

May 27, 2010

Rating	BUY
Price	Rs1,241
Target Price	Rs1,420
Implied Upside	14.4%
Sensex	16,388

(Prices as on May 26, 2010)

Trading Data

Market Cap. (Rs bn)	298.4
Shares o/s (m)	240.5
Free Float	21.57%
3M Avg. Daily Vol ('000)	166.7
3M Avg. Daily Value (Rs m)	192.8

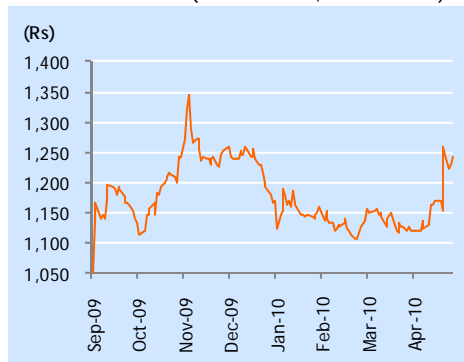
Major Shareholders

Promoters	78.43%
Foreign	2.26%
Domestic Inst.	3.84%
Public & Others	15.47%

Stock Performance

(%)	1M	6M	12M
Absolute	10.6	0.1	NA
Relative	18.3	2.8	NA

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



Source: Bloomberg

■ **Net crude realisations soar:** Oil India's (OIL's) revenues jumped by 33.6% YoY to Rs18.7bn (Rs14.4bn) owing to higher YoY crude net realisations. Gross crude realization for Q4FY10 stood at US\$75.7/bbl (US\$44.6/bbl, Q3FY10-US\$73.9/bbl), while the net realizations received by OIL were US\$53.3/bbl (US\$41.6/bbl, Q3FY10-US\$58.8/bbl). Subsidy burden for the quarter jumped by over 43.3% sequentially to Rs6.7bn as against Rs4.7bn in Q3FY10 (Q4FY09-Rs0.9bn).

■ **EBITDA margins get impacted due to higher other expenses:** EBITDA margins remained flattish on a YoY basis at 37.6% (38.8%). Margins got impacted due to higher other expenditure which jumped significantly to Rs3.68bn (Rs1.17bn, Q3FY10-Rs1.23bn), primarily owing to higher exploratory expenses, higher production costs etc. Depreciation, depletion and write-offs were higher by 6.0% YoY to Rs3.23bn (Rs3.05bn, Q3FY10-Rs1.75bn) as the company provides for dry well write-offs and survey expenses during the last quarter.

■ **PAT soars:** OIL reported PAT of Rs4.3bn as against Rs0.7bn in Q4FY09. During Q4FY09, the tax outgo was significantly higher and hence, the profits were impacted.

■ **Valuations:** Government's recent decision of raising the APM gas prices to align with market prices is expected to aid earnings. We expect earnings improvement of about 12% and 10% for FY11 and FY12, respectively. This further reinforces our belief that the government is keen to implement petroleum sector reforms which is positive for the sector, including OIL. The stock is available at 8.3x FY12E EPS of Rs149.5 and B/BV of 1.7x. We continue to remain positive on OIL and maintain our 'BUY' rating on the stock.

Key financials (Y/e March)	FY09	FY10E	FY11E	FY12E
Revenues (Rs m)	72,007	80,728	86,174	104,992
Growth (%)	17.7	12.1	6.7	21.8
EBITDA (Rs m)	32,112	38,756	40,714	53,287
PAT (Rs m)	22,309	26,105	28,009	35,946
EPS (Rs)	92.8	108.6	116.5	149.5
Growth (%)	25.4	17.0	7.3	28.3
Net DPS (Rs)	27.1	34.0	35.0	45.0

Source: Company Data; PL Research

Profitability & valuation	FY09	FY10E	FY11E	FY12E
EBITDA margin (%)	44.6	48.0	47.2	50.8
RoE (%)	25.0	22.5	19.0	21.4
RoCE (%)	22.4	20.7	17.8	20.1
EV / sales (x)	3.3	2.6	2.3	1.8
EV / EBITDA (x)	7.4	5.5	4.9	3.5
PE (x)	13.4	11.4	10.7	8.3
P / BV (x)	3.2	2.2	1.9	1.7
Net dividend yield (%)	2.2	2.7	2.8	3.6

Source: Company Data; PL Research

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Q4FY10 Result Overview

(Rs m)

Y/e March	Q4FY10	Q4FY09	YoY gr. (%)	Q3FY10	FY10	FY09	YoY gr. (%)
Net Sales	18,707	14,006	33.6	20,844	80,728	74,143	8.9
Expenditure							
Raw material	341	247	38.3	275	1,369	1,055	29.8
<i>% of net sales</i>	<i>1.8</i>	<i>1.8</i>		<i>1.3</i>	<i>1.7</i>	<i>1.4</i>	
Personnel cost	2,038	2,555	(20.2)	2,303	9,689	9,133	6.1
<i>% of net sales</i>	<i>10.9</i>	<i>18.2</i>		<i>11.0</i>	<i>12.0</i>	<i>12.3</i>	
Statutory levies	5,602	4,601	21.7	5,969	23,573	22,161	6.4
<i>% of net sales</i>	<i>29.9</i>	<i>32.9</i>		<i>28.6</i>	<i>29.2</i>	<i>29.9</i>	
Other operating expenses	3,683	1,174	213.8	1,237	7,342	7,593	(3.3)
<i>% of net sales</i>	<i>19.7</i>	<i>8.4</i>		<i>5.9</i>	<i>9.1</i>	<i>10.2</i>	
EBITDA	7,043	5,429	29.7	11,061	38,756	34,202	13.3
<i>Margin (%)</i>	<i>37.6</i>	<i>38.8</i>		<i>53.1</i>	<i>48.0</i>	<i>46.1</i>	
Depreciation, depletion	3,235	3,052	6.0	1,754	7,638	7,480	2.1
EBIT	3,808	2,377	60.2	9,306	31,118	26,722	16.5
Interest	10	35	(71.9)	8	37	87	(58.2)
Other Income	2,084	2,087	(0.2)	1,797	7,869	7,236	8.8
PBT	5,882	4,429	32.8	11,095	38,951	33,870	15.0
Total taxes	1,572	3,722	(57.8)	3,922	12,846	12,192	5.4
<i>ETR (%)</i>	<i>26.7</i>	<i>84.0</i>		<i>35.4</i>	<i>33.0</i>	<i>36.0</i>	
FBT	-	-		-	-	61	
Adj. PAT	4,310	708	509.2	7,173	26,105	21,617	20.8

Operating Metrics

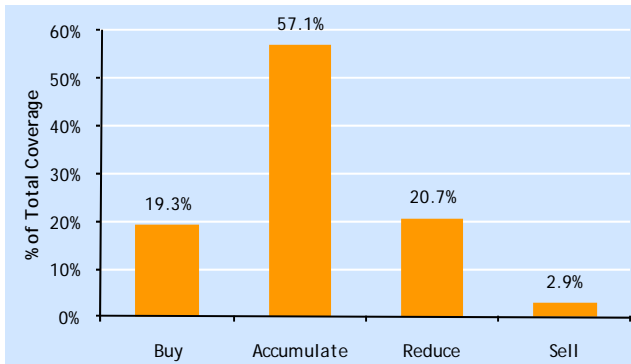
Y/e March	Q4FY10	Q4FY09	YoY gr. (%)	Q3FY10	FY10	FY09	YoY gr. (%)
Production							
Crude Oil (mmt)	0.89	0.85	4.6	0.91	3.59	3.48	3.0
Natural Gas (mmscmd)	6.50	5.99	8.5	6.80	6.62	6.21	6.5
Subsidies (Rs m)	6,700	913	634.2	4,676	15,488	30,233	(48.8)
Realisations - Crude (US\$/bbl)							
Gross realisation	75.7	44.6	69.6	73.9	68.7	83.9	(18.1)
Subsidy sharing	22.4	3.1	631.4	15.1	12.5	27.1	(53.8)
Net realisation	53.3	41.6	28.2	58.8	56.2	56.8	(1.1)

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Rating Distribution of Research Coverage



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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