

REDUCE

TP: Rs 105 | ▲ 5%

OIL INDIA

Oil & Gas

22 August 2020

Muted volumes

Oil India (OINL) reported a loss of Rs 2.5bn for Q1FY21, impacted by one-off expenses to contain a blowout at one of its oilfields in Assam. Q1 highlights: (a) EBITDA dropped to Rs 2bn (-85% YoY) due to lower oil prices and a decline in production, and (b) sales volume continued to decline for both oil (0.73mmt, -8% YoY) and gas (0.58bcm, -6% YoY). We raise FY21/FY22 earnings by 8x/70% as we factor in higher oil prices (US\$ 40/US\$ 45). On rollover, we move to a Sep'21 TP of Rs 105 (vs. Rs 92). Maintain REDUCE.

Rohit Ahuja | Harleen Manglani

research@bobcaps.in

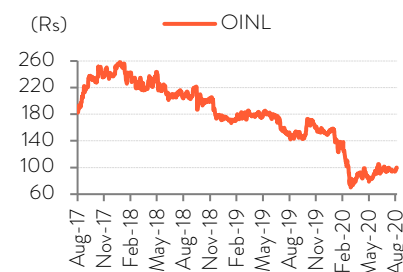
Operating costs decline: OINL's operating costs were below estimates at US\$ 7.9/bbl. Recent disruptions in the Baghjan area of Assam led to exceptional restoration costs (below EBITDA) of Rs 9.3bn. The recurring impact from this event could keep operating costs elevated through FY21, while also marginally disrupting volumes.

Ticker/Price	OINL IN/Rs 100
Market cap	US\$ 1.4bn
Shares o/s	1,084mn
3M ADV	US\$ 2.0mn
52wk high/low	Rs 175/Rs 64
Promoter/FPI/DII	57%/7%/36%

Source: NSE

Volume disruptions continue: OINL's oil/gas production continued to decline - down 7.5%/4.2% YoY to 0.75mmt/0.68bcm in Q1. With repeated disruptions afflicting its producing assets in the state of Assam (political turmoil, natural calamities), the company may struggle to ramp up production over FY21-FY22. We cut our oil and gas production and sales estimates by ~3% each over this period. Additionally, low oil prices remain a drag on future capex for production ramp-up. OINL, like other E&P companies, may choose to go slow on development of new wells.

STOCK PERFORMANCE



Source: NSE

Maintain REDUCE: Current valuations at 7x FY22E EPS could remain depressed in the wake of rising uncertainty over production. Low oil prices remain a primary concern that could keep earnings recovery in check. A further cut in APM gas prices (from Oct'20) could put added pressure on earnings. Upstream companies need much higher oil prices to revive capex.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
Total revenue (Rs mn)	137,350	121,285	86,693	99,682	113,476
EBITDA (Rs mn)	54,838	25,905	20,736	26,890	33,307
Adj. net profit (Rs mn)	36,169	21,662	12,875	15,069	18,066
Adj. EPS (Rs)	33.4	20.0	11.9	13.9	16.7
Adj. EPS growth (%)	35.6	(40.1)	(40.6)	17.0	19.9
Adj. ROAE (%)	13.0	8.3	5.2	5.9	6.9
Adj. P/E (x)	3.0	5.0	8.4	7.2	6.0
EV/EBITDA (x)	2.6	5.2	6.8	5.5	4.5

Source: Company, BOBCAPS Research

BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda

Important disclosures, including any required research certifications, are provided at the end of this report.



FIG 1 – QUARTERLY PERFORMANCE

Y/E March (Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Net sales	17,439	33,734	(48.3)	25,896	(32.7)
Employee cost	4,390	4,545	(3.4)	4,366	0.5
% of sales	25.2	13.5	-	16.9	-
Other expenditure	11,077	15,657	(29.3)	32,544	(66.0)
% of sales	63.5	46.4	-	125.7	-
EBITDA	1,972	13,532	(85.4)	(11,014)	-
EBITDA margin (%)	11.3	40.1	-	(42.5)	-
Depreciation and amortisation	3,585	3,994	(10.2)	2,528	41.8
Interest	1,278	1,235	3.5	1,327	(3.7)
Other income	1,306	1,227	6.4	9,942	(86.9)
PBT	(2,519)	9,530	-	(4,928)	(48.9)
Non-recurring items	934	-	-	-	-
Provision for tax	(33)	3,282	101.0	(14,184)	-
Reported PAT	(2,486)	6,248	-	9,256	-
Adjusted PAT	(1,552.2)	6,248	-	9,256	-
Other comprehensive income	(947)	(3,107)	69.5	(20,785)	(95.4)
Total Income	(2,499)	3,141	-	(11,529)	78.3
NPM (%)	(8.9)	18.5	-	35.7	-
Adj. EPS (Rs)	(1.4)	5.8	-	8.5	(116.8)

Source: Company, BOBCAPS Research

FIG 2 – PRODUCTION VOLUMES

	Q1FY21	Q1 FY20	YoY (%)	Q4 FY20	QoQ (%)
Oil (mmt)	0.75	0.81	(7.5)	0.76	(0.8)
Gas (bcm)	0.68	0.71	(4.2)	0.65	5.7
Total (mmtoe)	1.43	1.53	(6.0)	1.40	2.2

Source: Company, BOBCAPS Research

FIG 3 – VOLUME AND REALISATION SNAPSHOT

	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Crude Oil					
Sales volume (mmt)	0.73	0.80	(8.1)	0.75	(2.0)
Revenues (Rs mn)	11,962	26,042	(54.1)	20,067	(40.4)
Oil realisation (US\$/bbl)	30.3	66.1	(54.2)	52.3	(42.1)
Natural Gas					
Sales volume (bcm)	0.58	0.61	(6.0)	0.53	8.5
Revenues (Rs mn)	3,296	4,851	(32.1)	3,808	(13.4)
Gas realisation (Rs/scm)	5.72	7.91	(27.7)	7.17	(20.2)
Volume (mmscmd)	6.26	6.66	(6.0)	5.84	7.3

Source: Company, BOBCAPS Research

Valuation methodology

OINL's current valuations at 7x FY22E EPS could remain depressed in the wake of rising uncertainty over production. Low oil prices remain a primary concern that could keep earnings recovery in check. A further cut in APM gas prices (from Oct'20) could put added pressure on earnings. Upstream companies need much higher oil prices to revive capex. We raise FY21/FY22 earnings estimates by 8x/70% as we factor in revised oil price assumptions (US\$ 40/US\$ 45). On rollover, we move to a new Sep'21 target price of Rs 105 (vs. Rs 92). Maintain REDUCE.

FIG 4 – REVISED ESTIMATES

(Rs mn)	FY21E			FY22E			FY23E
	Old	New	Var (%)	Old	New	Var (%)	New
Revenue	81,572	86,693	6.3	105,283	99,682	(5.3)	113,476
EBITDA	16,007	20,736	29.5	29,722	26,890	(9.5)	33,307
EBITDA margin (%)	19.6	23.9		28.2	27.0		29.4
PAT	1,629	12,875	690.4	8,844	15,069	70.4	18,066
PAT margin (%)	2.0	14.9		8.4	15.1		15.9
EPS (Rs)	1.5	11.87	690.4	8.2	13.9	70.4	16.7

Source: Company, BOBCAPS Research

We arrive at our SOTP-based target price as follows (all multiples unchanged):

- consolidated cash earnings valued at 3.5x Sep'22E,
- reserve upsides from high-potential international E&P assets (Mozambique) valued at an EV/boe of US\$ 1/bbl (adjusted for debt),
- Numaligarh refinery (26% stake) valued at 6x Sep'22E EBITDA,
- LPG production and transportation businesses at 6x Sep'22E EBITDA, and
- investment in IOCL valued at 20% discount to CMP (net of costs).

FIG 5 – VALUATION SUMMARY

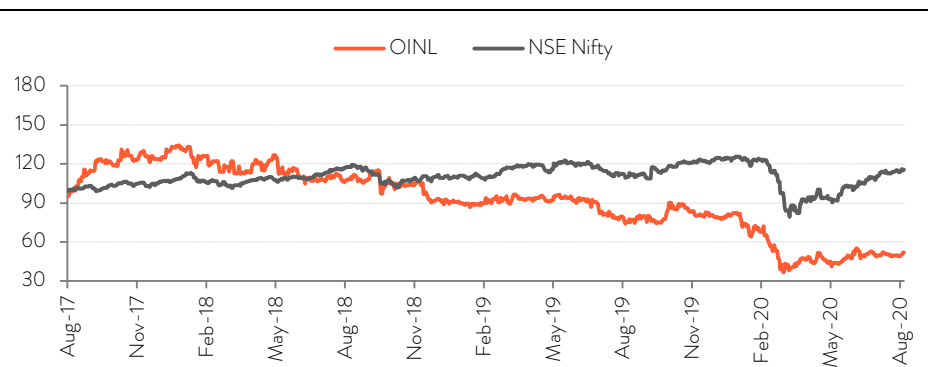
Particulars	Value (Rs mn)	Value (Rs/sh)	Comments
Core business value	89,201	82	3.5x Sep'22E cash earnings
LPG business EV	6,465	6	6x Sep'22E EBITDA
Transportation Business EV	26,229	24	6x Sep'22E EBITDA
Investment in IOCL	14,246	13	20% discount to CMP
Numaligarh refinery stake EV	11,975	11	6x Sep'22E EBITDA
Net debt	34,595	32	Net debt (Sep'21)
OINL total equity value	113,878	105	

Source: BOBCAPS Research

FIG 6 – KEY ASSUMPTIONS

	FY21E	FY22E	FY22E
USDINR	76.0	78.0	80.0
Crude oil prices (US\$/bbl)	40.0	45.0	50.0
Oil production (mmt)	2.94	2.98	3.01
Gas production (bcm)	2.73	2.78	2.83
Gas prices (US\$/mmbtu)	2.4	2.7	3.0

Source: BOBCAPS Research

FIG 7 – RELATIVE STOCK PERFORMANCE

Source: NSE

Key risks

Key upside risks to our estimates are:

- higher-than-expected growth in oil and gas production,
- above-expected oil and gas prices,
- any reforms related to freeing up of domestic gas prices, and
- lowering of cess and royalty rates.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E	FY23E
Total revenue	137,350	121,285	86,693	99,682	113,476
EBITDA	54,838	25,905	20,736	26,890	33,307
Depreciation	(14,963)	(14,918)	(10,513)	(13,117)	(15,439)
EBIT	39,875	10,987	10,223	13,772	17,868
Net interest income/(expenses)	(4,795)	(4,988)	(9,685)	(10,785)	(11,385)
Other income/(expenses)	14,350	15,202	16,674	17,158	17,670
Exceptional items	(10,267)	(4,179)	0	0	0
EBT	49,430	21,201	17,212	20,146	24,153
Income taxes	(13,261)	4,640	(4,337)	(5,077)	(6,086)
Reported net profit	25,902	25,841	12,875	15,069	18,066
Adjusted net profit	36,169	21,662	12,875	15,069	18,066

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E	FY23E
Accounts payables	6,415	6,047	4,156	4,587	5,052
Other current liabilities	60,018	43,889	43,889	43,889	43,889
Provisions	23,973	20,831	14,456	15,954	17,571
Debt funds	72,668	88,851	104,851	110,851	116,851
Other liabilities	34,127	24,929	25,273	25,676	26,159
Equity capital	10,844	10,844	10,844	10,844	10,844
Reserves & surplus	266,321	233,023	239,194	246,417	255,077
Shareholders' fund	277,165	243,867	250,038	257,261	265,921
Total liabilities and equities	474,366	428,414	442,664	458,219	475,443
Cash and cash eq.	61,358	35,769	76,692	52,879	33,453
Accounts receivables	13,135	10,748	7,838	9,078	10,396
Inventories	12,199	12,750	8,958	10,375	11,881
Other current assets	33,978	36,796	36,796	36,796	36,796
Investments	220,029	183,887	183,887	183,887	183,887
Net fixed assets	100,608	108,284	74,300	104,478	132,233
CWIP	33,059	40,179	54,192	60,725	66,797
Total assets	474,366	428,414	442,664	458,219	475,444

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E	FY23E
Net income + Depreciation	(36,083)	40,571	80,440	19,608	25,326
Changes in working capital	29,973	(20,622)	(1,565)	(728)	(741)
Other operating cash flows	(4,346)	(20,221)	(16,330)	(16,755)	(17,187)
Cash flow from operations	(10,457)	(271)	62,546	2,125	7,399
Capital expenditures	57,798	(29,527)	(47,594)	(41,251)	(41,088)
Change in investments	7,827	36,142	0	0	0
Other investing cash flows	14,350	15,202	16,674	17,158	17,670
Cash flow from investing	79,975	21,817	(30,920)	(24,092)	(23,418)
Equities issued/Others	3,278	0	0	0	0
Debt raised/repaid	(988)	16,184	16,000	6,000	6,000
Dividends paid	(13,031)	(13,454)	(6,703)	(7,846)	(9,406)
Other financing cash flows	(28,345)	(49,864)	0	0	0
Cash flow from financing	(39,086)	(47,135)	9,297	(1,846)	(3,406)
Changes in cash and cash eq.	30,432	(25,589)	40,923	(23,813)	(19,426)
Closing cash and cash eq.	61,358	35,769	76,692	52,879	33,453

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20P	FY21E	FY22E	FY23E
Reported EPS	23.9	23.8	11.9	13.9	16.7
Adjusted EPS	33.4	20.0	11.9	13.9	16.7
Dividend per share	10.3	10.6	5.3	6.2	7.4
Book value per share	255.6	224.9	230.6	237.2	245.2

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20P	FY21E	FY22E	FY23E
EV/Sales	1.0	1.1	1.6	1.5	1.3
EV/EBITDA	2.6	5.2	6.8	5.5	4.5
Adjusted P/E	3.0	5.0	8.4	7.2	6.0
P/BV	0.4	0.4	0.4	0.4	0.4

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20P	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	92.4	127.3	74.8	74.8	74.8
Interest burden (PBT/EBIT)	98.2	154.9	168.4	146.3	135.2
EBIT margin (EBIT/Revenue)	29.0	9.1	11.8	13.8	15.7
Asset turnover (Revenue/Avg TA)	30.0	26.9	19.9	22.1	24.3
Leverage (Avg TA/Avg Equity)	1.6	1.7	1.8	1.8	1.8
Adjusted ROAE	13.0	8.3	5.2	5.9	6.9

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	28.9	(11.7)	(28.5)	15.0	13.8
EBITDA	33.7	(52.8)	(20.0)	29.7	23.9
Adjusted EPS	35.6	(40.1)	(40.6)	17.0	19.9
Profitability & Return ratios (%)					
EBITDA margin	39.9	21.4	23.9	27.0	29.4
EBIT margin	29.0	9.1	11.8	13.8	15.7
Adjusted profit margin	26.3	17.9	14.9	15.1	15.9
Adjusted ROAE	13.0	8.3	5.2	5.9	6.9
ROCE	7.5	3.2	2.2	2.8	3.6
Working capital days (days)					
Receivables	36	36	39	31	31
Inventory	64	62	92	74	77
Payables	26	24	28	22	22
Ratios (x)					
Gross asset turnover	0.8	0.8	0.5	0.4	0.4
Current ratio	1.3	1.4	2.1	1.7	1.4
Net interest coverage ratio	8.3	2.2	1.1	1.3	1.6
Adjusted debt/equity	0.0	0.2	0.1	0.2	0.3

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

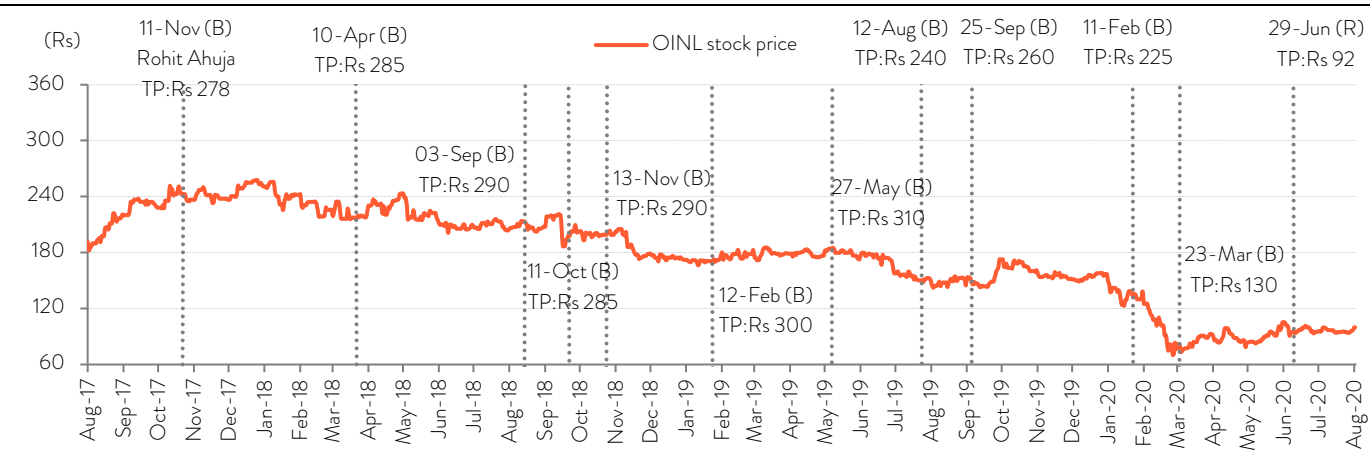
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): OIL INDIA (OINL IN)



B – Buy, A – Add, R – Reduce, S – Sell

Rating distribution

As of 31 July 2020, out of 96 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 46 have BUY ratings, 20 have ADD ratings, 11 are rated REDUCE and 19 are rated SELL. None of these companies have been investment banking clients in the last 12 months.

Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2020. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations

expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company in the past 12 months. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months