Company

3 November 2009 | 28 pages

Oil India (OILI.BO)

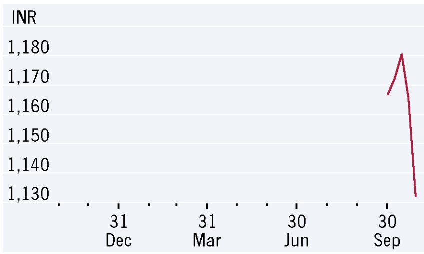
Equity
Initiation of coverage

Initiate at Hold: Coming Out of Its Shell

- **Initiate at Hold; TP of Rs1,165** — We initiate coverage of OIL with a Hold (2L) rating and target price of Rs1,165, comprising: (i) Business valued at P/E of 7.5x FY11E core EPS (@$65 net crude) and (ii) Cash at Rs385/share (Mar-10E). The core P/E is at a 15% discount to ONGC's current multiple of 9.0x to factor in OIL's untested exploration track record ex-Assam. At our target, the imputed EV/boe (1P/2P) is US$8.8/4.8 and headline P/E of 9.3x FY11E. All things being equal, we might reconsider our Hold rating and turn more positive at ~Rs1,050.
- **Stable operations, looking for growth** — OIL, which has predominantly focused on Northeast Indian onshore blocks, has gradually gained exposure to domestic offshore via NELP blocks as well as abroad. Though the strategic shift to reinvest cash flows from the pre-NELP blocks is in the right direction, it will take time to show results, especially given lack of prior experience.
- **Small in size, but good operating track record** — OIL's 2P reserves at 974 mmboe pegs it at ~1/10th the size of ONGC, though proportion of crude oil at 60% of reserves is higher than ONGC's 53%. With lifting costs at US$4.6/bbl (FY09), F&D of US$3.7/bbl (FY08), and R/P of ~25 years (on 2P), OIL's operations are on a solid footing. Though volume growth (boe) of 5% over FY10-12E should remain moderate, it is slightly better than ONGC.
- **Subsidies: what to expect** — We assume upstream bears all of petrol/diesel losses. As auto fuels generate +ve margin at our forecast of $60 (FY10E) and $65 (FY11E+), we factor nil subsidies for upstream in FY10-12E.

Hold/Low Risk	2L
Price (30 Oct 09)	Rs1,113.70
Target price	Rs1,165.00
Expected share price return	4.6%
Expected dividend yield	3.4%
Expected total return	**8.0%**
Market Cap	Rs267,794M
	US$5,725M

Price Performance (RIC: OILI.BO, BB: OINL IN)



Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2008A	17,889	83.59	9.1	13.3	3.0	24.2	2.5
2009A	21,617	101.01	20.8	11.0	2.6	25.0	2.7
2010E	26,937	112.02	10.9	9.9	1.9	23.3	3.4
2011E	29,967	124.63	11.2	8.9	1.7	20.4	3.8
2012E	30,926	128.61	3.2	8.7	1.5	18.7	3.9

Source: Powered by dataCentral

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See Appendix A-1 for Analyst Certification and important disclosures.

Fiscal year end 31-Mar	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	13.3	11.0	9.9	8.9	8.7
EV/EBITDA adjusted (x)	8.1	6.1	4.7	3.7	3.6
P/BV (x)	3.0	2.6	1.9	1.7	1.5
Dividend yield (%)	2.5	2.7	3.4	3.8	3.9
Per Share Data (Rs)					
EPS adjusted	83.59	101.01	112.02	124.63	128.61
EPS reported	83.59	101.01	112.02	124.63	128.61
BVPS	370.69	436.02	571.82	647.77	726.15
DPS	27.50	30.50	38.09	42.37	43.73
Profit & Loss (RsM)					
Net sales	62,372	73,842	84,625	94,663	97,805
Operating expenses	-40,466	-47,375	-52,992	-58,269	-60,485
EBIT	**21,907**	**26,467**	**31,633**	**36,394**	**37,320**
Net interest expense	-344	-87	-100	-100	-100
Non-operating/exceptionals	5,582	7,537	9,280	9,110	9,637
Pre-tax profit	**27,145**	**33,916**	**40,813**	**45,404**	**46,857**
Tax	-9,245	-12,253	-13,876	-15,437	-15,931
Extraord./Min.Int./Pref.div.	-11	-46	0	0	0
Reported net income	**17,889**	**21,617**	**26,937**	**29,967**	**30,926**
Adjusted earnings	17,889	21,617	26,937	29,967	30,926
Adjusted EBITDA	28,849	36,944	43,359	49,510	49,769
Growth Rates (%)					
Sales	12.6	18.4	14.6	11.9	3.3
EBIT adjusted	7.9	20.8	19.5	15.1	2.5
EBITDA adjusted	7.3	28.1	17.4	14.2	0.5
EPS adjusted	9.1	20.8	10.9	11.2	3.2
Cash Flow (RsM)					
Operating cash flow	**35,445**	**41,571**	**38,735**	**42,313**	**43,134**
Depreciation/amortization	6,942	10,477	11,726	13,116	12,449
Net working capital	10,613	9,477	73	-770	-241
Investing cash flow	**-8,485**	**-8,999**	**-16,900**	**-17,387**	**-16,000**
Capital expenditure	-7,673	-8,999	-16,900	-17,387	-16,000
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**-12,530**	**-8,337**	**17,236**	**-11,705**	**-12,079**
Borrowings	-6,391	-1,184	0	0	0
Dividends paid	-6,761	-7,498	-10,521	-11,705	-12,079
Change in cash	**14,431**	**24,236**	**39,071**	**13,221**	**15,054**
Balance Sheet (RsM)					
Total assets	**107,286**	**133,801**	**178,471**	**197,195**	**216,186**
Cash & cash equivalent	42,808	60,700	92,571	97,681	105,735
Accounts receivable	6,110	4,047	4,638	5,189	5,361
Net fixed assets	40,633	45,361	57,736	70,118	80,669
Total liabilities	**27,956**	**40,491**	**40,973**	**41,436**	**41,581**
Accounts payable	2,518	3,403	3,900	4,363	4,508
Total Debt	1,749	565	565	565	565
Shareholders' funds	**79,330**	**93,310**	**137,498**	**155,759**	**174,606**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	46.3	50.0	51.2	52.3	50.9
ROE adjusted	24.2	25.0	23.3	20.4	18.7
ROIC adjusted	25.6	27.8	29.7	28.9	25.3
Net debt to equity	-51.8	-64.4	-66.9	-62.4	-60.2
Total debt to capital	2.2	0.6	0.4	0.4	0.3

For further data queries on Citi's full coverage universe please contact CIR Data Services Asia Pacific at CIRDataServicesAsiaPacific@citi.com or +852-2501-2791

Powered by: dataCentral

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Oil India - Valuation

Initiating coverage at Hold

We initiate coverage of Oil India shares at Hold / Low Risk (2L). OIL has established reserves on Onshore Assam Basin with adequate reserve life and reasonable production growth, which generates strong and stable cash flows, adding on to the already strong balance sheet. Despite the new subsidy mechanism of the upstream companies sharing losses on only petrol/diesel, we believe that OIL's leverage to crude beyond US$65/bbl is going to be limited. OIL, which has predominantly focused on Northeast Indian onshore blocks, has gradually gained exposure to domestic offshore through NELP blocks as well as abroad. Though the strategic shift to reinvest cash flows from the pre-NELP blocks is in the right direction, it will take time to show results, especially given lack of prior experience. All things being equal, we might reconsider our Hold rating and turn more positive at ~Rs1,050.

Target price of Rs1,165

Our target price of Rs1,165 comprises:

- Business valued at P/E of 7.5x FY11E core EPS (@$65 net crude, excluding interest income)
- Cash at Rs385/share (Mar-10E)

The core PER is at a 15% discount to ONGC's current multiple of 9.0x. We believe a lower multiple vs. ONGC is warranted on account of (i) OIL's smaller size, (ii) still-to-be-tested track record outside the North East, and (iii) risk pertaining to use of OIL's significant cash balance, in addition to ONGC's relatively higher leverage to crude prices (thru OVL) and natural gas deregulation. However, high cash on the balance sheet especially post IPO (Rs385/share) will act as significant support to valuations

Imputed target multiples in line with ONGC

OIL's implied EV/EBITDA for FY10E and FY11E are in line with ONGC's imputed target multiple. At our target, the imputed EV/boe (1P/2P) is US$8.8/4.8 and headline PER of 9.3x FY11E is also reasonable.

Figure 1. OIL vs. ONGC - Valuation Comparison

	EV/EBITDA (x)		PER (x)		EV/boe (1P)	EV/boe (2P)	Net realizations ($/bbl)	
	FY10E	FY11E	FY10E	FY11E	FY10E	FY10E	FY10E	FY11E
OIL (at target)	5.1	3.8	10.4	9.3	US$8.8	US$4.8	57.5	62.5
ONGC (at target)	4.7	3.6	10.3	9.0	US$6.9	US$4.8	59.8	64.9

Source: Citi Investment Research and Analysis estimates

On the target, OIL's imputed EV/boe of US$4.8/boe is in-line with ONGC's multiple.

Please note that the headline P/E of ONGC/OIL at ~9-10x is lower than the regional E&P average, which we believe adequately factors in the (i) policy uncertainty on oil subsidies limiting leverage to crude, (ii) government's control on gas prices, and (iii) lower production growth.

Figure 2. Global E&P – Valuation Comps

			Mkt cap	Share price	Target	P/E (x)		EV/EBITDA		Div. Yield (%)		ROCE (%)	
Company Name	**RIC**	**Rating**	**(US$m)**	**29-Oct-09**	**price**	**FY10E**	**FY11E**	**FY10E**	**FY11E**	**FY10E**	**FY11E**	**FY10E**	**FY11E**
Majors													
BP	BP.L	2M	180,147	5.9	6	7.6	6.4	4.2	3.7	9.5%	9.9%	9.2%	10.2%
RD Shell Class A	RDSa.L	1M	107,793	18.6	20	9.8	7.8	2.0	1.9	9.1%	9.2%	6.6%	8.2%
RD Shell	RDSb.L	1M	80,057	18.1	20	9.5	7.6	1.5	1.5	9.3%	9.5%	6.6%	8.2%
Total	TOTF.PA	2M	145,023	42.0	40	11.9	10.1	5.5	4.8	5.4%	5.6%	9.5%	11.1%
ExxonMobil	XOM.N	1M	355,436	74.0	81	20.0	14.1	7.3	5.9	2.2%	2.3%	11.9%	14.9%
Chevron	CVX.N	2H	156,330	78.0	78	17.3	12.1	5.3	4.3	3.4%	3.5%	7.2%	9.6%
Average						**14.4**	**10.7**	**5.2**	**4.3**	**5.4%**	**5.6%**	**9.4%**	**11.5%**
European Integrateds													
BG	BG.L	1M	60,261	10.9	13	15.9	13.3	7.5	6.8	1.1%	1.2%	12.5%	12.5%
ENI	ENI.MI	1M	103,593	17.6	20	11.5	9.7	4.2	3.8	5.7%	5.7%	8.3%	9.3%
Repsol	REP.MC	3H	33,417	18.6	16	17.0	10.9	4.3	4.0	4.0%	4.8%	4.8%	7.7%
Norsk Hydro	NHY.OL	2M	8,527	39.5	46	-40.7	18.1	15.7	5.9	0.0%	0.8%	-2.1%	3.8%
StatoilHydro	STL.OL	2M	77,356	139.3	120	12.9	11.3	2.9	2.9	3.9%	5.0%	8.2%	9.9%
Average						**11.9**	**11.3**	**4.9**	**4.3**	**3.9%**	**4.3%**	**8.4%**	**9.8%**
US Integrateds													
Hess	HES.N	2H	18,501	56.6	62	44.5	22.2	6.0	5.6	0.7%	0.7%	3.9%	5.7%
Marathon Oil	MRO.N	1H	23,638	33.4	38	17.7	9.7	4.9	4.0	2.9%	2.9%	4.6%	8.1%
Occidental	OXY.N	2M	64,165	79.1	82	20.2	14.6	7.9	6.7	1.7%	1.7%	9.6%	12.6%
Average						**23.9**	**14.8**	**6.9**	**5.9**	**1.8%**	**1.8%**	**7.5%**	**10.4%**
Emerging Integrateds													
Lukoil	LKOH.RTS	1L	51,459	60.5	62	7.4	9.2	4.4	5.0	2.5%	2.0%	11.8%	9.4%
Gazprom	GAZP.RTS	1M	146,302	6.2	9	8.0	6.5	5.2	4.8	1.2%	1.6%	12.1%	11.7%
Rosneft	ROSN.RTS	2L	84,256	8.0	7	10.4	11.0	8.7	7.8	1.0%	0.9%	9.3%	9.4%
PetroChina	0857.HK	3L	25,999	9.6	7	16.3	15.0	1.4	1.6	2.8%	3.0%	11.3%	11.2%
Sinopec	0386.HK	1L	14,355	6.6	9	8.9	8.6	2.4	2.3	4.0%	4.1%	12.2%	11.7%
CNOOC	0883.HK	3L	66,282	11.5	9	17.9	15.8	9.7	7.9	2.0%	2.3%	17.1%	17.3%
CNPC (HK)	0135.HK	1H	4,562	7.9	9	27.5	16.8	37.0	28.7	0.7%	1.1%	18.5%	24.8%
ONGC	ONGC.BO	3M	52,859	1,165.9	1,130	10.7	9.3	4.9	3.8	3.1%	3.6%	17.6%	20.8%
Cairn India	CAIL.BO	2L	10,660	265.2	268	31.7	9.6	nm	6.6	0.0%	0.0%	5.6%	15.8%
Oil & Gas	OGDC.KA	1M	5,428	105.2	100	8.7	6.8	5.3	4.2	9.5%	11.4%	40.1%	46.6%
Woodside	WPL.AX	1M	30,070	46.7	54	52.0	52.6	10.7	11.6	0.9%	0.9%	10.9%	9.4%
Santos	STO.AX	1M	11,115	14.9	21	30.5	29.7	11.9	8.9	1.1%	1.7%	3.1%	3.7%
Average						**14.8**	**14.1**	**5.9**	**5.6**	**1.9%**	**1.9%**	**12.9%**	**12.5%**

Source: Citi Investment Research and Analysis estimates

Operating Assumptions & Financial Overview

Pricing and realization assumptions

Our estimates for OIL's crude realizations are based on the following macro assumptions for FY10E-12E:

1. We factor in net realization of US$60/bbl in FY10E and US$65/bbl in FY11E, in line with Citi's base crude forecasts. This assumes there will be Nil under-recoveries at US$60-65/bbl post the last price hike and any more hikes needed, which will be minor in nature.

2. At our crude price assumption of US$60/bbl in FY10 and US$65/bbl thereafter, the gross under-recovery will only be on account of LPG/SKO losses, which the government will bear. This will mean negligible sharing by upstream companies assuming crude prices stay moderate.

Figure 3. Subsidy Sharing – No Upstream Sharing on LPG/SKO Portion

Rs bn	FY08	FY09	FY10E	FY11E	FY12E
Gross under-recoveries	772	1,033	262	308	304
less: Bonds	353	713	262	308	304
less: Upstream contribution	257	320	-	-	-
Net under-recovery	163	-	-	-	-

Source: Citi Investment Research and Analysis estimates

On gross under-recoveries of Rs274bn in FY10E (on a crude price assumption of US$60/bbl), we assume no losses on MS/HSD, implying no subsidy sharing for the upstream oil companies. The losses on LPG/SKO are assumed to be fully compensated by the government, leaving OMCs with nil net losses to absorb.

OIL's crude benchmark

Beginning FY09, OIL's crude oil has been benchmarked to a basket of crudes, adjusted for gross product value and bottom sediment and water based on supply from particular areas/fields to particular refineries. Figure 4 shows the calculation of OIL's revised benchmark as against the headline Bonny Light prices for FY09. As shown in Figure 5, we assume a discount of US$2.5/bbl to our crude assumption to factor in this benchmark.

Figure 4. OIL – Crude Benchmark

Crude Price (US$/bbl)	Revised Benchmark	Bonny light
Gross (Avg FOB)	84.83	88.02
Net (After Quality adjustment)	81.69	85.11

Source: Company Reports

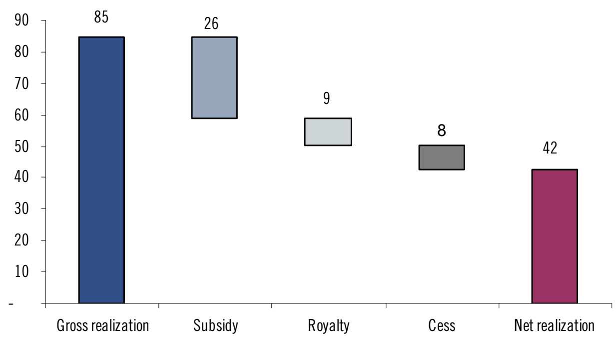
Please note that the above pricing and subsidy assumptions result in a post-subsidy realization of US$58-63/bbl and net realization (after cess, royalty, etc.) of US$41-45/bbl, similar to FY09 levels.

Figure 5. Crude Oil - Realization Assumptions (US$/bbl)

	FY08	FY09	FY10E	FY11E	FY12E
Bonny Light	84.6	88.0	60.0	65.0	65.0
Gross realization for OIL	84.6	84.8	57.5	62.5	62.5
Subsidy Discount	24.88	25.91	-	-	-
Post-subsidy realization	59.70	58.92	57.50	62.50	62.50
Net Realization	37.8	42.5	41.2	45.2	45.1

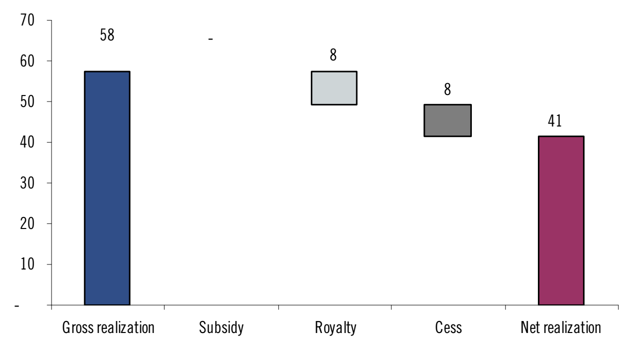
Source: Company Reports and CIRA estimates.

Figure 6. Crude Realization Break-Up for FY09 (US$/bbl)



Source: Company Reports and CIRA estimates

Figure 7. Crude Realization Break-Up for FY10E (US$/bbl)



Source: Company Reports and CIRA estimates

Natural gas pricing

The natural gas market for OIL has three different segments that determine its overall realization: APM gas, non-APM gas, and market-determined price for Rajasthan gas.

OIL presently gets Rs3200/tcm (US$2.2/mmbtu) for APM gas, which is ~80% of its total volumes. As shown in Figure 8, the price administration is actually through a lower consumer price of Rs1,920/tcm for power/fertilizer, with the difference between the consumer price and Rs3200/tcm being made good by direct budgetary allocations by the government. The government is presently deliberating a Tariff Commission's recommendation on APM price hike to Rs4,040/tcm for upstream companies such as OIL and ONGC, though the final decision is awaited. For our estimates, we build in a step-wise increase in gas price realizations for OIL.

Figure 8. OIL – Natural Gas Pricing (Rs/tcm)

Assam & AP	FY07	FY08	FY09	Subsidy
Power/ Fertilizer	1,920	1,920	1,920	1,280
Small Consumers	2,304	2,304	2,304	896
APM Gas	3,200	3,200	3,200	
Non-APM Gas	3,358	3,584	3,864	
Rajasthan				
RRVNL			4,000	

Source: Company Reports and CIRA estimates

The non-APM gas is also being sold at low prices of Rs3,864/tcm (US$2.2/mmbtu). Though these prices can exceed APM, we have assumed it to move in line with APM price hike. About 8% of gas production comes from Rajasthan block where price realization, which is currently at US$2.8/mmbtu, has the potential to realize market price of US$4.0-4.5/mmbtu.

On an aggregate level, we assume certain price hikes with gas price realizations for OIL to rise gradually till FY12, as shown in Figure 9. This is in line with our assumptions for ONGC.

Figure 9. OIL – Natural Gas Realization Assumptions

	FY08	FY09	FY10E	FY11E	FY12E
Rs/tcm	3,279	3,402	4,002	4,602	4,802
US$/mmbtu	1.9	2.0	2.3	2.7	2.8

Source: Company Reports and CIRA estimates

OIL has existing gas sales contracts/MoUs along with future commitment that can utilize 12 mmscmd of natural gas production as against FY09 production of 6.3 mmscmd.

Figure 10. OIL – Natural Gas Contracts

S.No.	Description of Agreement	Purchaser	Supplied to	Max. daily supply (mmscmd)	Pricing	Validity
1	MoU for sale of natural gas dated January 27, 2003	AGCL	Moran Plantation Gas Grid	0.1	APM	10 years, renewable for a further period on mutually agreed terms, or until a formal agreement is signed between the parties. Consolidated gas supply contract to be executed by December 2002
2	MoU for sale of natural gas dated May 19, 1993	AGCL	Margherita Gas Grid	0.1	APM	10 years, renewable for a further period on mutually agreed terms, or until a formal agreement is signed between the parties. Consolidated gas supply contract to be executed by December 2002
3	Agreement for sale and purchase of natural gas dated February 26, 1991	AGCL	Dibrugarh Gas Grid	0.2	APM	15 years, renewable for a further period on mutually agreed terms
4	Agreement for supply to natural gas dated October 19, 2001	HFCL	Namrup, Dibrugarh	1.7	APM	10 years, which may be renewed for a further period of five years
5	Agreement for sale and purchase of natural gas dated October 11, 2004	GAIL	Dandewala, Rajasthan	0.9	US$4.2/mm btu	10 years from October 11, 2004, with a mid-term mutual review after completion of 5 years
6	Agreement for supply of natural gas dated January 13, 2005	North Eastern Electric Power Corporation Limited	Dibrugarh	1.4	APM	10 years, renewable for a further period of 5 years
7	Agreement for supply of natural gas dated September 2, 2005	Assam Power Generation Corp Ltd	Lakwa Thermal Power Station	0.5	non-APM	10 years from the date of initial gas supply which may be renewed for a further period of 5 years
8	Agreement for supply of natural gas dated August 9, 2006	Ne Thermion Private Limited	Jayanagar, Duliajan	0.02	Prices escalated annually on CPI	Five years from the date of signing this agreement, renewable for a further 5 years on mutually agreed terms
9	Agreement for supply of natural gas dated March 17, 2005	NRL	Numaligarh Refinery	1.0	non-APM	15 years from the date of signing this agreement, renewable for a further 5 years on mutually agreed terms
10	Agreement for supply of natural gas dated March 22, 2005	AGCL	Jorhat and Golaghat Gas Grid	0.1	non-APM	10 years from October 11, 2004, renewable for a further period on mutually agreed terms
11	Agreement for sale of natural gas dated September 19, 2007	BCPL	Assam gas cracker project	6.0	APM	15 years from commissioning date, which shall be within 18 months from date of agreement
			Total (mmscmd)	**12.0**		

Source: Company Reports

Pipeline revenues to improve

OIL's pipeline revenue has various components:

1. Tariffs charged by OIL on the crude oil transported to PSU refineries in the North-East is subject to revision by PPAC (Petroleum Planning and Analytics Cell). OIL's income from transportation decreased by 12.8% in FY09 primarily due to a downward revision in tariffs by PPAC.

2. OIL also owns a 10% interest in 741 km product pipeline in Sudan in partnership with OVL, which generates revenues of about Rs360m p.a.

3. OIL has completed and commissioned the 660 km product pipeline from Numaligarh to Siliguri. This pipeline with a capacity of 1.72 MMTPA is expected to earn revenues of Rs600/MT. We have factored in incremental revenues of Rs750m in FY10 going up to Rs1.02bn in FY11E.

Capex – step-up expected, but NE will still dominate

OIL's capex is set to increase with an expected increase in exploratory and development drilling. This is a significant step-up from its yearly capex spend in the past and is driven by:

- Accelerated exploration in North-East
- Focus on increasing production from producing fields
- Contribution toward exploration commitment in the NELP blocks
- Drilling commitments on certain overseas blocks

However, it should be noted that all of OIL's development activities would still be concentrated in the North-East, given that most of its proved reserves are concentrated there.

Our capex and survey cost assumptions take into account an expected increase in exploratory drilling (OIL intends to drill 17 exploratory wells in FY10 and 22 exploratory wells in FY11).

Figure 11. Assumptions – Survey and Capex Costs (Rupees in Millions)

Year to 31-Mar	FY08	FY09	FY10E	FY11E	FY12E
Total survey costs	2,714	4,709	5,201	6,111	5,000
Inc. in pre-producing properties	595	1,142	7,801	9,167	8,000
Inc. in producing properties	4,595	4,624	4,929	5,527	5,000
Dry well write-off	1,135	2,000	2,000	2,000	-
Normal capex	2,483	3,233	4,170	2,693	3,000
Total Capex	**8,808**	**10,999**	**18,900**	**19,387**	**16,000**
Capex + Survey Costs	**11,523**	**15,707**	**24,101**	**25,498**	**21,000**

Source: Company Reports and CIRA estimates

Key assumptions

We forecast OIL's PAT growth to be 17% in FY10E and 5% in FY11E. OIL's profitability is set to benefit with the upstream bearing subsidy on only MS/HSD (and the government bearing the LPG/SKO losses). Besides, earnings would also be driven by moderate volume growth and an expected gas price hike.

Figure 12. OIL – Key Assumptions

Year to 31-Mar	FY08	FY09E	FY10E	FY11E	FY12E	CAGR
Production						**FY09E-12E**
Oil production (mmbbl)	22.1	25.0	26.0	27.3	28.7	4.8%
Gas production (mmboe)	14.7	14.3	15.7	16.7	17.3	6.6%
O+OEG (mmboe)	36.9	39.2	41.7	44.0	46.0	5.5%
Realization						
Crude oil - gross ($/bbl)	84.6	84.8	57.5	62.5	62.5	
Crude oil - post subsidy ($/bbl)	59.7	58.9	57.5	62.5	62.5	
Crude oil - net ($/bbl)	37.8	42.5	41.2	45.2	45.1	
Avg gas realization (Rs/tcm)	3,404	3,496	4,002	4,602	4,802	
Costs						
Lifting cost ($/bbl)	4.1	4.6	5.2	5.8	6.3	
Survey costs (Rs m)	2,714	4,709	5,201	6,111	5,000	
Depletion, dry wells & deprn (Rs m)	4,228	5,768	6,525	7,005	7,449	
Capex (Rs m)	8,808	10,999	18,900	19,387	16,000	

Source: Company reports and CIRA estimates

Financial statements

Figure 13. OIL – Proforma P&L (Rupees in Millions)

Year to 31-Mar	FY07	FY08	FY09	FY10E	FY11E	FY12E
Income						
Total Sales	55,390	62,372	73,842	84,625	94,663	97,805
Expenses						
Operating expenses	26,571	30,469	32,493	36,375	40,002	42,600
Change in stock	22	(221)	130	-	-	-
SG&A	1,453	2,465	2,411	2,691	2,951	3,236
Others	450	809	1,865	2,200	2,200	2,200
Total expenses	28,496	33,523	36,898	41,266	45,153	48,036
EBITDA	**26,894**	**28,849**	**36,944**	**43,359**	**49,510**	**49,769**
EBITDA Margin	*49%*	*46%*	*50%*	*51%*	*52%*	*51%*
Dry Wells write-offs	1,573	1,135	2,000	2,000	2,000	2,000
Survey/geological costs	2,415	2,714	4,709	5,201	6,111	5,000
Depletion	1,777	2,175	2,088	2,506	2,768	3,031
Depreciation	818	919	1,681	2,019	2,237	2,418
Interest Cost	140	344	87	100	100	100
Other Income (Adjustments)	873	365	(407)			
Other Income	3,837	5,217	7,944	9,280	9,110	9,637
PBT	24,881	27,145	33,916	40,813	45,404	46,857
Provision for taxes	8,426	9,245	12,253	13,876	15,437	15,931
Tax Rate	*34%*	*34%*	*36%*	*34%*	*34%*	*34%*
PAT	**16,454**	**17,901**	**21,663**	**26,937**	**29,967**	**30,926**
Prior Period Items	55	11	46	-	-	-
Net Profit	16,400	17,889	21,617	26,937	29,967	30,926
EPS	**77**	**84**	**101**	**112**	**125**	**129**
DPS	26.0	27.5	30.5	38.1	42.4	43.7

Source: Company Reports and CIRA estimates

Figure 14. OIL– Proforma Balance Sheet (Rupees in Millions)

Year to 31-Mar	FY07	FY08	FY09	FY10E	FY11E	FY12E
Shareholders funds	68,491	79,330	93,310	137,498	155,759	174,606
Share Capital	2,140	2,140	2,140	2,405	2,405	2,405
Reserves and Surplus	66,351	77,190	91,170	135,093	153,355	172,201
Borrowings	8,140	1,749	565	565	565	565
Long-term	8,135	700	538	538	538	538
Short-term	5	1,049	27	27	27	27
Deferred tax liablility	8,033	8,655	8,998	8,998	8,998	8,998
Well abandonment sinking fund	11	11	15	-	-	-
Total Sources of funds	**84,675**	**89,745**	**102,888**	**147,060**	**165,322**	**184,168**
Fixed Assets						
Gross Block	21,889	23,228	29,720	33,890	36,583	39,583
Depreciation	15,521	16,199	18,383	20,402	22,639	25,057
Net Block	6,368	7,029	11,338	13,488	13,944	14,527
Capital WIP	5,301	6,446	3,186	3,186	3,186	3,186
Producing Properties						
Gross cost	38,441	43,036	47,660	52,589	58,116	63,116
Depletion	18,183	20,358	22,446	24,952	27,719	30,750
Net cost	20,258	22,678	25,215	27,637	30,397	32,366
Pre-producing properties	3,886	4,481	5,623	13,424	22,591	30,591
Total	35,813	40,633	45,361	57,736	70,118	80,669
Investments	4,075	4,887	4,887	4,887	4,887	4,887
Cash and Bank balances	32,757	42,808	60,700	92,571	97,681	105,735
Net Current Assets	12,030	1,417	(8,060)	(8,133)	(7,363)	(7,123)
Current Assets	22,350	18,957	22,853	23,278	24,510	24,895
Inventories	4,080	4,509	5,010	5,742	6,423	6,636
Sundry debtors	4,087	6,110	4,047	4,638	5,189	5,361
Interest accrued on term deposits	1,572	2,284	3,525	3,525	3,525	3,525
Loans and advances	12,611	6,055	10,271	9,373	9,374	9,374
Current Liabilities	10,320	17,541	30,914	31,411	31,873	32,018
Liabilties	7,818	11,016	14,637	15,134	15,596	15,741
Provisions	2,502	6,525	16,277	16,277	16,277	16,277
Total Application of Funds	**84,675**	**89,745**	**102,888**	**147,060**	**165,322**	**184,168**

Source: Company Reports and CIRA estimates

Figure 15. OIL– Cash Flow Statement (Rupees in Millions)

Year to 31-Mar	FY07	FY08	FY09	FY10E	FY11E	FY12E
Net income	16,400	17,889	21,617	26,937	29,967	30,926
DDA	2,595	3,093	3,768	4,525	5,005	5,449
Net change in WC	(9,158)	10,613	9,477	73	(770)	(241)
Cash from ops.	9,837	31,596	34,862	31,535	34,202	36,134
Capital expenditure	7,623	7,673	8,999	16,900	17,387	16,000
Investments	226	(811)	0	0	-	-
Cash from investing	(7,397)	(8,485)	(8,999)	(16,900)	(17,387)	(16,000)
Change in borrowings	4,799	(6,391)	(1,184)	-	-	-
Equity raised	-	-	-	27,772	-	-
Dividends paid	6,392	6,761	7,498	10,521	11,705	12,079
Other financing	1,021	623	346	(15)	-	-
Cash from financing	(572)	(12,530)	(8,337)	17,236	(11,705)	(12,079)
Net cash flow	**1,868**	**10,582**	**17,527**	**31,871**	**5,110**	**8,054**

Source: Company Reports and CIRA estimates

Figure 16. OIL – Key Ratios

Year to 31-Mar	FY07	FY08	FY09	FY10E	FY11E	FY12E
EBITDA margin	49%	46%	50%	51%	52%	51%
Net Margin	30%	29%	29%	32%	32%	32%
ROCE	25%	24%	25%	27%	27%	24%
ROIC	28%	26%	28%	30%	29%	25%
ROE	26%	24%	25%	23%	20%	19%

Source: CIRA estimates

Accounting policy on exploratory and drilling expenditure

Geological and geophysical expenditure, other than the cost of tangible assets and facilities on which usual depreciation is allowed, are expensed in the year of incidence.

All exploration costs involved in drilling exploratory and appraisal wells are initially booked under pre-producing property till the time these are either transferred to producing properties on completion or expensed in the year when determined to be dry or of no further use.

Cost of successful exploratory wells and completed development wells (including allocated depreciation on support equipment) is capitalized as producing property. Wells are treated as completed only after completion of production testing of the same.

Cost of exploratory wells in progress is not carried over for more than two years from the date of completion of the drilling of the well, unless it could be reasonably demonstrated that the well has proved reserves and development of the field in which the well is located is planned.

Business & Operations

Producing assets – nomination blocks

OIL's current production is from the nomination blocks (MLs/PELs) in Assam & Arunachal Pradesh (both in North-East), Ganga Valley and Rajasthan. All the independent oil reserves and about 95% of OIL's independent gas reserves are located in the upper Assam basin. On discovery in the PEL areas, which are granted on nomination, the fields are converted into Mining Leases (ML). Generally the ML areas are granted for 20 years.

Figure 17. OIL – PEL Areas (nomination)

Sl.	Sector	No. of PELs	Area (sq. km)
1	Assam	11	4,851
2	Arunachal Pradesh	5	516
Total		**16**	**5,367**

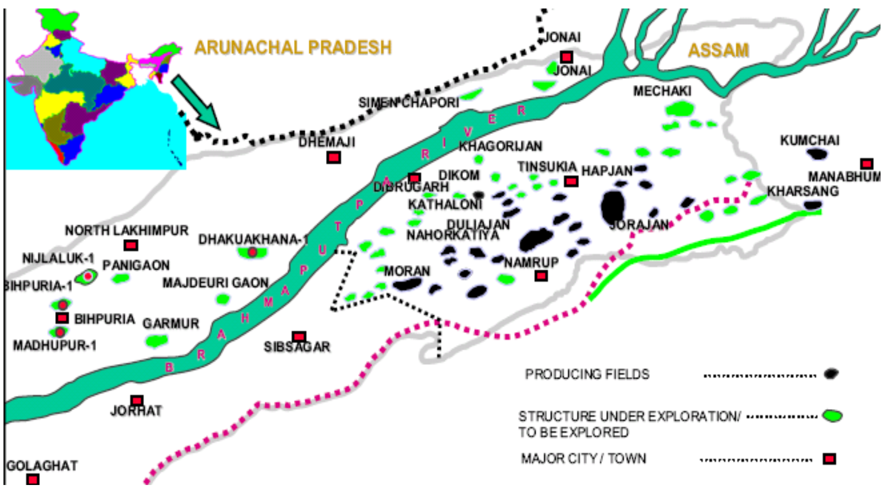
Source: Company Reports

Figure 18. OIL – PML Areas (nomination)

Sl.	Sector	No. of PMLs	Area (sq. km)
1	Assam	15	3,735
2	Arunachal Pradesh	2	616
3	Rajasthan	2	460
Total		**19**	**4,811**

Source: Company Reports

Figure 19. OIL: Fields in the Assam- AP Region



Source: Company Reports

Even though most of OIL's assets are located in North-East India (mainly Assam and AP), it should be noted that its dependence on its largest field (which contributed to 32% of crude and 9% of gas production in FY09), is significantly lower than that of its larger peer, ONGC (Bombay High contributes to 67% of its domestic oil production and 68% of its domestic gas production). In this respect, OIL's reserve concentration risk appears to be manageable even though all its production effectively comes from the same basin, i.e., Upper Assam. Besides, with greater emphasis on NELP blocks in the other parts of the country as well as overseas assets, OIL plans to diversify this risk further.

Figure 20. OIL – Dependence on Its Largest Field (Gr. Hapjan)

Production	Crude Oil (bbl/d)	N.Gas (mmscmd)
Gr. Hapjan	21,676	0.59
Tengakhat	8,307	0.96
Gr. Chandmari	7,993	0.19
Gr. Dikom	6,363	0.95
Gr. Naharkatiya	4,597	0.76
Kathloni	4,084	0.21
Bhogpara	3,804	0.05
Jorajan	2,729	1.38
Gr. Shalmari	2,485	0.07
Central small Fields	2,116	0.26
Moran	1,840	0.11
Kumchai	712	0.06
Condensate	639	-
Kharsang JV	510	-
Eastern Fields	284	0.07
Digboi	119	0.01
Western Fields	100	-
Rajasthan	-	0.56
Total	**68,358**	**6.23**
Top 10 fields contribute:	94%	87%
Largest field contributes	**32%**	**9%**

Source: Company Reports and CIRA estimates

Figure 21. ONGC – Dependence on Its Largest Field (Bombay High)

Production	Crude Oil (bbl/d)	N.Gas (mmscmd)
Bombay High	350,000	41.8
ONGC (standalone)	523,775	22.3
Bombay high contributes	**67%**	**68%**
ONGC (consol)	702,068	74.2
Bombay high contributes	**50%**	**56%**

Source: Company Reports and CIRA estimates

Reserves analysis

As shown in Figure 22, OIL's 2P reserves stand at 974mmboe, with ~60% contribution from the more lucrative crude oil as against 53% for its larger peer, ONGC.

Figure 22. OIL – Reserves (as of Mar'09)

	Oil (mmbbl)	Gas (bcm)	O+OEG (mmboe)
1P	285	39	531
2P	575	63	974
3P	999	86	1,542

Source: Company Reports

It should be noted that all of OIL's independent crude reserves and ~94% of gas reserves are located in the upper Assam basin in the states of Assam and Arunachal Pradesh. Some natural gas reserves are also located in the Jaisalmer basin in Rajasthan. In addition to these independent reserves, OIL also has a 40% participating interest in the Kharsang fields located in Arunachal Pradesh. There is wide difference between 1P and 2P reserves; 1P is 55% of 2P reserves, much lower than 75-80% for ONGC (standalone) especially for similar levels of basin maturity.

Exploration assets – going offshore and deeper

Over the various New Exploration Licensing Policy (NELP) rounds, OIL has made a conscious effort to diversify its asset mix from the present dominance of North-East fields. Though North-East still accounts for a large chunk of OIL's capex, this would mark a material shift in its expenditure profile.

Figure 23. Classification of OIL's Acreages

Category	Area (sq. km.)
PEL nomination	5,387
PML nomination	4,811
Pre-NELP/ JVC	6,030
NELP (operator)	21,293
NELP (non-operator)	82,175
Overseas	41,273
Total	**160,969**

Source: Company Reports and Citi Investment Research and Analysis

To acquire blocks for exploration offered under NELP of the Government of India, OIL has partnered with ONGC, GAIL, and IOC, besides bidding on its own. The company currently has interests in 24 blocks which were secured under the NELP bidding. OIL is the operator of 12 of these blocks, while it holds participating interest in the remaining nine NELP blocks. It also has interests in two pre-NELP blocks. The list of OIL's assets is shown in the tables below.

Figure 24. OIL's NELP Acreages as Operator

S.No.	Block No.	Location	Participating Interest	Operator	Area	NELP
1	RJ-ONN-2000/1	Rajasthan	60%	OIL	1,268	NELP II
2	RJ-ONN-2001/1	Rajasthan	40%	OIL	1,698	NELP III
3	AA-ONN-2002/3	Assam	20%	OIL	1,460	NELP IV
4	RJ-ONN-2002/1	Rajasthan	60%	OIL	7,425	NELP IV
5	AA-ONN-2003/3	Assam	85%	OIL	275	NELP V
6	AA-ONN-2004/1	Assam	85%	OIL	144	NELP VI
7	AA-ONN-2004/2	Assam	90%	OIL	218	NELP VI
8	KG-ONN-2004/1	Krishna- Godavari	90%	OIL	549	NELP VI
9	MZ-ONN-2004/1	Mizoram	75%	OIL	3,213	NELP VI
10	RJ-ONN-2004/2	Rajasthan	75%	OIL	2,196	NELP VI
11	RJ-ONN-2004/3	Rajasthan	60%	OIL	1,330	NELP VI
12	RJ-ONN-2005/2	Rajasthan	60%	OIL	1,517	NELP VII
				Total Area	**21,293**	

Source: Company Reports and Citi Investment Research and Analysis

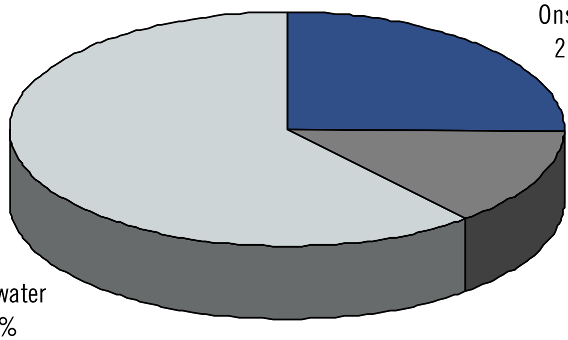
Figure 25. OIL's NELP/ pre-NELP Acreages as Non-Operator

S.No.	Block No.	Location	Participating Interest	Operator	Area	NELP/ Pre-NELP
1	KG-DWN-98/4	Krishna- Godavari	15%	ONGC	4,970	NELP I
2	MN-OSN-2000/2	Mahanadi Basin	20%	ONGC	4,061	NELP II
3	AA-ONN-2001/3	Assam	15%	ONGC	110	NELP III
4	CY-DWN-2001/1	Cauvery Basin	20%	ONGC	12,425	NELP III
5	AA-ONN-2002/4	Assam	10%	ONGC	1,060	NELP IV
6	KG-DWN-2002/1	Krishna- Godavari	20%	ONGC	10,600	NELP IV
7	MN-DWN-2002/1	Mahanadi Basin	20%	ONGC	9,980	NELP IV
8	KG-DWN-2004/5	Krishna- Godavari	10%	ONGC	11,922	NELP VI
9	KG-DWN-2004/6	Krishna- Godavari	10%	ONGC	10,907	NELP VI
10	AN-DWN-2005/1	Andaman-Nicobar	10%	ONGC	11,837	NELP VII
11	AA-ONN-2005/1	Assam	30%	ONGC	363	NELP VII
12	WB-ONN-2005/2	West Bengal	25%	ONGC	3,940	NELP VII
13	AAP-ON-94/1	Assam	10.13% in expl. Phase; additional 30% carrying interest	HOEC	305	Pre-NELP
14	GK-OSJ-3	Gujarat-Kutch	15%	RIL	5,725	Pre-NELP
				Total Area	**88,205**	

Source: Company Reports and Citi Investment Research and Analysis

OIL has a meaningful exposure to the prospective deepwater blocks off the East Coast. About 61% of OIL's NELP acreage falls under the deepwater category.

Figure 26. Classification of OIL's NELP Blocks (based on area)



Source: Company Reports and Citi Investment Research and Analysis

...also looking overseas

OIL has also been actively pursuing opportunities for acquiring producing E&P assets, exploration acreages, etc. in Africa, the Middle East, and South East Asia. As a result, it has acquired participating interests in 11 blocks as show in Figure 27.

Figure 27. OIL's Overseas Assets

S.No.	Block/Country	Participating Interest	Operator	Area (sq. km.)
1	Farsi (offshore) in Iran	20%	OVL	3,500
2	86 Libya	50%	OIL	7,087
3	102/4 Libya	50%	OIL	2,710
4	Area 95/96, Libya	25%	SIPEX	6,629
5	Shakthi- Gabon	45%	OIL	3,761
6	Timor Leste –East Timor	12.5%	REPDMCC	2,384
7	Block 82, Yemen	15%	MEDCO AMED	1,857
8	Block 83, Yemen	15%	MEDCO ARAT	364
9	Block 3, Egypt	25%	GSPC	8,287
10	Block 4, Egypt	25%	GSPC	2,600
11	OPL-25, Nigeria	17.50%	Summit Oil	2,094
			Total area	**41,273**

Source: Company Reports

Exploration track record in Assam has been promising, needs to be tested outside

While it is still early days to gauge the potential success of the NELP and overseas blocks, OIL has demonstrated the drive to explore opportunities to reinvest its free cash flows in an effort to create value from assets other than those in the North-East. OIL's track record in its past exploratory activities has been strong as shown below though mostly in Assam thus depicting the company's superior understanding of the Upper Assam basin. The company has an aggressive well program in the NELP blocks, but it remains untested and could take time to yield results.

Figure 28. OIL's Exploratory Activities

	FY07	FY08	FY09
Independent			
2-D Seismic Surveys Conducted (line km)	410	143	242
3-D Seismic Surveys Conducted (sq. km)	923	918	1,107
Exploratory Wells Drilled	6	11	12
-Successful	5	9	8
Success Ratio of exploratory wells	**83%**	**82%**	**67%**
Development Wells Drilled	23	30	28
-Successful	23	30	28
Success Ratio of development wells	100%	100%	100%

Source: Company Reports

There have been many discoveries in the PEL areas (which are granted on nomination and converted into ML after discovery) during the last five years. In fact, we believe that OIL would be able to commercially exploit some of these; this is the primary driver of our estimated FY10-12E volume growth CAGR of 5%.

Figure 29. OIL – New Hydrocarbon Finds

Location	Type	Class
FY08		
South Chandmari	Oil	Medium
Sapkaint	Oil	Medium
Moran	Oil	Large
North Hapjan	Oil	Medium
West Makum	Oil	Medium
Kathaloni	Oil	Medium
South Makum	Oil	Small
Baghjan	Gas	Medium
FY09		
Dandiwalla-17 (RJBB)	Gas	Medium
West Madhuting (NHK 568)	Gas	Medium
Madhuting (NHK 572)	Oil	Medium
Mechaki -2	Oil	Large
West Makum (Makum 29)	Oil	Medium

Source: Company Reports

Smaller, but good operating metrics

On 2P reserves, OIL is 1/10th the size of ONGC. However, it compares well with its larger peer on R/P ratio, costs, and reserve replacement. Though OIL's reserve life is more on 2P basis, it is inferior to ONGC on 1P basis.

Figure 30. OIL: Comparison with ONGC

	ONGC			OIL		
	FY07	FY08	FY09	FY07	FY08	FY09
O+OEG (MMT)	60.8	61.9	61.3	5.2	5.0	5.4
O+OEG (mmboe)	445	453	450	38	37	39
2P reserves-O+OEG (mmboe)	7,688	8,885	9,810	829	933	974
Realisation/boe (US$)*	27.6	31.4	28.4	36.1	44.4	43.8
Lifting Cost/boe (US$)	5.0	6.2	7.1	2.6	4.1	4.6
EBITDA/boe (US$)*	17.7	19.5	17.3	15.8	19.4	20.5
Net profit/boe (US$)*	9.4	11.5	9.8	9.6	12.0	12.0
F&D Costs/boe (US$)	3.2	5.2	5.1	2.6	3.7	na
R/P ratio (based on 1P)	15.4	14.9	15.8	13.9	14.3	13.6
R/P ratio (based on 2P)	17.3	19.6	21.8	21.7	25.3	24.8
Reserve Replacement	1.57	1.56	1.44	1.81	2.08	na

Source: Company Reports and CIRA estimates. *Excluding OVL for ONGC.

Figure 31. F&D Costs of Global Peers (US$/boe)

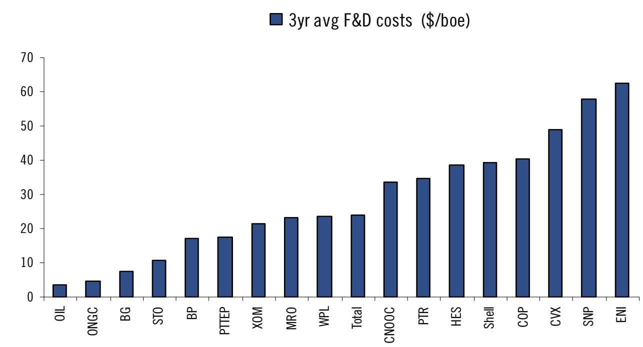
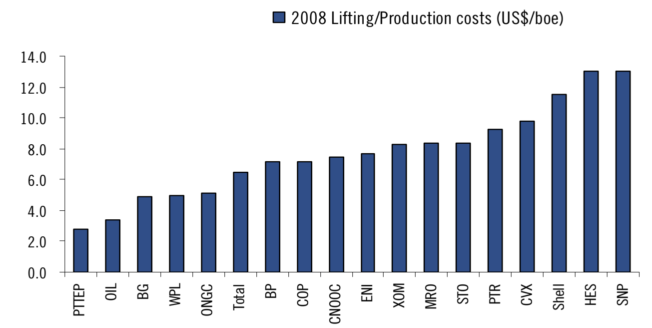


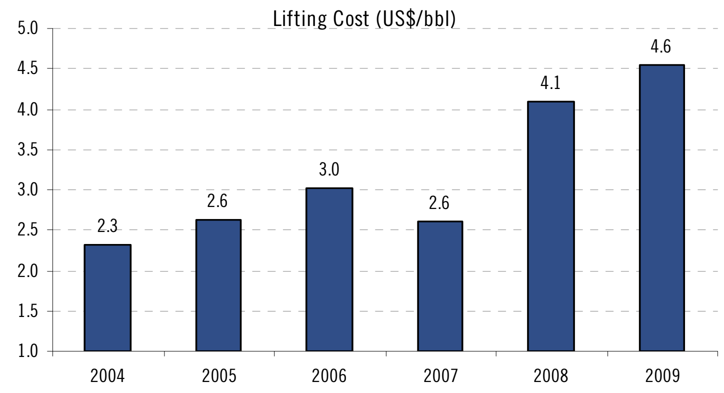
Figure 32. Lifting Costs of Global Peers - FY09* (US$/bbl)



Source: Company Reports and Citi Investment Research & Analysis *Using CY08 values for Dec-ending companies

OIL's lifting costs have risen over last five years albeit moderately (a function of their predominantly onshore operations) as shown in the chart below.

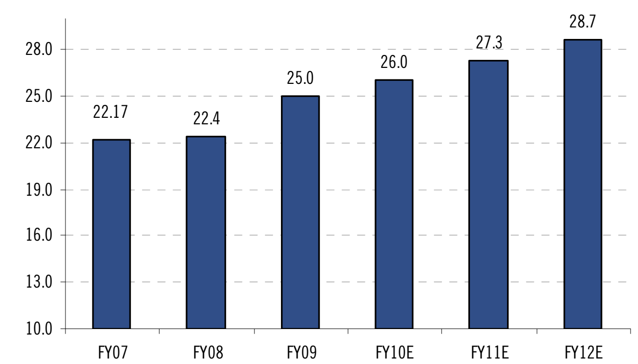
Figure 33. OIL - Lifting Cost (US$/bbl)



Source: Company Reports and CIRA estimates

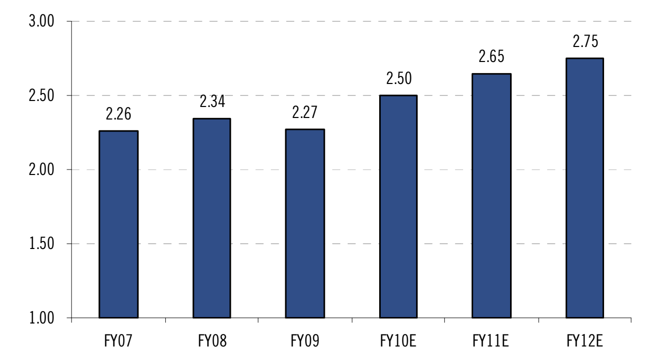
Other highlights of OIL's past production, as well as our estimates going forward are depicted in the charts below.

Figure 34. Crude Oil Production (Million Barrels)



Source: Company Reports and CIRA estimates

Figure 35. Natural Gas Production (bcm)



Source: Company Reports and CIRA estimates

Industry Outlook

Oil & gas outlook in India

India's heavy dependence on crude imports (around 75% of its crude requirement is imported) and low levels of exploration (low well density per 1,000km) have led to large capital investment both from the National Oil Companies (NOCs) as well as private-sector oil companies. Against this background, the New Exploration Licensing Policy (NELP) was formulated by the government in 1997-98 to provide a level-playing field in which all parties could compete for exploration acreage.

Some of the attractive features of the NELP (eight rounds so far) are:

- No mandatory state participation, NOCs to compete for acreages
- Finalization of contract based on Model Production Sharing Contracts (MPSC)
- Foreign participation up to 100%
- No minimum expenditure commitment during the exploration period
- Freedom to sell crude and natural gas in the domestic market at market prices
- No customs duty on imports required for petroleum operations
- Income Tax Holiday for seven years from start of commercial production
- No signature, discovery, or production bonus
- Option to amortize exploration and drilling expenditures over a period of 10 years from first commercial production
- Biddable cost recovery limit up to 100%

Crude pricing environment

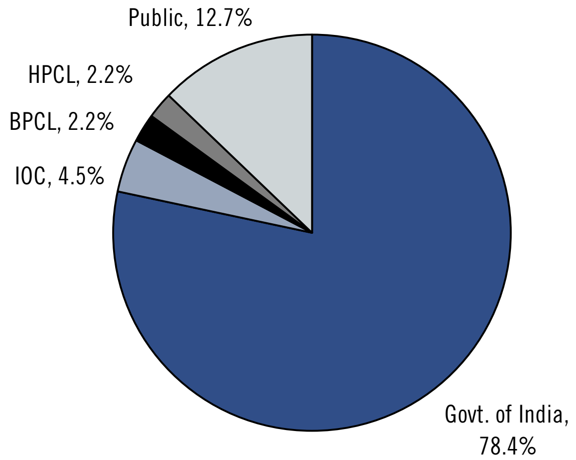
Following the dismantling of the APM regime in April 2002, domestic crude oil producers have been allowed by the government to partially align their prices with international prices. Consequently, the profitability and realizations of upstream oil companies (OIL, ONGC, and GAIL) have improved. Till recently, the upstream companies were still required to share nearly one-third of the under-recoveries incurred by the government-owned OMCs HPCL, BPCL and IOC. However, in a bid to partially deregulate the sector, the upstream companies are now expected to share under-recoveries on only petrol/diesel, with the losses on LPG/Kero to be compensated directly by the government.

Background

Company description

Oil India Limited (OIL) is one of the leading national oil companies engaged in the business of exploration, production and transportation of crude oil and natural gas. OIL is a public sector company under the Ministry of Petroleum and Natural Gas and post-IPO is held 78.4% directly by the Government of India. The public sector OMCs hold another 8.9%, with the rest being held by employees and the public (see Figure 36 below).

Figure 36. OIL: Post-issue Shareholding Pattern



Source: Company Reports

The company is involved in the following activities:

Exploration and Development – OIL's exploration and development activities are spread over onshore areas, primarily in North-Eastern India and Rajasthan. In addition, OIL has participation interest in NELP exploration blocks in Mahanadi Offshore and Krishna-Godavari deep water. Furthermore, the company has been actively pursuing opportunities in the international space and has acquired participating interests in various overseas projects in the Middle East and Africa.

The company has adopted an integrated approach of geological, geophysical, geochemical, and reservoir engineering studies to successfully develop and exploit prospective blocks. OIL has established a firm track record of exploiting small and medium-sized discoveries (estimated 2P reserves of less than 30 mmboe). From FY07 to FY09, OIL made 11 such discoveries, in addition to two bigger discoveries (estimated 2P reserves of more than 30 mmboe). OIL has 2P reserves of 974 mmboe as on March 31, 2009, ~60% of which comprises oil.

To tap ageing and depleting fields, OIL employs a variety of improved oil recovery techniques (IOR) and enhanced oil recovery (EOR) techniques to achieve maximum recovery from its oil reserves. This is especially relevant for its maturing fields in the upper Assam basin so as to maintain current production levels.

Oil & Gas Production – OIL produced 24.95 mmbbl (68 kbpd) of crude oil and 2.27 bcm (6.2 mmscmd) of natural gas in FY09. As shown in Figure 37, all the crude is produced from fields in North-Eastern India, while some gas is also produced from the Rajasthan fields.

The company manages the entire chain of operations required for onshore oil and gas production including onshore production facilities, well stimulation services, land pipelines, gas processing and fractionation facilities, transport fleet, storage facilities and other infrastructure. OIL currently owns and operates 10 onshore drilling rigs and 14 workover rigs to facilitate its drilling and production operations.

Figure 37. OIL – Oil & Gas Producing Fields

Production	Crude Oil (bpd)	Natural Gas (mmscmd)
Gr. Hapjan	21,676	0.59
Tengakhat	8,307	0.96
Gr. Chandmari	7,993	0.19
Gr. Dikom	6,363	0.95
Gr. Naharkatiya	4,597	0.76
Kathloni	4,084	0.21
Bhogpara	3,804	0.05
Jorajan	2,729	1.38
Gr. Shalmari	2,485	0.07
Central small Fields	2,116	0.26
Moran	1,840	0.11
Kumchai	712	0.06
Condensate	639	-
Kharsang JV	510	-
Eastern Fields	284	0.07
Digboi	119	0.01
Western Fields	100	-
Rajasthan	-	0.56
Total	**68,358**	**6.23**

Source: Company Reports

Pipeline and Transportation – OIL owns and operates a 1,157 km long crude pipeline on a common carrier basis with ONGC and BRPL. This pipeline has the capacity to transport 44 mmbbl of crude oil feeding the crude oil produced by both OIL and ONGC in the North-Eastern region to feed refineries at Numaligarh, Guwahati, Bongaigaon, Barauni and Digboi. OIL owns 10 crude oil pumping stations and 17 repeater stations, across the three eastern states of Assam, West Bengal and Bihar. The company also owns and operates a 660 km long product pipeline from Numaligarh (in Assam) to Siliguri (in West Bengal). This pipeline was completed and commissioned in August 2008.

OIL also constructed a 741-km product pipeline in Sudan in partnership with OVL and has a 10% interest in the product pipeline.

Downstream – OIL holds 26% equity in the 3 MMTPA Numaligarh Refinery. The company also holds a 10% stake in the Brahmaputra Gas Cracker Project (BCPL), a JV where GAIL (70%), NRL (10%), and Govt. of Assam (10%) hold the remaining stake. OIL also holds a 23% stake in DNP Limited, which was formed to acquire, transport and distribute natural gas.

In order to support its primary operations, the company also carries out the following related activities:

Reservoir Management – OIL uses numerical simulation studies including gas and water injection, water and polymer flooding projects etc. The implementation of these studies in the fields has improved yields over and above of what would have been recovered by primary depletion alone.

Research and Development – OIL has a dedicated R&D Department recognized by the Department of Science & Technology, Government of India. In the recent past, this R&D department has developed and implemented a number of innovative techniques in well-drilling and pipeline transportation resulting in significant economic benefits to the company.

Management

The Board of Directors comprises four executive directors, two goverment nominees (from the Ministry of Petroleum and Natural Gas), and six independent directors. Mr. N.M. Borah is the Chairman and the Managing Director of OIL. The top management of the company has extensive experience in the oil & gas space.

Figure 38. Board of Directors

S.No.	Name	Designation
1	N.M. Borah	Chairman and MD
2	T.K. Ananth Kumar	Director- Finance
3	B.N. Talukdar	Director- E&D
4	A. Anand	Director- HR & BD
5	D.N. Narasimha Raju	Govt. Director (MoPNG)
6	Archana S. Mathur	Govt. Director (MoPNG)
7	Vinod K. Misra	Independent Director
8	Alexander K. Luke	Independent Director
9	Sushil Khanna	Independent Director
10	Arun Kumar Gupta	Independent Director
11	Pawan K. Sharma	Independent Director
12	G.H. Amin	Independent Director

Source: Company Reports

Oil India

Company Description

OIL is a public-sector E&P company engaged in exploration and production of crude oil and natural gas. Even though the company has most of its assets concentrated in Northeastern India, it is looking to diversify its business by concentrating on its NELP blocks, as well as acreages abroad. Post-IPO, the government (including HPCL, BPCL and IOC) holds 87.3% of the company.

Investment Strategy

We rate OIL shares Hold / Low Risk (2L), with an Rs1,165 target price. OIL has established reserves on Onshore Assam Basin with adequate reserve life and reasonable production growth, which generates strong and stable cash flows, adding on to the already strong balance sheet. Despite the new subsidy mechanism of the upstream companies sharing losses on only petrol/diesel, we believe that OIL's leverage to crude beyond US$65/bbl is going to be limited. OIL, which has predominantly focused on North-east Indian onshore blocks, has gradually gained exposure to domestic offshore through NELP blocks as well as abroad. Though the strategic shift to reinvest cash flows from the pre-NELP blocks is in the right direction, it will take time to show results, especially given lack of prior experience.

Valuation

Our target price of Rs1,165 comprises (i) Business valued at PER of 7.5x FY11E core EPS (@$65 net crude), and (ii) cash at Rs385/share (Mar-10E). The core PER is at a 15% discount to ONGC's current multiple of 9.0x. We believe a lower multiple vs. ONGC is warranted on account of (i) OIL's smaller size, (ii) still-to-be-tested track record outside the North East, and (iii) risk pertaining to use of OIL's significant cash balance, in addition to ONGC's relatively higher leverage to crude prices (thru OVL) and natural gas deregulation. Further re-rating from here would be dependent on higher net crude realizations i.e. significant price reforms in auto fuels, revision in gas prices, and any positive news flow from new exploration programs.

Risks

We rate Oil India shares Low Risk given the stable earnings profile and cash-rich balance sheet. Drop in crude prices and sharp rupee appreciation remains the key downside risks to earnings. Uncertainty on government policy on subsidy sharing remains a key risk, in our opinion, although deregulation (especially of auto fuels) and/or any clarity on this front would have a positive impact.

The government also determines the gas price realization for OIL to a large extent. Any delay in implementation or reduction in the proposed APM gas price hike would have negative impact on profitability and valuations. On the other hand a complete de-regulation of gas price to the market determined levels would have a positive impact on earnings and valuation.

Given the significant increase in exploratory activity likely to be initiated in the NELP blocks, there are risks of failures and hence material dry well write-offs which could impact earnings and cash flows in the short-term. However, OIL's ability to drive exploration success in the new blocks and/or undertake a successful acquisition will be value accretive esp. given its lower reserve base relative to ONGC.

For FY07-09, the MoPNG allowed OIL full recovery, on a net basis, of transportation tariffs and sales tax for crude oil that it produced and transported to all public sector refineries. Any reversal of the government decision on transportation tariff and sales tax recovery would be a key negative for OIL.

Any of these risk factors could cause the shares to deviate from our target price.

Appendix A-1

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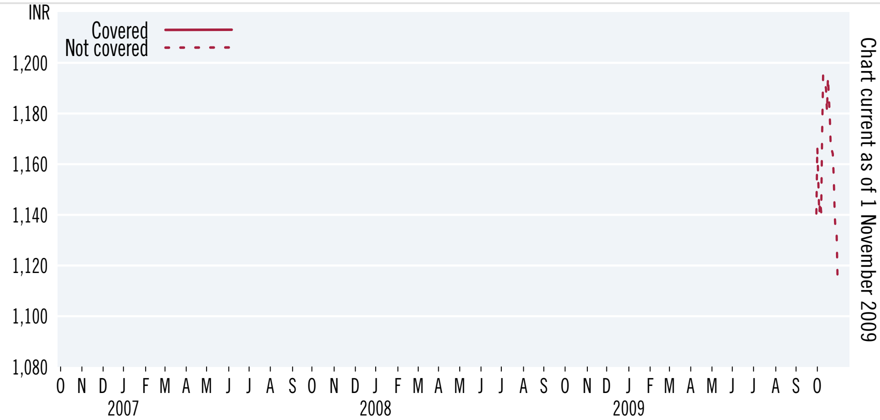
IMPORTANT DISCLOSURES

Oil India (OILI.BO)

Ratings and Target Price History
Fundamental Research



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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Sioban G Hickie, Associate, holds a long position in the securities of Hess Corp.

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