Prabhudas Lilladher

Oil India

Strong operating performance

Q2FY12 Result Update

November 14, 2011

Deepak Pareek
deepakpareek@plindia.com
+91-22-66322241

Rating	**Accumulate**
Price	Rs1,290
Target Price	Rs1,495
Implied Upside	15.9%
Sensex	17,119

(Prices as on November 14, 2011)

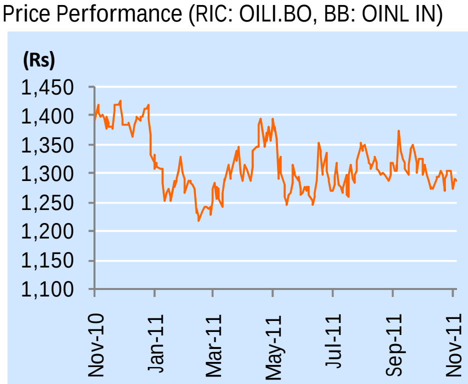
Trading data	
Market Cap. (Rs bn)	276.0
Shares o/s (m)	214.0
3M Avg. Daily value (Rs m)	95

Major shareholders	
Promoters	78.43%
Foreign	2.27%
Domestic Inst.	5.28%
Public & Other	14.02%

Stock Performance

(%)	**1M**	**6M**	**12M**
Absolute	(0.7)	(6.7)	(7.4)
Relative	(0.9)	0.9	7.7

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



Source: Bloomberg

OIL's Q2FY12 PAT was below estimates at Rs11.4bn, up 34% QoQ and 24.3% YoY. Lower-than-expected performance was due to provision for superannuation for prior period, coupled with higher-than-expected DD&A cost. However, it was offset to an extent due to IT refund (Rs655m) and prior period transportation income (Rs1.39bn). OIL's Q2FY12 revenue (Rs 32.7bn, up 42.9% QoQ) was 2.4% ahead of estimate of Rs31.9bn, EBITDA (Rs16.2bn, 39.3% QoQ) was 11.7% below our estimate of Rs18.3bn on account of prior period superannuation expenditure of Rs2.48bn. DD&A (Rs5.9bn) was 112% higher on QoQ basis against the estimate of Rs2.65bn due to higher drywell write-offs. Other income at Rs6.8bn was higher than estimate of Rs3.9bn due to prior period transportation revenues and IT refund. We do not read much out of the current quarterly performance as the same is based on provisional 33% subsidy sharing mechanism. We maintain an **'Accumulate'** on the stock.

- **Net realisation at record US$86.3/bbl:** Crude oil sales at 0.96MMT were in line with expectation of 0.96MMT. Natural gas production at 0.54 BCM was up 22.6% YoY and 6.9% QoQ. Crude Net realisation during the quarter stood at US$86.3/bbls. Increase in net realisations was largely a function of lower subsidy burden of Rs8.4bn, down 52.6% QoQ due to lower total under-recoveries at Rs216bn (Rs435bn in Q1FY12). Top-line was around 2.4% higher than estimates on account of slightly higher-than-anticipated net realisations. EBITDA during the quarter was lower than our expectation of Rs18.3bn and stood at Rs16.2bn, up 39.3% QoQ. Expenditure of Rs2.48bn for the superannuation expenditure for the previous period has led to large part of the variance.

- **Outlook:** OIL has underperformed the benchmark indices over the last one year, owning to headwinds in the form of lack of subsidy-sharing mechanism. However, we believe the scenario will evolve positively with likely clarity over the subsidy-sharing mechanism before the impending ONGC FPO. We value OIL at 10x FY2013E EPS arriving at a fair value estimate of Rs1,495/share.

Key financials (Y/e March)	**2010**	**2011**	**2012E**	**2013E**
Revenues (Rs m)	79,056	83,034	95,225	102,151
Growth (%)	*9.2*	*5.0*	*14.7*	*7.3*
EBITDA (Rs m)	25,380	40,290	46,765	50,273
PAT (Rs m)	15,831	28,877	33,526	35,959
EPS (Rs)	65.8	120.1	139.4	149.5
Growth (%)	*21.7*	*82.4*	*16.1*	*7.3*
Net DPS (Rs)	34.0	39.0	42.0	42.0

Source: Company Data; PL Research

Profitability & Valuation	**2010**	**2011**	**2012E**	**2013E**
EBITDA margin (%)	*32.1*	*48.5*	*49.1*	*49.2*
RoE (%)	*13.7*	*19.7*	*20.2*	*19.0*
RoCE (%)	*13.7*	*19.1*	*19.0*	*18.0*
EV / sales (x)	2.8	2.6	2.1	1.7
EV / EBITDA (x)	8.9	5.3	4.2	3.5
PE (x)	19.6	10.7	9.2	8.6
P / BV (x)	2.3	2.0	1.8	1.5
Net dividend yield (%)	*2.6*	*3.0*	*3.3*	*3.3*

Source: Company Data; PL Research

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Exhibit 1: Q2FY12 Result Overview (Rs m)

Y/e March	Q2FY12	Q2FY11	YoY gr. (%)	Q1FY12	H1FY12	H1FY11	YoY gr. (%)
Net Sales	**32,703**	**23,724**	***37.8***	**22,878**	**55,581**	**38,958**	***42.7***
Expenditure							
Raw material	68	397	*(82.7)*	364	432	495	*(12.7)*
% of net sales	*0.2*	*1.7*		*1.6*	*0.8*	*1.3*	
Personnel cost	3,502	2,270	*54.3*	3,004	6,506	4,768	*36.4*
% of net sales	*10.7*	*9.6*		*13.1*	*11.7*	*12.2*	
Other operating expenses	12,930	8,030	*61.0*	7,881	20,812	14,279	*45.7*
% of net sales	*39.5*	*33.8*		*34.4*	*37.4*	*36.7*	
EBITDA	**16,202**	**13,028**	***24.4***	**11,629**	**27,831**	**19,415**	***43.3***
Margin (%)	*49.5*	*54.9*		*50.8*	*50.1*	*49.8*	
Depreciation	5,901	1,825	*223.4*	2,784	8,685	3,804	*128.3*
EBIT	**10,301**	**11,203**	***(8.1)***	**8,845**	**19,145**	**15,612**	***22.6***
Interest	5	9	*(48.4)*	88	93	16	*498.1*
Other Income	6,823	2,608	*161.6*	3,809	10,632	5,539	*91.9*
PBT	**17,119**	**13,802**	***24.0***	**12,566**	**29,685**	**21,135**	***40.5***
Total taxes	5,734	4,642	*23.5*	4,070	9,804	6,964	*40.8*
ETR (%)	*33.5*	*33.6*		*32.4*	*33.0*	*32.9*	
PAT	**11,385**	**9,160**	***24.3***	**8,496**	**19,881**	**14,172**	***40.3***

Source: Company Data, PL Research

Exhibit 2: Segmental Break-up (Rs m)

Y/e March	Q2FY12	Q2FY11	YoY gr. (%)	Q1FY12	H1FY12	H1FY11	YoY gr. (%)
Segmental revenues							
Crude oil	28,577	20,760	*37.7*	19,365	47,942	33,980	*41.1*
Natural gas	3,566	3,168	*12.6*	3,370	6,936	5,129	*35.2*
LPG	299	205	*46.0*	58.0	357	385.8	*(7.4)*
Pipeline transportation	2,300	387	*494.0*	634	2,935	646	*354.1*
Unallocated	4,784	1,813	*163.9*	3,260	8,043	4,356.1	*84.6*
Less Inter-segmental	-	-		-	-	-	
Net sales	**39,526**	**26,332**	***50.1***	**26,687**	**66,213**	**44,497**	***48.8***
Segmental profitability							
Crude oil	11,723	11,178	*4.9*	9,471	21,194	16,247	*30.4*
Natural gas	160	1,482	*(89.2)*	1,820	1,980	1,881	*5.2*
LPG	131	104	*25.3*	(37)	94	185	*(49.2)*
Pipeline transportation	1,536	(191)		92	1,627	(468)	*(447.6)*
Unallocated	3,570	1,229	*190.5*	1,220	4,790	3,291	*45.6*
Profit before tax	**17,119**	**13,802**	***24.0***	**12,566**	**29,685**	**21,135**	***40.5***
Tax	5,734	4,642	*23.5*	4,070	9,804	6,964	*40.8*
Profit after tax	**11,385**	**9,160**	***24.3***	**8,496**	**19,881**	**14,171**	***40.3***

Source: Company Data, PL Research

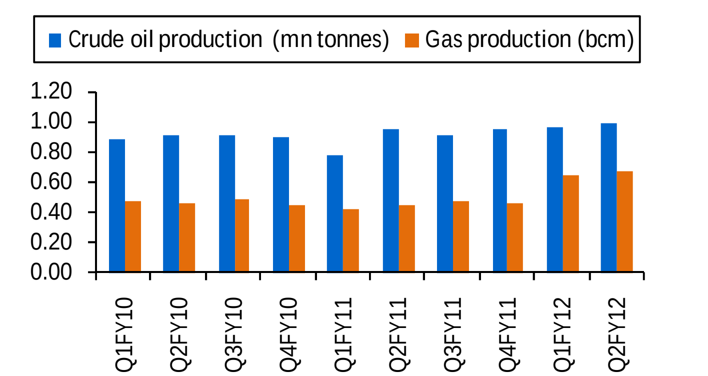
Result Highlights

Crude sales volumes increases marginally, net realisation at record US$86.3/bbls: OIL's crude sales at 0.96 MMT was 1.4% higher on YoY basis (0.95MMT). Natural gas production (nominated + JV) at 0.54 BCM was up 22.6% YoY and 6.9% QoQ on a smaller base. Gross realisation was during the quarter at US$112.5/bbls. Subsidy burden during the quarter stood at Rs8.4bn. Net realisation during the quarter stood at US$86.3bbl. Increase in net realisations was largely a function of lower subsidy burden down 52.6% QoQ due to lower total under-recoveries at Rs216bn (Rs435bn in Q1FY12) due to retail price revision in June 2011 and provisional subsidy sharing of 33% by the upstream companies.

EBITDA lower than estimates: EBITDA during the quarter was lower than our expectation of Rs18.3bn and stood at Rs16.2bn up 39.3% QoQ. OIL has provided for the superannuation expenditure of Rs2.8bn of which around Rs2.48bn is for previous period.

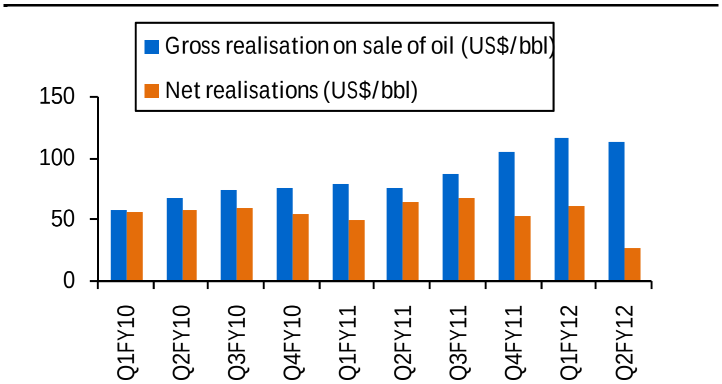
DD&A and Other income increases; PAT up 34% QoQ: On account of increase in the dry well write-off during the quarter, DD&A expenditure was higher than our estimate. The same was largely on account of nomination blocks which OIL decided to relinquish during the quarter due to non-remunerative prospects and paid the penalty of Rs3.6bn for non-completion of the minimum work programme. DD&A cost during the quarter at Rs5.9bn was 112% higher on QoQ basis against the estimate of Rs2.65bn. Other income was higher than estimate due to one-off income in form of transportation income for the prior period (FY08-Q1FY12) to the tune of Rs1.39bn due to retrospective revision of the transportation tariffs. Moreover, there was an IT refund of Rs655m during the quarter accounted in other income. However, even adjusting for these one-off items other income was higher by 14.8% against our estimates on account of higher interest from bank deposits and dividend income (Rs341m). PBT was 12.2% lower than our estimates of Rs19.5bn. OIL's Q2FY12 PAT at Rs11.3bn, up 34% QoQ and 24.3% YoY, due to higher net realisation on the crude oil sales.

Exhibit 3: Crude & Natural Gas Sales Volume



Source: Company Data, PL Research

Exhibit 4: Crude – Gross & Net Realisation



Source: Company Data, PL Research

Outlook

OIL's stock fortune continues to be linked to clarity over the subsidy sharing mechanism, going ahead and subdued stock performance over the last one year could be attributed to the same. However, we believe, the scenario will evolve positively with likely clarity over the subsidy-sharing mechanism before the impending ONGC FPO. We continue to build a step-ladder subsidy sharing mechanism for OIL and ONGC. We believe implementation of the same would de-link the fortunes of these companies with ad-hoc price increases and provided required clarity in financials. On the cash-deployment front, the news flow pertaining to Maurel & Prom's oil assets in Gabon has gather significant strength. Company has done the due-diligence and is likely to approach E-GoM for the approval of the deal. These assets in the African nation are already producing oil and output is expected to be around 20,000 barrels per day by end of 2011. Thus, acquisition of the producing asset is likely to lead to reduction in concentration risk for OIL (largely operating in North East). The likely valuation associated with acquisition is likely to have material implication on the stock price.

On the valuation front, the stock is currently trading at attractive 8.6x FY2013E EPS and 1.5x FY2013E Book Value. While OIL India has better production growth profile in the near-term relative to its peer ONGC, one needs to accord premium to ONGC on account of stronger business model (international presence via ONGC Videsh, expertise in operations beyond onshore fields) and better balance sheet composition (lower cash levels in relative OIL as % of the balance sheet size). Moreover, the premium is also justified for ONGC in light of KG basin discoveries (likely to provide volumes growth).

We value OIL at 10x FY2013E EPS arriving at a fair value estimates of Rs1,495/share. The increase in the target price on account of increased volumes estimates, coupled with higher other income estimate (in turn on account of higher cash balance as we do not factor in acquisition in our estimates now). On EV/EBITDA basis at our target price, OIL will be trading at 4.5x FY2013E EBITDA, which is at the lower end of the international averages for the upstream E&P companies (trading in a range of 4.0x-6.0x EV/EBITDA with average of around 5.5x). The discount of around 18% to international peers is on account of lack of significant leverage to increasing oil prices. We continue to maintain **'Accumulate'** rating on the stock.

Income Statement (Rs m)

Y/e March	2010	2011	2012E	2013E
Net Revenue	**79,056**	**83,034**	**95,225**	**102,151**
Raw Material Expenses	163	(76)	—	—
Gross Profit	78,893	83,110	95,225	102,151
Employee Cost	12,059	9,978	10,477	11,001
Other Expenses	41,454	32,842	37,983	40,877
EBITDA	**25,380**	**40,290**	**46,765**	**50,273**
Depr. & Amortization	7,326	9,477	9,300	11,409
Net Interest	37	139	56	56
Other Income	10,658	12,458	13,388	15,675
Profit before Tax	**28,676**	**43,132**	**50,797**	**54,483**
Total Tax	12,845	14,255	17,271	18,524
Profit after Tax	**15,831**	**28,877**	**33,526**	**35,959**
Ex-Od items / Min. Int.	—	—	—	—
Adj. PAT	**15,831**	**28,877**	**33,526**	**35,959**
Avg. Shares O/S (m)	**240.5**	**240.5**	**240.5**	**240.5**
EPS (Rs.)	**65.8**	**120.1**	**139.4**	**149.5**

Balance Sheet Abstract (Rs m)

Y/e March	2010	2011	2012E	2013E
Shareholder's Funds	137,657	155,466	177,176	201,319
Total Debt	375	10,268	10,268	10,268
Other Liabilities	11,409	11,491	8,998	8,998
Total Liabilities	**149,440**	**177,225**	**196,443**	**220,586**
Net Fixed Assets	49,460	52,942	54,804	55,854
Goodwill	—	—	—	—
Investments	8,594	8,904	8,904	8,904
Net Current Assets	90,003	115,378	132,735	155,828
Cash & Equivalents	*85,429*	*107,112*	*122,582*	*145,108*
Other Current Assets	*37,637*	*28,055*	*30,328*	*31,129*
Current Liabilities	*33,063*	*19,789*	*20,175*	*20,409*
Other Assets	1,384	—	—	—
Total Assets	**149,441**	**177,225**	**196,443**	**220,586**

Cash Flow Abstract (Rs m)

Y/e March	2010	2011	2012E	2013E
C/F from Operations	11,387	22,343	27,607	31,182
C/F from Investing	(4,474)	(811)	2,227	3,216
C/F from Financing	17,817	151	(14,364)	(11,872)
Inc. / Dec. in Cash	24,729	21,683	15,470	22,527
Opening Cash	60,700	85,429	107,112	122,582
Closing Cash	85,429	107,112	122,582	145,108
FCFF	3,563	31,047	35,161	42,815
FCFE	3,374	40,940	35,161	42,815

Quarterly Financials (Rs m)

Y/e March	Q3FY11	Q4FY11	Q1FY12	Q2FY12
Net Revenue	**23,887**	**20,189**	**22,878**	**32,703**
EBITDA	**12,280**	**8,595**	**11,629**	**16,202**
% of revenue	*51.4*	*42.6*	*50.8*	*49.5*
Depr. & Amortization	2,261	3,413	2,784	5,901
Net Interest	12	112	88	5
Other Income	3,621	3,298	3,809	6,823
Profit before Tax	**13,628**	**8,368**	**12,566**	**17,119**
Total Tax	4,549	2,742	4,070	5,734
Profit after Tax	**9,079**	**5,626**	**8,496**	**11,385**
Adj. PAT	**9,079**	**5,626**	**8,496**	**11,385**

Key Financial Metrics

Y/e March	2010	2011	2012E	2013E
Growth				
Revenue (%)	9.2	5.0	14.7	7.3
EBITDA (%)	26.2	58.7	16.1	7.5
PAT (%)	36.7	82.4	16.1	7.3
EPS (%)	21.7	82.4	16.1	7.3
Profitability				
EBITDA Margin (%)	32.1	48.5	49.1	49.2
PAT Margin (%)	20.0	34.8	35.2	35.2
RoCE (%)	13.7	19.1	19.0	18.0
RoE (%)	13.7	19.7	20.2	19.0
Balance Sheet				
Net Debt : Equity	(0.6)	(0.6)	(0.6)	(0.7)
Net Wrkng Cap. (days)	5,514	(11,194)	—	—
Valuation				
PER (x)	19.6	10.7	9.2	8.6
P / B (x)	2.3	2.0	1.8	1.5
EV / EBITDA (x)	8.9	5.3	4.2	3.5
EV / Sales (x)	2.8	2.6	2.1	1.7
Earnings Quality				
Eff. Tax Rate	44.8	33.0	34.0	34.0
Other Inc / PBT	37.2	28.9	26.4	28.8
Eff. Depr. Rate (%)	10.8	13.3	12.1	14.1
FCFE / PAT	21.3	141.8	104.9	119.1

Source: Company Data, PL Research.

Key Operating Metrics

Y/e March	2010	2011	2012E	2013E
Oil production (mn barrels)	26.3	26.4	28.0	29.2
Gas sales (mcm)	2,410	2,480	2,670	3,070
Sales of LPG(TMT)	47.6	45.0	44.9	44.9
Gross realisations (US$/bbls)	69	86	115	120
Net realisations (US$/bbls)	56.2	58.5	57.4	57.5
Subsidy burden (Rs m)	15,488	32,931	72,850	82,500
Subsidy burden (% of total)	3.4	7.2	15.8	17.9
Natural gas realisation (Rs/scm)	3.6	6.8	6.8	6.8

Source: Company Data, PL Research.

Prabhudas Lilladher Pvt. Ltd.
3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India
Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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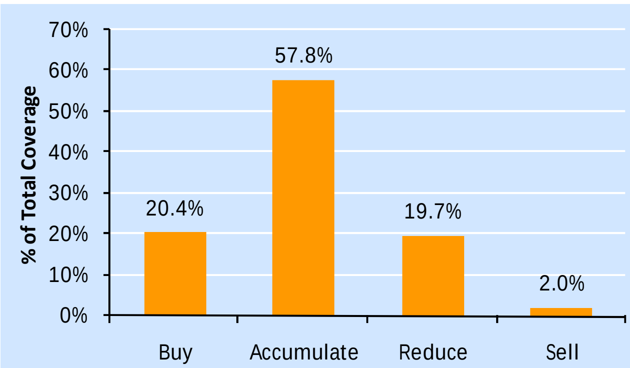

PL's Recommendation Nomenclature

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

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