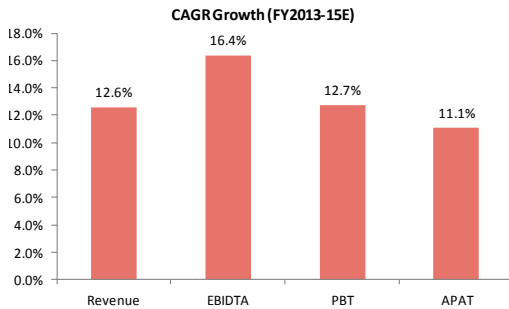


November 13, 2013

**Oil & Gas
Sector Outlook - Neutral**



Stock Recommendation	Outperform
CMP (₹)	462
Price Target (₹)	590
Upside (%)	28%
52 Week H / L ₹	630/415
BSE 30	20282

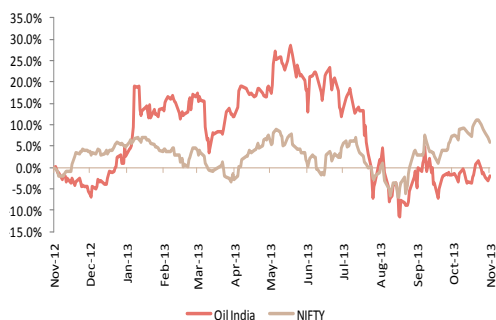
Key Data

No. of Shares, Mn.	601.1
Mcap, ₹ Bn	277722.1
Mcap, USD Bn @ ₹60	4628.7
2 W Avg Qty (BSE+NSE) Mn	0.3

Share holding, Sept'13

Promoters	68.4
FII	10.2
DII	6.6
Public & Others	14.8

Performance	1 M	3 M	6 M	12 M
Stock Return %	-0.3	-3.6	-17.5	-1.9
Relative Return %	1.0	-10.8	-16.0	-7.8



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Although, OIL's Q2FY14 crude net realisations improved to US\$52.3/bbl the performance was marred by higher dry well write offs at ₹2.8bn. performance was also supported by favourable exchange rate and higher crude sales which jumped by 7.1% QoQ at 0.93mmt. Subsidies for the quarter went up by 12.7% QoQ at ₹22.3bn. The company has guided for crude and natural gas production of 3.95mmt and 2.7bcm respectively for FY14E of which it is likely to fall short of in crude production as it has achieved only 1.82mmt production in H1FY14. Bandhs and blockades resulted in crude production loss of over 3,456mt during the quarter. We believe it would be difficult for the company to recover production loss of H1FY14 in H2FY14E and hence estimate crude production at 3.7mmt for FY14E. The company is making progress in its international ventures with production ramp-up in Carabobo, Venezuela, discovery in Gabon and ongoing production in its shale gas asset in the US. We believe these investments in overseas projects would yield value in future. We thus maintain 'Outperform' on the stock with a slightly revised target price of ₹590.

Crude production hampered due to bandhs and blockades: OIL's crude production jumped by 1.4% QoQ yet was lower by 4.6% YoY at 0.92mmt due to bandhs and blockades in Assam which resulted in loss of over 3,456mt production in Q2FY14. Natural gas production was marginally higher QoQ at 0.67bcm. Crude sales however jumped 7.1% QoQ at 0.93mmt due to higher off take from Numaligarh refinery. Net crude realisations jumped by 14.1% QoQ at US\$52.3/bbl with additional benefit from rupee depreciation. Thus the revenues jumped by 35.2% QoQ at ₹28.3bn.

Dry well write offs increase: Dry well write offs in Q2FY14 stood at ₹2.8bn against ₹1.0bn in Q1FY14 and ₹1.2bn in Q2FY13 thus impacting performance. Subsidy sharing for Q2FY14 stood at ₹22.3bn remaining same in dollar terms at US\$56.0/bbl yet higher by 12.7% QoQ due to rupee depreciation. Overall, despite higher write offs, higher crude realisation coupled with rupee depreciation led to 48.4% QoQ jump in PAT at ₹9.0bn.

Difficult to meet production targets for FY14E, overseas ventures to add value in future: We believe OIL would not be able meet its crude production guidance for FY14E. However, the management has indicated that the situation in Assam would improve going ahead which we believe would aid FY15E crude and natural gas production. OIL's overseas ventures are expected to add value going ahead with ramp up in Carabobo, Venezuela production, successful discovery in Gabon and ongoing production in the US shale gas asset. With expected natural gas price hike from FY15E onwards, OIL's earnings are likely to jump substantially. We believe the stock is available at attractive valuations of 8.1x and 6.3x FY14E EPS of ₹56.8 and FY15E EPS of ₹73.7. We have valued OIL at 8.0x and have arrived at a price target of ₹590. Maintain 'Outperform'.

Financials	Revenues ₹mn	EBIDTA ₹mn	APAT ₹mn	EPS ₹	P/E x	EV/EBIDTA x	ROAE %
FY11	83,206	42,721	28,877	48.0	9.6	4.0	19.7
FY12	98,632	45,798	34,469	57.3	8.1	3.7	20.7
FY13	99,476	46,147	35,893	59.7	7.7	3.6	19.4
FY14E	103,746	45,993	34,133	56.8	8.1	3.1	16.9
FY15E	126,096	62,524	44,300	73.7	6.3	1.9	19.6

Source: Company, Sunidhi Research



Quarterly Snapshot

(₹ mn)	Q1FY12	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13	Q4FY13	Q1FY14	Q2FY14	YoY (%)	QoQ (%)
Revenues	23,661	33,571	25,898	18,021	24,396	25,194	25,168	24,718	20,978	28,364	12.6	35.2
<i>Growth in rev. (%)</i>	12.8	41.9	(22.9)	(30.4)	35.4	3.3	(0.1)	(1.8)	(15.1)	35.2	0.0	0.0
Cost Of goods sold	364	68	376	119	29	(140)	63	(226)	(161)	257	(283.7)	(259.4)
<i>% of net sales</i>	1.5	0.2	1.5	0.7	0.1	(0.6)	0.3	(0.9)	(0.8)	0.9	0.0	0.0
Royalty & Cess	6,760	8,784	7,172	5,189	7,707	7,810	7,607	7,315	6,826	8,122	4.0	19.0
<i>% of net sales</i>	28.6	26.2	27.7	28.8	31.6	31.0	30.2	29.6	32.5	28.6	0.0	0.0
Others	1,121	4,147	1,457	3,490	1,259	1,783	2,039	4,199	2,634	2,096	17.6	(20.4)
<i>% of net sales</i>	4.7	12.4	5.6	19.4	5.2	7.1	8.1	17.0	12.6	7.4	0.0	0.0
Employee Cost	3,004	3,502	2,611	3,577	3,376	3,093	3,179	3,670	3,539	3,377	9.2	(4.6)
<i>% of net sales</i>	12.7	10.4	10.1	19.9	13.8	12.3	12.6	14.8	16.9	11.9	0.0	0.0
EBITDA	12,412	17,070	14,282	5,647	12,025	12,649	12,280	9,759	8,140	14,513	14.7	78.3
<i>Q-o-Q growth (%)</i>	32.4	37.5	(16.3)	(60.5)	112.9	5.2	(2.9)	(20.5)	(16.6)	78.3	0.0	0.0
<i>EBITDA Margin (%)</i>	52.5	50.8	55.1	31.3	49.3	50.2	48.8	39.5	38.8	51.2	0.0	0.0
Dep. and amort.	2,784	5,901	2,887	2,841	2,025	2,560	2,224	2,394	2,665	4,654	81.8	74.6
EBIT	9,627	11,170	11,395	2,806	10,000	10,089	10,056	7,366	5,475	9,859	(2.3)	80.1
Interest expenses	88	5	11	1	3	2	1	20	9	3	93.8	(65.6)
Other Income	3,026	5,955	3,756	3,389	3,772	4,025	3,857	3,694	3,517	3,474	(13.7)	(1.2)
EBT	12,566	17,119	15,140	6,194	13,769	14,112	13,912	11,040	8,982	13,330	(5.5)	48.4
Provision for tax	4,070	5,734	5,000	1,746	4,469	4,567	4,509	3,394	2,891	4,293	(6.0)	48.5
<i>Effective tax rate (%)</i>	32.4	33.5	33.0	28.2	32.5	32.4	32.4	30.7	32.2	32.2	0.0	0.0
Net Profit	8,496	11,385	10,140	4,448	9,299	9,546	9,403	7,646	6,091	9,036	(5.3)	48.4
Prior Period Adj.	0	0	0	0	0	0	0	0	0	0	0.0	0.0
Adj. Net Profit	8,496	11,385	10,140	4,448	9,299	9,546	9,403	7,646	6,091	9,036	(5.3)	48.4
<i>Q-o-Q growth (%)</i>	51.0	34.0	(10.9)	(56.1)	109.1	2.6	(1.5)	(18.7)	(20.3)	48.4	0.0	0.0
<i>Adj. PAT Margin (%)</i>	35.9	33.9	39.2	24.7	38.1	37.9	37.4	30.9	29.0	31.9	0.0	0.0

Operating Metrics	Q1FY12	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13	Q4FY13	Q1FY14	Q2FY14	YoY (%)	QoQ (%)
Crude production (MMT)	0.97	0.99	0.96	0.97	0.95	0.96	0.92	0.87	0.90	0.92	(4.6)	1.4
Gas production (BCM)	0.64	0.68	0.68	0.64	0.63	0.69	0.68	0.65	0.66	0.67	(3.6)	1.4
Crude Sales (MMT)	0.97	0.97	0.95	0.97	0.94	0.94	0.92	0.88	0.87	0.93	(1.8)	7.1
Gas Sales (BCM)	0.51	0.54	0.54	0.50	0.49	0.55	0.54	0.51	0.52	0.53	(3.3)	1.5
Crude Gross Real. (US\$/bbl)	116.3	112.5	110.1	119.7	109.8	108.6	108.6	111.4	101.9	108.3	(0.3)	6.3
Crude Net Real. (US\$/bbl)	59.6	86.3	57.0	38.9	53.8	52.6	52.6	55.4	45.9	52.3	(0.6)	14.1
Subsidy Sharing (₹mn)	17,807	8,444	18,530	28,737	20,155	20,782	19,488	18,497	19,821	22,337	7.5	12.7

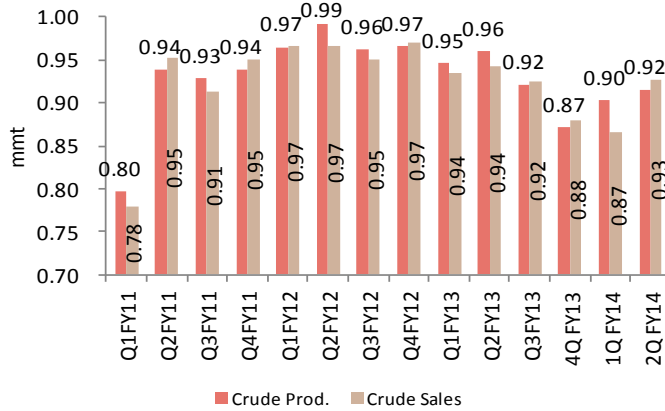
Source: Company, Sunidhi Research



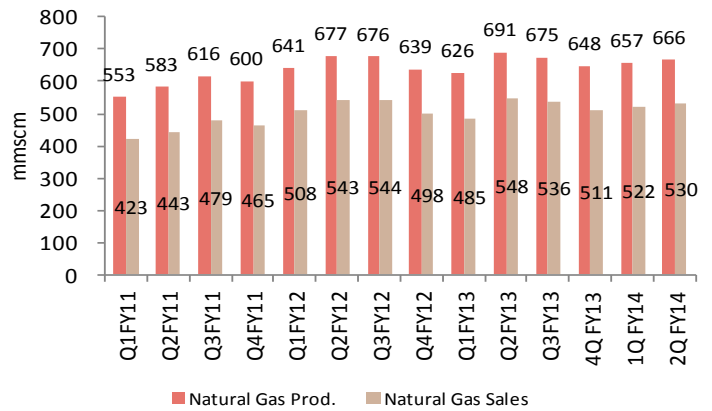
Crude production impacted due to ongoing bandhs and blockades in Assam

Crude production jumped marginally by 1.4% QoQ at 0.92mmt yet was affected due to ongoing bandhs and blockades in Assam. Crude sales which were affected in Q1FY14 due to lower off take by Numaligarh refinery recovered in Q2FY14 and jumped by 7.1% QoQ at 0.93mmt. Natural gas production too jumped marginally by 1.4% QoQ at 0.67bcm during Q2FY14. Gas sales jumped in line with production by 1.5% QoQ at 0.53bcm.

Crude Production and Sales



Natural Gas Production and Sales



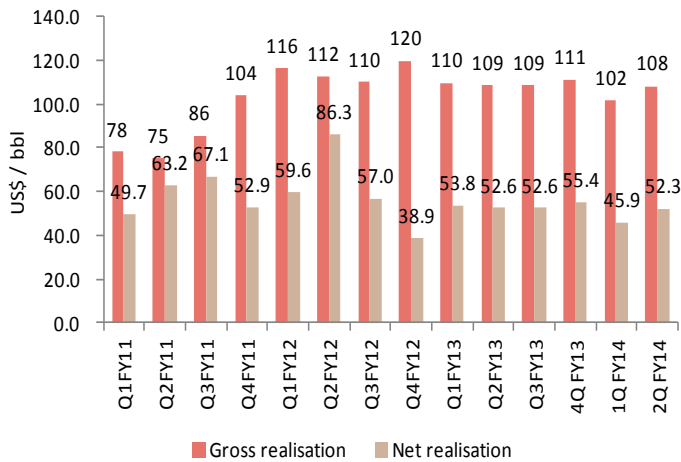
Source: Company, Sunidhi Research

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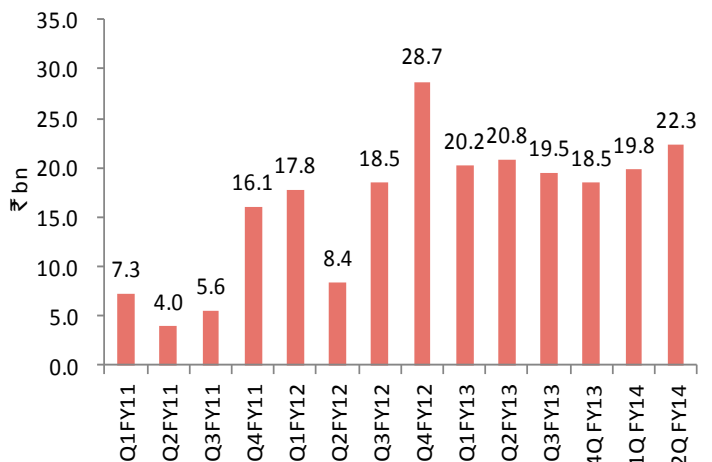
Crude discount kept unchanged at US\$56.0/bbl yet rupee depreciation benefits overall performance

Higher crude prices coupled with rupee depreciation led to 44.5% jump in crude average realisations in rupee terms at ₹22,347/mt. Net crude realisations for Q2FY14 stood at US\$52.3/bbl while gross realisation were at US\$108.3/bbl. Subsidy sharing for the quarter jumped by 12.7% QoQ at ₹22.3bn.

Crude gross and net realisations



Subsidy sharing

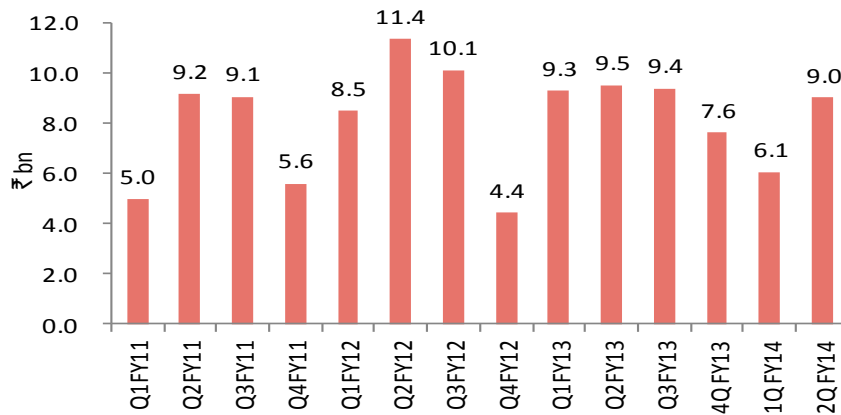


Source: Company, Sunidhi Research

Source: Company, Sunidhi Research



PAT Trend



Source: Company, Sunidhi Research

Change in estimates

Based on H1FY14 performance, we have lowered our crude production assumption for OIL to 3.7mmt for FY14E keeping our assumption for FY15E unchanged at 3.91mmt. Also, we have raised our rupee-dollar assumption for FY14E and FY15E to ₹59.5/US\$ and ₹60.0/US\$ respectively. Similarly, the subsidy sharing has also been raised for FY14E and FY15E by 6.4% and 12.1% respectively. These changes have resulted in increasing our earnings estimates for FY15E by 3.8% to ₹44.3bn

(₹bn)	FY14E			FY15E		
	Previous	Revised	% change	Previous	Revised	% change
Revenue	104.1	103.7	(0.4)	122.7	126.1	2.8
EBITDA	46.7	46.0	(1.6)	61.1	62.5	2.3
PAT	34.4	34.1	(0.7)	42.7	44.3	3.8
Operating metrics						
Crude production(mmt)	3.79	3.70	(2.4)	3.91	3.91	0.0
Gas production(bcm)	2.73	2.73	-	2.95	2.95	-
Oil realisation gross (US\$/bbl)	104.0	105.8	1.7	104.0	104.0	-
Oil realisation net (US\$/bbl)	52.1	54.4	4.5	50.8	53.1	4.6
Subsidy sharing(₹bn)	80.4	85.6	6.4	79.3	88.9	12.1
Gas realisation (US\$/mmbtu)	3.9	3.6	(6.1)	6.8	6.8	-
Exchange rate (₹/US\$)	56.0	59.5	6.2	54.5	60.0	10.1

Source: Company, Sunidhi Research

Valuations and outlook

Difficult to meet production targets for FY14E, overseas ventures to add value in future: We believe OIL would not be able meet its production guidance for FY14E. However, the management has indicated that the situation in Assam would improve going ahead which we believe would aid FY15E crude and natural gas production. OIL’s overseas ventures are expected to add value going ahead with ramp up in Carabobo, Venezuela production, successful discovery in Gabon and ongoing production in the US shale gas asset. With expected natural gas price hike from FY15E onwards, OIL’s earnings are likely to jump substantially.

We believe the stock is available at attractive valuations of 8.1x and 6.3x FY14E EPS of ₹56.8 and FY15E EPS of ₹73.7. We have valued OIL at 8.0x and have arrived at a price target of ₹590. Maintain ‘Outperform’.

Production guidance	FY13A	FY14E	FY14E our assumption
Crude (mmt)	3.70	3.95	3.79
Gas (bcm)	2.64	2.74	2.73
Grand total (O+OEG)	6.34	6.69	6.52

Source: Company, Sunidhi Research



Valuations Summary

Year End-March	FY11	FY12	FY13	FY14E	FY15E
Per share (₹)					
EPS	48.0	57.3	59.7	56.8	73.7
CEPS	139.9	164.6	69.1	66.7	84.3
BVPS	259.5	294.8	319.6	353.0	400.3
DPS	15.0	19.0	30.0	20.0	22.5
Payout (%)	31.2	33.1	50.2	35.2	30.5
Valuation (x)					
P/E	9.6	8.1	7.7	8.1	6.3
P/BV	1.8	1.6	1.4	1.3	1.2
EV/EBITDA	4.0	3.7	3.6	3.1	1.9
Dividend Yield (%)	3.2	4.1	6.5	4.3	4.9
Return ratio (%)					
EBIDTA Margin	51.3	46.4	46.4	44.3	49.6
PAT Margin	34.7	34.9	36.1	32.9	35.1
ROAE	19.7	20.7	19.4	16.9	19.6
ROACE	21.2	20.2	18.7	15.8	19.9
Leverage Ratios (x)					
Long term D/E	0.0	0.0	0.0	0.0	0.0
Net Debt/Equity	(0.7)	(0.6)	(0.6)	(0.6)	(0.7)
Interest Coverage	262.9	394.3	1,452.7	26.8	23.9
Current ratio	4.4	4.2	4.8	4.6	4.7
Growth Ratios (%)					
Income growth	5.0	18.5	0.9	4.3	21.5
EBITDA growth	14.5	7.2	0.8	(0.3)	35.9
PAT growth	10.6	19.4	4.1	(4.9)	29.8
Turnover Ratios					
F.A Turnover x	1.5	1.8	1.5	1.4	1.5
Inventory Days	21.6	19.5	23.3	22.0	22.0
Debtors Days	40.9	38.9	33.1	25.3	25.3
Payable days	15.1	12.8	10.7	11.2	9.9

Income Statement(₹ mn)

Year End-March	FY11	FY12	FY13	FY14E	FY15E
Revenues	83,206	98,632	99,476	103,746	126,096
Op. Expenses	40,485	52,834	53,329	57,752	63,573
EBITDA	42,721	45,798	46,147	45,993	62,524
Other Income	8,739	14,167	15,088	16,219	16,819
Depreciation	8,197	8,852	8,376	9,120	10,021
EBIT	43,263	51,112	52,858	53,092	69,322
Interest	131	94	26	1,375	2,200
Prov., Write offs	0	0	0	0	0
PBT	43,132	51,019	52,832	51,717	67,122
Tax	14,255	16,549	16,939	17,584	22,821
PAT	28,877	34,469	35,893	34,133	44,300
Minority	0	0	0	0	0
Prior Period Adj.	0	0	0	0	0
Sh. of Associates	0	0	0	0	0
Ex. ordinary	0	0	0	0	0
Adj. PAT	28,877	34,469	35,893	34,133	44,300

Source: Company, Sunidhi Research

Balance Sheet (₹ mn)

Year End-March	FY11	FY12	FY13	FY14E	FY15E
Equity and Liabilities					
Share Capital	2,405	2,405	6,011	6,011	6,011
Reserves and Surplus	153,614	174,809	186,103	206,170	234,645
Total Shareholders funds	156,019	177,213	192,115	212,181	240,657
Minority Interest	0	0	0	0	0
Non-Current Liability					
Long Term Borrowings	88	0	0	0	0
Deferred Tax Liabilities (Net)	11,491	10,767	12,186	12,186	12,186
Long Term Liab./ Provisions	3,251	4,038	4,481	4,481	4,481
Current Liabilities					
Short Term Borrowings	10,055	101	10,219	27,500	22,000
Trade Payables	3,435	3,469	2,925	3,175	3,425
Other Current Liabilities	18,049	19,682	14,161	14,661	15,161
Short Term Provisions	9,924	11,543	15,363	24,756	26,764
Grand Total	212,311	226,813	251,449	298,941	324,674
Assets					
Non Current Assets					
Fixed Assets					
Net producing properties	32,586	34,352	35,843	35,534	35,250
Expl./ dev. wells-in-prog. (Net)	8,757	6,209	10,480	14,723	21,216
Deferred Tax Assets	0	0	0	0	0
Non-Current Investments	6,304	7,831	8,579	8,579	8,579
Long Term Loans and Advances	3,595	3,110	5,269	5,269	5,269
Other non-current assets	194	137	1,039	1,039	1,039
Current Assets					
Current Investments	2,600	18,311	9,992	9,992	9,992
Inventories	5,004	5,333	6,443	6,340	7,706
Trade Receivables	9,322	10,518	9,027	7,205	8,757
Cash and Cash Equivalents	117,675	109,355	121,329	164,328	178,985
Short Term Loans and Advances	8,203	8,949	13,587	13,587	13,587
Other Current Assets	4,751	7,019	8,905	8,905	8,905
Grand Total	212,311	226,813	251,809	298,941	324,674
Cash flow Statement					
Year End-March	FY15E	FY15E	FY15E	FY15E	FY15E
PBT	43,132	51,019	52,832	51,717	67,122
Depreciation	4,790	5,142	5,671	6,041	6,441
Interest Exp	131	94	26	1,375	2,200
Others	(8,739)	(14,167)	(15,088)	(16,219)	(16,819)
CF before W.cap	39,314	42,088	43,442	42,914	58,944
Inc/dec. in W.cap	16,540	746	(5,438)	12,069	(160)
Op CF after W.cap	55,855	42,833	38,005	54,983	58,784
Less Taxes	12,973	17,273	15,520	17,584	22,821
Exceptional & Prior Period Adj.	0	0	0	0	0
Net CF From Operations	42,882	25,561	22,485	37,399	35,963
Inc/(dec.) in F.A + CWIP	(9,889)	(3,307)	(12,753)	(12,100)	(14,600)
others	11,029	12,640	14,339	16,219	16,819
CF from Invst. Activities	1,140	9,333	1,587	4,119	2,219
Loan Raised/(repaid)	9,768	(10,042)	10,477	16,922	(5,500)
Equity Raised	0	0	0	0	0
Dividend	(10,497)	(13,275)	(20,992)	(14,067)	(15,825)
Others	(11,047)	(19,897)	(1,582)	(1,375)	(2,200)
CF from Fin Activities	(11,776)	(43,214)	(12,097)	1,480	(23,525)
Net inc/(dec.) in cash	32,245	(8,320)	11,975	42,998	14,657
Op. bal of cash	85,429	117,675	109,355	121,329	164,328
Cl. balance of cash	117,675	109,355	121,329	164,328	178,985



Sunidhi's Rating Rationale

The price target for a **large cap stock** represents the value the analyst expects the stock to reach over next 12 months. For a stock to be classified as **Outperform**, the expected return must exceed the local risk free return by at least 5% over the next 12 months. For a stock to be classified as **Underperform**, the stock return must be below the local risk free return by at least 5% over the next 12 months. Stocks between these bands are classified as **Neutral**.

(For Mid & Small cap stocks from 12 months perspective)

BUY	Absolute Return >20%
ACCUMULATE	Absolute Return Between 10-20%
HOLD	Absolute Return Between 0-10%
REDUCE	Absolute Return 0 To Negative 10%
SELL	Absolute Return > Negative 10%

Apart from Absolute returns our rating for a stock would also include subjective factors like macro environment, outlook of the industry in which the company is operating, growth expectations from the company vis a vis its peers, scope for P/E re-rating/de-rating for the broader market and the company in specific.

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