

Oil India Ltd

Oil India Ltd, with crude oil reserves of 575mn bbls (2P) and natural gas reserves of 63.4bcm (2P) is India's second largest national oil and gas company. Oil India currently produces about 68,511bbls of oil per day and about 6.6mmscmd of gas. Of the country's total leased production area, the company operates in about 13.5% area, while it has a 3.5% share in the total exploration leased area. Entire production of Oil India is from onshore blocks leading to significantly lower costs in relation to other major operators such as ONGC. Over the next five years, the company aims to double its gas production and increase crude oil production from new and existing fields. We believe that the issue is attractively valued even at the upper end of the price range and hence recommend a Subscribe rating to the IPO.

Portfolio of 16 producing assets

Oil India currently produces about 68,511bbls of oil per day and about 6.6mmscmd of gas from its 16 producing assets, majority of which lie in the states of Assam and Arunachal Pradesh. Although most of these assets are witnessing natural decline, Oil India has made efforts to arrest the decline through implementation of IOR/EOR techniques.

Exposure to 26 exploratory assets

Oil India has exposure to 26 exploratory assets in India, of which it is the operator in 12 blocks. These blocks spread over more than 110,000 sq kms. A majority of these assets lie in prospective areas of KG Basin, Krishna Cauvery Basin and Rajasthan basin. Furthermore, Oil India has exposure to 8 overseas fields, of which it is the operator in three blocks.

Lower costs and strong execution track record

Over the last three years Oil India has drilled 29 exploratory wells and made discoveries in 22 wells, a success ratio of 75.9%. Furthermore, the finding cost is at US\$1.1/bbl vis-à-vis US\$2.6/bbl for ONGC, while lifting cost is at US\$6.8/bbl against US\$6.9/bbl for ONGC. Lower costs have been on account of the fact that majority of the production and exploration has been in the onland regions. Additionally, the company has in-house facilities for drilling, seismic surveys, work-over activities, etc.

Robust cash flows to support capex plans

Through this IPO, Oil India would be raising Rs25.1-27.8bn, which will be primarily used to finance its exploration capex over the next couple of years. Furthermore, the company currently has Rs60.7bn worth of cash on the books and it generates about Rs30bn worth of cash flows every year. These cash flows will be utilized by the company to acquire oil equity abroad. The company is scouting for high profile producing and exploratory assets.

Attractively valued, Subscribe

Oil India has proved its expertise in the onland E&P activities through efficient cost structure and constant increase in production from matured fields. Further, with increasing focus on natural gas in the near term, production levels could increase substantially. With improving possibilities of a price hike for APM gas and favorable

SUBSCRIBE
Price band Rs950 - 1,050

change in subsidy sharing pattern, the sentiment towards PSU upstream companies have improved considerably. The IPO is attractively valued in terms of EV/BOE even at the higher price band. We recommend a Subscribe to the IPO.

Key risks

- ⊕ 15 out of the 16 independently held PELs have expired and bear probability of non-renewal. However, as per the management, since they have made a few discoveries, all blocks might not be relinquished.
- ⊕ The company has been primarily operating in onland regions. Higher costs and superior expertise required for offshore E&P activities could pose hindrance in efficient performance in offshore fields for Oil India.
- ⊕ Adverse change in subsidy sharing pattern and no hike in APM prices could be a dampener for earnings growth.
- ⊕ Earnings are highly sensitive to changes in exchange rate and crude oil prices.

Exploratory drilling plan of Oil India for next two years

Year	No of wells	Rs mn
FY10E	27	8,469
FY11E	46	12,285
Total	73	20,754

Source: DRHP

Objects of the issue

Rs mn	Total Cost	Deployment in		Amt deployed in FY10
		FY10E	FY11E	
Exploration and appraisal activities	28,280	13,002	15,278	2,492
Development activities in producing fields	10,456	4,929	5,527	1,642
Purchase of capital equipments & facilities	6,863	4,170	2,693	456
Total	45,598	22,101	23,498	4,590

Source: DRHP

Financials

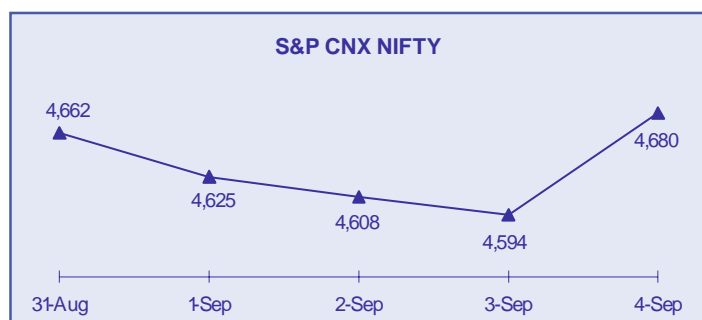
Y/e 31 Mar (Rs m)	FY09	FY10E	FY11E
Revenues	72,414	78,610	83,157
yoy growth (%)	19.1	8.6	5.8
Operating profit	28,960	33,800	36,205
OPM (%)	40.0	43.0	43.5
Reported PAT	22,309	25,054	26,427
yoy growth (%)	25.4	12.3	5.5
EPS (Rs)	104.2	104.2	109.9
Debt/Equity (x)	0.0	0.0	0.0
RoE (%)	25.8	21.6	17.9
RoCE (%)	35.4	30.4	25.6

Source: RHP, India Infoline Research

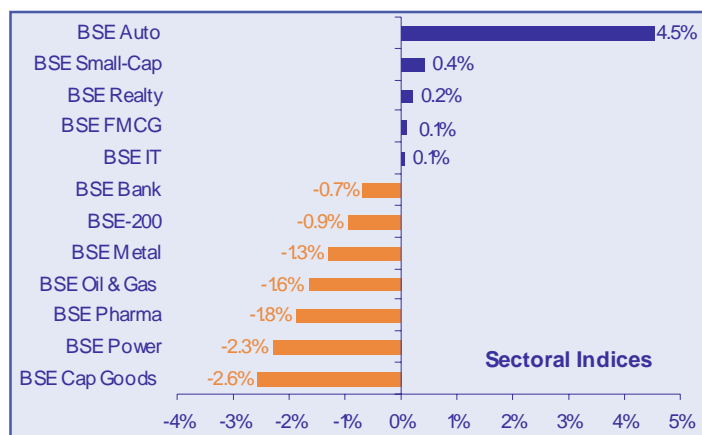
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Market review

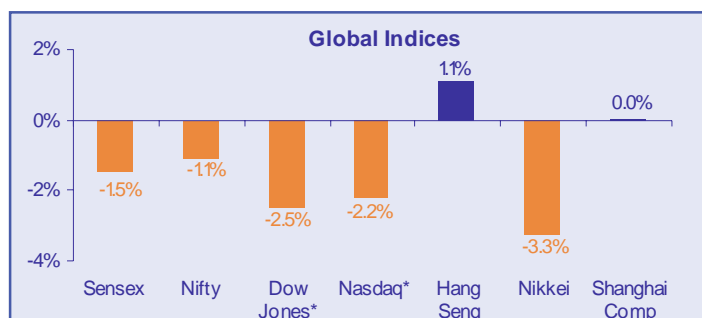
For most part of the week, barring Friday, the key indices struggled to find any decisive direction. Worries over the adverse fallout from poor monsoon, coupled with disappointing reports on manufacturing PMI and exports dampened the sentiment. Finally, the BSE 30-share Sensex closed lower by 1.5% and the NSE Nifty was down by 1.10%.



Auto stocks attracted investors' attention following a surge in August sales figures. Momentum was also seen in oil marketing companies after international crude oil prices slipped to US\$68/bbl. Profit booking was witnessed in capital goods stocks.



In the US, concerns that banks will post more losses overshadowed positive reports on manufacturing and housing. Chinese market recovered from its early week's massive losses to close flat. Investors welcomed positive manufacturing data for eurozone and China, while in the UK the data missed estimates.



*As per previous close

FII & MF activity

Date	(Rs cr)	
	FII Net Investment	MF Net Investment
27-Aug	1,343	17
28-Aug	1,093	66
31-Aug	(86)	(87)
1-Sep	(303)	94
2-Sep	(574)	-
Total 2009	39,654	5,640

BSE Sensex & BSE 200 Top Five Gainers

BSE Sensex			BSE 200		
Company	CMP (Rs)	% Chg	Company	CMP (Rs)	% Chg
Hero Honda	1,611	6.9	Amtek Auto	182	21.4
HUL	273	4.9	BPCL	559	13.3
Tata Motors	508	3.6	HPCL	387	13.2
Ambuja Cements	100	1.4	P&G	1,178	10.8
Grasim	2,679	0.8	Dabur	138	10.4

BSE Sensex & BSE 200 Top Five Losers

BSE Sensex			BSE 200		
Company	CMP (Rs)	% Chg	Company	CMP (Rs)	% Chg
Bharti Airtel	406	(6.6)	MLL	56	(7.6)
JP Assoc	218	(5.6)	Essar Ship	62	(7.5)
BHEL	2,213	(5.0)	GE Ship	273	(7.5)
RIL	1,981	(4.3)	TV-18	107	(6.4)
Ranbaxy Labs	322	(4.0)	Indiabulls Sec	51	(6.3)

Bulk deals

Date	Institution	Scrip name	B/S	Qty (lacs)	Price
31-Aug	Reliance Cap	J&K Bank	S	8.2	600
31-Aug	Citigroup Global	Northgate Tech	S	2.2	40
31-Aug	Blackstone Asia	Orbit Corp	B	4.3	189
31-Aug	Citigroup Global	PSL Ltd	B	2.6	158
2-Sep	Morgan Stanley	Gwalior Chem	S	1.5	98

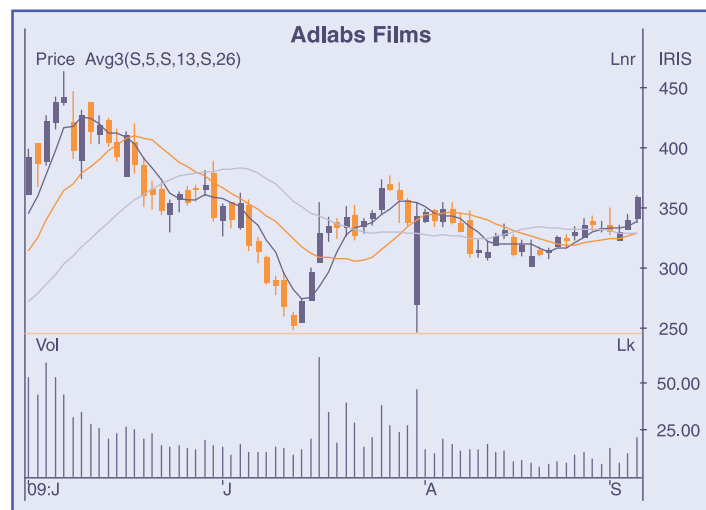
Book closures and record dates

Company	Date	Purpose
RCF	15-Sep-09	Dividend & AGM
Opto Circuit	23-Sep-09	Dividend & AGM

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Technical ideas

Adlabs **BUY**
CMP Rs355

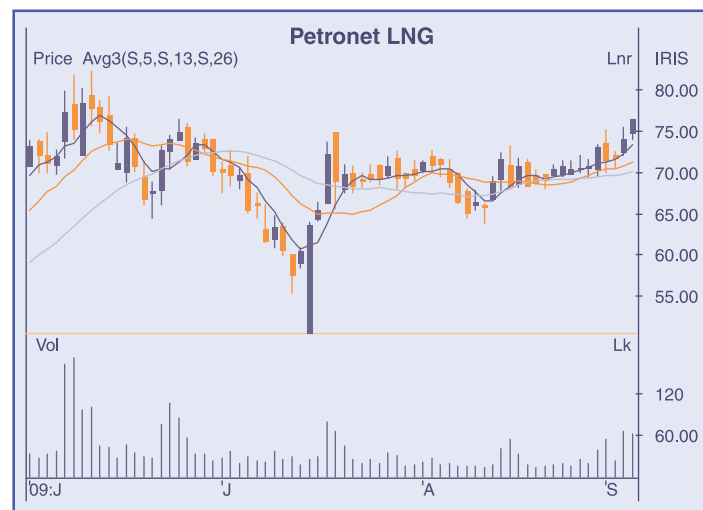


In June 2009 we saw a sharp decline in the stock, bringing it lower from a peak of Rs464 to a low of Rs248 in July 2009. A detailed study of Adlabs, shows a distinctive pattern emerging which signals a temporary bottom.

The overall base-like pattern carved out by Adlabs during the past 1 month appears to be maturing now. In fact, the last couple of trading weeks represents a high level bullish congestion area between Rs317-350.

We believe that the current bullish consolidation can lead to a potential upside up to the levels of Rs380 and above. Given the positive oscillators set-up, the stock could outperform in the medium-term as long as it sustains above its short-term moving averages placed around Rs338-340. We recommend traders to buy the stock in the range of Rs352-362 for a medium-term target of Rs394 and Rs400. It is advisable to maintain a stop loss of Rs336.

Petronet **BUY**
CMP Rs76



On the daily chart, the stock has given a breakout on the upside. The above mentioned pattern has taken place after a strong consolidation. The stock had been moving in a range between Rs62-75 since last six weeks. In our view, the stock has created a base around the levels of Rs69-70.

On Friday, the stock gave a close above its key resistance area (as shown in the chart) of Rs75-76. In addition, the gain in the stock price from a low of Rs70 in the current week has been on the back of increasing volumes. From the current levels, the stock is expected to move northwards. The momentum oscillators like the daily RSI have given a positive divergence, indicating that price would start moving up.

Based on the above technical observations, we recommend traders to buy the stock at current levels and on declines up to the levels of Rs73 with the support of Rs68 for a target of Rs88 and Rs90.

Positive open interest build-up

Company	Price % chg	OI % chg	Vol (lacs)
Federal Bank	2.6	555.9	7.5
JSW Steel	3.4	443.8	26.9
Indian Bank	1.2	415.9	6.5
Lanco Infra	2.9	401.1	19.9
Tata Power	2.9	272.8	3.6

Negative open interest build-up

Company	Price % chg	OI % chg	Vol (lacs)
Glaxo	(1.1)	1,417.6	0.0
Biocon	(0.2)	215.7	5.2
TV-18	(1.1)	207.3	12.0
Patel Eng	(0.2)	56.1	0.8
Moserbaer	(0.4)	28.6	21.5

Technically strong

Company	CMP (Rs)	10 days Moving Average (Rs)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
Sun TV	275	272	8.2	2.4
Andhra Bank	92	89	10.9	3.4
M&M	867	824	28.3	12.3
Chambal Fert	55	51	130.7	59.3
Pantaloon	314	309	8.2	4.5

Technically weak

Company	CMP (Rs)	10 days Moving Average (Rs)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
Tata Comm	496	504	2.6	4.6
Ranbaxy	322	327	16.2	25.4
BEL	1,400	1,424	0.5	1.1
Nestle	2,159	2,207	0.1	0.2
EIH Ltd	114	116	0.3	2.2

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Mutual fund round-up

India Infoline picks

Mutual Funds	Assets (Rs Cr)	NAV (Rs)	Absolute return (%) as on September 03, 2009							
			1wk	1mth	3mth	6mth	1yr	2yr	3yr	5yr
Birla SL Tax Relief '96 (D)	896	73.5	(2.0)	(1.7)	5.5	99.4	6.9	(6.6)	27.9	138.6
Franklin India Bluechip (G)	2,382	160.9	(2.5)	(0.9)	7.2	78.8	13.9	7.3	41.5	214.2
HDFC Top 200	4,475	156.2	(2.2)	(0.5)	8.2	93.8	18.0	22.6	60.2	285.4
ICICI Pru Dynamic Plan (G)	1,494	77.8	(1.1)	2.6	10.0	72.0	7.2	6.5	44.0	303.9
Kotak Opportunities Fund (G)	1,079	36.9	(1.8)	(0.1)	4.5	79.7	4.6	9.8	49.5	268.3

Fund this week: Kotak Opportunities Fund

Fund snapshot		Asset allocation (%)	
Fund Manager	Anurag Jain, K Sanghvi	Equity	93.6
Latest NAV	Rs36.9	Debt	1.1
NAV 52 high/low	Rs37/20	Cash/call	5.3
Latest AUM	Rs1,079	Top 5 holdings (%)	
Type	Open-ended	ONGC Ltd	4.4
Class	Equity - Diversified	Reliance Inds.	4.3
Options	Growth & dividend	Bharti Airtel Ltd	2.8
Min investment	Rs5,000	JP Associated Ltd	2.6
Entry load	Nil	ICICI Bank Ltd	2.5
Exit load	1%, < 1 yr	Top 3 sectors (%)	
Benchmark	CNX 500	Oil & Gas	15.1
No. of stocks	62	Housing & Construction	13.6
Expense ratio	2.2%	Banks	10.8

NFO update

Fund Name	Close	Type	Class
ICICI Pru. R.I.G.H.T. Fund	9-Sep	CE	Equity - ELSS
ICICI Pru FMP - Sr 49 - 3Y Plan A	22-Sep	CE	Debt - FMP
IDFC FMP 15M Sr 3	23-Sep	CE	Debt - FMP

Dividend update

Mutual Fund	Dividend %	Record date	Class
Religare Contra Fund	12.0	6-Sep	Equity - Div
Kotak Opportunities Fund	10.0	8-Sep	Equity - Div
UTI Leadership Equity	10.0	8-Sep	Equity - Div

Commodity, debt and currency graphs



* As per previous close

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