

# Stock Update

## Operating profit lags estimate on higher opex

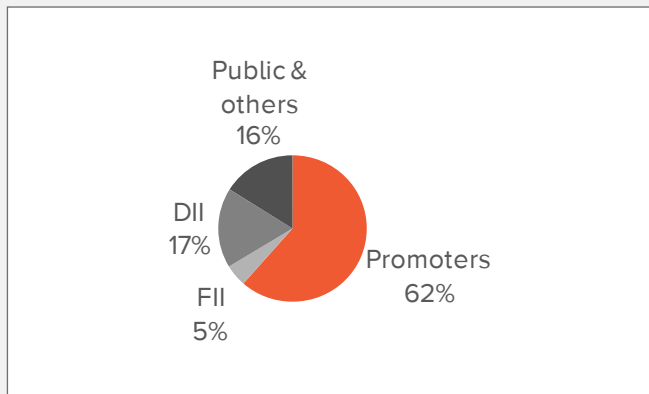
### Oil India

Reco: Buy | CMP: Rs184

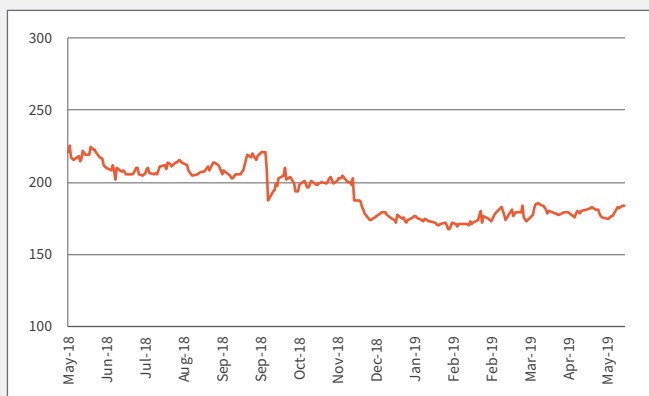
#### Company details

Price target:	Rs230
Market cap:	Rs20,866 cr
52-week high/low:	Rs232/166
NSE volume: (No of shares)	16.7 lakh
BSE code:	533106
NSE code:	OIL
Sharekhan code:	OIL
Free float: (No of shares)	43.6 cr

#### Shareholding pattern



#### Price chart



#### Price performance

(%)	1m	3m	6m	12m
Absolute	3.0	7.3	-2.7	-10.2
Relative to Sensex	1.2	-3.2	-13.3	-22.0

#### Key points

- Operating profits lags estimates, adjusted PAT in line:** In Q4FY2019 Oil India Limited's (OIL) operating profit stood at Rs. 1,079 crore (up 34.8% y-o-y; down 29.1% q-o-q), below our estimate of Rs. 1,183 crore, owing to higher-than-expected other operating expenses (up 29% q-o-q) led by higher provisions. On operational front, net oil realisation stood at \$61.8/bbl (down 4.9% y-o-y; down 7.4% q-o-q), in line with our estimate of \$62/bbl. However, oil sales volumes declined by 6.4% y-o-y to 0.8 million metric ton (mmt) while gas sales volumes grew by 6.3% y-o-y to 0.6 billion cubic metres (bcm). The company reported a loss of Rs. 209 crore due to a one-time provision of Rs. 1,027 crore related to employee provident fund. Adjusting for the same, profit after tax (PAT) stood at Rs. 818 crore (down 5.6% y-o-y; down 33.7% q-o-q), in-line with our estimate of Rs. 822 crore. PAT was in line with estimates as the miss in operating profit, lower other income (down 46.7% y-o-y) and a 41.5% y-o-y rise in depreciation, depletion and amortisation (DD&A) expenses were offset by sharply lower effective tax rate of 14.3% (versus our assumption of 32%).
- Outlook – Adequate fuel subsidy provision to ensure net oil realisation of \$65/bbl; domestic gas price hike bodes well for gas business:** With a stable government at the Centre, we believe that upstream PSUs would be exempted from the fuel subsidy burden as seen in the past few years. Additionally, the fuel subsidy provision of Rs. 37,478 crore for FY2020E also seems adequate to manage under-recoveries on domestic LPG and PDS kerosene till international crude oil prices are at \$65/bbl and a rupee-US Dollar rate of Rs. 72. Hence, we model a net oil price realisation of \$65/bbl (as compared to current Brent crude oil prices of \$70/bbl) for FY2020E and FY2021E. Moreover, domestic gas prices have been increased by 10% to \$3.7/mmBtu on gross calorific value (GCV) basis for H1FY2020, which bodes well for gas business. We expect oil production to decline by 2% annually in FY2020E and FY2021E, given a weak oil reserve profile, while we expect gas production to clock a CAGR of 2% during FY2019-FY2021E.
- Valuation – Maintain Buy with unchanged SoTP based PT of Rs. 230 as stock price is discounting worst-case net oil realisation:** We have increased our FY2020 and FY2021

earnings estimates to factor in higher net oil realisations and gas prices. We keep our SoTP based price target (PT) unchanged at Rs. 230 as higher valuation for standalone business gets offset by lower value for investment in listed entities. We maintain our Buy rating on Oil India as the stock is factoring in a worst-case net oil realisation of \$48/bbl, as compared to current international oil price of \$70/bbl. A healthy

dividend yield of ~6% also provides comfort to investors. At current market prices, the stock trades at 5.9x FY2020E earnings per share (EPS) and 6.1x FY2021E EPS.

- ♦ **Key risk:** Sharp fall in international crude oil prices could affect OIL's net oil realisations and our Buy rating.

## Results

Particulars						Rs cr
	Q4FY19	Q4FY18	YoY%	Q3FY19	QoQ%	
Revenue	3,087	2,998	2.9%	3,514	-12.2%	
Total Expenditure	2,008	2,198	-8.7%	1,993	0.8%	
Operating profits	1,079	801	34.8%	1,521	-29.1%	
Other Income	419	786	-46.7%	601	-30.3%	
EBIDTA	1,498	1,587	-5.6%	2,123	-29.4%	
Interest	120	108	11.2%	122	-1.5%	
PBDT	1,379	1,479	-6.8%	2,001	-31.1%	
Depreciation & prov	424	300	41.5%	369	14.8%	
PBT	955	1,180	-19.1%	1,632	-41.5%	
Tax	136	313	-56.4%	398	-65.8%	
Reported Profit After Tax	(209)	867	NA	1,233	NA	
Adjusted PAT	818	867	-5.6%	1,233	-33.7%	
Adj. EPS	7.5	8.0	-5.6%	11.4	-33.7%	
			<b>bps</b>		<b>bps</b>	
OPMs	35.0%	26.7%	826	43.3%	(833)	
PAT	26.5%	28.9%	(239)	35.1%	(859)	
Tax rate	14.3%	26.5%	(1,225)	24.4%	(1,013)	

Source: Company data, Sharekhan Research

## Valuation (Standalone)

Particulars						Rs cr
	FY17	FY18	FY19	FY20E	FY21E	
Net sales	9,510	10,656	13,735	13,824	13,766	
Growth (%)	-2.6%	12.1%	28.9%	0.6%	-0.4%	
EBDITA	3,105	3,911	5,484	5,722	5,652	
EBDITA margin	32.6%	36.7%	39.9%	41.4%	41.1%	
Adjusted PAT	2,210	2,668	3,617	3,406	3,294	
Growth (%)	-12.2%	20.7%	35.6%	-5.8%	-3.3%	
EPS diluted (Rs.)	20.4	24.6	33.4	31.4	30.4	
PE (x)	9.0	7.5	5.5	5.9	6.1	
P/BV (x)	0.5	0.5	0.7	0.7	0.6	
EV/EBDITA (x)	6.8	6.0	3.9	4.6	4.5	
EV/sales (x)	2.2	2.2	1.5	1.9	1.9	
Div Yield (%)	6.2%	7.1%	5.8%	7.7%	7.4%	
ROE (%)	8.2%	9.4%	13.0%	11.9%	11.0%	
ROCE (%)	9.9%	10.7%	14.5%	14.6%	13.7%	

Source: Company data, Sharekhan estimates

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