

## OIL INDIA

### Attractively priced

Oil India is a government-owned company that explores, develops and produces oil and gas. It is India's second-largest E&P company in terms of production and reserves. Currently, Oil India has 2P reserves of 941mnboe, indicating a reserve life of 22 years.

**One of the lowest cost producers:** During FY2012, Oil India's cost of oil production stood at US\$8.3/bbl, which is one of the lowest in our view. Its cost of natural gas production stood at US\$1.4/mmbtu. Due to lower cost of production, Oil India enjoys robust operating margins (~30%) despite lower net realizations, on the back of subsidy sharing with Oil Marketing Companies (OMCs).

**Rise in fuel prices could pave way for re-rating:** Upstream oil PSU companies have been sharing under-recoveries by the downstream companies who sell diesel, kerosene and LPG cylinders at subsidized rates. As there is no concrete formula or methodology to determine the annual subsidy of any of these companies, investors have remained concerned over the lack of visibility on profitability of downstream and upstream companies. During FY2012, subsidy shared by Oil India rose by 123.3% yoy to ₹7,352cr. However, given the rising under-recoveries, government has hinted at diesel price de-regulation (diesel contributes 60% to total under-recoveries). Hence, going forward, diesel price de-regulation is likely to result in lower subsidy burden on upstream companies including Oil India and thus higher realizations. Oil India's Management also expects the subsidy amount to decline significantly during FY2014.

**Strong balance sheet paves way for acquisition of energy assets:** As on September 30, 2012, Oil India had net cash of ₹252/share on the balance sheet. Considering the operating cash flow and the company's capex requirements over the coming few years, we believe the company will maintain high cash balance, which could pave way for acquisition of oil and gas assets. The company aims to acquire shale gas assets in the US.

**Outlook and valuation:** Historically, Oil India stock has traded at a lower EV/1P Reserves compared to its global peers on account of lower realizations on crude oil (subsidy sharing with downstream companies' results in lower net realizations). However, we believe that the government's initiatives to raise (de-regulate) the price of diesel gradually should lead to lower subsidy sharing by upstream companies from FY2014 and hence, result in higher realizations. Consequently, we expect Oil India's valuation gap to narrow gradually with global peers. **We derive a SOTP-based target price of ₹600 and recommend investors with long-term horizon to Subscribe to the shares of Oil India.**

## SUBSCRIBE

Issue Open: February 01, 2013

Issue Close: February 01, 2013

### Issue Details

Face Value: ₹10

Present Eq. Paid-up Capital: ₹240cr

Offer Size: 6.01cr Shares

Post Eq. Paid-up Capital: ₹240cr

Issue size (amount):\* ₹3,065cr

Floor Price: ₹510

Post-issue implied mkt cap: ₹32,413cr

Promoters holding Pre-Issue: 78.4%

Promoters holding Post-Issue: 68.4%

### Post Issue Shareholding Pattern

Promoters Group	68.4
MF/Banks/Indian FIIs/FIIs/Public & Others	31.6

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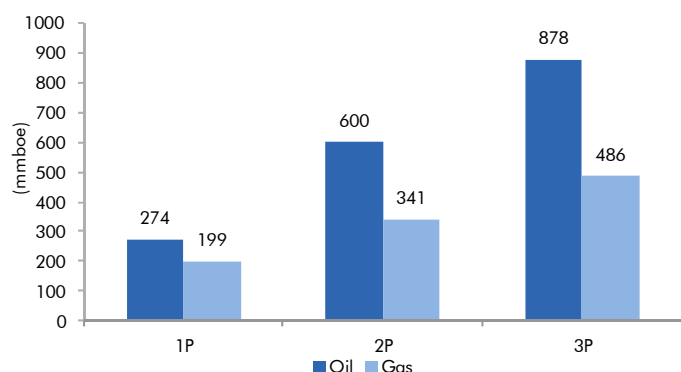
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## Company background

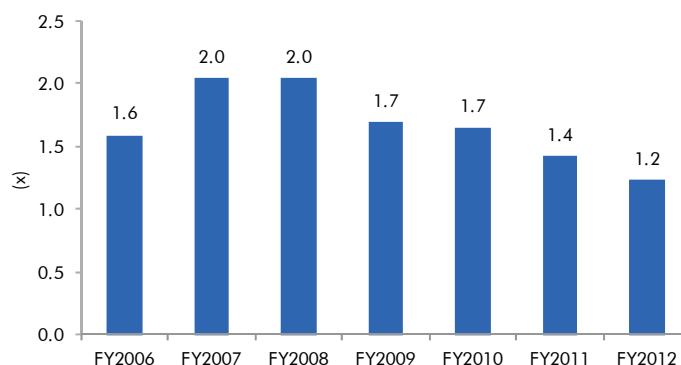
Oil India is a *Navratna* company that is into exploration, development and production of oil and gas. It is India's second-largest E&P company in terms of production and reserves. Approximately 95% of Oil India's production comes from its Upper Assam basin. The company holds several NELP blocks as an operator and some with joint ventures. Currently, Oil India has 2P reserves of 941mnboe, indicating a reserve life of 22 years.

**Exhibit 1: Reserves break-up**



Source: Company, Angel Research

**Exhibit 2: Reserve Replacement ratio**



Source: Company, Angel Research

## Issue details

The issue comprises an offer for sale of 6.01cr equity shares of face value ₹10 each. There is no fresh issue of equity. Oil India has fixed the floor price of the issue at ₹510 per share.

**Exhibit 3: Shareholding Pattern**

Particulars	Pre-Issue		Post-Issue	
	No. of shares	(%)	No. of shares	(%)
Promoter and promoter group	47,14,98,900	78.4	41,11,76,993	68.4
Total public holding	12,96,37,055	21.6	18,99,58,962	31.6
<b>Total</b>	<b>60,11,35,955</b>	<b>100</b>	<b>60,11,35,955</b>	<b>100</b>

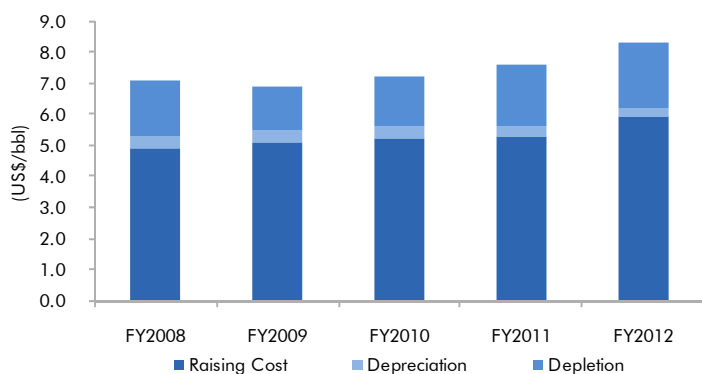
Source: Source: RHP, Angel Research

## Investment arguments

### One of the lowest cost producers

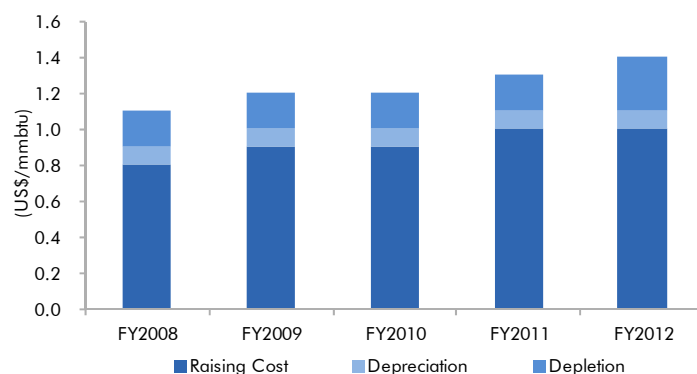
During FY2012, Oil India's cost of oil production stood at US\$8.3/bbl, which is one of the lowest in our view. Its cost of natural gas production stood at US\$1.4/mmBtu. Due to lower cost of production, Oil India enjoys robust operating margins (~30%) despite lower net realizations, on the back of subsidy sharing with Oil Marketing Companies (OMCs).

**Exhibit 4: Crude oil production cost trend**



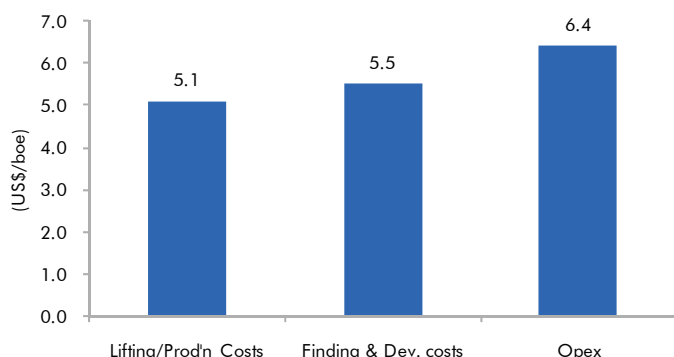
Source: Company, Angel Research

**Exhibit 5: Natural gas production cost trend**



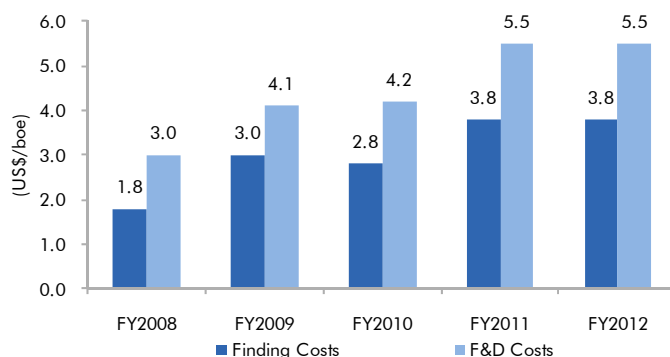
Source: Company, Angel Research

**Exhibit 6: Lowest cost operator (FY2012)**



Source: Company, Angel Research

**Exhibit 7: Finding and development costs trend**



Source: Company, Angel Research

### Rise in fuel prices could pave way for re-rating

Upstream oil PSU companies have been sharing under-recoveries by the downstream companies who sell diesel, kerosene and LPG cylinders at subsidized rates. As there is no concrete formula or methodology to determine the annual subsidy of any of these companies, investors have remained concerned over the lack of visibility on profitability of downstream and upstream companies. During FY2012, subsidy shared by Oil India rose by 123.3% yoy to ₹7,352cr. However, given the rising under-recoveries, government has hinted at diesel price de-regulation (diesel contributes 60% to total under-recoveries). Hence, going forward, diesel price de-regulation is likely to result in lower subsidy burden on upstream companies including Oil India and thus higher realizations. Oil India's Management also expects the subsidy amount to decline significantly during FY2014.

**Exhibit 8: Subsidy sharing by upstream companies (₹ cr)**

	FY2008	FY2009	FY2010	FY2011	FY2012
ONGC	22,001	28,226	11,550	24,786	44,500
Oil India	2,305	3,023	1,549	3,293	7,352
GAIL	1,314	1,781	1,327	2,111	3,183

Source: Company, Angel Research

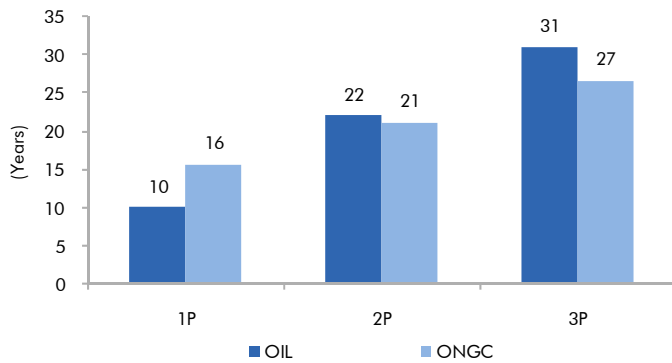
**Strong balance sheet paves way for acquisition of energy assets**

As on September 30, 2012, Oil India had net cash of ₹252/share on the balance sheet. Considering the operating cash flow and the company's capex requirements over the coming few years, we believe the company will maintain high cash balance, which could pave way for acquisition of oil and gas assets. The company aims to acquire shale gas assets in the US.

**Oil India vs ONGC**

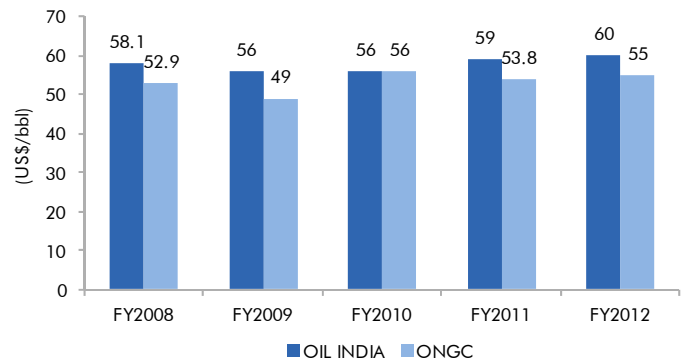
ONGC is the largest explorer and crude oil producer in India with reserves which are more than 10x Oil India's reserves. ONGC shares subsidy-burden similar to Oil India. Hence, we compare Oil India vis-à-vis ONGC on several parameters. We find that Oil India scores over ONGC on most of these parameters. Even on valuations front, Oil India is currently trading at 3.5x EV/2P Reserves compared to ONGC which is trading at 4.7x.

**Exhibit 9: ONGC vs Oil India – Reserve Life (Stand.)**



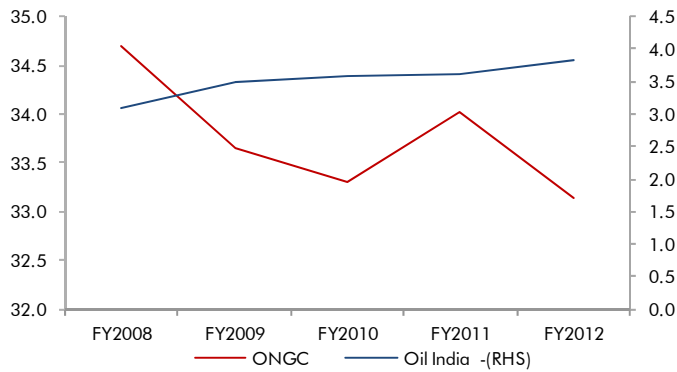
Source: Company, Angel Research

**Exhibit 10: ONGC vs Oil India – Realizations (Stand.)**



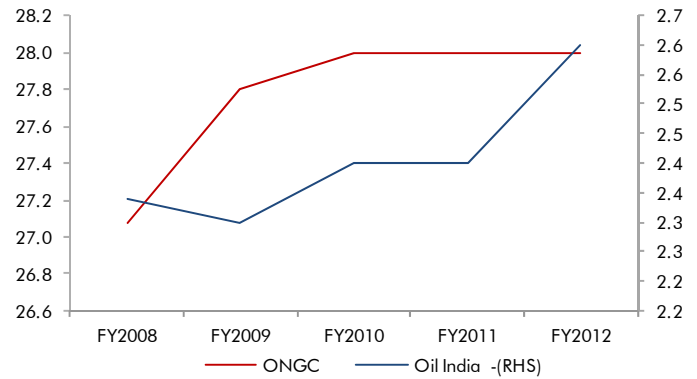
Source: Company, Angel Research

**Exhibit 11: ONGC vs Oil India – Oil production (mmt)**



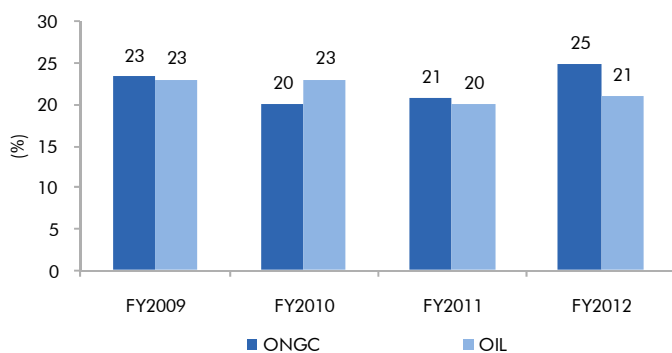
Source: Company, Angel Research

**Exhibit 12: ONGC vs Oil India – Gas production (bcm)**



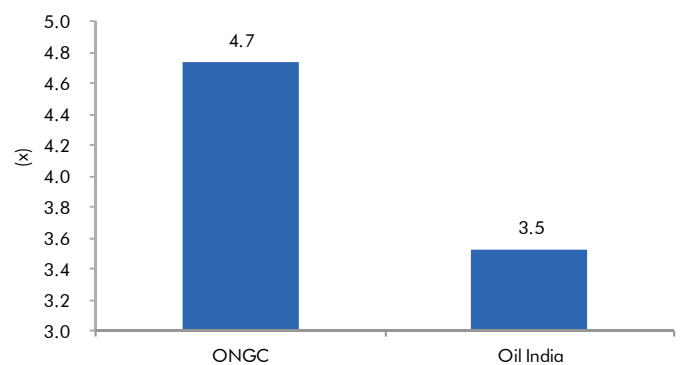
Source: Company, Angel Research

**Exhibit 13: ONGC vs Oil India – ROE**



Source: Company, Angel Research

**Exhibit 14: ONGC vs Oil India EV/2P reserves valuation**



Source: Company, Angel Research

## Outlook and valuation

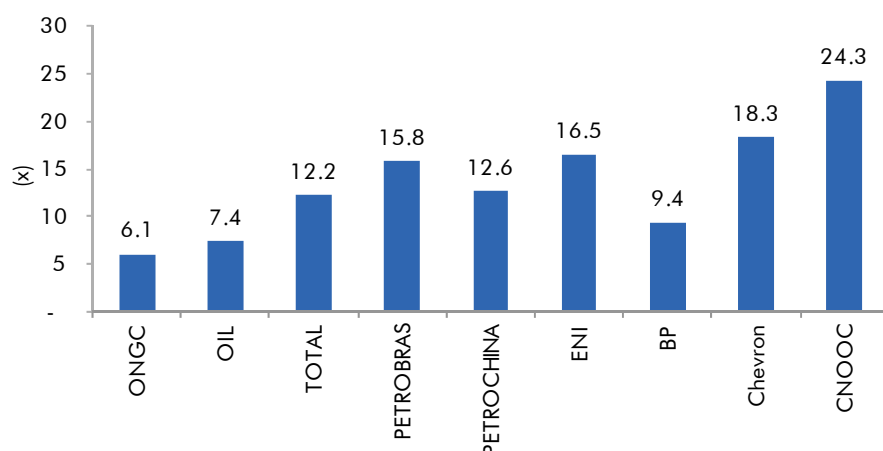
Historically, Oil India stock has traded at a lower EV/1P Reserves compared to its global peers on account of lower realizations on crude oil (subsidy sharing with downstream companies' results in lower net realizations). However, we believe that the government's initiatives to raise (de-regulate) the price of diesel gradually should lead to lower subsidy sharing by upstream companies from FY2014 and hence, result in higher realizations. Consequently, we expect Oil India's valuation gap to narrow gradually with global peers. **We derive a SOTP-based target price of ₹600 and recommend investors with long-term horizon to Subscribe to the shares of Oil India.**

### Exhibit 15: SOTP valuation

	mm/bbl	US\$/boe	US\$ mn	₹/share
2P oil reserves	600	5.2	3,120	285
2P gas reserves	341	2.0	682	62
Net cash				252
<b>Target price</b>				<b>600</b>

Source: Company, Angel Research

### Exhibit 16: EV/1P Reserves matrix



Source: Angel Research, Bloomberg

## Key concerns

### High dependence on one region

Currently, 95% of Oil India's production comes from its Upper Assam basin. Any adverse event or security concerns in this region can potentially affect Oil India's operations.

### Risk of higher subsidy sharing

Over the past five years, Oil India's subsidy sharing has remained volatile as there is no concrete formula for calculating subsidy. Although we anticipate government to gradually de-regulate diesel prices, the risk of higher subsidy sharing by Oil India remains in the near-term.

**Profit & Loss Statement (Standalone)**

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012
<b>Net Sales</b>	<b>7,241</b>	<b>9,454</b>	<b>11,614</b>	<b>17,215</b>
% chg	-	30.6	22.8	48.2
Total Expenditure	4,635	6,290	7,346	12,518
<b>EBIDTA</b>	<b>3,564</b>	<b>4,119</b>	<b>5,142</b>	<b>6,142</b>
(% of Net Sales)	49.2	43.6	44.3	35.7
Other Income	957	954	874	1,445
Depreciation & Amortization	168	220	820	1,009
Interest	9	4	13	9
<b>PBT</b>	<b>3,387</b>	<b>3,895</b>	<b>4,309</b>	<b>5,124</b>
(% of Net Sales)	46.8	41.2	37.1	29.8
Extraordinary Expense/(Inc.)	-	-	-	-
Tax	1,225	1,285	1,425	1,655
(% of PBT)	36.2	33.0	33.1	32.3
<b>PAT</b>	<b>2,162</b>	<b>2,610</b>	<b>2,884</b>	<b>3,469</b>
% chg	-	20.8	10.5	20.3
<b>Ad. PAT</b>	<b>2,162</b>	<b>2,610</b>	<b>2,884</b>	<b>3,469</b>
% chg	-	20.8	10.5	20.3

**Balance Sheet (Standalone)**

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012
<b>SOURCES OF FUNDS</b>				
Equity Share Capital	214	240	240	240
Reserves & Surplus	9,118	13,525	15,357	17,499
<b>Shareholders' Funds</b>	<b>9,332</b>	<b>13,766</b>	<b>15,598</b>	<b>17,740</b>
Share warrants	-	-	-	-
Minority Interest	-	-	-	-
Total Loans	56	38	1,027	19
Other Liabilities	-	-	325	404
Deferred Tax Liability (net)	900	1,021	1,149	1,077
<b>Total Liabilities</b>	<b>10,289</b>	<b>14,824</b>	<b>18,099</b>	<b>19,239</b>
<b>APPLICATION OF FUNDS</b>				
Gross Block	2,972	3,211	3,320	3,534
Less: Acc. Depreciation	1,838	2,136	2,331	2,476
<b>Net Block</b>	<b>1,134</b>	<b>1,075</b>	<b>990</b>	<b>1,058</b>
Capital Work-in-Progress	3,402	3,871	4,477	4,567
Goodwill	-	-	-	-
<b>Investments</b>	<b>489</b>	<b>859</b>	<b>885</b>	<b>2,632</b>
Current Assets	8,413	12,307	14,553	14,166
Current liabilities	3,149	3,306	3,184	3,509
<b>Net Current Assets</b>	<b>5,264</b>	<b>9,000</b>	<b>11,369</b>	<b>10,657</b>
Other assets	-	-	379	325
Misc Expenditure	-	18	-	-
<b>Total Assets</b>	<b>10,289</b>	<b>14,824</b>	<b>18,099</b>	<b>19,239</b>

**Cash Flow Statement (Standalone)**

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012
Profit before tax	3,387	3,895	4,313	5,102
Depreciation	173	222	178	151
(Inc)/Dec in Working Capital	386	(500)	402	313
Direct taxes paid	(517)	(1,248)	(1,382)	(1,897)
Others	(259)	(405)	(458)	(571)
<b>Cash Flow from Operations</b>	<b>3,170</b>	<b>1,964</b>	<b>3,052</b>	<b>3,097</b>
(Inc.)/Dec. in Fixed Assets	-	-	(952)	(860)
<b>Free Cash Flow</b>	<b>3,170</b>	<b>1,964</b>	<b>2,100</b>	<b>2,237</b>
(Inc)/Dec in Investments	-	(371)	(31)	(1,724)
Others	(124)	210	(120)	1,504
Issue of Equity	-	2,777	-	-
Inc./(Dec.) in loans	(118)	(16)	989	(1,004)
Dividend Paid (Incl.Tax)	(642)	(765)	(818)	(1,310)
<b>Cash Flow from Financing</b>	<b>(884)</b>	<b>1,836</b>	<b>21</b>	<b>(2,534)</b>
Inc./(Dec.) in Cash	1,789	2,473	3,225	(832)
<b>Opening Cash balances</b>	<b>4,281</b>	<b>6,070</b>	<b>8,543</b>	<b>11,767</b>
<b>Closing Cash balances</b>	<b>6,070</b>	<b>8,543</b>	<b>11,767</b>	<b>10,935</b>

**Key Ratios**

Y/E March	FY2009	FY2010	FY2011	FY2012
<b>Per Share Data (₹)</b>				
EPS (diluted)	50.5	54.3	60.0	72.1
Book Value	218.0	286.2	324.3	368.9
<b>Ratios</b>				
EBITDA margin (%)	49.2	43.6	44.3	35.7
Adj. Net margin (%)	29.9	27.6	24.8	20.2
Net Debt/Equity (x)	(0.6)	(0.6)	(0.7)	(0.6)
<b>Returns (%)</b>				
RoE	230	23.0	20.0	21.0
RoCE	36.2	33.7	28.1	29.2
RoIC	52.4	61.5	69.5	70.7
<b>Valuation Ratio (x)</b>				
P/E	10.0	10.1	9.2	7.0
P/BV	2.4	1.8	1.6	1.4
EV/Sales	2.2	1.7	1.2	0.7
EV/EBITDA	4.4	3.8	2.6	1.9



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