

Buy

Oil India



Industry: Oil & Gas

Industry View: Neutral

Result Update

“Grows y-o-y in spite of subsidy woes”

In spite of a steep hike in subsidy sharing to 47% for Q3 FY12, OIL India posted positive topline & bottomline growth y-o-y and also beat our estimates due to lower than expected other expenses.

Q3 FY12 crude/gas production 0%/2.7% ahead of estimates

Q3FY12 crude production of 0.962 MMT was down 0.029 MMT q-o-q but up by 0.026 MMT y-o-y. Thus, crude sales of 0.95 MMT was down 0.016 MMT q-o-q but up by 0.034 MMT y-o-y. Gas production of 0.676 bcm was flat q-o-q & up 0.06 bcm y-o-y; similarly, gas sales of 0.544 bcm was flat q-o-q but up 0.066 bcm y-o-y. LPG sales at 13,434 KT were down 240 KT q-o-q but up by 1,060 KT y-o-y.

Q3 FY12 subsidy doubles q-o-q to \$53.1/bbl (\$53.6/bbl expected)

Q3 FY12 subsidy burden of Rs 18.5 bn (\$53.1/bbl) translated into 12.1% of Q3 FY12 upstream sector subsidy burden of Rs 152.6 bn. While it was double the subsidy burden of \$26.2/bbl in Q2 FY12, it was almost triple the Q3 FY11 figure of \$18.5/bbl. Thus, net realization plunged from \$86.3/bbl in Q2 FY12 to \$57/bbl in Q3 FY12 (\$56.5/bbl expected).

Q3 FY12 net sales at Rs 25.9 bn, 3% ahead of estimates

Revenue of Rs 25.9 bn in Q3 FY12 translated into growth of 4.7% y-o-y, but was lower by 22.9% q-o-q. Crude & gas sales for Q3 FY12 stood at Rs 20.8 bn & Rs 3 bn respectively, due to consistent production figures in the face of a steep subsidy burden. LPG sales for the quarter dropped to Rs 0.13 bn due to increase in the subsidy on LPG. Transportation sales of Rs 0.8 bn was down 8% q-o-q, but up 18% y-o-y owing to upward revision in the transportation tariff for the crude oil trunk line.

Other expenses & depreciation lower sequentially

Staff cost for Q3 FY12 was Rs 2.6 bn as against Rs 3.5 bn in Q2 FY12 & Rs 2.9 bn in Q3 FY11, which led to lower than expected other expenses. Other income stood at Rs 3.8 bn, higher by Rs 1 bn y-o-y. Dry well provisions dropped from Rs 4.6 bn in Q2 FY12 to Rs 1.5 bn in Q3 FY12, due to one-offs being included in Q2 FY12.

Net profit ahead of estimates

Net profit at Rs 10.1 bn was well ahead of estimates and was up 12% y-o-y, but down 11% q-o-q. EPS for the quarter was Rs 42.2, against Rs 47.3 in Q2 FY12 & Rs 37.8 in Q3 FY11.

Stock Data

Current Market Price (₹)	1,300
Target Price (₹)	1,529
Potential upside (%)	18
Reuters	OILI.BO
Bloomberg	OINL.IN

What's Changed

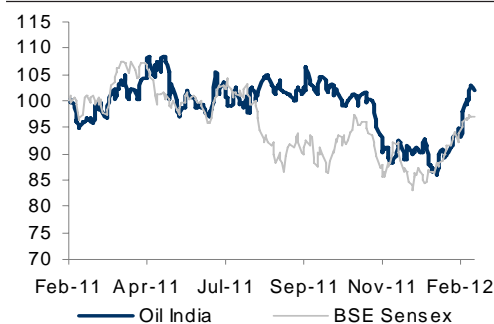
Target Price (₹)	1,526 to 1,529
F2012 EPS (₹)	145.2 to 151.8
F2013 EPS (₹)	150.4 to 157.5

Key Data

Market Cap (₹bn)	309
52-Week Range (₹)	1,419/ 1,202
Avg. Daily Trading Value (₹mn)	110
Promoters (%)	78
FII Holding (%)	2
DII Holding (%)	5
Public & Others Holding (%)	14

Fiscal YE	FY 11	FY 12E	FY 13E	FY 14E
Revenues (₹ mn)	83,034	102,684	104,314	112,655
EBITDA (%)	48.7	51.9	51.4	53.4
PAT (%)	31.4	35.6	36.3	36.4
EPS (₹)	119.9	151.8	157.5	170.6
EPS growth (%)	10	27	4	8
P/E (x)	10.8	8.6	8.3	7.6
P/B(x)	2.0	1.7	1.5	1.4
EV/EBITDA (x)	3.9	3.0	3.1	2.7
Cash per share (₹)	509	439	435	449
ROCE(%)	24	28	26	25
ROE(%)	18	20	19	18

Relative Price Performance



One Year Indexed

(%)	1 Month	3 Months	12 Months
Absolute	12	2	1
BSE Relative	(0.3)	(6)	2

Deepak Darisi

deepak_darisi@lkpsec.com

+91 22 6635 1220

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Financial Highlights

(₹mn)	Q3FY12	Q2FY12	% QoQ	Q3FY11	% YoY	9M FY12	9M FY11	% YoY
Net Sales	25,898	33,571	(22.9)	24,734	4.7	83,130	65,148	27.6
Statutory levies	7,172	8,784	(18.3)	6,762	6.1	22,716	18,341	23.9
Staff cost	2,611	3,502	(25.4)	2,867	(8.9)	9,117	7,635	19.4
Other expenses	1,833	1,734	5.7	1,977	(7.3)	5,052	5,173	(2.3)
Operating profit	14,282	19,551	(27.0)	13,128	8.8	46,245	33,999	36.0
OPM (%)	55.1	58.2	(3.1)	53.1	2.1	55.6	52.2	3.4
Other income	3,756	3,474	8.1	2,773	35.4	10,256	6,857	49.6
DD&A	2,887	5,901	(51.1)	2,261	27.7	11,572	6,065	90.8
Interest	11	5	136.2	12	(5.1)	104	27	278.8
Taxes	5,000	5,734	(12.8)	4,549	9.9	14,804	11,513	28.6
PAT	10,140	11,385	(10.9)	9,080	11.7	30,021	23,251	29.1
EPS	42.2	47.3	(10.9)	37.8	11.7	124.9	96.7	29.1

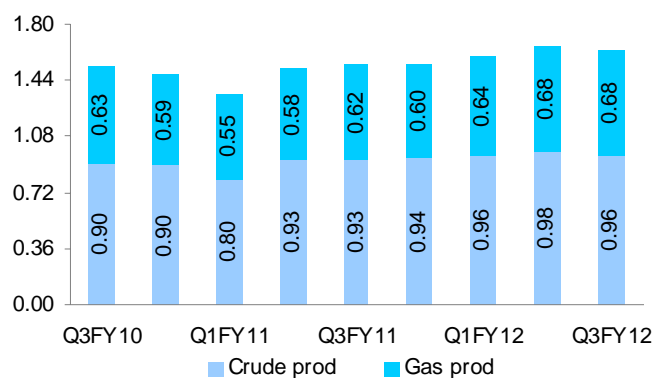
Source: Company, LKP Research

Performance Highlights

	Q3 FY12	Q2 FY12	q-o-q (%)	Q3 FY11	y-o-y (%)
Gross realization (\$/bbl)	110.1	112.5	(2.1)	85.7	28.5
Subsidy discount (\$/bbl)	53.1	26.2	(102.7)	18.5	187.0
Net realization (\$/bbl)	57.0	86.3	(34.0)	67.1	(15.1)
Crude prod (MMT)	0.955	0.983	(2.8)	0.929	2.8
Gas prod (bcm)	0.676	0.677	(0.0)	0.616	9.7
Crude sales (MMT)	0.946	0.962	(1.7)	0.913	3.6
Gas sales (bcm)	0.544	0.543	(0.0)	0.478	13.8
Upstream sector burden (Rs bn)	152.6	71.2	114.3	52.0	193.5
Upstream sector's share (%)	47.1%	33.3%	13.8	33.3%	13.8
OIL's subsidy burden (Rs bn)	18.5	8.4	120.2	5.6	230.4
OIL's share of upstream (%)	12.1%	11.9%	0.2	10.7%	1.4

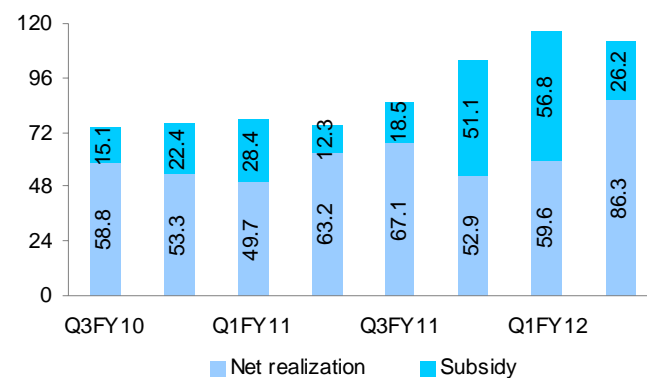
Source: Company, LKP Research

Oil & Gas production (mmtoe)



Source: Company, LKP Research

Quarterly crude realizations (\$/bbl)



Consistent production – in line with targets

The company has been maintaining a steady production rate from its mature fields through induction of new technologies and accelerated exploration and drilling campaign. Going by the robust performance in 9M FY12, we have revised our FY12 crude production estimate upwards to 3.87 MMT. The company has quoted FY13 crude production of 3.91 MMT in its MOU with the Govt, which we believe is easily achievable. During some days in Q2 FY12, the company has operated at a rate which is even higher than the FY13 MOU target. Gas production is set to increase at CAGR of 7.1% from FY11-13 driven by steady production from its NE & Rajasthan fields and monetization of contingent reserves. OIL has also committed supply of 1.35 mmscmd of gas to the Assam Gas Cracker project from 2015. Revision in APM & non-APM gas prices after FY14 is expected to provide another jump to gas sales going forward.

Update on exploration activities

Two hydrocarbon discoveries were made in Upper Assam during the quarter by way of continued exploratory effort. In offshore Cauvery Basin, very good progress has been made in seismic operations and 1,621 sq. km of 3D and 550 GLKM of 2D data were acquired during Q3 FY12. In Mizoram, integration of 2D seismic data, Gravity-Magnetic, Geodetic Survey data and Structural modeling have been completed and locations for exploratory drilling have also been released. In Gabon, the 3D seismic data acquisition, processing and interpretation have been completed and all infrastructure and contractual arrangements are being made to initiate exploratory drilling during 2012-13. Shale gas studies have been initiated by a dedicated team. The team is collecting and studying the data available from OIL's fields in Assam. The study is being taken up by an internal core team with the support of an international consultancy group having core competence in this business.

Upstream subsidy sharing for Q4 FY12 expected to be same as Q3 FY12

The upstream sector's share of the gross under recoveries, which was fixed at ~33% during FY08-10, had been increased suddenly to ~39% in FY11. Since our FY12 & FY13 estimates of gross under-recovery at Rs 1,297 bn & Rs 1,138 bn are significantly higher than the gross under recovery of Rs 782 bn in FY11, we assume 39% of the gross subsidy burden to be borne by the upstream sector going forward. We expect the upstream sector to again bear 47% of Q4 FY12 under recoveries, thus, taking the FY12 upstream subsidy share to 39% of total under recoveries.

OIL announces bonus issue & interim dividend

The Board of Directors of OIL have declared a second interim dividend of 100%, i.e. Rs 10/- per share for FY12. This is in addition to the Interim Dividend of 250% (Rs 25/-) declared on 21st Dec 2011 for FY12. Thus, the total dividend so far in FY12 comes to Rs 35/share, as against total FY11 dividend of Rs 37.5/share. The Board of OIL has also recommended issuance of Bonus Shares in the ratio of 3:2, i.e. 3 new shares for every 2 shares already held, subject to approval of the shareholders. We believe these moves will increase liquidity in the stock and generate more interest from institutions.

Outlook and Valuation

We believe the stock would react to news flow regarding the subsidy sharing pattern that would emerge over the course of this year. We expect revenue & PAT to post FY11-14 CAGR of 10.7% & 12.5% respectively. We raise our FY12 & FY13 EPS estimates to Rs 151.8 and Rs 157.5 in FY12 & FY13 respectively.

We maintain our **BUY** rating with a target price of Rs 1,529. Our price target translates into EV/boe of \$ 6.1/boe and FY12E & FY13E P/E of 10.1x and 9.7x respectively.

Financial Summary (Consolidated)

Income statement

YE Mar (₹mn)	FY11	FY12E	FY13E	FY14E
Revenue	83,034	102,684	104,314	112,655
Variation in stocks	(76)	-	-	-
Statutory Levies	24,423	28,795	29,177	31,016
Other Exp	18,270	20,631	21,535	21,433
Operating Profit	40,417	53,258	53,601	60,206
<i>Operating Margin(%)</i>	<i>48.7</i>	<i>51.9</i>	<i>51.4</i>	<i>53.4</i>
Other Income	10,961	16,180	15,115	15,988
DDA	8,188	14,765	11,999	14,775
EBIT	43,190	54,673	56,716	61,419
<i>EBIT Margin(%)</i>	<i>52.0</i>	<i>53.2</i>	<i>54.4</i>	<i>54.5</i>
Interest	139	185	181	181
PBT	43,092	54,488	56,535	61,238
<i>PBT Margin(%)</i>	<i>51.9</i>	<i>53.1</i>	<i>54.2</i>	<i>54.4</i>
Tax	14,255	17,981	18,657	20,209
PAT	26,104	36,507	37,878	41,029
<i>PAT Margin(%)</i>	<i>31.4</i>	<i>35.6</i>	<i>36.3</i>	<i>36.4</i>

Key Ratios

YE Mar (mn)	FY11	FY12E	FY13E	FY14E
Per Share Data (₹)				
EPS	119.9	151.8	157.5	170.6
CEPS	139.8	175.1	186.1	204.6
BVPS	648.7	746.7	848.1	959.0
DPS	37.5	46.0	48.0	51.0
Growth Ratios(%)				
Revenue	5.0	23.7	1.6	8.0
EBITDA	9.4	31.8	0.6	12.3
PAT	10.5	26.6	3.8	8.3
Cash PAT	8.7	25.2	6.3	9.9
Valuation Ratios (X)				
P/E	10.8	8.6	8.3	7.6
P/CEPS	9.3	7.4	7.0	6.4
P/BV	2.0	1.7	1.5	1.4
EV/Sales	2.4	2.0	2.0	1.8
EV/EBITDA	3.9	3.0	3.1	2.7
Turnover Ratios (Days)				
Receivable Days	20.0	30.0	30.0	30.0
Payable Days	85.8	76.0	77.0	78.0
Profitability Ratios (%)				
ROCE	24.1	28.1	25.9	25.0
ROE	18.5	20.3	18.6	17.8
Dividend payout	31.3	30.3	30.5	29.9
Dividend yield	2.9	3.5	3.7	3.9

Source: Company, LKP Research

Balance sheet

YE Mar (₹mn)	FY11	FY12E	FY13E	FY14E
SOURCES OF FUNDS				
Equity Share Capital	2,405	2,405	2,405	2,405
Reserves & Surplus	153,573	177,139	201,514	228,196
Total Networth	155,978	179,544	203,918	230,600
Total debt	10,268	2,066	2,016	2,016
Other liabilities	13,135	13,140	13,145	13,150
Total Liabilities	179,381	194,750	219,079	245,766
APPLICATION OF FUNDS				
Net block	9,897	11,574	13,016	14,603
Capital WIP	4,484	4,634	4,784	4,934
Net Producing prop.	32,586	41,145	49,492	58,764
Pre producing prop.	8,757	24,076	38,940	51,324
Investments	14,130	15,119	16,391	17,663
Current Assets				
Cash and Bank	122,462	105,672	104,518	108,023
Inventories	5,004	5,154	5,304	5,454
Sundry Debtors	2,495	8,440	8,574	9,259
Loans & Adv	12,788	11,538	10,288	9,038
Current Liab & Prov				
Current liabilities	21,001	21,381	22,006	24,074
Provisions	12,220	11,220	10,220	9,220
Net Current Assets	109,528	98,202	96,457	98,479
Total Assets	179,381	194,750	219,080	245,766

Cash Flow

YE Mar (₹mn)	FY11	FY12E	FY13E	FY14E
PAT	26,104	36,507	37,878	41,029
DDA	4,781	5,584	6,863	8,159
Interest	139	185	181	181
Chng in working capital	(4,155)	5,465	(591)	(1,483)
Others	(3,091)	(5)	(5)	(5)
CF from operations (a)	38,132	36,631	45,337	50,676
Capital expenditure	11,045	31,290	31,666	31,551
Chng in investments	(4,749)	989	1,272	1,272
CF from investing (b)	(6,296)	(32,278)	(32,938)	(32,823)
Free cash flow	27,226	5,526	13,853	19,306
Equity raised/(repaid)	0	0	0	0
Inc/dec in borrowings	9,893	(8,202)	(50)	0
Dividend paid (incl. tax)	10,497	12,941	13,504	14,348
Adj in R&S	0	0	0	0
CF from financing (c)	(604)	(21,143)	(13,554)	(14,348)
Net chng in cash (a+b+c)	31,233	(16,790)	(1,154)	3,505
Closing cash & cash equiv.	122,462	105,672	104,518	108,023

LKP

Team LKP

Pratik Doshi	Director	-	98210 47676		pratik_doshi@lkpsec.com
S. Ranganathan	Head of Research	Pharmaceuticals , Agriculture	98212 22510	6635 1270	s_ranganathan@lkpsec.com
Ashwin Patil	Research Analyst	Automobiles & Telecom	98195 78395	6635 1271	ashwin_patil@lkpsec.com
Deepak Darisi	Research Analyst	Energy	99301 44866	6635 1220	deepak_darisi@lkpsec.com
Hardik Mehta	Sales	-	98190 66569	6635 1246	hardik_mehta@lkpsec.com
Varsha Jhaveri	Sales	-	93241 47566	6635 1296	varsha_jhaveri@lkpsec.com
Hitesh Doshi	Sales	-	93222 45130	6635 1281	hitesh_doshi72@lkpsec.com
Gurdarshan Singh	Dealing	-	93228 61461	6635 1246	gurdarshan_singh@lkpsec.com
Bharat Shah	Dealing	-	98337 97256	6635 1210	bharat_shah@lkpsec.com
