%	-4.1%	-7.8%	-8.8%	-9.3%	-7.5%	-5.9%	-1.8%	-2.1%
Diesel	56.3	60	64.8	69.2	5.8	5.4	6.2	6.2	6.4
	8.9%	6.5%	8.0%	6.8%	7.9%	-2.3%	2.6%	4.2%	-0.1%
Naphtha	10.2	10.7	11.2	12.3	1.1	0.9	1.0	1.0	0.9
	-26.4%	4.3%	4.8%	10.6%	23.0%	10.7%	10.0%	11.9%	-14.8%
Aviation fuel	4.6	5.1	5.5	5.3	0.5	0.4	0.5	0.5	0.5
	4.6%	9.7%	9.0%	-4.8%	-4.4%	-6.8%	1.1%	1.5%	3.4%
Fuel oil	11.6	10.9	9.2	7.7	0.6	0.5	0.6	0.5	0.5
	-7.9%	-6.1%	-15.6%	-16.8%	-8.1%	-27.2%	-20.6%	-26.2%	-23.3%
Others	20.2	17.7	18.7	22.2	2.1	2.0	2.2	2.0	2.2
	11.7%	-12.4%	6.0%	18.0%	30.2%	16.9%	12.2%	12.6%	15.8%
Total	138.2	141.8	148	155.4	13.2	12.4	13.9	13.2	14.1
	3.4%	2.6%	4.4%	5.0%	8.8%	-0.2%	2.4%	3.4%	2.3%

Source: Petroleum Planning & Analysis Cell, Nomura research

## Oil import bill trend

**Fig. 24: Oil and oil products import bill**

Net oil import bill is up ~6% in FY13

	FY10	FY11	FY12	FY13	Jan-13	Feb-13	Mar-13	Apr-13	May-13
<b>Crude Oil import</b>									
- Volume (MMT)	159.3	163.6	171.7	184.5	18.1	14.1	15.3	15.8	14.8
- US\$bn	79.6	100.1	139.7	143.9	14.1	11.2	11.8	11.9	11.0
- Y-Y	3%	26%	40%	3%	2%	-12%	0%	-8%	-12%
<b>Product import</b>									
- Volume (MMT)	14.7	16.8	15.0	15.1	1.0	1.0	1.2	1.2	1.2
- US\$m	7.1	11.3	11.3	11.9	0.9	0.9	0.9	0.9	0.9
<b>Product export</b>									
- Volume (MMT)	51.0	59.1	60.8	63.8	5.4	5.2	6.0	5.3	5.2
- US\$m	30.6	43.3	59.3	59.1	5.0	4.9	5.6	4.7	4.7
<b>Net import bill</b>									
- US\$m	56.1	68.0	91.7	96.7	10.0	7.3	7.1	8.1	7.2
- Y-Y	-11%	21%	35%	6%	0%	-16%	-15%	-18%	-22%

Note: Data for RIL (SEZ) Jamnagar and HMEL Refinery for the month of April & May '13 is on provisional basis.

Source: PPAC, Nomura research

## Under-recoveries trend

**Fig. 25: Trend of under-recoveries on retail petro products**

Overall, under-recoveries have increased by ~13% over past 1M to INR2.9bn/day mainly due to INR weakness

based on	Crude	Ex. rate	Under-recovery per unit			U/R per day	
	USD/bbl	INR/USD	Diesel (INR/L)	Kero(INR/L)	LPG (INR/cyl)	INRbn	USDmn
1F July 12	98.0	55.42	10.0	27.2	319	3.58	65
2F July 12	102.7	55.42	12.1	28.5	231	4.02	73
1F Aug 12	107.7	55.52	13.8	28.5	231	4.05	73
2F Aug 12	112.4	55.61	17.1	32.7	347	5.51	99
1F Sept 12	113.6	55.47	13.9	32.7	347	4.96	89
2F Sept 12	109.9	53.65	11.7	33.9	469	4.37	81
1F Oct 12	110.6	52.52	9.8	33.9	469	4.24	81
2F Oct 12	109.0	53.52	9.8	31.3	479	4.21	79
1F Nov 12	106.7	54.34	9.1	31.3	479	4.12	76
2F Nov 12	108.9	55.17	10.0	30.9	521	4.20	76
1F Dec 12	106.9	54.43	9.3	30.9	521	4.11	76
2F Dec 12	107.8	54.87	9.0	30.6	490	3.89	71
1F Jan 13	109.1	54.73	9.6	30.6	490	3.84	70
2F Jan 13	110.0	53.90	9.2	31.6	481	4.00	74
1FFeb 13	113.9	53.52	10.3	31.6	481	4.54	85
2FFeb13	111.5	54.12	11.3	33.4	439	4.32	80
1FMar13	106.9	54.49	8.6	33.4	439	4.07	75
2FMar13	106.0	54.29	6.5	30.5	435	3.49	64
1F Apr13	104.0	54.56	6.4	30.5	435	3.48	64
2F Apr13	99.4	54.19	3.8	27.9	378	2.56	47
1F May13	101.2	54.32	3.7	27.9	378	2.52	46
2F May13	101.1	55.59	4.9	27.8	335	2.76	49
<b>1F Jun 13</b>	<b>101.1</b>	<b>57.44</b>	<b>6.3</b>	<b>27.8</b>	<b>335</b>	<b>2.86</b>	<b>50</b>

Source: Ministry of Petroleum & Natural Gas, Nomura research

**Fig. 26: Trend in under-recoveries and subsidy sharing**

Upstream share declined from ~40% in FY11/12 to ~37% in FY13

INRbn	FY10	FY11	FY12	FY13
Gross under-recoveries	461	782	1,385	1610
<b>Sharing</b>				
Gol	260	410	835	1000
Upstream	144	303	550	600
Net to OMCs	56	69	0	10
<b>Sharing %</b>				
Gol	56%	52%	60%	62%
Upstream	31%	39%	40%	37%
Net to OMCs	12%	9%	0%	1%
<b>Upstream sharing</b>				
ONGC	116	249	445	494
OIL	15	33	74	79
GAIL	13	21	32	27
<b>Upstream sharing %</b>				
ONGC	80%	82%	81%	82%
OIL	11%	11%	13%	13%
GAIL	9%	7%	6%	5%

Source: PPAC, company data, Nomura estimates

With the recent sharp weakness in INR, the under-recoveries on diesel further increased last fortnight to INR6.3/L.

# Our coverage universe

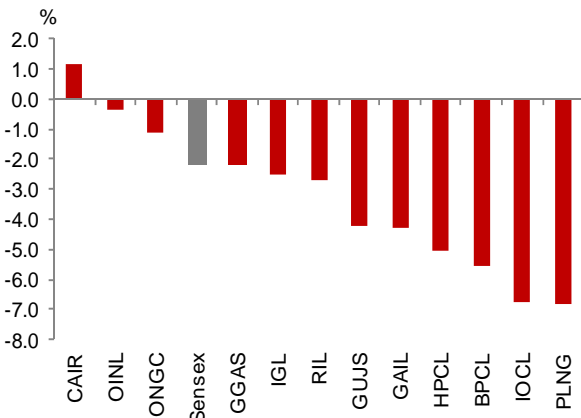
**Fig. 27: Nomura Indian oil & gas coverage**

Company	Ticker	Market Cap	Price	Rating	PT (INR/sh)	Free	3M TO
		US\$bn	(INR/sh)			Float	(US\$mn)
Reliance Industries	RIL IN	43.2	793	BUY	1,000	46.2	51.1
Cairn India	CAIR IN	9.5	294	BUY	350	19.4	11.9
<b>Public sector oil companies</b>							
ONGC	ONGC IN	44.4	308	REDUCE	225	12.9	19.3
Oil India	OINL IN	5.8	569	REDUCE	400	12.7	5.7
BPCL	BPCL IN	4.2	348	BUY	490	30.4	6.6
HPCL	HPCL IN	1.4	249	BUY	410	38.9	3.8
IOCL	IOCL IN	9.6	235	BUY	390	7.0	2.8
<b>Gas companies</b>							
GAIL	GAIL IN	6.2	290	Neutral	350	28.1	5.6
Petronet LNG	PLNG IN	1.6	123	BUY	200	34.8	2.3
Indraprastha Gas	IGL IN	0.7	276	BUY	355	47.6	4.7
Gujarat State Petronet	GUJS IN	0.5	53	BUY	85	37.9	0.8
Gujarat Gas	GGAS IN	0.4	207	Neutral	300	33.6	0.1

Source: Bloomberg, Nomura estimates. Note: Pricing as of 21 June 2013

**Fig. 28: Absolute 1W stock performance**

Except Cairn, all other O&G stocks under coverage declined w-w

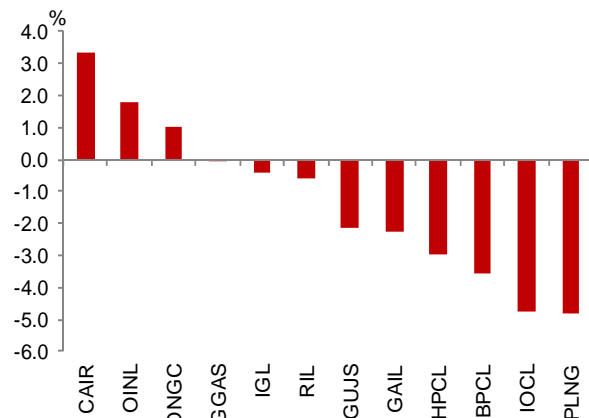


Note: Performance measured as of 21 June 2013 close

Source: Bloomberg, Nomura research

**Fig. 29: 1W performance relative to the Sensex**

PLNG and IOCL sharply under-performed the market by 5% w-w



Note: Performance measured as of 21 June 2013 close

Source: Bloomberg, Nomura research

**Fig. 30: Stock performance matrix**

	Absolute local (%)					Rel. local market (%)					Rel. MSCI Oil & Gas (%)				
	1m	3m	6m	12m	ytd	1m	3m	6m	12m	ytd	1m	3m	6m	12m	ytd
Reliance Industries	0.8	(2.2)	(3.4)	11.5	(5.6)	5.8	(2.4)	(0.9)	0.8	(2.3)	7.7	0.2	(6.1)	(0.2)	(9.0)
Cairn India	3.8	5.8	(6.5)	(10.0)	(8.0)	8.9	5.6	(4.1)	(18.6)	(4.8)	10.9	8.4	(9.2)	(19.4)	(11.4)
ONGC	(5.3)	4.1	20.1	10.1	14.8	(0.6)	3.9	23.2	(0.5)	18.8	1.2	6.6	16.7	(1.4)	10.7
Oil India	(1.6)	16.8	25.7	16.0	22.2	3.2	16.5	28.9	4.9	26.5	5.1	19.6	22.2	3.8	17.8
BPCL	(8.9)	(4.8)	0.4	(8.7)	(2.2)	(4.4)	(5.0)	3.0	(17.5)	1.2	(2.7)	(2.5)	(2.4)	(18.3)	(5.8)
HPCL	(13.7)	(12.4)	(11.3)	(25.5)	(14.5)	(9.5)	(12.6)	(9.0)	(32.6)	(11.5)	(7.8)	(10.3)	(13.8)	(33.3)	(17.6)
IOCL	(18.8)	(19.0)	(8.7)	(10.3)	(13.0)	(14.8)	(19.2)	(6.4)	(18.9)	(9.9)	(13.2)	(17.1)	(11.3)	(19.7)	(16.1)
GAIL	(10.0)	(9.2)	(17.7)	(15.0)	(18.8)	(5.6)	(9.4)	(15.6)	(23.1)	(16.0)	(3.9)	(7.0)	(20.1)	(23.9)	(21.7)
Petronet LNG	(11.7)	(11.3)	(22.4)	(10.9)	(21.5)	(7.3)	(11.4)	(20.4)	(19.5)	(18.8)	(5.6)	(9.1)	(24.6)	(20.3)	(24.4)
Indraprastha Gas	(1.3)	1.6	9.2	13.2	10.7	3.6	1.4	11.9	2.3	14.5	5.5	4.1	6.1	1.3	6.7
Gujarat State Petronet	(10.0)	(15.7)	(30.3)	(18.4)	(31.5)	(5.6)	(15.9)	(28.5)	(26.2)	(29.1)	(3.8)	(13.7)	(32.3)	(26.9)	(33.9)
Gujarat Gas	(14.0)	(18.2)	(32.4)	(33.5)	(32.3)	(9.7)	(18.4)	(30.7)	(39.9)	(30.0)	(8.0)	(16.2)	(34.3)	(40.5)	(34.8)
BSE Sensex	(4.7)	0.2	(2.5)	10.6	(3.4)										

Source: Bloomberg, Nomura research

Fig. 31: Earnings summary (INR bn, EPS in INR)

	Revenue			EBITDA			PAT			EPS		
	FY12	FY13F	FY14F	FY12	FY13F	FY14F	FY12	FY13F	FY14F	FY12	FY13F	FY14F
Reliance Industries	3,585.0	3,960.4	3,958.8	348.2	319.7	326.5	200.3	208.2	221.8	61.2	64.1	68.7
Cairn India	118.6	175.2	170.0	95.5	134.9	125.0	79.4	119.2	94.5	41.6	62.2	49.3
ONGC	1,463.7	1,500.1	1,740.6	577.7	456.1	602.7	250.0	194.7	265.2	29.2	22.8	31.0
Oil India	95.2	73.5	91.7	43.5	20.7	35.2	34.7	20.9	31.2	57.7	34.8	51.8
BPCL	2,119.6	2,589.2	2,616.2	46.4	60.1	67.8	7.8	22.0	26.5	10.8	30.4	36.7
HPCL	1,781.4	1,980.7	2,074.3	38.5	26.4	40.0	9.1	9.5	10.7	26.9	28.0	31.5
IOCL	4,072.3	4,282.1	4,466.4	180.3	161.9	209.2	119.3	58.7	86.1	49.2	24.2	35.4
GAIL	402.8	427.7	442.0	57.0	52.9	56.1	36.5	33.3	35.0	28.8	26.2	27.6
Petronet LNG	227.0	314.7	381.4	18.3	19.4	20.9	10.6	11.5	10.3	14.1	15.3	13.7
Indraprastha Gas	25.2	34.6	41.9	6.3	7.6	8.2	3.1	3.5	3.9	21.9	25.3	27.7
Gujarat State Petronet	11.2	10.6	10.6	10.3	9.6	9.4	5.2	4.7	4.5	9.3	8.3	8.1
Gujarat Gas	24.2	33.6	34.6	4.0	3.9	4.0	2.7	2.6	2.8	21.2	20.2	21.5

Source: Company data, Nomura estimates

Fig. 32: Valuation summary

	P/E(x)			EV/EBITDA(x)			Price/Book(x)			Dividend Yield		
	FY12	FY13F	FY14F	FY12	FY13F	FY14F	FY12	FY13F	FY14F	FY12	FY13F	FY14F
Reliance Industries	13.0	12.4	11.5	8.9	9.8	9.8	1.5	1.4	1.3	1.1	1.1	1.1
Cairn India	7.1	4.7	5.8	5.2	3.1	2.9	1.2	1.0	0.9	-	3.9	3.5
ONGC	10.5	13.5	9.9	4.2	5.5	4.1	1.9	1.8	1.6	2.7	2.4	3.2
Oil India	9.9	16.4	11.0	5.4	11.2	6.2	1.9	1.8	1.6	3.3	1.9	2.8
BPCL	32.3	11.4	9.5	11.9	9.5	8.5	1.6	1.4	1.3	1.6	1.7	1.7
HPCL	9.2	8.9	7.9	9.9	14.4	9.6	0.6	0.6	0.6	3.4	3.6	4.4
IOCL	4.8	9.7	6.6	7.7	8.5	6.7	0.9	0.9	0.8	2.1	3.8	4.3
GAIL	10.1	11.0	10.5	7.1	8.7	9.0	1.7	1.5	1.4	3.0	2.7	2.9
Petronet LNG	8.7	8.0	9.0	6.3	5.7	6.3	2.6	2.1	1.8	2.0	2.0	2.0
Indraprastha Gas	12.6	10.9	9.9	6.9	5.9	5.4	3.1	2.6	2.1	1.8	1.8	1.8
Gujarat State Petronet	5.7	6.4	6.5	3.5	4.1	4.5	1.2	1.0	0.9	1.9	1.9	1.9
Gujarat Gas	9.7	10.2	9.6	6.7	6.4	6.1	3.3	2.9	2.6	10.7	4.8	4.8
Average	11.1	10.3	9.0	7.0	7.7	6.6	1.8	1.6	1.4	2.8	2.7	2.9

Source: Nomura estimates. Note: Pricing as of 21 June 2013

# Appendix A-1

## Analyst Certification

We, Anil Sharma and Ravikumar Adukia, hereby certify (1) that the views expressed in this Research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of our compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

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Issuer	Ticker	Price	Price date	Stock rating	Previous rating	Date of change	Sector rating
Bharat Petroleum Corporation	BPCL IN	INR 348	21-Jun-2013	Buy	Neutral	18-Sep-2012	Not rated
Cairn India	CAIR IN	INR 294	21-Jun-2013	Buy	Reduce	27-Aug-2009	Not rated
GAIL	GAIL IN	INR 290	21-Jun-2013	Neutral	Buy	19-Jul-2012	Not rated
Gujarat Gas	GGAS IN	INR 206	21-Jun-2013	Neutral	Reduce	05-May-2011	Not rated
Gujarat State Petronet	GUJS IN	INR 53	21-Jun-2013	Buy	Not Rated	11-May-2010	Not rated
Hindustan Petroleum Corporation	HPCL IN	INR 249	21-Jun-2013	Buy	Neutral	18-Sep-2012	Not rated
Indraprastha Gas	IGL IN	INR 276	21-Jun-2013	Buy	Not Rated	11-May-2010	Not rated
Indian Oil Corporation	IOCL IN	INR 235	21-Jun-2013	Buy	Neutral	18-Sep-2012	Not rated
Oil India	OINL IN	INR 569	21-Jun-2013	Reduce	Not Rated	18-Sep-2012	Not rated
Oil and Natural Gas	ONGC IN	INR 308	21-Jun-2013	Reduce	Neutral	18-Sep-2012	Not rated
Petronet LNG	PLNG IN	INR 123	21-Jun-2013	Buy	Not Rated	11-May-2010	Not rated
Reliance Industries	RIL IN	INR 793	21-Jun-2013	Buy	Neutral	19-Jul-2012	Not rated

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#### STOCKS

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#### SECTORS

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### Explanation of Nomura's equity research rating system in Japan and Asia ex-Japan

#### STOCKS

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