8 January 2013

Update | Sector: Oil and Gas

ONGC

BSE SENSEX	S&P CNX
19,691	5,988

Bloomberg	ONGC IN
Equity Shares (m)	8,555.5
52-Week Range (INR)	304/240
1,6,12 Rel. Perf. (%)	6/-10/-12
M.Cap. (INR b)	2,464.0
M.Cap. (USD b)	44.6

Valuation summary (INR b)

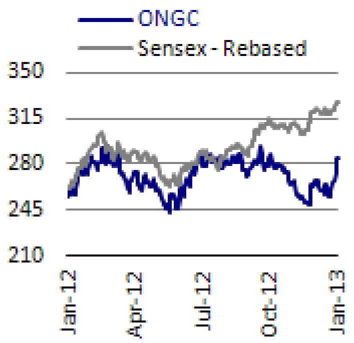
Y/E March	2013E	2014E	2015E
Net Sales	1,537	1,667	1,709
EBITDA	521	610	645
Net Profit	243	276	287
Con.EPS (INR)	28.4	32.3	33.6
EPS Gr. (%)	-6.6	13.5	4.1
BV/Sh. (INR)	176.2	196.8	217.5
P/E (x)	10.1	8.9	8.6
P/BV (x)	1.6	1.5	1.3
EV/EBITDA (x)	4.3	3.5	3.2
EV/Boe *	6.0	5.9	5.8
RoE (%)	16.9	17.3	16.2
RoCE (%)	15.9	16.5	15.5

* (USD, 1P basis)

Shareholding pattern (%)

As on	Sep-12	Jun-12	Sep-11
Promoter	69.2	69.2	74.1
Dom. Inst	11.4	11.7	7.0
Foreign	5.6	5.3	5.2
Others	13.7	13.8	13.6

Stock performance (1 year)



Investors are advised to refer through disclosures made at the end of the Research Report.

CMP: INR288 | TP: INR350 | Buy

Reforms on fast-track; favorable risk-reward

Set to witness production growth led by OVL

- **ONGC has been fundamentally attractive for a long time now. However, irrational subsidy sharing and dipping production have been key negatives for the stock. Due to the same, company's RoE declined from ~28% in FY08 to 21% in FY12. We expect growth in the company to return due to (a) increase in ONGC group production (3.3% CAGR over FY12-15E and 4.7% CAGR if OVL acquisitions get approved); (b) gas price increase post March 31, 2014 and (c) recently-announced positive reforms to reduce under recoveries.**
- **The stock is trading at 1.5x P/BV (lowest in the past 10 years), 8.9x P/E of our FY14E and has an implied dividend yield of ~4%. Our SOTP-based target price for ONGC is INR350/share (implied P/E of 10.4x of FY15E EPS). Maintain Buy.**

Growth issues finally being addressed; OVL acquisitions, best possible medium term cash utilization: After a flat production trend, we believe ONGC is again set for a growth phase and expect ONGC group to post production CAGR of 3.3% in FY12-15E, led by completion of IOR/EOR and marginal/new field development in next 2 years. OVL's recent strategy to aggressively acquire developed/producing assets is the best possible cash utilization in the medium term for ONGC, in our view, due to the (a) need to improve production in the medium term on account of Syria/Sudan issues, (b) planned IOR/EOR projects nearing completion and (c) bulk of its NELP acreage is still in an exploration stage. If we assume the contribution from OVL's recently-announced acquisitions, then the ONGC group production CAGR rises from 3.3% to 4.7% in FY12-15E period.

Subsidy, a near term concern; policy initiatives signal rationalization over long term: With (a) petrol deregulation, (b) diesel break-even doubling in the past 7 years through price-hikes/duty changes, (c) capping of LPG cylinders and (c) targeted subsidy through direct cash transfer, we believe the government is nearing its vision of market-linked petro product prices. Subsidy rationalization would not only free capital for reinvestment (past 7-year subsidy of INR1.7t equals ONGC's capex in the same period) but could lead to stock's rerating.

Long term triggers intact; expect gas price hike in March 2014: Apart from rationalization of subsidy sharing, some of the long term triggers include (a) reserve accretion from its large NELP acreage, (b) gas price hike in March 2014 and (c) accretive acquisition by OVL. If gas prices were to be hiked to USD7/mmbtu then our FY15E consolidated EPS would see 22% upside.

Valuation and view: Despite the harsh subsidy sharing, ONGC's PAT CAGR has been 8% over the past five years. ONGC offers attractive FY13E dividend yield of ~4%. The stock trades at 8.9x FY14E EPS and at ~40% discount to global peers on EV/BOE (1P) basis. Our SOTP-based target price for ONGC is INR350/share. **Buy**.

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Story in charts Group production to post a CAGR of 3.3% in next 3 years

❶ Impressive RRR of >1 in the past 7 years

❷ Expect production growth after flat trend for several years

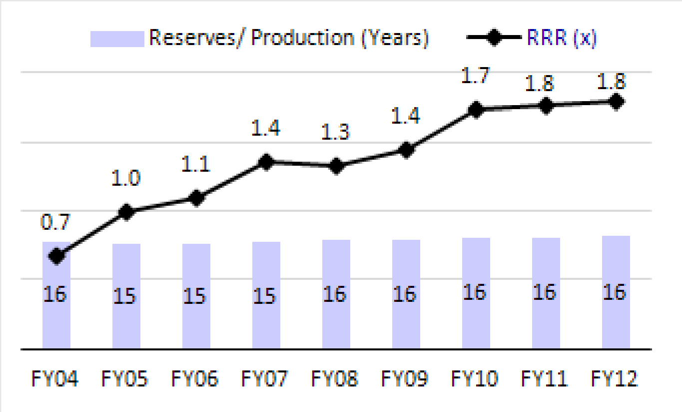
❸ Led by increased investments in IOR/EOR projects

❹ ...and led by recent acquisitions in OVL

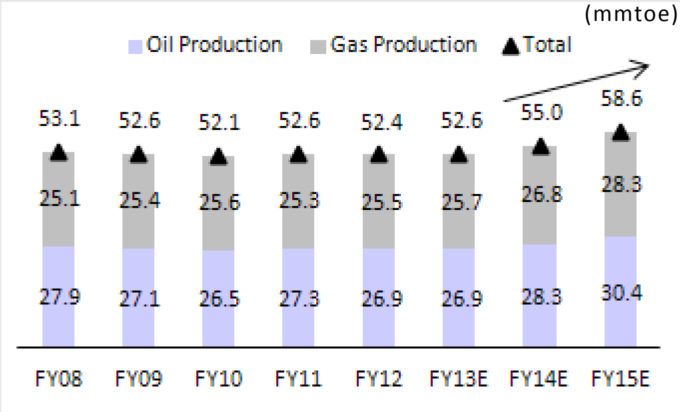
❺ Well-placed to add reserves, holds 49% of allotted exploration acreage in India

❻ An increase of USD1/mmbtu in gas prices, increases EPS by INR 2.6/share and SOTP by INR ~20/share

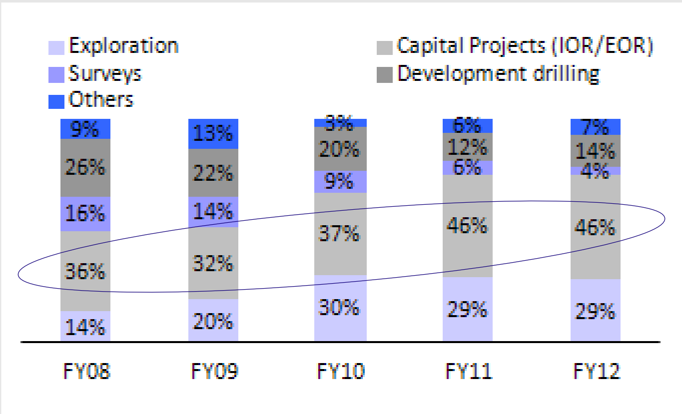
❶ Impressive RRR of >1 in past 7 years



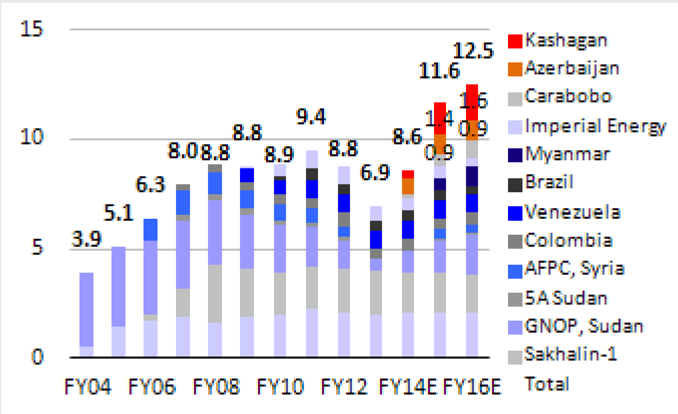
❷ Expect domestic production uptick in coming years



❸ Increasing exploration and IOR/EOR capex (%)

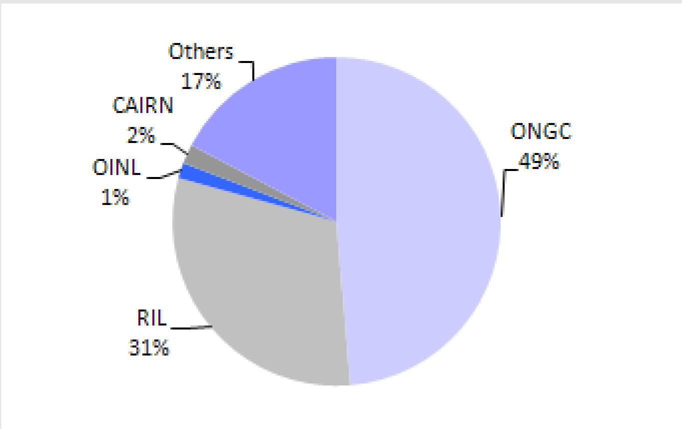


❹ Recent acquisitions to lead OVL to next growth phase *

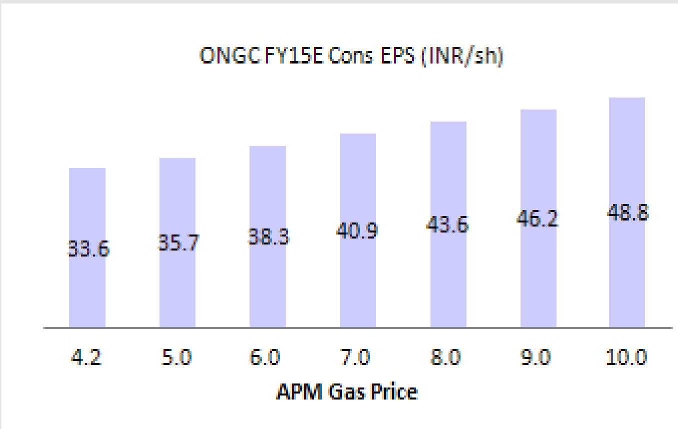


* Azerbaijan and Kashagan not included in our base estimates

❺ ONGC has highest exploration acreage in India



❻ Sensitivity to gas price hike post FY15



Source: Company, MOSL

Story in charts Attractive valuations make ONGC's risk-reward favorable

❶ Government nearing its vision of market-linked petroleum product prices

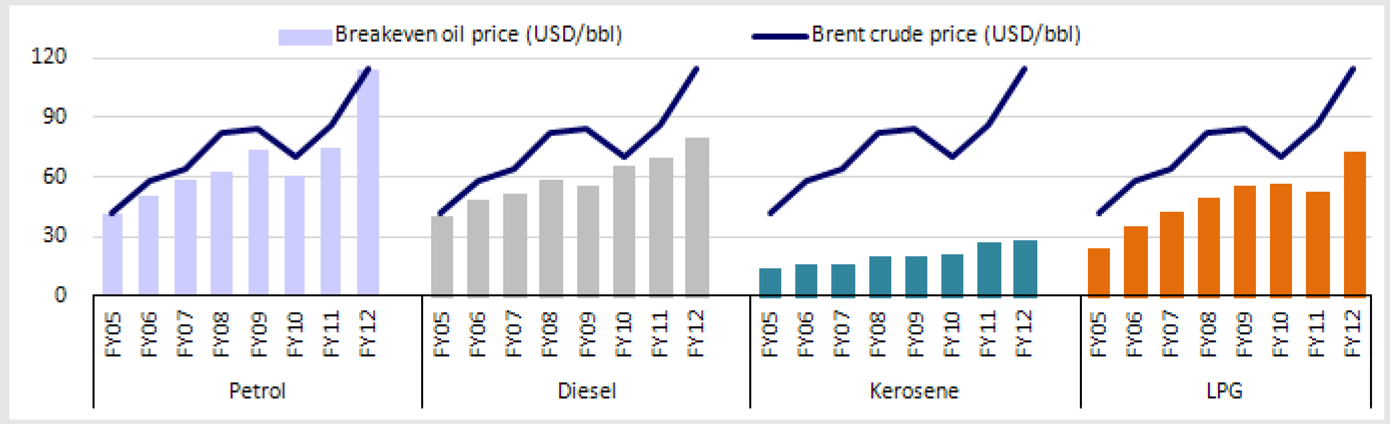
❷ Despite conservatively modeling 40% upstream sharing, expect net realizations to increase (USD/bbl)

❸ 8% PAT CAGR in past 5 years despite ad-hoc subsidy (INR), contribution from OVL and others set to increase

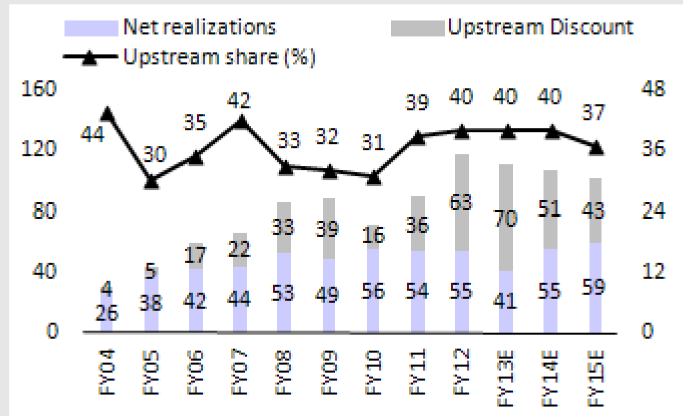
❹ Consistent dividend yield of 3-4%, while average payout has been >40% in last 7 years

❺ Attractive valuations, trading at lowest P/BV in the past 10 years

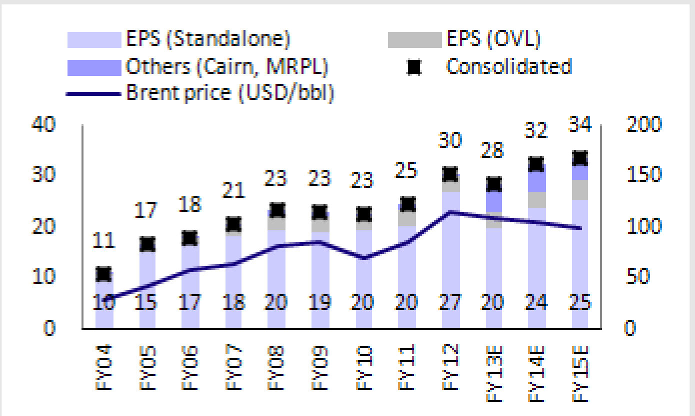
❶ On track for market-linked pricing - Petrol deregulated, diesel break-even doubled in 7 years



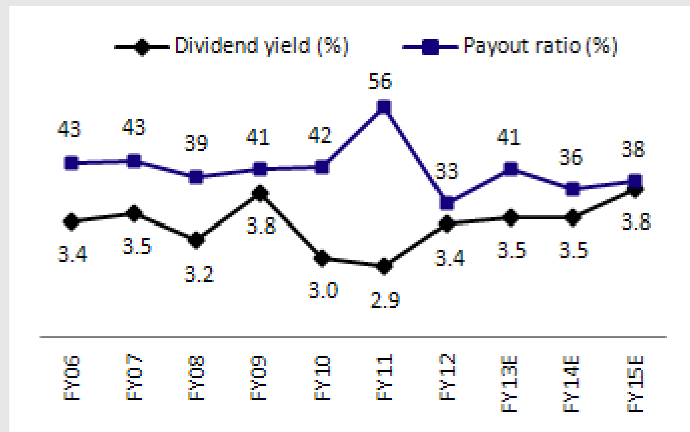
❷ Net realizations to increase (USD/bbl) basis



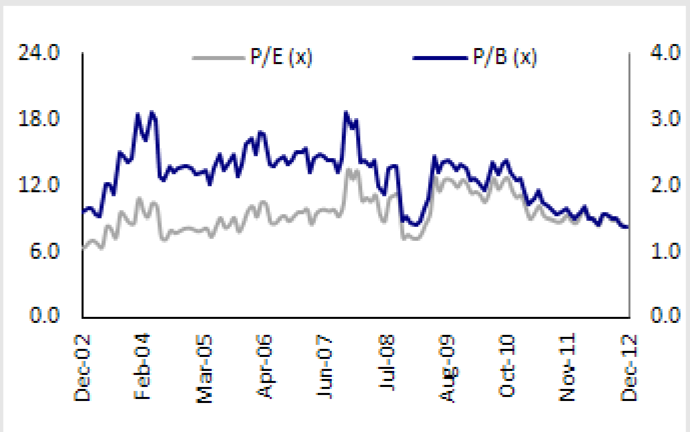
❸ 8% PAT CAGR in past 5 years despite ad-hoc subsidy (INR)



❹ Attractive dividend yield, average payout of >40%



❺ Trading at attractive valuations



Source: Company, MOSL

Growth issues finally being addressed

OVL acquisitions - best possible medium term cash utilization

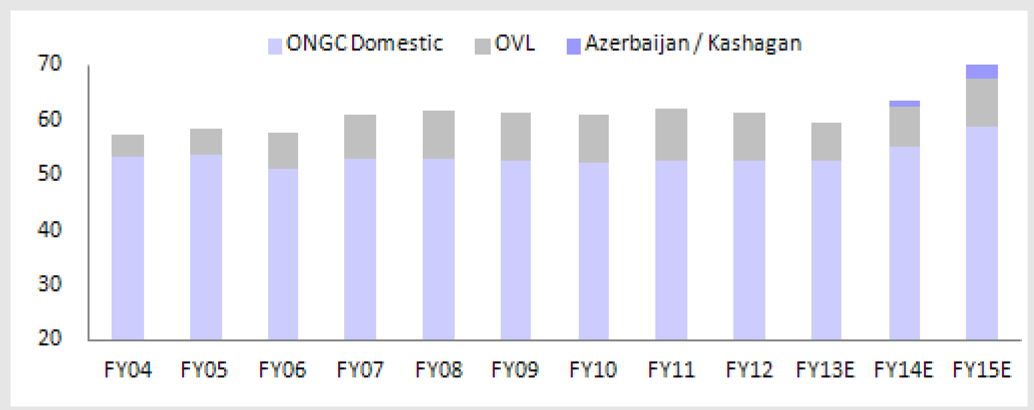
- **After a flat production trend, we believe ONGC is again set for a growth phase and expect ONGC group to post production CAGR of 3.3% in FY12-15E, led by completion of IOR/EOR and marginal/new field development in next 2 years.**
- **OVL's recent strategy to aggressively acquire developed/producing assets is the best possible cash utilization in the medium term for ONGC, in our view, due to the (a) need to improve production in the medium term on account of Syria/Sudan issues, (b) planned IOR/EOR projects are nearing completion and (c) bulk of its NELP acreage is still in an exploration stage.**
- **If we assume the contribution from OVL's recently-announced acquisitions, then the ONGC group production CAGR rises from 3.3% to 4.7% in FY12-15E period.**

Expect FY12-15E production CAGR of 3.3% and 4.7% with recent acquisitions

ONGC's group production has been stagnant in the past several years, despite increased contribution by OVL, due to natural decline in its ageing domestic fields. However, we expect the trend to change now, with a production growth in FY12-15E period. We estimate ONGC group to clock a production CAGR of 3.3% in FY12-FY15E, led by 3.8% CAGR in domestic production and 3.3% CAGR in OVL production.

Further, if we assume the production contribution from ONGC's recently-announced acquisitions in Azerbaijan and Kazakhstan, then OVL's production CAGR will rise to 10%, thus taking ONGC group's production CAGR from 3.3% to 4.7%.

Expect production growth to resume; 4.7% production CAGR in FY12-FY15E *



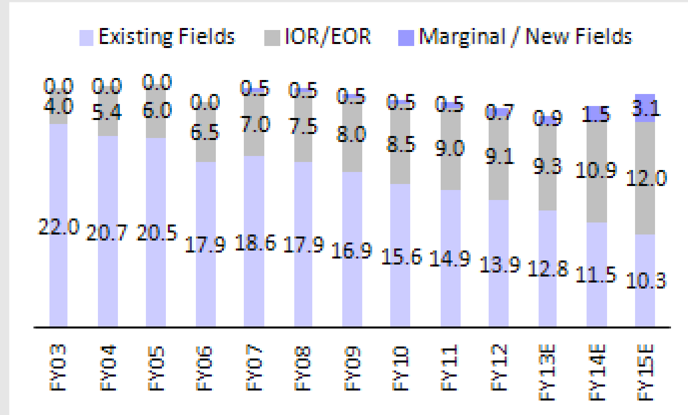
* Azerbaijan and Kashagan not included in our base estimates Source: Company, MOSL

Key IOR/EOR projects near completion, to drive domestic production growth through FY15E

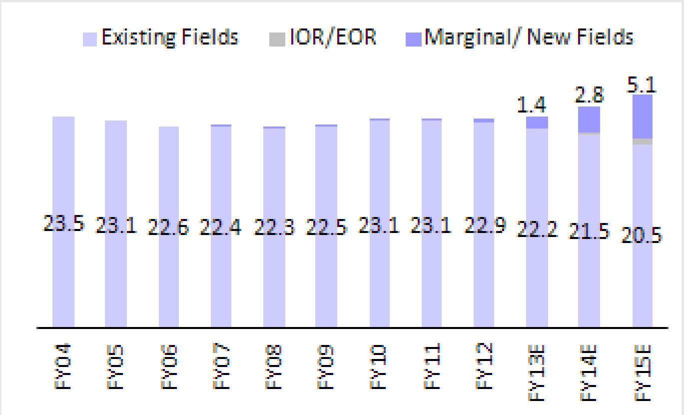
Company has been continually investing in its mature fields by implementing IOR/ EOR techniques and has been developing marginal fields (high oil prices make them economically viable). ONGC has implemented IOR/EOR projects in 15 major fields, which have been producing for more than 30 years. Since 2001, it invested INR284b on IOR/ EOR projects. The cumulative production gain has been ~72mmt (8mmt in FY12) and expects overall gain of 171mmt. Fields' recovery factor also increased from 28% in 2000 to 33.5%.

We expect oil production CAGR of 2.3% and gas production CAGR of 3.9% over FY12-FY15E period, driven by IOR/EOR and marginal and new fields' development. While incremental contribution of 24kbpd from D-1 field in Mumbai High would boost FY15E-16E domestic oil production growth, the start of Assam gas cracker along with other field developments shall drive the growth in gas production.

Expect oil production CAGR of 2.3% in FY12-FY15E



Estimate gas production CAGR of 3.9% in FY12-FY15E



Source: Company, MOSL

Ongoing IOR/EOR and development projects

		Prodn	Incremental Prodn			Cost	USD/	Assumed
	Field / Basin	Years	Oil	Gas	mmtoe	(INRb)	bbl	Completion
1	Heera & South Heera	19	10.9	2.3	13.1	23.1	5.1	Jan-12
2	MH South Re-devp. (Phase 2)	19	18.3	2.7	21.0	88.1	12.1	Apr-13
3	MH North Re-devp (Phase 2)	17	17.4	3.0	20.3	71.3	10.1	Mar-13
4	Lakwa Lakhmani	13	4.6	0.9	5.5	6.6	3.4	Apr-14
5	Rudrasagar	13	1.8	0.3	2.2	4.4	5.8	Apr-13
6	Geleki	12	6.4	1.7	8.1	16.7	5.9	Mar-17
7	Offshore Grid Connectivity		5.2	0.8	6.0	7.4	3.6	Mar-12
	Total		**64.6**	**11.7**	**76.3**	**217.6**	**8.2**	

Source: Company, MOSL

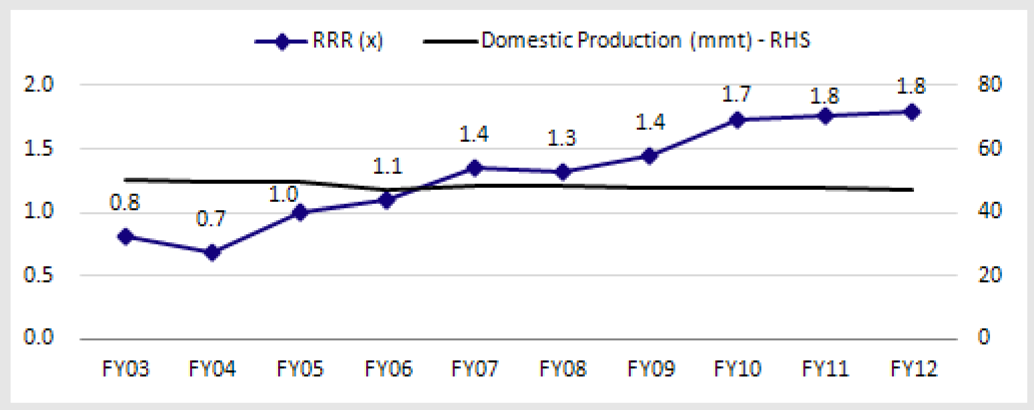
Planned new field developments

		Prodn	Incremental Prodn			Cost	USD/	Assumed
	Field / Basin	Years	Oil	Gas	mmtoe	(INRb)	bbl	Completion
1	C-Series (6 fields)	15	6.1	15.1	21.3	32.0	4.3	Apr-13
2	G-1 & GS-15 fields	14	1.0	5.9	6.9	22.2	9.3	Dec-11
3	B-22 Cluster (4 fields)	8	3.6	6.6	10.2	29.2	8.3	Apr-13
4	B-46 Cluster (B-46,48, 105, 188)	11	1.7	5.3	7.0	14.4	5.9	May-13
5	B-193 Cluster (8 fields)	15	6.3	5.1	11.4	56.3	14.2	Dec-13
6	North Tapti	10		4.1	4.1	7.6	5.3	Jun-12
7	D1 fields (D1-4, D1-12, D1-14.)	13	8.3		8.3	21.6	7.5	Jan-13
8	Cluster 7	16	9.7	4.5	14.3	32.4	6.5	Apr-14
9	WO-16 Cluster fields	12	2.8	8.6	11.4	25.2	6.4	Apr-14
10	SB-14 field	13	0.2	1.6	1.8	4.1	6.6	Oct-13
11	B-127 cluster (B-127, 57, 59)	10	2.0	4.7	6.7	20.6	8.9	Mar-15
12	C-26 Cluster (C-23,C-26,B-12)	13		8.4	8.4	25.9	8.9	May-14
13	BHE and BH-35 Area					3.7		Mar-13
14	New MHN Complex (Infrastructure)					63.3		
	Total		**41.8**	**69.9**	**111.7**	**358.4**	**9.2**	

Source: Company, MOSL

ONGC's domestic production flat v/s decline in non-OPEC fields: Though ONGC's reserve replacement ratio (RRR) has been remarkable at more than 1 for the past 8 years, production was stagnant. However, the flat production is still commendable compared to a 9% decline in non-OPEC fields and given that most of ONGC's producing fields are mature and are in a natural phase of decline.

RRR >1 but production was subdued



Source: Company/MOSL

Completed IOR/EOR projects

	Completed Projects	Location	Completion
1	MH North Redevelopment (L-III)	Offshore (MH)	Dec-06
2	MH South Redevelopment (L-III)	Offshore (MH)	May-07
3	Neelam	Offshore (MH)	Jul-05
4	Heera Ph-I (Addl development)	Offshore (MH)	Dec-03
5	Balol (in-situ combustion)	Onland (Gujarat)	Nov-01
6	Santhal (in-situ combustion)	Onland (Gujarat)	Dec-01
7	Santhal (Infill)	Onland (Gujarat)	Nov-03
8	Jotana	Onland (Gujarat)	Oct-04
9 & 10	North Kadi Phase-I & II	Onland (Gujarat)	Nov-06/Apr-07
11	Sanand (Extended Polymer)	Onland (Gujarat)	Sep-02
12	Gandhar	Onland (Gujarat)	Jul-05
13	Sobhasan	Onland (Gujarat)	Jun-08
14	Heera Ph-II (addl develoment)	Offshore	Jan-09

Source: Company, MOSL

OVL acquisitions to usher a new growth phase

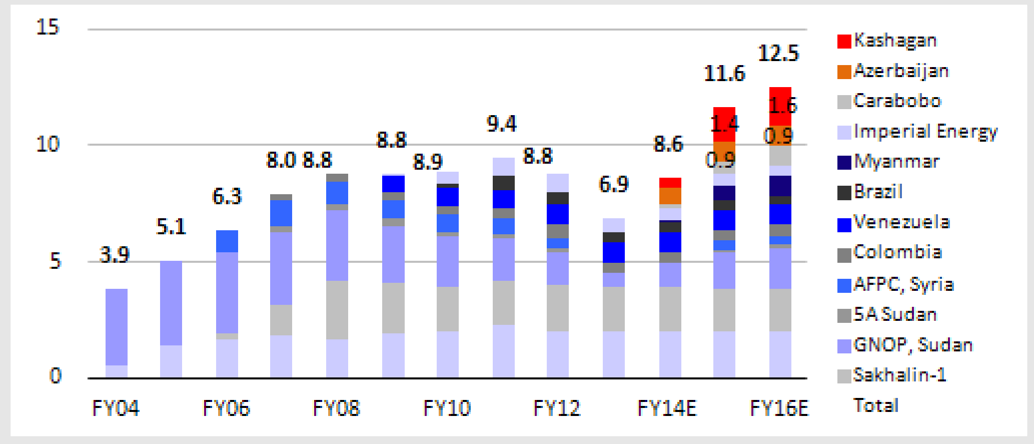
According to ONGC's Perspective Plan 2030, OVL is expected to garner equity oil of ~20mmtoe by FY18 and 60mmtoe by FY30 as against 8.8mmtoe in FY12. Though it is too early to take a view of FY18/FY30, we believe OVL's recent acquisitions are steps in the right direction.

OVL's recent strategy to aggressively acquire developed/producing assets is the best possible cash utilization in the medium term for ONGC, in our view, due to the:

(a) need to improve production in the medium term on account of Syria/Sudan issues,
(b) planned IOR/EOR projects are nearing completion and
(c) bulk of its NELP acreage is still in an exploration stage.

With recently announced big ticket acquisitions (Azerbaijan and Kashagan) and start of production at A-1/A-3 blocks in Myanmar and Carabobo block in Venezuela, we expect OVL to enter the next growth phase. We expect OVL would register a production CAGR of 10% (if Kashagan and Azerbaijan go through) during FY12-15E and thus increase the total production to ~11.6mmtoe.

Successful acquisition completion to ensure healthy production growth for OVL (mmtoe)

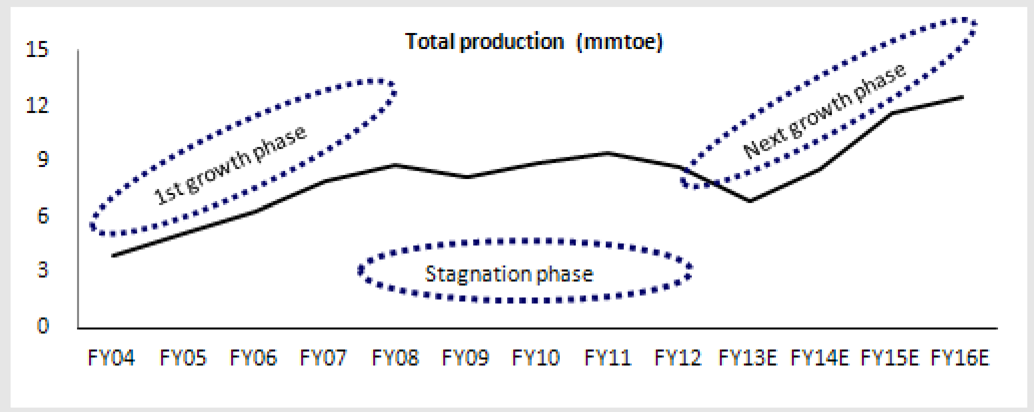


Source: Company, MOSL

Recently announced acquisitions could increase OVL's production by 28% in next 2 years over FY12 production

After registering a 23% production CAGR in FY04-08 led by Sakhalin-1 (Russia) and AFPC (Syria), OVL's recent production growth has been impacted by a decline in production from the Imperial energy block and geo-political tensions in Syria and Sudan. However, in the last 3 months OVL has aggressively announced the 2 acquisitions in the Caspian Sea region wherein it will get the equity oil addition of 2.5mmtoe in the next 2 years (28% increase over FY12). Given that OVL's current portfolio is a mix of either producing or exploration blocks and very few are in the development stage, we believe OVL management has consciously focused on acquiring developed/ producing blocks.

Expect OVL to record 10% production CAGR in FY12-15E, assuming utilization of new acquisitions



Notes: Our base case financials does not factor Azerbaijan/Kashagan, pending final approvals.

Source: Company, MOSL

OVL acquisition focus is on developed/producing blocks as many of its current blocks are in exploration stage

Country	Exploration	Development	Production
Brazil	BM-S-73 BM-ES-42 BM-SEAL-4 and BM-BAR-1 BM-S-74		Block BC-10
Colombia	SSJN-7 and CPO-5 RC-8, RC-9 and RC-10		Mansarovar Energy Project
Cuba	Cuba: Blocks 34 and 35 Cuba: Blocks 25, 26, 27, 28, 29 and 36		
Iran		Farzad B Offshore, Iran	
Iraq	Block - 8, Iraq		
Kazakhstan	Satpayev, Kazakhstan		
Libya	Contract Area 43, Libya		
Myanmar		A-1 and A-3, Myanmar	
Nigeria	OPL 279, OPL 285, Nigeria		
Russia			Sakhalin - I, Russia Imperial Energy, Russia
Sudan			GNOP, Sudan Block 5A, South Sudan
Syria		Block XXIV, Syria	Al Furat Project, Syria
Venezuela		Carabobo - 1, Venezuela	San Cristobal Project, Venezuela
Vietnam	Block 128, Vietnam		Block 06.1, Vietnam

Source: Company, MOSL

OVL to spend ~USD6b on the recently announced two acquisitions

Valuations seem reasonable for the two new acquisitions

	Azerbaijan	Kashagan	Total
Gross Reserve details as disclosed by OVL (mmbbl)			
Phase 1		3,310	
Phase 2		3,060	
Phase 3		1,774	
Gross reserves (mmbbl)	5,000	8,143	
OVL stake (%)	2.72	8.40	
OVL's reserve share (mmbbl)	136	684	820
Deal value (USDm)	1,000	5,000	6,000
Implied valuation (mmbbl)	7.4	7.3	7.3
Estimated OVL share in Production (mmt)			
FY13	0.9		0.9
FY14	0.9	1.4	2.3
FY15	0.9	1.6	2.5

Source: Company, MOSL

Azerbaijan - USD1b acquisition, equity oil addition of 0.9mmtoe in FY15E

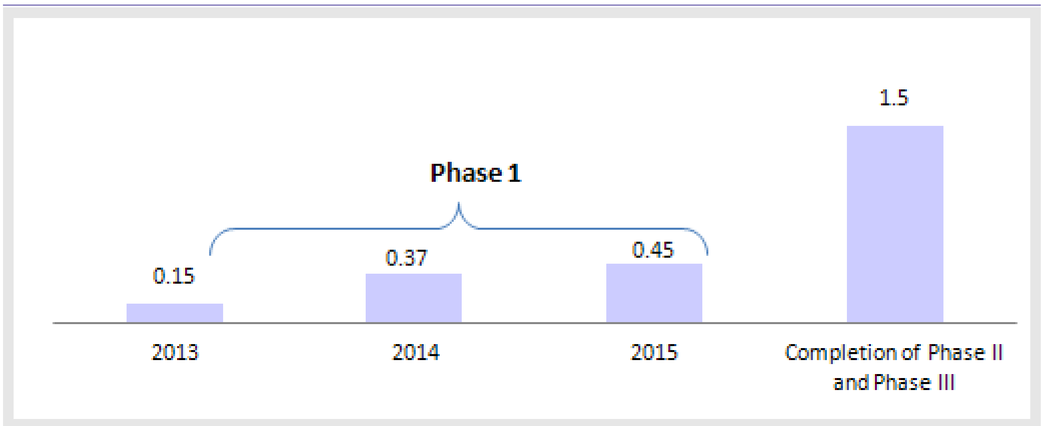
- In September 2012, OVL announced acquisition of US-based Hess Corp's (a) 2.72% stake in Azerbaijan's Azeri, Chirag and Guneshli Fields (ACG) and (b) 2.36% interest in the associated BTC pipeline for USD1b. The transaction is likely to complete in 4QCY13, post regulatory approvals.
- The ACG fields are located at 100km east of Baku and have been producing since 1997. Its 1HCY12 gross production averaged at 684kbpd.

- While Hess Corp has not indicated any oil reserve number for the deal, various industry reports and BP's (BP has 35.8% stake in the block) disclosures indicate recoverable oil reserves of 5 billion barrel from the ACG fields.
- Given that the pipeline construction cost was ~USD3b, we assume the purchase price of USD950m for the reserves.
- OVL's 2.72% stake purchase will fetch reserves of 136mmbbl, implying valuation at USD7/bbl.

Kashagan, Kazakhstan - USD5b acquisition, equity oil addition of 1.4mmtoe in FY15E

- After Azerbaijan, OVL in November 2012, announced its intention to acquire 8.4% stake of ConocoPhillips in North Caspian Sea Production Sharing Agreement (NCSPSA) that includes Kashagan field in Kazakhstan.
- This is the largest-ever acquisition by ONGC and is expected to be funded by internal accruals and through bond sale. Kashagan field is set to commence production in 1HCY13.
- The Kashagan fields are located in the northern part of the Caspian Sea close to the Kazakhstan city of Atyrau and covers an area of over 5,500sqkm in the Caspian Sea.
- ENI (operator) expects recoverable oil reserves of 7-9bbbl, expandable to 13bbbl, while in-place oil is estimated at 35bbbl. OVL is expected to pay ~USD5b for this stake sale and the transaction is likely to be completed in the first half of 2013, post regulatory approvals.
- Assuming recoverable reserves of 10bbbl, the implied deal valuation stands at USD6/boe and seems fair compared to valuations of other global E&P companies.

Planned gross production at Kashagan field (mmbbl/d)



Source: Company, MOSL

Key OVL's blocks in focus

Gas production from Myanmar (17% stake) to start from 2013: Based on third-party estimates (Gaffney, Cline & Associates), the estimated gas is 4.6-7.8tcf. Gas from this block will be sold to a Chinese company, China National United Oil Corporation through a pipeline. The planned plateau rate is 14mmscmd and production will start in May 2013.

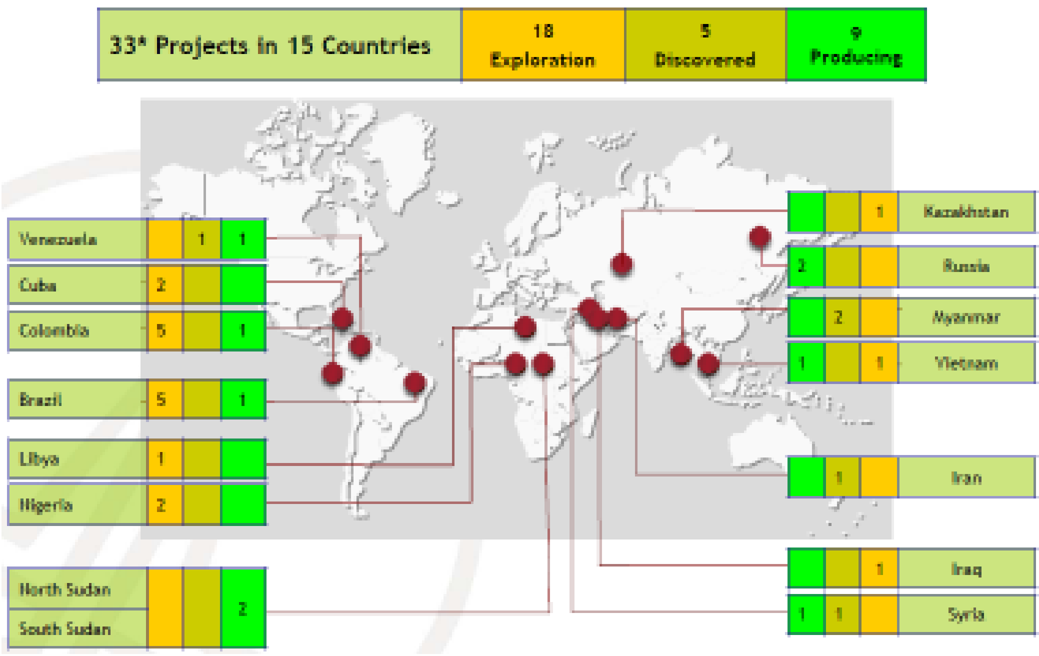
Imperial Energy (100% stake) production can surprise: Production from Imperial Energy has not increased as per expectations. During the acquisition (for USD2.1b in January 2009), the previous management of Imperial Energy indicated production would increase to 80kbpd. However, even after two years production from Imperial Energy, assets are ~13kbpd and according to ONGC's management it is unlikely to increase in the near term. We believe ONGC could be reworking the production strategy for these blocks. Indications of an increase in production would be value-accretive for ONGC.

Carabobo project (11% stake) to add value in the long term: The project is promising due its huge recoverable reserves of ~3bbbls (estimated oil-in-place of 27.3bbbls) and plateau production of 400kbpd. Of the planned 400kbpd production, ~200kbpd will be upgraded to light crude oil. First output is expected in 2013, with an initial production of 20kbpd and gradually increasing to 200kbpd within a 2-year timeframe. Peak production from these fields will be 450kbpd.

Azerbaijan (2.7% stake) to add 0.9mmt of production: Azerbaijan fields are expected to add 0.9mmt of production for OVL during FY14 as the takeover formalities are likely to be completed by 1QCY13. Its 1HCY12 gross production averaged at 684kbpd.

Kashagan (8.4% stake) to be the game changer: According to OVL, acquisition of Kashagan fields (regulatory approvals are pending) can add up to 1-1.6mmt of production. Production from the field is expected to start in 1HCY13, while the stake acquisition might be finalized by mid-2013.

Global asset portfolio of OVL; currently owns equity oil/gas in 33 projects accross 15 countries



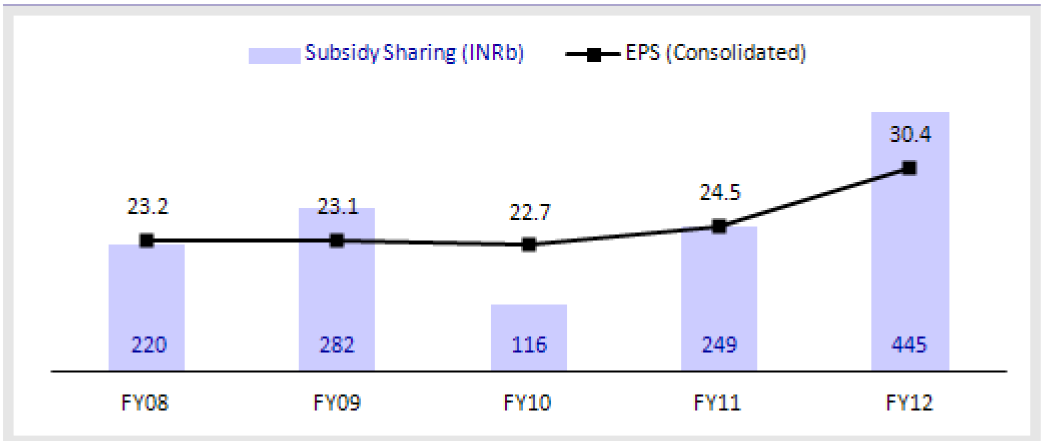
Subsidy, a near term concern

Policy initiatives signal rationalization over long term

- **Historically, despite the government subjecting ONGC to harsh subsidy-sharing, its net realization and PAT CAGR over the last five years has been 4% and 8% respectively.**
- **With (a) petrol de-regulation, (b) diesel break-even doubling in last 7 years through price-hikes/duty changes, (c) caping of LPG cylinders and (c) targeted subsidy through direct cash transfer; we believe government is nearing its vision of market-linked petroleum product prices.**
- **Subsidy rationalization would not only free up the capital for reinvestment (last 7-year subsidy of INR1.7t = ONGC's capex in the same period), but could also lead to rerating of the stock.**

ONGC trades at about a ~40% discount to global E&P peers on EV/BOE (1P basis) partly due to ad hoc subsidy sharing. We expect the gap to narrow as policy initiatives reduce the ad hoc element in subsidy sharing and energy prices in India move towards market determined pricing. We believe rationalization of subsidy sharing will result in re-rating of the stock and expect the discount to its global peers to narrow. Historically, despite the government subjecting ONGC to harsh subsidy-sharing, its net realization and PAT CAGR over the last five years has been 4% and 8% respectively.

ONGC posts earnings CAGR of 8% over the past five years despite ad hoc subsidy



Source: Company, MOSL

Government to eventually make petroleum prices near market prices

To achieve sustained economic growth, the Indian government recognized the need to make energy prices market linked, which is well articulated by various expert committees. However, to cushion the impact of energy prices on the economically weaker population, government policies lagged and resulted in high under-recoveries.

Controlling (under-pricing) petroleum products not only results in inefficiencies such as (i) substitution of low value products (fixed price diesel replacing market priced fuel oil) and (ii) adulteration, but also impacts (a) India's energy security, (b) financial health of oil companies (increased debt, reduced profitability) and (c) government finances (high fiscal deficit).

If India's GDP was to grow by 9%, energy consumption would grow by 6-7%. Rational energy prices are necessary for healthy economic growth and would also incentivize domestic producers to increase their production.

Recommendations of committees point to a common goal of market-linked energy pricing

Rangarajan Committee (2006)

An appropriate pricing regime which promotes efficiency needs to be evolved in relation to petrol and diesel on the one hand and domestic LPG and PDS kerosene on the other. However, it is the latter which is arguably more intractable because of the heavily subsidized prices to consumers. The issues of adjusting prices and targeting them appropriately become urgent in this context.

Excerpt from Integrated Energy Policy (2006)

- The energy policies that we have adopted since independence to serve the socio-economic priority of development have encouraged and sustained many inefficiencies in the use and production of energy.
- India faces an enormous challenge if it is to meet her energy requirement over the coming 25 years and support a high growth rate. The main areas of action include: Rationalisation of fuel prices to mimic free market prices that promote efficient fuel choice and substitution.

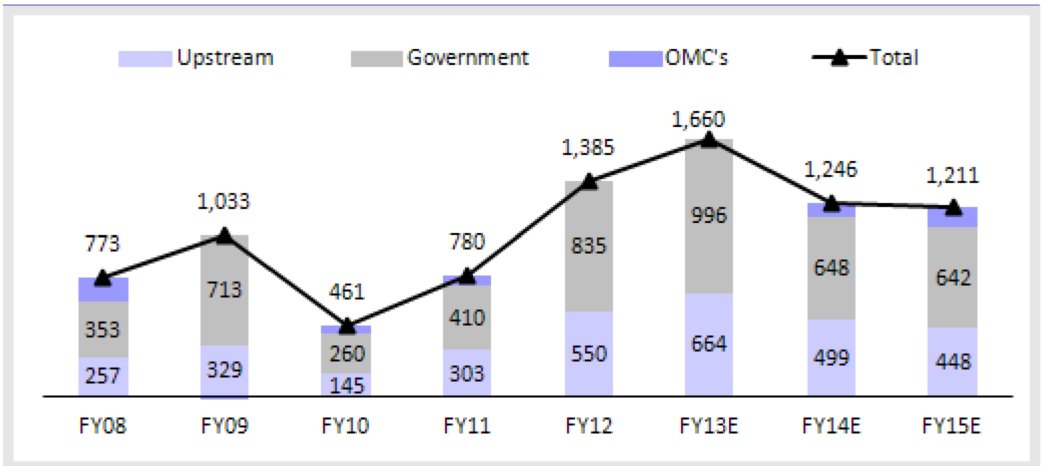
Excerpt from Kirit Parikh led Expert Group recommendations (2010)

- Though future oil prices are difficult to predict, they are generally expected to rise. Given our increasing dependence on imports, domestic prices of petroleum products have to reflect the international prices.

Source: MoPNG, Planning Commission, MOSL

Government's fiscal health for the current year is not in a good shape due to 1) lower-than-expected tax receipts, 2) increased subsidy burden and 3) uncertainty in achieving disinvestment targets. Though near term concerns remain, policy actions taken over the past few years are taking the country nearer to its long term goal of achieving near-market-linked energy prices or reducing the under-recoveries to the lowest possible level, by targeting it to the right populace.

FY13E under-recoveries estimated at INR1.6t v/s INR1.4t in FY12



Source: Company, MOSL

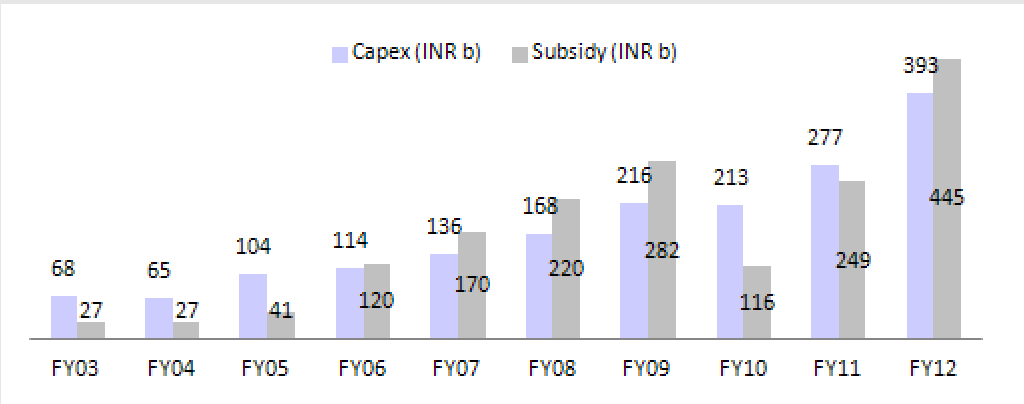
We model 40% upstream sharing in FY13 & FY14 (INR b)

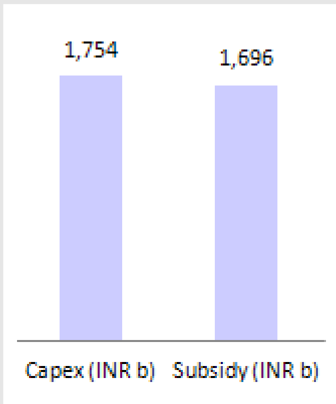
	FY08	FY09	FY10	FY11	FY12	FY13E	FY14E	FY15E
Fx Rate (INR/USD)	40.3	46.0	47.5	45.6	47.9	54.5	53.0	53.0
Brent (USD/bbl)	82.3	84.8	69.6	86.3	114.5	110.0	105.0	100.0
Gross Under recoveries (INR b)								
Auto Fuels	426	575	144	375	812	949	728	679
Domestic Fuels	347	458	316	405	573	712	518	532
Total	**773**	**1,033**	**461**	**780**	**1,385**	**1,660**	**1,246**	**1,211**
Under recoveries Sharing (INR b)								
Government	353	713	260	410	835	996	648	642
Upstream	257	329	145	303	550	664	499	448
OMC's	163	(9)	56	67	0	0	100	121
Total	**773**	**1,033**	**461**	**780**	**1,385**	**1,660**	**1,246**	**1,211**
Under recoveries Sharing (%)								
Government	46	69	56	53	60	60	52	53
Upstream	33	32	31	39	40	40	40	37
OMC's	21	(1)	12	9	0	0	8	10
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: Company, MOSL

ONGC's subsidy share equals its capex in past 7 years: During the past 7 years, ONGC's subsidy share has been INR1.7t, which is almost equal to its capex in the same period. Reduction in total under-recoveries would further help the company channelize its cash flow to increase production.

ONGC spent equally on capex and subsidies in the past 7 years





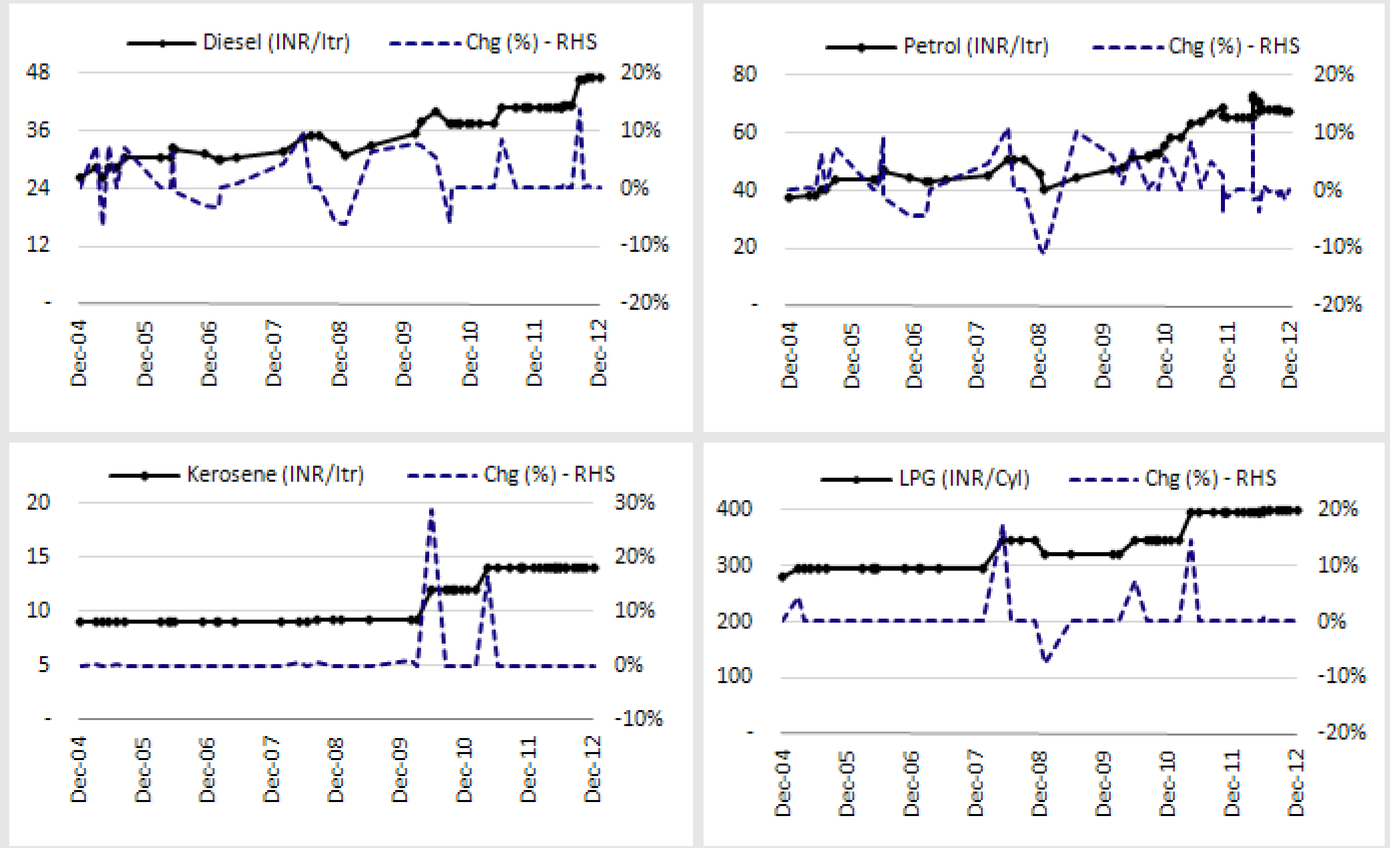
Source: Company, MOSL

Various steps taken up by the government to reduce under-recoveries include: (a) retail price hikes, (b) duty changes and (c) cash-based subsidy payment to lower the subsidy. Reduction in under-recoveries shall benefit all involved entities in the subsidy sharing mechanism--government, upstream companies (ONGC, Oil India and Gail India) and PSU downstream companies (HPCL, BPCL and IOCL).

Bold price hikes implemented in the past few years...

While dismantling the Administered Pricing Mechanism (APM) in 2002, government announced its intention to implement market determined pricing and continue subsidies on kero/LPG as they are consumed by the economically weaker populace. However, government continued to control the prices of petrol and diesel due to continued rise in global oil prices, which supposedly made retail prices unviable for consumers.

Recent hikes have rapidly increased diesel's breakeven price...



Source: MoPNG, PPAC, MOSL

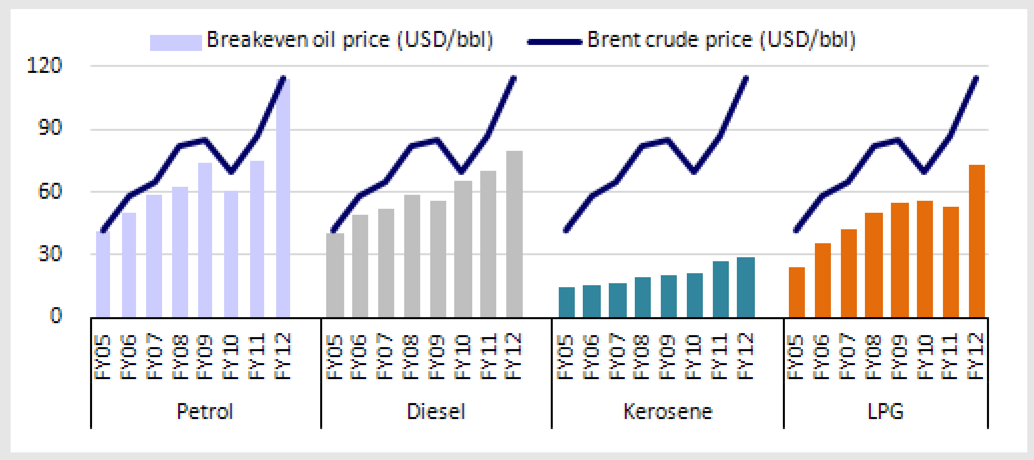
But over the years as under-recoveries kept increasing led by consumption growth and high product prices, the government intermittently increased petroleum product prices. In the past 3 years, though delayed, the price hikes have been very steep and also steps like (a) decontrolling petrol price and (b) limiting subsidized LPG cylinders to 6 per household are encouraging, in our view.

...resulting in higher breakeven prices for all products

Price hikes over the years have nevertheless resulted in an increase in breakeven prices (prices where under-recovery is nil) for all the products. We estimate that the breakeven price for diesel has risen from USD41/bbl in FY05 to USD80/bbl now, while current retail petrol price largely reflects the market price.

Though the breakeven price for PDS kerosene and LPG are still very low (at ~USD30/bbl for PDS kerosene and USD70/bbl for domestic LPG), the government is trying to reduce the subsidy by targeting it only to the deserved consumers.

On track for market-linked pricing - Petrol deregulated, diesel break-even doubled in 7 years



Source: Company, MOSL

Continued cuts in excise duties

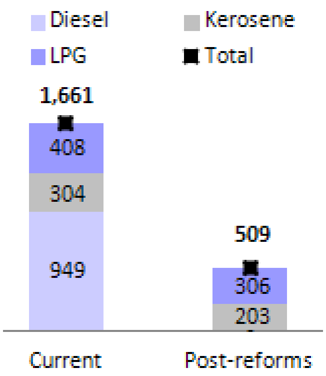
Excise Duty	Mar-05	Mar-07	Mar-08	Mar-09	Mar-10	Mar-11	Mar-12	Current
Petrol								
Ad-valorem (%)	8	6	-	-	-	-	-	-
Fixed (INR/litre)	13.00	14.35	14.78	13.35	13.35	14.35	14.35	9.35
Diesel								
Ad-valorem (%)	8	6	-	-	-	-	-	-
Fixed (INR/litre)	3.25	3.25	4.60	3.6	3.6	4.6	2.06	3.61
SKO (PDS) (%)	-	-	-	-	-	-	-	-
Domestic LPG (%)	-	-	-	-	-	-	-	-

Source: Company, MOSL

Strong reforms on the cards? MoPNG proposes bold price hikes to reduce under recoveries

Recent media article indicate that the government is preparing itself to take some harsh decisions on the subsidies (especially diesel) to bring down the fiscal deficit and improve the financial health of OMC's.

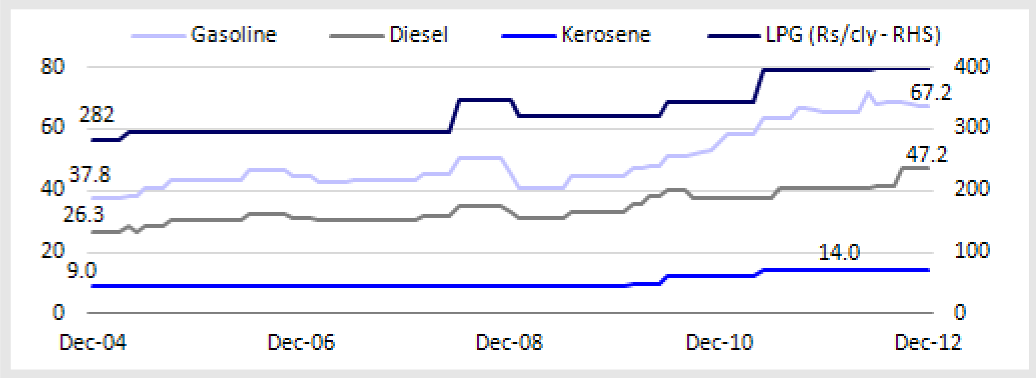
Proposed price hikes/ decisions will bring down subsidy significantly (INR b)



Source: Company, MOSL

- As per media reports, the petroleum ministry, in its cabinet notes have proposed (1)to increase fuel prices, particularly diesel, every month to bring it at par with market rates and (2) Increasing the cap on LPG cylinder. Decisions on fuel prices and deregulation of diesel is expected to be taken by the cabinet committee on economic affairs (CCEA), after deliberating with other departments (including finance ministry) while cabinet committee on political affairs (CCPA) may take a call on raising cap on LPG. Key proposed reforms are:
  - Increase Diesel price by 'less than a rupee per month' and eventually de-regulate in next 15 months.
  - Reduce kerosene subsidy by 1/3rd by FY15 (through direct cash transfer, reducing sales volumes and increasing prices)
  - Reduce LPG subsidy by 1/4th this year by way of capping the no. of cylinders per connection per year.

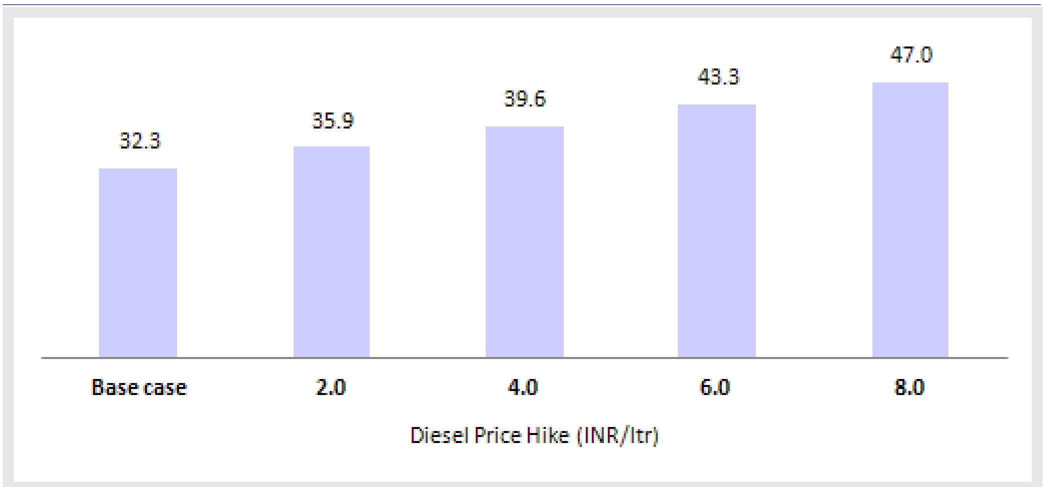
Historical Petroleum product price hikes had been ad-hoc



	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13E
Fx Rate (INR/USD)	45	44	45	40	46	47	46	48	55
Brent (USD/bbl)	42	58	64	82	85	70	86	114	110
Brent (INR/bbl)	1,897	2,568	2,914	3,316	3,900	3,302	3,933	5,484	5,995
Under recoveries (INRb)	201	400	494	773	1,033	461	780	1,385	1,660
Petroleum Product Price Hikes (INR/ltr)									
Petrol	2.0 (Jun-04)	2.5 (Jun-05)	4.0 (Jun-06)	2.0 (Feb-08)	5.0 (Jun-08)	4.0 (Jul-09)	3.5 (Jun-10)		
	1.1 (Aug-04)	3.0 (Sept-05)	-2.0 (Nov-06)		-5.0 (Dec-08)	3.0 (Feb-10)	Deregulated in June -10		
	2.2 (Nov-04)		-2.0 (Feb-07)		-5.0 (Jan-09)				
	-1.6 (Nov-04)								
Diesel	1.0 (Jun-04)	2.0 (Jun-05)	2.0 (Jun-06)	1.3 (Feb-08)	3.0 (Jun-08)	2.0 (Jul-09)	2.0 (Jun-10)	3.4 (Jun-11)	5.6 (Sep-12)
	1.4 (Aug-04)	2.0 (Sept-05)	-1.0 (Nov-06)		-2.0 (Dec-08)	2.6 (Feb-10)			
	2.2 (Nov-04)		-1.0 (Feb-07)		-2.0 (Jan-09)				
Kerosene							3.0 (Jun-10)	2.0 (Jun-11)	
LPG (INR/cylinder)	20 (Jun-04)				10 (Jun-08)		35 (Jun-10)	50 (Jun-11)	Cylinders capped to 6 /household /year
	20 (Nov-04)				-25 (Jan-09)				

Source: Industry, MOSL

For every INR1/ltr price hike in diesel, ONGC's cons EPS increases by INR1.8/sh



*This sensitivity is done for FY14E earnings

Source: Industry, MOSL

Urgency seen to implement cash subsidy mechanism

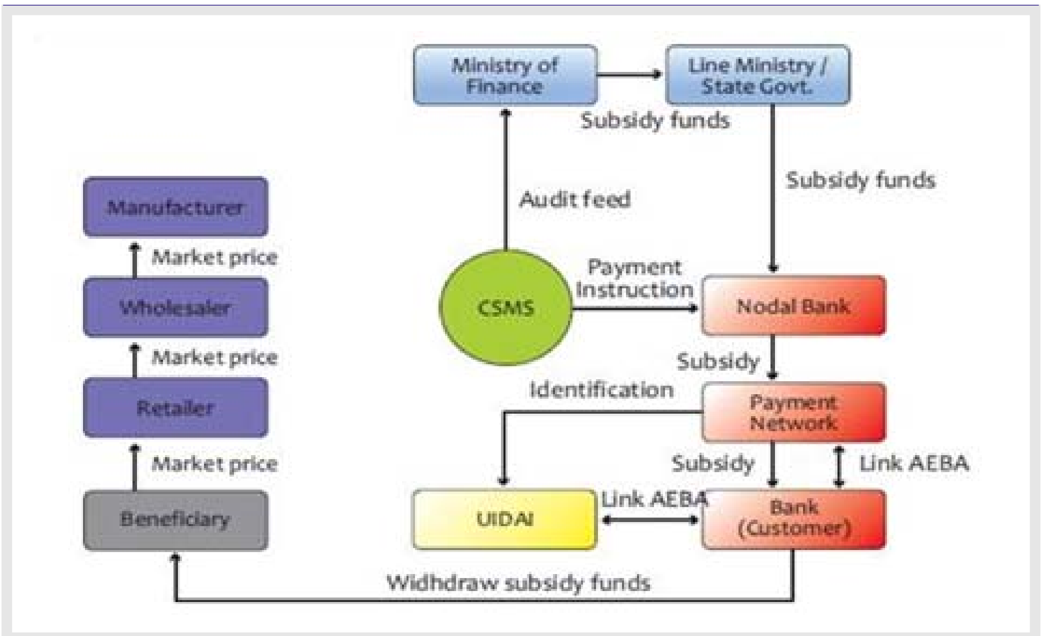
While the timing of government's push for direct cash subsidy transfer can be debated (should have been implemented long ago), it would result in lower under-recoveries for the sector, led by effective targeting of the kerosene subsidy to start with. Government and OMCs estimate savings of 25-33% in kerosene subsidy after a pan-India implementation of this mechanism (kerosene under- recoveries contributed 20-38% in the past 3 years).

Mechanism: Under this scheme, government will directly transfer the subsidy amount on petroleum products to bank accounts of beneficiaries.

Timelines: Government has launched the direct cash transfer scheme from January 1, 2013 in 20 districts spread across 6 states and 3 union territories. The electronic cash transfers will be based on Aadhar (Unique Identification Number) platform. The second rollout will cover more districts and would be launched in April 2013.

We believe the government's step to move subsidy to a direct cash transfer mode is a positive development for the sector. However, the actual implementation on a pan-India basis could take time due to low penetration of Aadhar cards (basic requirement to avail cash subsidy) and as many intended beneficiaries still do not have a bank account. We believe it could take ~3 years for full implementation of the scheme.

Envisaged fund flow to prevent black marketeering and enable targeted subsidy



Source: Task Force Report, MOSL

Long term triggers intact

Expect gas price hike in March 2014

- **Apart from rationalization of subsidy sharing, long term triggers include:**
  (a) reserve accretion from its large NELP acreage,
  (b) gas price hike in March 2014 and
  (c) accretive acquisition by OVL.
- **If gas prices were to be hiked to USD 7/mmbtu then our FY15E consolidated EPS would see 22% upside.**

Reserve accretion from NELP acreage

ONGC, being a national oil company, has been exploring Indian basins since early 1950's and has a large exploration area (97% of nomination acreage). Also, it has aggressively bid in the NELP rounds and garnered 49% of the allocated acreage, with presence across the basins.

72% of ONGC's NELP acreage is in high prospective deep water: Of the 94 NELP blocks, 36 (38%) are deep water (DW) areas, accounting for ~72% of ONGC's NELP acreage. Besides, ONGC has exploration licences in eight nominated blocks. Of the 36 deep water blocks, 22 are in the highly prospective Krishna-Godavari, Cauvery and Mahanadi basins.

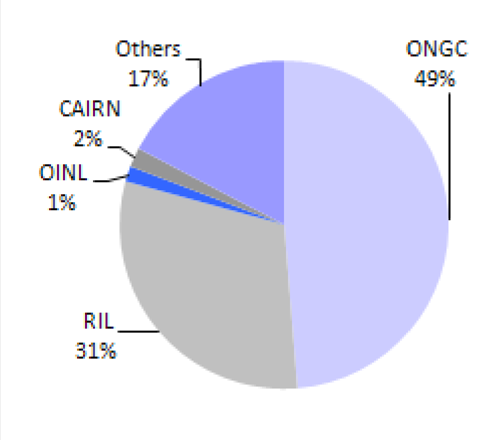
Large exploration acreage, increasing exploration capex shall lead to reserve accretion: ONGC's exploration performance in NELP (26 discoveries so far) has not been encouraging as its deep water exploration program was delayed due to unavailability of the deep water rigs. Of the more than 100 discoveries over the past five years, NELP's share has been less than 20%. With its large E&P acreage, improved availability of deep water rigs and higher E&P capex, company is expected to announce more discoveries, thus resulting in reserve accretion.

ONGC bags the highest number of blocks in NELP

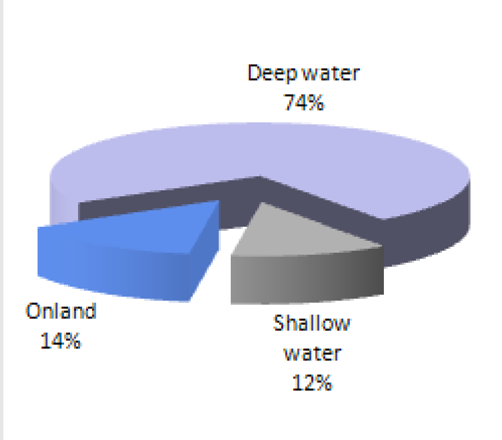
NELP Rounds	I	II	III	IV	V	VI	VII	VIII	IX	Total
Offered by the GOI	48	25	27	24	20	55	57	70	33	359
Awarded by the GOI	24	23	23	20	20	52	41	32	14	249
Awarded to ONGC	9	16	13	14	8	25	19	17	6	127
Surrendered by ONGC	7	15	7	1	2	0	0	0	0	32
With ONGC (Operator)	2	1	6	11	3	24	18	14	4	83
With ONGC (Non - Operator)	0	0	0	2	3	1	1	3	2	12
ONGC as % of awarded blocks	38	70	57	70	40	48	46	53	43	51

Source: Company, DGH, MOSL

ONGC has the highest number of allotted NELP acreage

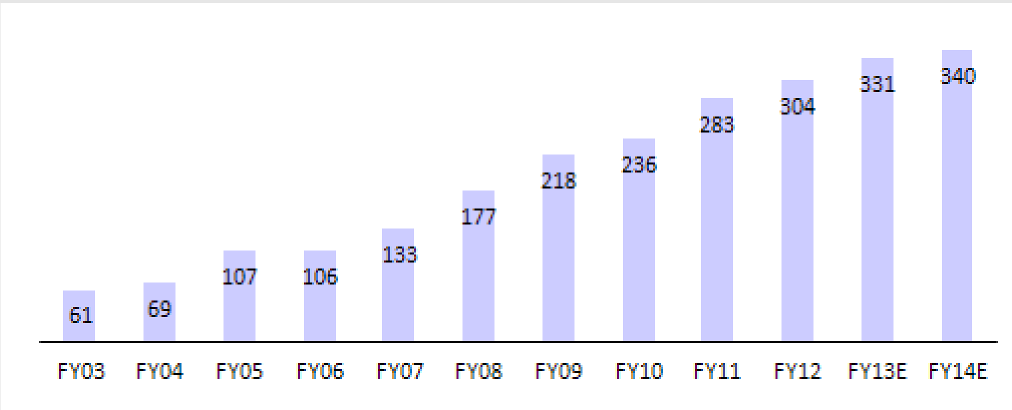


Most of the NELP acreage is deep water



Source: Company, DGH, MOSL

Rising trend in domestic capex (INR b)



Source: Company, DGH, MOSL

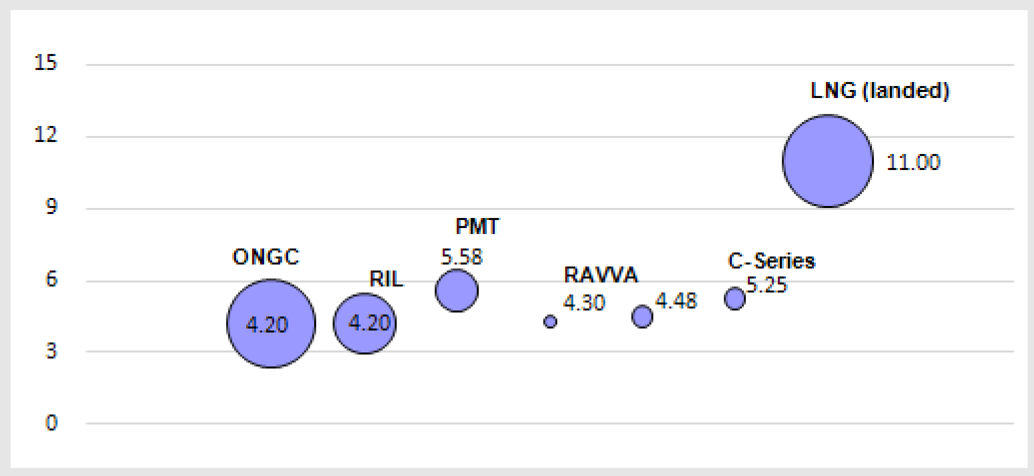
Natural gas price hike in March 2014

Expect uniform gas prices in India over the long term: Unlike developed markets, where gas pricing is market determined, in India it is approved by the government and varies from USD4.2/mmbtu (APM) to USD5.75/mmbtu (PMT), and imported LNG is quoted at ~USD10-14/mmbtu. With domestic gas prices at a significant discount to imported gas prices, there is little incentive for upstream companies to invest at the fixed gas price of USD4.2/mmbtu. Also, the breakeven price for new deep water discoveries in the country is pegged at USD5-6/mmbtu.

Over the long term, government plans to make gas prices uniform in India. This can be achieved through an increase in domestic prices and bringing them close to imported high-priced LNG. Government has allowed ONGC to charge a higher-than-APM price (USD4.75-5.25/mmbtu) at its new fields in the western offshore, Cauvery and KG basins, which we believe could be the precursor of higher and uniform gas pricing in India.

While there is no clear policy roadmap to increase or rationalize domestic gas prices, we expect the next price revision to take place in sync with the scheduled price revision for KG-D6 gas in March 2014.

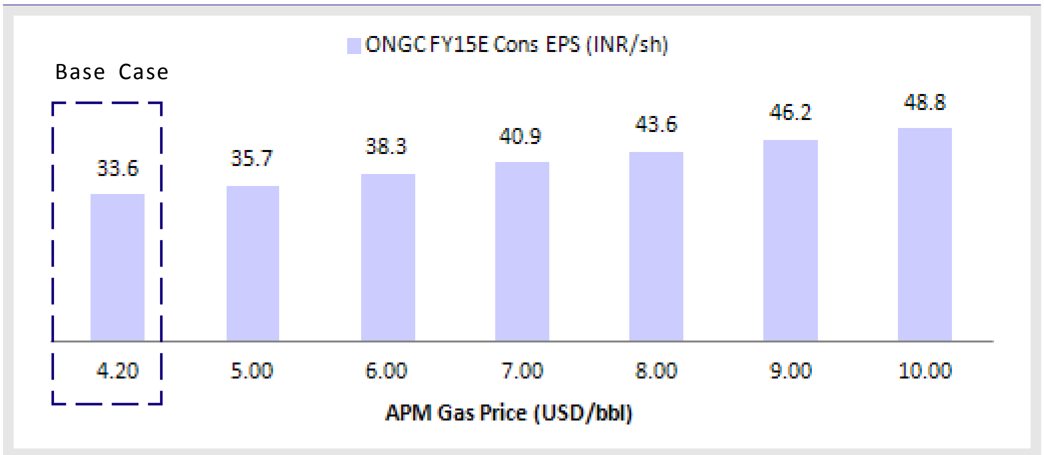
Differential gas pricing in India (USD/mmbtu)



Source: Company, Industry, MoPNG, MOSL

Domestic natural gas price set to increase in March 2014: Government in 2007 fixed the natural gas price of RIL's KG-D6 block at USD4.2/mmbtu, which was followed by an increase of APM price from USD2/mmbtu to USD4.2/mmbtu in June 2010. The next round of gas price change is expected in March 2014, when the 5-year period of fixed price for RIL's KG-D6 gas expires. We expect similar gas price hike to be given to APM gas, which would be beneficial for ONGC and Oil India.

ONGC: FY15E cons. EPS sensitivity to APM gas price hike



Source: Company, MOSL

Rangarajan committee proposed formula implies gas pricing at ~USD8/ mmbtu

- **The long awaited Rangarajan Committee Report on PSC (Production sharing contract for E&P blocks) mechanism and gas pricing was submitted in Dec-12 and made public on January 02, 2012.**

Proposed Gas Pricing formula by Rangarajan Committee

- Background for gas pricing in India: Committee has observed that since there is no gas-on-gas competition in India and also is unlikely to happen for next several years, it has proposed a formula based on wider global prices. Further, given that, even the global gas markets are not coherent like oil markets, committee has proposed a formula based on average of netbacks for producers and average of exchange traded prices. The gas pricing will be uniformly applicable to all the sectors and domestic gas allocation will be as per government's gas utilization policy.

- Formula proposed by the committee: Arms length price in India = 12-month average of: a) volume-weighted Net-back pricing at well-head for gas producers who export to India and b) volume-weighted price of US's Henry Hub, UK's NBP and Japan's JCC linked price. Committee has not commented on the domestic gas allocation to the sectors.

We estimate FY15E gas price at USD7.7/mmbtu based on the Rangarajan Committee formula

(A) Net-back pricing for producers who export to India					
In USD/mmbtu	**Volume (mmscmd)**	**FOB Price**	**Liquifaction cost**	**Treatment Cost**	**Net-back Price**
Qatar (Long Term)	33.2	12.5	3.0	0.5	9.0
Qatar (Medium-term/Spot)	3.9	14.0	3.0	0.5	10.5
Others	14.0	14.0	3.0	0.5	10.5
Weighted average by India imports (A)					**9.5**
(B) Net-back for Japan imports / Market pricing at gas hubs in US and Europe					
In USD/mmbtu	**Volume (mmscmd)**	**FOB Price**	**Liquifaction cost**	**Treatment Cost**	**Net-back Exchange Price**
Henry Hub (US)	1,891				4.0
NBP (Europe)	1,853				7.0
JCC linked (Japan)	289	14.0	3.0	0.5	10.5
Weighted average by consumption (B)					**5.8**
Simple average of above two methodologies (A & B) in USD/mmbtu					**7.7**

Key assumptions for our calculations

- We assume Qatar pricing at March 2014 based on its formula
- Pricing for others is assumed at USD14/mmbtu and actual can vary depending on the prevalent demand-supply situation
- Henry Hub/NBP gas price is assumed at USD4/7/mmbtu v/s current price of USD3.4/6.2/mmbtu

Net-back price = A - B - C

- A = Imported LNG price on net-back FOB available from World Energy Intelligence
- B = Liquefaction costs at the respective loading port (source)
- C = Transportation

- Committee recommendation to determine the gas price through arms-length is very positive, however, view/affordability of the key consuming sectors like Power and Fertilizer will also weigh heavy on the final gas price decision in March 2014. The higher input price for fertilizer will also have implications for government through higher subsidy, unless commensurate end-product prices are increased.
- We have factored in increased gas price of USD 5/mmbtu from FY16 onwards for ONGC. We believe that the APM gas price hike will happen after some time of RIL gas price hike slated in March 2014. Price hike for APM gas, on similar lines to RIL's KG-D6 gas is likely, since differential pricing can affect the investments by ONGC and Oil India.

Valuation and view

Risk-reward favorable, Buy

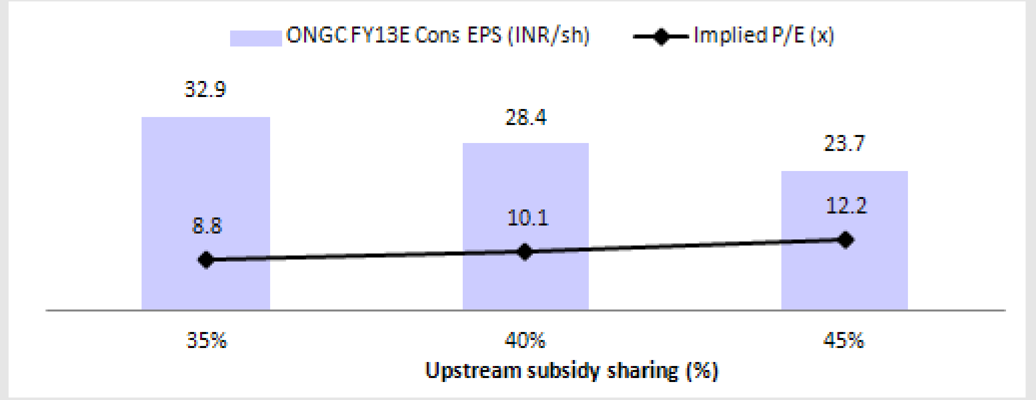
- **Despite the government subjecting ONGC to harsh subsidy sharing, its PAT CAGR has been 8% over the past five years.**
- **We believe rationalization of subsidy sharing would result in the stock's re-rating and discount to global peers to narrow.**
- **ONGC offers attractive FY13E dividend yield of ~4%. The stock trades at 8.8x FY14E EPS of INR32.3 and at ~40% discount to global peers on EV/BOE (1P) basis.**
- **We are rolling over our SOTP-based target price from Mar-14 to Mar-15 and the same now stands at INR350/share (implied P/E of 10.4x of FY15E EPS). We have not factored in recent acquisition announcements by OVL in our numbers. Maintain Buy.**

Key Assumptions

Y/E March	FY07	FY08	FY09	FY10	FY11	FY12	FY13E	FY14E	FY15E
Exchange Rate (INR/US$)	45.3	40.2	45.8	47.5	45.7	47.9	54.4	53.0	53.0
APM Gas Price (USD/mmbtu)	2.0	2.3	2.0	1.9	3.9	4.2	4.2	4.2	4.2
Brent crude price (USD/bbl)	64.5	82.3	84.8	69.7	86.5	114.5	110.0	105.0	100.0
Production Details (mmtoe)									
Domestic Oil Production (mmt)	27.9	27.9	27.1	26.5	27.3	26.9	26.9	28.3	30.4
Domestic Gas Production (bcm)	24.9	25.1	25.4	25.6	25.3	25.5	25.7	26.8	28.3
Domestic Production (mmtoe)	52.8	53.1	52.6	52.1	52.6	52.4	52.6	55.0	58.6
OVL Production (mmtoe)	8.0	8.8	8.8	8.9	9.4	8.8	6.9	7.3	8.7
Group Production (mmtoe)	**60.8**	**61.9**	**61.3**	**60.9**	**62.1**	**61.2**	**59.5**	**62.4**	**67.4**
Subsidy Sharing (INR b)	**170**	**220**	**282**	**116**	**249**	**445**	**517**	**394**	**347**
Oil Price Realization (USD/bbl)									
Gross	66.3	85.5	88.0	71.7	89.4	117.4	110.5	106.7	102.1
Upstream Discount	22.1	32.6	39.1	15.7	35.6	62.7	69.7	51.3	43.0
Net	44.2	52.9	49.0	56.0	53.8	54.7	40.7	55.4	59.1
Cons EPS Break-up (INR/sh)									
EPS (Standalone)	18.3	19.5	18.9	19.6	20.4	26.8	19.9	23.9	25.4
EPS (OVL)	1.9	2.8	3.3	2.4	3.0	3.2	3.1	3.2	3.8
EPS (MRPL, Rajasthan & Others)	0.5	0.9	0.9	0.6	1.1	0.4	5.4	5.2	4.4
EPS (Consolidated)	20.8	23.2	23.1	22.7	24.5	30.4	28.4	32.3	33.6

Source: Company, MOSL

ONGC: FY13E cons. EPS sensitivity to upstream subsidy sharing

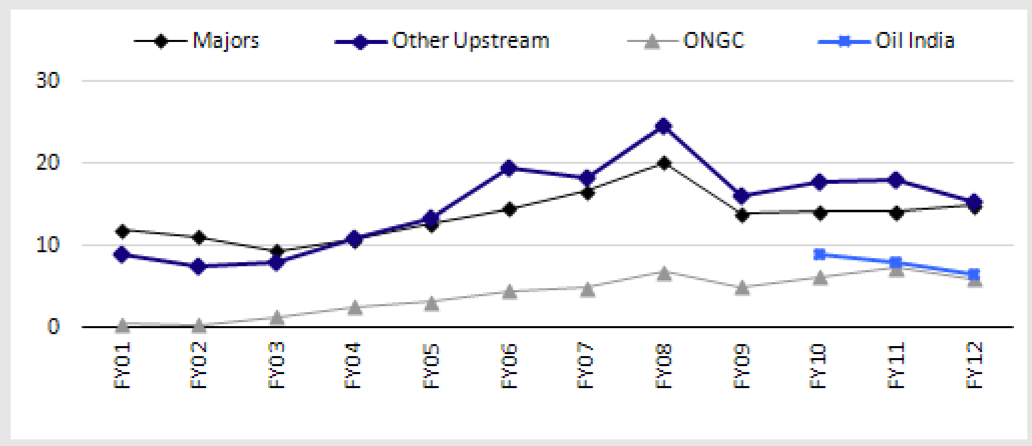


Source: Company, MOSL

ONGC's valuations attractive versus global peers on EV/BOE basis

ONGC trades at ~40% discount to global E&P peers on EV/BOE (1P basis) partly due to ad hoc subsidy sharing. However, we expect the gap to narrow as policy initiatives reduce the ad hoc element in subsidy sharing and energy prices in India move towards market determined pricing. We believe rationalization of subsidy sharing would result in the stock's re-rating and expect the discount to global peers to narrow.

ONGC has always traded at a discount to global peers (USD/BOE on 1P basis)



Source: Company, MOSL

Maintain Buy, target price of INR350

We value ONGC on an SOTP basis, arriving at a target price of INR350. Company offers attractive FY13E dividend yield of ~4%. The stock trades at 8.9x FY14E EPS and at ~40% discount to global peers on EV/BOE (1P) basis. Maintain **Buy**.

SOTP valuation summary

	USD b	INR b	INR/sh	Valuation method
ONGC Domestic	33	1,809	211	DCF basis
OVL	13	737	86	2P reserves @ USD4.5/boe (same as ONGC)
Cairn India	2	133	16	DCF based
Net (Debt) / Cash	3	161	19	Cons. net debt
Listed Investments	3	155	18	MRPL, IOC, GAIL & Petronet LNG; 25% discount to our target/market price
Target Price	**54**	**2,996**	**350**	

Source: MOSL

Valuation of reserves, resources

	mmboe	Value (USD b)	Implied (USD/boe)
ONGC domestic 2P reserves	7,267	33	4.5
OVL - 2P Reserves	2,963	13	4.5
Total	**10,230**	**46**	**4.5**

Source: MOSL

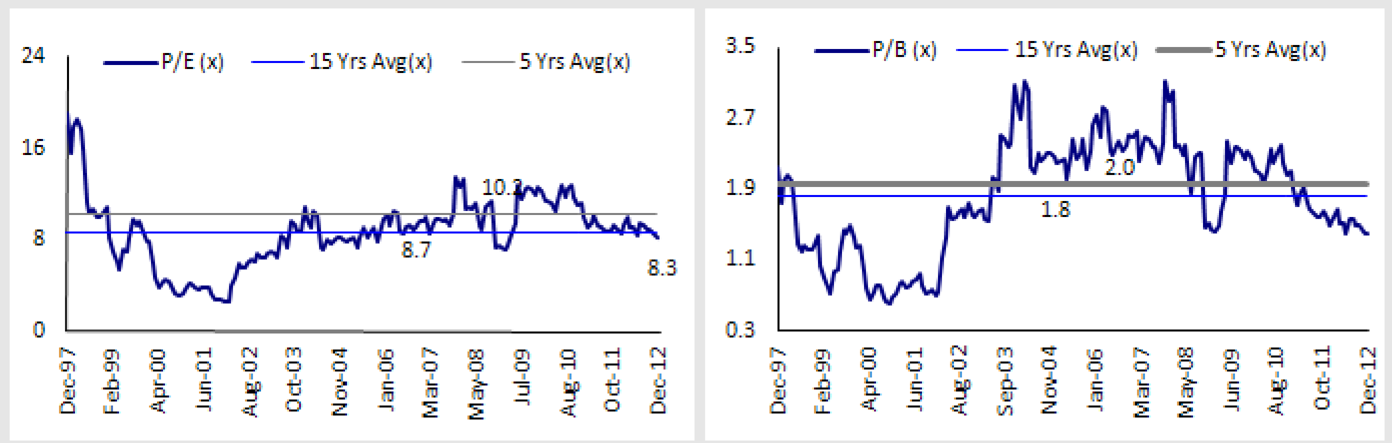
Risks

Ad-hoc trend in DD&A expenses: ONGC's DD&A expenses are generally very volatile led by increased dry well write-offs. However, the volatility could be as ONGC adopts a conservative accounting policy (Successful Efforts Method), wherein exploration costs in the event of uncertainty/delay in proving the commerciality of a discovery are written off.

Higher subsidies: Higher subsidy sharing can dent company's profitability by a big margin. Also, the global slowdown and geo-political tensions, higher crude prices and rupee depreciation can also result in higher subsidies for ONGC.

Lower production: Geo-political tensions, higher-than-expected decline rate for mature fields and slower ramp-up in new fields can lead to lesser-than-expected production for ONGC and OVL.

Trading at historically low valuations



Source: Bloomberg, MOSL

Financials and Valuation

Income Statement (INR Billion)

Y/E March	2010	2011	2012	2013E	2014E	2015E
Net Sales	**1,018**	**1,176**	**1,464**	**1,537**	**1,667**	**1,709**
Growth (%)	-2.7	15.6	24.4	5.0	8.5	2.5
Government Levies	166	192	231	259	283	318
Other Operating Costs	402	483	655	757	775	746
Total Operating Costs	568	676	886	1,016	1,057	1,064
EBITDA	**449**	**500**	**578**	**521**	**610**	**645**
% of Net Sales	44.2	42.5	39.5	33.9	36.6	37.7
Debt Charges	5	4	4	8	10	7
D,D&A	187	206	234	213	230	250
Other Income	53	69	58	65	56	58
Prov, wrtie-offs prior period	6	16	-31	0	0	0
PBT	**304**	**343**	**428**	**365**	**425**	**445**
Tax	107	115	144	120	145	153
Rate (%)	35	33	34	33	34	34
PAT	**197**	**228**	**284**	**245**	**280**	**292**
Adj PAT	**197**	**213**	**263**	**245**	**280**	**292**
Growth (%)	-2.1	8.1	23.3	-6.9	14.5	4.2
Minority int., assoc profits	3	4	3	2	4	5
Net Profit post MI	**194**	**210**	**260**	**243**	**276**	**287**

Balance Sheet (INR Billion)

Y/E March	2010	2011	2012	2013E	2014E	2015E
Share Capital	21	43	43	43	43	43
Reserves	984	1,103	1,322	1,465	1,641	1,818
Net Worth	**1,006**	**1,145**	**1,364**	**1,508**	**1,684**	**1,861**
Debt	63	63	152	135	135	136
Deferred Tax	103	112	122	133	151	171
Liability for Abandonment	175	199	204	207	210	213
Minority Interest	16	20	22	24	28	33
Capital Employed	**1,362**	**1,539**	**1,865**	**2,006**	**2,209**	**2,414**
Net Fixed Assets	**420**	**542**	**688**	**755**	**810**	**865**
Producing Properties	512	572	608	662	715	765
Pre-producing Properties	80	102	117	127	150	179
Investments (incl. mkt. sec.)	52	34	29	32	32	32
Goodwill	95	90	78	73	68	63
Cash & Bank Balances	224	287	374	352	427	501
Inventories	82	86	132	92	100	103
Sundry debtors	71	98	117	79	91	98
Loans & Advances	121	110	130	123	125	128
Other Current Assets	8	9	44	43	43	43
Total Curr. Assets	**506**	**590**	**797**	**688**	**786**	**872**
Current Liabilities	227	340	390	275	297	305
Provisions	75	51	61	55	55	56
Total current liabilities	**302**	**391**	**452**	**330**	**352**	**361**
Net Curr. Assets	**204**	**198**	**345**	**358**	**435**	**511**
Total assets	**1,362**	**1,539**	**1,865**	**2,006**	**2,209**	**2,414**

E: MOSL Estimates

Financials and Valuation

Ratios

Y/E March	2010	2011	2012	2013E	2014E	2015E
Basic (INR)						
EPS	**22.7**	**24.5**	**30.4**	**28.4**	**32.3**	**33.6**
Cash EPS	45.9	49.6	58.2	54.6	61.3	65.1
Book Value	117.5	133.9	159.5	176.2	196.8	217.5
DPS	8.0	9.0	9.8	10.0	10.0	11.0
Payout (incl. div tax)	41.6	56.2	32.8	41.1	36.2	38.3
Valuation (x)						
P/E			9.5	10.1	8.9	8.6
Cash P/E			4.9	5.3	4.8	4.5
EV / EBITDA			3.8	4.3	3.5	3.2
EV / Sales			1.5	1.4	1.3	1.2
Price / Book Value			1.8	1.6	1.5	1.3
Dividend Yield (%)			3.4	3.5	3.5	3.8
EV/BOE (USD, 1P basis)			6.8	6.0	5.9	5.8
Profitability Ratios (%)						
RoE	20.2	19.5	20.7	16.9	17.3	16.2
RoCE	19.4	18.8	19.4	15.9	16.5	15.5
Turnover Ratios						
Debtors (No. of Days)	26	26.2	26.8	23.3	18.6	20.1
Fixed Asset Turnover (x)	2.6	2.4	2.4	2.1	2.1	2.0
Leverage Ratio						
Net Debt / Equity (x)	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2

Cash Flow Statement (INR Billion)

Y/E March	2010	2011	2012	2013E	2014E	2015E
OP/(Loss) before Tax	304	343	428	365	425	445
DD & A	89	114	129	181	200	222
Other op. expenses	-8	4	107	0	0	0
Direct Taxes Paid	-77	-105	-119	-109	-127	-133
(Inc)/Dec in Wkg. Capital	-16	70	-71	-35	-1	-2
CF from Op. Activity	**292**	**425**	**475**	**402**	**498**	**532**
(Inc)/Dec in FA & CWIP	-213	-277	-393	-304	-323	-348
(Pur)/Sale of Investments	2	33	3	-3	0	0
CF from Inv. Activity	**-211**	**-244**	**-390**	**-307**	**-323**	**-348**
Issue of Shares	3	4	0	0	0	0
Inc / (Dec) in Debt	-3	0	92	-17	0	0
Dividends Paid (incl.tax)	-81	-118	-85	-100	-100	-110
Interest paid	-2	-4	-4	0	0	0
CF from Fin. Activity	**-83**	**-118**	**2**	**-117**	**-100**	**-110**
Inc / (Dec) in Cash	**-2**	**63**	**86**	**-22**	**75**	**74**
Add: Opening Balance	226	224	287	373	352	427
Closing Balance	**224**	**287**	**373**	**352**	**427**	**501**

E: MOSL Estimates

N O T E S

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