

July 29, 2010

Oil India Ltd (OILIND)

Rs 1367

Rating matrix

Rating	:	Buy
Target	:	Rs 1526
Target Period	:	12 months
Potential Upside	:	12%

Key Financials

(Rs Crore)	FY09	FY10	FY11E	FY12E
Revenues	7414.3	8072.8	8871.5	10007.9
EBITDA	3420.2	3875.6	4517.4	5185.5
Net Profit	2161.7	2610.5	3242.4	3665.0

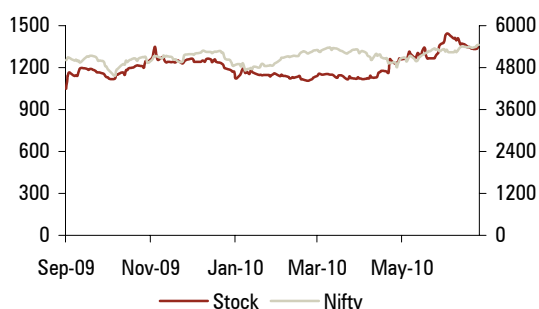
Valuation summary

	FY09	FY10E	FY11E	FY12E
EPS (Rs)	101.0	108.6	134.8	152.4
PE (x)	13.5	12.6	10.1	9.0
Target PE (x)	15.1	14.1	11.3	10.0
EV to EBITDA (x)	6.8	6.3	5.1	4.3
Price to book (x)	3.1	2.4	2.1	1.8
RoNW (%)	23.2	19.0	20.3	19.8
RoCE (%)	28.5	22.6	23.7	23.6

Stock data

Market Cap.	Rs 32869.5 Crore
Debt (FY09)	Rs 56.5 Crore
Cash + Liq. Invsts (FY09)	Rs 6070 Crore
EV	Rs 26856 Crore
52 week H/L	1443 / 1048
Equity capital	Rs 240 Crore
Face value	Rs 10
MF Holding (%)	3.9
FII Holding (%)	1.9

Price movement



Analyst's name

Mayur Matani
 mayur.matani@icicisecurities.com

WHAT'S CHANGED...

PRICE TARGET	Unchanged
EPS (FY11E)	Unchanged
EPS (FY12E)	Changed from Rs 150.4 to Rs 152.4
RATING.....	Add to Buy

One time NRL shutdown dents profitability...

Oil India declared its Q1FY11 results with revenues of Rs 1,574.2 crore, EBITDA of Rs 689.5 crore and PAT of Rs 501.1 crore. The revenues and profit were below our expectations mainly on account of the maintenance shutdown of Numaligarh Refinery (NRL) for 42 days, which reduced oil and gas sales volumes. NRL has come back to production now and production is expected to be ramped up to pre-shutdown levels in the current quarter. Net crude oil realisation declined 10.7% YoY to US\$49.68 per barrel on account of higher subsidy burden of Rs 729.7 crore in Q1FY11. The reforms by the government on June 25 in the pricing of petroleum products would reduce Oil India's subsidy burden and improve its profitability, going forward. The increase in APM gas prices would also add to its earnings in the coming quarters. We believe Oil India's large reserve base and new discoveries would create value for investors, going ahead. We recommend a **BUY** rating on the stock with a price target of Rs 1526 based on 10x FY12E EPS.

■ Highlights of the quarter

The crude oil and natural gas production declined by 9.5% YoY and 8.6%, respectively, to 5.75 mmmboe and 553 mmscm in Q1FY11 on maintenance shutdown of NRL. Oil India's net crude oil realisation declined 10.7% YoY from US\$55.7 per barrel in Q1FY10 to US\$49.7 per barrel in Q1FY11 on higher subsidy payment. Oil India made two discoveries in Assam during the last quarter and they are being tested for further development. Oil India has bagged nine blocks under NELP-VIII round.

Valuation

We believe Oil India's large reserve base and new discoveries would create value for investors, going ahead. The reforms by the Indian Government will drive the earnings of the company. Oil India is trading at 10.1x FY11E and 9x FY12E EPS of Rs 134.8 and Rs 152.4, respectively. We recommend a **BUY** rating on the stock with a price target of Rs 1526 based on 10x FY12E EPS.

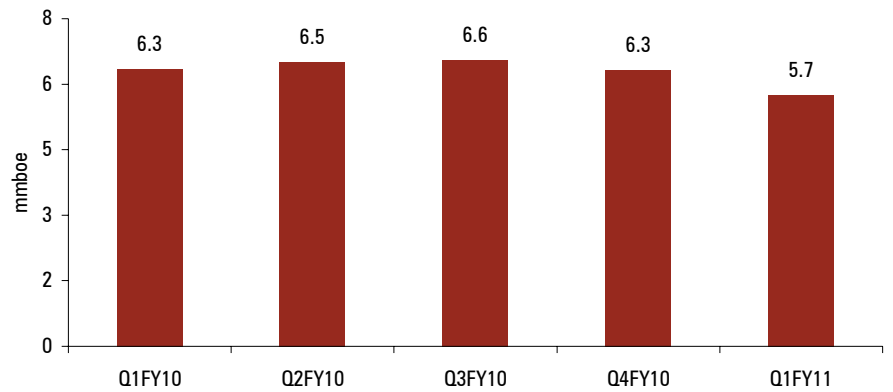
Exhibit 1: Performance Highlights

(Rs Crore)	Q1FY11A	Q1FY11E	Q1FY10	Q4FY10	YoY Gr.(%)	QoQ Gr.(%)
Revenues	1574.2	1828.6	1974.6	1870.7	-20.3	-15.9
EBITDA	689.5	869.3	1023.6	704.3	-32.6	-2.1
EBITDA Margin (%)	43.8%	47.5%	51.8%	37.6%	-800 bps	620 bps
Depreciation	197.9	176.5	121.8	323.5	62.5	-38.8
Interest	0.6	0.8	0.9	1.0	-28.9	-34.0
Reported PAT	501.1	624.6	739.7	431.0	-32.3	16.3
EPS (Rs)	20.8	26.0	30.8	17.9	-32.3	16.3

Source: Company, ICICIdirect.com Research

Crude oil production declined 9.5% YoY from 6.3 mmbœ in Q1FY10 to 5.7 mmbœ in Q1FY11 due to maintenance shutdown of NRL in the last quarter. Oil India's crude oil production has now resumed back to normal levels

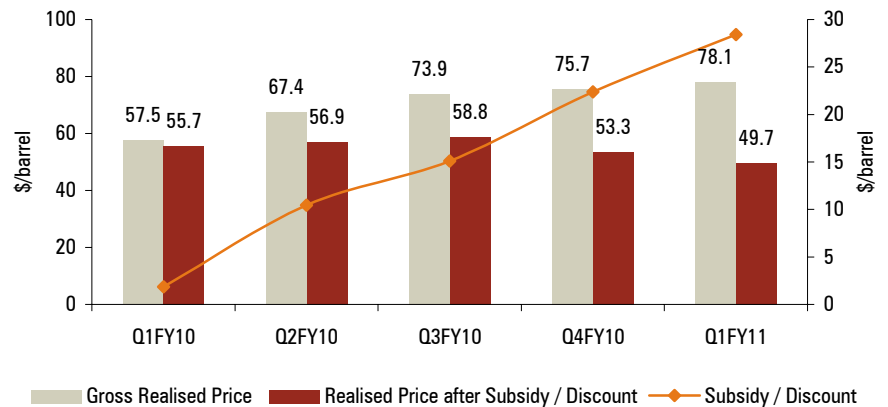
Exhibit 2: Crude oil production



Source: Company, ICICIdirect.com Research

Oil India's net crude oil realisation declined 10.7% YoY from US\$55.7 per barrel in Q1FY10 to US\$49.7 per barrel in Q1FY11 on higher subsidy payment. Subsidy payment for Q1FY11 increased to Rs 729.7 crore (US\$28.4 per barrel) from Rs 57.6 crore (US\$1.8 per barrel in Q1FY10). However, the subsidy burden is expected to decline in the coming quarters on account of reforms in the pricing of petroleum products by the Indian Government

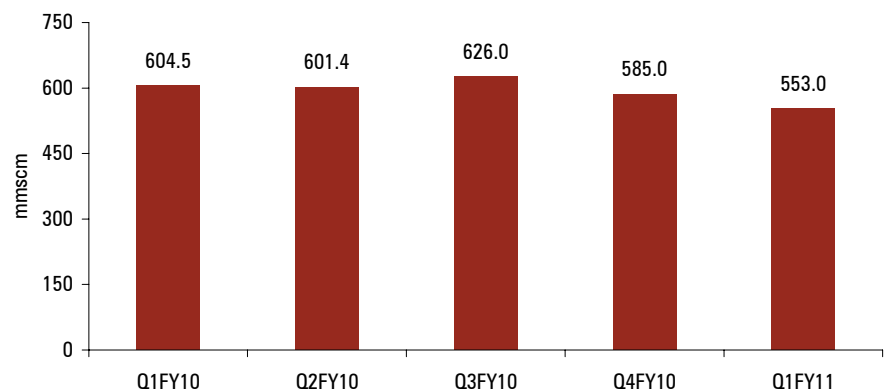
Exhibit 3: Crude oil realisation



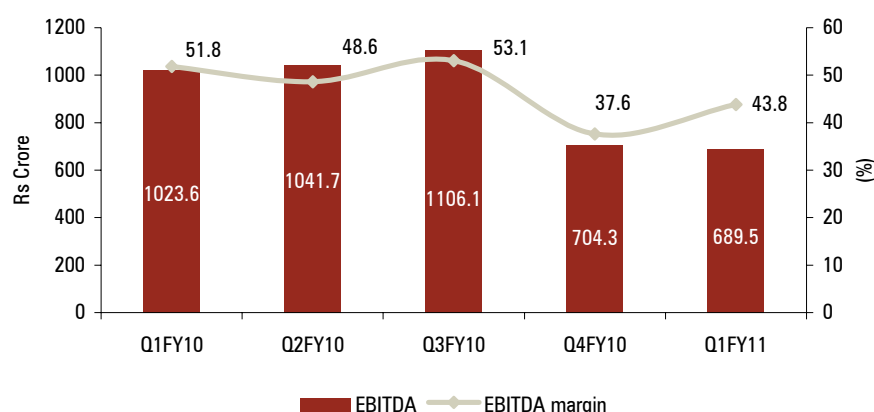
Source: Company, ICICIdirect.com Research

Natural gas production declined 8.6% YoY to 553 mmscm in Q1FY11. However, revenues from natural gas have increased due to the revision of APM gas prices to US\$4.2 per mmbtu

Exhibit 4: Gas production



Source: Company, ICICIdirect.com Research

Exhibit 5: EBITDA and EBITDA margin

EBITDA declined 32.6% YoY to Rs 689.5 crore in Q1FY11 on account of a decline in crude oil volumes and net realisation

Source: Company, ICICIdirect.com Research

Exhibit 6: Quarterly profit and loss account

(Rs Crore)	Q1FY11	Percent. (%)	Q1FY10	Percent. (%)
Revenues	1574.2	100.0	1974.6	100.0
(Increase) / Decrease in stock in trade	-11.8	-0.8	-14.6	-0.7
Consumption of raw materials	21.7	1.4	22.8	1.2
Employees Cost	249.9	15.9	247.7	12.5
Statutory Levies	478.6	30.4	582.3	29.5
Other Expenditure	146.3	9.3	112.8	5.7
Total Expenditure	884.7	56.2	951.0	48.2
EBITDA	689.5	43.8	1023.6	51.8
Depreciation	197.9	12.6	121.8	6.2
EBIT	491.6	31.2	901.8	45.7
Interest	0.6	0.0	0.9	0.0
Other Inc /Exp /Extra Ordinary Item	242.4	15.4	163.5	8.3
PBT	733.3	46.6	1064.5	53.9
Total Tax	232.2	14.8	324.8	16.4
PAT	501.1	31.8	739.7	37.5

Source: Company, ICICIdirect.com Research

Valuations

We believe Oil India's large reserve base and new discoveries would create value for investors, going ahead. The reforms by the Indian government in the pricing of petroleum products and revision of APM gas prices will drive the earnings of the company. Oil India is trading at 10.1x FY11E and 9x FY12E EPS of Rs 134.8 and Rs 152.4, respectively. We recommend a **BUY** rating on the stock with a price target of Rs 1526 based on 10x FY12E EPS.

RATING RATIONALE

ICICIdirect.com endeavours to provide objective opinions and recommendations. ICICIdirect.com assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Add, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: 20% or more;
 Buy: Between 10% and 20%;
 Add: Up to 10%;
 Reduce: Up to -10%
 Sell: -10% or more;

Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICIdirect.com Research Desk,
 ICICI Securities Limited,
 7th Floor, Akruiti Centre Point,
 MIDC Main Road, Marol Naka,
 Andheri (East)
 Mumbai – 400 093**

research@icicidirect.com

ANALYST CERTIFICATION

We I, *Mayur Matani MBA* research analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts aren't registered as research analysts by FINRA and might not be an associated person of the ICICI Securities Inc.

Disclosures:

ICICI Securities Limited (ICICI Securities) and its affiliates are a full-service, integrated investment banking, investment management and brokerage and financing group. We along with affiliates are leading underwriter of securities and participate in virtually all securities trading markets in India. We and our affiliates have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. Our research professionals provide important input into our investment banking and other business selection processes. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their dependent family members from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on reasonable basis, ICICI Securities, its subsidiaries and associated companies, their directors and employees ("ICICI Securities and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities is acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return of investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities and affiliates accept no liabilities for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities and its affiliates might have managed or co-managed a public offering for the subject company in the preceding twelve months. ICICI Securities and affiliates might have received compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of public offerings, corporate finance, investment banking or other advisory services in a merger or specific transaction. ICICI Securities and affiliates expect to receive compensation from the companies mentioned in the report within a period of three months following the date of publication of the research report for services in respect of public offerings, corporate finance, investment banking or other advisory services in a merger or specific transaction. It is confirmed that *Mayur Matani MBA* research analysts and the authors of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Our research professionals are paid in part based on the profitability of ICICI Securities, which include earnings from Investment Banking and other business.

ICICI Securities or its subsidiaries collectively do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

It is confirmed that *Mayur Matani MBA* research analysts and the authors of this report or any of their family members does not serve as an officer, director or advisory board member of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. ICICI Securities and affiliates may act upon or make use of information contained in the report prior to the publication thereof.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.