Indbank Merchant Banking Services Ltd
(A Subsidiary of Indian Bank)

ESSAR OIL LTD.

August 27 2012

BSE Code:	500134	NSE Code:	ESSAROIL	Reuters Code:	ESRO.NS	Bloomberg Code:	ESOIL:IN

Essar Oil Ltd., an India-based company engaged in the exploration and production of oil and natural gas, refining of crude oil, and marketing of petroleum products. The company has 1,600 oil retail outlets in various parts of India along with the access to a global portfolio of onshore and offshore oil and gas blocks with about 45,000 km available for exploration. Further, it is emphasizing to become the No. 1 petroleum trading company in the Asia-Pacific region.

Investor's Rationale

Decline in crude oil prices and foreign exchange loss, responsible for net loss

State-run oil producer, Essar oil Ltd (EOL), reported a net loss of ₹14.0 billion as against the net profit of ₹4.7 billion a year ago, on the back of sharp decline in crude oil prices which lead to an inventory loss of ₹7.0 billion. Depreciation of rupee against US dollar also resulted to a foreign exchange loss of ₹2.0 billion. Further, on sectorial front loss before calculating tax and interest in refining segment by 243.5% at ₹8.9 billion while, unallocated sector grew by 1.8% to ₹0.6 billion.

Net sales rose 33.8% YoY on strong domestic sale and rupee depreciation

The company posted 33.8% YoY increase in its turnover at ₹199.9 billion in Q1FY'13 due to higher product price realization on account of heavy demand of auto-fuels in India, resulting in increased domestic sales by 80.0%. With the use of Natural Gas in the refining process, the surplus quantity of furnace oil was exported leading to increased revenues. In line with this, the company's revenue grew highly on sectorial front in refining including expansion and marketing segment by 33.8% YoY to ₹200.2 billion.

High interest and depreciation charges contracted NPM

During the quarter, the NPM was crashed, due to the higher interest and depreciation cost, which were up by 169.7% and 75.7% to ₹7.7 billion and ₹3.2 billion respectively. However, the other income fell by 12.1% to ₹0.9 billion.

Rise in overall operating expenses constricted OPM

EOL, reported a dip in EBITDA by 150.9% YoY and stood at a loss of ₹4.1 billion due to rise in operating expenses like usage cost of crude and natural gas by 35.8% to ₹187.8 billion, cost of fuel consumption by 126.8% to ₹2.9 billion, purchase of traded goods by 30.2% to ₹1.3 billion and employee benefits expenses by 50.0% to ₹0.4 billion. Thus, OPM pressurized.

Market Data		
CMP (₹)		52.3
Target Price		**58**
Stop Loss		50
Duration		Mid-term
52-week High-Low (₹)		99.5/42.1
Rise from 52WL (%)		25.9
Correction from 52WH (%)		46.7
Beta		1.7
1 year Average Volume (mn)		2.3
	3M-	6.3
Stock Return (%)	6M-	(22.0)
	9M-	(25.2)
Market Cap (₹bn)		72.3
Enterprise Value (₹bn)		176.5

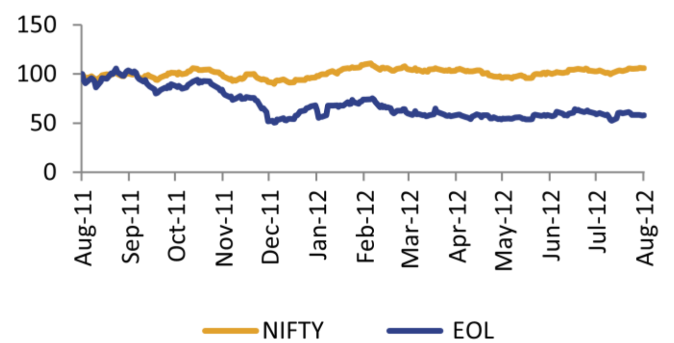
Shareholding Pattern

	Jun'12	Mar'12	Chg
Promoters (%)	15.9	15.9	0.0
FII (%)	2.1	2.0	0.1
DII (%)	1.6	1.6	0.0
Public & Others (%)	80.4	80.5	(0.1)

Quarterly Performance (Standalone)

(₹ bn)	Q1 FY'13	Q1 FY'12	Q4 FY'12	YoY Change(%)	QoQ Change(%)
Net sales	199.9	149.5	175.1	33.8	14.2
Op. exp	204.3	141.6	171.6	44.3	19.1
EBITDA	(4.1)	8.1	3.8	(150.9)	(207.9)
OPM (%)	-	5.4	2.2	-	-
Net profit	(14.0)	4.7	(5.2)	(398.5)	(171.8)
NPM (%)	-	3.1	-	-	-
EPS(₹)	(10.3)	(3.8)	3.2	(171.9)	(418.3)

One Year Price Chart



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