

## Attractively price, Subscribe

4<sup>th</sup> September, 2009

## 'Subscribe'

Price band

Rs 950-1050

Sensex

15,700

## Stock Details

Sector	Oil & Gas
Issue size (Rs bn)	Rs25 – 27.7bn
Equity Capital	Rs2.4bn
Face Value	Rs10
Market Cap	Rs 228-252bn
Issue date	September 07 - September 10

## Shareholding Pattern (%)

Post IPO	
Promoters (Govt.)	78.4
Public & others	21.6

Source: Company

Oil India Limited, the second largest exploration company in the country, will open its IPO on 7<sup>th</sup> September offering 26.4mn shares (11% of diluted equity) to the public in the price range of Rs.950-1050 per share. Simultaneously Government of India will also sell 10% of its stake to three OMCs (IOC – 10%, HPCL and BPCL 5% each) at the price arrived through book building process. At Rs.1050, GOI will raise Rs.22.3bn. We believe the IPO is attractively priced based on EV/2P reserves (2P reserves are Proven and Probable reserves) when compared to ONGC. Historically the company has maintained Reserve Replacement Ratio (RRR) above 1.5x which demonstrates the successful track record in its exploration activity. Further, with ramping up its exploration activity during FY10-11 we expect further accretion of reserves from few of its exploration blocks. At the higher end of the price band (i.e Rs.1050 per share), the stock would trade at EV/2P of US\$3.8 per bbl as compared to US\$5 per bbl of ONGC. We believe the valuation of Oil India Limited at steep discount to ONGC and are recommending SUBSCRIBE rating.

Historically, OIL exploration success ratio has been very high. Its RRR has been consistently above 1.5x in the last five years. The company is also looking at ramping up its exploration activity and is targeting capex of ~Rs.22bn p.a over the next two years. With few prospective blocks at KG Basin and Rajasthan further accretion to reserves cannot be ruled out.

OIL currently has operational blocks at Assam and Rajasthan, Assam accounting for ~90% of its production. Further the company has acquired 24 blocks under NELP out of which in 12 blocks it is the operator. For its international operations the company has signed MOU with IOC and has acquired blocks in Nigeria, Yemen, Egypt and Iran.

## Healthy Reserve Replacement Ratio

OIL currently has reserves from its nominated blocks from Assam, AP and the Rajasthan region. The company has healthy 2P reserves and reserves accretion in the recent past have been through natural gas. From FY07-09, 2P reserves of the company have increased at 8.3% CAGR. Moreover, the RRR (incremental reserves by incremental production, higher ratio suggests higher recovery rate of exploration company) of OIL has been above 1.5x for the last five years, much higher than 1.2-1.3x of ONGC during the same period.

## OIL's Crude oil and Natural gas reserves

Reserves		Crude Oil (bbl)	Natural Gas (BOE)	Total (BOE)
FY07	1P	283.1	169.4	452.5
	2P	539.6	290.0	829.7
	3P	999.7	471.9	1471.6
FY08	1P	295.6	233.6	529.3
	2P	587.7	346.12	933.8
	3P	1039.2	472.4	1511.6
FY09	1P	284.9	246.8	531.8
	2P	575.4	399.4	974.8
	3P	998.6	544.1	1542.7

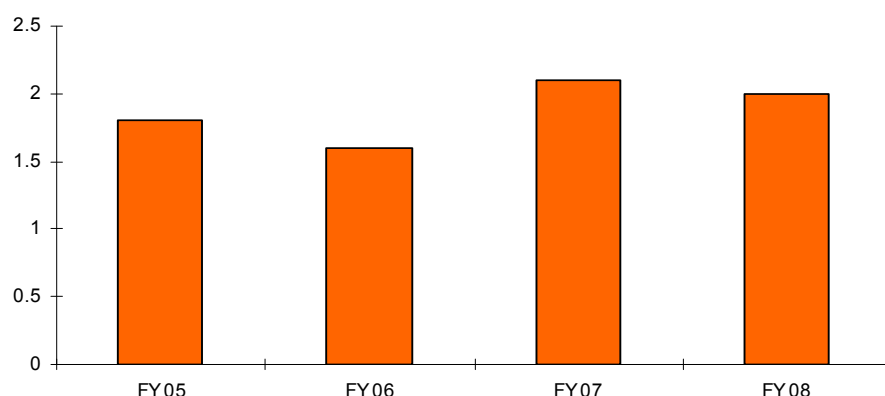
Source: Company, Emkay Research

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## Reserve Replacement Ratio



Source : Company, Emkay Research

## 24 blocks acquired through NELP bidding process

Of the 24 blocks acquired through the NELP bidding process, the company is operator in respect of 12 blocks. The total area covered in the block where the company is the operator is 21,293 sq kms. On the remaining blocks where the company is a non-operator the total area covered is 82,175 sq kms. Table below highlights the details of the blocks acquired under NELP round.

## Blocks where OIL is operator

Sector	no. of blocks	Area (Sq kms)
Rajasthan	6	15,434
KG Basin	1	549
Assam-Arakan Basin	5	5310

Source : Company, Emkay Research

## Blocks where OIL is non-operator

Sector	no. of blocks	Area (Sq Kms)
<b>Onshore</b>		
Assam	2	473
Nagaland	1	1060
West Bengal	1	3940
<b>Offshore</b>		
Mahanadi	2	14041
<b>DeepWater</b>		
Andaman	1	11837
Cauvery	1	12425
KG offshore	4	38399

Source : Company, Emkay Research

## Ramping up capex on exploration

Historically, OIL has undertaken capex of Rs.9.5-10bn per annum for its exploration and production activities. For FY10 and FY11 the company plans capex of Rs.22bn and Rs.23.5bn respectively. With ramp up in its exploration activity we believe there would be further accretion to its reserves.

Rs.bn	FY10	FY11
Exploration	13.0	15.2
Development of producing field	4.9	5.5
Purchase of equipment	4.1	2.6
	22.0	23.3

Source : Company, Emkay Research

### Subsidy sharing on auto fuels only bodes well for upstream companies

Q1FY10 results and various statements by the oil ministry are pointer towards the fact that upstream companies shall bear the under-recovery burden of only auto fuel. We believe this is the first step towards a proper subsidy sharing mechanism and provides more clarity for the upstream companies.

US\$ per bbl	FY2006	FY2007	FY2008	FY2009	Q1FY09	Q1FY10
Benchmark Crude	58.6	66.7	85.5	83.9	121.5	57.5
Subsidy	9.2	19.3	25.1	26.1	40.5	1.8
Net Realisation (excluding royalty and cess)	49.4	47.5	60.5	57.8	81.1	55.7
Net realisation (including royalty and cess)	32.6	29.6	38.5	41.2	59.5	39.5

Source : Company, Emkay Research

### Stable production of crude oil

	FY2007	FY2008	FY2009	Q1FY2010
Crude oil sales volume (mmbbls)	22.28	22.3	24.72	6.22
Natural gas volume (mmcm)	1767.51	1828.85	1737.33	470.99

Source : Company, Emkay Research

### Higher proportion of crude oil in overall reserves

We note that crude oil consists of ~63% of its 2P reserves. We believe high proportion on crude oil reserve vis-à-vis natural gas warrants for higher valuation. Table below highlights ONGC's proportion of crude oil to overall reserve is significantly lower than OIL.

### Crude oil reserve as proportion of total reserves higher than ONGC

% of total 2P reserves	OIL	ONGC
Crude Oil	62.9	56.9
Natural Gas	37.1	43.1

Source : Company, Emkay Research

## Valuation

We believe OIL IPO is attractively priced on EV/2P reserves. At the upper end of the band (Rs.1050), the stock would be valued at US\$3.8 per bbl as compared to US\$5 per bbl of ONGC. Due to better product mix (higher proportion of crude oil reserves as compared to ONGC) and successful track record in terms of high RRR, we believe such a sharp discount is un-warranted. We would advise investors to SUBSCRIBE to the issue with potential gain of 10-15% on listing.

Rs.mn	FY07	FY08	FY09
<b>INCOME</b>			
Sales	52,850.8	59,653.0	71,397.1
Income from Transportation	1,041.1	1,166.4	1,017.3
Other Income	5,334.9	6,770.0	9,371.7
Other adjustments	872.9	365.1	-407.4
<b>Total Income</b>	<b>60,099.8</b>	<b>67,954.6</b>	<b>81,378.7</b>
<b>EXPENDITURE</b>			
Increase/(Decrease ) In Stock	22.1	-220.5	130.0
Production, Transportation & Other Expenditure	30,439.3	35,648.8	39,612.4
Provision	1,927.0	1,334.0	3,711.9
Depletion	1,776.5	2,174.8	2,087.6
Depreciation	818.3	918.6	1,680.7
Interest & Debt Charges	139.5	343.6	87.4
Exchange Loss/(Gain)	11.2	39.2	-61.5
Other Adjustments	84.9	570.6	213.9
<b>Total Expenditure</b>	<b>35,219.0</b>	<b>40,809.2</b>	<b>47,462.7</b>
Profit for the period / year	24,880.8	27,145.3	33,916.0
Prior Period items	-54.5	11.3	46.3
<b>Profit Before Tax</b>	<b>24,826.2</b>	<b>27,134.0</b>	<b>33,869.7</b>
Provision for Taxation:			
Current Tax (including wealth tax)	7,380.3	8,510.2	11,848.4
Tax for earlier years	0.9	2.6	-
Deferred tax	1,020.1	706.8	343.0
Fringe benefit tax	25.0	25.0	61.3
<b>Profit After Tax</b>	<b>16,399.8</b>	<b>17,889.3</b>	<b>21,616.8</b>

Source : Company, Emkay Research

Rs.mn	FY07	FY08	FY09
<b>Fixed Asset</b>			
Gross Block	21,889.0	23,227.7	29,720.3
Less: Accumulated Depreciation	15,521.3	16,146.6	18,382.6
Net Block	6,367.7	7,081.1	11,337.7
Capital Work in progress	5,301.1	6,445.5	3,185.8
	<b>11,668.8</b>	<b>13,526.6</b>	<b>14,523.6</b>
<b>Producing Properties</b>			
Gross Cost	38,440.8	43,036.1	47,660.0
Less: Depletion	18,183.0	20,357.8	22,445.5
<b>Net Cost</b>	<b>20,257.7</b>	<b>22,678.2</b>	<b>25,214.5</b>
<b>Pre-producing Properties</b>	<b>3,885.9</b>	<b>4,481.0</b>	<b>5,622.8</b>
<b>Investments</b>	<b>4,075.4</b>	<b>4,886.6</b>	<b>4,886.6</b>
<b>Current assets</b>			
Inventories	4,080.2	4,508.9	5,009.9
Sundry debtors	3,726.9	5,608.5	4,047.3
Cash and Bank Balances	32,756.9	42,808.2	60,700.0
Interest /Dividend accrued	1,453.6	2,150.3	3,517.2
Loans and Advances	12,805.4	6,069.8	10,443.9
	<b>54,823.2</b>	<b>61,145.9</b>	<b>83,718.5</b>
<b>Total Assets</b>	<b>94,711.2</b>	<b>1,06,718.5</b>	<b>1,33,966.1</b>
<b>Liabilities and Provisions</b>			
Secured Loans	7,090.0	1,048.8	27.0
Unsecured Loans	1,050.0	700.0	537.5
Current Liabilities	7,948.9	11,127.3	14,636.6
Provisions	2,373.3	6,114.5	15,866.0
	<b>18,462.3</b>	<b>18,990.8</b>	<b>31,067.2</b>
Deferred Tax Liability (Net)	8,038.3	8,670.8	9,013.8
<b>Total Liabilities</b>	<b>26,511.4</b>	<b>27,673.0</b>	<b>40,095.7</b>
Share Capital	2,140.0	2,140.0	2,140.0
Reserves and Surplus	66,059.7	76,905.4	91,730.4
	<b>68,199.7</b>	<b>79,045.5</b>	<b>93,870.4</b>

Source : Company, Emkay Research

Valuation and Ratios	FY07	FY08	FY09
EPS	68.2	74.4	89.9
EPS Growth	-3.0	9.1	20.8
P/E @ Rs.1050	15.4	14.1	11.7
Book Value	318.7	369.4	438.6
P/BV	3.3	2.8	2.4
EV/EBITDA	9.7	8.3	6.1
ROE	24.0	24.2	25.0

Source : Company, Emkay Research

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