

BSE Sensex 19,561	S&P CNX 5,923
Bloomberg	OINL IN
Equity Shares (m)	601.1
M.Cap. (INR b)/(USD b)	320.7/5.9
52-Week Range (INR)	617/431
1,6,12 Rel. Perf. (%)	11/0/-9

CMP: INR534

TP: INR635

Buy

Financials & Valuation (INR b)

Y/E March	2013E	2014E	2015E
Sales	89.8	105.0	122.6
EBITDA	39.5	50.0	62.9
Adj. PAT	34.0	38.0	48.7
Adj. EPS (INR)	56.6	63.3	80.9
EPS Gr. (%)	0.9	11.8	27.9
BV/Sh.(INR)	330	370	426
RoE (%)	18.1	18.1	20.3
RoCE (%)	25.0	25.3	28.4
Payout (%)	38.4	36.1	31.4
Valuations			
P/E (x)	9.4	8.4	6.6
P/BV (x)	1.6	1.4	1.3
EV/EBITDA (x)	5.3	4.2	3.1
Div. Yield (%)	3.6	3.7	4.1

- **Unrest in Assam impacts 3QFY13 performance:** Oil India reported EBITDA of INR11.2b for 3QFY13 (v/s our estimate of INR12.9b, adjusted for subsidy) - down 16% YoY and 2% QoQ. EBITDA was below our estimate, as unrest in Assam resulted in lower production. PAT was also lower at INR9.4b (-7% YoY and -1% QoQ). Oil production for 3QFY13 was 0.92mmt (-4% YoY and QoQ) while gas production was 0.68bcm (flat YoY and down 2% QoQ). Management has hinted that production is gradually nearing normal levels post the unrest.
- **Expect upstream to share 40% subsidy for FY13 against 9MFY13 average of 36%:** In 3QFY13, Oil India's subsidy share was INR19.5b and its share in upstream subsidy was 12.9%. Upstream sharing in 9MFY13 was at ~36% of the total under recoveries. We estimate Oil India's share at 13.3% of the upstream sharing (40%) for FY13.
- **Net realization at USD52.6/bbl:** Oil India's gross realization was in line at USD108.6/bbl (v/s our estimate of USD109/bbl) and subsidy burden stood at USD56/bbl, resulting in net realization of USD52.6/bbl (v/s USD57/bbl in 3QFY12 and USD52.5/bbl in 2QFY13).
- **DD&A at INR2.2b:** DD&A was INR2.2b (v/s our estimate of INR3b), lower sequentially due to decrease in dry well expenses from INR1.2b in 2QFY13 to INR0.7b. However, decrease in DD&A was negated by lower other income of INR4.9b (v/s our estimate of INR5.5b).

Valuation and view

We have factored in gas price of USD7/mmbtu from FY15 onwards for Oil India. Also, in line with the announced reforms, we have assumed a diesel price hike of INR0.45/liter/month. We estimate 30% and 50% reduction in under-recoveries for FY14 and FY15, respectively. Of the INR753b reduction in under-recoveries in the next two years, we believe 90% would go towards reducing government subsidy and expect only 10% benefit for upstream companies, resulting in the upstream sharing increasing to 50%/60% in FY14/FY15 from the current 40%. The stock trades at 6.6x FY15E EPS of INR80.9. Our target price is INR635/share. **Buy.**

Quarterly Performance

Y/E March	FY12				FY13				FY12	FY13E	FY13 3QE	Variance vs est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Net Sales	22.9	32.7	25.0	17.2	23.3	24.0	24.1	18.3	97.7	89.8	25.8	-6.5%
Change (%)	50.2	37.8	4.5	-14.8	2.0	-26.6	-3.3	6.7	0.0	-8.1	3.4	
EBITDA	12.5	16.2	13.3	4.8	11.0	11.5	11.2	5.9	46.9	39.5	12.9	-12.6%
% of Net Sales	54.5	49.5	53.5	28.0	47.0	47.8	46.6	31.9	47.9	44.0	49.8	
Change (%)	67.8	19.9	-3.4	-50.0	-12.2	-29.2	-15.7	21.4	5.5	260.7	-3.6	
D,D&A	3.6	5.9	2.9	2.8	2.0	2.6	2.2	3.0	15.3	9.8	3.0	-26.3%
Interest	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	-35.8%
OI (incl. Oper. other inc)	3.8	6.8	4.7	4.2	4.8	5.2	4.9	5.7	19.5	20.6	5.5	-11.0%
PBT	12.6	17.1	15.1	6.2	13.8	14.1	13.9	8.6	51.0	50.4	15.3	-9.3%
Tax	4.1	5.7	5.0	1.7	4.5	4.6	4.5	2.8	16.5	16.3	5.1	-10.9%
Rate (%)	32.4	33.5	33.0	28.2	32.5	32.4	32.4	32.6	32.4	32.4	33.0	
PAT	8.5	11.4	10.1	4.4	9.3	9.5	9.4	5.8	34.5	34.0	10.3	-8.5%
Change (%)	69.5	24.3	1.2	-20.9	9.5	-16.2	-7.3	30.1	15.6	266.0	1.3	
Adj. EPS	14.1	18.9	16.9	7.4	15.5	15.9	15.6	9.6	57.3	56.6	17.1	-8.5%
Subsidy (INR b)	17.8	8.4	18.5	28.7	20.2	20.8	19.5	26.7	73.5	87.2	19.5	0.0%

E: MOSL Estimates

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Investors are advised to refer through disclosures made at the end of the Research Report.

Key takeaways from conference call

- Additional domestic production will be driven by horizontal drilling and IOR/EOR activities along with normalization of the ongoing unrest in Assam.
- Over the next 2-3 year period, Oil India expects its gas production to increase from the current 7.4mmscmd to 10mmscmd (@ 9% CAGR).

Oil India: Domestic production guidance

	FY12	FY13E		FY14E	
		Our est.	Guidance	Our est.	Guidance
Oil (mmt)	3.85	3.77	3.79	3.85	3.95
Gas (bcm)	2.63	2.69	2.66	2.74	2.74
Total (mmtoe)	6.48	6.46	6.45	6.59	6.69
Implied EPS est. (INR/sh)	56.1	56.6	* 57.2	63.3	* 66.3

* For guidance, EPS is implied EPS as per our model

Source: Company/MOSL

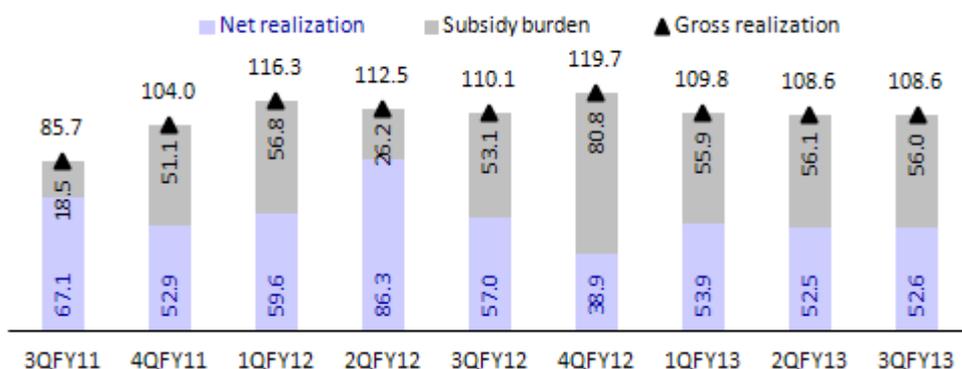
- The Assam gas cracker (Brahmaputra Cracker and Polymer Limited) is likely to commission by December 2013 / January 2014. Oil India is currently developing wells to supply gas to this cracker and has a base contracted volume of 1.5mmscmd.
- Oil India has planned capex of INR34b for FY14 v/s INR30b in FY13. FY14 capex includes INR2.5b capex towards Venezuela.
- The company plans to drill exploratory wells in onland KG block (KG-ONN-2004/1; NELP-VI) in April followed by another well in its block in Mizoram (MZ-ONN-2004/1, NELP-VI).
- The management expects EGoM to take up the APM gas price hike issue for approval soon. The gas price is likely to be at USD7-8/mmbtu.

Other results highlights

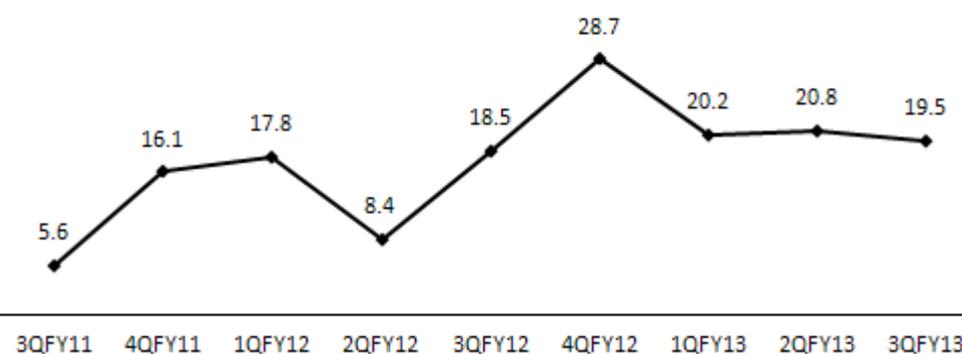
- Oil India reported two new discoveries during 3QFY13: (1) in upper Assam area, and (2) in Rajasthan in an NELP block.
- Production from the Carabobo project commenced on 27 December 2012; it is currently producing at 350bpd. The consortium plans to achieve production of 90kbpd by 2015, while at full potential, it can produce 400kbpd.
- Drilling of the second exploratory well is in progress in Gabon in the Shakthi block.
- US shale gas business steady: Production from Oil India's Carrizo assets continued at ~555boepd from 24 wells. Earlier, Oil India and Indian Oil Corporation jointly (OIL: 20%, IOC: 20%) acquired stake in US-based Carrizo Oil & Gas Inc's shale assets located in Niobrara basin in Colorado, USA. The JV will invest USD82.5m, which includes upfront cash outgo of USD41.3m and future carry cost of USD41.3m.

Net realization was flat QoQ at USD52.6/bbl (USD/bbl)

FY13 Subsidy till date has been at USD56/bbl



3QFY13 subsidy at INR19.5b; model upstream share at 40% in FY13 (INR b)



Source: Company/MOSL

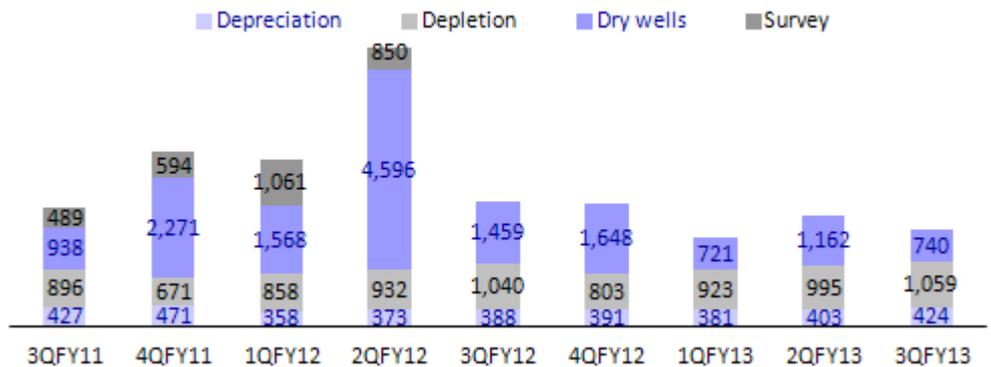
We model upstream sharing at 40%/50%/60% in FY13/FY14/FY15 (INR b)

(INR b)	FY08	FY09	FY10	FY11	FY12	FY13E	FY14E	FY15E
Fx Rate (INR/USD)	40.3	46.0	47.5	45.6	47.9	54.4	53.0	53.0
Brent (USD/bbl)	82	85	70	86	114	111	110	110
Product Sales (mmt)	76	83	91	96	100	105	104	109
Gross Under recoveries (INR b)								
Petrol	73	52	52	27	0	0	0	0
Diesel	353	523	93	348	819	915	443	153
Kerosene	191	282	174	200	278	305	280	269
LPG	156	176	143	205	284	415	387	443
Total	773	1,033	461	780	1,385	1,634	1,110	864
Gross Under recoveries Sharing (INR b)								
Government	353	713	260	410	829	981	555	302
Upstream	257	329	145	303	552	654	555	518
SA Refiners	0	0	0	0	0			
OMC's	163	(9)	56	67	0	0	0	43
Total	773	1,033	461	780	1,385	1,634	1,110	864
Gross Under recoveries Sharing (%)								
Government	46	69	56	53	60	60	50	35
Upstream	33	32	31	39	40	40	50	60
SA Refiners	0	0	0	0	0	0	0	0
OMC's	21	(1)	12	9	0	0	0	5
Total	100	100	100	100	100	100	100	100

DD&A declined sequentially

Oil India's 3QFY13 DD&A expenses were INR2.2b (v/s our estimate of INR3b), down 23% YoY and 13% QoQ. The large YoY and QoQ swing is driven by lower dry well expenses, which stood at INR0.7b in 3QFY13 (v/s INR1.5b in 3QFY12 and INR1.2b in 2QFY13). However, 9MFY13 DD&A average of INR2.3b is meaningfully lower than the FY12 quarterly average of INR3.8b.

DD&A expenses lower due to lower dry well expenses (INR m)

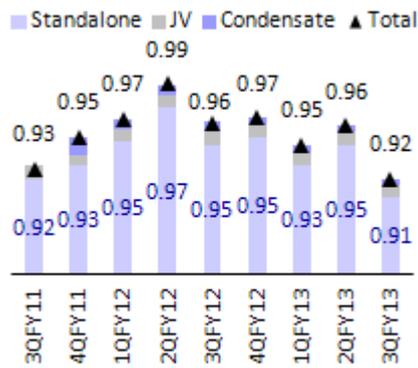


Source: Company, MOSL

3QFY13 operational highlights

- Oil production (including JVs) was 0.92mmt (-4% YoY and QoQ) v/s our estimate of 0.96mmt. Gas production was 0.68bcm (flat YoY and -2% QoQ) v/s our estimate of 0.70bcm.
- Oil sales (including JVs) were 0.92mmt (-3% YoY and -2% QoQ) and gas sales were 0.54bcm (-1% YoY and -2% QoQ).

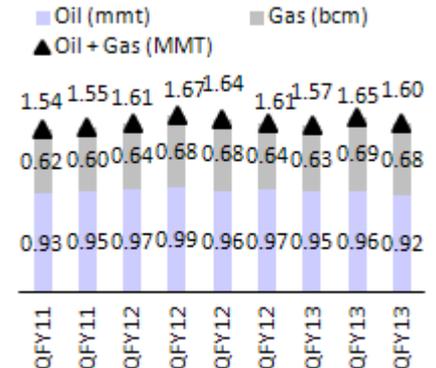
Standalone oil production was down 4% QoQ due to unrest in Assam (mmt)



Gas production declined marginally QoQ (bcm)

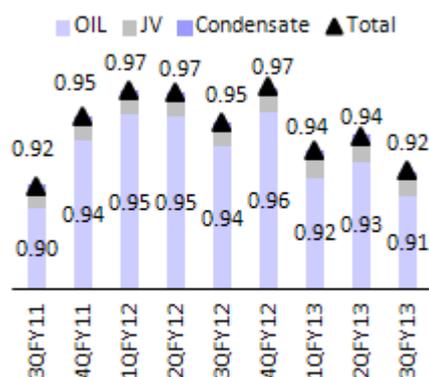


Overall production (including JVs) was down on YoY and QoQ basis

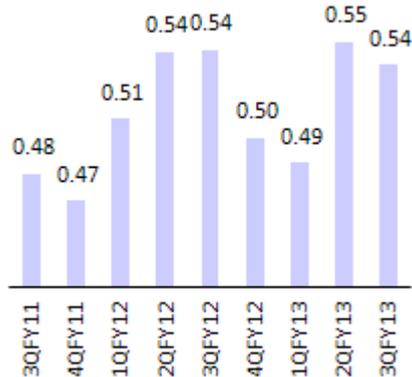


Source: Company, MOSL

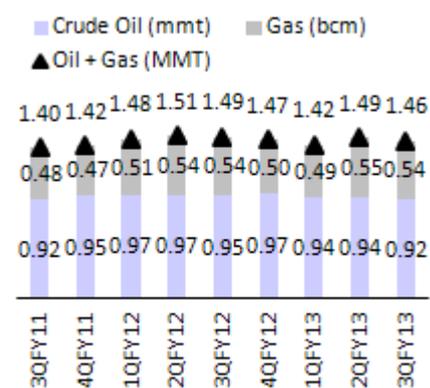
Oil sales down 2% QoQ (mmt)



Gas sales lower on both YoY and QoQ basis (bcm)



Overall sales lower by ~2% due to lower production



Source: Company, MOSL

Valuation and view

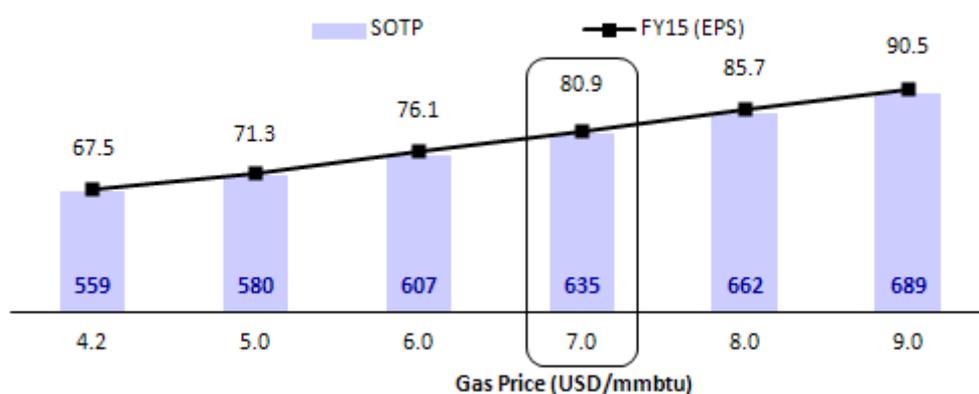
- We have factored in a gas price of USD 7/mmbtu from FY15 onwards for Oil India. Also, in-line with the announced reforms, we have assumed a diesel price hike of INR 0.45/ltr/month, and thus estimate a 30% and 50% reduction in under recoveries in FY14 and FY15, respectively, for FY13 base. Of the INR753b under recoveries reduction in next 2 years, we assign 90% of this benefit to go towards reducing government subsidy and expect only 10% benefit to upstream companies, resulting in the upstream sharing to increase to 50%/60% in FY14/FY15 v/s 40% now.
- We currently model Brent oil price of USD110/bbl in FY13/FY14/FY15 and at USD 95/bbl for long term.
- **Key things to watch:** Key things to watch would be (1) cash deployment, (2) gas price hike, and (2) subsidy sharing. We model upstream sharing at 40%/50%/60% in FY13/14/15.
- We remain positive on Oil India due to its strong operational foothold: (1) steady production growth, (2) high share of oil (55% in 1P and 62% in 2P) in its reserves, and (3) attractive valuations, trades at >40% discount to its global peers on EV/BOE (1P basis).
- The stock trades at 6.6x FY15E EPS of INR80.9 and has an implied dividend yield of ~4%. Our target price of INR635/share is based on average of three methodologies: (1) P/E of 8x FY15E, (2) 4x FY15E EV/EBITDA and (3) DCF (WACC of 11.5%). Maintain **Buy**.

Valuation summary

Methodology	Fair Value	Remarks
DCF	628	11.5% WACC
EV/EBITDA	628	4x FY15 EBITDA
P/E	647	8x FY15E EPS
Average	635	

Source: Company/MOSL

Sensitivity of earnings (FY15 consolidated EPS) and fair value to gas price hike



Source: Company/MOSL

Key assumptions

Y/E March (INR m)	FY09	FY10	FY11	FY12	FY13E	FY14E	FY15E
Exchange Rate (USD/bbl)	46.0	47.6	45.6	47.9	54.4	53.0	53.0
Brent Crude Price (USD/bbl)	84.7	69.7	86.7	114.5	110.6	110.0	110.0
Taxes & Duties							
Royalty rate - Oil (%)	20	20	20	20	20	20	20
Royalty rate - Gas (%)	10	10	10	10	10	10	10
Cess (INR/MT)	2,500	2,500	2,500	2,500	4,500	4,500	4,500
Production Details							
Oil (mmt)	3.47	3.57	3.59	3.85	3.77	3.85	3.94
Gas (bcm)	2.27	2.42	2.35	2.63	2.69	2.74	3.15
Total (mmtoe)	5.74	5.99	5.94	6.48	6.46	6.59	7.09
Subsidy Sharing (INRb)	3.0	1.6	32.9	73.5	87.2	73.8	68.9
Oil Price Realization (USD/bbl)							
Gross	81.7	68.5	86.1	114.7	110.2	110.0	110.0
Upstream Discount	26.1	12.3	27.6	54.8	60.2	49.6	45.4
Net	55.6	56.2	58.5	59.8	50.0	60.4	64.6
EPS (INR/sh.)	37.1	43.4	48.0	56.1	56.6	63.3	80.9

Source: Company, MOSL

Oil India: an investment profile

Company description

Oil India (OIL), established in 1959, is a 'Navratna' state-owned company, engaged in exploration, development, production and transportation of crude oil and natural gas in India. OIL has 2P reserves of 944mmboe; ~94% of these located in the north-east. It owns 1,157km of common carrier cross-country crude oil pipeline, and the 660km product pipeline and the 192km pipeline to Numaligarh refinery.

Key investment arguments

- **Valuations attractive; steady production growth, gas price hike long-term triggers:** OIL trades at 40% discount to global peers on EV/BOE (1P basis). OIL's operational performance is on track and we expect the company to report oil/gas production CAGR of 2%/6% over FY12-15.
- **Diesel reforms to lead to significant cut in under-recoveries:** Recently announced diesel reforms - (a) increasing diesel prices by INR0.45/liter every month, and (b) market pricing for bulk buyers - would lead to a significant cut in under-recoveries (50% reduction in FY15 from FY13 levels).
- **Gas price hike would be a key trigger:** Rangarajan Committee has proposed an implied gas price of ~USD8/mmbtu for domestically produced gas. The Oil Ministry has already moved a note to the Cabinet for accepting the recommendations.
- **Healthy oil/gas reserve ratio; RRR>1 consistently:** OIL's reserve mix is favorable, with oil contributing 62% of its 2P reserves and 1P reserves being only

50% of 2P reserves, indicating a large scope for increase in 1P.

- **Cash deployment - a near-term trigger:** OIL's cash reserves at ~USD2b are ~60% of its balance sheet. Though this could hamper RoE in the short term, it provides wide investment options.

Key investment risks

- Adhoc subsidy sharing.
- OIL's producing assets are concentrated in Assam and are present in tough terrains. Hence, they are highly susceptible to supply disruption.

Recent developments

- The government has announced diesel reforms. If executed in a timely manner, these could lead to a significant reduction in under-recoveries.
- The Rangarajan Committee has submitted its report on gas pricing in India. The proposed formula implies a gas price of ~USD8/mmbtu. The Oil Ministry has moved a note to Cabinet, proposing acceptance of the same even for APM gas.
- Government sold 10% stake in OIL on 1 February 2013.

Valuation and view

- The stock trades at 6.6x FY15E EPS of INR80.9; implied dividend yield is ~4%.
- Our target price of INR635/share is based on average of three methodologies: (1) P/E of 8x FY15E, (2) EV/EBITDA of 4x FY15E, and (3) DCF (WACC of 11.5%). Maintain **Buy**.

Target price and recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
534	635	18.9	Buy

EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY13	56.6	53.9	5.1
FY14	63.3	62.7	1.0

Stock performance (1 year)



Shareholding pattern (%)

	Dec-12	Sep-12	Dec-11
Promoter	78.4	78.4	78.4
Domestic Inst	4.8	5.1	5.4
Foreign	1.6	1.5	2.1
Others	15.2	15.0	14.0

Financials and Valuation

Income Statement		(INR Million)			
Y/E March	2012	2013E	2014E	2015E	
Net Sales	97,741	89,832	105,011	122,637	
Change (%)	17.7	-8.1	16.9	16.8	
Change in Stocks	-88	-48	0	0	
Production Costs	23,074	19,846	21,619	24,009	
Statutory Levies	27,904	30,497	33,375	35,710	
EBITDA	46,851	39,536	50,017	62,918	
% of Net Sales	47.9	44.0	47.6	51.3	
D,D&A	15,263	9,767	13,149	15,357	
Interest	105	8	8	8	
Other Income	19,536	20,616	20,098	25,299	
Prior period & other ad	0	0	0	0	
PBT	51,019	50,377	56,959	72,852	
Tax	17,273	16,344	18,920	24,200	
Rate (%)	33.9	32.4	33.2	33.2	
PAT	33,746	34,034	38,038	48,652	
Adj. PAT	33,746	34,034	38,038	48,652	
Change (%)	16.9	0.9	11.8	27.9	

Balance Sheet		(INR Million)			
Y/E March	2012	2013E	2014E	2015E	
Share Cap. (incl sh. sus	6,011	6,011	6,011	6,011	
Reserves	171,202	192,162	216,474	249,834	
Net Worth	177,213	198,173	222,485	255,846	
Total Loans	101	101	101	101	
Deferred Tax	10,767	11,998	13,830	16,174	
Well Abandonment	2,031	2,031	2,031	2,031	
Capital Employed	190,113	212,303	238,448	274,153	
Gross Fixed Assets	35,340	38,840	42,340	45,840	
Less: Depreciation	24,757	26,262	28,011	29,974	
Net Fixed Assets	10,584	12,578	14,329	15,866	
Capital WIP	5,106	5,106	5,106	5,106	
Producing/pre-productiv	40,560	64,597	90,847	108,198	
Investments	26,142	26,142	26,142	26,142	
Curr. Assets, L & Adv.					
Inventory	5,333	5,517	6,027	6,545	
Debtors	10,518	9,395	10,983	12,826	
Cash & Bank Balance	109,355	109,443	108,582	126,204	
Loans & Adv. and Other	19,214	19,214	19,214	19,214	
Current Liab. & Prov.					
Liabilities	23,188	26,178	28,596	31,053	
Provisions	13,511	13,511	14,187	14,896	
Net Current Assets	107,721	103,880	102,023	118,840	
Misc. Expenses	-	-	-	-	
Application of Funds	190,113	212,303	238,448	274,153	

E: MOSL Estimates

Ratios					
Y/E March	2012	2013E	2014E	2015E	
Basic (INR)					
EPS (Adj)	56.1	56.6	63.3	80.9	
Cash EPS	64.7	65.1	72.3	90.8	
Book Value	294.8	329.7	370.1	425.6	
DPS	19.0	19.0	20.0	22.0	
Payout (incl. Div. Tax.)	38.4	38.4	36.1	31.4	
Valuation (x)					
P/E	9.5	9.4	8.4	6.6	
Cash P/E	8.2	8.2	7.4	5.9	
EV / EBITDA	4.5	5.3	4.2	3.1	
EV/Sales	2.2	2.4	2.0	1.6	
EV / BOE (1P Reserves)	8.7	7.7	7.9	7.3	
Price / Book Value	1.8	1.6	1.4	1.3	
Dividend Yield (%)	3.6	3.6	3.7	4.1	
Profitability Ratios (%)					
RoE	20.3	18.1	18.1	20.3	
RoCE	27.7	25.0	25.3	28.4	
Turnover Ratios					
Debtors (No. of Days)	38	38	38	38	
Fixed Asset Turnover (x)	3	2	3	3	
Leverage Ratio					
Net Debt / Equity (x)	-0.6	-0.6	-0.5	-0.5	

* At price of INR1,050/share

Cash Flow Statement		(INR Million)			
Y/E March	2012	2013E	2014E	2015E	
OP/(Loss) before Tax	51,019	50,377	56,959	72,852	
Adjustments	0	0	0	0	
Depreciation	5,142	5,119	5,439	5,912	
Interest /Other Income	-13,509	8	8	8	
Direct Taxes Paid	-18,968	-15,113	-17,088	-21,856	
(Inc)/Dec in Wkg. Capit	3,125	3,929	996	805	
Other op activities	4,163	3,850	4,560	6,200	
CF from Op. Activity	30,972	48,170	50,874	63,922	
(Inc)/Dec in FA & CWIP	-8,599	-35,000	-38,000	-31,000	
(Pur)/Sale of Investme	-16,688	0	0	0	
Other In activities	11,335	0	0	0	
CF from Inv. Activity	-13,951	-35,000	-38,000	-31,000	
Change in Equity	0	0	0	0	
Inc / (Dec) in Debt	-10,042	0	0	0	
Interest paid	-68	-8	-8	-8	
Dividends Paid	-15,231	-13,074	-13,727	-15,292	
CF from Fin. Activity	-25,340	-13,082	-13,735	-15,300	
Inc / (Dec) in Cash	-8,320	88	-860	17,622	
Add: Opening Balance	117,675	109,355	109,443	108,582	
Closing Balance	109,355	109,443	108,582	126,204	

N O T E S

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