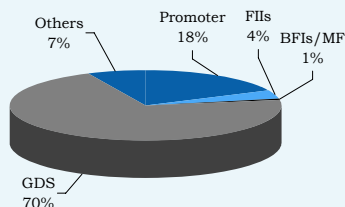
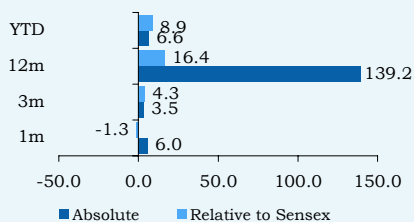


Jagdish Meghnani, +91 22 6639 9165 , jagdish.meghnani@alchemyonline.com
Dikshit Mittal, +91 22 6639 9187 , dikshit.mittal@alchemyonline.com
Key points

- Total E&P resource base at 1.5 bn boe
- Refinery up gradation and expansion on track

CMP Rs149

Reuters code	ESRO.BO
Bloomberg code	ESOIL IB
Shares o/s (mn)	1202
Mkt Cap	Rs179bn/US\$3.9bn
52 wk high / Low	Rs194/61
Avg daily trad vol	6.12(mn shs)
BSE Sensex	17,103
Nifty	5,124

Shareholding pattern

Performance

Share price movement


Exciting E&P portfolio, key to future growth

Essar Oil hosted Analyst meet to discuss the progress in their E&P activities. Key takeaways are:

- Essar Oil has got its reserves certified from independent agencies. The latest competent person report (CPR) has certified total 2C resources at 274 mmboe (gas resources at 1.1 tcf and oil resources at 87 mmbbl).
- CPR has also certified additional 1 bn boe of best estimate prospective resources.
- In addition, 238 mmboe of unrisks/in-place reserves have been certified, taking total resource base to 1.5 bn boe.
- The company hopes to create substantial value out of these reserves once Ratna PSC is signed, and Raniganj development plan gets approved. Ratna PSC is expected to be signed by next quarter.
- Raniganj block is expected to reach peak production of 3.5 mmscmd in 24-30 months, whereas Ratna peak production of 29kbpd oil will be reached in 3.5 years time.
- Off take agreement for Ratna crude oil has already been signed with BPCL.
- On the refining side, phase 1 of expansion is on track and by March 2011, refining capacity will increase from 14 MMT today to 18 MMT. After the phase 1, complexity of refinery will also increase from 6.1 currently to 11.8, which will enable the company to generate higher refining margins.
- Government has already allocated 0.65 mmscmd of KG D6 gas to the existing refinery, which will be available from April 2010. Availability of natural gas will increase refining margins by US\$0.5-1/bbl.

Valuations

Currently, Essar Oil is trading at a market cap of around US\$4bn. Adding US\$3.1bn of debt, enterprise value works out to be US\$7.1bn. We believe that the stock performance from hereon will depend on how much value the company can create from these reserves. The company also hopes to generate EBIDTA of around US\$1bn per annum once 18 MMT capacity with higher complexity goes on stream, implying refining margins of US\$11/bbl. However, conservatively assuming refining margins of US\$8/bbl, at 18 MMT capacity, Essar Oil can generate EBIDTA of around US\$660mn. Applying EV/EBIDTA multiple of 8x, valuation of refining segment amounts to US\$5.2bn. Implied E&P segment valuation at CMP is around US\$1.9bn (implying 27% recoverable reserves out of 7 tcf of unrisks gas resources @ \$5/boe). Further upside from current levels will depend on amount of value that the company can generate from existing resources and higher than expected GRMs.

Details of E&P blocks with resource estimates

Assets	Status	Ownership	2C Resources			Best Estimate Prospective Resources			Unrisked in-place resources		
			Oil (mmbbl)	Gas (Bcf)	Total (mmboe)	Oil (mmbbl)	Gas (Bcf)	Total (mmboe)	Oil (mmbbl)	Gas (Bcf)	Total (mmboe)
Ratna/R-Series	Discovered Fields, Development to commence once PSC is signed	50%	74	40	81						
Raniganj (CBM)	Test Production Commenced, moving to commercial development	100%	0	201	33		792	132			
Mehsana	Potential CBM play	70%	2	747	127						
Rajmahal (CBM)	Large acreage, located in rich coal belt	100%					4723	787			
Nigeria	Located in proved Nigerian petro ferrous basin	63%	11	136	33	49	264	93			
Assam	Close to discovered oil area	100%							10		10
Mumbai Offshore	Potential shallow gas play	50%								186	31
Indonesia	Located in proven central Sumatra basin	49.50%							30		30
Vietnam	Large acreage and considered highly prospective	100%								1000	167
Total			87	1124	274	49	5779	1012	40	1186	238

The ratings are based on the absolute upside of our target price from the current price.

Upside more than 25%	Strong Buy
Upside between 15-25%	Buy
Upside of up to 15%	Accumulate
Downside of up to 15%	Reduce
Downside of more than 15%	Sell
Sector Relative call:	
Outperform	>5% upside to sector benchmark
Marketperform	+5% to -5% of sector benchmark
Underperform	>5% downside to sector benchmark
Sector Weightage	
Overweight	
Equal weight	
Underweight	

Sales

91-22-6639 9125

91-22-6639 9126

91-22-6639 9178

Trade Execution

91-22-6639 9121

91-22-6639 9134

91-22-6639 9167

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ALCHEMY SHARE & STOCK BROKERS PVT. LTD.

Navsari Building, 4th Floor, 240 Dr D. N. Road, Fort, Mumbai: 400 001. India

(Tel): 91-22-6639 9100

(Fax): 91-22-2203 3575