

CRISIL IPO grade 4/5 assigned to the IPO of Oil India Ltd (OIL)

August 12, 2009, Mumbai

CRISIL has assigned a CRISIL IPO Grade "4/5" (pronounced "four on five") to the proposed initial public offer (IPO) of Oil India Ltd (OIL). This grade indicates that the fundamentals of the IPO are above average relative to the other listed equity securities in India. However, this grade is not an opinion on whether the issue price is appropriate in relation to the issue fundamentals. The grade is not a recommendation to buy / sell or hold the graded instrument, or a comment on the graded instrument's future market price or its suitability for a particular investor.

The grading reflects OIL's strong position in the oil and gas exploration and production (E&P) space, especially in the onshore areas of India's north-eastern region. OIL has been consistently adding to its reserve base with its average reserve replacement ratio being greater than 2 for most of the last 5 years. Additionally, a favourable resource mix (mainly onshore acreage, considering its long experience in operating in the difficult terrains of Assam) in its portfolio coupled with a strong track record lends comfort to the company's capability to grow its recoverable reserves at a healthy rate. As of March 2009, the company had cash and cash equivalent of Rs 61 billion or Rs 283.6 per share. This together with its cash generating ability and considerably low gearing would enable OIL to pursue growth opportunities in the global markets as well as comfortably fund its aggressive capital expenditure plans of Rs 104 billion drawn out for the Eleventh 5-Year period. The grading considers OIL's advantage over its competitors in terms of low finding and lifting costs. Further, the company's management has a strong understanding of E&P activities in onshore areas.

However, this grading is tempered by the fact that OIL is obligated to be a part of the subsidy sharing mechanism formed by the Government of India (GoI). Thus, OIL's shareholders remain vulnerable to the GoI continuing to use its business more as a tool for public policy than as an engine for profit maximisation. Moreover, its limited geographical distribution of producing assets and low offshore experience may hinder growth prospects in the medium term.

About the company and the issue

OIL is a 'Mini Ratna' public sector undertaking (PSU), in which the GoI holds 98.1 per cent equity. The company is under the administrative control of the Ministry of Petroleum & Natural Gas (MoPNG). It was incorporated as a private limited company on February 18, 1959 under the name 'Oil India Pvt Ltd' pursuant to a promoters' agreement dated January 14, 1958 between the President of India, Burmah Oil Company and Assam Oil Company Ltd. OIL became a deemed public limited company with effect from March 28, 1961.

OIL is primarily engaged in the exploration, development, production and transportation of crude oil and natural gas in India. Currently, most of its exploration, development and production activities pertain to onshore areas within the country. The company also processes natural gas to extract LPG.

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Its exploration activities are spread over the onshore areas of the Ganga Valley, Mahanadi, North-East and Rajasthan. In addition, OIL holds participating interest in the NELP exploration blocks in Mahanadi offshore and Krishna-Godavari deep water. The company is an operator in 13 blocks and holds participating interest in another 12 blocks won under the seven rounds of NELP conducted thus far. Furthermore, it has been actively pursuing opportunities in the international space, and has acquired participating interests in various overseas projects in the Middle East and Africa.

OIL owns and operates a 1,157 kilometre long crude oil pipeline. This pipeline was commissioned in 1962 and has the capacity to transport 44 million barrels of crude oil. OIL has also constructed a product pipeline in Sudan in partnership with ONGC Videsh Ltd (OVL) and has a 10 per cent interest in it.

OIL's management is headed by its Chairman and Managing Director (CMD) Mr N M Borah. Its board consists of 12 members, of which, six are independent, two government nominees and four are whole-time directors.

In 2008-09, the company reported a net profit of Rs 21.6 billion on a turnover of Rs 72 billion. It posted an EPS of Rs 101 during the same period, while its book value per share stood at Rs 436. OIL's return on capital employed (RoCE) and return on equity (RoE) for the year stood at 35.0 per cent and 25.0 per cent, respectively.

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CRISIL IPO (Initial Public Offering) Grading is an opinion on the fundamentals of the graded issue that reflects CRISIL's independence and expertise. This opinion is expressed as a relative assessment in relation to other listed equity securities in India. The assessment is based on a grading exercise carried out by industry specialists from CRISIL Research. A CRISIL IPO Grade 5/5 indicates strong fundamentals and a CRISIL IPO Grade 1/5 indicates poor fundamentals. CRISIL IPO Grading reflects its assessment of the graded company's equity fundamentals as distinct from an assessment of debt fundamentals. A CRISIL IPO Grade should not be construed to mean a comment on the price of the graded security nor is it a recommendation to invest or not to invest in the graded security.

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