ESSAR OIL

Essar Oil reported better than expected result in 3QFY13 with sales up 85.3% YoY and 13.6% QoQ to Rs.238 bn. Revenue was better on account of higher thruput in Vadinar refinery and higher contribution of ultra heavy product mix. The company has successfully commissioned Vadinar refinery with capacity of 20 mmtpa in which 11.8 mmtpa is complex refinery. Vadinar refinery is second largest single refinery in India and among most complex globally. During the quarter Vadinar refinery thruput was 5.14mmtpa of crude as against 2.81mmtpa in 3QFY12 and 5.07 mmtpa in 2QFY13. Capacity utilization level has also improved to 99.46% level in 3QFY13 as against 91% in 2QFY13.

Essar Oil reported higher proportion of complexity in crude sale mix which provided flexibility to process toughest crude. Proportion of ultra heavy rose to 67% as compare to 24% in 2QFY12 and 64% in 2QFY13. Production of valuable middle and light distillates improved to 85% of refinery product as against 69% contribution in 2QFY12 and 82% in 3QFY13.

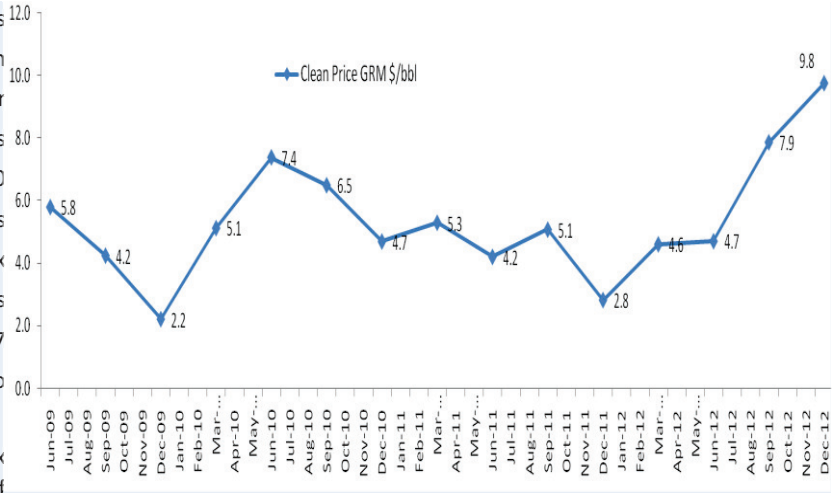
During quarter the company's export sales increased to 39% from 28% in 3QFY12 and 30% in 2QFY13. Increased in sales was due to extended monsoon and new PSUs refinery capacity addition. Higher complexity refinery has helped to export better quality product and result of better realization.

EBITDA increased by 155% YoY and 3% QoQ to Rs.11 bn. EBITDA margin improved by 123 bps to 4.5%. Essar oil reported gross refinery margin of $9.75 per barrel up by 350% compare to $2.82 per barrel in 3QFY12 and $7.86 per barrel in 2QFY13.Higher GRM reflects higher complexity benefits of post expansion Vadinar refinery.

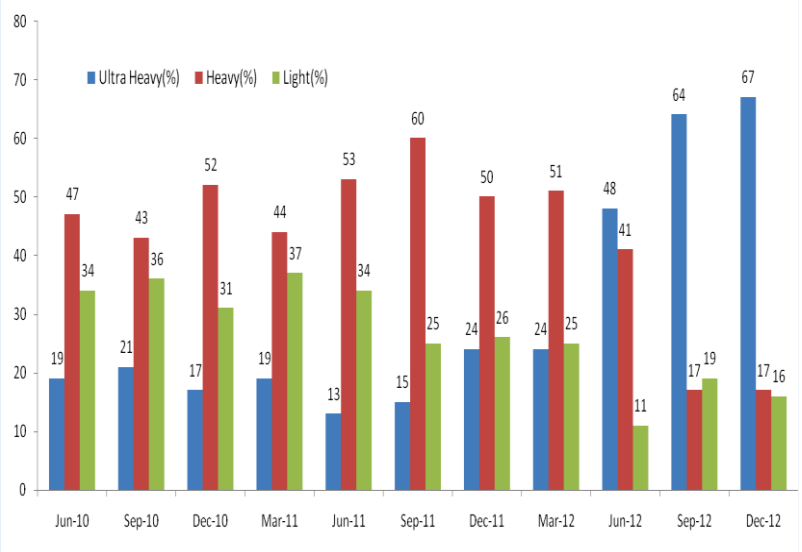
The company reported other income of Rs 174 cr in 3QFY13 as against Rs.72 cr in 3QFY12 and Rs.132 cr in 2QFY13. Depreciation cost was also higher by 73% YoY to Rs.327 cr largely due to capacity addition in Vadinar refinery. Despite this net profit for the quarter was Rs.32 cr compare to loss of Rs.3686 cr in 3QFY12 due to improved margin and higher complexity.

The company is currently producing 55000 standard cubic meters per day of CBM (Coal bed methane)gas as against 30000 scm per day in 3QFY12. Esaar has completed drilling 120 well and waiting environmental clearness -111 of other 618 wells. The company's first Gas Gathering Station (GGS) is operational with another two in various stages of commissioning. Forty eight km long pipeline catering to Durgapur Industrial Area is operational with another 20 kms of pipeline to Matix already laid. A total of 60 wells are connected to the GGS through 43 kms of infield pipelines.

At the current price of Rs.73 stock is trading at 21.5 times of expected earnings. We have positive view on the stock on account of expanded higher complexity refinery, higher contribution of heavy and ultra heavy crude, increasing export volume and exploration upside. Moreover monetization of CBM block will further add value. We recommend Buy with the price target of Rs.90.



Source: Company/Eastwind



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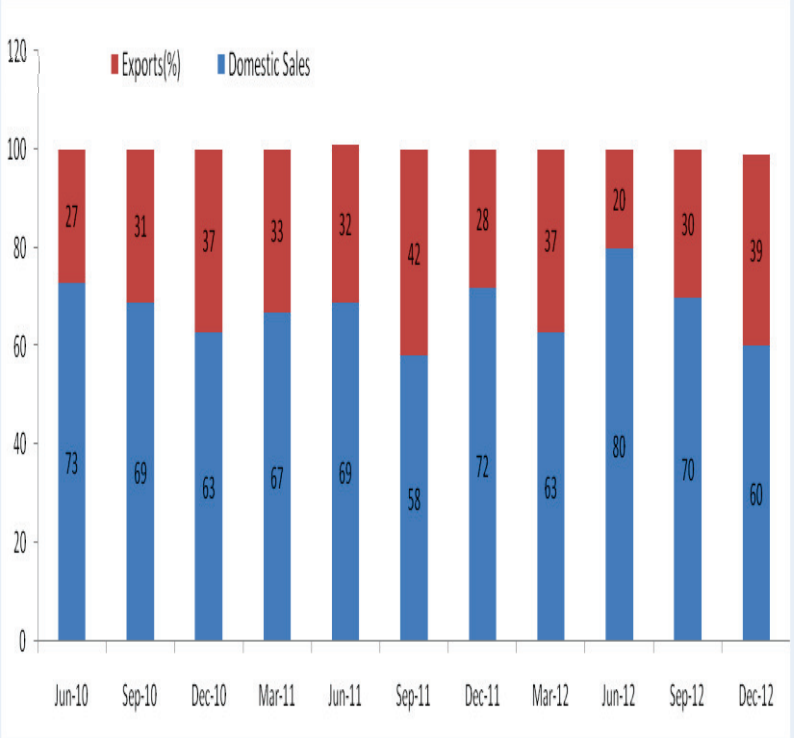

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