

OIL INDIA LIMITED (OIL)

INR: 950-1,050

Fueling India

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**2<sup>nd</sup> Largest domestic PSU E&P player-** OIL built strong oil and natural gas reserve over the years and 96% of its reserve is located in Upper Assam. Its total estimated independent 2P (Proved + Probable) oil and natural gas reserves is 974mboe out of which oil reserves are 575.4mboe and natural gas reserves are 398mboe. Over the last 5 years it revenue & PAT growing by CAGR of 18.6% and 19.1% respectively on the back of increasing production and higher crude prices. OIL has been fairly successful in winning blocks under NELP rounds and won 27 blocks out of 55 blocks for which they bid. Over the next 2 years it plans to spend Rs4506crore in E&P activities to drill 51 exploratory wells in India and Overseas. It holds gross Petroleum Exploratory Licenses in over 1,50,000 square kilometers within and outside India.

**High Success Ratio and Impressive Reserve Replacement Ratio -** OIL's reserve replacement ratio (RRR) has been quite impressive with the crude oil 2P reserves growing at a CAGR of 3.2% and the natural gas reserves growing by over 17% over FY2007-09. Recent Replacement to Reserve Ratio (RRR) over the past few years has consistently been over 1.0. RRR was at 1.64 better than ONGC's 1.4 and comparable with global peers. Focus on small and medium discoveries has contributed to higher exploration success ratio of 63.6% compared to ONGC's 36.4%. Further, OIL's cost of finding crude oil of \$1.1/bbl is less than half the finding cost of ONGC \$2.6/bbl.

**Subsidy Reforms -** Over the last 5 years it's share of under recoveries from oil & LPG was more than Rs 9,000crore. Recent indications from the government on E&P companies bearing only Auto Fuel subsidy along with OMC's will improve earning visibility. The government has announced plans to constitute a committee to fix the subsidy mechanism. OIL shared under recoveries worth Rs 57.6crore in Q1FY10 compared to Rs 3,023crores in FY09.

#### Our View -

OIL's management has strong execution capabilities with an established track record coupled with vast opportunities in hydrocarbon and changing government regulation, we expect OIL to do well going forward. Lower finding cost, higher success ratio, possibility of medium term production growth and proven track record of adding incremental reserves would result in higher profitability going forward. Higher cash portion of Rs 306/share will give cushion to the downside. However, its performance will be linked to the crude price, which has been a volatile in the last few years. Subsidy sharing, higher write-off on exploratory wells and geopolitical situation in Assam are the key risks for the business.

On valuation side, price band looks little attractive compared to its peers. On higher band of Rs 1050, the issue is priced at Rs 10.4x its FY09 EPS and 2.6x its FY09 book value. Despite lackluster listing of Adani Power and NHPC, we expect the issue to get significantly over-subscribed. We see greater appetite for OIL issue from the institutional investors compared to retail investors as we have seen in the past few IPOs. Thus, we would recommend our investors to SUBSCRIBE to the company's IPO.

#### Key Financials

|               | Rs. Crore |       |       |       |
|---------------|-----------|-------|-------|-------|
|               | FY06      | FY07  | FY08  | FY09  |
| Revenue       | 5,550     | 5,389 | 6,082 | 7,241 |
| EBITDA        | 3,020     | 2,762 | 3,058 | 3,777 |
| PAT           | 1,690     | 1,640 | 1,789 | 2,162 |
| EPS           | 79.0      | 76.6  | 83.6  | 101.0 |
| EBITDA Margin | 54.4%     | 51.2% | 50.3% | 52.2% |
| Net Margin    | 30.4%     | 30.4% | 29.4% | 29.9% |
| RoCE (%)      | 48.2%     | 36.1% | 35.0% | 38.8% |
| RoE (%)       | 31.9%     | 25.7% | 24.3% | 25.0% |
| P/E           | 13.3      | 13.7  | 12.6  | 10.4  |
| P/BV          | 4.2       | 3.5   | 3.1   | 2.6   |
| EV/EBITDA     | 6.5       | 7.2   | 6.0   | 4.4   |
| EV/BoE        | 5.6       | 6.0   | 4.3   | 3.5   |

Source: Company data, KRC Research, Valuation at higher end of price band Rs 1050

Date: 3rd August 2009

#### Market Info:

|        |        |
|--------|--------|
| SENSEX | 15,398 |
| NIFTY  | 4,594  |

IPO price band: Rs.950-1,050

|                          |   |
|--------------------------|---|
| Date of Opening          | 7 <sup>th</sup> September 2009                |
| Date of Closing          | 10 <sup>th</sup> September 2009               |
| Value @ Rs 950-1,050     | Rs 2,525 - 2,284 Crore                        |
| No. of Shares Offered    | 2.40 crore equity shares                      |
| Face Value               | 10  |
| BRLMs                    | JMFin, Morgan Stanley, Citi and HSBC          |
| Registrar                | Karvy   |
| IPO Grading              | 4 Out of 5 from CRISIL                        |
| Minimum Lot              | 6 equity sha res                              |
| Maximum Retail Lot       | 90 Shares Rs 94,500/- at Rs.1,050/- per share |
| Post Issue Share Capital | Rs 240 Crore                                  |
| Post Issue Market - cap. | Rs 25,248- 22,843 Crore                       |

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*In past it has aggressively bid for NELP blocks*

### Oil India's hydrocarbon blocks and acreages

|                       | Blocks    | Gross (sqkm)   | Net (sqkm)    |
|-----------------------|-----------|----------------|---------------|
| Nomination & Pre NELP | 18        | 11,397         | 6,275         |
| NELP                  | 24        | 103,468        | 25,840        |
| Overseas              | 17        | 41,273         | 12,668        |
| <b>Total</b>          | <b>59</b> | <b>156,138</b> | <b>44,783</b> |

Source: Company data, KRC Research

### Entities in which OIL has substantial interests

| Entities                          | FY09 PAT (Rs Cr) | % holding |
|-----------------------------------|------------------|-----------|
| Numaligarh Refinery Ltd           | 235.6            | 26 %      |
| Brahamputra Cracker & Polymer Ltd | Nil              | 10 %      |
| Suntera Nigeria 205 Ltd           | NA               | 25 %      |
| DNP Ltd                           | Nil              | 23 %      |

Source: Company data, KRC Research

### The IPO

| IPO Details                       | In Cr   |
|-----------------------------------|---------|
| Pre issue paid up capital         | 214.0   |
| Add: Net issue to the public      | 24.0    |
| Add: Employee Reservation portion | 2.4     |
| Transfer of GoI shares to OMCs    | 21.4    |
| Post issue paid up capital        | 240.5   |
| Dilution of equity                | 12.4%   |
| <b>Capital raised (Rs crore)</b>  |         |
| At Rs 950                         | 2,284.3 |
| At Rs 1,050                       | 2,524.8 |

Source: Company data, KRC Research

### IPO Proceeds (Rs Cr)

| Details                                     | FY10         | FY11         |
|---|--------------|--------------|
| Exploration & appraisal activities          | 1,300        | 1,528        |
| Development activities in producing fields  | 493          | 553          |
| Purchase of capital equipments & facilities | 417          | 269          |
| <b>Total Cost</b>                           | <b>2,210</b> | <b>2,349</b> |

Source: Company data, KRC Research

### Shareholding pattern

*Fresh issue of 2.14crore shares, 10% of its pre-IPO*

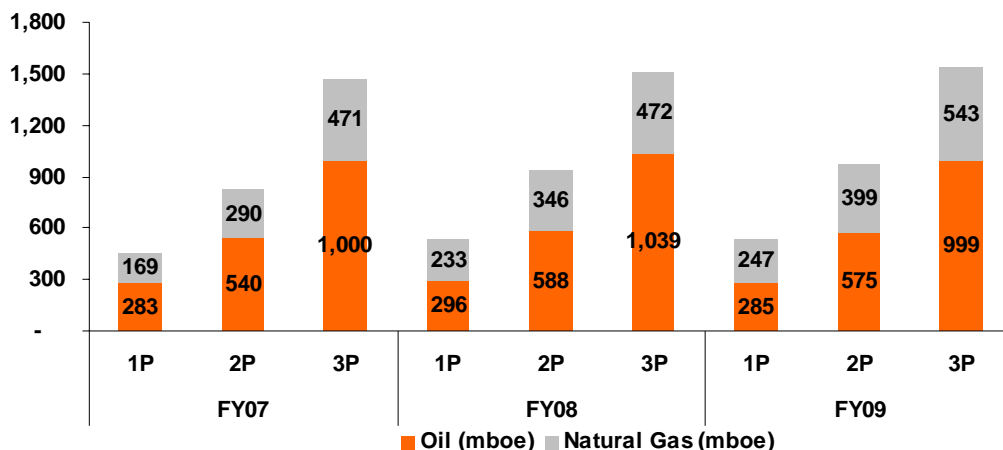
|               | Pre issue   |               | Pre IPO Post Disinvestment |               | Post issue  |               |
|---------------|-------------|---------------|----------------------------|---------------|-------------|---------------|
|               | Shares (Cr) | % Stake       | Shares (Cr)                | % Stake       | Shares (Cr) | % Stake       |
| Govt of India | 21.0        | 98.1%         | 18.9                       | 88.1%         | 18.9        | 78.4%         |
| Public        | 0.4         | 1.9%          | 0.4                        | 1.9%          | 3.0         | 12.7%         |
| IOC           | -           | -             | 1.1                        | 5.0%          | 1.1         | 4.5%          |
| HPCL          | -           | -             | 0.5                        | 2.5%          | 0.5         | 2.2%          |
| BPCL          | -           | -             | 0.5                        | 2.5%          | 0.5         | 2.2%          |
| <b>Total</b>  | <b>21.4</b> | <b>100.0%</b> | <b>21.4</b>                | <b>100.0%</b> | <b>24.0</b> | <b>100.0%</b> |

Source: Company data, KRC Research

Excellent track record in reserve accretion

2P reserve is twice the 1P reserve

OIL's Oil & Gas Reserve



Source: Company data, KRC Research

Net crude realization is in line with ONGC.

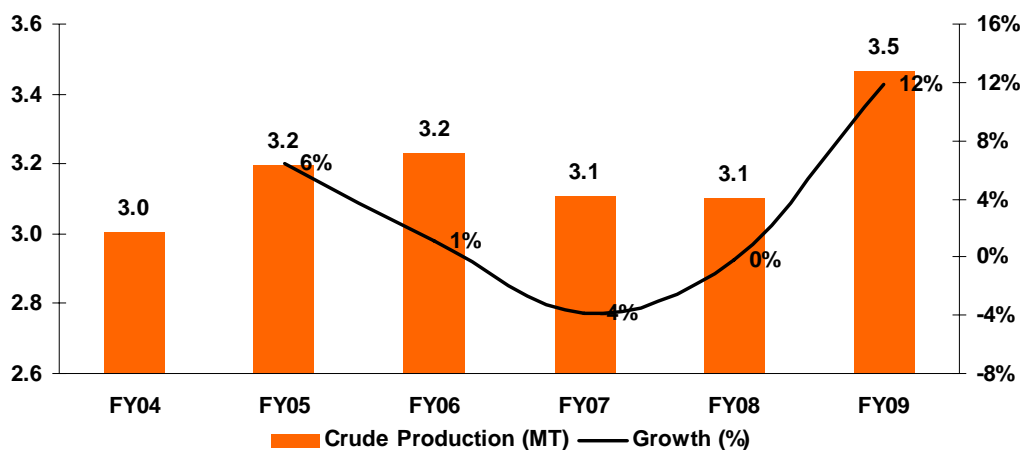
Crude Realization (\$/bbl) and Natural Gas Realization (\$/mbtu)

|   | FY06 | FY07 | FY08 | FY09 |
|---|------|------|------|------|
| Benchmark                                 | 59.5 | 66.3 | 84.6 | 84.8 |
| Gross Realized Price                      | 58.6 | 66.7 | 85.5 | 83.9 |
| Less : Subsidy                            | 9.2  | 19.3 | 25.1 | 26.1 |
| Net Realized Price                        | 49.4 | 47.5 | 60.5 | 57.8 |
| Less : Royalty + Sales Tax                | 10.4 | 9.9  | 12.9 | 8.6  |
| Less : Cess                               | 6.1  | 8.1  | 9.1  | 8.0  |
| Net Crude Realization to OIL              | 32.8 | 29.6 | 38.5 | 41.2 |
| Gas Realization to OIL (Incl Gas Subsidy) | 2.0  | 2.2  | 2.5  | 2.2  |

Source: Company data, KRC Research

Aggressive capex in drilling will lead to growth in the medium term

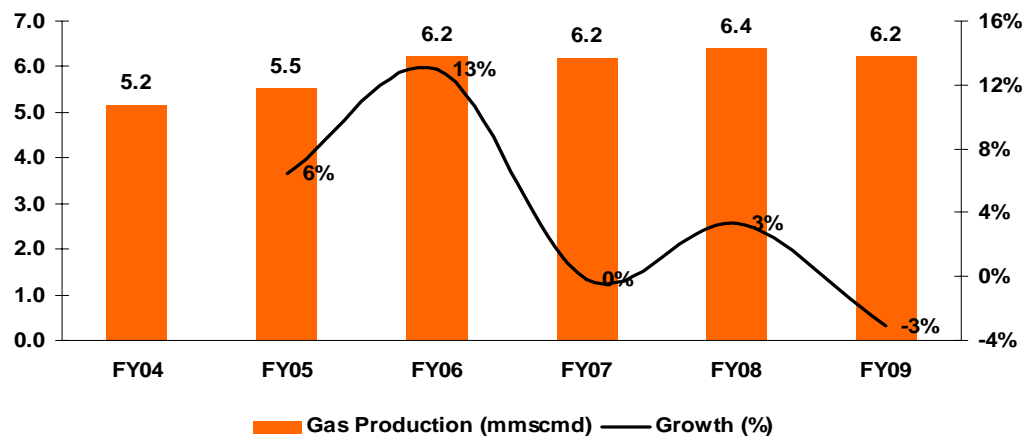
Crude Production and Y-o-Y(%) growth



Source: Company data, KRC Research

Gas production has remained flat over the years

### Gas Production and Y-o-Y(%) growth



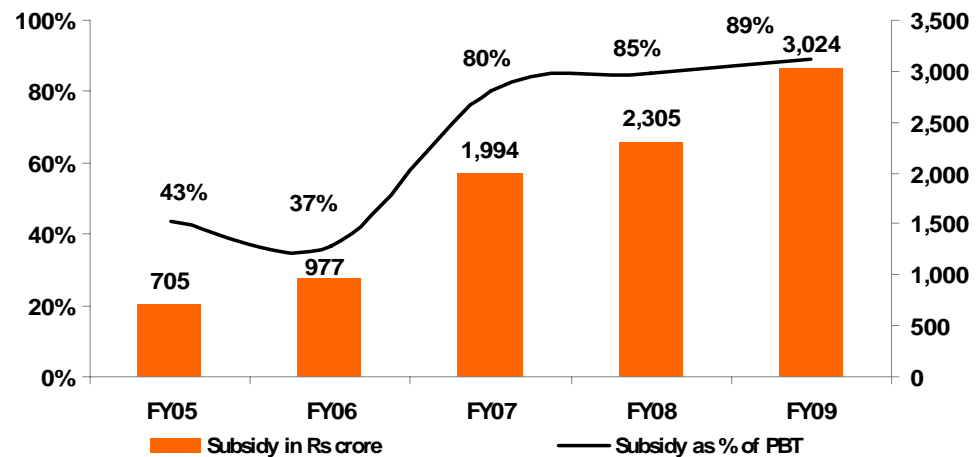
Source: Company data, KRC Research

### Subsidy sharing

|                                  | FY05 | FY06 | FY07 | FY08 | FY09   |
|----------------------------------|------|------|------|------|--------|
| Exchange Rate (Rs/US\$)          | 44.9 | 44.3 | 45.2 | 40.3 | 46     |
| Avg Brent Price (\$/bbl)         | 42.2 | 58   | 64.4 | 82.3 | 84.8   |
| Gross (Under) recoveries (Rs bn) |      |      |      |      |        |
| Petrol                           | -2   | -27  | -20  | -73  | -56    |
| Diesel                           | -22  | -126 | -188 | -353 | -520   |
| PDS SKO                          | -95  | -144 | -179 | -191 | -280   |
| Domestic LPG                     | -84  | -102 | -107 | -156 | -175   |
| Total                            | -201 | -400 | -494 | -773 | -1,031 |
| Sharing (Rs bn)                  |      |      |      |      |        |
| Oil Bonds                        | -    | 115  | 241  | 353  | 713    |
| Upstream                         | 59   | 140  | 205  | 257  | 329    |
| OMC's Sharing                    | 142  | 138  | 48   | 163  | -11    |
| Total                            | 201  | 393  | 494  | 773  | 1,031  |
| Sharing (%)                      |      |      |      |      |        |
| Oil Bonds                        | -    | 29   | 49   | 46   | 69     |
| Upstream                         | 30   | 36   | 42   | 33   | 32     |
| OMC's Sharing                    | 70   | 35   | 10   | 21   | -1     |
| Total                            | 100  | 100  | 100  | 100  | 100    |

Source: Company data, KRC Research

### OIL's Subsidy Burden



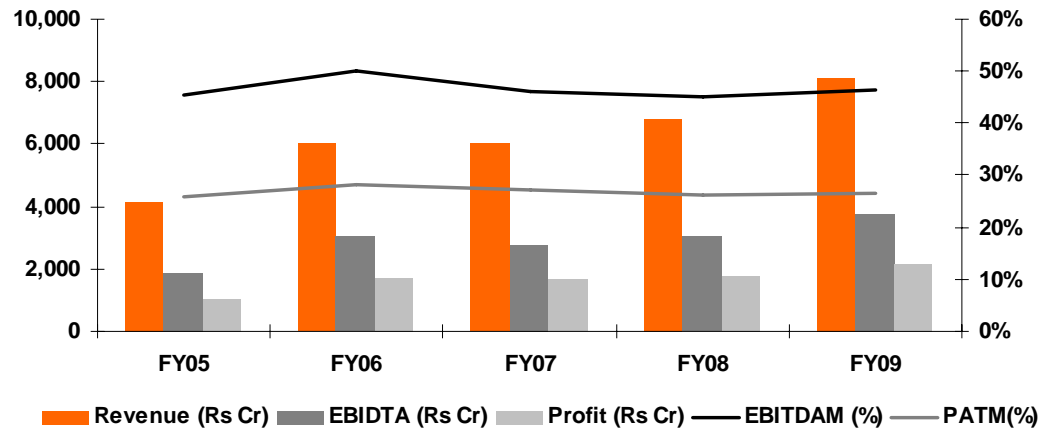
Source: Company data, KRC Research

Vulnerable to govt's subsidy sharing framework

In last 5 years OIL has paid Subsidy worth Rs 9,004crore

## OIL Financial Performance

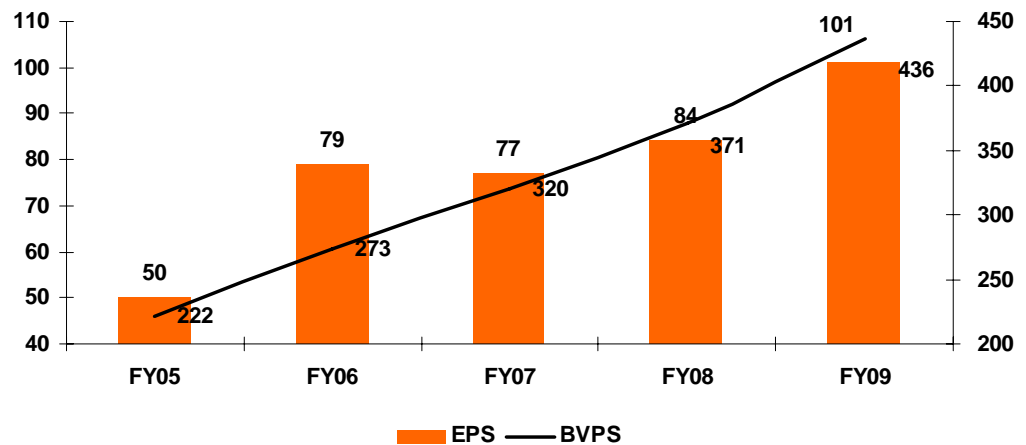
5 year CAGR in revenue & Profitability stands at 19%



Source: Company data, KRC Research

## OIL Profitability

Growth in networth is in line with profitability



Source: Company data, KRC Research

## Valuation Parameters

Valuations are attractive compared to ONGC & Cairn

|                   | Cairn | ONGC   | OIL   |
|-------------------|-------|--------|-------|
| Price             | 256   | 1,140  | 1,050 |
| P/E               | 75.3  | 13.1   | 10.4  |
| P/BV              | 1.5   | 2.6    | 2.6   |
| EV/BoE            | 11.9  | 4.9    | 3.5   |
| RoE(%)            | 2.10% | 21.40% | 25.0% |
| 2P Reserve (mboe) | 818   | 10,685 | 974   |
| Production (mboe) | 7.7   | 416    | 39    |

Source: KRC Research, Valuation based on FY09; Cairn FY09 figures are for 15 months

## Income Statement

|  | FY05         | FY06         | FY07         | FY08         | FY09         |
|--|--------------|--------------|--------------|--------------|--------------|
| Net 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)         |
| <b>Total Income</b>                            | <b>4,118</b> | <b>6,025</b> | <b>6,010</b> | <b>6,795</b> | <b>8,138</b> |
| Increase/(Decrease) in Stock                   | (7)          | (11)         | 2            | (22)         | 13           |
| Production, Transportation & Other Expenditure | 2,110        | 2,705        | 3,044        | 3,565        | 3,961        |
| Exchange Loss/(Gain)                           | (0)          | (1)          | 1            | 4            | (6)          |
| VRS Compensation written off                   | 10           | 30           |              |              |              |
| Other Adjustments                              | 61           | 170          | 8            | 57           | 21           |
| Provisions                                     | 68           | 112          | 193          | 133          | 371          |
| <b>Total Expenditure</b>                       | <b>2,241</b> | <b>3,005</b> | <b>3,248</b> | <b>3,737</b> | <b>4,361</b> |
| EBIDTA   | 1,877        | 3,020        | 2,762        | 3,058        | 3,777        |
| Depletion                                      | 173          | 188          | 178          | 217          | 209          |
| Depreciation                                   | 56           | 143          | 82           | 92           | 168          |
| Interest                                       | 17           | 16           | 14           | 34           | 9            |
| Profit Before Tax                              | 1,630        | 2,673        | 2,488        | 2,715        | 3,392        |
| Provision for Taxes                            | 561          | 984          | 843          | 924          | 1,225        |
| <b>Profit After Taxes</b>                      | <b>1,069</b> | <b>1,688</b> | <b>1,645</b> | <b>1,790</b> | <b>2,166</b> |

## Balance Sheet

|  | FY05         | FY06         | FY07         | FY08         | FY09         |
|--|--------------|--------------|--------------|--------------|--------------|
| 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          |
| <b>Current Assets:</b>                 | <b>3,662</b> | <b>4,584</b> | <b>5,482</b> | <b>6,115</b> | <b>8,372</b> |
| Inventories                            | 261          | 399          | 408          | 451          | 501          |
| Debtors                                | 551          | 529          | 373          | 561          | 405          |
| Cash & Bank Balances                   | 1,864        | 3,102        | 3,276        | 4,281        | 6,070        |
| Interest/ Dividend accrued etc.        | 60           | 109          | 145          | 215          | 352          |
| Loan & Advances                        | 926          | 446          | 1,281        | 607          | 1,044        |
| Less: Current Liabilities & Provisions | 1,637        | 1,858        | 1,837        | 2,592        | 3,953        |
| Net Current Assets                     | 2,025        | 2,727        | 3,645        | 3,522        | 4,419        |
| <b>Total Assets</b>                    | <b>4,943</b> | <b>6,217</b> | <b>7,634</b> | <b>8,079</b> | <b>9,444</b> |
| Source of Funds                        |              |              |              |              |              |
| Share Capital                          | 214          | 214          | 214          | 214          | 214          |
| Reserves & Surplus                     | 4,448        | 5,708        | 6,606        | 7,691        | 9,173        |
| <b>Net Worth</b>                       | <b>4,662</b> | <b>5,922</b> | <b>6,820</b> | <b>7,905</b> | <b>9,387</b> |
| Secured loans                          | 95           | 155          | 709          | 105          | 3            |
| Unsecured loans                        | 186          | 140          | 105          | 70           | 54           |
| <b>Total loan funds</b>                | <b>281</b>   | <b>295</b>   | <b>814</b>   | <b>175</b>   | <b>56</b>    |
| <b>Total Capital Employed</b>          | <b>4,943</b> | <b>6,217</b> | <b>7,634</b> | <b>8,079</b> | <b>9,444</b> |

## Cash Flow Statement

|  | FY05         | FY06         | FY07         | FY08           |
|--|--------------|--------------|--------------|----------------|
| <b>Cash Flow from Operating Activities</b>                     |              |              |              |                |
| Profit Before Tax (Restated)                                   | 1,689        | 2,761        | 2,335        | 2,698          |
| Adjustments for:   |              |              |              |                |
| Depreciation   | 59           | (14)         | 82           | 97             |
| Depletion  | 175          | 175          | 178          | 217            |
| Foreign Exchange (Gain)/Loss                                   | (0)          | (1)          | 1            | 4              |
| Other Adjustments  | (227)        | (109)        | (63)         | (113)          |
|  | 6            | 50           | 198          | 205            |
| Operating Profit before Working Capital Changes                | 1,696        | 2,811        | 2,533        | 2,904          |
| Adjustment for changes in Working Capital                      | 375          | 700          | (789)        | 760            |
| Cash generated from Operation                                  | 2,070        | 3,511        | 1,743        | 3,664          |
| Taxes Paid   | (594)        | (922)        | (741)        | (876)          |
| <b>Net Cash Flow from Operating Activities (A)</b>             | <b>1,476</b> | <b>2,589</b> | <b>1,003</b> | <b>2,788</b>   |
| <b>Cash Flow from Investing Activities</b>                     |              |              |              |                |
| Purchase of Fixed Assets (Net)                                 | (628)        | (611)        | (937)        | (949)          |
| Other Adjustments  | 174          | (81)         | 289          | 340            |
| <b>Net Cash Flow from Investing Activities (B)</b>             | <b>(454)</b> | <b>(692)</b> | <b>(648)</b> | <b>(609)</b>   |
| <b>Cash Flow from Financing Activities</b>                     |              |              |              |                |
| Repayment of Borrowings  | (37)         | (44)         | (74)         | (743)          |
| Proceeds from Borrowings                                       | 59           | 60           | 554          | 104            |
| Other Adjustments  | (355)        | (676)        | (661)        | (535)          |
| <b>Net Cash Flow from Financing Activities (C)</b>             | <b>(334)</b> | <b>(660)</b> | <b>(181)</b> | <b>(1,174)</b> |
| <b>Net Increase in Cash &amp; Cash Equivalents (A)+(B)+(C)</b> | <b>688</b>   | <b>1,237</b> | <b>174</b>   | <b>1,005</b>   |

Source: Company data, KRC Research



|               |                                |  |                  |
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