

*Hiking diesel prices by Rs 4, likely soon, will raise ONGC market cap by Rs 65,000 crore – investors will get this gain*

Government-run Oil and Natural Gas Corporation (ONGC) has finally decided to go ahead with a share sale today, in the form of an auction—the first time to use this newly approved method. The sale is expected to raise at least R12,000 crore, which will go towards addressing the shortfall of R40,000 crore in the government's disinvestment target for the current financial year. Undoubtedly it is a good move, and essential, but, as it turns out, the timing might be a little off. From all accounts, the raising of diesel prices will take place shortly, probably after the UP elections—a hike of R3-4 is on the cards, while the under-recovery on this is around R11 a litre. Given under-recoveries of R1.4 lakh crore on all petroleum products and the likelihood of the government issuing bonds for 40% of this, ONGC will probably have to bear losses of R55,000 crore. A R4 hike in diesel prices, however, will reduce under-recoveries by R23,000 crore and ONGC's share by R9,000-10,000 crore. Given a PE of 9, and taking into account corporate tax payments, that means an increase of R65,000 crore or so in ONGC's market cap.

Pity that the government has chosen to give away this booty. But that's one reason why investors will lap up the shares today.