

July 1, 2010

Oil India Limited (OILIND)

Rs 1435

Government reforms to drive earnings...

Oil India, a Navratna PSU, is engaged in exploration, development, production and transportation of crude oil and natural gas in India and abroad. We expect Oil India to report a CAGR of 10.6% and 17.8%, in revenues and net profit, respectively, over FY10-12E on the back of an increase in APM gas prices and steady growth in crude oil and natural gas production. Oil India's strong resource base and new discoveries could lead to upgradation of valuations, going forward. The reforms by the Indian government in the pricing of petroleum products would also add significantly to the earnings of the company. We are initiating coverage on Oil India with an ADD rating and a target price of Rs 1526.

Strong resource base and steady increase in oil and gas production

Oil India is India's second largest PSU E&P player with a total area of 1,69,537 sq km under acreage in India and abroad. Oil India has 2P oil reserves of 575.4 million barrels and 2P gas reserves of 63.4 billion cubic meters. It has aggressive investment plans in exploration activities of Rs 1,527.8 crore and Rs 1,912 crore in FY11E and FY12E, respectively. Upgradation of the resource base and new discoveries would be positive triggers for the stock, going forward. We expect its oil sales to report a CAGR of 5% over FY10-12E from 25.8 mmbob in FY10 to 28.4 mmbob in FY12E. We also expect natural gas to report robust sales growth of 13.6% CAGR over FY10-12E from 1.9 bcm in FY10 to 2.4 bcm in FY12E.

Government reforms in petroleum products and APM gas pricing

Oil India is a major beneficiary of government reforms in the pricing of petroleum products. Deregulation of petrol prices and price hike in other petroleum products (diesel, LPG and kerosene) would add significantly to its earnings. Also, the increase in APM gas prices from Rs 3,200 tscm (US\$1.79 per mmbtu) to Rs 6,818 per tscm (US\$3.81 per mmbtu) approved by the Indian Government would increase Oil India's earnings by Rs 13.5 per share.

Valuations

We believe Oil India's large reserve base and new discoveries would create value for investors, going ahead. Oil India is trading at 10.3x FY11E and 9.5x FY12E EPS of Rs 138.7 and Rs 150.6, respectively. We are initiating coverage on the stock with an **ADD** rating and price target of Rs 1526 based on 11x FY11E EPS.

Exhibit 1: Key Financials

Year to March 31	FY08	FY09	FY10E	FY11E	FY12E
Revenues (Rs Crore)	6240.8	7414.3	8072.8	9127.5	9875.0
EBITDA (Rs Crore)	2635.8	3420.2	3875.6	4694.1	5072.5
Net Profit (Rs Crore)	1788.9	2161.7	2610.5	3335.5	3621.1
Shares in Issue (In Crore)	21.4	21.4	24.0	24.0	24.0
EPS (Rs)	83.6	101.0	108.6	138.7	150.6
P/E (x)	17.2	14.2	13.2	10.3	9.5
Price/Book Value (x)	3.9	3.3	2.5	2.1	1.9
EV/EBITDA (x)	10.1	7.2	6.7	5.2	4.7
RONW (%)	22.6	23.2	19.0	20.7	19.5
ROCE (%)	27.0	28.5	22.6	24.7	23.0

Source: Company, ICICIdirect.com Research

Initiating Coverage

Rating Matrix

Rating	: Add
Target	: Rs 1526
Target Period	: 12 months
Potential Upside	: 6%

YoY Growth (%)

	FY09	FY10	FY11E	FY12E
Net Sales	18.8	8.9	13.1	8.2
EBITDA	29.8	13.3	21.1	8.1
Net Profit	20.8	20.8	27.8	8.6

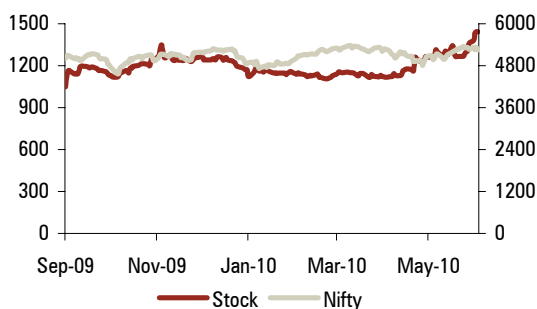
Stock Data

Bloomberg Code	OINL IN
Reuters Code	OILI.BO
Face value (Rs)	10
Promoters Holding	78%
Market Cap (Rs cr)	34505
52 week H/L	1443 / 1048
Sensex	17506
Average volumes	26222

Comparative return matrix (%)

Company	1M	3M	6M	12M
Oil India	8	21	9	NA
ONGC	12	17	6	21
Cairn India	9	6	11	33
Reliance Industries	4	-3	-1	5

Price movement (Stock vs. Nifty)



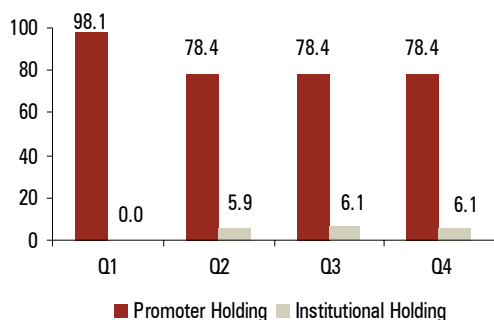
Analyst's name

Mayur Matani
mayur.matani@icicisecurities.com

Shareholding pattern (Q4FY10)

Shareholder	% holding
Promoters	78.4
Institutional investors	6.1
Other investors	0.0
General public	15.5

Promoter and institutional holding trend (%)



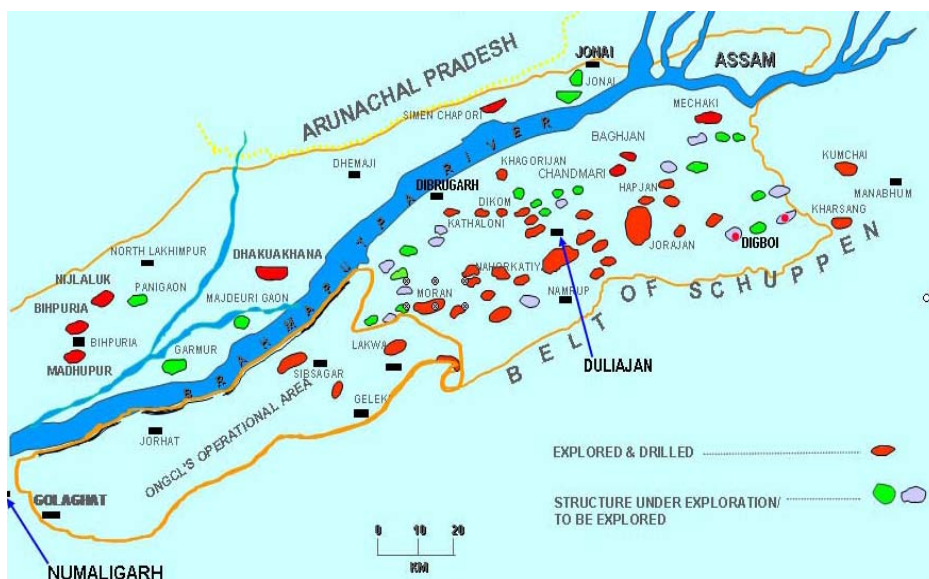
Company Background

Oil India is India’s second largest national oil and gas company primarily engaged in exploration, development, production and transportation of crude oil and natural gas in India. The company also processes natural gas to extract LPG. Oil India Ltd, a Navratna PSU, was incorporated in 1959 as Oil India Private Ltd as a JV with Burmah Oil Company. However, the company became a wholly owned enterprise of Government of India in 1981. It is also present internationally through the exploration of crude oil and natural gas in Egypt, Iran, Gabon, Libya, Nigeria, Timor Leste and Yemen. Oil India’s domestic and international E&P acreage covers a total area of 1,27,881 sq km and 41,656 sq km, respectively.

Total 93.6% of Oil India’s current estimated oil and natural gas reserves are located onshore in Assam and Arunachal Pradesh. Oil India has current proved plus probable (2P) oil reserves of 575.4 million barrels and 2P gas reserves of 63.4 billion cubic meters. In FY10, Oil India produced 25.7 million barrels of oil equivalent and 2.42 billion cubic meters of natural gas, representing 10.6% and 5.1% of India’s total production of crude oil and natural gas, respectively.

Oil India owns and operates a 1,157 km cross-country crude oil pipeline that transports oil to four public sector refineries in the North East region of India located in Digboi, Numaligarh, Guwahati and Bongaigaon. The company had also commissioned a 660-km petroleum product pipeline connecting Numaligarh Refinery Ltd (NRL) to Siliguri in West Bengal in August 2008. Oil India also has interests in downstream activities through a 26% equity stake in NRL, a 10% equity stake in Brahmaputra Cracker and Polymer Ltd (BCPL), 23% equity stake in Duliajan-Numaligarh Pipeline (DNP) Ltd and 10% equity stake in a 741-km pipeline construction project in Sudan.

Exhibit 2: Oil India’s production facilities in Assam and Arunachal Pradesh



Source: Company, ICICIdirect.com Research

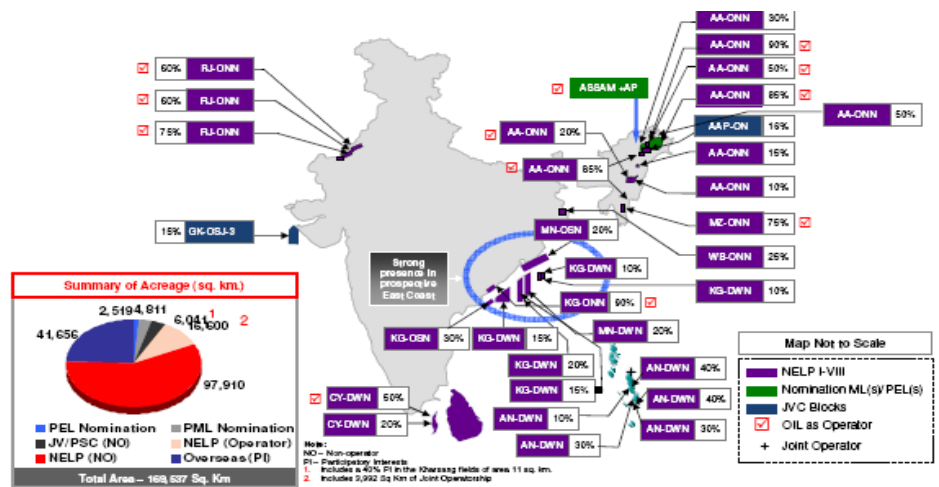
Investment Rationale

Oil India, a Navratna PSU, is engaged in exploration, development, production and transportation of crude oil and natural gas in India and abroad. Oil India's strong resource base and new discoveries would lead to upgradation in valuations, going forward. The reforms by the Indian government in the pricing of petroleum products would add significantly to the earnings of the company. We expect Oil India to report strong earnings growth over FY10-12E on the back of an increase in APM gas prices, reforms in petroleum products pricing and steady growth in crude oil and natural gas production. We expect Oil India's oil sales to report a CAGR of 5% over FY10-12E from 25.8 mmbobe in FY10 to 28.4 mmbobe in FY12E. We also expect natural gas to report robust sales growth of 13.6% CAGR over FY10-12E from 1.9 bcm in FY10 to 2.4 bcm in FY12E. This would increase Oil India's revenues at 10.6% CAGR over FY10-12E from Rs 8,072.8 crore in FY10 to Rs 9,875 crore in FY12E. The net profit will increase at 17.8% CAGR over FY10-12E from Rs 2,610.5 crore in FY10 to Rs 3,621.1 crore in FY12E. Both Oil India and ONGC are trading at an enterprise value (EV) of US\$5.8 per barrel. However, Oil India trades at a P/E of 13.2x FY10 EPS, an 8.3% discount to ONGC's P/E of 14.4x. Oil India is trading at 10.3x FY11E and 9.5x FY12E EPS of Rs 138.7 and Rs 150.6, respectively. We are initiating coverage on the stock with an ADD rating and a price target of Rs 1,526 based on 11x FY11E EPS.

Strong resource base and new discoveries - Positive triggers for Oil India

Oil India is India's second largest PSU E&P player with a total area of 1,27,881 sq km and 41,656 sq km under domestic and international acreage, respectively. Oil India has interests in 23 domestic exploration blocks through National Exploration Licensing Policy (NELP). It has also been provisionally awarded nine blocks under NELP VIII. Internationally, Oil India has exploratory activities in Egypt, Iran, Gabon, Libya, Nigeria, Timor Leste, Venezuela and Yemen. Oil India has aggressive investment plans in exploration activities of Rs 1,527.8 crore and Rs 1,912 crore in FY11E and FY12E, respectively. We believe upgradation of the resource base and new discoveries of oil and natural gas reserves would be positive triggers for the stock, going forward.

Exhibit 3: Oil India's domestic exploration and development assets



Oil India has interest in 23 domestic NELP exploration blocks and two pre-NELP joint venture blocks covering a total area of 1,20,551 sq km under acreage. Oil India has additional 7,330 sq km under acreage from the nominated blocks

Source: Company, ICICIdirect.com Research

Exhibit 4: Oil India's domestic exploratory assets

Block	Onshore / Offshore	Area (sq. kms.)	OIL's Interest	Operator
Pre-NELP blocks				
AAP-ON-94/1	Onshore	305	16.1%	HOEC
GK-OSJ-3	Offshore	5725	15.0%	RIL
NELP blocks				
AA-ONN-2001/3	Onshore	110	15%	ONGC
AA-ONN-2002/3	Onshore	1460	20%	OIL
AA-ONN-2002/4	Onshore	1060	10%	ONGC
AA-ONN-2003/3	Onshore	275	85%	OIL
AA-ONN-2004/1	Onshore	144	85%	OIL
AA-ONN-2004/2	Onshore	218	90%	OIL
AA-ONN-2005/1	Onshore	363	30%	ONGC
AN-DWN-2005/1	Offshore	11837	10%	ONGC
CY-DWN-2001/1	Offshore	12425	20%	ONGC
KG-DWN-2002/1	Offshore	10600	20%	ONGC
KG-DWN-2004/5	Offshore	11922	10%	ONGC
KG-DWN-2004/6	Offshore	10907	10%	ONGC
KG-DWN-98/4	Offshore	4970	15%	ONGC
KG-ONN-2004/1	Onshore	549	90%	OIL
MN-DWN-2002/1	Offshore	9980	20%	ONGC
MN-OSN-2000/2	Offshore	4061	20%	ONGC
MZ-ONN-2004/1	Onshore	3213	75%	OIL
RJ-ONN-2000/1	Onshore	1268	60%	OIL
RJ-ONN-2002/1	Onshore	7425	60%	OIL
RJ-ONN-2004/2	Onshore	2196	75%	OIL
RJ-ONN-2004/3	Onshore	1330	60%	OIL
RJ-ONN-2005/2	Onshore	1517	60%	OIL
WB-ONN-2005/2	Onshore	3940	25%	ONGC

Source: Company, ICICIdirect.com Research

Exhibit 5: Oil India's overseas exploration and development assets

Block	Onshore / Offshore	Area (sq. kms.)	Country	OIL's interest	Operator
Block 3	Onshore	8287	Egypt	25%	GSPC
Block 4	Onshore	2600	Egypt	25%	GSPC
Shakti	Onshore	3761	Gabon	45%	OIL
Farsi	Offshore	3500	Iran	20%	OVL
Area 86	Onshore	7087	Libya	50%	OIL
Area 102/4	Onshore	2710	Libya	50%	OIL
Area 95/96	Onshore	6629	Libya	25%	SIPEX
OPL-205	Onshore	2094	Nigeria	18%	Summit Oil
Block K	Onshore	2384	Timor-Leste	13%	Reliance
Block 82	Onshore	1857	Yemen	15%	Medco Amed
Block 83	Onshore	364	Yemen	15%	Medco Arat

Source: Company, ICICIdirect.com Research

Oil India has aggressive exploration investment plans in Assam, Arunachal Pradesh, KG basin and Rajasthan through various blocks acquired in the NELP rounds

Oil India has a strong international presence in countries like Egypt, Iran, Gabon, Libya, Nigeria, Timor Leste, Venezuela and Yemen

Strong reserves base

Oil India has 2P oil reserves of 575.4 million barrels and 2P gas reserves of 63.4 billion cubic meters in FY09 with 93.6% of the current reserves located onshore in Assam and Arunachal Pradesh. The current 2P oil and gas reserves (974.2 mmboe) are 23.8x of oil and gas production of 40.9 mmboe in FY10. Also, Oil India's current gas reserves are understated as the company is yet to sign commercial contracts for additional gas supplies. Oil India's contract for supply of gas with Brahmaputra Cracker and Polymer Ltd (BCPL) of ~1.2 mmscmd (0.44 bcm for the year) and other users will add to its reserves base and result in upgradation in the valuation, going forward.

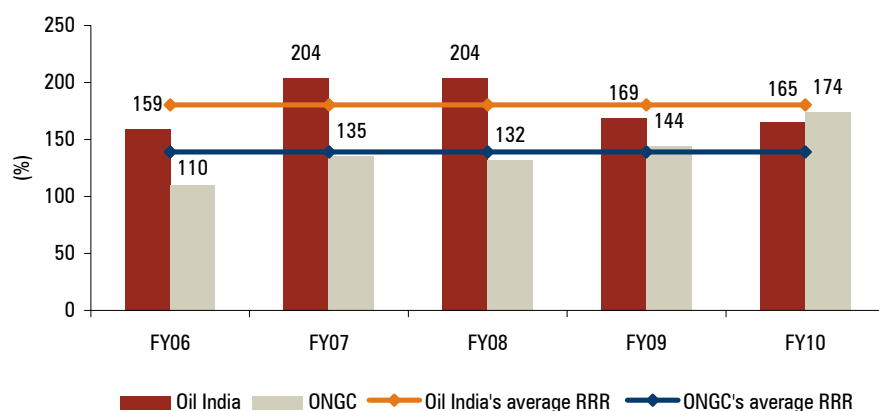
Exhibit 6: Oil India's oil and natural gas reserves

	1P			2P			3P		
	2007	2008	2009	2007	2008	2009	2007	2008	2009
Crude Oil (mmbbls)									
Independent									
Upper Assam basin	277.9	293.0	279.8	534.5	582.5	570.3	994.6	1030.9	993.5
Digboi field	5.2	0.6	5.1	5.2	0.6	5.1	5.2	0.6	5.1
Total Independent	283.1	293.6	284.9	539.7	583.2	575.4	999.7	1031.5	998.6
PSC									
Kharsang field	0.0	2.1	0.0	0.0	4.6	0.0	0.0	7.7	0.0
Total (mmbbls)	283.1	295.7	284.9	539.7	587.8	575.4	999.7	1039.2	998.6
Natural Gas (bcm)									
Upper Assam basin	26.6	35.3	37.0	43.2	52.4	59.4	69.4	69.8	79.7
Digboi field	0.3	0.0	0.0	0.3	0.0	0.0	0.3	0.0	0.0
Rajasthan basin	1.8	1.8	2.2	2.5	2.5	4.0	5.2	5.2	6.7
Total (bcm)	28.6	37.1	39.2	46.0	54.9	63.4	74.9	75.0	86.4
Total [O+OEG (mmbbls)]	463.3	529.0	531.4	829.3	933.3	974.2	1470.9	1510.9	1541.9

Source: Company, ICICIdirect.com Research

Oil India's reserve replacement ratio (RRR) has remained healthy at 165% in FY10. Also, its average RRR over the last five years was over 180% against ONGC's average RRR of 139%. We believe Oil India's aggressive investment plans in exploration and appraisal activities would further contribute in accretion of oil and gas reserves, going forward.

Exhibit 7: Reserve replacement ratio (RRR)



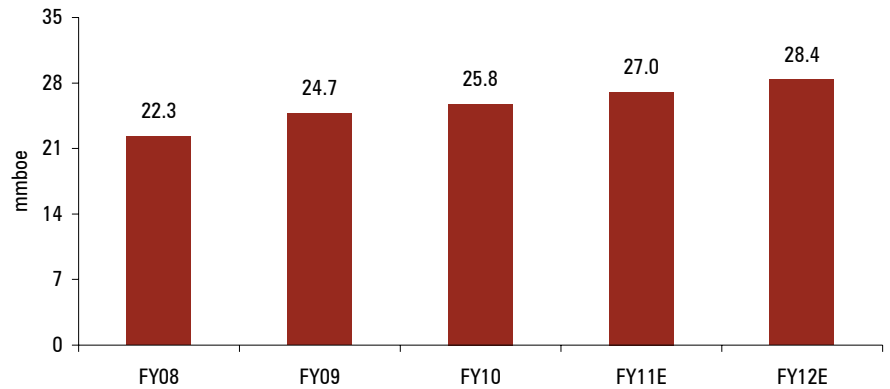
Source: Company, ICICIdirect.com Research

Oil India has a healthy reserve replacement ratio of over 150% over the last five years

Stable growth in crude oil sales volume

We expect Oil India's oil sales to report a CAGR of 5% over FY10-12E from 25.8 mmbœ in FY10 to 28.4 mmbœ in FY12E on capacity augmentation and implementation of enhanced oil recovery (EOR) techniques in matured fields. The small to medium oil discoveries in nominated fields would also add to the volumes in the next two or three years.

Exhibit 8: Stable growth in crude oil sales volume



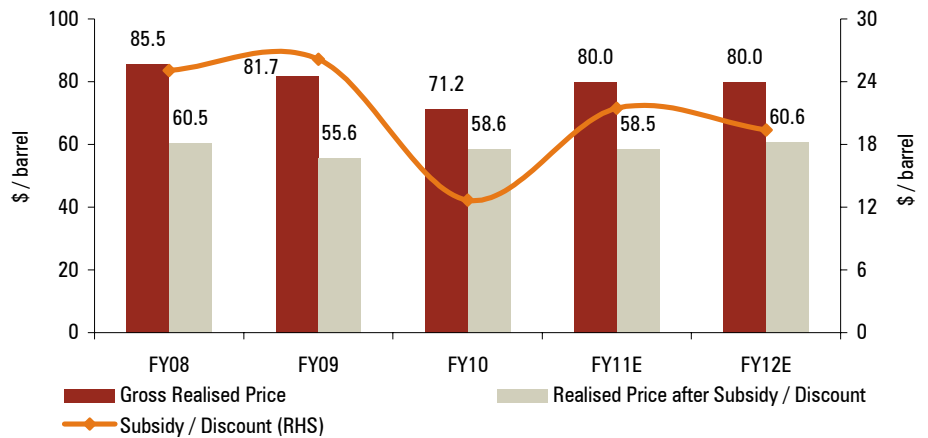
Oil India's crude oil sales will increase from 25.8 mmbœ in FY10 to 28.4 mmbœ in FY12E at 5% CAGR over FY10-12E on application of enhanced oil recovery (EOR) techniques

Source: Company, ICICIdirect.com Research

Net crude oil realisations to increase marginally over the next two years

We believe Oil India's net crude oil realisations would increase marginally from US\$58.6 per barrel in FY10 to US\$60.6 per barrel in FY12E on account of government reforms in the pricing of petroleum products and higher crude oil prices. We have modelled Brent crude oil prices of US\$80 per barrel from FY11 onwards. We expect Oil India to bear the subsidy of Rs 2,645 crore (US\$21.5 per barrel) and Rs 2,472.5 crore (US\$19.4 per barrel) in FY11E and FY12E, respectively.

Exhibit 9: Oil India's crude oil gross and net realisations



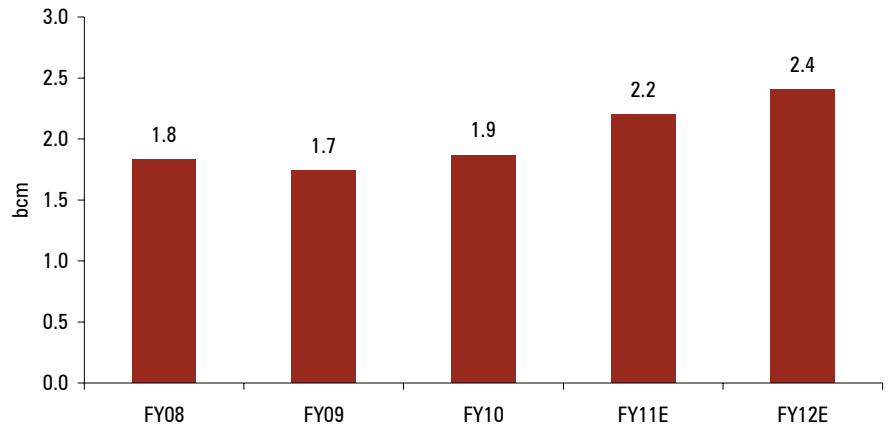
Oil India's net crude oil realisations would increase marginally from US\$58.6 per barrel in FY10 to US\$60.6 per barrel in FY12E on account of government reforms in the pricing of petroleum products and higher crude oil prices

Source: Company, ICICIdirect.com Research

Robust increase in natural gas sales volume

Oil India's natural gas sales volume would report robust growth on account of additional supplies of ~1 mmscmd (0.37 bcm) and ~1.2 mmscmd (0.44 bcm) to Numaligarh Refinery Limited (NRL) and Brahmaputra Cracker and Polymer Ltd (BCPL), respectively. We expect the company to start supplies to NRL in FY11E and BCPL from April 2012 onwards. We expect Oil India's natural gas sales volume to increase at 13.6% CAGR over FY10-12E from 1.9 bcm (5.1 mmscmd) in FY10 to 2.4 bcm (6.6 mmscmd) in FY12E.

Exhibit 10: Oil India's natural gas sales volume



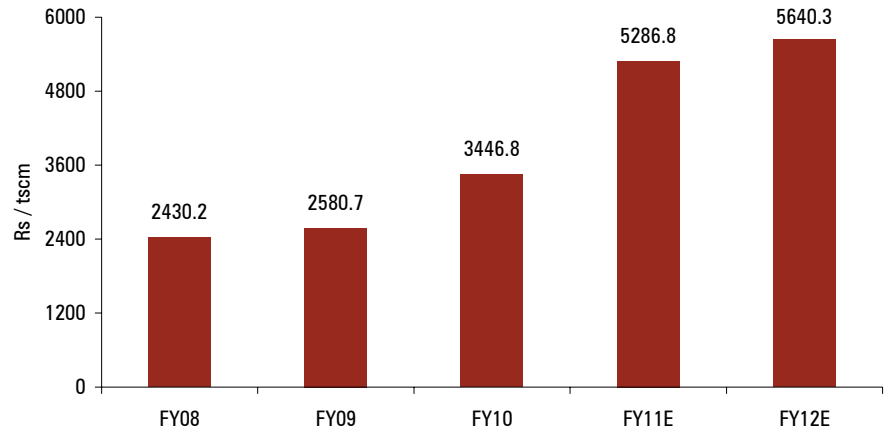
Oil India's natural gas sales will increase from 1.9 bcm in FY10 to 2.4 bcm in FY12E at 13.6% CAGR over FY10-12E mainly on account of increased gas supplies to Numaligarh Refinery Ltd (NRL)

Source: Company, ICICIdirect.com Research

APM gas price hike to improve gas sales realisation

Oil India's natural gas sales realisation would increase by 63.6% from Rs 3,446.8 per tscm in FY10 to Rs 5640.3 per tscm in FY12E on account of an increase in APM gas prices. This increase in APM gas prices was approved by the Indian government from Rs 3,200 tscm (US\$1.79 per mmbtu) to Rs 6,818 per tscm (US\$ 3.81 per mmbtu). This would increase Oil India's earnings by Rs 13.5 per share.

Exhibit 11: Natural gas sales realisation



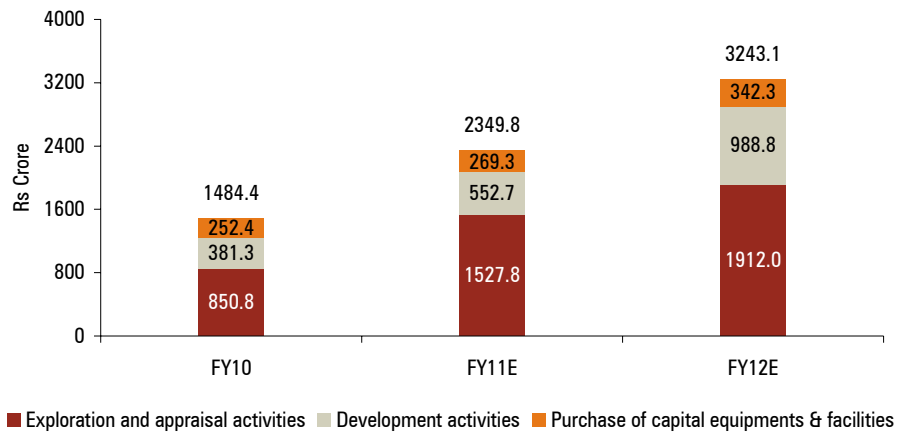
The increase in APM gas prices was approved by the Indian government from Rs 3,200 tscm to Rs 6,818 per tscm. This would increase Oil India's earnings by Rs 13.5 per share

Source: Company, ICICIdirect.com Research

Aggressive investment plans in exploration and development activities

Oil India has aggressive investment plans of Rs 1,527.8 crore and Rs 1,912 crore in FY11E and FY12E, respectively, on exploration and appraisal activities. The company plans to drill 46 exploratory wells, 22 each in nominated and NELP blocks and two overseas blocks in FY11E. On development activities, Oil India plans to spend Rs 552.7 crore and Rs 988.8 crore in FY11E and FY12E, respectively. The company plans to drill 46 wells in nominated blocks and four wells in NELP blocks in FY11E for development activities. We believe these investments will result in new discoveries, upgradation in reserves and increased oil and natural gas production in future.

Exhibit 12: Oil India's investment plans



Oil India has aggressive investment plans of Rs 2,349.8 crore and Rs 3,243.1 crore in FY11E and FY12E, respectively, on capital equipment and exploratory and development activities

Source: Company, ICICIdirect.com Research

Government reforms in petroleum products pricing

Oil India is a major beneficiary of government reforms in the pricing of petroleum products. The Indian Government has decided to completely deregulate petrol prices and hiked diesel, kerosene and LPG prices by Rs 2 per litre, Rs 3 per litre and Rs 35 per cylinder, respectively. The government has also decided to deregulate diesel prices over an undisclosed period of time. This reform by the Empowered Group of Ministers (EGOM) would reduce the under recoveries of the sector from ~Rs 77,000 crore to ~Rs 53,000 crore at crude oil prices of US\$75 per barrel. However, the subsidy sharing mechanism between companies and government is yet to be decided by the government. We have assumed upstream companies' share of 33.33% of the total under recoveries. This is in line with the historical ratio shared by them.

Exhibit 13: Under recoveries of oil and gas sector

(Rs Crore)

Petroleum Products	Earlier	Now	Savings
Petrol	7500	0	7500
Diesel	25700	15000	10700
Kerosene	19900	17000	2900
LPG	23900	21000	2900
Total	77000	53000	24000

Reforms by the Indian government would reduce the under recoveries by ~Rs 24,000 crore at crude oil prices of US\$75 per barrel

Source: ICICIdirect.com Research

The Indian government has decided to completely deregulate petrol prices and hiked diesel, kerosene and LPG prices by Rs 2 per litre, Rs 3 per litre and Rs 35 per cylinder, respectively

Exhibit 14: Revised petroleum product prices

Petroleum Products	Earlier Price	Revised Price	Increase
Petrol (Rs per litre)	47.9	51.4	3.5
Diesel (Rs per litre)	38.1	40.1	2.0
Kerosene (Rs per litre)	9.3	12.3	3.0
LPG (Rs per cylinder)	310.4	345.4	35.0

Source: ICICIdirect.com Research

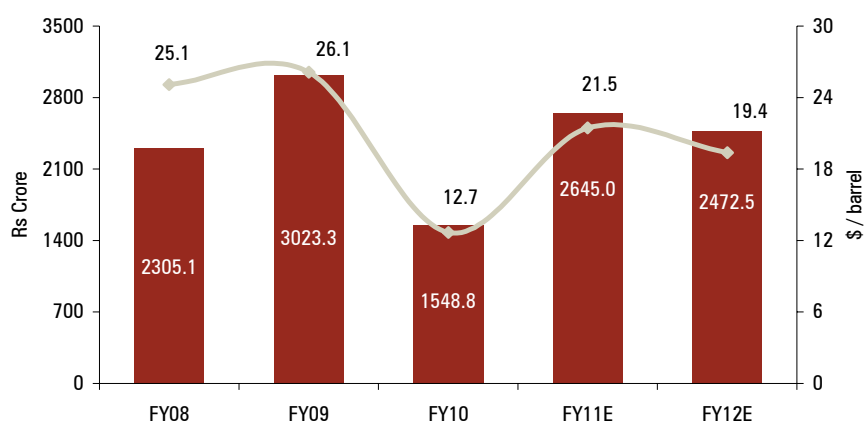
We have modelled Oil India's under recoveries at crude oil prices of US\$80 per barrel for FY11E and FY12E

Exhibit 15: Under recoveries of oil and gas sector at US\$80 per barrel (Rs Crore)

Petroleum Products	FY11E	FY12E
Petrol	3100.0	0.0
Diesel	21200.0	20450.0
Kerosene	19570.0	19200.0
LPG	25140.0	24860.0
Total Under Recoveries	69010.0	64510.0
Upstream Sharing (33.33%)	23000.0	21500.0
Oil India's Share	2645.0	2472.5

Source: ICICIdirect.com Research

The deregulation of petrol prices and price hike in other petroleum products would reduce the under recoveries of the sector from ~Rs 85,000 crore to ~Rs 69,000 crore at US\$80 per barrel. We have assumed upstream companies' share of 33.33% of the total under recoveries. This would result in Oil India's subsidy burden of Rs 2,645 crore and Rs 2,472.5 crore in FY11E and FY12E, respectively.

Exhibit 16: Oil India's subsidy sharing burden


Source: Company, ICICIdirect.com Research

We estimate Oil India's subsidy burden at Rs 2,645 crore and Rs 2,472.5 crore in FY11E and FY12E, respectively

Risks and concerns

Decline in crude oil prices and volatile exchange rates

A decline in crude prices would have an adverse impact on Oil India's revenues and profitability. Any decline in crude oil prices due to the weak global economic conditions and demand and supply scenario would result in lower realisations and earnings for the company. The earnings of Oil India are highly sensitive to the volatility in foreign exchange rates. An appreciation of the Indian rupee against the US dollar would have an adverse impact on Oil India's profitability and valuation.

Exhibit 17: Sensitivity of earnings to exchange rate

Exchange Rate (Rs/ US\$)	Sensitivity to EPS	
	FY11	FY12
42.0	121.0	135.1
43.0	125.9	140.3
44.0	130.8	145.4
45.0	135.8	150.6
46.0	140.7	155.8
47.0	145.6	160.9
48.0	150.5	166.1

Oil India's EPS would change by ~Rs 5 per share on a Re 1 change in the exchange rate

Source: ICICIdirect.com Research

Adverse subsidy sharing mechanism

The PSU E&P companies paid subsidy only on auto fuel products in FY10. This subsidy sharing mechanism would change from FY11E with the implementation of reforms by the Indian government in the pricing of petroleum products. The subsidy sharing formula between the companies and the government is yet to be decided and it would be announced in the next few weeks. We have assumed upstream companies' share of 33.33% of the total under recoveries. This is in line with the historical ratio shared by them. Any adverse subsidy sharing mechanism implemented by the government would have a negative impact on Oil India's profitability in future.

Exhibit 18: Oil India's sensitivity to change in subsidy sharing mechanism (Rs crore)

Under Recoveries	FY11E		FY12E	
	69010.0		64510.0	
	Base Case (33.33%)	Worst Case (50%)	Base Case (33.33%)	Worst Case (50%)
Share of Upstream Companies	23000.0	34505.0	21500.0	32255.0
Oil India's Share	2645.0	3968.0	2472.5	3710.0
Oil India EPS (Rs per share)	138.7	108.6	150.6	120.0

Source: ICICIdirect.com Research

Dry wells

Oil India's future growth in oil and gas production is dependent on finding, acquiring and developing further reserves. The company's failure to find successful wells in new exploratory blocks may lead to a decline in the reserves and would also impact the profitability on account of write-offs of exploration costs.

Risks brought about by asset concentration

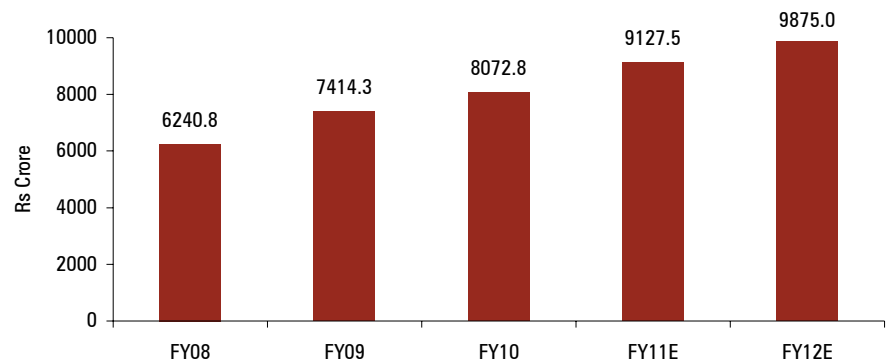
Total 93.6% of Oil India's current estimated oil and natural gas reserves and cross-country pipelines are located onshore in Assam and Arunachal Pradesh. Any catastrophic events in Oil India's area of operations will have a material adverse effect on the business and profitability of the company.

Financials

Stable growth in revenues

We expect Oil India's revenues to increase from Rs 8,072.8 crore in FY10 to Rs 9,875 crore in FY12E at 10.6% CAGR over FY10-12E. Oil revenues would increase from Rs 7,158.7 crore in FY10 to Rs 8,022.2 crore in FY12E mainly on account of an increase in oil sales from 25.8 mmboe in FY10 to 28.4 mmboe in FY12E. Gas revenues would increase at 67.6% CAGR over FY10-12E from Rs 482.7 crore in FY10 to Rs 1,355.9 crore in FY12E. This would be on account of an increase in gas sales volume from 1.9 bcm in FY10 to 2.4 bcm in FY12E and increase in net realisation from Rs 2,591.5 per tscm in FY10 to Rs 5,640.3 per tscm in FY12E.

Exhibit 19: Projected revenue growth



Source: Company, ICICIdirect.com Research

Oil India's revenues would increase at 10.6% CAGR over FY10-12E mainly on account of an increase in crude oil and natural gas sales volume and realisations

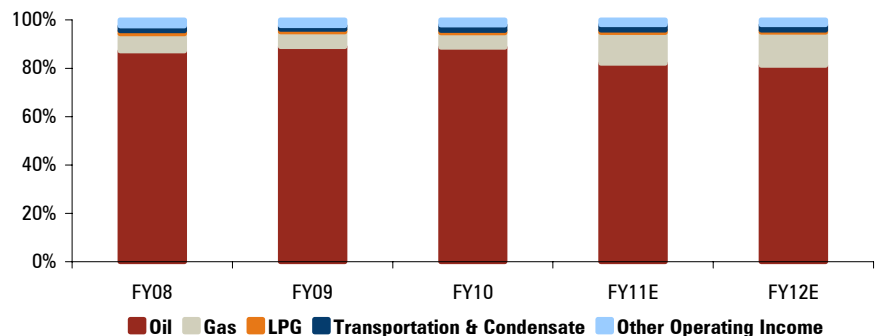
Exhibit 20: Revenue break-up

	FY08		FY09		FY10		FY11E		FY12E	
	Rs Crore	%	Rs Crore	%	Rs Crore	%	Rs Crore	%	Rs Crore	%
Oil	5441.8	87.2	6594.2	88.9	7158.7	88.7	7493.0	82.1	8022.2	81.2
Gas	444.4	7.1	448.4	6.0	482.7	6.0	1160.9	12.7	1355.9	13.7
LPG	78.3	1.3	90.3	1.2	76.3	0.9	83.1	0.9	83.1	0.8
Transportation & Condensate	117.5	1.9	108.6	1.5	187.8	2.3	212.4	2.3	214.4	2.2
Other Operating Income	158.8	2.5	172.9	2.3	167.3	2.1	178.1	2.0	199.4	2.0
Total	6240.8	100.0	7414.3	100.0	8072.8	100.0	9127.5	100.0	9875.0	100.0

Source: Company, ICICIdirect.com Research

Contribution from natural gas sales will increase from 6% of revenues in FY10 to 13.7% of revenues in FY12E on account of an increase in APM gas prices

Exhibit 21: Revenue break-up

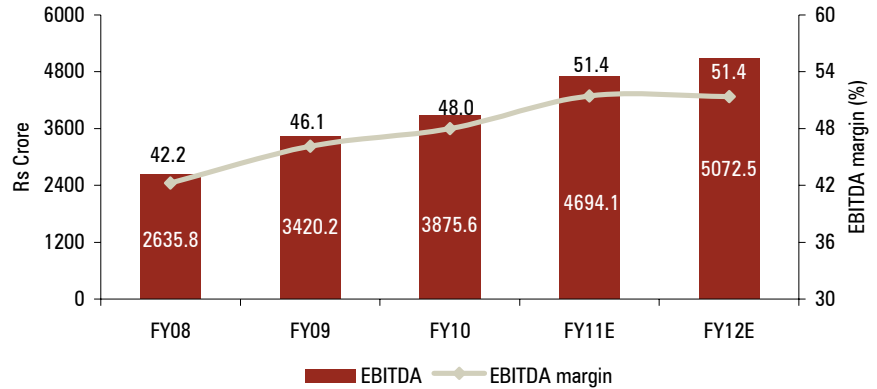


Source: Company, ICICIdirect.com Research

EBITDA growth of 14.4% CAGR over FY10-12E

Oil India's EBITDA is expected to increase from Rs 3,875.6 crore in FY10 to Rs 5,072.5 crore in FY12E at 14.4% CAGR over FY10-12E. The EBITDA margin is expected to increase from 48% in FY10 to 51.4% in FY12E mainly on account of an increase in APM gas prices from Rs 3,200 per tscm to Rs 6,818 per tscm. The employee costs and other expenditure (inclusive of geological and geophysical expenses) as a percentage of revenues are expected to decrease from 21.1% in FY10 to 18.2% in FY12E.

Exhibit 22: Trend in EBITDA and EBITDA margin



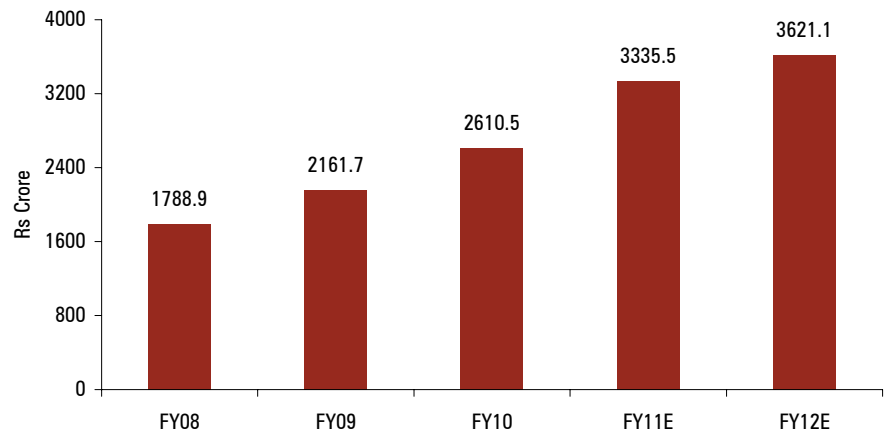
Oil India's EBITDA is expected to increase from Rs 3,875.6 crore in FY10 to Rs 5,072.5 crore in FY12E at 14.4% CAGR over FY10-12E

Source: Company, ICICIdirect.com Research

Robust growth in net profit at 17.8% CAGR over FY10-12E

We expect Oil India's net profit to increase from Rs 2,610.5 crore in FY10 to Rs 3,621.1 crore in FY12E at 17.8% CAGR over FY10-12E. The profitability would increase mainly on account of a 5% and 13.6% CAGR in crude oil and gas sales, respectively, over FY10-12E and increase in gas sales realisations.

Exhibit 23: Trend in net profitability



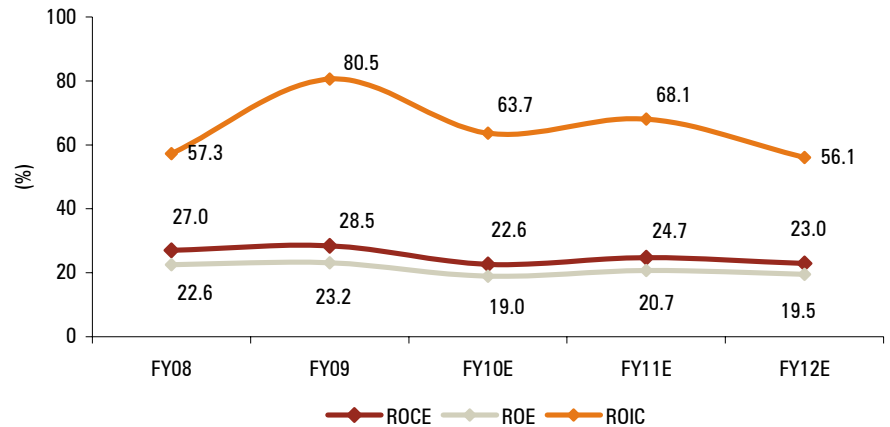
Oil India's profit will increase at 17.8% over FY10-12E mainly on account of 5% and 13.6% CAGR in crude oil and gas sales, respectively, over FY10-12E and increase in gas sales realisation

Source: Company, ICICIdirect.com Research

Return on capital employed to improve marginally on higher investments

Oil India's return on capital employed (RoCE) is expected to improve marginally from 22.6% in FY10E to 23% in FY12E in spite of higher growth in profitability on account of higher investments (Rs 3,439.8 crore over FY10-12E) in exploration and appraisal activities and high liquid investments (~Rs 8,913.1 crore in FY10E) on its balance sheet. The return on invested capital (RoIC) would still remain attractive at 56.1% in FY12E. The return on net worth (RoE) is expected to improve from 19% in FY10 to 19.5% in FY12E.

Exhibit 24: Return ratios



Oil India's RoCE and RoE would increase marginally to 23% and 19.5%, respectively, in FY12E on account of higher investments in exploration activities and high liquid investments on its balance sheet

Source: Company, ICICIdirect.com Research

Valuations

We believe Oil India's large reserves base and new discoveries would create value for investors, going ahead. We expect Oil India to report strong earnings growth over FY10-12E on the back of an increase in APM gas prices and steady growth in crude oil and natural gas production. Oil India's revenues would increase at 10.6% CAGR over FY10-12E from Rs 8,072.8 crore in FY10 to Rs 9,875 crore in FY12E. The net profit will increase at 17.8% CAGR over FY10-12E from Rs 2,610.5 crore in FY10 to Rs 3,621.1 crore in FY12E.

Both Oil India and ONGC are trading at an enterprise value (EV) of US\$5.8 per barrel. However, Oil India is trading at a P/E of 13.2x FY10 EPS, an 8.3% discount to ONGC's P/E of 14.4x.

Exhibit 25: Comparison of Oil India with ONGC

	Oil India	ONGC
2P Reserves (mmbae)	974.2	10042.1
CMP (Rs per share)	1435.0	1303.0
EPS (Rs per share)	108.6	90.7
P/E ratio	13.2	14.4
EV (Rs Crore)	26000.0	262568.3
EV (US\$ per barrel)	5.8	5.8

Source: ICICIdirect.com Research

Oil India is trading at 10.3x FY11E and 9.5x FY12E EPS of Rs 138.7 and Rs 150.6, respectively. We are initiating coverage on the stock with an **ADD** rating and price target of Rs 1,526 based on 11x FY11E EPS.

Financial summary

P&L statement

	(Rs Crore)				
	FY08	FY09	FY10E	FY11E	FY12E
Revenue	6240.8	7414.3	8072.8	9127.5	9875.0
Growth (%)		18.8	8.9	13.1	8.2
Op. Expenditure	3605.0	3994.1	4197.2	4433.4	4802.5
EBITDA	2635.8	3420.2	3875.6	4694.1	5072.5
Growth (%)		29.8	13.3	21.1	8.1
Depreciation	442.8	748.0	763.8	709.7	802.9
EBIT	2193.1	2672.2	3111.8	3984.4	4269.6
Interest	34.4	8.7	3.7	3.4	3.4
Other Income	554.7	723.6	786.9	853.0	981.8
PBT	2713.4	3387.0	3895.1	4834.1	5248.0
Growth (%)		24.8	15.0	24.1	8.6
Tax	924.5	1225.3	1284.6	1498.6	1626.9
Reported PAT	1788.9	2161.7	2610.5	3335.5	3621.1
Growth (%)		20.8	20.8	27.8	8.6
Adjustments	0.0	0.0	0.0	0.0	0.0
Adj. Net Profit	1788.9	2161.7	2610.5	3335.5	3621.1
Growth (%)		20.8	20.8	27.8	8.6

Key ratios	(%)				
	FY08	FY09	FY10E	FY11E	FY12E
Raw material costs	1.0	1.2	1.6	1.3	1.4
Employees Cost	10.9	12.3	12.0	11.3	10.9
Statutory Levies	36.2	29.9	29.2	29.1	29.0
Other Expenditure	10.0	10.2	9.1	6.9	7.3
Effective Tax rate	34.1	36.2	33.0	31.0	31.0
Profitability ratios (%)					
EBITDA Margin	42.2	46.1	48.0	51.4	51.4
PAT Margin	28.7	29.2	32.3	36.5	36.7
Adj. PAT Margin	28.7	29.2	32.3	36.5	36.7
Per share data (Rs)					
Revenue per share	291.6	346.5	335.7	379.6	410.7
EV per share	1243.1	1154.0	1081.3	1024.8	994.4
Book Value	370.7	436.0	572.4	669.0	772.8
Cash per share	200.0	283.6	355.3	411.8	442.2
EPS	83.6	101.0	108.6	138.7	150.6
Cash EPS	104.3	136.0	140.3	168.2	184.0
DPS	27.5	30.5	34.0	36.0	40.0

Costs as % to revenue except tax rate

Balance sheet

	(Rs crore)				
	FY08	FY09	FY10E	FY11E	FY12E
Equity Capital	214.0	214.0	240.5	240.5	240.5
Preference Capital	0.0	0.0	0.0	0.0	0.0
Reserves & Surplus	7719.0	9117.0	13521.8	15844.6	18340.4
Shareholder's Fund	7933.0	9331.0	13762.3	16085.0	18580.8
Loan Funds	174.9	56.5	37.5	37.5	37.5
Deferred Tax Liability	865.5	899.8	1020.9	1020.9	1020.9
Well Abandonment Sinking Func	1.1	1.5	1.9	1.9	1.9
Source of Funds	8974.5	10288.8	14822.6	17145.3	19641.1
Net Block	702.9	1133.8	1074.3	1001.2	954.0
Capital Work in Progress	644.6	318.6	328.7	378.7	453.7
Producing Properties	2267.8	2521.5	2943.7	3392.2	4209.2
Pre-Producing Properties	448.1	562.3	598.4	1451.3	2598.6
Investments	488.7	488.7	859.5	859.5	859.5
Inventories	450.9	501.0	453.4	562.7	608.7
Debtors	611.0	404.7	659.7	625.2	676.4
Cash	4280.8	6070.0	8542.3	9901.1	10631.7
Loan & Advance, Other CA	833.9	1379.6	2613.6	2613.6	2613.6
Total Current assets	6176.6	8355.3	12268.9	13702.5	14530.4
Current Liabilities	1101.6	1463.7	1804.5	1900.5	2056.2
Provisions	652.5	1627.7	1464.8	1757.9	1926.5
Total CL and Provisions	1754.1	3091.4	3269.3	3658.5	3982.7
Net Working Capital	4422.5	5264.0	8999.6	10044.1	10547.7
Miscellaneous expense	0.0	0.0	18.4	18.4	18.4
Application of Funds	8974.5	10288.7	14822.6	17145.3	19641.1

Key ratios		(%)				
Return ratios	FY08	FY09	FY10E	FY11E	FY12E	
RoNW	22.6	23.2	19.0	20.7	19.5	
ROCE	27.0	28.5	22.6	24.7	23.0	
ROIC	57.3	80.5	63.7	68.1	56.1	
Financial health ratio						
Operating CF (Rs Cr)	2666.6	3128.1	1257.1	3346.8	3525.6	
FCF (Rs Cr)	1741.8	1907.3	84.3	1358.9	730.6	
Cap. Emp. (Rs Cr)	8974.5	10288.8	14822.6	17145.3	19641.1	
Debt to equity (x)	0.0	0.0	0.0	0.0	0.0	
Debt to cap. emp. (x)	0.0	0.0	0.0	0.0	0.0	
Interest Coverage (x)	63.8	305.7	852.6	1180.6	1265.1	
Debt to EBITDA (x)	0.1	0.0	0.0	0.0	0.0	
DuPont ratio analysis						
PAT/PBT	0.7	0.6	0.7	0.7	0.7	
PBT/EBIT	1.2	1.3	1.3	1.2	1.2	
EBIT/Sales	0.4	0.4	0.4	0.4	0.4	
Sales/ Total Asset	0.7	0.7	0.5	0.5	0.5	
Total Asset/ Net Worth	1.1	1.1	1.1	1.1	1.1	

Cash flow statement

	(Rs crore)				
	FY08	FY09	FY10E	FY11E	FY12E
Profit after Tax	1788.9	2161.7	2610.5	3335.5	3621.1
Less: Dividend Paid	688.5	763.6	956.5	1012.8	1125.3
Add: Depreciation	442.8	748.0	763.8	709.7	802.9
Add: Others	62.2	34.3	121.1	0.0	0.0
Cash Profit	1605.3	2180.4	2520.5	3032.4	3298.7
Increase/(Decrease) in CL	722.1	1337.3	177.9	389.2	324.2
(Increase)/Decrease in CA	339.2	-389.6	-1441.3	-74.8	-97.3
CF from Operating Activities	2666.6	3128.1	1257.1	3346.8	3525.6
Purchase of Assets	924.8	1220.8	1172.8	1987.9	2795.0
(Inc)/Dec in Investments	-81.1	0.0	-370.8	0.0	0.0
CF from Investing Activities	-1006.0	-1220.8	-1543.6	-1987.9	-2795.0
Inc/(Dec) in Loan Funds	-639.1	-118.1	-18.5	0.0	0.0
Inc/(Dec) in Sh. Cap. & Res.	-16.5	0.0	2777.3	0.0	0.0
CF from financing Activities	-655.5	-118.1	2758.7	0.0	0.0
Change in cash Eq.	1005.1	1789.2	2472.3	1358.9	730.6
Op. Cash and cash Eq.	3275.7	4280.8	6070.0	8542.3	9901.1
Cl. Cash and cash Eq.	4280.8	6070.0	8542.3	9901.1	10631.7

FCF Calculation

	(Rs crore)				
FCF Calculation	FY08	FY09	FY10E	FY11E	FY12E
EBITDA	2635.8	3420.2	3875.6	4694.1	5072.5
Less: Tax	924.5	1225.3	1284.6	1498.6	1626.9
NOPLAT	1711.4	2194.9	2591.1	3195.5	3445.6
Capex	924.8	1220.8	1172.8	1987.9	2795.0
Change in Working Capital	1061.3	947.7	-1263.4	314.4	227.0
FCF	1847.8	1921.8	154.9	1522.0	877.5

Working capital ratios

	FY08	FY09	FY10E	FY11E	FY12E
Fixed Asset Turnover	1.5	1.6	1.6	1.5	1.2
Inventory Turnover (Days)	26.4	24.7	20.5	22.5	22.5
Debtor (Days)	35.7	19.9	29.8	25.0	25.0
Current Liabilities (Days)	64.4	72.1	81.6	76.0	76.0
Current Ratio	3.5	2.7	3.8	3.7	3.6
Quick ratio	3.3	2.5	3.6	3.6	3.5

Valuation ratios

Valuation	FY08	FY09	FY10E	FY11E	FY12E
Market Capitalisation	30709.0	30709.0	34504.6	34504.6	34504.6
Enterprise Value (EV)	26603.1	24695.5	25999.8	24640.9	23910.3
PE	17.2	14.2	13.2	10.3	9.5
Price to Book Value	3.9	3.3	2.5	2.1	1.9
Price to Cash EPS	13.8	10.6	10.2	8.5	7.8
EV/EBITDA	10.1	7.2	6.7	5.2	4.7
Market Cap/Sales	4.9	4.1	4.3	3.8	3.5
EV/Sales	4.3	3.3	3.2	2.7	2.4

Glossary & conversion factors

1 barrel	= 5.8 mmbtu
1 bcm	= 1000 mmscm
1 bcm	= 2.74 mmscmd
1 bcm	= 6.29 mmboe
1 kl	= 6.293 barrels
1 metric tonne	= 7.205 bbls
1 mmt	= 1.145 bcm
1P	Proven
2P	Proven plus probable
3P	Proven plus probable and possible
APM	Administered Price Mechanism
bbls	barrels
bcm	billion cubic meter
boepd	barrels of oil equivalent per day
bopd	barrels of oil per day
EOR	Enhanced oil recovery
GHIIP	Gross hydrocarbon initially in place
kl	kilo Litre
mmbbls	million barrels
mmboe	million barrels of oil equivalent
mmbtu	million british thermal unit
mmscf	million standard cubic feet of gas
mmscfd	million standard cubic feet of gas per day
mmscmd	million standard cubic meter per day
mmt	million metric tonne
mscf	thousand standard cubic feet of gas
PSC	Production sharing contract

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 Add: Up to 10%;
 Reduce: Up to -10%
 Sell: -10% or more;

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