

BUY

TP: Rs 225 | ▲ 68%

OIL INDIA

Oil & Gas

11 February 2020

Volumes remain a drag

Oil India's (OINL) Q3FY20 earnings disappointed at Rs 4bn (-67% YoY). Key highlights: (a) EBITDA at Rs 11bn (-28% YoY) was a miss on high operating cost (at ~US\$ 7.25/bbl), (b) oil (0.73mmt, -11% YoY) and gas (0.60bcm, -7% YoY) sale volumes underperformed, hit by political unrest in Assam. We cut FY20/21/22 earnings by 15%/6%/5% on low production volumes. On rollover, we have a revised Mar'21 TP of Rs 225 (from Rs 260). OINL's dividend announcement (Rs 9/sh) offers some respite.

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Operating cost trending below long-term estimates: While OINL's Q3 operating cost came in above estimates at US\$ 7.25/bbl (US\$ 6/bbl est.), it is trending below our FY21/FY22 forecast of ~US\$ 9/bbl. We accordingly recalibrate our cost assumption for these years to US\$ 7-8/bbl, which leads to marginal improvement in earnings.

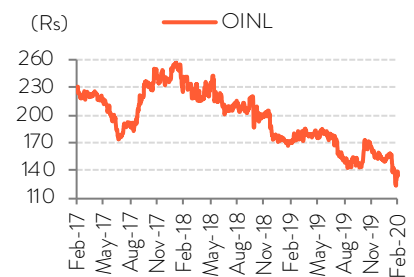
Political disruptions dent volumes: OINL's oil production continues to decline (0.75mmt, -11% YoY). Gas production also dipped in the current quarter (0.70bcm, -4.6% YoY), likely due to political disruptions. Oil and gas production continues to trend well below management's earlier guidance of 3.66mmt and 3.02bcm respectively for FY20. We thus cut our oil and gas production/sales estimates by ~10% over FY20-FY22.

Valuations pricing in the worst – maintain BUY: Current valuations at 4.5x FY22E EPS imply Brent at US\$ 40/bbl and offer an unjustifiably steep discount to spot oil prices (US\$ 55/bbl). Additionally, dividend yields at ~8.5%/11.5%/12% for FY20E/FY21E/FY22E render valuations extremely attractive. The stock seems to be pricing in the worst case, in our view.

| | |
|------------------|----------------|
| Ticker/Price | OINL IN/Rs 134 |
| Market cap | US\$ 2.0bn |
| Shares o/s | 1,084mn |
| 3M ADV | US\$ 2.8mn |
| 52wk high/low | Rs 190/Rs 118 |
| Promoter/FPI/DII | 62%/5%/34% |

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

| Y/E 31 Mar | FY18A | FY19A | FY20E | FY21E | FY22E |
|-------------------------|---------|---------|---------|---------|---------|
| Total revenue (Rs mn) | 106,565 | 137,350 | 134,035 | 158,444 | 171,003 |
| EBITDA (Rs mn) | 41,013 | 54,838 | 55,194 | 67,901 | 74,343 |
| Adj. net profit (Rs mn) | 26,679 | 32,693 | 33,466 | 42,575 | 45,982 |
| Adj. EPS (Rs) | 24.6 | 30.1 | 30.9 | 39.3 | 42.4 |
| Adj. EPS growth (%) | 12.1 | 22.5 | 2.4 | 27.2 | 8.0 |
| Adj. ROAE (%) | 9.4 | 11.8 | 11.7 | 14.0 | 14.1 |
| Adj. P/E (x) | 5.4 | 4.4 | 4.3 | 3.4 | 3.2 |
| EV/EBITDA (x) | 3.7 | 3.3 | 3.1 | 2.6 | 2.8 |

Source: Company, BOBCAPS Research

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



FIG 1 – QUARTERLY PERFORMANCE

| Y/E March (Rs mn) | Q3FY20 | Q3FY19 | YoY (%) | Q2FY20 | QoQ (%) | 9MFY20 | 9MFY19 | YoY (%) |
|-------------------------------|----------------|---------------|----------------|----------------|----------------|---------------|----------------|---------------|
| Net sales | 29,520 | 35,140 | (16.0) | 32,136 | (8.1) | 95,390 | 106,481 | (10.4) |
| Employee cost | 4,603 | 4,130 | 11.4 | 5,480 | (16.0) | 14,628 | 11,548 | 26.7 |
| % of sales | 15.6 | 11.8 | - | 17.1 | - | 15.3 | 10.8 | - |
| Other expenditure | 13,957 | 15,795 | (11.6) | 14,227 | (1.9) | 42,023 | 50,888 | (17.4) |
| % of sales | 47.3 | 44.9 | - | 44.3 | - | 44.1 | 47.8 | - |
| EBITDA | 10,960 | 15,215 | (28.0) | 12,429 | (11.8) | 38,738 | 44,045 | (12.0) |
| EBITDA margin (%) | 37.1 | 43.3 | - | 38.7 | - | 40.6 | 41.4 | - |
| Depreciation and amortisation | 4,243 | 3,694 | 14.9 | 4,154 | 2.1 | 12,390 | 10,722 | 15.6 |
| Interest | 1,218 | 1,216 | 0.1 | 1,208 | 0.8 | 3,661 | 3,597 | 1.8 |
| Other income | 1,354 | 6,012 | (77.5) | 2,679 | (49.5) | 5,260 | 10,158 | (48.2) |
| PBT | 6,853 | 16,317 | (58.0) | 9,746 | (29.7) | 27,947 | 39,884 | (29.9) |
| Provision for tax | 2,789 | 3,983 | 30.0 | 3,473 | (19.7) | 9,545 | 11,898 | (19.8) |
| Adj. PAT | 4,064 | 12,335 | (67.1) | 6,272 | (35.2) | 18,402 | 27,987 | (34.2) |
| Other comprehensive income | (10,794) | (7,074) | - | (9,094) | - | - | (17,211) | - |
| Total Income | (6,730) | 5,261 | (227.9) | (2,822) | (138.5) | 18,402 | 10,776 | 70.8 |
| NPM (%) | 13.8 | 35.1 | - | 19.5 | - | 19.3 | 26.3 | - |
| Adj. EPS (Rs) | 3.7 | 10.9 | (65.5) | 5.8 | (35.2) | 17.0 | 24.7 | (31.2) |

Source: Company, BOBCAPS Research

FIG 2 – PRODUCTION DETAILS

| | Q3FY20 | Q3FY19 | YoY (%) | Q2FY20 | QoQ (%) | 9MFY20 | 9MFY19 | YoY (%) |
|----------------------|-------------|-------------|--------------|-------------|--------------|-------------|-------------|--------------|
| Production | | | | | | | | |
| Oil (mmt) | 0.75 | 0.84 | (10.9) | 0.82 | (8.5) | 2.38 | 2.54 | (6.4) |
| Gas (bcm) | 0.70 | 0.73 | (4.6) | 0.75 | (6.6) | 2.16 | 2.16 | (0.2) |
| Total (mmtoe) | 1.45 | 1.57 | (8.0) | 1.56 | (7.5) | 4.53 | 4.70 | (5.0) |

Source: Company, BOBCAPS Research

FIG 3 – VOLUME AND REALISATION SNAPSHOT

| | Q3FY20 | Q3FY19 | YoY (%) | Q2FY20 | QoQ (%) | 9MFY20 | 9MFY19 | YoY (%) |
|----------------------------|--------|--------|---------|--------|---------|--------|--------|---------|
| Crude Oil | | | | | | | | |
| Sales Volume (mmt) | 0.73 | 0.81 | (10.8) | 0.79 | (8.1) | 2.31 | 2.46 | (6.0) |
| Revenues (Rs mn) | 23,197 | 27,685 | (16.2) | 24,091 | (3.7) | 74,210 | 85,647 | (13.4) |
| Oil realisation (US\$/bbl) | 63.3 | 66.6 | (4.9) | 61.1 | 3.6 | 64.4 | 139.1 | (53.7) |
| Natural Gas | | | | | | | | |
| Sales Volume (bcm) | 0.60 | 0.65 | (7.4) | 0.66 | (9.5) | 1.87 | 1.89 | (0.8) |
| Revenues (Rs mn) | 4,179 | 4,737 | (11.8) | 5,323 | (21.5) | 13,694 | 12,502 | 9.5 |
| Gas realisation (Rs/scm) | 6.99 | 7.33 | (4.7) | 8.05 | (13.2) | 7.48 | 6.62 | 13.0 |
| Volume (mmscmd) | 6.50 | 7.02 | (7.4) | 7.26 | (10.5) | 6.81 | 6.87 | (0.8) |

Source: Company, BOBCAPS Research

Valuation methodology

We cut FY20/21/22 earnings by 15%/6%/5% on low production volumes. On rollover, we have a revised Mar'21 TP of Rs 225 (from Rs 260). OINL's dividend announcement (Rs 9/sh) offers some respite

Current valuations at 4.5x FY22E EPS imply Brent at US\$ 40/bbl and offer an unjustifiably steep discount to spot oil prices (US\$ 55/bbl). Additionally, dividend yields at ~8.5%/11.5%/12% for FY20E/FY21E/FY22E render valuations extremely attractive. The stock seems to be pricing in the worst case, in our view. Maintain BUY.

FIG 4 – REVISED ESTIMATES

| (Rs mn) | FY20E | | | FY21E | | | FY22E | | |
|-------------------|---------|---------|---------|---------|---------|---------|-----------|---------|---------|
| | Old | New | Var (%) | Old | New | Var (%) | New | New | Var (%) |
| Revenue | 142,263 | 125,329 | (11.9) | 187,509 | 148,075 | (21.0) | 171,003.3 | 159,782 | (6.6) |
| EBITDA | 57,623 | 50,194 | (12.9) | 65,202 | 61,966 | (5.0) | 70,706.1 | 67,861 | (4.0) |
| EBITDA margin (%) | 40.5 | 40.0 | - | 34.8 | 41.8 | - | 41.3 | 42.5 | - |
| PAT | 35,282 | 29,845 | (15.4) | 40,556 | 38,257 | (5.7) | 43,261.0 | 41,256 | (4.6) |
| PAT margin (%) | 24.8 | 23.8 | - | 21.6 | 25.8 | - | 25.3 | 25.8 | - |
| EPS (Rs) | 32.5 | 27.5 | (15.3) | 37.4 | 35.3 | (5.7) | 39.9 | 38.0 | (4.7) |

Source: BOBCAPS Research

We arrive at our SOTP-based target price as follows:

- consolidated cash earnings valued at 3.5x FY22E,
- reserve upsides from high-potential international E&P assets (Mozambique) valued at an EV/boe of US\$ 1/bbl (adjusted for debt, especially Mozambique),
- Numaligarh refinery (26% stake) valued at 6x FY22E EBITDA,
- LPG production and transportation businesses at 6x FY22E EBITDA, and
- investment in IOCL valued at 20% discount to CMP (net of costs).

FIG 5 – VALUATION SUMMARY

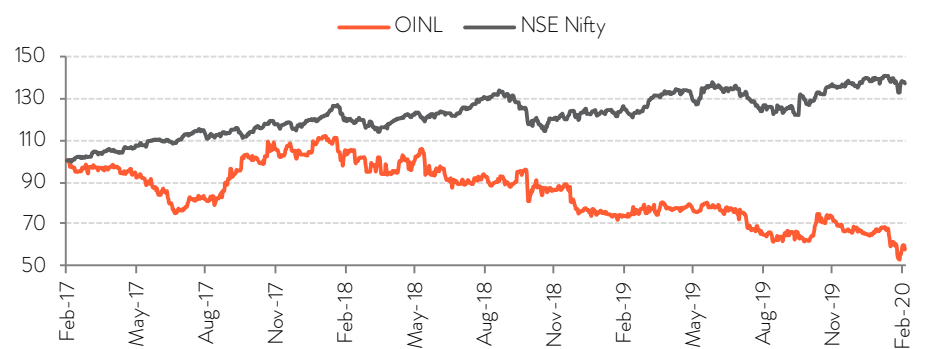
| Particulars | Value (Rs mn) | Value (Rs/sh) | Comments |
|--------------------------------|----------------|---------------|--|
| Core business value | 199,063 | 183 | 3.5x FY22E cash earnings |
| Reserve upsides | 56,516 | 52 | Overall EV/boe of US\$ 1/bbl on P2 potential reserves net to OINL (Area 1 Mozambique and Tomsk region) |
| LPG business EV | 8,658 | 8 | 6x FY22E EBITDA |
| Transportation business EV | 26,229 | 24 | 6x FY22E EBITDA |
| Investment in IOCL | 26,289 | 24 | 20% discount to CMP |
| Numaligarh refinery stake EV | 11,975 | 11 | 6x FY22E EBITDA |
| Net debt | 55,981 | 52 | Consolidated debt |
| OINL total equity value | 244,252 | 225 | Implies ~6.4x FY22E EPS @ US\$ 70/bbl oil) |

Source: BOBCAPS Research

FIG 6 – KEY ASSUMPTIONS

| | FY20E | FY21E | FY22E |
|-----------------------------|-------|-------|-------|
| USD/INR | 72.0 | 74.0 | 74.0 |
| Crude oil prices (US\$/bbl) | 65.0 | 70.0 | 75.0 |
| Subsidy (Rs mn) | - | - | - |
| Oil production (mmt) | 3.04 | 3.08 | 3.11 |
| Gas production (bcm) | 2.84 | 2.88 | 2.91 |
| Gas prices (US\$/mmbtu) | 3.97 | 4.55 | 4.88 |

Source: BOBCAPS Research

FIG 7 – RELATIVE STOCK PERFORMANCE

Source: NSE

Key risks

Key downside risks to our estimates are:

- lower-than-expected growth in oil and gas production, and
- above-expected subsidies, in the wake of rising oil prices, which could impact earnings and multiples.

FINANCIALS

Income Statement

| Y/E 31 Mar (Rs mn) | FY18A | FY19A | FY20E | FY21E | FY22E |
|--------------------------------|----------------|----------------|----------------|----------------|----------------|
| Total revenue | 106,565 | 137,350 | 134,035 | 158,444 | 171,003 |
| EBITDA | 41,013 | 54,838 | 55,194 | 67,901 | 74,343 |
| Depreciation | (14,600) | (14,963) | (18,473) | (20,032) | (21,529) |
| EBIT | 26,413 | 39,875 | 36,721 | 47,869 | 52,814 |
| Net interest income/(expenses) | (4,157) | (4,795) | (6,540) | (8,067) | (9,167) |
| Other income/(expenses) | 14,842 | 14,350 | 14,560 | 17,116 | 17,826 |
| Exceptional items | 0 | (10,267) | 0 | 0 | 0 |
| EBT | 37,098 | 49,430 | 44,741 | 56,918 | 61,473 |
| Income taxes | (10,419) | (13,261) | (11,275) | (14,343) | (15,491) |
| Reported net profit | 26,679 | 25,902 | 33,466 | 42,575 | 45,982 |
| Adjusted net profit | 26,679 | 32,693 | 33,466 | 42,575 | 45,982 |

Balance Sheet

| Y/E 31 Mar (Rs mn) | FY18A | FY19A | FY20E | FY21E | FY22E |
|---------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Accounts payables | 5,533 | 6,415 | 7,560 | 8,682 | 9,269 |
| Other current liabilities | 35,206 | 60,018 | 60,018 | 60,018 | 60,018 |
| Provisions | 12,464 | 23,973 | 15,120 | 17,365 | 18,538 |
| Debt funds | 73,656 | 72,668 | 72,668 | 88,668 | 94,668 |
| Other liabilities | 34,390 | 34,127 | 35,021 | 36,160 | 37,389 |
| Equity capital | 7,566 | 10,844 | 10,844 | 10,844 | 10,844 |
| Reserves & surplus | 271,528 | 266,321 | 283,418 | 304,803 | 327,900 |
| Shareholders' fund | 279,094 | 277,165 | 294,262 | 315,647 | 338,744 |
| Total liabilities and equities | 440,342 | 474,366 | 484,649 | 526,540 | 558,625 |
| Cash and cash eq. | 30,926 | 61,358 | 15,297 | 22,951 | 25,422 |
| Accounts receivables | 14,078 | 13,135 | 14,381 | 17,052 | 18,424 |
| Inventories | 10,783 | 12,199 | 15,820 | 18,757 | 20,266 |
| Other current assets | 27,221 | 33,978 | 33,978 | 33,978 | 33,978 |
| Investments | 227,856 | 220,029 | 220,029 | 220,029 | 220,029 |
| Net fixed assets | 102,720 | 100,608 | 138,717 | 158,894 | 178,678 |
| CWIP | 26,760 | 33,059 | 46,427 | 54,879 | 61,829 |
| Total assets | 440,342 | 474,366 | 484,649 | 526,540 | 558,625 |

Source: Company, BOBCAPS Research

Cash Flows

| Y/E 31 Mar (Rs mn) | FY18A | FY19A | FY20E | FY21E | FY22E |
|-------------------------------------|-----------------|-----------------|------------------|-----------------|-----------------|
| Net income + Depreciation | 40,074 | (36,083) | 114,655 | 54,760 | 59,734 |
| Changes in working capital | 7,125 | 29,973 | (12,575) | (2,241) | (1,121) |
| Other operating cash flows | (11,247) | (4,346) | (13,665) | (15,978) | (16,597) |
| Cash flow from operations | 35,952 | (10,457) | 88,415 | 36,541 | 42,017 |
| Capital expenditures | (22,630) | 57,798 | (132,665) | (40,814) | (40,487) |
| Change in investments | (8,352) | 7,827 | 0 | 0 | 0 |
| Other investing cash flows | 14,842 | 14,350 | 14,560 | 17,116 | 17,826 |
| Cash flow from investing | (16,140) | 79,975 | (118,106) | (23,698) | (22,661) |
| Equities issued/Others | (449) | 3,278 | 0 | 0 | 0 |
| Debt raised/repaid | (15,820) | (988) | 0 | 16,000 | 6,000 |
| Dividends paid | (13,631) | (12,891) | (16,656) | (21,190) | (22,885) |
| Other financing cash flows | (9,583) | (28,485) | 287 | 0 | 0 |
| Cash flow from financing | (54,310) | (39,086) | (16,369) | (5,190) | (16,885) |
| Changes in cash and cash eq. | (34,498) | 30,432 | (46,060) | 7,654 | 2,471 |
| Closing cash and cash eq. | 30,926 | 61,358 | 15,297 | 22,951 | 25,422 |

Per Share

| Y/E 31 Mar (Rs) | FY18A | FY19A | FY20E | FY21E | FY22E |
|----------------------|-------|-------|-------|-------|-------|
| Reported EPS | 24.6 | 23.9 | 30.9 | 39.3 | 42.4 |
| Adjusted EPS | 24.6 | 30.1 | 30.9 | 39.3 | 42.4 |
| Dividend per share | 15.0 | 10.2 | 13.1 | 16.7 | 18.0 |
| Book value per share | 368.9 | 255.6 | 271.4 | 291.1 | 312.4 |

Valuations Ratios

| Y/E 31 Mar (x) | FY18A | FY19A | FY20E | FY21E | FY22E |
|----------------|-------|-------|-------|-------|-------|
| EV/Sales | 1.4 | 1.3 | 1.3 | 1.1 | 1.2 |
| EV/EBITDA | 3.7 | 3.3 | 3.1 | 2.6 | 2.8 |
| Adjusted P/E | 5.4 | 4.4 | 4.3 | 3.4 | 3.2 |
| P/BV | 0.4 | 0.5 | 0.5 | 0.5 | 0.4 |

DuPont Analysis

| Y/E 31 Mar (%) | FY18A | FY19A | FY20E | FY21E | FY22E |
|---------------------------------|-------|-------|-------|-------|-------|
| Tax burden (Net profit/PBT) | 71.9 | 83.5 | 74.8 | 74.8 | 74.8 |
| Interest burden (PBT/EBIT) | 140.5 | 98.2 | 121.8 | 118.9 | 116.4 |
| EBIT margin (EBIT/Revenue) | 24.8 | 29.0 | 27.4 | 30.2 | 30.9 |
| Asset turnover (Revenue/Avg TA) | 23.8 | 30.0 | 28.0 | 31.3 | 31.5 |
| Leverage (Avg TA/Avg Equity) | 1.6 | 1.6 | 1.7 | 1.7 | 1.7 |
| Adjusted ROAE | 9.4 | 11.8 | 11.7 | 14.0 | 14.1 |

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

Ratio Analysis

| Y/E 31 Mar | FY18A | FY19A | FY20E | FY21E | FY22E |
|--|-------|-------|-------|-------|-------|
| YoY growth (%) | | | | | |
| Revenue | 12.1 | 28.9 | (2.4) | 18.2 | 7.9 |
| EBITDA | 21.5 | 33.7 | 0.7 | 23.0 | 9.5 |
| Adjusted EPS | 12.1 | 22.5 | 2.4 | 27.2 | 8.0 |
| Profitability & Return ratios (%) | | | | | |
| EBITDA margin | 38.5 | 39.9 | 41.2 | 42.9 | 43.5 |
| EBIT margin | 24.8 | 29.0 | 27.4 | 30.2 | 30.9 |
| Adjusted profit margin | 25.0 | 23.8 | 25.0 | 26.9 | 26.9 |
| Adjusted ROAE | 9.4 | 11.8 | 11.7 | 14.0 | 14.1 |
| ROCE | 5.2 | 7.5 | 7.7 | 9.3 | 9.4 |
| Working capital days (days) | | | | | |
| Receivables | 41 | 36 | 37 | 36 | 38 |
| Inventory | 83 | 65 | 86 | 91 | 96 |
| Payables | 32 | 26 | 32 | 33 | 34 |
| Ratios (x) | | | | | |
| Gross asset turnover | 0.5 | 0.8 | 0.6 | 0.6 | 0.5 |
| Current ratio | 1.6 | 1.3 | 1.0 | 1.1 | 1.1 |
| Net interest coverage ratio | 6.4 | 8.3 | 5.6 | 5.9 | 5.8 |
| Adjusted debt/equity | 0.2 | 0.0 | 0.2 | 0.2 | 0.2 |

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

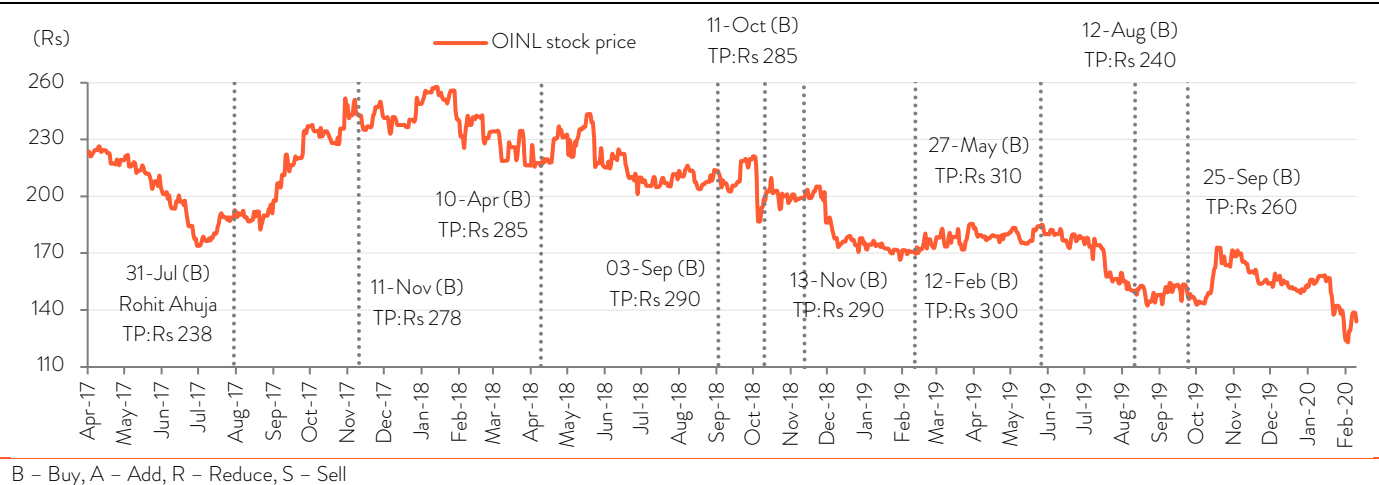
ADD – Expected return from >+5% to +15%

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)

HISTORICAL RATINGS AND TARGET PRICE: OIL INDIA (OINL IN)



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