



Parsoli Corporation Limited

In Touch with Your Investment Needs

Indian Equities
Oil & Gas

Quarterly Update

Oil India Limited

HOLD

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CMP	Rs 1,271
Target Price	Rs 1,422
Sensex	16,781
Nifty	5,034

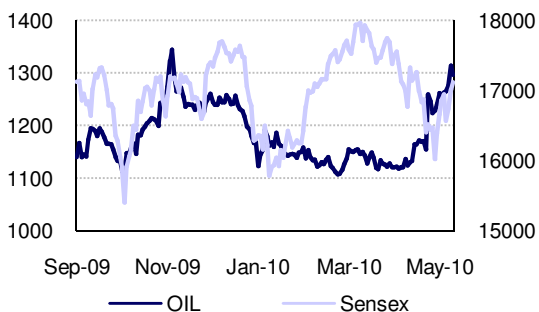
Stock Details

BSE Code	533106
NSE Code	OIL
Reuters Code	OILI.BO
Bloomberg Code	OINL IN
Market Cap (Rs Cr)	30,568.41
Beta	0.41
52 W High / Low (Rs)	1374.80/1019.00
Avg Daily Volume	1,11,792
Face Value (Rs)	10.00

Shareholding Pattern (%)

Promoters	78.43
MF/Banks/Indian FIs	3.83
FII / NRIs / OCBs	2.30
Non-Institutions	11.96
Indian Public	3.48

Price Chart



Performance Highlights

Higher crude realization boosts revenue: In Q4CY2010, Oil India Limited (OIL) reported a topline growth of 34.0% yoy to Rs 1832.1cr. This was on account of higher price realization of crude oil. During the quarter, the gross realization of crude oil surged 69.6% yoy to US\$ 75.7/barrel while the net realization was up by only 28.2% yoy to US\$ 53.3/barrel.

Net profit surges by 509.2% yoy: During Q4CY2010, EBITDA margin stood at 36.3% against 37.3% in Q4FY2010. The margin was impacted primarily due to higher exploratory expenses and production cost. However, due to decline in the effective tax rate to 26.7% against 84.0% in Q4FY2009, the net profit surged 509.2% to Rs 431.0cr.

APM gas price increased to US\$ 4.2/mmbtu: On May 19, 2010, the government has increased Administered Pricing Mechanism (APM) gas prices by a whopping 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. This is a positive surprise for the two upstream companies and is expected to boost OIL's revenues.

Outlook and Valuation: At the current market price of Rs 1,271, OIL is trading at P/E of 10.1x FY2011E and 8.5x FY2012E earnings, P/BV of 1.9x FY2011E and 1.7x FY2012E earnings. We believe an upward revision in APM gas price, clarity on the subsidy sharing mechanism, and the aggressive exploratory and production activities 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 11.9%. **We therefore recommend HOLD on the stock with a target price of Rs 1,422.**

Exhibit 1: Quarterly Analysis

Particulars	Rs cr				
	Q4CY2010	Q4CY2009	YoY(%)	Q3CY2010	QoQ(%)
Net Sales	1832.1	1367.1	34.0	2041.3	(10.2)
Other Income	246.9	242.2	1.9	222.8	10.8
Total Income	2079.0	1609.3	29.2	2264.1	(8.2)
Total Expenditure	1166.4	857.7	36.0	978.4	19.2
EBIDTA	665.8	509.4	30.7	1063.0	(37.4)
EBIDTA Margin (%)	36.3	37.3	-	52.1	-
Interest	1.0	3.5	(72.0)	0.8	19.8
Depreciation	323.5	305.2	6.0	175.4	84.4
Profit before Tax	588.2	442.9	32.8	1109.5	(47.0)
Tax	157.2	372.2	(57.8)	392.2	(59.9)
Profit After Tax	431.0	70.7	509.2	717.3	(39.9)
PAT Margin (%)	23.5	5.2	-	35.1	-
EPS (Rs)	17.9	2.9	-	29.8	-

Source: Company, Parsoli Research



During the quarter, crude oil production increased 4.6% yoy to 0.9mmt and natural gas production increased by 8.5% yoy to 6.5mmscmd

Key Updates

Revenue surged by 34.0% on higher crude realization

In Q4FY2010, OIL reported revenue growth of 34.0% yoy to Rs 1832.1cr. The growth in revenue was on account of higher crude oil realizations. During the quarter, crude oil production increased marginally by 4.6% yoy to 0.9mmt and natural gas production increased by 8.5% yoy to 6.5mmscmd. The increase was mainly due to adoption of new technologies and by IOR/EOR methods. In Q4FY2010, the net crude oil realization surged by 28.2% to US\$ 53.3/barrel, which boosted the revenue growth. In FY2010, the crude oil production was 3.6mmt, highest ever in the company's history. During the year, the drilling area has gone up by 25.0% to 1,44,862m from 1,15,867m in FY2009.

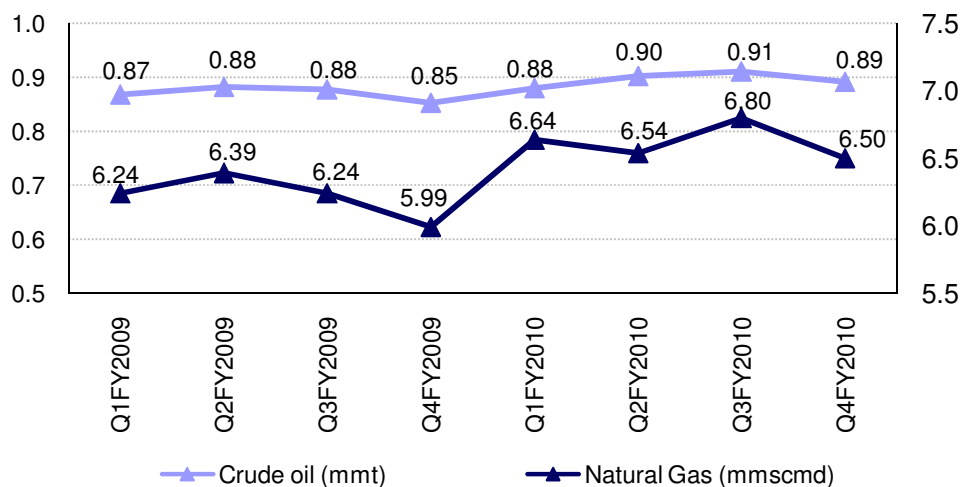
Exhibit 2: Performance Details

	Q4FY2010	Q4FY2009	% chg	Q3FY2010	% chg
Production					
Crude Oil (mmt)	0.89	0.85	4.6	0.91	(2.1)
Natural Gas (mmscmd)	6.50	5.99	8.5	6.80	(4.4)
Realizations - Crude Oil (US\$/barrel)					
Gross Oil Price	75.7	44.6	69.6	73.9	2.4
Subsidy sharing	22.4	3.1	631.4	15.1	48.1
Net Realization	53.3	41.6	28.2	58.8	(9.3)

Source: Company, Parsoli Research

In FY2010, the crude oil production at 3.6mmt was highest ever in the company's history

Exhibit 3: OIL's Production details



Source: Company, Parsoli Research

Higher realizations boost operating profit

For Q4FY2010, the gross crude oil realization stood at US\$ 75.7/barrel which is 69.6% higher than compared to corresponding quarter last year and 2.4% higher than compared to Q3FY2010. Although, after subsidy sharing with OMCs, the net

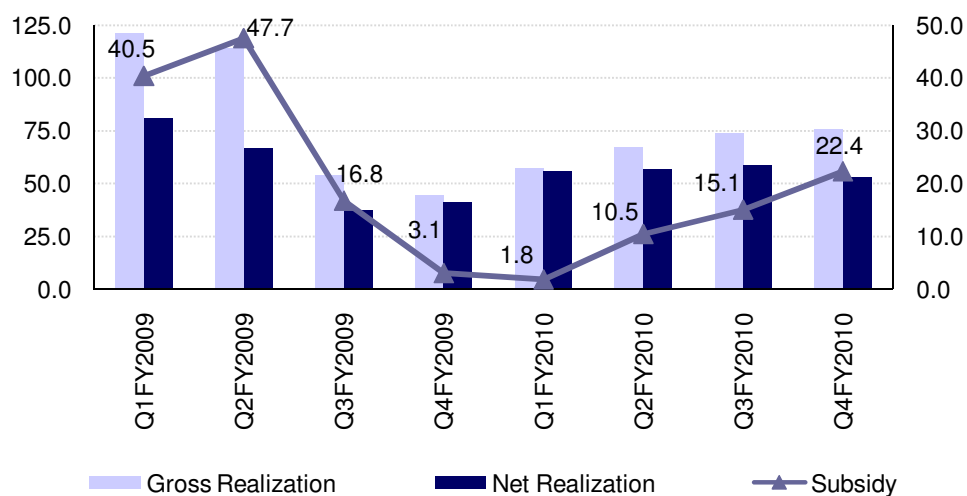
On higher crude oil realization and lower raw material & statutory cost, operating profit increased by 30.7%



The subsidy burden of the company jumped by 631.4% yoy to Rs 1027.9/barrel from Rs 152.3/barrel in Q4FY2009 due to higher crude oil price during the quarter

realization of the company stood only at 28.2% higher compared to Q4FY2009. Due to higher crude oil price throughout the quarter, the subsidy burden of the company jumped by 631.4% yoy to Rs 1027.9/barrel from Rs 152.3/barrel in Q4FY2009. Furthermore, the decrease in raw material cost, employee cost and statutory levies cost with respect to sales, the operating profit increased by 30.7% yoy to Rs 665.8cr from Rs 509.4cr in Q4FY2009. However, due to higher other expenditure, the operating margin of the company declined by 36.3% from 37.3% in Q4FY2009. Other expenditure surged by 213.9% yoy to Rs 368.3cr primarily due to higher exploratory expenses and production cost.

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



Source: Company, Parsoli Research

The operating margin of the company declined 36.3% from 37.3% in Q4FY2009 due to higher other expenditure

Exhibit 5: Cost Analysis % of sales

	Q4FY2010	Q4FY2009	bps chg	Q3FY2010	bps chg
Raw Materials	1.4	1.9	(40.7)	1.4	5.1
Employee Cost	11.1	18.7	(756.7)	11.3	(15.8)
Statutory Levies	30.6	33.7	(308.3)	29.2	133.6
Other Expenses	20.1	8.6	1151.9	6.1	1404.3
Total Expenditure	63.7	62.7	92.6	47.9	1573.4

Source: Company, Parsoli Research

Net profit zooms by 509.2% to Rs 431.0cr

Net profit of the company surged by 509.2% yoy to Rs 431.0cr due to decline in effective tax rate to 26.7%

During Q3FY2010, the income from surplus fund marginally increased other income by 1.9% yoy to Rs 246.9cr. Depreciation and depletion costs in the quarter increased 6.0% yoy whereas on qoq basis, it increased by 84.4% to Rs 323.5cr. However, due to decline in the effective tax to 26.7% against 84.0% in Q4FY2009, the net profit surged by 509.2% to Rs 431.0cr.



Government raised APM gas prices to US\$ 4.2/mmbtu, which would enhance company's earnings

We have valued OIL using relative and DCF valuation methodology

We recommend HOLD on the stock with a target price of Rs 1,422

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. On May 19, 2010, the government raised the APM gas prices 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, OIL and ONGC. Furthermore, with the company's aggressive capex plan for the next three years, we expect the oil and gas production to improve further. Also, further clarity on the subsidy sharing mechanism would be a trigger to OIL's revenue. Despite, the subsidy sharing for auto fuel, we expect, OIL to maintain its operating margin at around 41.5%.

We have valued OIL using Relative and DCF valuation methodologies. Averages of relative valuations and DCF show an upside of 11.9%. At the current market price of Rs 1,271, OIL is trading at a P/E of 10.1x FY2011E and 8.5x FY2012E earnings, P/BV of 1.9x FY2011E and 1.7x FY2012E net worth and EV/EBIDTA of 5.6x FY2011E and 4.4x FY2012E earnings.

Exhibit 6: Valuation Summary		
Particulars	Fair Value (Rs)	Upside (%)
Relative Valuation	1411.0	11.0
DCF	1433.2	12.7
Average	1422.1	11.9

Source: Parsoli Research

OIL's quarterly results were below our expectation. Going forward, we believe an upward revision in APM gas price, clarity on the subsidy sharing mechanism and the 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 11.9%. **We therefore recommend HOLD on the stock with a target price of Rs 1,422.**



Financial Statements

Exhibit 7: Profit & Loss Statement					Rs cr
Particulars	FY2008	FY2009	FY2010	FY2011E	FY2012E
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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