

# Oil India limited

Sector: Oil and Gas

Region: India

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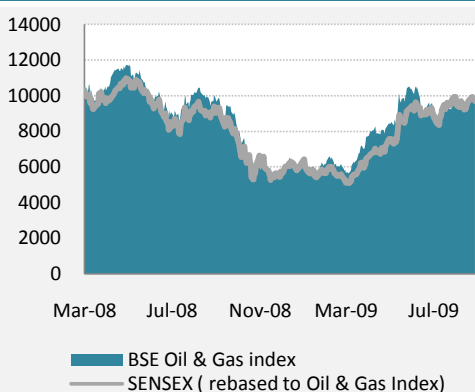
**Global Spinoff Report**  
Valuations of Corporate Divestitures

Sept 02, 2009

## Target price & risk

Target price	INR 1,215
IPO price band	INR 950-1,050
Horizon (months)	12
Offer date	7 <sup>th</sup> -10 <sup>th</sup> Sept, 09

## Sector Index performance



Return 5d/YTD/1Y (%)	Not listed
Volatility 30d/90d/200d (%)	Not listed
High/Low 1Y (INR)	Not listed
Avg d turn 30d/90d (INR m)	Not listed
Market Cap (INR m)	Not listed
Net IB Debt (INR m)	Not listed
Enterprise value (INR m)	Not listed

## Miscellaneous

Listing date	Oct 2009
Majority shareholder	Government of India
Listing Exchange	BSE/ NSE
Ticker/Bloomberg	OIL
O/S shares bn	240
Div Yield FY08 in %	NA
Free float in %	21.5% (Post IPO)

## Subscribe- Second largest E&P Company in India

Oil India Ltd is soon to be privatized with an IPO through a 100% book building process with a price band of INR 950-1,050 per share and expects to raise funds in the range of INR 25.1bn- INR 27.8bn, through the fresh issue of shares. The IPO is valued at a FY10E P/B of 2.0x-2.2x. We believe this is reasonably priced as compared to its Peer average FY10E P/B of 3.1x.

### Attractive positioning in the sector with excellent financials

We see the part privatization event by the Government of India (GOI) as an excellent opportunity for investors to gain interest in the strong and stable profit generating regulated business.

We recommend a **SUBSCRIBE** on Oil India's IPO due to its established position in the Exploration & Production sector, higher return ratios and excellent financial position. We believe that this part privatization event will lead to value discovery for the company and value unlocking for the Indian Government. We have arrived at a one year target price of INR 1,215, with an upside potential of 16-28% based on the IPO price band of INR 950-1,050.

### Subsidy fears overdone- Profitable despite rise in subsidy

The GOI operates a subsidy system on retail petroleum products, currently the subsidy burden is shared among the GOI, the public sector oil marketing companies and the public sector companies that includes Oil India, ONGC and GAIL. Since 2005, this sharing of the subsidy has adversely affected Oil India's performance. The subsidy per barrel of crude oil has increased from US\$ 6.4 per barrel in 2005 to US\$ 26.13 per barrel in 2009.

However, we believe that the market has a misperception about the subsidy burden and its fears are overdone. Despite the rise in the subsidy during the last four years, the company was profitable and achieved an impressive return on equity in the range of 22-28%.

### Crude oil deficit in India to neutralize weak demand risk

Globally, there has been a fall in the demand for crude oil thus affecting the E&P (Exploration & production) companies' performance in 2009. "The International Energy Agency" (IEA), in its July 2009 Oil Market Report (OMR) has forecasted 2.5m boed Y-o-Y (3%) fall in global oil demand in 2009 to 83.8m boed. The main reason for the decline in 2009E oil demand is the expected drop in oil demand from OECD countries. We believe that Oil India does not face this risk of weak demand as it has limited dependency on international markets and its main market India is facing severe crude oil shortage.

## Key figures and ratios (INR m)

	Oil India					
	FY06	FY07	FY08	FY09	FY10E	FY11E
Turnover	60,252	60,100	67,955	81,379	87,133	95,555
EBITDA	30,103	25,925	26,858	29,617	31,360	35,392
EBIT	28,670	25,106	21,251	23,054	24,797	27,901
Net Profit	16,672	16,444	12,070	12,442	13,104	13,764
Total income growth – Y-o-Y (%)	46%	0%	29%	22%	29%	11%
EBITDA growth – Y-o-Y (%)	72%	-14%	28%	10%	6%	13%
EBITDA Margin	50%	43%	40%	36%	36%	37%
EBIT Margin	48%	42%	31%	28%	28%	29%
Return on Asset	21%	17%	16%	16%	14%	12%
Return on Equity	28%	24%	22%	23%	19%	15%
Book value INR per share	277	319	369	439	481	569
Total Debt to Equity Ratio	0.05	0.12	0.02	0.01	0.00	0.00