

Oil India

Higher realisations boost margins

Oil India's (OIL) revenue and PAT matched expectations, while the EBITDA margin delivered a positive surprise. Revenues increased by a robust 45% YoY to Rs 20.8bn due to stronger oil and gas production and a 57% YoY spike in net realisations during the quarter. The EBITDA margin clocked in at 53.1%, 380bps ahead of our estimate. However, higher-than-expected DDA expenses brought net profit back in line with our forecast at Rs 7.2bn. We marginally pare our FY10 and FY11 earnings estimates, while maintaining our Buy rating and target price of Rs 1,428 for the stock.

Strong growth in revenues: OIL's revenues increased by a robust 45% YoY to Rs 20.8bn, in line with expectations. The growth was fuelled by an increase in oil and gas production by 3.8% to 0.911mmt and 9% to 626mmscm respectively. Further, the company's net realisation surged 57% YoY to US\$ 58.8/bbl (against US\$ 57/bbl estimated and US\$ 37.5/bbl in Q3FY09), due to a lower subsidy burden.

Higher realisations buoy margins; DDA expenses restrict PAT: OIL's EBITDA margin expanded by 1,302bps YoY to 53.1%, ahead of our estimate of 49.3%. The company's total subsidy burden stood at Rs 4.7bn in Q3FY10, against Rs 5.2bn in Q3FY09 and our estimate of Rs 5.2bn, leading to higher net realisations. However, above-expected DDA expenses to Rs 1.8bn restricted PAT growth for the quarter to 23.5% YoY.

Exploration programme on track: OIL's drilling meterage increased 33% YoY in 9MFY10, with 32 wells drilled during the period, apart from its first exploratory well in Libya in November '09. The company also started heavy oil production from the Baghewala field in Rajasthan. This apart, it made an oil discovery in Amguri-I, which was allocated to it under NELP-VI.

Production growth sustainable: Implementation of IOR/EOR techniques at its matured northeast fields enabled OIL to register strong growth in oil and gas production during the third quarter. The management expects 4% YoY growth in oil production and a 10–15% increase in gas output in FY11.

Estimates trimmed marginally; maintain Buy: We are revising our PAT estimates downwards by 2.3% and 1.4% for FY10 and FY11 respectively. We maintain our Buy rating with a target price of Rs 1,428 for the stock.

What's New? Target Rating Estimates

CMP	TARGET	RATING	RISK
Rs 1,122	Rs 1,428	BUY	MEDIUM

BSE	NSE	BLOOMBERG
533106	OIL	OINL IN

Company data

Market cap (Rs bn / US\$ bn)	270/5.8
Outstanding equity shares (mn)	240.5
Free float (%)	21.6
Dividend yield (%)	2.7
52-week high/low (Rs)	1,374/1,090
3-month average daily volume	110,876

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Oil India	1122	(10.9)	(0.7)	-
BSE Oil&Gas	9,939	(5.1)	5.3	4.8
Sensex	16,358	(6.3)	2.9	4.4

Valuation matrix

(x)	FY09	FY10E	FY11E	FY12E
P/E @ CMP	10.8	9.5	9.3	9.0
P/E @ Target	13.7	12.1	11.9	11.4
EV/EBITDA @ CMP	7.4	5.0	5.0	4.8

Financial highlights

(Rs mn)	FY09	FY10E	FY11E	FY12E
Revenue	72,007	81,919	84,069	88,064
Growth (%)	17.7	13.8	2.6	4.8
Adj net income	22,309	28,302	28,880	30,052
Growth (%)	25.4	26.9	2.0	4.1
FDEPS (Rs)	104.2	117.7	120.1	125.0
Growth (%)	25.4	12.9	2.0	4.1

Profitability and return ratios

(%)	FY09	FY10E	FY11E	FY12E
EBITDA margin	39.4	51.4	50.2	49.8
EBIT margin	34.1	43.8	42.1	41.5
Adj PAT margin	31.0	34.5	34.4	34.1
ROE	25.8	24.1	19.2	17.6
ROIC	37.3	44.4	33.8	29.9
ROCE	25.5	24.0	19.1	17.6





Result highlights

Fig 1 - Actual vs estimated performance

(Rs mn)	Actual	Estimate	% Variance
Revenue	20,844	20,350	2.4
EBITDA	11,061	10,033	10.2
EBITDA margin (%)	53.1	49.3	376bps
Adj net income	7,173	7,007	2.4
FDEPS (Rs)	30	29.1	2.4

Source: RHH

Fig 2 - Quarterly performance

(Rs mn)	Q3FY10	Q3FY09	% Chg YoY	Q2FY10	% Chg QoQ
Revenue	20,844	14,420	44.6	21,431	(2.7)
Expenditure	9,784	8,646	13.2	11,014	(11.2)
EBITDA	11,061	5,774	91.5	10,417	6.2
EBITDA margin (%)	53.1	40.0	1,302bps	48.6	446bps
DDA	1,754	2,238	(21.6)	1,431	22.6
Interest	8	23	(64.8)	10	(16.5)
Other Income	1,797	1,538	16.8	2,354	(23.6)
PBT	11,095	5,051	119.7	11,330	(2.1)
Tax	3,922	(758)	(617.7)	4,104	(4.4)
Adj net income	7,173	5,809	23.5	7,226	(0.7)
FDEPS (Rs)	29.8	27.1	9.9	30.1	(0.7)

Source: Company, RHH

Fig 3 - Revised estimates

Key parameters (Rs mn)	FY10E			FY11E		
	Old	New	% Chg	Old	New	% Chg
Revenue	81,919	81,919	-	84,069	84,069	-
EBITDA	41,261	42,134	2.1	41,085	42,190	2.7
EBITDA margin (%)	50.4	51.4	107bps	48.9	50.2	131bps
Net profit	28,954	28,302	(2.3)	29,302	28,880	(1.4)
FDEPS (Rs)	120.4	117.7	(2.3)	121.9	120.1	(1.4)

Source: RHH

Margins above expectations due to higher net realisations

Strong growth in oil and gas production aided revenue growth

57% YoY increase in net realisation drove 1,300bps margin expansion

Above-expected margins and high DDA expenses led to estimate revision



Consolidated financials

Profit and Loss statement

Y/E March (Rs mn)	FY09	FY10E	FY11E	FY12E
Revenues	72,007	81,919	84,069	88,064
Growth (%)	17.7	13.8	2.6	4.8
EBITDA	28,354	42,134	42,190	43,823
Growth (%)	19.1	48.6	0.1	3.9
Depreciation & amortisation	3,768	6,269	6,774	7,306
EBIT	24,585	35,865	35,417	36,517
Growth (%)	18.7	45.9	(1.3)	3.1
Interest	87	54	49	44
Other income	9,372	7,729	9,063	9,761
EBT	33,870	43,541	44,431	46,234
Income taxes	12,253	15,239	15,551	16,182
Effective tax rate (%)	36.2	35.0	35.0	35.0
Extraordinary items	692	-	-	-
Min into / inc from associates	-	-	-	-
Reported net income	22,309	28,302	28,880	30,052
Adjustments	-	-	-	-
Adjusted net income	22,309	28,302	28,880	30,052
Growth (%)	25.4	26.9	2.0	4.1
Shares outstanding (mn)	214.0	240.5	240.5	240.5
FDEPS (Rs) (adj)	104.2	117.7	120.1	125.0
Growth (%)	25.4	12.9	2.0	4.1
DPS (Rs)	30.5	32.0	33.0	34.0

Cash flow statement

Y/E March (Rs mn)	FY09	FY10E	FY11E	FY12E
Net income + Depreciation	26,024	34,571	35,654	37,358
Non-cash adjustments	8,864	(1,710)	(2,417)	(2,590)
Changes in working capital	195	284	62	114
Cash flow from operations	35,083	33,144	33,298	34,882
Capital expenditure	(8,496)	(21,000)	(22,530)	(14,500)
Change in investments	-	-	-	-
Other investing cash flow	-	-	-	-
Cash flow from investing	(8,496)	(21,000)	(22,530)	(14,500)
Issue of equity	-	27,772	-	-
Issue/repay debt	(1,184)	(54)	(48)	(44)
Dividends paid	(7,511)	(5,766)	(6,446)	(6,645)
Other financing cash flow	-	-	-	-
Change in cash & cash eq	17,892	34,096	4,274	13,693
Closing cash & cash eq	60,700	94,796	99,071	112,764

Economic Value Added (EVA) analysis

Y/E March	FY09	FY10E	FY11E	FY12E
WACC (%)	13.3	13.3	13.3	13.3
ROIC (%)	37.3	44.4	33.8	29.9
Invested capital (Rs mn)	44,779	60,237	75,808	83,014
EVA (Rs mn)	10,763	18,733	15,573	13,772
EVA spread (%)	24.0	31.1	20.5	16.6

Balance sheet

Y/E March (Rs mn)	FY09	FY10E	FY11E	FY12E
Cash and cash eq	60,700	94,796	99,071	112,764
Accounts receivable	4,047	4,604	4,725	4,950
Inventories	5,010	5,700	5,849	6,127
Other current assets	13,961	15,883	16,300	17,074
Investments	4,887	4,887	4,887	4,887
Gross fixed assets	77,380	93,380	110,410	125,410
Net fixed assets	36,552	46,283	56,540	64,233
CWIP	8,809	13,809	19,309	18,809
Intangible assets	-	-	-	-
Deferred tax assets, net	(9,014)	(9,441)	(9,876)	(10,329)
Other assets	-	-	-	-
Total assets	124,952	176,521	196,804	218,515
Accounts payable	3,403	3,872	3,973	4,162
Other current liabilities	11,233	12,780	13,115	13,738
Provisions	15,866	18,403	18,699	19,155
Debt funds	565	511	462	419
Other liabilities	15	15	15	15
Equity capital	2,140	2,405	2,405	2,405
Reserves & surplus	91,730	138,538	158,135	178,622
Shareholder's funds	93,870	140,942	160,539	181,026
Total liabilities	124,952	176,521	196,804	218,515
BVPS (Rs)	438.6	586.2	667.7	752.9

Financial ratios

Y/E March	FY09	FY10E	FY11E	FY12E
Profitability & Return ratios (%)				
EBITDA margin	39.4	51.4	50.2	49.8
EBIT margin	34.1	43.8	42.1	41.5
Net profit margin	31.0	34.5	34.4	34.1
ROE	25.8	24.1	19.2	17.6
ROCE	25.5	24.0	19.1	17.6
Working Capital & Liquidity ratios				
Receivables (days)	24	19	20	20
Inventory (days)	54	64	65	64
Payables (days)	34	43	44	43
Current ratio (x)	5.7	7.3	7.4	7.9
Quick ratio (x)	4.4	6.0	6.1	6.6
Turnover & Leverage ratios (x)				
Gross asset turnover	1.0	1.0	0.8	0.7
Total asset turnover	0.6	0.5	0.5	0.4
Interest coverage ratio	281.2	669.4	730.2	831.1
Adjusted debt/equity	0.0	0.0	0.0	0.0
Valuation ratios (x)				
EV/Sales	2.9	2.6	2.5	2.4
EV/EBITDA	7.4	5.0	5.0	4.8
P/E	10.8	9.5	9.3	9.0
P/BV	2.6	1.9	1.7	1.5



Quarterly trend

Particulars	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10
Revenue (Rs mn)	14,420	14,006	19,746	21,431	20,844
YoY growth (%)	-	-	(16.9)	(2.3)	44.6
QoQ growth (%)	(34.3)	(2.9)	41.0	8.5	(2.7)
EBITDA (Rs mn)	5,774	5,429	10,236	10,417	11,061
EBITDA margin (%)	40.0	38.8	51.8	48.6	53.1
Adj net income (Rs mn)	5,809	707	7,397	7,226	7,173
YoY growth (%)	-	-	(6.7)	0.8	23.5
QoQ growth (%)	(19.0)	(87.8)	945.6	(2.3)	(0.7)

DuPont analysis

(%)	FY08	FY09	FY10E	FY11E	FY12E
Tax burden (Net income/PBT)	65.6	65.9	65.0	65.0	65.0
Interest burden (PBT/EBIT)	131.0	137.8	121.4	125.5	126.6
EBIT margin (EBIT/Revenues)	33.8	34.1	43.8	42.1	41.5
Asset turnover (Revenues/Avg TA)	66.2	64.6	54.3	45.0	42.4
Leverage (Avg TA/Avg equity)	125.5	129.0	128.4	123.8	121.6
Return on equity	24.2	25.8	24.1	19.2	17.6

Company profile

Oil India (OIL) is primarily engaged in exploration, development, production and transportation of crude oil and natural gas. It is the second largest PSU upstream player in India after ONGC in terms of 2P reserve base. OIL also owns and operates a 1,157km cross-country crude pipeline between Assam and Barauni, and a 660km product pipeline connecting Numaligarh Refinery (NRL) to Siliguri. The company produces LPG at its 50,000tpa LPG processing plant at Duliajan and has limited downstream exposure through a 26% equity stake in NRL, a 10% stake in Brahmaputra Crackers and Polymers (BCPL) and a 23% stake in DNP.

Shareholding pattern

(%)	Jun-09	Sep-09	Dec-09
Promoters	98.1	78.4	78.4
FIs	-	3.8	3.2
Banks & FIs	-	2.0	2.9
Public	1.9	15.7	15.5

Recommendation history

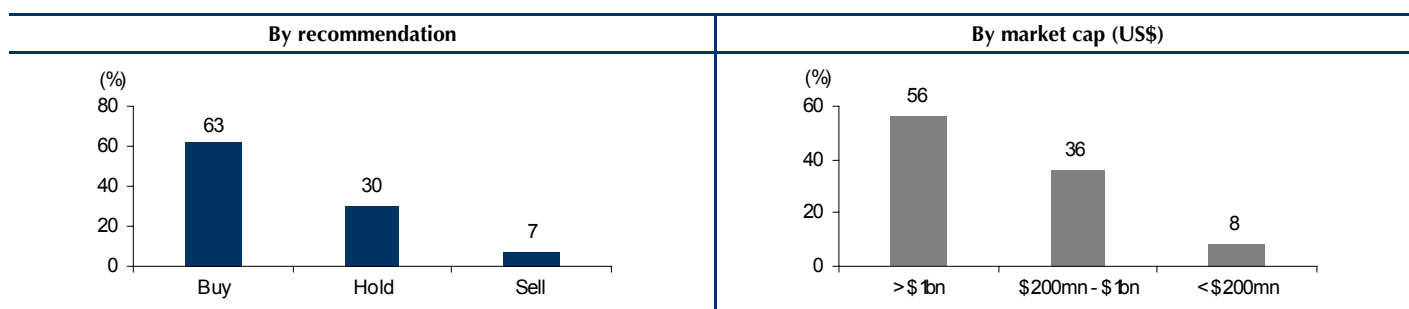
Date	Event	Reco price	Tgt price	Reco
16-Nov-09	Initiating Coverage	1,199	1,349	Buy
6-Jan-10	Quarterly Preview	1,254	1,428	Buy
1-Feb-10	Results Review	1,122	1,428	Buy

Stock performance





Coverage Profile



Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

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