UBS

Global Equity Research

India

Oil Companies, Secondary

12-month rating	Neutral
	Prior: Not Rated
12m price target	Rs160.00/US$3.56
Price	Rs139.20/US$3.10

RIC: ESRO.BO BBG: ESOIL IB

31 March 2010

UBS Investment Research

Essar Oil

High complexity at low cost [EXTRACT]

■ We initiate coverage of Essar Oil with a Neutral rating

We initiate coverage of Essar Oil (EOL) with a Neutral rating and a price target of Rs160. The company has a refining capacity of 210,000bpd and 83mmboe of oil and gas reserves (proved plus probable). EOL plans to raise refining capacity to 720,000bpd and its Nelson Complexity Index (NCI) rating from 6.1 to 12.8 by 2013, which would make it one of the largest and most complex single site refineries in the world.

■ Potential extension of tax privileges

EOL will not complete its phase 2 refinery expansion by March 2012 and therefore may not qualify for tax privileges (Section 80-IB) on that portion of the expansion. The company is seeking an extension from the government which, if successful, could add about Rs20 per share to our valuation.

■ EOL could outperform if execution is timely

We have a relatively conservative view on the refining industry in the next two to three years. However, if EOL is able to execute the complexity upgrade and volume growth on schedule, we believe it will be in a position to significantly outperform the operations and share prices of its Asian refining peers.

■ Valuation: price target of Rs160

We use a sum-of-the-parts methodology to value the company. We use DCF to value EOL's core refining assets at Rs139 per share (using a 12.6% WACC), and the risked oil and gas reserves at Rs20 per share based on target EV multiples (please see the valuation section of this report).

Highlights (Rsm)	03/08	03/09	03/10E	03/11E	03/12E
Revenues	5,623	375,561	331,043	366,005	395,296
EBIT (UBS)	(525)	4,037	8,500	12,199	19,622
Net Income (UBS)	(412)	(5,135)	(396)	4,774	12,627
EPS (UBS, Rs)	(0.36)	(4.30)	(0.33)	3.90	8.64
Net DPS (UBS, Rs)	0.00	0.00	0.00	0.00	0.00

Profitability & Valuation	5-yr hist av.	03/09	03/10E	03/11E	03/12E
EBIT margin %	-	1.1	2.6	3.3	5.0
ROIC (EBIT) %	-	3.2	7.8	13.2	11.5
EV/EBITDA (core) x	-	23.7	10.7	6.3	8.9
PE (UBS) x	-	-34.8	<-100	35.7	16.1
Net dividend yield %	-	0.0	0.0	0.0	0.0

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.
Valuations: based on an average share price that year, (E): based on a share price of Rs139.20 on 30 Mar 2010 23:39 HKT

Trading data (local/US$)

52-wk range	Rs187.00-72.55/US$3.97-1.43
Market cap.	Rs151bn/US$3.35bn
Shares o/s	1,084m (ORD)
Free float	81%
Avg. daily volume ('000)	1,647
Avg. daily value (Rsm)	239.7

Balance sheet data 03/10E

Shareholders' equity	Rs45.6bn
P/BV (UBS)	3.7x
Net Cash (debt)	(Rs44.7bn)

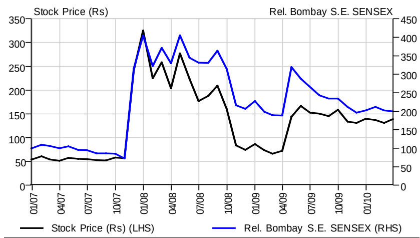
Forecast returns

Forecast price appreciation	+14.9%
Forecast dividend yield	0.0%
Forecast stock return	+14.9%
Market return assumption	12.7%
Forecast excess return	+2.2%

EPS (UBS, Rs)

	03/10E			03/09
	From	To	Cons.	Actual
Q1	-	1.41	(4.05)	-
Q2	-	(0.78)	-	-
Q3	-	(1.88)	-	-
Q4E	-	0.93	-	-
03/10E	-	(0.33)	-	
03/11E	-	3.90	-	

Performance (Rs)



Source: UBS

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This is an extract from our initiation of coverage report published on 31 March 2010. For more detail, please refer to the longer report.

Investment Thesis

We initiate coverage of Essar Oil Limited (EOL) with a Neutral rating and a price target of Rs160. Our price target excludes an estimated Rs20 per share value for a tax privilege should the company achieve a successful extension of a seven-year tax holiday under Section 80-IB.

EOL is part of Essar Energy Holdings Limited (EEHL), which is a subsidiary of Essar Global Limited. EOL has a refinery of 10.5mmtpa (210,000bpd) installed capacity in Vadinar, Gujarat, a marketing network of 1,293 retail stations across India, and about 83mboe of 2P (proved plus probable) oil and gas reserves, or 933mmboe on an un-risked basis.

EOL plans to increase capacity at the Vadinar refinery in two phases. The company aims to launch production at the first phase (to 18mmtpa, 360,000bpd) by March 2011 while the second phase (to 36mmtpa, 720,000bpd) is planned for completion in March 2013, subject to market conditions and attainment of financial closure. In addition, management plans to raise the refinery's Nelson Complexity Index (NCI) rating from 6.1 to 12.8.

Overall, we take a relatively conservative view of the refining industry in the next two to three years. However, if EOL is able to achieve growth as planned, we believe it will be in a position to achieve a superior refining margin and hence significantly outperform the operations of its Asian refining peers.

If the company's expansion efforts are successful, Essar will rank among the largest and most complex refiners in the world (and built for one of the lowest costs). Other advantages are tax benefits and its location on India's west coast (close to Middle Eastern crude sources).

We derive our Rs160 price target from a sum-of-the-parts valuation methodology. We value the core refining assets at Rs139 per share using DCF (a 12.6% WACC), and the risked oil and gas reserves at Rs20 per share based on target EV multiples (please see the valuation section).

Key catalysts

Expansion and complexity upgrade to be a key driver

- Refining margins have risen recently, led by the strongest middle distillate cracks in more than a year. We expect the margin to remain reasonably strong, at least to the seasonal peak in April or May. However, as we believe regional supply is ample, we expect the margin to weaken again by mid-year after refineries return from maintenance.

Better visibility on the progress of expansion should be positive for share price performance

- In our view, a key driver of Essar's share price will be the planned expansion and complexity upgrades. If the market begins to gain better visibility on the progress of expansion, it should be positive for share price performance. Conversely, unexpected delays could negatively impact share price performance.

- EOL has about 83mmboe of 2P oil & gas reserves but potentially 933mmboe on an un-risked basis. We believe positive news flow on oil and gas discoveries will be a positive share price driver.

Risks

- We think the biggest company-specific risk is project delays or execution risk, given the company's large project pipeline.

- As we highlight in the refining industry outlook section, while we believe the refining industry is reaching a trough, visibility on a sustained rebound in refining margins remains poor. However, based on complexity upgrades, we expect EOL's refining margin to rise meaningfully through 2013.

- According to recent press reports (Bloomberg and Reuters), Essar may be looking to acquire refinery assets abroad; for example, Royal Dutch Shell's refineries in Stanlow (the UK), Heide & Heidenberg (Germany) and Gothenburg (Sweden). Hence we cannot discount execution risk on potential acquisitions.

- The Indian market remains oversupplied. Hence Essar would likely need to export roughly 40% of its product once the full expansion to 36mmtpa is completed. We believe that access to logistics infrastructure is one of the key reasons why the company has been mentioned in press reports as having an interest in refinery operations abroad (eg, Europe and Africa).

Valuation and basis for our price target

We derive our Rs160 price target from a sum-of-the-parts valuation methodology

We derive our Rs160 price target from a sum-of-the-parts valuation methodology. We value the core refining assets at Rs139 per share using DCF (a 12.6% WACC, 7.7% risk-free rate and 5.0% risk premium; 8.8% after-tax cost of debt, 1.5 beta and 3% terminal growth rate).

Essar will not complete its phase 2 refinery expansion by March 2012; hence it may not qualify for tax privileges (Section 80-IB) on that portion. EOL is seeking an extension from the government. If successful, it could add about Rs20 per share to our valuation.

We estimate the cost of the phase 1 expansion at US$1.67bn, to be funded by US$978m debt and US$688m equity. The cost of phase 2 is US$4.44bn and should be funded at a debt-to-equity ratio of 1.5-1.7x.

A large potential premium to Reuters Singapore complex GRM

We estimate the EOL refinery, with a complexity of approximately 12.8 after expansion, could have up to a US$7.0/bbl premium to the Reuters Singapore complex GRM. In addition, EOL's refinery should benefit from existing infrastructure, especially the port and power plant that belong to EOL's affiliate companies.

We value EOL's risked oil and gas reserves (83mmboe of 2P reserves) at Rs20 per share based on target EV multiples ranging from US$2/boe to US$5/boe (please see the valuation section for details).

UBS versus consensus

We forecast EOL will hit roughly breakeven in FY10. Although EOL realised a loss per share of about Rs1.30 during the first nine months of FY10, we believe it will turn a profit in the fourth quarter based on the recovery of regional refining margins in the past three months.

UBS EPS estimates are below consensus for FY10 but mostly in line for FY11 and FY12. We believe one of they key reasons for the large difference in FY10 is the limited number of analysts (eight) that cover the stock. Based on the four analyst updates carried out so far this year, the expectation is for breakeven to be achieved in FY10.

We believe one of they key reasons for the large difference from consensus in FY10 is the limited number of analysts covering the stock

Table 1: UBS versus consensus EPS forecasts

(Rs/share)	FY10E	FY11E	FY12E
Bloomberg	1.79	3.75	8.67
UBS	(0.33)	3.90	8.98

Source: Bloomberg, UBS estimates

Sensitivity analysis

EPS sensitivity

Given the expected rise in EOL's refining margin from the complexity upgrade, earnings should be less operationally geared to a US$1/bbl change in refining margin by FY14 and FY15.

Earnings should be less operationally geared to a US$1/bbl change in refining margin by FY14 and FY15

Table 2: Gross refining margin (GRM) assumptions

(%)	FY10	FY11E	FY12E	FY13E	FY14E	FY15E
Base GRM	4.0	5.0	6.9	6.9	9.5	10.1
GRM (including tax benefit)	5.8	6.8	8.7	8.7	11.3	10.1

Source: UBS estimates

Table 3: Sensitivity to changes in EPS

Sensitivity (Rs/share)	EPS					Change				
	FY11E	FY12E	FY13E	FY14E	FY15E	FY11E	FY12E	FY13E	FY14E	FY15E
Base case (+US$1/bbl)	6.87	11.64	5.40	25.77	34.42	76%	30%	243%	25%	25%
Base case	3.90	8.64	1.57	20.60	27.46					
Base case (-US$1/bbl)	0.64	6.31	(2.64)	15.42	20.46	-84%	-30%	na	-25%	-25%

Source: UBS estimates

Valuation sensitivity

- We estimate that a US$1/bbl increase or decrease in our near-term and long-term refining margin assumptions would result in a 31% increase or decrease in our price target to Rs209 or Rs109, respectively.
- We believe our E&P valuation is conservative at Rs20 per share. We estimate that each US$1/boe increase in our target EV/boe valuation results in an Rs7 per share increase in our valuation.

Tax holiday

As mentioned, EOL will not complete its phase 2 refinery expansion by March 2012; hence it may not qualify for tax privileges (Section 80-IB) on that portion.

EOL is seeking an extension from the government. If successful, it could add about Rs20 per share to our valuation.

Risks

Refining margins are volatile

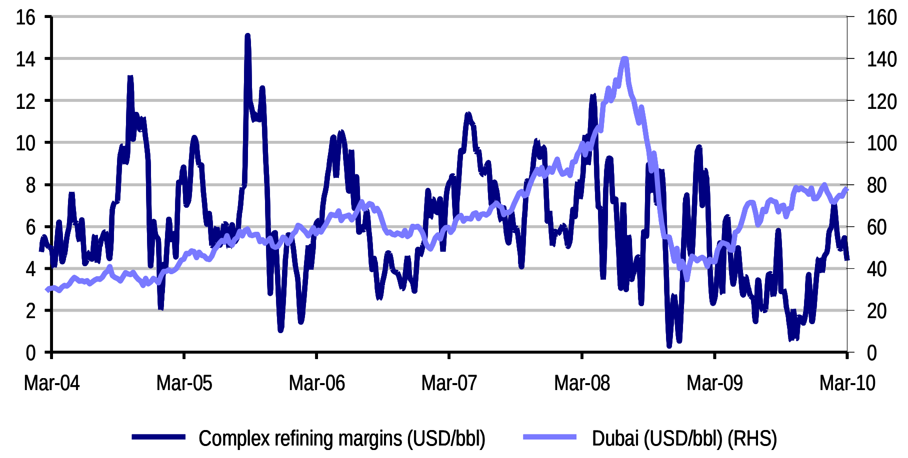
GRM is inversely proportionate to the investment cycle

Gross refining margins (GRM) are inversely proportionate to the investment cycle. During periods of high margins, refineries tend to reinvest their excess cash in expanding capacity. Most investment occurs at the same time, which results in new capacity coming on stream simultaneously. There then tends to be another period of low margins when investment cannot be justified until demand catches up with the newly added capacity.

We believe the regional operating rate for refiners will improve in 2011 and 2012, but maintain our view that refining capacity will nonetheless remain in oversupply. This is reflected in our conservative refining margin forecasts. We expect the Reuters Singapore complex refining margin index to average just US$3.30/bbl from 2010 to 2012.

Because of its high complexity after expansion, we think EOL should be able to meaningfully outperform the regional benchmark's refining margin and hence record reasonable refining margins (and operating profit). We note that the Singapore complex index has a large 23% weighting on fuel oil versus a planned output near 1%, once Essar completes its upgrades.

Chart 1: Dubai oil (US$/bbl) vs. Reuters Singapore complex refining margin (US$/bbl)



Source: Bloomberg, Reuters

Project execution risk

We factor in expanded capacity by April 2012

Global manpower shortages have led to delays in many refinery and petrochemical projects and we cannot discount the risk of delays at EOL. To avoid this, EOL is utilising technical expertise and manpower from group companies.

- For phase 1, the basic engineering design is 100% complete and detailed engineering is 83% complete. The procurement process for phase 1 is 42.5% complete and construction is 28% complete, according to management.
- For the phase 2 expansion, the basic and detailed engineering is 100% and 50% complete, respectively. EOL expects this phase to be finished by March 2013, subject to financial closure and market conditions. Our model factors in start of production at the expanded capacity in April 2013 (FY14).

EOL has already received environmental approval for the proposed capacity expansion

We note that EOL's first refinery (10.5mmtpa) took longer than planned to complete. Currently, although work commenced in FY96, EOL did not begin any meaningful construction before 2004 due to a cyclone in June 1998 and the halt in construction ordered by the Forests & Environment Department of the Gujarat government because of the lack of environmental approvals.

In January 2004, the Supreme Court passed a favourable Environmental Order and directed the Gujarat government to issue the necessary environmental approvals. EOL has already received environmental approval for the proposed capacity expansion.

M&A execution risk

Recent press reports (Bloomberg and Reuters) suggest Essar has been looking to acquire refinery assets abroad; for example, Shell's refineries in Stanlow (the UK), Heide and Heidenberg (Germany), and Gothenburg (Sweden). Hence we cannot discount execution risk for potential acquisitions.

Foreign exchange rate (FX) risk

EOL's raw material costs and realised prices for petroleum product sales are denominated in US dollars. Hence the company is exposed to FX risk.

Cost of infrastructure services

EOL's profitability will be sensitive to the cost of infrastructure services

According to EOL, the refinery project will be supported by Vadinar Oil Terminal Limited's (VOTL) infrastructure (a subsidiary of group company Essar Shipping Ltd) and Vadinar Power Company Limited (VPCL). The service charges for the facilities will be an important factor in EOL's profitability. We assume operating expenses including power costs and product handling costs of US$2.4/bbl; profitability will be sensitive to service charges.

Related-party transactions

EOL will use VOTL's tankage and port facilities and VPCL's power under take-or-pay arrangements. This involves related-party transactions. However, EOL's management has indicated that all transactions will be conducted at arm's length and on commercial terms.

Essar Oil

Income statement (Rsm)	03/05	03/06	03/07	03/08	03/09	03/10E	% ch	03/11E	% ch	03/12E	% ch
Revenues	10,451	6,366	4,740	5,623	375,561	331,043	-11.9	366,005	10.6	395,296	8.0
Operating expenses (ex depn)	(11,090)	(7,655)	(5,238)	(6,123)	(364,975)	(315,031)	-13.7	(346,166)	9.9	(365,809)	5.7
EBITDA (UBS)	(639)	(1,288)	(498)	(500)	10,585	16,012	51.3	19,838	23.9	29,487	48.6
Depreciation	(62)	(47)	(45)	(25)	(6,549)	(7,512)	14.7	(7,639)	1.7	(9,865)	29.1
Operating income (EBIT, UBS)	(701)	(1,335)	(543)	(525)	4,037	8,500	110.6	12,199	43.5	19,622	60.9
Other income & associates	584	474	59	88	227	209	-7.8	210	0.4	211	0.5
Net interest	261	(59)	(61)	(4)	(9,701)	(9,106)	-6.1	(5,779)	-36.5	(1,917)	-66.8
Abnormal items (pre-tax)	0	0	0	0	0	0	-	0	-	0	-
Profit before tax	144	(921)	(546)	(441)	(5,437)	(396)	-92.7	6,630	-	17,916	170.2
Tax	(45)	(16)	(129)	29	302	0	-	(1,856)	-	(5,289)	184.9
Profit after tax	99	(937)	(675)	(412)	(5,135)	(396)	-92.3	4,774	-	12,627	164.5
Abnormal items (post-tax)	0	0	0	0	0	0	-	0	-	0	-
Minorities / pref dividends	0	0	0	0	0	0	-	0	-	0	-
Net income (local GAAP)	99	(937)	(675)	(412)	(5,135)	(396)	-92.3	4,774	-	12,627	164.5
Net Income (UBS)	99	(937)	(675)	(412)	(5,135)	(396)	-92.3	4,774	-	12,627	164.5
Tax rate (%)	31	0	0	0	0	0	-	28	-	30	5.5
Pre-abnormal tax rate (%)	31	0	0	0	0	0	-	28	-	30	5.5

Per share (Rs)	03/05	03/06	03/07	03/08	03/09	03/10E	% ch	03/11E	% ch	03/12E	% ch
EPS (local GAAP)	0.28	(0.89)	(0.61)	(0.36)	(4.30)	(0.33)	-92.3	3.90	-	8.64	121.8
EPS (UBS)	0.28	(0.89)	(0.61)	(0.36)	(4.30)	(0.33)	-92.3	3.90	-	8.64	121.8
Net DPS	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Cash EPS	0.45	(0.85)	(0.57)	(0.34)	1.18	5.92	399.9	10.13	71.0	15.39	51.9
BVPS	25.60	23.26	27.64	33.50	37.99	37.18	-2.1	66.74	79.5	75.38	12.9

Balance sheet (Rsm)	03/05	03/06	03/07	03/08	03/09	03/10E	% ch	03/11E	% ch	03/12E	% ch
Net tangible fixed assets	74,569	84,884	108,299	137,204	145,197	138,632	-4.5	140,258	1.2	290,078	106.8
Net intangible fixed assets	0	0	0	0	0	0	-	0	-	0	-
Net working capital (incl. other assets)	(1,593)	(4,751)	234	(11,363)	(16,237)	(49,095)	202.4	(44,382)	-9.6	(45,146)	1.7
Other liabilities	(5,504)	(346)	(391)	(445)	(253)	(254)	0.1	(254)	0.0	(254)	0.0
Operating invested capital	67,472	79,787	108,142	125,396	128,708	89,283	-30.6	95,622	7.1	244,678	155.9
Investments	731	897	1,094	1,031	1,031	1,031	0.0	1,031	0.0	1,031	0.0
Total capital employed	68,202	80,684	109,236	126,427	129,738	90,314	-30.4	96,653	7.0	245,708	154.2
Shareholders' equity	24,048	25,207	29,951	36,299	41,167	45,571	10.7	97,545	114.1	110,172	12.9
Minority interests	0	0	0	0	0	0	-	0	-	0	-
Total equity	24,048	25,207	29,951	36,299	41,167	45,571	10.7	97,545	114.1	110,172	12.9
Net debt / (cash)	44,154	55,477	79,285	90,128	88,571	44,743	-49.5	(892)	-	135,537	-
Debt deemed provisions	0	0	0	0	0	0	-	0	-	0	-
Total capital employed	68,202	80,684	109,236	126,427	129,738	90,314	-30.4	96,653	7.0	245,708	154.2

Cash flow (Rsm)	03/05	03/06	03/07	03/08	03/09	03/10E	% ch	03/11E	% ch	03/12E	% ch
Operating income (EBIT, UBS)	(701)	(1,335)	(543)	(525)	4,037	8,500	110.6	12,199	43.5	19,622	60.9
Depreciation	62	47	45	25	6,549	7,512	14.7	7,639	1.7	9,865	29.1
Net change in working capital	250	177	(350)	(353)	10,223	32,859	221.4	(4,713)	-	765	-
Other (operating)	(144)	(470)	42	(5)	7,840	9,097	16.0	5,768	-36.6	1,906	-67.0
Operating cash flow	(532)	(1,581)	(805)	(858)	28,648	57,967	102.3	20,893	-64.0	32,158	53.9
Net interest received / (paid)	261	(59)	(61)	(4)	(9,701)	(9,106)	-6.1	(5,779)	-36.5	(1,917)	-66.8
Dividends paid	0	0	0	0	0	0	-	0	-	0	-
Tax paid	(16)	(62)	(90)	(214)	31	0	-	(1,856)	-	(5,289)	184.9
Capital expenditure	(36,965)	(20,893)	(24,653)	(18,004)	(19,894)	(946)	-95.2	(9,265)	879.1	(159,685)	1623.5
Net (acquisitions) / disposals	59	647	16	(37)	(128)	751	-	3,634	383.8	12,112	233.3
Other	-	2,072	(15,381)	(8,855)	(7,317)	(9,638)	31.7	(9,192)	-4.6	(13,807)	50.2
Share issues	7,296	1,804	5,419	6,468	5,217	4,800	-8.0	47,200	883.3	0	-
Cash flow (inc)/dec in net debt	(26,586)	(18,071)	(35,556)	(21,504)	(3,145)	43,828	-	45,635	4.1	(136,429)	-
FX / non cash items	-	6,748	11,748	10,661	4,702	0	-	0	-	0	-
Balance sheet (inc)/dec in net debt	-	(11,323)	(23,808)	(10,843)	1,557	43,828	2715.4	45,635	4.1	(136,429)	-
Core EBITDA	(639)	(1,288)	(498)	(500)	10,585	16,012	51.3	19,838	23.9	29,487	48.6
Maintenance capital expenditure	(200)	(200)	(200)	(200)	(200)	(200)	0.0	(200)	0.0	(200)	0.0
Maintenance net working capital	0	0	0	0	0	0	-	0	-	0	-
Operating free cash flow, pre-tax	(839)	(1,488)	(698)	(700)	10,385	15,812	52.3	19,638	24.2	29,287	49.1

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

Global Equity Research

India

Oil Companies, Secondary

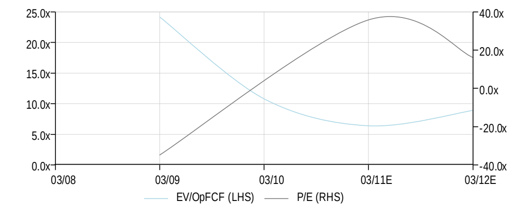
12-month rating	Neutral
12m price target	Rs160.00

Essar Oil

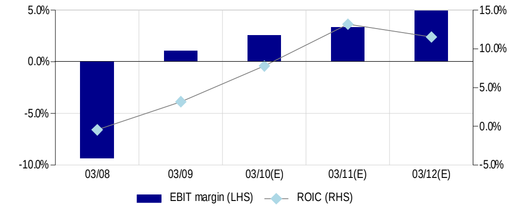
Company profile

Essar Oil is a part of Essar Holdings Limited, a subsidiary of Essar Global Limited. It currently operates a 10.5mtpa refinery on the west coast of India and plans to increase refining capacity to 36mtpa by March 2013. The company's assets include developmental rights in proven exploration blocks, and it has over 1,200 retail outlets across India with plans to expand to 3,000 outlets.

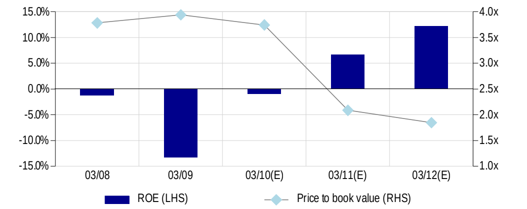
Value (EV/OpFCF & P/E)



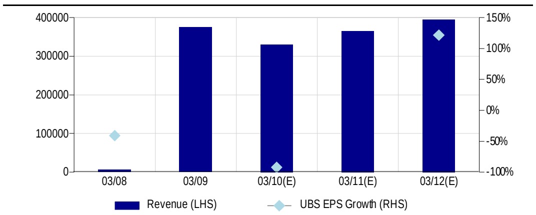
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
P/E (local GAAP)	-	NM	NM	NM	35.7	16.1
P/E (UBS)	-	<-100	-34.8	<-100	35.7	16.1
P/CEPS	-	NM	NM	23.5	13.7	9.0
Net dividend yield (%)	-	0.0	0.0	0.0	0.0	0.0
P/BV	-	3.8	3.9	3.7	2.1	1.8
EV/revenue (core)	-	NM	0.7	0.5	0.3	0.7
EV/EBITDA (core)	-	<-100	23.7	10.7	6.3	8.9
EV/EBIT (core)	-	NM	NM	20.1	10.3	13.3
EV/OpFCF (core)	-	NM	24.2	10.8	6.4	8.9
EV/op. invested capital	-	1.9	2.0	1.6	1.4	1.5

Enterprise value (Rsm)	03/08	03/09	03/10E	03/11E	03/12E
Average market cap	137,341	162,294	150,834	150,834	150,834
+ minority interests	0	0	0	0	0
+ average net debt (cash)	90,128	88,571	44,743	(892)	135,537
+ pension obligations and other	0	0	0	0	0
- non-core asset value	0	0	(24,680)	(24,680)	(24,680)
Core enterprise value	227,468	250,865	170,898	125,262	261,691

Growth (%)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
Revenue	-	18.6	NM	-11.9	10.6	8.0
EBITDA (UBS)	-	0.4	-	51.3	23.9	48.6
EBIT (UBS)	-	-3.3	-	110.6	43.5	60.9
EPS (UBS)	-	-41.0	NM	-92.3	-	121.8
Cash EPS	-	-40.6	-	NM	71.0	51.9
Net DPS	-	-	-	-	-	-
BVPS	-	21.2	13.4	-2.1	79.5	12.9

Margins (%)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
EBITDA / revenue	-	NM	2.8	4.8	5.4	7.5
EBIT / revenue	-	-9.3	1.1	2.6	3.3	5.0
Net profit (UBS) / revenue	-	NM	NM	NM	1.3	3.2

Return on capital (%)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
EBIT ROIC (UBS)	-	NM	3.2	7.8	13.2	11.5
ROIC post tax	-	NM	3.2	7.8	9.5	8.1
Net ROE	-	(1.2)	(13.3)	(0.9)	6.7	12.2

Coverage ratios (x)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
EBIT / net interest	-	-	0.4	0.9	2.1	10.2
Dividend cover (UBS EPS)	-	-	-	-	-	-
Div. payout ratio (%, UBS EPS)	-	-	-	-	-	-
Net debt / EBITDA	-	NM	8.4	2.8	NM	4.6

Efficiency ratios (x)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
Revenue / op. invested capital	-	0.0	3.0	3.0	4.0	2.3
Revenue / fixed assets	-	0.0	2.7	2.3	2.6	1.8
Revenue / net working capital	-	NM	NM	NM	NM	NM

Investment ratios (x)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
OpFCF / EBIT	-	1.3	2.6	1.9	1.6	1.5
Capex / revenue (%)	-	NM	5.3	0.3	2.5	NM
Capex / depreciation	-	NM	3.0	0.1	1.2	NM

Capital structure (%)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
Net debt / total equity	-	NM	NM	98.2	(0.9)	NM
Net debt / (net debt + equity)	-	71.3	68.3	49.5	(0.9)	55.2
Net debt (core) / EV	-	39.6	35.3	26.2	(0.7)	51.8

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.
Valuations: based on an average share price that year, (E): based on a share price of Rs139.20 on 30 Mar 2010 23:39 HKT Market cap(E) may include forecast share issues/buybacks.

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■ Essar Oil

Essar Oil is a part of Essar Holdings Limited, a subsidiary of Essar Global Limited. It currently operates a 10.5mtpa refinery on the west coast of India and plans to increase refining capacity to 36mtpa by March 2013. The company's assets include developmental rights in proven exploration blocks, and it has over 1,200 retail outlets across India with plans to expand to 3,000 outlets.

■ Statement of Risk

We believe the project faces several risks: 1) business risks such as volatility in global and regional refining margins; 2) project execution risks; 3) related-party transaction risk; and 4) location risks like natural calamities, etc.

■ Analyst Certification

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage[1]	IB Services[2]
Buy	**Buy**	48%	40%
Neutral	**Hold/Neutral**	40%	35%
Sell	**Sell**	13%	26%
UBS Short-Term Rating	**Rating Category**	**Coverage[3]**	**IB Services[4]**
Buy	**Buy**	less than 1%	17%
Sell	**Sell**	less than 1%	67%

1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category.
4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 December 2009.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	**Definition**
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

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Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

Equity Price Targets have an investment horizon of 12 months.

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UBS Securities Asia Limited: Peter Gastreich. **UBS Securities India Private Ltd:** Ruchi Patwari.

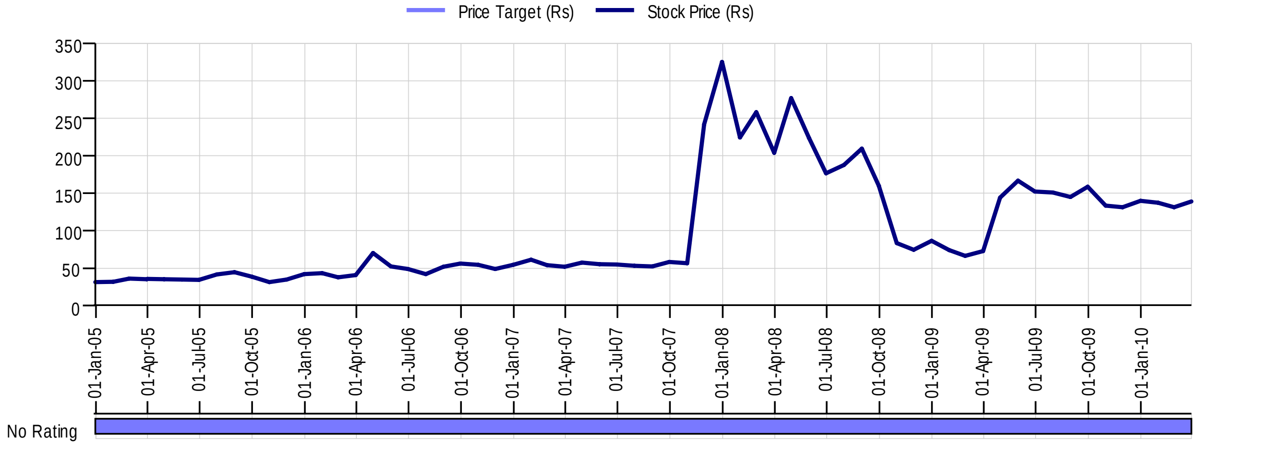
Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Essar Oil	ESRO.BO	Not Rated	N/A	Rs139.20	30 Mar 2010

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Essar Oil (Rs)



Source: UBS; as of 30 Mar 2010

Additional Prices: Bangchak Petroleum, Bt14.60 (30 Mar 2010); Bharat Petroleum Corporation, Rs521.70 (30 Mar 2010); Esso (Thailand) PCL, Bt7.35 (30 Mar 2010); Frontier Oil Corporation, US$13.46 (30 Mar 2010); Hellenic Petroleum, €8.50 (30 Mar 2010); Hindustan Petroleum, Rs316.90 (30 Mar 2010); Holly Corporation, US$27.93 (30 Mar 2010); Indian Oil Corp., Rs300.35 (30 Mar 2010); Neste Oil, €12.95 (30 Mar 2010); Petroplus Holdings, CHF19.00 (30 Mar 2010); Saras, €1.96 (30 Mar 2010); S-Oil, Won56,800 (30 Mar 2010); Sunoco Inc., US$29.03 (30 Mar 2010); Tesoro Corp., US$13.61 (30 Mar 2010); Thai Oil, Bt48.75 (30 Mar 2010); Tupras, TRY33.75 (30 Mar 2010); Valero Energy Corporation, US$19.84 (30 Mar 2010); Source: UBS. All prices as of local market close.

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