

Oil India

Bid for Gulfsands: Expensive, draining

Fairly priced bid rejected; anything higher seen costlier

With the Indian Oil Ministry stressing the importance of energy security and possessing overseas assets, the Indian Oil Corporation-Oil India JV recently made a bid for the Middle-East focused, UK-based Gulfsands Petroleum with an offer of ~USD570mn or 315 pence a share. Gulfsands, however, has rejected the bid citing it to be wholly inadequate. IOC-Oil India combine has for now disclosed no intent to raise its bid as there are no competitors., Gulfsands has announced that it is looking at an offer of at least 400 pence a share. Based on the reserves (2008-end) disclosed by the company, we believe the bid was a fair one, valuing Gulfsands' 2P reserves at an EV/boe of ~USD14, in-line with global peers. The 400 pence a share offer that Gulfsands wants would value its 2P reserves at nearly USD18/boe, making it expensive for the Indian JV.

Possible scenarios: An expensive deal on cards for Indian duo

In our view, the deal will be expensive in either case of the two most likely outcomes: (given that the IOC-Oil India combine pursues the bid) If IOC-Oil India JV decides to pay 400 pence/share, the USD18 EV/boe valuation will be at nearly 30% premium to peers. In this case, currently we can only assume that IOC-Oil India JV is expecting a high recovery from prospective resources. In the second scenario, there may be negotiations and the deal may take place around 350-355 pence/share. The deal would still be quite expensive with an EV/boe of USD15.7/bbl.

Maintain Sell, cautious on Oil India move; Downside to TP seen

We remain cautious on Oil India's acquisition strategy in terms of picking up the right assets at the right price. The company's share price has consistently moved towards our TP of INR1,075 since our initiation. However, with stronger crude prices, the FY11 under-recoveries estimates are also inching higher, implying a downside to our TP. Thus, we are maintaining our Sell rating on the stock.

Rating : Sell

Target Price : INR1,075

Downside : 3%

CMP : INR1,118 (as on 25 March 2010)

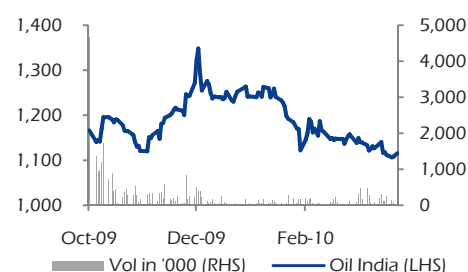
Key Data

Bloomberg /Reuters Code	OINL IN/ OILI.BO
Current /Dil. Shares O/S (mn)	240/240
Mkt Cap (INRbn/US\$mn)	269/5,842
Daily Vol. (3M NSE Avg.)	129,676
Face Value (INR)	10

1 US\$= INR45.6

Source: Bloomberg; * As on 25 March 2010

Price & Volume



Source: Bloomberg

Share Holding (%)	Q2FY10	Q3FY10
Promoter	78.4	78.4
Institutional Investors	5.8	6.1
Other Investors	10.7	12.0
General Public	5.04	3.5

Source: Bloomberg

Price performance (%)	3M	6M	12M
Sensex	1.1	4.6	85.4
BSE Oil & Gas	(2.5)	0.2	50.0
Oil India	(10.9)	NA	NA
ONGC	(11.8)	(8.7)	38.4

Source: Bloomberg

Acquisition details and scenarios

	IOC and Oil India's recent bid		Potential Negotiation		What Gulfsands wants?	
	(GBP)	(USD)	(GBP)	(USD)	(GBP)	(USD)
Offer price per share (per share)	3.15	4.73	3.55	5.33	4.00	6.00
Shares O/S (mn)	120.24	120.24	120.24	120.24	120.24	120.24
Equity Value (mn)	379	568	427	640	481	721
Net Debt (mn)	(6)	(8)	(6)	(8)	(6)	(8)
Enterprise Value (mn)	373	560	421	632	475	713
Reserves (mboe)						
1P		21.6		21.6		21.6
2P		40.3		40.3		40.3
3P		63.9		63.9		63.9
EV/boe (USD)						
1P		25.91		29.25		33.01
2P		13.89		15.68		17.69
3P		8.76		9.89		11.16

Source: Elara Securities Research

Key Financials

YE Mar (Rs mn)	Rev	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Fully DEPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY08	60,819	12.9	25,391	41.7	17,889	9.1	83.6	22.6	25.9	13.4	8.2
FY09	72,414	19.1	32,672	45.1	21,617	20.8	101.0	23.2	36.8	11.1	6.4
FY10E	81,699	12.8	40,438	49.5	28,404	31.4	125.0	20.1	30.5	8.9	5.2
FY11E	85,817	5.0	38,758	45.2	27,460	(3.3)	114.2	17.2	26.0	9.8	5.4
FY12E	91,667	6.8	41,521	45.3	29,688	8.1	123.5	16.4	24.8	9.1	5.0

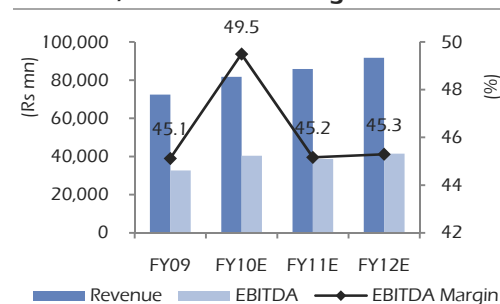
Source: Company, Elara Securities Estimate

Financials

Income Statement (INR mn)	FY09	FY10E	FY11E	FY12E
Revenue	72,414	81,699	85,817	91,667
EBITDA	32,672	40,438	38,758	41,521
Non operating Income	9,372	9,250	11,004	11,605
OPBITDA	42,044	49,688	49,762	53,126
Depreciation & Amortization	7,480	6,570	8,134	8,134
EBIT	34,563	43,118	41,628	44,992
Interest Expenses	87	35	22	10
PBT	34,476	43,082	41,606	44,982
Taxes	12,253	14,678	14,146	15,294
Adjusted PAT	22,223	28,404	27,460	29,688
Extra-ordinaries	606	-	-	-
Reported PAT	21,617	28,404	27,460	29,688
Balance Sheet (INR mn)	FY09	FY10E	FY11E	FY12E
Share Capital	2,140	2,405	2,405	2,405
Reserves	91,170	138,642	157,662	178,911
Borrowings	565	375	213	50
Deferred Tax (Net)	8,998	10,148	10,148	10,148
Other Liabilities	15	15	15	15
Total Liabilities	102,888	151,584	170,442	191,528
Gross Block	83,003	104,121	126,596	137,542
Accumulated Depreciation	40,828	45,800	52,036	58,716
Net Block	42,175	58,321	74,560	78,826
Capital Work In Progress	3,186	3,186	3,186	3,186
Investments	4,887	4,887	4,887	4,887
Net Working Capital	52,640	85,190	87,810	104,629
Other Assets	-	-	-	-
Total Assets	102,888	151,584	170,442	191,528
Cash Flow Statement (INR mn)	FY09	FY10E	FY11E	FY12E
Cash profit adjusted for non cash items	29,506	25,310	22,715	24,773
Working Capital Changes	195	(4,331)	1,036	298
Operating Cash Flow	29,701	20,980	23,750	25,071
Capex	8,496	21,118	22,474	10,947
Free Cash Flow	21,205	(138)	1,276	14,124
Financing Cash Flow	(8,783)	19,108	(8,624)	(8,612)
Investing Cash Flow	5,470	9,250	11,004	11,605
Net change in Cash	17,892	28,219	3,655	17,117
Ratio Analysis	FY09	FY10E	FY11E	FY12E
Income Statement Ratios (%)				
Revenue Growth	19.1	12.8	5.0	6.8
EBITDA Growth	28.7	23.8	(4.2)	7.1
PAT Growth	20.8	31.4	(3.3)	8.1
EBITDA Margin	45.1	49.5	45.2	45.3
Net Margin	29.9	34.8	32.0	32.4
Return & Liquidity Ratios (%)				
Net Debt/Equity (x)	(0.6)	(0.6)	(0.6)	(0.6)
ROE (%)	23.2	20.1	17.2	16.4
ROCE (%)	36.8	30.5	26.0	24.8
Per Share data & Valuation Ratios				
Diluted EPS (Rs/Share)	101.0	125.0	114.2	123.5
EPS Growth (%)	20.8	23.7	(8.6)	8.1
DPS (Rs/Share)	35.7	37.1	35.1	35.1
P/E (x)	11.1	8.9	9.8	9.1
EV/EBITDA (x)	6.4	5.2	5.4	5.0
EV/Sales (x)	2.9	2.6	2.4	2.3
Price/Book (x)	2.9	1.9	1.7	1.5
Dividend Yield (%)	3.2	3.3	3.1	3.1

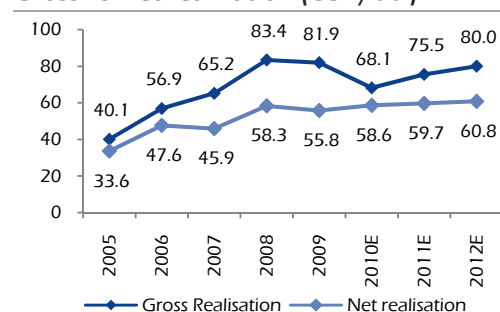
Source: Company, Elara Securities Estimate

Revenue, EBITDA and Margin trend



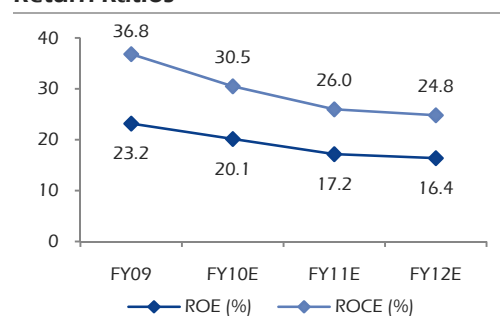
Source: Company Elara Securities Estimate

Gross vs Net realization (USD/bbl)



Source: Company Elara Securities Estimate

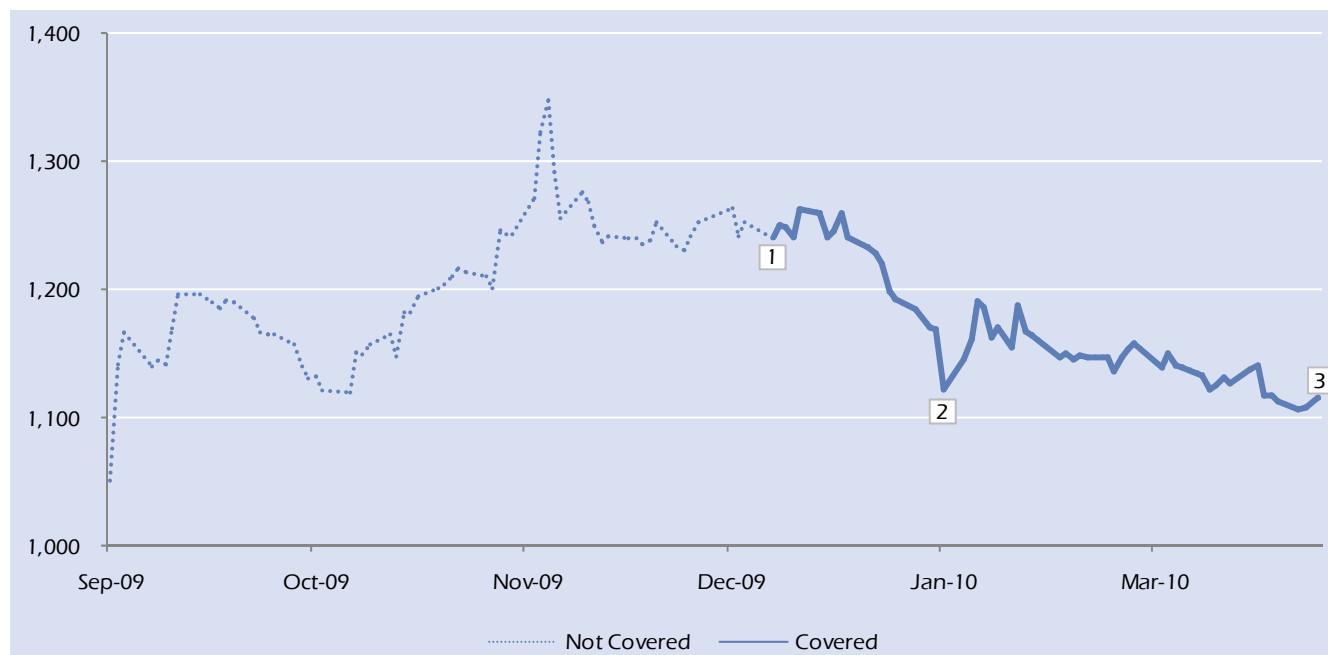
Return Ratios



Source: Company Elara Securities Estimate

We factor in healthy margins in our model

Coverage History



	Date	Rating	Target Price	Closing Price
1	04-Jan-10	Sell	INR 1,075	INR 1,240
2	29-Jan-10	Sell	INR 1,075	INR 1,170
3	25-Mar-10	Sell	INR 1,075	INR 1,118

Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

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