



Indian Equities  
Oil & Gas

Quarterly Update

**Oil India Limited**

**HOLD**

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<b>CMP</b>	<b>Rs 1,409</b>
<b>Target Price</b>	<b>Rs 1,586</b>
Sensex	17,868
Nifty	5,368

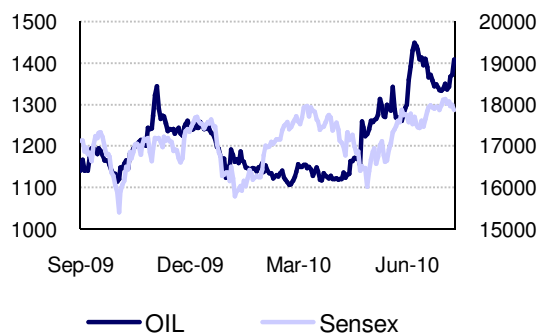
#### Stock Details

BSE Code	533106
NSE Code	OIL
Reuters Code	OILI.BO
Bloomberg Code	OINL IN
Market Cap (Rs Cr)	33,897.69
Beta	0.37
52 W High / Low (Rs)	1,557.65/1,019.00
Avg Daily Volume	1,07,706
Face Value (Rs)	10.00

#### Shareholding Pattern (%)

Promoters	78.43
MF/Banks/Indian FIs	3.93
FII / NRIs / OCBs	1.86
Non-Institutions	12.40
Indian Public	3.38

#### Price Chart



#### Performance Highlights

**Revenue declines on lower production volumes:** In Q1FY2011, Oil India Limited (OIL) reported a decline in topline by 21.1% yoy to Rs 1,523.4cr. This was on account of a shutdown at the Numaligarh Refinery (NRL), which reduced oil and gas sales production volumes. NRL is now back on stream and production has resumed to pre-shutdown levels. The company has also planned to increase the production further to make up for the losses incurred.

**Net profit declines 32.3% yoy:** During Q1FY2011, EBITDA margin declined to 41.9% against 50.8% in Q1FY2010 due to higher exploratory expenses and production cost with respect to sales. Moreover, an increase in depreciation and effective tax rate resulted in 32.3% yoy decline in net profit to Rs 501.1cr.

**APM gas price increased and fuel prices revised:** On May 19, 2010, the government increased Administered Pricing Mechanism (APM) gas prices by 133.3% to US\$ 4.2/mmbtu against US\$ 1.8/mmbtu earlier, which is now at par with that of RIL's KG D6 gas. Moreover, the price revision in auto fuels and cooking fuels announced on June 25, 2010 is expected to lower the subsidy burden, thereby, improving the bottom line.

**Outlook and Valuation:** At the current market price of Rs 1,409, OIL is trading at P/E of 11.2x FY2011E and 9.4x FY2012E earnings, P/BV of 2.1x FY2011E and 1.8x FY2012E earnings. We believe an upward revision in APM gas price, price revision of auto fuels and cooking fuels and the aggressive exploratory and production activities would be key triggers to the company's growth in the medium to long term. However, the current market price limits the potential upside to 12.6%. **We therefore recommend HOLD on the stock with a target price of Rs 1,586.**

#### Exhibit 1: Quarterly Analysis

Particulars	Rs cr				
	Q1FY2011	Q1FY2010	YoY(%)	Q4FY2010	QoQ(%)
Net Sales	1523.4	1931.8	(21.1)	1832.1	(16.9)
Other Income	293.1	206.3	42.1	246.9	18.7
Total Income	1816.5	2138.1	(15.0)	2079.0	(12.6)
Total Expenditure	884.7	951.0	(7.0)	1166.4	(24.2)
EBIDTA	638.8	980.8	(34.9)	665.8	(4.1)
EBIDTA Margin (%)	41.9	50.8	-	36.3	-
Interest	0.6	0.9	(28.9)	1.0	(34.0)
Depreciation	197.9	121.8	62.5	323.5	(38.8)
Profit before Tax	733.3	1064.5	(31.1)	588.2	24.7
Tax	232.2	324.8	(28.5)	157.2	47.8
Profit After Tax	501.1	739.7	(32.3)	431.0	16.3
PAT Margin (%)	32.9	38.3	-	23.5	-
EPS (Rs)	20.8	30.8	-	17.9	-

Source: Company, Parsoli Research



**During Q1FY2011, the revenues declined by 21.1% yoy due to a shutdown at NRL**

### Key Updates

#### Revenue declined 21.1% yoy on lower production volume

In Q1FY2011, OIL's revenue declined by 21.1% yoy to Rs 1,523.4cr. This was on account of a shutdown at the Numaligarh Refinery (NRL), which reduced oil and gas sales production volumes. During the quarter, crude oil production declined by 6.4% yoy to 0.8mmt and natural gas production declined by 9.1% yoy to 6.0mmscmd. However, NRL is now back on stream and production has ramped to pre-shutdown level of 9,910 tonnes/day. The company has also planned to increase the production further to make up for the losses incurred during the quarter. Also, the net crude oil realization declined by 10.7% yoy to US\$ 49.7/barrel due to higher subsidy sharing of US\$ 28.4/barrel against US\$ 1.8/barrel in Q1FY2010.

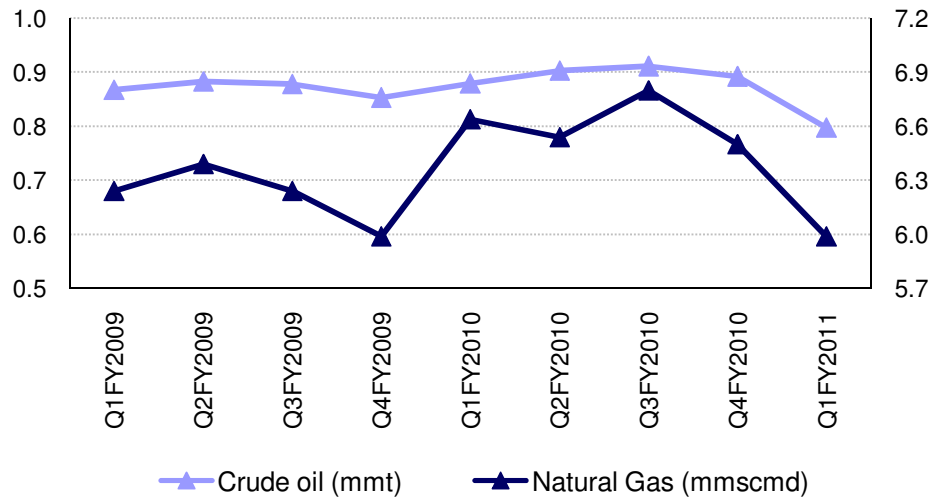
#### Exhibit 2: Performance Details

	Q1FY2011	Q1FY2010	YoY(%)	Q4FY2010	QoQ(%)
<b>Physical Performance</b>					
Crude Oil (mmt)	0.80	0.85	(6.4)	0.89	(10.5)
Natural Gas(mmscmd)	5.99	6.59	(9.1)	6.09	(1.6)
<b>Crude Oil Realizations (US\$/barrel)</b>					
Gross Oil Price	78.1	57.5	35.8	75.7	3.2
Subsidy sharing	28.4	1.8	1444.6	22.4	27.0
<b>Net Realization</b>	<b>49.7</b>	<b>55.7</b>	<b>(10.7)</b>	<b>53.3</b>	<b>(6.8)</b>

Source: Company, Parsoli Research

**During the quarter, crude oil production declined by 6.4% yoy to 0.8mmt and natural gas production increased by 9.1% yoy to 6.0mmscmd**

#### Exhibit 3: Production trend



Source: Company, Parsoli Research

#### Lower realizations dampen operating profit

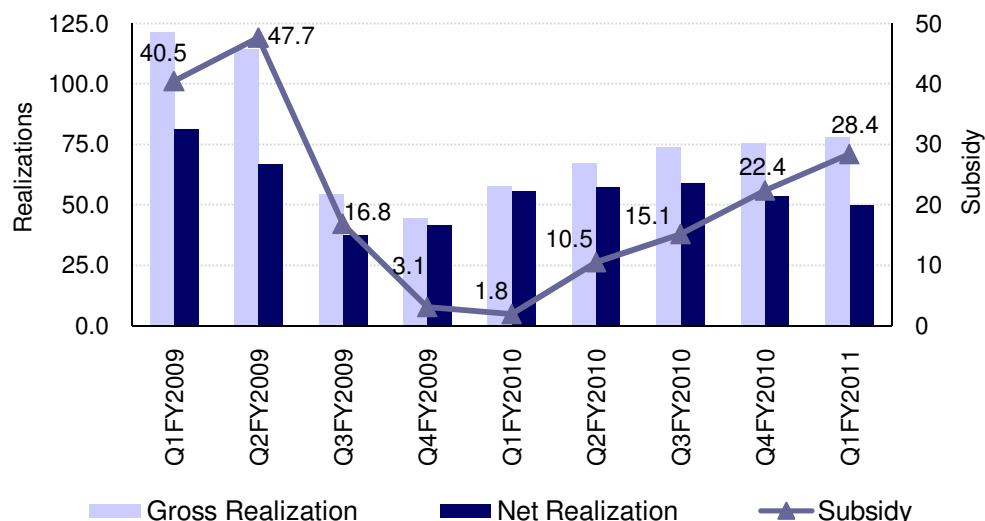
For Q1FY2011, the gross crude oil realization stood at US\$ 78.1/barrel, up 35.8% yoy from US\$ 57.5/barrel in Q1FY2010. On a qoq basis also, the realization was up 3.2% from US\$ 75.7/barrel in Q4FY2010. However, due to higher subsidy sharing burden with OMCs, the net realization of the company declined by 10.7% yoy and



**During the quarter, the company has allowed discount of Rs 729.7cr against Rs 57.6cr on sale of crude oil and LPG**

6.8% qoq to US\$ 49.7/barrel. Furthermore, an increase in raw material cost, employee cost and statutory levies cost with respect to sales, the operating profit decreased by 34.9% yoy to Rs 638.8cr from Rs 980.8cr in Q4FY2010. During the quarter, the company allowed a total discount of Rs 729.7cr as against Rs 57.6cr in Q1FY2010 on sale of crude oil and LPG. This resulted in a decline in operating margin to 41.9% from 50.8% in Q1FY2010. Other expenditure surged by 376.4% yoy to Rs 146.3cr primarily due to higher exploratory expenses and production cost.

**Exhibit 4: OIL's crude oil realizations** US\$/barrel



Source: Company, Parsoli Research

**Due to lower crude oil realization, higher raw material and statutory costs, the operating profit declined by 34.9% yoy**

	Exhibit 5: Cost Analysis					% of sales	
	Q1FY2011	Q1FY2010	bps chg	Q4FY2010	bps chg		
Raw Materials	1.4	1.2	24.2	1.4	(2.3)		
Employee Cost	16.4	12.8	357.9	11.1	527.9		
Statutory Levies	31.4	30.1	127.4	30.6	84.2		
Other Expenses	9.6	5.8	376.4	20.1	(1049.9)		
Total Expenditure	58.1	49.2	884.0	63.7	(559.2)		

Source: Company, Parsoli Research

### Net profit declines by 32.3% to Rs 501.1cr

**Net profit declined by 32.3% yoy to Rs 501.1cr due to higher depreciation cost and increase in effective tax rate**

During Q1FY2011, other income increased 42.1% yoy to Rs 293.1cr due to higher income from surplus funds. Depreciation and depletion costs in the quarter increased 62.5% yoy to Rs 197.9cr. Also, the effective tax rate increased to 31.7% against 30.5% in Q1FY2010, thereby, resulting in a 32.3% yoy decline in net profit to Rs 501.1cr.



Upward revision in APM gas price and price revision of petroleum products would improve the bottomline

We recommend HOLD on the stock with a target price of Rs 1,586

Outlook and Valuation

Over the past five years, OIL has reported 17.3% jump in crude oil production and 26.2% jump in natural gas sales. OIL has won 9 blocks in the NELP-VIII, the highest ever in a single round of bidding, out of the 14 blocks for which it had placed the bid. OIL has entered as an operator in the offshore operation in Cauvery Basin and has also established its presence in Andaman Deepwater as joint operator along with ONGC. Further, the company has aggressive capex plan of Rs 85.0bn over the next two years, of which Rs 73.0bn is allocated towards the exploration and development of its domestic and international assets. Therefore, going forward, we expect an improvement in oil and gas production volumes.

On May 19, 2010, the government raised the APM gas price to US\$ 4.2/mmbtu from US\$ 1.8/mmbtu to align them with market prices. We anticipate that the increase in APM gas price will enhance the earnings of the upstream companies, that is, OIL and ONGC. Also, the price revision of auto fuels and cooking fuels announced on June 25, 2010 is expected to lower the subsidy burden, thereby, improving the bottom line.

We have valued OIL using Relative and DCF valuation methodologies. Averages of relative valuations and DCF show an upside of 12.6%. At the current market price of Rs 1,409, OIL is trading at a P/E of 11.2x FY2011E and 9.4x FY2012E earnings, P/BV of 2.1x FY2011E and 1.8x FY2012E net worth and EV/EBIDTA of 6.4x FY2011E and 5.1x FY2012E earnings.

Exhibit 6: Valuation Summary		
Particulars	Fair Value (Rs)	Upside (%)
Relative Valuation	1589.6	12.8
DCF	1582.9	12.4
<b>Average</b>	<b>1586.2</b>	<b>12.6</b>

Source: Parsoli Research

OIL's quarterly results were below our expectation. Going forward, we believe upward revision in APM gas price, revision in auto fuels and cooking fuels prices, aggressive capex plan and acquisition of overseas producing assets would be key triggers to the company's growth in the medium to long term. We have revised our target price upwards. However, the current market price limits the potential upside to 12.6%. We therefore recommend HOLD on the stock with a target price of Rs 1,586.



**Financial Statements**

<b>Exhibit 7: Profit &amp; Loss Statement</b>					<b>Rs cr</b>
<b>Particulars</b>	<b>FY2008</b>	<b>FY2009</b>	<b>FY2010</b>	<b>FY2011E</b>	<b>FY2012E</b>
Net Sales	6,081.9	7,241.5	7,905.6	9,270.9	10,909.9
<i>% chg</i>	<i>12.9</i>	<i>19.1</i>	<i>9.2</i>	<i>17.3</i>	<i>17.7</i>
Total Expenditure	3,755.4	4,353.8	4,186.6	5,145.6	6,034.0
<i>% chg</i>	<i>15.7</i>	<i>15.9</i>	<i>(3.8)</i>	<i>22.9</i>	<i>17.3</i>
EBIDTA	2,326.6	2,887.6	3,718.9	4,125.3	4,875.9
<i>Margin (%)</i>	<i>38.3</i>	<i>39.9</i>	<i>47.0</i>	<i>44.5</i>	<i>44.7</i>
Other Income	677.0	937.2	954.2	942.8	1,110.0
Depreciation & Amortization	309.3	376.8	763.8	547.2	616.2
PBT	2,713.4	3,387.0	3,895.1	4,518.3	5,367.8
<i>Margin (%)</i>	<i>44.6</i>	<i>46.8</i>	<i>49.3</i>	<i>48.7</i>	<i>49.2</i>
Total Tax	924.5	1,225.3	1,284.6	1,490.1	1,770.3
<i>(% of PBT)</i>	<i>34.1</i>	<i>36.2</i>	<i>33.0</i>	<i>33.0</i>	<i>33.0</i>
PAT	1,788.9	2,161.7	2,610.5	3,028.2	3,597.6
<i>% chg</i>	<i>9.1</i>	<i>20.8</i>	<i>20.8</i>	<i>16.0</i>	<i>18.8</i>
<i>Margin (%)</i>	<i>29.4</i>	<i>29.9</i>	<i>33.0</i>	<i>32.7</i>	<i>33.0</i>

Source: Company, Parsoli Research

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