

BUY

TP: Rs 103 | ▲ 18%

OIL INDIA

Oil & Gas

10 November 2020

Concerns priced in – raise to BUY

Oil India (OINL) reported Q2FY21 earnings of Rs 2.4bn, well above our estimates. Q2 highlights: (1) EBITDA improved to Rs 7.4bn (+3.7x QoQ) due to higher oil prices, and (2) sales volume continued to decline for both oil (0.73mmt, -8.3% YoY) and gas (0.55bcm, -16.3% YoY). We maintain our earnings forecast as we keep oil price assumptions unchanged. Our Sep'21 SOTP-based TP changes marginally to Rs 103 (vs. Rs 105). Upgrade to BUY (from REDUCE) as concerns over production ramp-up and low oil prices appear fully priced in.

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Operating costs decline: OINL's operating costs inline with estimates at US\$ 6.3/bbl (including exceptional costs, -15% QoQ). Recent disruptions in the Baghjan area of Assam had led to exceptional restoration costs (below EBITDA) of Rs 1.3bn in Q2 (~Rs 2.3bn in H1FY21). The recurring impact from this event has kept costs elevated while also disrupting production volumes.

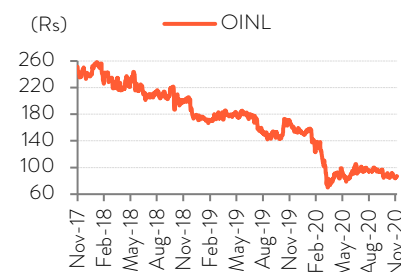
Volume disruptions continue: OINL's oil/gas production continued to decline, falling 8.5%/14.5% YoY to 0.75mmt/0.64bcm in Q2. With repeated disruptions afflicting its producing assets in the state of Assam (political turmoil, natural calamities), the company is struggling to scale up production (this could sustain through FY22). Recovery in oil prices could raise prospects of higher capex for a faster production ramp-up. OINL, along with ONGC, continues to lobby for a higher gas price for domestic fields, as it lines up major development plans for its gas discoveries in Assam.

Concerns priced in – raise to BUY: Current valuations at 6x FY22E EPS seem to be pricing in the worst. Recovery in oil prices could provide much-needed earnings recovery, while APM gas prices could be revised upwards from Apr'21. OINL's claims of strong reserve accretion (>1 reserve replacement over the last few years) raise prospects for strong long-term volume growth.

Ticker/Price	OINL IN/Rs 87
Market cap	US\$ 1.3bn
Shares o/s	1,084mn
3M ADV	US\$ 1.1mn
52wk high/low	Rs 170/Rs 64
Promoter/FPI/DII	57%/7%/36%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	137,350	121,285	86,693	100,959	113,476
EBITDA (Rs mn)	54,838	25,905	20,736	27,976	33,307
Adj. net profit (Rs mn)	36,169	21,662	12,875	15,882	18,066
Adj. EPS (Rs)	33.4	20.0	11.9	14.6	16.7
Adj. EPS growth (%)	35.6	(40.1)	(40.6)	23.4	13.8
Adj. ROAE (%)	13.0	8.3	5.2	6.3	6.9
Adj. P/E (x)	2.6	4.4	7.3	5.9	5.2
EV/EBITDA (x)	2.3	4.7	6.1	4.8	4.1

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

Y/E March (Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Net sales	21,690	32,136	(32.5)	17,439	24.4	39,129	65,870	(40.6)
Employee cost	5,414	5,480	(1.2)	4,390	23.3	9,804	10,025	(2.2)
% of sales	25.0	17.1	-	25.2	-	25.1	15.2	-
Other expenditure	8,902	14,227	(37.4)	11,077	(19.6)	19,979	29,885	(33.1)
% of sales	41.0	44.3	-	63.5	-	51.1	45.4	-
EBITDA	7,373	12,429	(40.7)	1,972	273.9	9,345	25,960	(64.0)
EBITDA margin (%)	34.0	38.7	-	11.3	-	23.9	39.4	-
Depreciation and amortisation	3,737	4,154	(10.0)	3,585	4.2	7,322	8,148	(10.1)
Interest	1,217	1,208	0.7	1,278	(4.7)	2,495	2,443	2.1
Other income	1,112	2,679	(58.5)	1,306	(14.9)	2,417	3,907	(38.1)
PBT	2,190	9,746	-	(2,519)	-	(329)	19,276	-
Non-recurring items	1,341	-	-	934	43.6	2,275	-	-
Provision for tax	(200)	3,473	-	(33)	-	(233)	6,756	-
Reported PAT	2,390	6,272	-	(2,486.1)	-	(96.6)	12,520	-
Adjusted PAT	3,731	6,272	(40.5)	(1,552)	-	2,178	12,520	(82.6)
Other comprehensive income	(1,264)	(9,094)	86.1	(947)	-	(2,211)	-	-
Total Income	2,467	(2,822)	-	(2,499)	198.7	(32)	12,520	-
NPM (%)	17.2	19.5	-	(8.9)	-	5.6	19.0	-
Adj. EPS (Rs)	3.4	5.8	(40.5)	(1.4)	-	2.0	11.5	(82.6)

Source: Company, BOBCAPS Research

FIG 2 – PRODUCTION VOLUMES

	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Oil (mmt)	0.75	0.82	(8.6)	0.75	(0.8)	1.50	1.63	(8.0)
Gas (bcm)	0.64	0.75	(14.6)	0.68	(6.5)	1.32	1.46	(9.5)
Total (mmtoe)	1.38	1.56	(11.5)	1.43	(3.5)	2.82	3.09	(12.2)

Source: Company, BOBCAPS Research

FIG 3 – VOLUME AND REALISATION SNAPSHOT

	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Crude Oil								
Sales volume (mmt)	0.72	0.79	(8.4)	0.73	(1.2)	1.46	1.58	(8.0)
Revenues (Rs mn)	16,307	24,091	(32.3)	11,962	36.3	28,269	50,564	(44.1)
Oil realisation (US\$/bbl)	42.7	61.1	(30.1)	30.3	41.0	36.4	64.6	(43.7)
Natural Gas								
Sales volume (bcm)	0.55	0.66	(16.3)	0.58	(4.0)	1.13	1.27	(11.4)
Revenues (Rs mn)	3,512	5,323	(34.0)	3,296	6.6	6,808	9,704	(29.8)
Gas realisation (Rs/scm)	6.35	8.05	(21.1)	5.72	11.0	6.03	7.98	(24.4)
Volume (mmscmd)	6.01	7.18	(16.3)	6.33	(5.0)	4.11	4.63	(11.4)

Source: Company, BOBCAPS Research

Valuation methodology

Current valuations at 6x FY22E EPS seem to be pricing in the worst. Recovery in oil prices could provide much-needed earnings recovery, while APM gas prices could be revised upwards from Apr'21. OINL's claims of strong reserve accretion (>1 reserve replacement over the last few years) raise prospects for strong long-term volume growth.

We maintain earnings as we keep oil price assumptions unchanged. Our Sep'21 SOTP-based target price changes marginally to Rs 103 (vs. Rs 105). We upgrade the stock to BUY (from REDUCE) as concerns over production ramp-up and low oil prices appear fully priced in.

Our SOTP-based valuation is as follows (all multiples unchanged):

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

FIG 4 – VALUATION SUMMARY

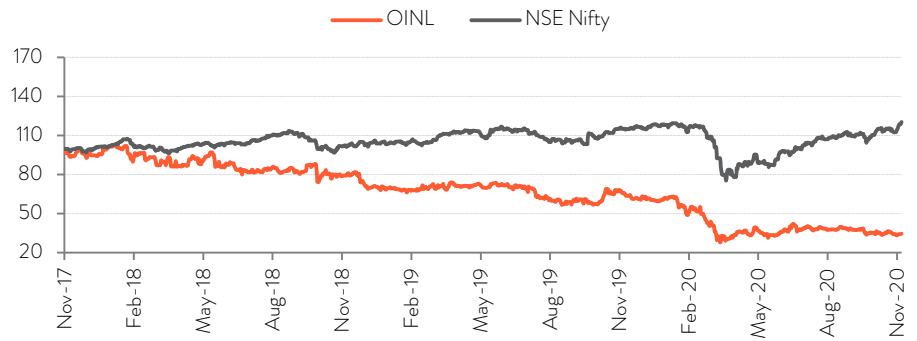
Particulars	Value (Rs mn)	Value (Rs/sh)	Comments
Core business value	90,149	83	3.5x Sep'22E cash earnings
LPG business EV	6,742	6	6x Sep'22E EBITDA
Transportation Business EV	26,229	24	6x Sep'22E EBITDA
Investment in IOCL	10,700	9	20% discount to CMP
Numaligarh refinery stake EV	11,975	11	6x Sep'22E EBITDA
Net debt	34,515	32	Adj. net debt (FY20)
OINL total equity value	98,868	103	

Source: BOBCAPS Research

FIG 5 – KEY ASSUMPTIONS

	FY21E	FY22E	FY23E
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 6 – RELATIVE STOCK PERFORMANCE

Source: NSE

Key risks

Key downside risks to our estimates are:

- lower-than-expected growth in oil and gas production, and
- below-expected oil and gas prices.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	137,350	121,285	86,693	100,959	113,476
EBITDA	54,838	25,905	20,736	27,976	33,307
Depreciation	(14,963)	(14,918)	(10,513)	(13,117)	(15,439)
EBIT	39,875	10,987	10,223	14,859	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	21,232	24,153
Income taxes	(13,261)	4,640	(4,337)	(5,350)	(6,086)
Reported net profit	25,902	25,841	12,875	15,882	18,066
Adjusted net profit	36,169	21,662	12,875	15,882	18,066

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	6,415	6,047	4,156	4,599	5,052
Other current liabilities	60,018	43,889	43,889	43,889	43,889
Provisions	23,973	20,831	14,456	15,996	17,571
Debt funds	72,668	88,851	104,851	110,851	116,851
Other liabilities	34,127	24,929	25,273	25,698	26,181
Equity capital	10,844	10,844	10,844	10,844	10,844
Reserves & surplus	266,321	233,023	239,194	246,807	255,467
Shareholders' fund	277,165	243,867	250,038	257,651	266,311
Total liabilities and equities	474,366	428,414	442,664	458,684	475,855
Cash and cash eq.	61,358	35,769	76,692	53,082	33,864
Accounts receivables	13,135	10,748	7,838	9,201	10,396
Inventories	12,199	12,750	8,958	10,515	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	458,684	475,855

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	(36,083)	40,571	80,440	20,421	25,326
Changes in working capital	29,973	(20,622)	(1,565)	(937)	(532)
Other operating cash flows	(4,346)	(20,221)	(16,330)	(16,734)	(17,187)
Cash flow from operations	(10,457)	(271)	62,546	2,750	7,607
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)	(8,269)	(9,406)
Other financing cash flows	(28,345)	(49,864)	0	0	0
Cash flow from financing	(39,086)	(47,135)	9,297	(2,269)	(3,406)
Changes in cash and cash eq.	30,432	(25,589)	40,923	(23,611)	(19,217)
Closing cash and cash eq.	61,358	35,769	76,692	53,082	33,864

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	23.9	23.8	11.9	14.6	16.7
Adjusted EPS	33.4	20.0	11.9	14.6	16.7
Dividend per share	10.3	10.6	5.3	6.5	7.4
Book value per share	255.6	224.9	230.6	237.6	245.6

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	0.9	1.0	1.5	1.3	1.2
EV/EBITDA	2.3	4.7	6.1	4.8	4.1
Adjusted P/E	2.6	4.4	7.3	5.9	5.2
P/BV	0.3	0.4	0.4	0.4	0.4

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	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	142.9	135.2
EBIT margin (EBIT/Revenue)	29.0	9.1	11.8	14.7	15.7
Asset turnover (Revenue/Avg TA)	30.0	26.9	19.9	22.4	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	6.3	6.9

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

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	28.9	(11.7)	(28.5)	16.5	12.4
EBITDA	33.7	(52.8)	(20.0)	34.9	19.1
Adjusted EPS	35.6	(40.1)	(40.6)	23.4	13.8
Profitability & Return ratios (%)					
EBITDA margin	39.9	21.4	23.9	27.7	29.4
EBIT margin	29.0	9.1	11.8	14.7	15.7
Adjusted profit margin	26.3	17.9	14.9	15.7	15.9
Adjusted ROAE	13.0	8.3	5.2	6.3	6.9
ROCE	7.5	3.2	2.2	3.1	3.6
Working capital days (days)					
Receivables	36	36	39	31	32
Inventory	64	62	92	74	77
Payables	26	24	28	22	22
Ratios (x)					
Gross asset turnover	0.8	0.8	0.5	0.5	0.4
Current ratio	1.3	1.4	2.1	1.7	1.4
Net interest coverage ratio	8.3	2.2	1.1	1.4	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%

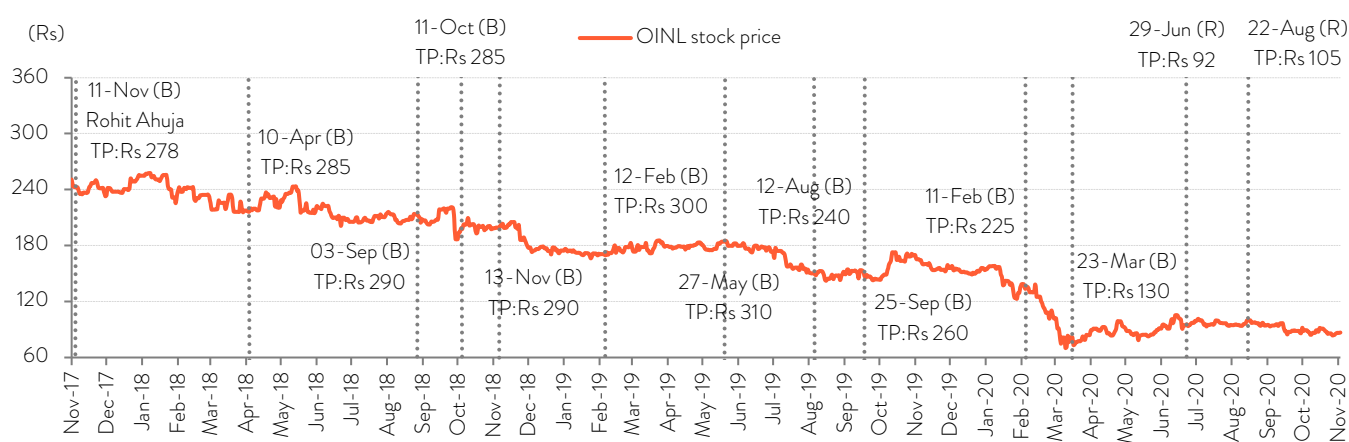
ADD – Expected return from >+5% to +15%

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

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