OIL INDIA LTD.

EQUITY REPORT

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

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Oil India Ltd (OIL), incorporated in 1959, is a Navratna Public Sector Undertaking. It is the pioneering and second-largest national upstream oil and gas company with a pan India presence and is expanding its global footprint. Approximately 95% of OIL's production comes from its Upper Assam basin. OIL holds several NELP blocks as an operator and some with joint ventures. Currently, OIL has 2P reserves of 941 million barrels of oil equivalent (mnboe), indicating a reserve life of 22 years. The crude oil production during Q3FY'13 was 0.921 million metric tonne (MMT) as compared to 0.968 MMT during Q3FY'12. The company expects the crude oil production to reach 3.79 MMT in FY'13E and 3.95 MMT in FY'14E.

Investor's Rationale

- OIL has started the production from its fields in Venezuela from 27th Dec'12. The current oil production is coming from first development well under accelerated early production plan of the project. With this humble beginning, the development would be on full swing and it is expected to achieve a target of ~90,000 barrels per day (bopd) under the accelerated early production plan by end of 2015. The plant is likely to produce approximately 4,00,000 bopd once it will be developed as per the master development plan.

- OIL made 2 discoveries during Q3FY'13 by way of continued exploratory effort. One of the heavy oil discovery was done in Upper Assam and the other was in a NELP block, Rajasthan. OIL commenced commissioning of a 54 MW wind energy project in Rajasthan as an alternative source of energy. We expect that the new business initiatives and successful discoveries would bode well for the company's performance in the next 2-3 year period. The company is further expecting its gas production to increase from the current 7.4 mmscmd to 10 mmscmd.

- Indicating the companies strength and excellent management, OIL has ~₹109 bn worth of cash reserve at the end of FY'12 which further reflects the company's strong balance sheet. It is a zero debt company. The company's huge surplus kept exclusively for acquisition will help to make investments in both domestic and overseas operations.

- OIL has posted a muted growth of 2% in its net sales to ₹25.2 bn during Q3FY'13. The muted surge in turnover is mainly due to higher sharing of under recovery on crude oil. However, the net profit dropped 7.3% YoY to ₹9.4 bn during Q3FY'13. The increase in statutory levies and higher subsidy burden has adversely impacted the profit figures. However, the government's oil price deregulation has given hope for secured earnings.

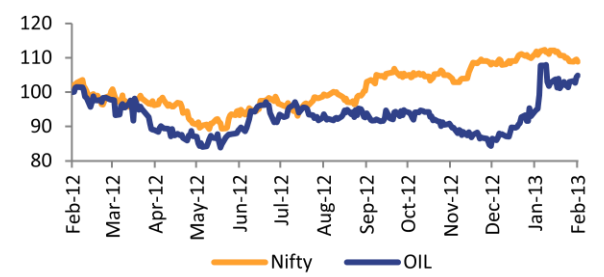
Market Data

Rating	**BUY**
CMP (₹)	543
Target (₹)	**615**
Potential Upside	~13.3%
Duration	Medium Term
52 week H/L (₹)	617.4/431.0
All time High (₹)	654.0
Decline from 52WH (%)	12.0
Rise from 52WL (%)	26.0
Beta	0.5
Mkt. Cap (₹ bn)	327.0
Book Value (₹ bn)	217.0

Fiscal Year Ended

Y/E	FY11A	FY12A	FY13E	FY14E
Revenue (₹bn)	80	95	100	107
EBIDTA (₹bn)	36	38	39	43
PAT (₹bn)	29	34	35	37
EPS (₹)	48.0	57.3	57.5	61.1
P/E (x)	11.3	12.4	12.1	10.9
P/BV (x)	1.8	1.8	1.8	1.8
EV/EBIDTA(x)	5.8	5.7	5.0	4.2
RoA (%)	20.4	22.5	20.9	20.1
RoE (%)	18.5	19.5	17.4	16.5

One year Price Chart



Shareholding Pattern	Dec'12	Sep'12	Diff.
Promoters	78.43	78.43	-
FII	1.49	1.42	0.07
DII	4.76	5.07	(0.31)
Others	15.32	15.08	0.24

OIL- Master of oil & gas exploration

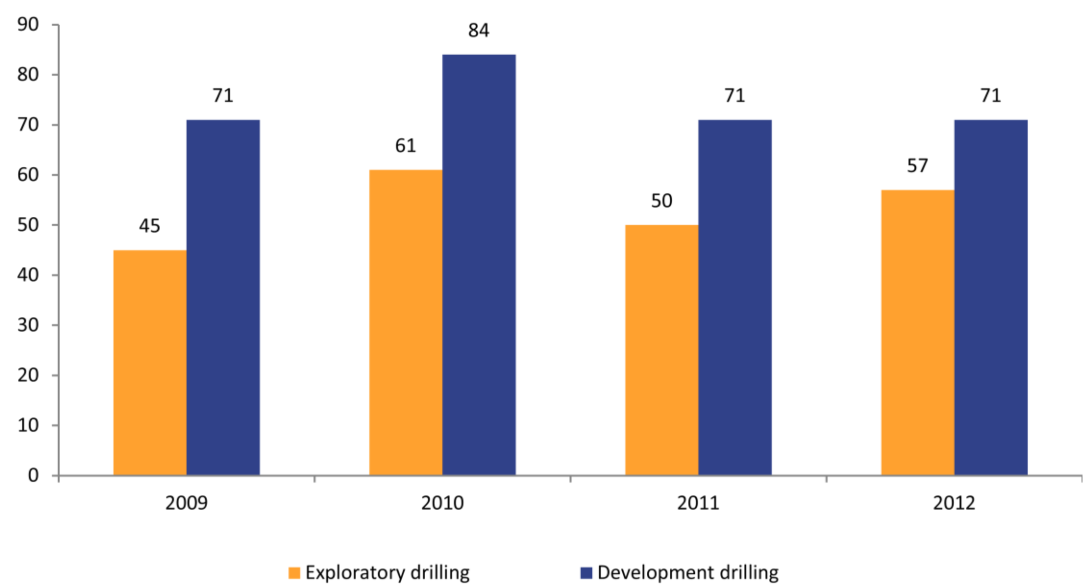
Incorporated in 1959, OIL is the second largest national oil and gas company in India as measured by total proved plus probable oil and natural gas reserves and production. It is engaged in the business of oil & gas exploration, production and crude oil transportation. The company has over 1,00,000 sq km of Petroleum Exploration License (PEL)/ Mining Lease (ML) areas for its exploration and production activities.

OIL has total of 2P reserves of over 940 mmboe with a reserve replacement ratio of over 137% in FY'12. The company produced over 3.85 MMTPA of crude oil, over 2.6 BCM of Natural Gas and over 52,000 tons of LPG in the corresponding period. OIL's systematic and scientific approach to exploration has been rewarded with a high success ratio of 65% of exploratory wells drilled. OIL currently owns and operates 13 drilling rigs and 14 work-over rigs, besides charter hiring drilling rigs based on operational requirement. Over 1,000 wells covering over 3.5 million metres, varying in depth from 1,000 – 5,000 metres, have been drilled in various surface and sub-surface environments, including high underground pressures and temperature conditions.

Incorporated in 1959, OIL is the second largest national oil and gas company in India.

OIL is India's flagship national oil company, with business interests that straddles the entire hydrocarbon value chain - from refining, pipeline transportation and marketing of petroleum products to exploration & production of crude oil & gas as well as marketing of natural gas and petrochemicals. It is the highest ranked Indian corporate in the prestigious Fortune 'Global 500' listing, ranked at the 83rd position in the year 2012. OIL is the fastest growing energy company with highest profitability has a global operations in India, Gabon, Iran, Libya, Nigeria, Sudan, Timor Leste, Venezuela and Yemen. OIL's majority of the E&P activities is present in North East India, which contributes mainly to its crude oil and natural gas production. For natural gas production, Rajasthan contributes ~ 10% of the total gas production. OIL's exploration activities are also spread over onshore areas of Ganga Valley and Mahanadi. OIL also has participating interest in NELP exploration blocks in Mahanadi Offshore, Mumbai Deepwater, Krishna Godavari Deepwater, etc.

Exploration and Development Efforts (in Kms)



OIL and IOC jointly acquire 30% stake in Carrizo's Niobrara shale assets in Colorado, USA

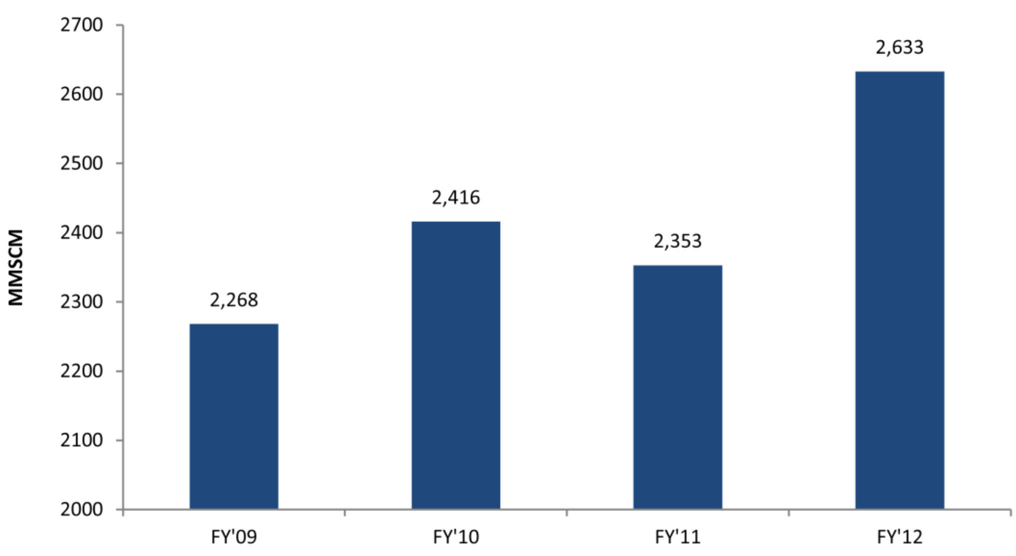
OIL & IOCL have acquired stakes in Carrizo Oil & Gas Inc's ("Carrizo") liquid rich shale assets in the Denve - Julesburg Basin in Colorado.

Making the first shale acquisition in the US and taking a step ahead to emerge as an integrated energy company, OIL along with Indian Oil Corporation Limited (IOCL) have acquired stakes in Carrizo Oil & Gas Inc's ("Carrizo") liquid rich shale assets in Julesburg Basin, Colorado. The production from OIL's Carrizo's assets and operations (Niobrara Formation oil development) located in Colorado is continuing at around 555 boe/day. Further, the total investment for the transaction was about US$ 82.5 mn consisting of an upfront cash payment of US$ 41.25 mn and the assumption of US$ 41.25 mn of Carrizo's future drilling and development costs. We view this diversification as an investment to get first-hand experience in operating shale assets, which would be useful when India opens up for shale gas exploration. As per the deal, OIL and IOCL will also get a 30% interest in Carrizo's existing production, of approximately 1850 BOE/ day from 24 gross wells.

The transaction has opened the door to work on a productive oil field and will also present a platform to think over additional acquisitions in North America. OIL, showing keen interest on foreign acquisitions has already kept aside financial reserves to bolster its portfolio. This acquisition will also provide a primary acquaintance to operations of shale/tight oil and gas fields and technologies deployed for the same. Moreover, the firms other remarkable diversifications in petrochemicals and gas business has given a significant market share and helped to emerge as a potent and vibrant feature of the company's profile in the future. The new acquisitions, diversifications and technology exposure in this field will ensure good future prospect.

Moreover, large project commissioning at single location would drive efficiency. Top-11 stations would account for 60% of its coal-based capacity, while projects awarded under bulk tendering would provide for further brownfield addition. Thus, we believe that proximity of projects and captive coal blocks would improve flexibility in fuel supply management.

Natural Gas production



Acquisition plans for 2012-13

Oil India, which accounts for 10% of India's domestic crude output in FY'12, has kept aside about ₹70 bn in order to acquire assets or companies with producing assets.

Oil India, which accounts for 10% of the country's domestic crude output and about 5-6% of its natural gas, holds assets in India's northeast. It has also been aggressively scouting for overseas assets. The company in its business enhancement plans is primarily focusing on acquisition strategy. It has not adopted any hard and fast rule regarding any specific region, but regions like US, Canada, Australia, parts of Africa and even South-East Asia are the ones they prefer to enter into.

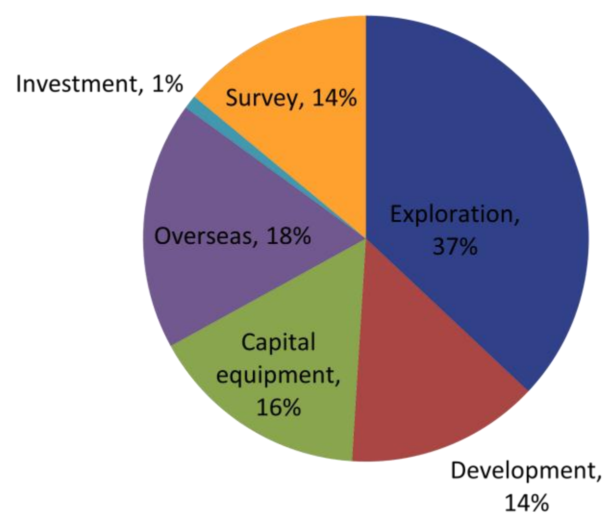
In FY'12 it has kept aside about ₹70 bn in order to acquire assets or companies with producing assets. These would predominantly be oil and gas assets, but considering the potential for long-term scope for shale oil, shale gas, CBM etc, we are also keen to enter into these areas.

Despite the economic uncertainty, it has been able to raise production from last 4 years and is further confident of sustaining the growth. OIL, with growth in crude oil and gas development, good technical experience and sound financial strength, is planning to add-on organic growth with inorganic growth through acquisition of discovered, developed property.

It has planned an adequate investment of around ₹135 bn in E&P, acquisition of assets etc.

Going ahead, debt free company, OIL plans to invest a huge sum of ₹200 bn in the next 4 years, out of which nearly 25-30% would be on acquisitions. It plans an adequate investment of around ₹135 bn in E&P, Investment in assets, some unconventional areas and certain selective diversification in oil and gas value chain. Moreover, believing in the concept of PODSCORB (planning, Organizing, Directing, selecting, coordinating, reporting, budgeting) the firm has scheduled a thorough plan for next 10 years where organic, inorganic growth and diversification have been very well laid out. Thus, the company having scheduled plan for much longer time expect to utilize the surplus funds gainfully.

Investment plan worth US$ 637mn across verticals in FY'13



Bag of mixed result in Q3FY'13

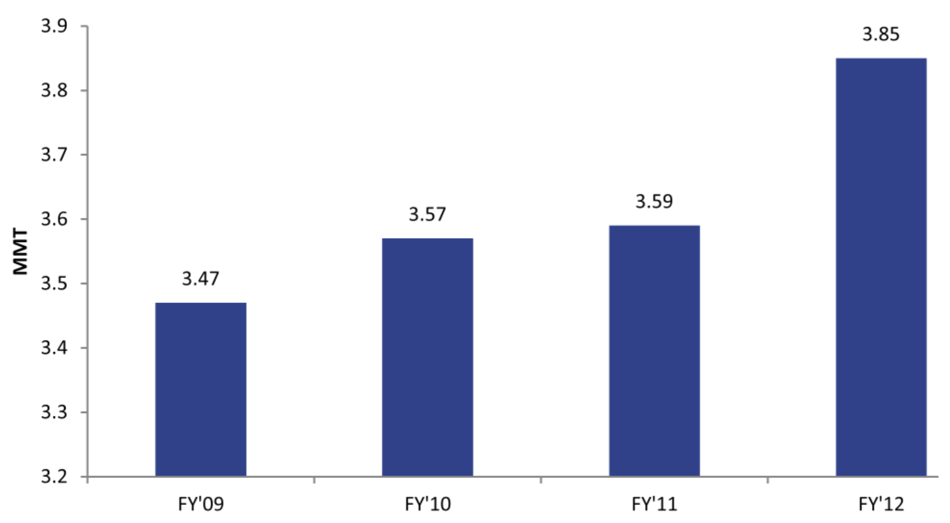
OIL's Q3FY'13 net revenue increased marginally 2.0% YoY to ₹25.2 bn, on account of lower net realization.

Despite of a rise in other income by 8.0% YoY to ₹3.9 bn, OIL has witnessed a drop of 7.3% YoY at ₹9.4 bn in its net profit during Q3FY'13. The increase in statutory levies and higher subsidy burden has adversely impacted the profit figures. The financial performance has also been affected to some extent due to lower crude oil production and flat gas production. The crude oil production during Q3FY'13 was 0.921 MMT as compared to 0.968 MMT during Q3FY'12. The natural gas production was 675 MMSCM during Q3FY'13 as compared to 676 MMSCM during Q3FY'12. However, it has commenced commissioning of a 54 MW wind energy project in Rajasthan as an alternative source of energy.

OIL's Q3FY'13 net revenue increased marginally 2.0% YoY to ₹25.2 bn, on account of lower net realization. Crude oil and natural gas sales volume plunged 2.74% YoY and 1.47% YoY, respectively. Higher subsidy burden during Q3FY'13 led to 7.8% YoY decline in the net realization to US$52.6/bbl. However, the gain in Indian rupee against US dollar by 6.34% from ₹50.92 to ₹54.15 has resulted in earning additional revenue of ₹9.93 bn and ₹1.25 bn in respect of Crude Oil and Natural Gas respectively.

Further, the company's EBITDA declined 16.5% YoY to ₹12.3 bn. EBITDA margins contracted 1,080 bps YoY to 48.8% in Q3FY'13 due to higher statutory levies, other expenditure and staff cost.

Crude oil production



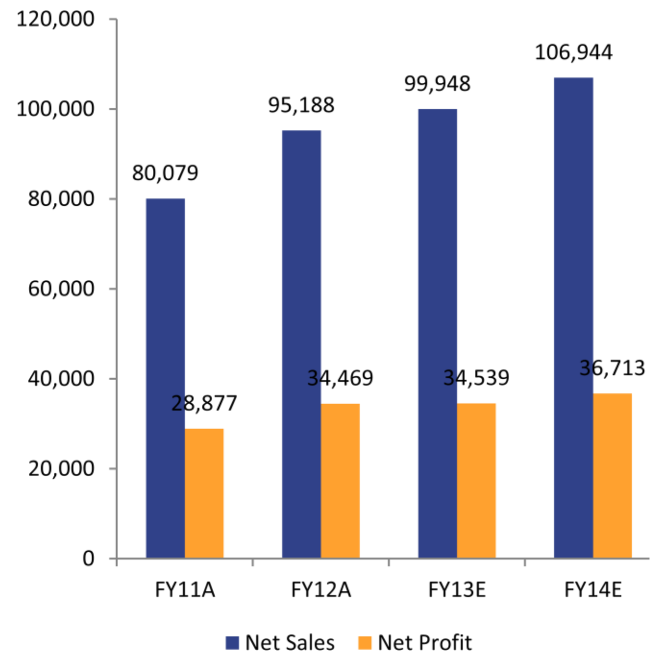
10% government stake sale & diesel price deregulation - step to bring down hefty fiscal deficit

The government has budgeted ₹300 bn to come from disinvestment by selling shares in profitable state-run firms by March 2013. The government has so far raised ₹69 bn through disinvestment. The hefty fiscal deficit has boosted the threat of a potential credit rating downgrade. Thus, taking various measures to achieve the targeted fiscal deficit of 5.3% in FY'13, the government is determined to collect a handsome amount of money by disinvestment of shares in India's major firms and also by deregulating diesel prices.

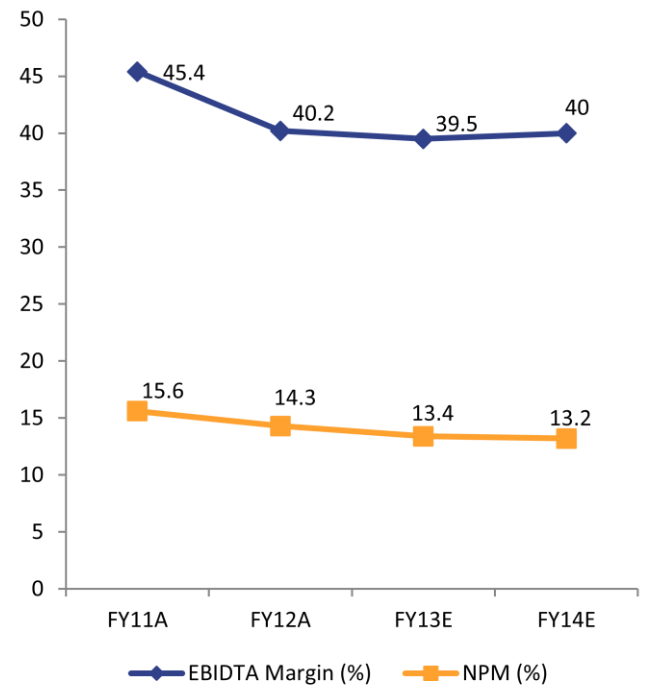
The government has raised ₹31.4 bn through 10% stake sale in OIL, with foreign investors getting over 60% of the issue. OIL's stake sales programme includes 60.1mn shares offered for sale. The divestment took place via offer-for-sale (OFS) route. After divestment, the government's stake in the company come down to 68.43% from 78.43%. With the FIIs getting 60.36% of the allotment, the foreign investors pumped in over ₹180 bn into the OIL stake sale. This reflects the investor's confidence in the company's future business prospects. With the OIL stake sale, the total realization from disinvestment in FY'13 has gone up to over ₹100 bn.

Apart from this, the government decision of deregulation of diesel prices will translate into a lower subsidy burden on the oil companies, such as OIL and ONGC. The government on January 17 allowed oil retailers to raise diesel prices by small amount every month to cut the ₹960 bn deficit on the fuel sale. These firms have to share a portion of losses that state-owned fuel retailers incur on selling diesel, domestic LPG and kerosene at the government controlled rates. During FY'12, subsidy shared by OIL rose 123.3% YoY to ₹73.5 bn. Moreover, the proposal by Rangarajan Committee to hike the gas price up to $8.0-8.5 per mmbtu augurs well for the company and is expected to have a positive impact on the its earnings. However, given the rising under-recoveries, government has taken a positive step to partially deregulate the diesel prices (diesel contributes 60% to total under-recoveries) would help lower subsidy burden on upstream companies including OIL and improve net realisation. OIL's management expects the subsidy amount to reduce considerably in FY'14E.

Net Sales & Net Profit trend (in ₹mn)



OPM & NPM trend



Balance Sheet (Standalone)

(₹million)	FY11A	FY12A	FY13E	FY14E
Share Capital	2,405	2,405	6,011	6,011
Reserve and surplus	153,614	174,809	192,470	215,912
Net Worth	**156,019**	**177,213**	**198,482**	**221,924**
Long term debt	88	0	0	0
Other long term liabilities	22	38	38	38
Deferred tax liability	11,491	10,767	10,767	10,767
Long term provision	3,230	4,000	4,107	4,395
Current liability	41,464	34,794	36,775	39,349
Capital Employed	**212,311**	**226,813**	**250,169**	**276,473**
Fixed Asset	54,665	56,250	60,155	62,984
Investment	6,304	7,831	7,831	7,831
Loans & Adv.	3,595	3,110	3,149	3,369
Other non- current assets	194	137	137	137
Current assets	147,553	159,485	178,898	202,152
Capital Deployed	**212,311**	**226,813**	**250,169**	**276,473**

Profit & Loss Account (Standalone)

(₹million)	FY11A	FY12A	FY13E	FY14E
Net Sales	80,079	95,188	99,948	106,944
Expense	43,754	56,934	60,468	64,166
EBITDA	**36,325**	**38,254**	**39,479**	**42,778**
EBIDTA Margin (%)	45.4	40.2	39.5	40.0
Other Income	11,866	17,898	18,449	19,019
Depreciation	4,927	5,040	5,596	6,171
EBIT	**43,263**	**51,112**	**52,332**	**55,626**
Interest	131	94	0	0
Profit Before Tax	**43,132**	**51,019**	**52,332**	**55,626**
Tax	14,255	16,549	17,793	18,913
Net Profit	**28,877**	**34,469**	**34,539**	**36,713**
NPM (%)	15.6	14.3	13.4	13.2

Key Ratios (Standalone)

Y/E	FY11A	FY12A	FY13E	FY14E
EBITDA Margin (%)	45.4	40.2	39.5	40.0
EBIT Margin (%)	54.0	53.7	52.4	52.0
NPM (%)	36.1	36.2	34.6	34.3
ROCE (%)	26.9	28.2	25.9	24.6
ROE (%)	18.5	19.5	17.4	16.5
EPS (₹)	48.0	57.3	57.5	61.1
P/E (x)	11.3	9.5	9.5	8.9
BVPS (₹)	259.6	294.8	330.2	369.2
P/BVPS (x)	2.1	1.8	1.6	1.5
EV/Operating Income (x)	4.3	3.9	3.4	2.9
EV/EBITDA (x)	5.8	5.7	5.0	4.2

Valuation and view

OIL's strong uphold of production reserves, both 1P and 2 P, and a healthy reserve life is continuously adding value to its balance sheet. Going ahead, the company to boost its oil and natural gas production is emphasizing on new discoveries in North region and foreign acquisition. On the macro level, the government's recent reform initiatives with regards to fuel pricing augur well for the company. The company guidance for capital expenditure stood at 34.25bn for FY'14E and capex for FY'13 is likely to be 30.7bn, with 80% of the amount being already spent till date. Thus all such key steps triggered a good future prospect for the company.

Considering these factors we recommend BUY on the stock with a target price of ₹615, based on 10x FY14E EPS of ₹61.1. The current market price of ₹543 implies a P/E of ~9.5x FY'13E EPS of ₹57.5 and 8.9x on FY'14E EPS of ₹61.1.

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