Prabhudas Lilladher

Company Report
Industry : Oil & Gas

Oil India

Black Gold

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Contents

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Company Report
November 26, 2009

Oil India

Rating	BUY
Price	Rs1,244
Target Price	Rs1,442
Implied Upside	15.9%
Sensex	17,199

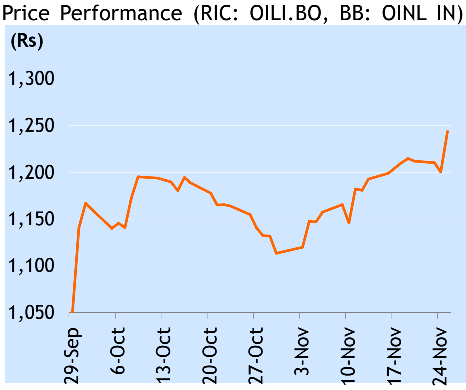
(Prices as on November 25, 2009)

Trading Data	
Market Cap. (Rs bn)	299.1
Shares o/s (m)	240.5
Free Float	21.6%
3M Avg. Daily Vol ('000)	–
3M Avg. Daily Value (Rs m)	–

Major Shareholders	
Government	78.4%
Foreign	3.8%
Domestic Inst.	2.1%
Public & Others	15.7%

Stock Performance	1M	6M	12M
Absolute	7.4	NA	NA
Relative	4.7	NA	NA

Price Performance (RIC: OILI.BO, BB: OINL IN)



Source: Bloomberg, PL Research

- **Crude, natural gas volumes on an upswing:** Crude production witnessed a sizable jump of 11.5% YoY to 3.5mmt (3.1mmt) during FY09; however, natural gas volumes declined marginally. With aggressive capex and higher recovery rates the crude volumes are anticipated to jump by about 5-7% YoY. However, natural gas volumes are expected to take a giant leap from current about 6.5mmscmd to 11.0-12.0mmscmd by 2012.
- **Gas price revision on cards, lower subsidies:** Petroleum ministry has suggested APM natural gas price hike from current Rs3,200/scm to Rs4,200/scm. The APM gas price will be aligned with the market prices in the future. This will boost the earnings for Oil India (OIL). Upstream subsidy burden for FY10 is expected to be restricted only towards petrol and diesel. This move by the government will benefit upstream companies by reducing their subsidy discounts.
- **Aggressive capex to lead to faster development:** OIL's exploratory success is commendable at about 70% as against global average of about 30-35%. Higher exploratory success resulted in faster reserve replacement for O+OEG, which stood at 1.0 during FY09 and about 2.0+ in earlier couple of years. Furthermore, company's aggressive capex plan of over Rs110bn over the next three years will enhance the O+OEG production as well as reserves.
- **Valuation:** OIL reported a commendable crude oil volume growth of 11.5% YoY during FY09. We believe that the aggressive capex of over Rs110bn planned for the next three years will keep up the momentum. Conversely, Petroleum ministry's proposal of increasing APM gas prices will enhance earnings. OIL's payout ratio is about 30% which translates into a dividend yield of about 3-4%. We believe that the sector dynamics are favorable for the upstream companies. OIL, with its volume growth, is expected to benefit from the favourable sector dynamics and hence, we remain positive on its growth prospects. The stock is currently available at 10.3x P/E and 2.1x P/BV on FY11E earnings. We initiate with a **'BUY'** at a price target of Rs1,442 (12x FY11E EPS of Rs120.2).

Key Financials (Y/e March)	FY09	FY10E	FY11E	FY12E
Revenue (Rs m)	72,007	76,803	85,773	99,475
Growth (%)	*17.7*	*6.7*	*11.7*	*16.0*
EBITDA (Rs m)	32,112	34,821	40,221	48,333
PAT (Rs m)	22,309	25,067	28,899	34,105
EPS (Rs)	92.8	104.3	120.2	141.8
Growth (%)	*25.4*	*12.4*	*15.3*	*18.0*
Net DPS (Rs)	27.1	32.0	36.5	43.5

Source: Company Data; PL Research

Profitability & Valuation	FY09	FY10E	FY11E	FY12E
EBITDA margin (%)	44.6	45.3	46.9	48.6
RoE (%)	*25.0*	*21.6*	*20.8*	*24.0*
RoCE (%)	*22.4*	*20.0*	*19.5*	*22.6*
EV / sales (x)	3.3	2.7	2.4	2.1
EV / EBITDA (x)	7.4	5.9	5.1	4.3
PE (x)	13.4	11.9	10.3	8.8
P / BV (x)	3.2	2.2	2.1	2.1
Net dividend yield (%)	*2.2*	*2.6*	*2.9*	*3.5*

Source: Company Data; PL Research

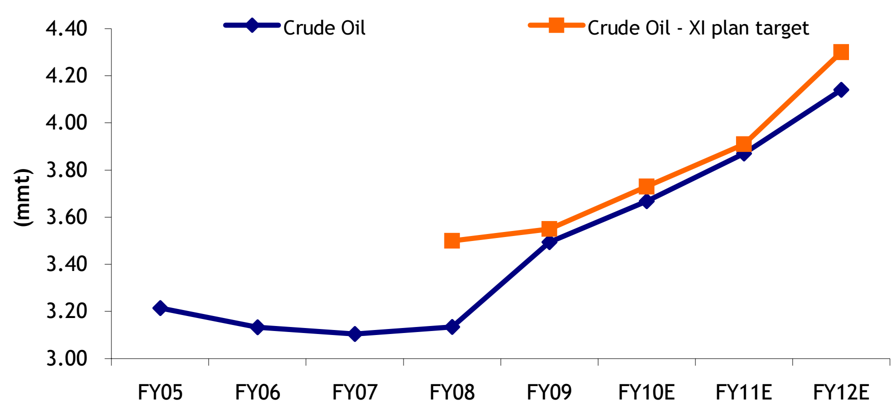
Investment Highlights

Expect increase in volumes

Oil India's (OIL's) operations are concentrated in North-East India, particularly in Assam and Arunachal Pradesh. From FY05 till FY08, the crude oil production volumes had been stable at about 22.5-23.0 million mt (mmt). While during FY09, OIL witnessed highest ever crude oil production with a sizable jump of 11.5% YoY, from 22.4mmt to 25.0mmt. Various initiatives like infill drilling, IOR/EOR measures, enhanced water injection etc. aided the improvement in production simultaneously arresting the production decline.

With this rise in crude oil production, the company is coming closer in achieving the XI Five Year plan target set for OIL's crude production.

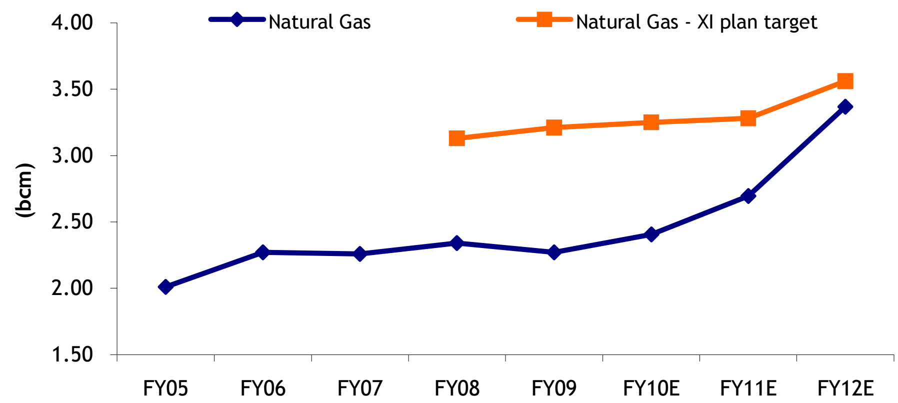
Crude oil production and XI plan target



Source: Company Data, Working Group Committee Report, PL Research

Natural gas could not replicate the performance of crude oil due to the inability of consumers to uplift gas, even though the production potential was enhanced during the year. Natural gas production, thus, declined by 3.0% YoY to 2.27bcm (2.34bcm), implying a daily average production of 6.22mmscmd (6.39mmscmd). However, the company achieved highest ever daily gas production rate of 6.43mmscmd during the year in the North-East region. Simultaneously, Rajasthan production was also enhanced to 0.93mmscmd.

Natural gas production and XI plan target



Source: Company Data, Working Group Committee Report, PL Research

Currently, OIL is falling short of achieving the target set for XI Five Year plan for Natural gas production. However, we believe that with renewed interest of the company to enhance production from non-associated gas fields in the North-East region, the company will come closer to its target by FY12. The gas production, thus, is anticipated to almost double from the current level of about 6.5mmscmd to about 11.0-12.0mmscmd by 2012. The company has already committed gas supplies of 1.0mmscmd to Numaligarh Refinery during FY10 and 1.4mmscmd to Brahmaputra Cracker and Polymer from FY12.

Gas price revision, new subsidy sharing formula to enhance earnings

Recently, the Ministry of Petroleum and Natural Gas (MoPNG) proposed to hike APM gas price. Earlier in 2005, Cabinet Committee on Economic Affairs (CCEA) decided to hike APM gas price according to the tariff commission recommendations. Concurrently, it approved Rs3,200/'000scm (US$1.79/mmbtu) APM price for gas producers (ONGC and OIL). In May 2007, the tariff commission recommended producer price of Rs4,040/'000scm for OIL, with further linkage to WPI-based formula. However, the same has not been implemented as yet.

However, the recent development suggests APM natural gas price hike by over 35%, from Rs3,200/'000scm to Rs4,200/'000scm. We believe that such a price hike would improve the earnings for OIL. We have accounted about 6% and 11% natural gas price hike for OIL for FY10 and FY11, respectively. However, if we go by considering Rs4,200/'000scm price for natural gas, then the earnings will increase by 2.4% and 0.8% for FY10 and FY11, respectively.

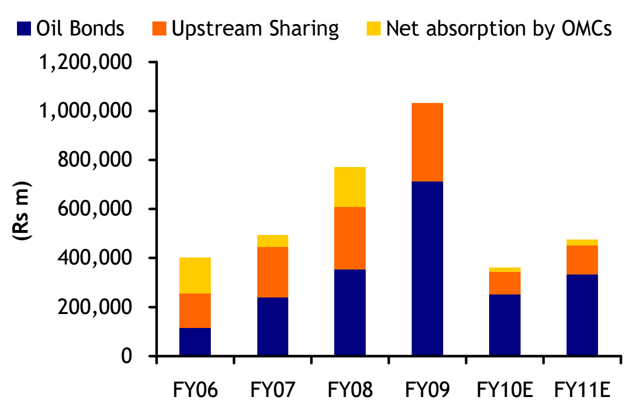
Different natural gas producer prices in India

APM Gas	US$/mmbtu	
Producer price payable to ONGC & OIL	2.0*	(Rs3,200/'000 scm)
For small consumers, City Gas Distribution	2.4*	(Rs3,840/'000 scm)
Non-APM Gas		
Ravva Main	3.5	
Ravva Satellite	4.3	
Panna-Mukta & Tapti (PMT)	4.6-5.7	
Laxmi, Gouri fields	4.8	
RIL KG D6	4.2	
Imported LNG	5.5-8.5	

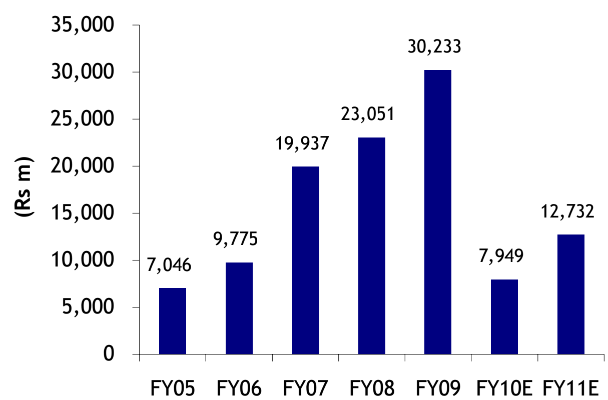
Source: Industry, PL Research *Note: Exchange rate Rs 45/US$*

Subsidy sharing formula for FY10 is expected to undergo a sea change, with upstream burden being restricted only towards the auto fuels (petrol and diesel). Accordingly, we anticipate the upstream burden to be limited to about 22-25% of the total under-recoveries. The under-recoveries on cooking fuels are anticipated to be much higher and will be compensated through issuance of oil bonds. Furthermore, the petroleum ministry also indicated that part of the auto fuel under-recovery may be absorbed by the oil marketing companies (OMCs). If this happens, it'll be an added positive for the upstream companies, reducing their subsidy burden and improving the bottom-line.

Under-recoveries



Oil's subsidy sharing



Source:

Focus on new discoveries

To arrest the decline in crude oil production, OIL is aggressively focusing on exploring new prospects in both the productive and new fields. This has yielded high exploratory success over the past few years. The success ratio of the company's exploratory well was 50% during FY09, while it averaged to about 70% over the past three years. This is a commendable performance when compared to global benchmark of about 30-35% (ONGC's success ratio is about 36%). OIL made four new oil and gas discoveries during FY09 in its nominated blocks.

Exploratory and development wells progress

	FY07	FY08	FY09	Q1FY10
Independent - Seismic Surveys Conducted				
2-D (line km)	410	143	242	103
3-D (sq. km)	923	918	1,107	138
Exploratory Wells Drilled	**6**	**11**	**12**	**-**
Successful	5	9	8	-
Dry	1	2	4	-
Success ratio	80.0	77.8	50.0	
Development Wells Drilled	**23**	**30**	**28**	**6**
Successful	23	30	28	6
Dry	-	-	-	-

Source: RHP, Company Data, PL Research

Reserve replacement remained healthy on the back of high exploratory success. Excluding FY09, when the reserve replacement ratio for crude was 0.6, the ratio remained well over 1.0 over the past 2-3 years. Natural gas reserves witnessed much stronger reserve replacement, with ratio of 1.9 during FY09 and average being well over 2.0 over past 2-3 years. The combined O+OEG reserve replacement ratio for FY09 was 1.1, while average for the past 2-3 years remained above 2.0.

Oil and Gas reserves

	Proved (1P)			Proved & Probable (2P)			Proved, Probable & Possible (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	1,030.9	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**	**1,031.5**	**998.6**
PSC									
Kharsang field	0.0	2.1	0.0	0.0	4.6	0.0	0.0	7.7	0.0
Total	**283.1**	**295.7**	**284.9**	**539.7**	**587.8**	**575.4**	**999.7**	**1,039.2**	**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	**28.6**	**37.1**	**39.2**	**46.0**	**54.9**	**63.4**	**74.9**	**75.0**	**86.4**
O+OEG									
Total	**463.3**	**529.0**	**531.4**	**829.3**	**933.3**	**974.2**	**1,470.9**	**1,510.9**	**1,541.9**

Source: RHP, Company Data, PL Research

No. of years reserves

	Crude Oil	Natural gas	O+OEG
No. of years of 1P reserves	11.4	17.3	13.5
No. of years of 2P reserves	23.1	27.9	24.7

Source: RHP, Company Data, PL Research

At the current production rate, the company's oil and gas reserves (2P) can last for well over 20 years. However, the company, with its aggressive capex plans, is trying to extend its reserve potential. Conversely, higher exploratory success and reserve replacement has fostered the commitment of the company towards its E&P activities.

Aggressive capex plans

During FY09, the company's capex stood at about Rs15bn. Apart from improving the production facilities, the focus was primarily on the exploratory and development activity. The company is expanding its domestic footprint by bidding for NELP blocks and also by acquiring overseas assets.

Capex Plans

	FY10	FY11	FY12	Total
Domestic				
Exploration and appraisal activities	13,002	15,278	19,120	47,400
Development activities in producing fields	4,929	5,527	9,888	20,344
Purchase of capital equipments & facilities	4,170	2,693	3,423	10,286
Total	**22,101**	**23,498**	**32,431**	**78,030**
Overseas				
Overseas projects	2,504	1,903	3,878	8,285
Acquisition & diversifiaction	1,673	22,563	270	24,506
Total	**4,177**	**24,466**	**4,148**	**32,791**
Grand total	**26,278**	**47,964**	**36,579**	**110,821**

Source: Company Data, PL Research

The company had about Rs65bn cash and investments on its books by the end of FY09. The cash position has been further strengthened by an additional cash of about Rs28bn raised through the recent IPO. Hence, the company is well positioned to fund its capex plans for the next 2-3 years. Being almost a zero debt company, OIL has further scope for leveraging in case need arises.

Investment concerns

Ad-hoc subsidy sharing mechanism

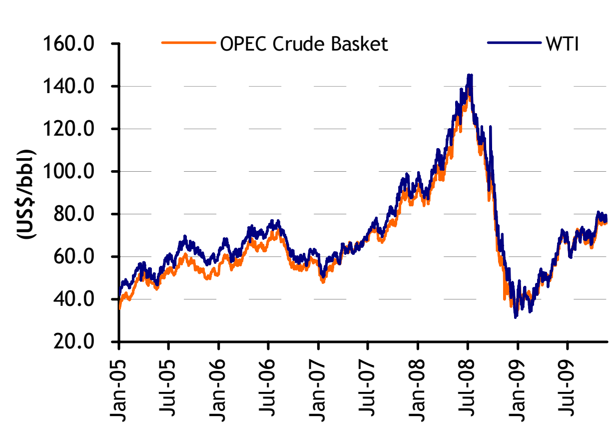
Public sector upstream and downstream companies are at the mercy of the government policy over the under-recovery sharing formula. Although the defined formula suggests sharing of under-recoveries in one-third proportion by the upstream companies, downstream companies and the government, the government still does not adhere to the formula. When the under-recoveries on petroleum products skyrocketed to over Rs1.03tn in FY09 (due to high oil prices), the government absorbed most of the burden. The upstream companies shared 30% of the total under-recoveries, while the government took care of the rest 70% and issued oil bonds to the OMCs. In this exceptional case, the OMCs were kept out of the gambit of any under-recovery absorption.

Since oil prices mellowed down from their peak of about US$147/bbl last year, the under-recoveries for FY10 are anticipated to be much lesser than FY09. Keeping this in mind, the government has now devised a new formula, upstream sharing the under-recoveries on auto fuels (petrol and diesel) and government sharing the under-recoveries on cooking fuels (domestic PLG and PDS kerosene). However, the implementation of this new formula still remains a concern. Any unfavorable tweaking may end up in higher subsidy burden for OIL.

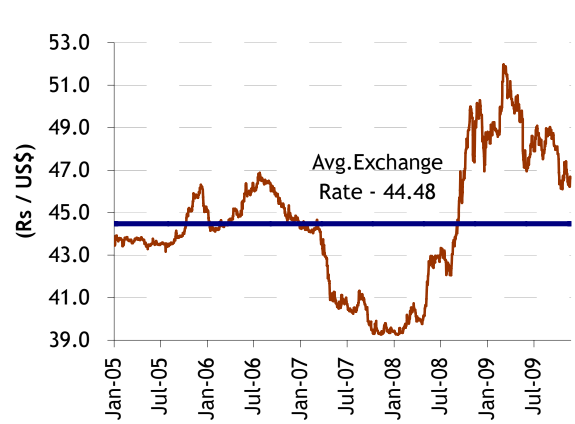
Rupee appreciation and Crude price fluctuation

As crude oil prices for domestic oil producers are dollar denominated, rupee appreciation does have a serious impact on the financials of the companies. Although rupee remained weak during H1FY10, we have witnessed rupee appreciation since October 2009. Thus, rupee appreciation will impact the revenues of the company, further impacting the profitability.

WTI and OPEC crude basket prices



Rupee-dollar exchange rate



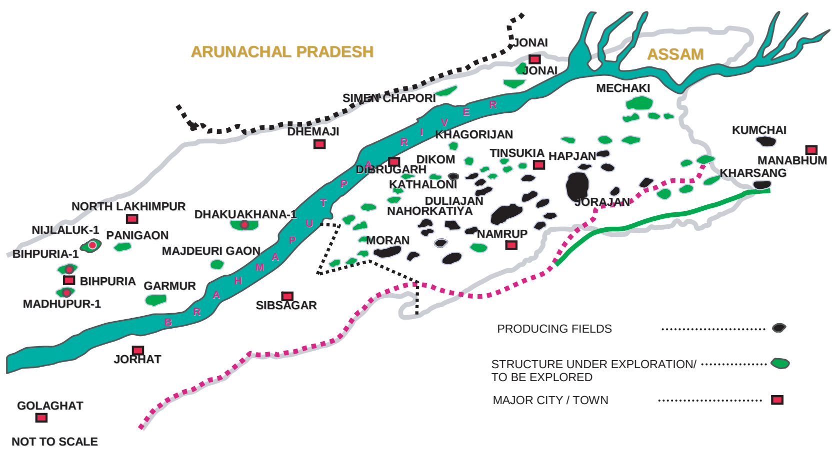
Source: Bloomberg, PL Research

The recent spike in crude prices is not backed by strengthening demand-supply fundamentals. It is primarily on the back of weakening dollar and investors finding shelter under commodities, including crude oil. Hence, the crude prices may face pressure, going forward. Any downward spiral in crude prices will affect the company's profitability.

Concentration in North-East region

Oil's current reserves and producing properties are located in Assam and Arunachal Pradesh. Over 90% of O+OEG production is derived from these assets which are operational since past couple of decades. Any sudden decline can impact the volumes. Also, Petroleum Exploration Licenses (PELs) of 15 of the 16 independently held blocks have expired. Oil has sought extensions of the PELs from the Government of India. If the company fails to obtain these extensions, their business will be affected adversely.

Producing Fields - Assam & Arunachal Pradesh



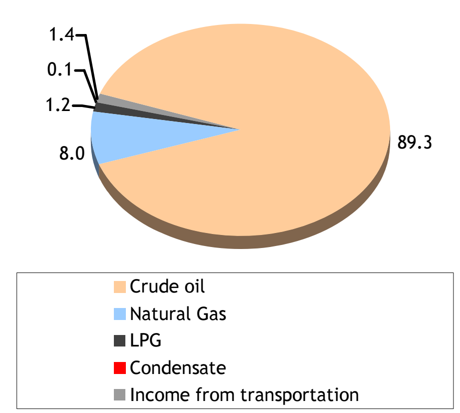
Source: RHP

Financial Analysis

OIL delivered a healthy performance during FY09, backed by higher oil prices along with higher volumes. Crude oil volumes soared 10.9% YoY 3.46mmt (3.12mmt). However, higher subsidy burden put pressure on net crude realisations which declined by 4.4% YoY to US$55.6/bbl from US$58.1/bbl. Rupee deprecation had a favourable impact during FY09 and thus, in rupee terms the realisations jumped by 9.3% YoY. Natural gas volumes, on the other hand, declined by 5.0% YoY to 4.8mmscmd (5.0mmscmd). Robust crude volumes along with higher realisations led to 19.1% YoY rise in revenues to 72.4bn (Rs60.8bn).

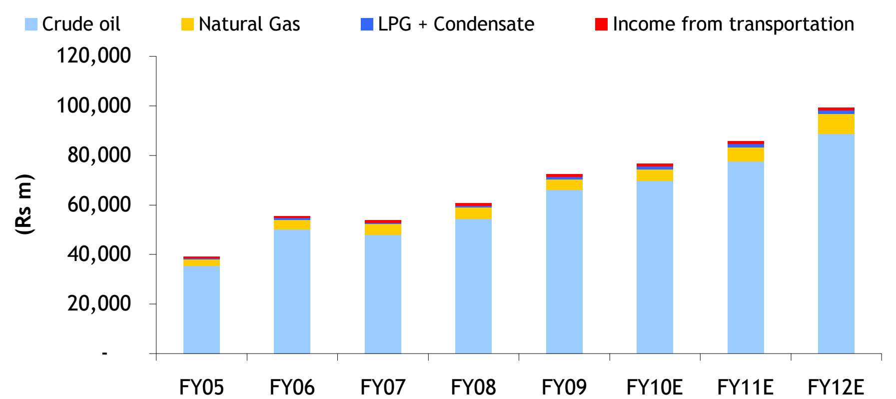
EBITDA margins jumped by 350bps YoY to 44.6% from 41.1% by constraining the overall expenditure on the back of lower royalty payments. Other income jumped to 9.4bn (Rs6.8bn) on the back of higher income from investments. PAT, thus, soared by 25.4% YoY to Rs22.3bn (Rs17.8bn).

FY09 Revenue break-up



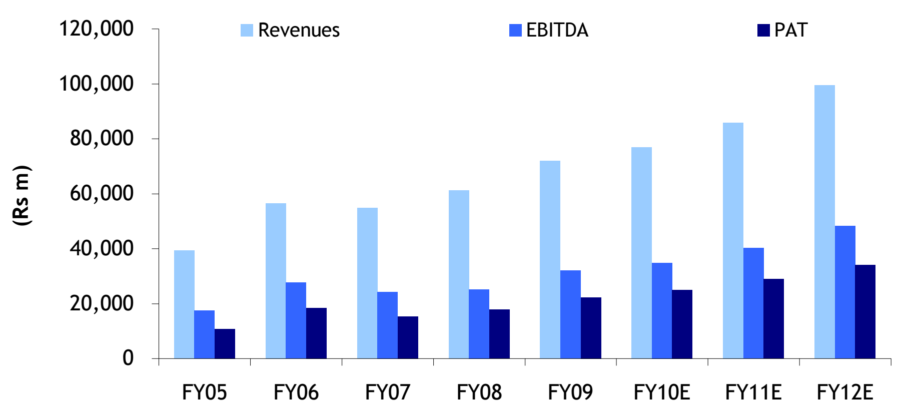
Source: Company Data, PL Research

Revenue break-up



Source: Company Data, PL Research

Revenues, EBITDA and PAT



Source: Company Data, PL Research

Quarterly review

During Q2FY10, crude oil production jumped by 2.3% YoY to 0.90mmt (0.88mmt) along with gas production which jumped by 2.3% YoY to 601mmscm (588mmscm). OIL's net crude realisation for the quarter was US$56.9/bbl, with US$10.5/bbl discount offered to the OMCs. Average natural gas realisations stood at Rs3,476/'000scm (Rs3,352/'000scm). Q2FY10 revenues declined by 4.2% YoY to Rs20.8bn (Rs21.7bn), primarily on account of lower crude realisations. Improvement in operational efficiency led to YoY improvement in EBITDA margin by 210bps to 48.6% (46.5%). PAT for the quarter marginally went up by 0.7% YoY to Rs7.23bn (Rs7.18bn).

During the quarter the upstream companies shared subsidy burden only on auto fuels (petrol and diesel) which resulted into lower subsidies for them. OIL's subsidy burden, thus, drastically reduced to Rs3.6bn (Rs13.7bn). Higher crude prices during Q2FY09 had impacted the upstream companies which offered significantly higher discounts to the OMCs.

Q2FY10 Result Overview (Rs m)

Y/e March	Q2FY10	Q2FY09	*YoY gr. (%)*	Q1FY10	H1FY10	H1FY09	*YoY gr. (%)*
Net Sales	**21,431**	**21,941**	***(2.3)***	**19,746**	**41,177**	**45,717**	***(9.9)***
Expenditure							
Raw material	671	264	*154.2*	82	753	447	*68.3*
% of net sales	*3.1*	*1.2*		*0.4*	*1.8*	*1.0*	
Personnel cost	2,871	2,323	*23.6*	2,477	5,348	4,417	*21.1*
% of net sales	*13.4*	*10.6*		*12.5*	*13.0*	*9.7*	
Statutory levies	6,179	6,268	*(1.4)*	5,823	12,002	12,826	*(6.4)*
% of net sales	*28.8*	*28.6*		*29.5*	*29.1*	*28.1*	
Other operating expenses	1,294	2,890	*(55.2)*	1,128	2,422	5,028	*(51.8)*
% of net sales	*6.0*	*13.2*		*5.7*	*5.9*	*11.0*	
EBITDA	**10,417**	**10,196**	***2.2***	**10,236**	**20,653**	**22,998**	***(10.2)***
Margin (%)	*48.6*	*46.5*		*51.8*	*50.2*	*50.3*	
Depreciation, depletion	1,431	1,128	*26.9*	1,218	2,648	2,190	*20.9*
EBIT	**8,986**	**9,068**	***(0.9)***	**9,018**	**18,004**	**20,808**	***(13.5)***
Interest	10	16	*(38.2)*	9	19	30	*(37.5)*
Other Income	2,354	2,914	*(19.2)*	1,635	3,989	3,611	*10.5*
PBT	**11,330**	**11,966**	***(5.3)***	**10,645**	**21,974**	**24,389**	***(9.9)***
Total taxes	4,104	4,788	*(14.3)*	3,248	7,352	9,259	*(20.6)*
ETR (%)	*36.2*	*40.0*		*30.5*	*33.5*	*38.0*	
FBT	-	-	-	-	-	29	-
Rep. PAT	**7,226**	**7,179**	***0.7***	**7,397**	**14,623**	**15,101**	***(3.2)***

Source: Company Data, PL Research

Opearing Metrics

Y/e March	Q2FY10	Q2FY09	*YoY gr. (%)*	Q1FY10	H1FY10	H1FY09	*YoY gr. (%)*
Production							
Crude Oil (mmt)	0.90	0.88	*2.3*	0.88	1.78	1.75	*1.8*
Natural Gas (mmscmd)	6.54	6.39	*2.3*	6.64	6.59	6.31	*4.4*
Realisations							
Crude Oil (US$/bbl)							
Gross realisation	67.4	-		57.5	62.6	117.7	*(46.8)*
Subsidy sharing	10.5	-		1.8	6.3	44.2	*(85.8)*
Net realisation	56.9	-		55.7	56.3	73.5	*(23.4)*
Natural Gas (Rs/'000scm)	3,476	3,352	*3.7*	3,485	3,481	3,384	*2.9*

Source: Company Data, PL Research

Valuations

After witnessing stable crude oil production for over four years (FY05 to FY08), OIL reported a healthy 11.5% jump in its crude production during FY09 which came on the back of renewed focus of the management. With an aggressive capex plan for the next three years, oil production is further set to improve by about 5-7% YoY. However, gas production is slated for a quantum jump to about 11.0-12.0mmscmd over the next three years (almost doubling from the current level of about 6.5mmscmd).

Petroleum ministry's proposal of increasing APM gas prices is a positive step towards the upstream companies. Hence, increase in APM gas prices will be earnings accretive for OIL. The company has chalked out an aggressive capex plan for next three years which will aid volume growth. OIL's payout ratio is about 30% which translates into a dividend yield of about 3-4%. We believe that the sector dynamics are favorable for the upstream companies. OIL, with its volume growth, is expected to benefit from the favourable sector dynamics and hence, we remain positive on its growth prospects. The stock is currently available at 10.3x P/E and 2.1x P/BV on FY11E earnings. We initiate with a **'BUY'** at a price target of Rs1,442 (12x FY11E EPS of Rs120.2).

Assumptions

	FY05	FY06	FY07	FY08	FY09	FY10E	FY11E	FY12E
Crude oil net realisation (US$/bbl)	35.9	50.8	47.6	60.6	58.0	56.0	62.7	67.4
Natural gas incl. subsidies (Rs/'000scm)	1,990	2,922	3,264	3,279	3,402	3,600	4,000	4,400
LPG (US$/MT)	216.2	319.6	278.9	384.3	407.6	500.0	550.0	550.0
Condensate (US$/MT)	343.3	367.3	426.2	545.5	347.5	400.0	425.0	425.0
Exchange rate (Rs/US$)	43.7	44.3	45.3	40.3	46.0	48.0	45.0	45.0

Source: Company Data, PL Research

PE Band

	FY05	FY06	FY07	FY08	FY09	FY10E	FY11E	FY12E
9.0	405	688	577	666	835	938	1,082	1,277
9.5	427	726	609	703	881	990	1,142	1,347
10.0	450	764	641	740	928	1,043	1,202	1,418
10.5	472	802	673	777	974	1,095	1,262	1,489
11.0	494	840	705	814	1,021	1,147	1,322	1,560
11.5	517	879	737	851	1,067	1,199	1,382	1,631
12.0	**539**	**917**	**769**	**888**	**1,113**	**1,251**	**1,442**	**1,702**
12.5	562	955	801	925	1,160	1,303	1,502	1,773
13.0	584	993	833	962	1,206	1,355	1,562	1,844
13.5	607	1,031	865	999	1,252	1,407	1,622	1,915
14.0	629	1,070	897	1,036	1,299	1,460	1,683	1,986
14.5	652	1,108	929	1,073	1,345	1,512	1,743	2,057
15.0	674	1,146	961	1,110	1,392	1,564	1,803	2,128

Source: Bloomberg, PL Research

Financials

Income Statement (Rs m)

Y/e March	FY05	FY06	FY07	FY08	FY09	FY10E	FY11E	FY12E
Net Revenue	**39,276**	**56,613**	**54,765**	**61,185**	**72,007**	**76,803**	**85,773**	**99,475**
YoY Growth (%)	*18.1*	*44.1*	*(3.3)*	*11.7*	*17.7*	*6.7*	*11.7*	*16.0*
Raw material Consumed	(69)	(114)	22	(221)	130	-	-	-
% of Net Sales	*(0.2)*	*(0.2)*	*0.0*	*(0.4)*	*0.2*	-	-	-
Employee Costs	0	983	1,341	7,040	9,133	9,323	10,288	11,823
% of Net Sales	-	*1.7*	*2.4*	*11.5*	*12.7*	*12.1*	*12.0*	*11.9*
Other Costs	21,807	28,058	29,195	29,218	30,632	32,660	35,264	39,319
% of Net Sales	*55.5*	*49.6*	*53.3*	*47.8*	*42.5*	*42.5*	*41.1*	*39.5*
Cost of Goods Sold	21,738	28,927	30,558	36,038	39,895	41,982	45,552	51,143
% of Net Sales	*55.3*	*51.1*	*55.8*	*58.9*	*55.4*	*54.7*	*53.1*	*51.4*
EBITDA	**17,538**	**27,686**	**24,207**	**25,146**	**32,112**	**34,821**	**40,221**	**48,333**
Margin (%)	*44.7*	*48.9*	*44.2*	*41.1*	*44.6*	*45.3*	*46.9*	*48.6*
Depreciation, Depletion	2,972	4,435	4,522	4,427	7,480	7,620	7,487	7,838
Other Income	1,904	3,639	5,335	6,770	9,372	10,830	11,092	11,210
EBIT	**16,470**	**26,890**	**25,020**	**27,489**	**34,003**	**38,031**	**43,826**	**51,704**
Interest	167	162	140	344	87	50	40	30
Extraordinary items	(72)	16	(55)	(11)	(46)	-	-	-
PBT	**16,231**	**26,744**	**24,826**	**27,134**	**33,870**	**37,981**	**43,786**	**51,674**
Total tax	5,615	9,814	8,401	9,220	12,192	12,914	14,887	17,569
Tax rate (%)	*34.6*	*36.7*	*33.8*	*34.0*	*36.0*	*34.0*	*34.0*	*34.0*
FBT	0	31	25	25	61	-	-	-
Rep. PAT	**10,617**	**16,899**	**16,400**	**17,889**	**21,617**	**25,067**	**28,899**	**34,105**
Other adjustments	192	1,472	(996)	(93)	692	-	-	-
Adjusted PAT	**10,808**	**18,371**	**15,404**	**17,796**	**22,309**	**25,067**	**28,899**	**34,105**

Source: Company Data, PL Research

Balance Sheet (Rs m)

Y/e March	FY05	FY06	FY07	FY08	FY09	FY10E	FY11E	FY12E
Sources of Fund								
Share Capital	2,140	2,140	2,140	2,140	2,140	2,405	2,405	2,405
Reserves & Surplus	45,266	56,343	66,351	77,190	91,730	135,303	137,869	141,106
Misc. exp.	300	-	-	-	-	-	-	-
Total Shareholders Equity	47,107	58,483	68,491	79,330	93,870	137,708	140,273	143,510
Total Debt	3,183	3,341	8,140	1,749	565	500	400	300
Deferred Tax Liab. (net)	7,159	7,013	8,033	8,655	9,014	9,014	9,014	9,014
Liability for abandonment cost	8	10	11	11	15	15	15	15
Total	**57,457**	**68,847**	**84,675**	**89,745**	**103,463**	**147,236**	**149,702**	**152,839**
Application of Fund								
Gross Block	18,846	20,952	21,889	23,228	29,720	36,406	38,906	41,406
Depreciation	11,267	14,829	15,521	16,199	18,383	20,201	22,272	24,481
Net Block	7,579	6,122	6,368	7,029	11,338	16,205	16,634	16,925
Capital Work in Progress	2,378	3,118	5,301	6,446	3,186	1,500	1,500	1,500
Gross Producing properties	32,271	35,564	38,441	43,036	47,660	53,160	58,660	64,160
Depletion & Amortisation	14,394	16,407	18,183	20,358	22,446	24,997	27,813	30,893
Net Producing properties	17,877	19,157	20,258	22,678	25,215	28,163	30,847	33,267
Exp. / Devp. wells-in-progress (Net)	1,298	2,260	3,886	4,481	5,623	11,873	16,273	20,723
Investments	1,819	4,302	4,075	4,887	4,887	4,887	4,887	4,887
Current Assets								
Inventories	2,608	3,989	4,080	4,509	5,010	5,974	6,671	6,908
Sundry Debtors	5,543	5,341	4,087	6,110	4,047	5,334	5,956	6,908
Cash & bank balances	18,640	31,015	32,757	42,808	60,700	95,006	92,378	92,316
Interest accrued on term deposits	596	1,094	1,572	2,284	3,517	3,517	3,517	3,517
Interest accrued on investments	0	0	0	0	0	0	0	0
Loans & advances	7,830	4,115	12,611	6,055	10,444	10,444	10,444	10,444
Total Current Assets	35,218	45,555	55,107	61,766	83,719	120,275	118,967	120,093
Current Liabilities								
Accounts Payable	1,031	1,325	1,916	2,518	3,403	3,250	3,250	3,250
Provisions	2,891	2,486	2,502	6,525	15,866	22,916	26,156	30,807
Other	4,790	7,857	5,902	8,498	11,233	9,500	10,000	10,500
Total Current Liabilities	8,712	11,668	10,320	17,541	30,503	35,666	39,406	44,557
Net Current Assets	26,506	33,887	44,787	44,225	53,216	84,609	79,561	75,536
Total	**57,457**	**68,847**	**84,675**	**89,745**	**103,464**	**147,236**	**149,702**	**152,839**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e March	FY05	FY06	FY07	FY08	FY09	FY10E	FY11E	FY12E
Cash from operating activities	14,249	22,277	5,717	25,890	25,391	21,571	25,153	32,176
Cash from investing activities	(931)	(4,463)	2,304	574	(6,146)	(5,920)	(1,308)	(1,240)
Cash from financing activities	(6,436)	(5,439)	(6,279)	(16,413)	(1,353)	18,655	(26,473)	(30,998)
(Dec) / Inc. in Cash	6,882	12,375	1,742	10,051	17,892	34,306	(2,628)	(62)
Opening Cash	11,758	18,640	31,015	32,757	42,808	60,700	95,006	92,378
Closing Cash	18,640	31,015	32,757	42,808	60,700	95,006	92,378	92,316

Source: Company Data, PL Research

Key Ratios

Y/e March	FY05	FY06	FY07	FY08	FY09	FY10E	FY11E	FY12E
Growth Ratios (%)								
Sales	18.1	44.1	(3.3)	11.7	17.7	6.7	11.7	16.0
EBITDA	7.1	57.9	(12.6)	3.9	27.7	8.4	15.5	20.2
PAT	13.8	70.0	(16.1)	15.5	25.4	12.4	15.3	18.0
EPS	13.8	70.0	(16.1)	15.5	25.4	12.4	15.3	18.0
Asset Based Ratios (%)								
RoCE/ RoI	19.9	26.9	21.5	20.8	22.4	20.0	19.5	22.6
RoE/RoNW	24.3	32.0	25.8	24.2	25.0	21.6	20.8	24.0
Gearing								
Debt/Equity	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Per Share (Rs.)								
EPS	45.0	76.4	64.1	74.0	92.8	104.3	120.2	141.8
BV	195.9	243.2	284.8	329.9	390.4	572.7	583.4	596.8
DPS	14.2	23.6	23.1	24.5	27.1	32.0	36.5	43.5
CEPS	53.7	84.1	79.0	87.3	105.6	122.4	140.5	163.8
FCPS	58.7	91.4	31.0	122.5	87.9	64.9	99.0	128.5
Margins (%)								
EBITDA	44.7	48.9	44.2	41.1	44.6	45.3	46.9	48.6
PAT	25.8	28.0	27.3	26.3	26.6	28.6	29.8	30.8
Tax Rate	34.6	36.7	33.8	34.0	36.0	34.0	34.0	34.0
Dividend Pay out	32.3	33.6	33.9	32.9	30.2	30.7	30.4	30.7
Velocity								
Debtors	50.8	34.0	26.9	35.9	20.2	25.0	25.0	25.0
Inventories	23.9	25.4	26.8	26.5	25.0	28.0	28.0	25.0
Valuations (x)								
P/E	27.7	16.3	19.4	16.8	13.4	11.9	10.3	8.8
P/CEPS	23.2	14.8	15.7	14.3	11.8	10.2	8.9	7.6
P/BV	6.3	5.1	4.4	3.8	3.2	2.2	2.1	2.1
M. Cap/ Sales	7.6	5.3	5.5	4.9	4.2	3.9	3.5	3.0
EV/EBITDA	16.2	9.8	11.3	10.3	7.4	5.9	5.1	4.3
EV/Sales	7.2	4.8	5.0	4.2	3.3	2.7	2.4	2.1

Source: Company Data, PL Research

Company background

Oil India is the second largest national oil and gas company operating in India since past five decades. The company is primarily operating in North-East India, particularly in Assam and Arunachal Pradesh. It produced about 24.9mn bbls of crude oil and 2.27bcm of natural gas during FY09, representing average daily production of about 68,358bbls of crude and 6.2mmscmd natural gas. At the end of FY09, the company's proved plus probable reserves (2P) for crude oil stood at 575mn bbls, while natural gas reserves stood at 63bcm.

OIL operates a 1,157km cross country crude oil pipeline, having a capacity to carry over 44mn bbls of oil annually. The company transported about 45m bbls of crude oil to the four refineries locates in North East region i.e. Digboi, Numaligarh, Guwahati and Bongaigaon. The company also commissioned a 660km product pipeline connecting Numaligarh refinery to Siliguri in West Bengal during FY09.

The company also has downstream interest through a 26% equity stake in Numaligarh Refinery and 10% equity stake in Brahmaputra Crackers. It also holds a 10% equity stake in a 741km pipeline project in Sudan.

Oil blocks - International

Block/Area No.	OIL's interest	Other's interest	Operator	Operator
Farsi (offshore) Block in Persian Gulf	20%	OVL	40%	OVL
		IOCL	40%	
86 Libya	50%	IOCL	50%	OIL
102/4 Libya	50%	IOCL	50%	OIL
Shakthi- Gabon	45%	IOCL	45%	OIL
		Marvis Pte. Ltd	10%	
Area 95/96, Libya	25%	IOCL	25%	SIPEX
		SIPEX	50%	
Timor Leste -Block 'K', East Timor	12.50%	IOCL	12.50%	REPDMCC
		RE&P DMCC	75%	
Block 82, Yemen	15%	MEDCO AMED	15%	MEDCO AMED (100% subsidiary of MEDCOENERGI)
		Kuwait Energy	25%	
		IOCL	15%	
Block 83, Yemen	15%	MEDCO ARAT	45%	MEDCO ARAT (100% subsidiary of MEDCOENERGI)
		Kuwait Energy	25%	
		IOCL	15%	

Source: RHP, Company Data, PL Research

Oil blocks - Domestic

Block Number	Area (sq. km.)	NELP or Pre-NELP	OIL's interest	Other's interest	Operator
Upper Assam and Assam-Arakan basins					
AAP-ON-94/1 (1)	305	Pre-NELP	16.13% plus 30%	IOCL (43.55%)	HOEC
			carried interest	HOEC (40.32%)	
AA-ONN-2001/3	110	NELP	15%	ONGC 85%	ONGC
AA-ONN-2002/3	1,460	NELP	20%	ONGC (70%), Suntera Cyprus (10%)	Oil India Limited
AA-ONN-2002/4	1,060	NELP	10%	ONGC (90%)	ONGC
AA-ONN-2003/3	275	NELP	85%	HPCL (15%)	Oil India Limited
AA-ONN-2004/1	144	NELP	85%	Shiv Vani (15%)	Oil India Limited
AA-ONN-2004/2	218	NELP	90%	Suntera Cyprus (10%)	Oil India Limited
MZ-ONN-2004/1	3,213	NELP	75%	Suntera Cyprus (10%), Shiv Vani (15%)	Oil India Limited
AA-ONN-2005/1	363	NELP	30%	ONGC (60%), ACL (10%)	ONGC
Rajasthan basin					
RJ-ONN-2000/1	1,268	NELP	60%	Suntera Cyprus (40%)	Oil India Limited
RJ-ONN-2001/1	1,698	NELP	40%	ONGC (30%), Suntera Cyprus (30%)	Oil India Limited
RJ-ONN-2002/1	7,425	NELP	60%	ONGC (40%)	Oil India Limited
RJ-ONN-2004/2	2,196	NELP	75%	Geoglobal (25%)	Oil India Limited
RJ-ONN-2004/3	1,330	NELP	60%	Geoglobal (25%), HPCL (15%)	Oil India Limited
RJ-ONN-2005/2	1,517	NELP	60%	HMEL(20%), HOEC(20%)	Oil India Limited
Krishna-Godavari basin					
KG-DWN-98/4	4,970	NELP	15%	ONGC (85%)	ONGC
KG-DWN-2002/1	10,600	NELP	20%	ONGC (70%), BPCL (10%)	ONGC
KG-ONN-2004/1	549	NELP	90%	Geoglobal (10%)	Oil India Limited
KG-DWN-2004/5	11,922	NELP	10%	ONGC (50%), GAIL (10%), GSPCL (10%), HPCL (10%), BPCL (10%)	ONGC
KG-DWN-2004/6	10,907	NELP	10%	ONGC (60%), GAIL (10%), GSPCL (10%), HPCL (10%)	ONGC
Cauvery basin					
CY-DWN-2001/1	12,425	NELP	20%	ONGC (80%)	ONGC
Mahanadi basin					
MN-OSN-2000/2	4,061	NELP	20%	ONGC (40%), IOCL (20%), GAIL (20%)	ONGC
MN-DWN-2002/1	9,980	NELP	20%	ONGC (36%), BPCL (10%), ENI (34%)	ONGC
Andaman-Nicobar Offshore basin					
AN-DWN-2005/1	11,837	NELP	10%	ONGC (90%)	ONGC
Bengal Onshore basin					
WB-ONN-2005/4	3,940	NELP	25%	ONGC (75%)	ONGC
Saurashtra and Gujarat Offshore basin					
GK-OSJ-3	5,725	Pre-NELP	15%	RIL (60%), ONGC (25%)	RIL

Source: RHP, Company Data, PL Research

Domestic area granted to companies

Company/ Operator	Sq. km.	% age
ONGC	512,754	48.4
Reliance Industries Limited	341,359	32.2
Oil India Limited	39,326	3.7
Cairn Energy India Pty Limited	38,339	3.6
Hindustan Oil Exploration Company Limited	25,124	2.4
FOCUS	21,000	2.0
SANTOS	16,496	1.6
ENI SpA	14,445	1.4
Prize Petroleum	13,277	1.3
Gujarat State Petroleum Corporation Ltd	11,057	1.0
OAO Gazprom	7,779	0.7
Geo Global Resources Inc	5,804	0.5
NAFTOGAZ	3,789	0.4
Jubilant Oil and Gas Pvt. Ltd	2,534	0.2
Essar Oil Limited	1,729	0.2
Canoro Resources Limited	1,445	0.1
Tullow Oil Plc	1,277	0.1
Niko Resources Limited	957	0.1
Hardy Exploration & Production (India) Inc	859	0.1
PetroGas	741	0.1
Geopetrol	295	0.0
Total	**1,060,385**	**100.0**

Source: RHP, Company Data, PL Research

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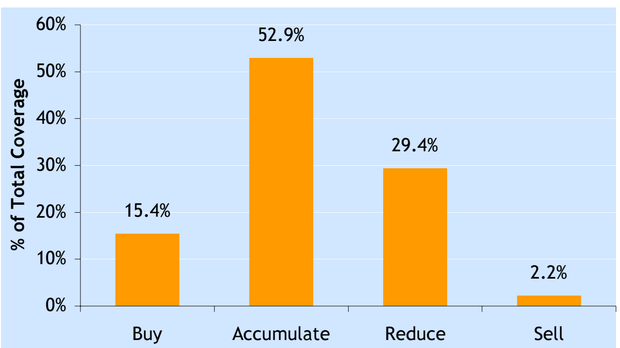
Rating Distribution of Research Coverage



PL's Recommendation Scale

BUY	Over 15% Outperformance to Sensex over 12-months	**Accumulate**	Outperformance to Sensex over 12-months
Reduce	Underperformance to Sensex over 12-months	**Sell**	Over 15% underperformance to Sensex over 12-months
Trading Buy	Over 10% absolute upside in 1-month	**Trading Sell**	Over 10% absolute decline in 1-month
Not Rated (NR)	No specific call on the stock	**Under Review** (UR)	Rating likely to change shortly