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Oil India

IPO Fact Sheet

Issue details

Issue opens	: September 07, 2009
Issue closes	: September 10, 2009
Issue size	: 2.64 crore shares
Reserved for employees	: 0.24 crore shares
Fresh issue to public	: 2.40 crore shares
Face value	: Rs10 each
Break-up of fresh issue to public:	
QIB's portion	: At least 1.44 crore shares
Retail portion	: Not less than 0.72 crore shares
Non-institutional portion	: Not less than 0.24 crore shares
Price band	**: Rs950-1,050**

Object of the issue

The total issue of 2.64 crore equity shares is aimed at raising Rs2,513 crore to Rs2,772 crore (depending on the price band of Rs950-1,050 per share). The objective of the issue is to fund its capital expenditure requirements for FY2010 and FY2011 towards exploration and appraisal activities, development activities in the producing fields, and purchase of capital equipment and contracts for facilities.

No	Object	Total estimated cost	Estimated deployment in FY2010	Estimated deployment in FY2011
1	Exploration and appraisal activities	2,828.0	1,300.2	1,527.8
2	Development activities in producing field	1,045.5	492.9	552.7
3	Purchase of capital equipment and facilities	686.3	417.0	269.3
4	Issue expenses	-	-	

Shareholding pattern

Oil India Ltd (OIL) has entered into a share purchase agreement dated December 27, 2007 with the President of India, Indian Oil Corporation Ltd (IOCL), Hindustan Petroleum Corporation Ltd (HPCL) and Bharat Petroleum Corporation Ltd (BPCL) for the transfer of OIL equity shares by the Ministry of Petroleum and Natural Gas (MoPNG, 2.14 equity shares) to IOCL (1.07 equity shares), HPCL (0.54 equity shares) and BPCL (0.54 equity shares). The transfer will be done at a issue price after the determination of the issue price. After the transfer and post-issue, the stake of the President of India in OIL is expected to come down to 78.4% from 98.1% currently.

Company background

OIL, a state-owned oil exploration company, is the second largest national oil and gas company in India in terms of total proved plus probable oil and natural gas reserves. It has proven and probable (2P) reserves of around 974.2 million barrels of oil equivalent (mboe). In FY2009, the company produced 10.4% of India's crude oil and 6.9% of its natural gas.

The majority of the company's oil and gas reserves are located onshore in the Upper Assam Basin in the states of Assam and Arunachal Pradesh with some portion of its natural gas reserves in Rajasthan. OIL is also present internationally through exploration of crude oil and natural gas in Egypt, Gabon, Iran, Libya, Nigeria, Timor Leste and Yemen. However, none of the international fields is operational as of now.

Upper Assam Basin—key producing basin

The Upper Assam Basin is located in the states of Assam and Arunachal Pradesh, and covers approximately 56,000

Shareholding pattern

Name of shareholder	Pre-issue but prior to transfer Shares (in cr)	%	Post-transfer but prior to issue Shares (in cr)	%	Post-transfer post-issue Shares (in cr)	%
President of India	21.00	98.1	18.86	88.1	18.86	78.4
Public (including employees)	0.40	1.9	0.40	1.9	3.05	12.7
IOCL		0.0	1.07	5.0	1.07	4.4
HPCL		0.0	0.54	2.5	0.54	2.2
BPCL		0.0	0.54	2.5	0.54	2.2
Total	**21.40**	**100.0**	**21.40**	**100.0**	**24.05**	**100.0**

square kilometre. Most of the company's reserves are from the Assam field. In FY2009, the Upper Assam Basin accounted for 99% of the total P2 oil reserves and ~93% of the total natural gas reserves. As of June 30, 2009, OIL has drilled 2,147 wells in 15 fields (including Dighoi field) in this basin under 17 petroleum mining leases (PMLs) covering approximately 4,351 square kilometre in aggregate.

Blocks under NELP

OIL has been awarded 27 exploration blocks under the New Exploration Policy (NELP). Out of these 27 blocks, the company has relinquished three blocks. In the remaining 24 blocks, OIL is operating in 12 blocks and has a participating interest in the other 12 blocks.

Particulars	No of blocks	Area (sq km)
Basin as an operator		
Rajasthan	6	15434
Krishna-Godavari basin	1	549
Assam-Arakan basin	5	5310
Total	**12**	**21293**
Basin with participating interest		
Onshore		
Assam	2	473
Nagaland	1	1060
West Bengal	1	3940
Offshore		
Mahanadi offshore (Orissa)	2	14041
Deep water		
Andaman offshore	1	11837
Cauvery offshore	1	12425
Krishan Godavari offshore	4	38399
Total	**12**	**82175**

Pipeline and downstream business

The company is also engaged in operating and maintaining crude oil and natural gas pipelines in India. It owns and operates, as a common courier for Oil and Natural Gas Corporation (ONGC), Bongaigaon Refinery and Petrochemcials Ltd (BRPL) and itself, a 1,157-kilometre cross-country crude oil pipeline. The pipeline has the capacity to transport over 44 million barrels of crude oil annually. Furthermore, with its strategy to diversify into downstream businesses (refining, processing, distribution, retailing etc) the company has acquired a 26% stake in Numaligarh Refinery Ltd (NRL), a 10% stake in BPCL and a 23% stake in DNP. Further, the company has entered into a memorandum of understanding (MOU) with HPCL, GAIL India and two private sector companies to establish a refining and petrochemical complex in Andhra Pradesh. In our view, these initiatives will help the company to transform itself into an integrated oil & gas company in the long term.

Key positives

Large oil reserves

OIL has strong 2P hydrocarbon reserves of 974.2mboe as on March 31, 2009. Out of these 2P reserves, oil reserves are 575.4 million barrels and natural gas reserves stand at 63.4 billion cubic metre. As per the management, the discovered reserves have the potential to produce hydrocarbons for the next 23 years.

Reserves (2P)

Particulars	FY2007	FY2008	FY2009	% CAGR
Crude (mmbbls)	539.7	587.8	575.4	3
Natural gas (bn cm)	46.0	54.9	63.4	17

OIL's reserve replacement ratio (RRR) has been quite robust with the crude oil 2P reserves growing at a compounded annual growth rate (CAGR) of 3% and the natural gas reserves growing by over 17% over FY2007-09.

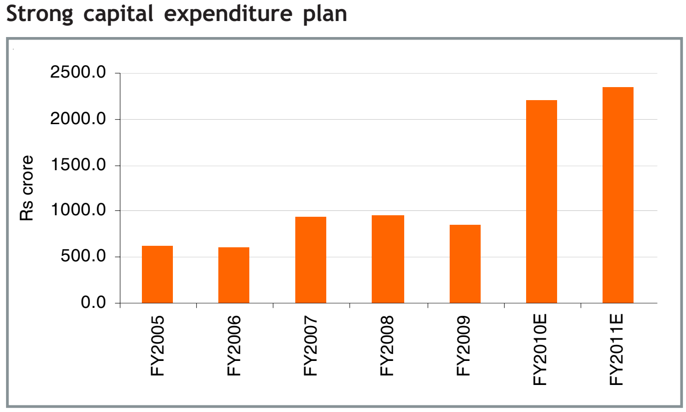
High success ratio and operational efficiency

OIL's performance on the operational front is superior compared with its public sector undertaking (PSU) peers. By adopting a systematic and scientific approach to exploration, the company has recorded a success ratio of 63.6% in the exploratory wells drilled as compared with ONGC's just ~36%. Further, OIL's cost of finding crude oil (USD1.1 per barrel) is lower than half the finding cost of ONGC (which is USD2.59 per barrel).

The company's success rate is comparable with that of the global exploration and production (E&P) majors. Due to this as well as its plan to make capital expenditure of Rs2,210 crore in FY2010 and of Rs2,349.8 crore in FY2011 for E&P activities, OIL's reserve accretion would be substantial going forward.

The company's capital expenditure will be focused to drill 17 and 22 exploratory wells in its nomination blocks in FY2010 and FY2011 respectively. In addition, the company

Strong capital expenditure plan



plans to drill 44 and 46 development wells in FYY2010 and FY2011 respectively. Furthermore, it has an installed onshore infrastructure built over nearly five decades, including 2D and 3D seismic crews with modern acquisition, processing and interpretation facilities. These should improve the probability of finding of its reserves.

Increasing prospects of lower under-recoveries bode well for growth

The earnings of the exploration PSU companies in India are largely dependent on the under-recoveries and the sharing mechanism among the exploration and oil marketing companies, along with oil bonds. The under-recoveries in the sector are highly sensitive to the price of crude oil and the exchange rate. As can be seen in the chart below, with the increase in the crude oil's price in the last two years, the under-recoveries have also risen sharply.

However, the price of crude oil has now declined sharply compared with the previous years. This has reduced the under-recoveries sharply in Q1FY2010, which bodes well for the future earnings growth of the PSU oil & gas companies. Furthermore, subsidy sharing by the upstream companies sharing in the under-recoveries has come down sharply. Besides, the Government of India indicated that the upstream companies would not share the burden of cooking oil (both liquefied petroleum gas and kerosene) subsidy. If implemented, this could turn out to be a huge positive for the upstream companies like OIL, as they will have to bear the subsidy burden only on the automobile fuels (petrol and diesel). The reduction in the price of crude oil coupled with the reduction in the discount sharing by the upstream companies bodes well for OIL's earnings growth.

Subsidy reduced substantially in Q1FY2010 (all figures in Rs per barrel unless specified)

Particulars	FY2007	FY2008	FY2009	Q1FY2010
Benchmark (USD/barrel)	66.30	84.58	84.83	58.42
Average Rs/USD exchange rate	45.29	40.26	45.99	48.79
Benchmark	3,002	3,405	3,901	2,850
Gross realised price	3,022	3,443	3,859	2,805
Subsidy/discount	872	1,010	1,202	90
Realised price after subsidy/discount	**2,150**	**2,434**	**2,657**	**2,716**
Royalty	446	518.	394	423
Cess	365	367	368	367
Total statutory levies	811	888	761	791
Net realised price	**1,339**	**1,549**	**1,896**	**1,925**

Source: Company data

Under-recoveries trends

Particulars	FY05	FY06	FY07	FY08	FY09	Q1FY10
Crude oil price (USD/bbl)	42.2	58.0	64.4	82.3	84.8	59.4
Gross under-recoveries (Rs cr)						
Petrol	200	2700	2000	7300	5200	1000
Diesel	2200	12600	18800	35300	52300	-500
PDS kerosene	9500	14400	17900	19100	28200	3200
Domestic LPG	8400	10200	10700	15600	17600	1600
Total	20100	40000	49400	77300	103300	5400
Sharing Mechanism (Rs cr)						
Oil bonds	-	11500	24100	35300	71300	-
Upstream	5900	14000	20500	25700	32900	600
OMCs	14200	14500	4800	16300	-1000	4900
Total	20100	40000	49400	77300	103300	5400
Sharing break-up (%)						
Oil bonds	-	29.0	49.0	46.0	69.0	-
Upstream	30.0	35.0	42.0	33.0	32.0	10.0
OMC	70.0	36.0	10.0	21.0	-1.0	90.0

Selective bidding strategy in NELP and focus to monetise natural gas resources

OIL plans to pursue a selective bidding strategy in future NELP rounds to acquire more geographically balanced exploration acreage across India and will target those blocks that offer the most opportunity. Historically, OIL has been successful in selective bidding. In the past seven rounds of NELP, the company has bid for 55 blocks. Interestingly, OIL has been successful in winning 27 blocks, indicating its superior success rate in winning bids. Furthermore, with around a 26% rise in the demand for natural gas in India in CY2008, the company plans to increase its focus on and capital resources to monetise its natural gas reserves and resources through both upstream and downstream investments.

Key concerns

Volatility in crude oil price and exchange rate may increase subsidy burden

There has been a lot of volatility in crude oil market in the last couple of years. Hence, any sharp increase in the price of crude oil may affect the subsidy burden for OIL and could affect its profitability significantly. Furthermore, volatility in the exchange rate can also affect its earnings significantly.

Lack of clarity on subsidy sharing mechanism

It is still not clear what share of the under-recovery will be shared by the upstream oil companies, both individually and as a group. The government has not announced the subsidy sharing formula for FY2010. Consequently, it is possible that the company's subsidy burden might increase in case oil prices rise in FY2010 and beyond. This could have a negative impact on the company's financial position and earnings.

PELs in respect of 15 of the 16 independently held blocks have expired

The company's PELs for 15 of the 16 independently held blocks have expired; there can be no assurances that OIL will be granted an extension of these PELs. In case the PELs are not extended, the company will not be able to conduct further exploration activities in these blocks and consequently may lose its nomination for these blocks.

Valuation

Based on enterprise value (EV)/2P multiple, OIL's valuations at the higher end of the price band stands at $4.0 per boe. This is at a steep discount to the average valuation of $7-8 per boe globally. The discount can only be partially explained by the overhang of the subsidy burden on oil PSUs in India. Even ONGC trades at EV/2P reserve multiple of $5.4 per boe, which is around 30% discount compared with its global peers. However, OIL is being offered at a considerable discount to even ONGC. Nonetheless, on EV/earnings before interest, tax, depreciation and amortisation basis, OIL's valuation at the upper end of the price band is not at a discount and is largely in line with that of its global peers.

Peer comparison (EV/2P reserves)

Company	EV/2P reserve (USD per boe)
ONGC	5.4
Cairn India	12.8
OIL (implied at upper price band of Rs1,050/share)	4.0
OIL (implied at lower price band of Rs950/share)	3.5

Peer comparison (EV/trailing EBITDA)

Company	EV/EBITDA*
British Petroleum	7.3
Santos	9.8
Noble Energy	9.3
CNOOC	7.1
Average	8.4
Oil India at Rs1,050/share	**8.4**
Oil India at Rs950/share	**7.4**

* Based on last 12-month EBITDA

Financials

Profi & Loss account Rs (cr)

Particulars	FY2005	FY2006	FY2007	FY2008	FY2009
Income					
Sales	3,842	5,471	5,285	5,965	7,140
Income from transportation	74	80	104	117	102
Other income	190	364	533	677	937
Other adjustments	12	111	87	37	-41
Total income	**4,118**	**6,025**	**6,010**	**6,795**	**8,138**
Expenditure					
Increase/(Decrease) in stock	-7	-11	2	-22	13
Production, transportation & other expenditure	2,110	2,705	3,044	3,565	3,961
Provision against debts, advances and other provisions/write-offs	68	112	193	133	371
Depletion	173	188	178	217	209
Depreciation	56	143	82	92	168
Interest & debt charges	17	16	14	34	9
Exchange loss/(Gain)	0	-1	1	4	-6
VRS compensation written off	10	30	-	-	-
Other adjustments	61	170	8	57	21
Total expenditure	**2,488**	**3,352**	**3,522**	**4,081**	**4,746**
Profit for the period/year	1,630	2,673	2,488	2,715	3,392
Prior period items	-7	2	-5	1	5
Profit before tax	**1,623**	**2,674**	**2,483**	**2,713**	**3,387**
Provision for taxation	561	984	843	924	1,225
Profit after tax	**1,062**	**1,690**	**1,640**	**1,789**	**2,162**

Balance Sheet Rs (cr)

Particulars	FY2005	FY2006	FY2007	FY2008	FY2009
Share capital	214	214	214	214	214
Reserves & Surplus	4,448	5,708	6,606	7,691	9,173
Net worth	4,662	5,922	6,820	7,905	9,387
Secured loan	95	155	709	105	3
Unsecured loan	186	140	105	70	54
Current liabilities	561	896	795	1,113	1,464
Provisions	345	260	237	611	1,587
Deferred tax liability (Net)	731	700	804	867	901
Well Abandonment Sinking Fund	0	1	1	1	1
Total shareholders' funds & liabilities	**6,580**	**8,074**	**9,471**	**10,672**	**13,397**
Fixed assets					
Gross block	1,885	2,095	2,189	2,323	2,972
Less: Accumulated depreciation	1,284	1,489	1,552	1,615	1,838
Net block	600	606	637	708	1,134
Capital work in progress	237	312	530	645	319
Producing properties					
Gross cost	3,227	3,556	3,844	4,304	4,766
Less: Depletion	1,458	1,641	1,818	2,036	2,245
Net cost	1,769	1,916	2,026	2,268	2,521
Pre-producing properties	130	226	389	448	562
Investments	182	430	408	489	489
Current assets, loans and advances					
Inventories	261	399	408	451	501
Sundry debtors	551	529	373	561	405
Cash and bank balances	1,864	3,102	3,276	4,281	6,070
Interest/Dividend accrued term deposits/Investments	60	109	145	215	352
Loans and advances	926	446	1,281	607	1,044
Total assets	**6,580**	**8,074**	**9,471**	**10,672**	**13,397**

The "views" expressed in this report are our views only and have been arrived at after analysis of the public offering details. This is not a recommendation under our "Stock Idea" category. It may/may not be included in the Stock Idea by our analysts at a later date.