

# Oil India Ltd (OIL)

## CRISIL IPO Grade 4/5 (above average)

August 12, 2009

### Grade

**CRISIL IPO Grade '4/5':** The grade indicates that the fundamentals of the issue are above average relative to 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

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Issue Details	
Shares offered to public	26,449,982
As % of post issue equity	11 per cent shares outstanding (240,454,382)
Lead managers	JM Financial Consultants Private Ltd, Morgan Stanley India Company Private Ltd, Citigroup Global Markets India Private Ltd, HSBC Securities and Capital Markets (India) Private Ltd.

### Company Background

OIL, a 'Mini-Ratna' company, was set up with the objective of exploration and production (E&P) of crude oil (including natural gas). It was incorporated as a private limited company on February 18, 1959 under the name "Oil India Private Ltd", pursuant to a promoters' agreement dated January 14, 1958 between the President of India, Burmah Oil Company and Assam Oil Company Ltd. It became a deemed public limited company with effect from March 28, 1961.

## Grading Highlights

### Business Prospects

- OIL has an excellent track record in the exploration of onshore reserves
- The company has been fairly successful in winning blocks under the New Exploration Licensing Policy (NELP) rounds held so far
- Winning onshore blocks for exploration outside of its traditional resource base in Assam widens its geographical reach
- Long experience in onshore exploration coupled with its current resource profile enhances OIL's volume growth prospects
- The company's geographical distribution of producing assets remains inadequate
- OIL's expertise in offshore and deep-water fields is still at the rudimentary stage, which limits its ability to make significant progress in this space over the medium term
- The company forms a part of the government's loss sharing mechanism

### Financial Performance

- Operating income has grown at a CAGR of 17.3 per cent between 2004-05 and 2008-09, fuelled by increasing crude oil prices
- Strong cash flows, healthy liquidity position and very low gearing levels augurs well for the company's growth and aggressive capital expenditure plans
- However, downstream subsidy burden limits its topline growth potential

### Management Capabilities

- Strong management capability to handle aggressive growth plans
- Management's sound understanding of E&P activities in onshore areas
- Company's ability to attract experienced personnel, especially in offshore and deep-water regions, is constrained by its limited autonomy in deciding pay packages.

### Corporate Governance

- Independent directors bring a wealth of experience to the company's board
- Government's majority shareholding in the company may limit the influence of independent directors on business decisions that overlap with public policy.

## Detailed Grading Rationale

### Overall Grading Summary (CRISIL IPO Grade 4/5)

To arrive at the overall grade, CRISIL has considered the following parameters:

- Business prospects and financial performance
- Management capability
- Corporate governance

**CRISIL has assigned a CRISIL IPO Grade '4/5' (pronounced 'four on five') to the proposed Initial Public Offer of Oil India Ltd.** The grade indicates that the fundamentals of the issue are above average relative to 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 offer price for the issue may be higher or lower than the level justified by its fundamentals. The grade is not a recommendation to buy / sell or hold the graded instrument, 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 E&P space, especially in the onshore areas in the north-eastern region. It considers OIL's advantage over its competitors in terms of low finding and lifting costs. Further, OIL'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 part of the subsidy sharing mechanism formed by the Government of India (GoI). Hence, OIL's shareholders remain vulnerable to the GoI's continued usage of 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 its growth prospects over the medium term.

#### ➤ ***Good track record in exploration of reserves***

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 (2008-09 - 1.64; previous 5 yrs - greater than 2). This along with a favourable resource mix (OIL currently operates and has won blocks as an operator only in onshore areas where it possesses immense experience as it has been operating in the difficult terrains of Assam) and strong track record lends comfort to the company's capability to increase its recoverable reserves at a healthy rate.

#### ➤ ***Focused approach in building capability and optimal portfolio***

The company, in line with its long-term strategy of augmenting its onshore business and gaining expertise in offshore fields, has made aggressive bids and won onshore blocks as an operator in the NELP rounds conducted so far. In order to build its expertise in offshore blocks, OIL has entered into bids and won blocks as a non-operator by forming consortiums with companies who have credible offshore expertise. In all, OIL has won 25 blocks under NELP, wherein it is an operator in 13 (all onshore) of the blocks and is part of consortiums largely led by ONGC in the remaining blocks, which are in offshore and deepwater areas as ONGC has high expertise in these areas.

#### ➤ ***Strong cash flows, healthy cash balance and very low gearing augurs well for OIL's growth plans***

As of March 2009, the company had a cash and cash equivalent of Rs 61 billion. This coupled with OIL's cash generating ability and very low gearing (0.01 times) would enable it to pursue its aggressive capital expenditure plans of around Rs 104 billion for the Eleventh 5-year Plan period.

OIL has increased its investment targets in the Eleventh Plan period by more than twice its actual spend in the Tenth Plan period (around Rs 48 billion) in order to enhance growth in production and reserves. The sharp increase in outlay, though partly attributable to rising costs, is largely due to its intensive efforts to find / acquire and develop new reserves outside of its traditional resource base. Nearly 75 per cent of the planned domestic investment will be used for exploration and development activities. As the company has won blocks that are in highly prospective onshore areas under the NELP rounds conducted thus far, it stands a good chance to augment its reserves.

➤ **Subsidy borne by the company caps upside**

OIL, along with ONGC and GAIL, currently bears a part of the total losses made by the oil marketing companies (OMCs) by selling crude oil to these companies at a substantial discount to international prices. For 2008-09, the company contributed Rs 30,232.87 million as subsidy by providing a discount of \$26.13 per barrel of crude oil and Rs 15,714.03 per tonne of LPG. This caps the upside potential of the company in a rising oil price scenario, which adversely impacts shareholder returns.

➤ **Inadequate distribution of assets geographically and limited capability in offshore and deep-water areas**

As of March 2009, all of the company's independent proved plus probable (2P) oil reserves and over 90 per cent of its independent 2P gas reserves were concentrated in the Upper Assam basin and Arunachal Pradesh. OIL has had a presence in its current area of operations for more than two decades, and has gained immense experience in exploring, developing and producing from onshore blocks. However, this regional concentration increases the company's exposure to events that could result in the loss of oil or natural gas reserves. Moreover, owing to the company's asset concentration in the north-eastern region, it is more susceptible to instances of insurgency, terrorism and civil strife in the region.

In the various NELP rounds, OIL has made a conscious effort to diversify its location and asset mix (it has won one block each in the Mahanadi basin and the Krishna-Godavari basin as an operator) and also entered offshore areas (it has participating interests in one shallow offshore and 8 deepwater blocks in the country). In the rounds conducted so far, the company has led consortiums in an attempt to be an operator for onshore blocks and also participated in consortiums led by ONGC for offshore blocks. This is mainly driven by the company's long-term ambition to acquire offshore expertise while continuing its onshore exploration activities. However, at present, OIL's offshore and deep-water capabilities are at rudimentary levels, and hence limit the company's ability to operate in these areas in the medium term.

### ***Business Profile***

OIL is a 'Mini-Ratna' public sector undertaking (PSU) in which the GoI has a 98.1 per cent stake. The company is under the administrative control of the Ministry of Petroleum & Natural Gas (MoPNG).

OIL traces its roots back to Oil India Pvt Ltd, which was formed in 1959. The Burmah Oil Company Ltd had a two-third stake in the company and the balance was held by the GoI. In 1961, Oil India Pvt Ltd evolved into Oil India Ltd, which was an equal partnership between Burmah Oil and GoI. In 1981, OIL became a wholly-owned GoI enterprise.

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.

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

As on March 31, 2009, OIL had 2P reserves of around 586 million barrels (mnbbls) and 63.41 billion cubic meters (bcm) of gas. It produced around 3.5 million tonnes (mt) of crude oil and 2,268 million metric standard cubic metres (mmscum) of natural gas in 2008-09. The company manages the entire chain of operations required for onshore oil and gas production including well completion, well-bore servicing, installation, operation and maintenance of modern surface handling facilities. It currently owns and operates 11 drilling rigs and 15 work-over rigs. In addition, the company also charter hires drilling rigs (5) and work-over rigs (4).

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

OIL plans to utilise the issue proceeds to fund its capital expenditure requirements for exploration and appraisal activities, development activities in producing fields, purchase of capital equipment and facilities and diversification of existing business in downstream activities over the next 2 years.

### Financial Profile

Of the total topline of Rs 72 billion in 2008-09, sale of crude oil and natural gas accounted for around 95 per cent, while crude oil transportation and LPG sales contributed about 5 per cent. Total subsidy borne by the company during the year was around Rs 30.2 billion.

OIL's crude oil production increased by around 12 per cent to 3.5 mt in 2008-09 as compared with 2007-08, driven by technology related initiatives. However, its natural gas production decreased by around 3 per cent, to about 2,268 mmscum during the same period from around 2,341 mmscum in 2007-08.

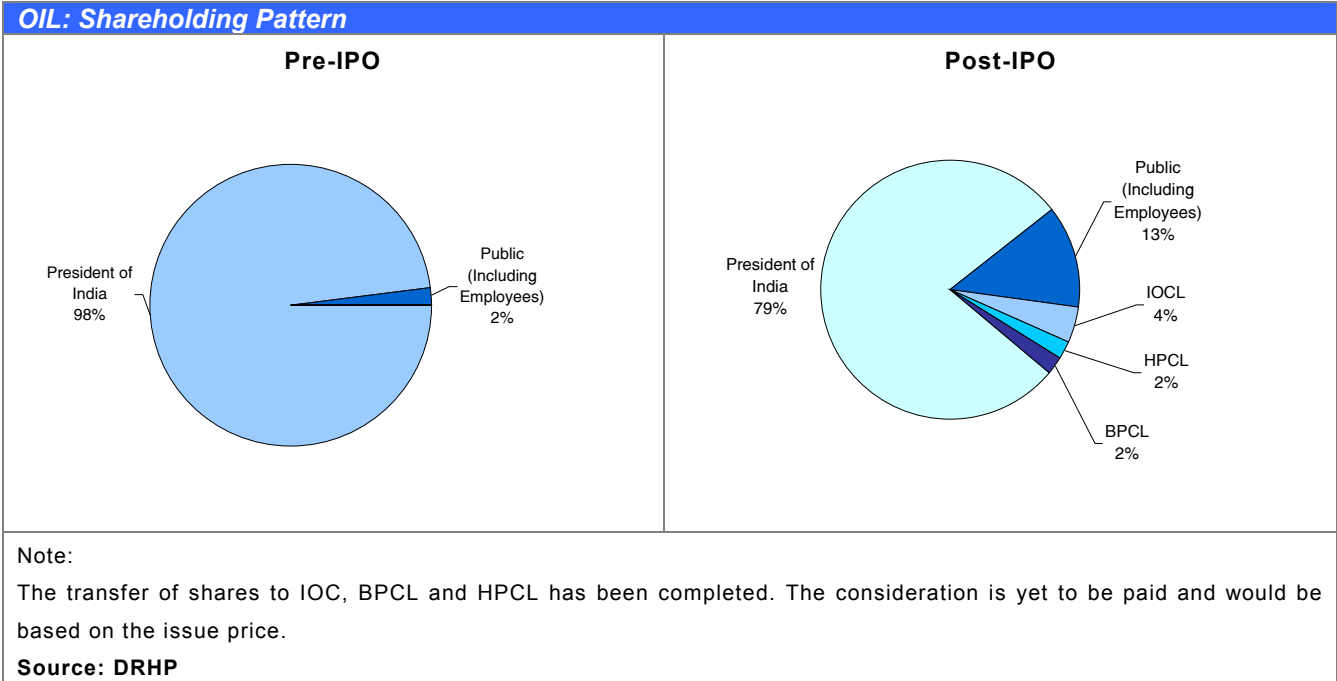
OIL's operating income grew at a CAGR of 17.3 per cent in 2004-05 to around Rs 72 billion in 2008-09, attributable to higher crude prices. However, the company hasn't been able to realise the full benefit of the rising crude oil prices due to subsidy borne by it. Between 2004-05 and 2008-09, crude oil prices increased at a CAGR of 19 per cent, while the company's operating income rose at a CAGR of 17.3 per cent due to its role in the subsidy sharing mechanism developed by the GoI. The company posted an EPS of Rs 101 in 2008-09, a growth of 22 per cent over 2007-08. Book value stood at Rs 436 per share. The company's return on capital employed (RoCE) and return on equity (RoE) in 2008-09 stood at 35.0 per cent and 25 per cent, respectively. OIL has cash of Rs 61 billion as at March 2009 translating into cash per share of Rs 283.6.

### Financial Performance Snapshot

Particulars	Unit	2007-08	2008-09
Operating income	Rs billion	59.9	71.8
Operating margins	Per cent	46	48.8
Net profits	Rs billion	17.7	21.6
Net margins	Per cent	29.6	30.1
ROCE	Per cent	31.3	35
Return on equity	Per cent	24	25
No. of equity shares	Million	214	214
Net worth	Rs billion	79.3	93.3
Basic earnings per share	Rs	82.8	101
Diluted earnings per share	Rs	82.8	101
Book value	Rs per share	370.7	436.1
Gearing	Times	0.02	0.01

**Note:** The above figures have been reclassified as per CRISIL standards;

**Source:** CRISIL Research, Company reports



**Profile of Management and Board**

OIL’s management is headed by its CMD, Mr N M Borah who took over reins of the company from Mr M.R Pasrija in December 2008. Mr Borah has been working with the company since two decades in various capacities, including as Director (Operations) of the company, a position that he continues to hold as an additional charge. He heads a well-experienced team of senior management and key management personnel who possess rich domain expertise and experience. The senior management of the company, including the Chairman, Director (Finance) - Mr T K Ananth Kumar; Director (E&D) - Mr B N Talukdar; Director (HR and BD) - Mr Ashok Anand and the key management personnel have been with the company for several years. OIL’s Board consists of 12 members - 6 independent directors, 2 government nominees and 4 whole-time directors. The independent directors appointed on the Board of the company have an excellent reputation in their respective fields.

**Annexure: Profile of the Directors**

Board of directors						
Name of Directors	Designation	Age (years)	Date of joining as director of the company	Qualification	Previous employment	Other directorships / memberships
Mr N M Borah	Chairman and Managing Director	57	May 6, 2004	B.E (Petroleum Engineering) ISM, Dhanbad; PGD (Petroleum Prospecting and Reservoir Evaluation) NIT, Norway	Nil	Numaligarh Refinery Ltd
Mr T K Ananth Kumar	Director (Finance)	56	January 18, 2007	B.Com; FCA	Director (Finance) with NRL, prior to which he was worked with HPCL	Brahmaputra Cracker and Polymer Ltd
Mr B.N Talukdar	Director (E&D)	54	December 1, 2007	B.Tech (Petroleum Engineering) ISM, Dhanbad	Assisstant Engineer (reservoir) with ONGC	Suntera Nigeria 205 Ltd
Mr Ashok Anand	Director (HR and BD)	59	February 1, 2008	B.Sc; MBA	Worked with Bajrang Engineering Works and Jawala Textile Mills	Nil
Mr D N Narasimha Raju	Government Nominee	53	August 1, 2008	IAS, M.Sc (Horti); M.BL, NLSIU, Bangalore	Joint Secretary (Marketing) in Ministry of Petroleum and Natural Gas (MoPNG) from October 2006 to January 2009. Currently serving as a Joint Secretary with MoPNG (Exploration) since August 2008.	Nil
Dr Archana Saharya Mathur	Government Nominee	50	February 9, 2009	Masters degree in economics, Delhi University; Doctorate in the field of international trade from Jawaharlal Nehru University, Delhi.	Currently an Economic Advisor in the MoPNG	Nil
Mr Ghanshyambhai Hiralal Amin	Independent Director	62	July 30, 2008	B.Sc; LLB	Advocate	Cosmos Co-operative Bank Ltd, National Federation of State Co-operative Ltd and National Film and Fine Arts Co-operative Ltd
Mr Arun Kumar Gupta	Independent Director	65	July 30, 2008	Graduate Engineer (Mechanical, Electrical & Production)	Advisor / Consultant	Xcellence Software Solutions Pvt Ltd
Prof. Sushil Khanna	Independent Director	58	July 30, 2008	B.Sc; PGDM and Fellow (IIM)	Professor / Academic	Kerala Financial Corp; The Information Co Ltd; Shree Bhawani Paper Mills Ltd; Nicco Internet Ventures Ltd.
Mr Alexander k Luke	Independent Director	60	July 30, 2008	B.Tech (IIT); IAS	Retired IAS Official	Nil
Mr Vinod Kumar Misra	Independent Director	62	July 30, 2008	M.Sc (Physics)	Retired Secretary, Defence Finance, Ministry of Defence	Kribhco Shyam Fertilisers Ltd, Mbros Developers Pvt Ltd, Crescendo Trading Pvt Ltd
Mr Pawan Kumar Sharma	Independent Director	51	July 30, 2008	B.Com; LLB; FCA	Practicing Chartered Accountant	J.S Management & Financial Services Pvt Ltd, Life Saving Diagnostic and Hospital Pvt Ltd

**Source: Company prospectus**

**Disclaimer**

A CRISIL IPO grading is a one-time assessment and reflects CRISIL's current opinion on the fundamentals of the graded equity issue in relation to other listed equity securities in India. A CRISIL IPO grading is neither an audit of the issuer by CRISIL nor is it a credit rating. Every CRISIL IPO grading is based on the information provided by the issuer or obtained by CRISIL from sources it considers reliable. CRISIL does not guarantee the completeness or accuracy of the information on which the grading is based. A CRISIL IPO grading is not a recommendation to buy / sell or hold the graded instrument; it does not comment on the issue price, future market price or suitability for a particular investor.

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