

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR96 TP: INR110 (+15%) Buy

Impairment hurts bottom line; Expect marginal production decline in FY21

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Bloomberg	OINL IN
Equity Shares (m)	1,130
M.Cap.(INRb)/(USDb)	103.6 / 1.4
52-Week Range (INR)	180 / 66
1, 6, 12 Rel. Per (%)	5/-21/-35
12M Avg Val (INR M)	259

Financials & Valuations (INR b)

Y/E march	2020	2021E	2022E
Sales	121.3	81.2	102.9
EBITDA	43.7	16.6	29.1
Adj. PAT	25.8	12.0	19.3
Adj. EPS (INR)	22.9	10.6	17.1
EPS Gr. (%)	-28.6	-53.7	61.0
BV/Sh.(INR)	215.7	221.6	231.0

Ratios

Net D:E	0.2	0.2	0.3
RoE (%)	9.9	4.8	7.5
RoCE (%)	3.6	1.2	3.1
Payout (%)	55.8	54.2	54.2

Valuations

P/E (x)	4.2	9.0	5.6
P/BV (x)	0.4	0.4	0.4
EV/EBITDA (x)	3.7	10.2	6.1
Div. Yield (%)	11.1	5.0	8.0

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	56.7	59.6	61.6
DII	19.2	17.4	17.4
FII	6.6	7.3	4.8
Others	17.5	15.8	16.2

FII Includes depository receipts

- Oil India's (OINL) 4QFY20 oil and gas sales were in line with estimates. However, EBITDA (excluding impairment) was 5% lower than estimates. The company recorded impairment and write offs of ~INR17.8b during the quarter.
- For FY20, oil sales were down 5% YoY to 3.06mmt and gas sales were down 4% YoY to 2.4bcm, as operations were hampered due to (a) CAB (Citizen Amendment Bill) related protest for 10-15 days, and (b) lockdown in the last week of March. The company stated that current production is at ~90% of the normal levels.
- Net oil realization for FY20 stood at USD60.8/bbl (v/s USD68.5/bbl in FY19), as crude oil prices declined sharply in 4QFY20 due to huge demand destruction led by the COVID-19 led lockdowns across the globe.
- Oil India guided that production for oil and gas in FY21 would be marginally lower YoY. In line with the guidance, we have built in oil production decline of 3% YoY (at ~3mmt) and flat gas production (at ~2.7bcm) for FY21E. However, we have factored in ~4% YoY increase in oil (3.14mmt) and gas (2.8bcm) production for FY22E.
- We expect no incremental change in production volumes for both oil and gas in the near term. However, the company has guided for almost doubling of gas production FY24-25E onwards along with plans to curb the oil production decline.
- Crude prices have moved up the trough from ~USD15-10/bbl to USD40/bbl. We believe it would stabilize at ~USD40-50/bbl due to OPEC+ production cuts continuing further aided by demand revival with lifting of the lockdowns. We have built in crude oil price assumption of USD40/50/bbl for FY21/FY22E.
- OINL has announced final dividend of INR1.6/share, in addition to INR9/share declared as interim dividend (thus totaling to INR10.6/share in FY20). This translates into strong dividend yield of ~11% with payout of ~56% for FY20. Maintain Buy.

4QFY20 snapshot – huge impairment and write-off recorded

- OINL recorded impairment of INR12.3b considering the impact on lower crude oil and gas prices and the additional INR5.5b in the KG Basin. This totals to INR17.8b, which has been accounted for in other expenditure.
- However, we have classified the impairment and write-offs as part of DD&A. Therefore, our EBITDA stands at INR6.8b (v/s est. -5% and -38% YoY/QoQ) against EBITDA loss of INR11b reported by the company.
- Owing to the aforementioned adjustment, DD&A for the company now stands at INR20.3b (translating to USD26.7/boe).
- Other income was higher at INR9.9b (INR4.2b in 4QFY20) due to higher dividend and interest income. Income tax refund from Guwahati HC has been recorded as interest income of INR3.2b in other income.
- The company has moved to the lower tax rate and re-measured DTL liabilities of INR8.2b. Also, under the 'Vivad se Vishwas' scheme, the company made tax reversal adjustment of INR3.5b.

- Reported PAT for the company stood at INR9.3b (v/s loss of INR2.1b in 4QFY19 and profit of INR4.1b in 3QFY20). Adjusting for the aforementioned impairment and write-off charges, DTL and other tax reversals, PAT stood at INR15.4b for the quarter.
- For FY20, EBITDA stood at INR43.7b (-20% YoY) with reported PBT down 57% YoY to INR21.2b. The company availed tax credits for the year as it moved to the lower tax rate. Thus, reported PAT was flat YoY to INR25.8b for the year.

Operational details – decline in growth continues

- Production of crude oil in 4QFY20 fell 3% YoY to 0.76mmt while that of gas dipped 2% YoY to 0.65bcm. Total production was at 1.40mmtoe (-3% YoY).
- Oil sales declined 4% YoY to 0.75mmt, while gas sales were down 14% YoY to 0.53bcm. Total sales stood at 1.28mmtoe (-8% YoY).
- Net oil price realization was USD52.2/bbl (v/s USD63.3/bbl in 4QFY19). The decline was in line with the fall in oil prices.

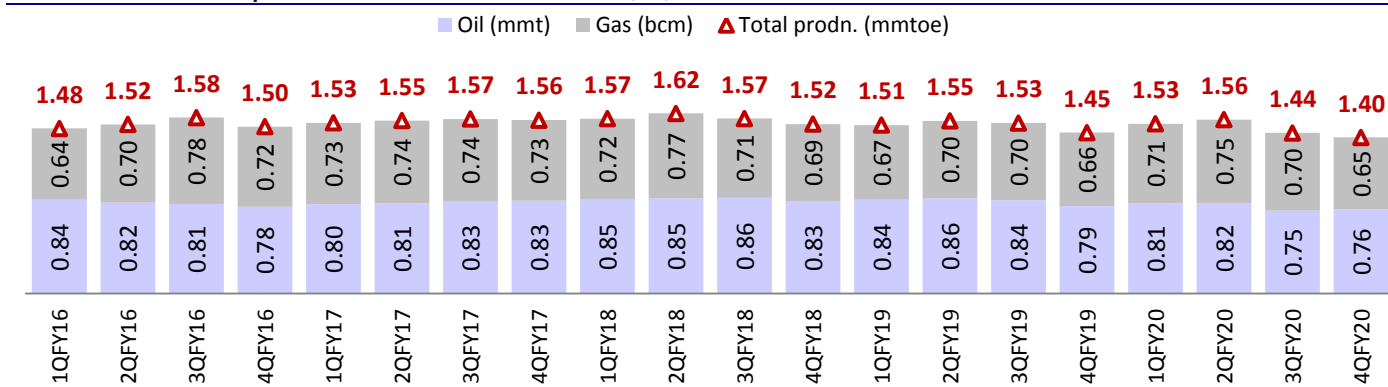
Valuation and view

- OINL has stated that it witnessed blowout at one of the gas producing wells in Baghjan field during work-over operation on 27th May'20. The effort to control the blowout at the earliest is still on with expert teams of OINL, ONGC and international experts involved.
- Due to the blowout, there is a production loss of about 80,000scmd of natural gas, which is only ~1% of OINL's daily natural gas production.
- OINL has mentioned that marginal decline in production could be expected for FY21. The company said that it intends adding gas production of ~5msmcmd starting 2024-25 (on current 7.5msmcmd), while arresting the decline in oil production.
- Numaligarh Refinery acquisition is likely to be done by a consortium of OINL and other Indian PSUs. The company expects the acquisition to happen simultaneously with the privatization of BPCL.
- We model in crude oil prices of USD40/50/bbl for FY21/FY22E. Note that a change of USD1/bbl in oil price impacts EBITDA by 4%. The stock trades at 5.6x FY22E EPS of INR17.1. We use an SOTP-based fair value of 8x FY22E adj. EPS of INR13.7 and add investments to arrive at a price target of INR110. Maintain Buy.

Quarterly Performance

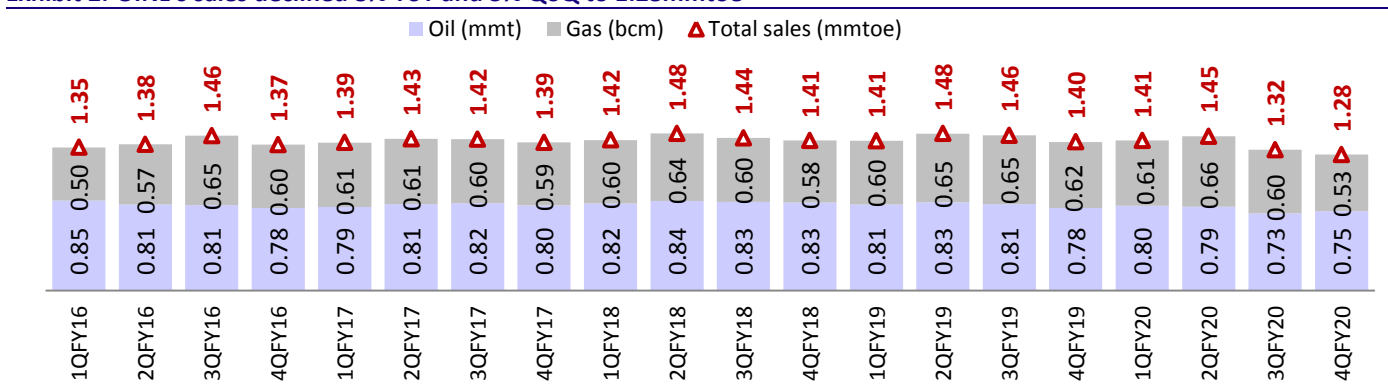
Y/E March	FY19				FY20				FY19	FY20	FY20 4QE	Var vs est (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Net Sales	33,905	37,436	35,140	30,869	33,734	32,136	29,520	25,896	1,37,350	1,21,285	21,682	19%
Change (%)	45.4	51.3	23.2	2.9	-0.5	-14.2	-16.0	-16.1	28.9	-11.7	-29.8	
EBITDA	14,084	14,746	15,215	10,793	13,532	12,429	10,960	6,785	54,838	43,705	7,111	-5%
% of Net Sales	41.5	39.4	43.3	35.0	40.1	38.7	37.1	26.2	39.9	36.0	32.8	
Change (%)	61.1	45.7	24.3	34.8	-3.9	-15.7	-28.0	-37.1	40.2	-20.3	-34.1	
D,D&A	3,372	3,656	3,694	4,241	3,994	4,154	4,243	20,327	14,963	32,718	4,471	NM
Interest	1,124	1,257	1,216	1,198	1,235	1,208	1,218	1,327	4,795	4,988	1,088	22%
OI (incl. Oper. other inc)	1,268	2,878	6,012	4,192	1,227	2,679	1,354	9,942	14,350	15,202	3,214	NM
PBT before exceptionals	10,855	12,712	16,317	9,546	9,530	9,746	6,853	-4,928	49,430	21,201	4,766	NM
PBT after exceptionals	10,855	12,712	16,317	-722	9,530	9,746	6,853	-4,928	39,162	21,201	4,766	NM
Tax	3,823	4,092	3,983	1,363	3,282	3,473	2,789	-14,184	13,261	-4,640	1,578	77%
Rate (%)	35.2	32.2	24.4	14.3	34.4	35.6	40.7	287.8	26.8	-21.9	33.1	
PAT	7,032	8,620	12,335	-2,085	6,248	6,272	4,064	9,256	25,901	25,841	3,189	NM
Change (%)	56.2	33.4	74.9	-124.1	-11.2	-27.2	-67.1	-543.9	-2.9	-0.2	-252.9	
Adj. PAT	7,032	8,620	12,335	8,183	6,248	6,272	4,064	9,256	36,169	25,841	3,189	NM
Key Assumptions (USD/bbl)												
Oil sales (mmt)	0.81	0.83	0.81	0.78	0.80	0.79	0.73	0.75	3.23	3.06	0.74	1%
Gas sales (bcm)	0.60	0.65	0.65	0.62	0.61	0.66	0.60	0.53	2.51	2.40	0.51	5%
Net Oil Realization	72.0	73.4	66.7	61.8	66.3	61.3	63.3	52.2	68.5	60.8	50.6	3%

Exhibit 1: OINL's total production declined 3% YoY and QoQ to 1.40mmtoe



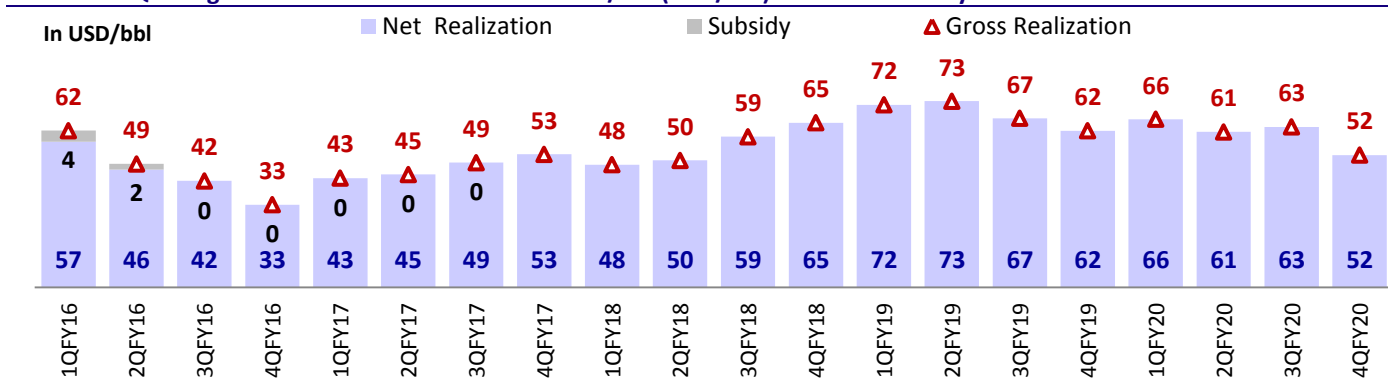
Source: Company, MOFSL

Exhibit 2: OINL's sales declined 8% YoY and 3% QoQ to 1.28mmtoe



Source: Company, MOFSL

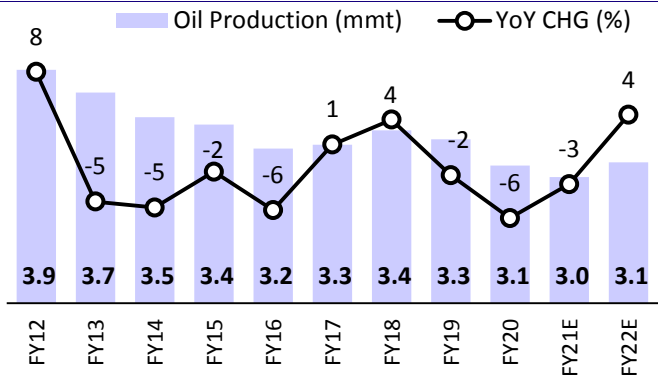
Exhibit 3: 4QFY20 gross and net realization at USD52.2/bbl (USD/bbl) – with nil subsidy burden



Source: Company, MOFSL

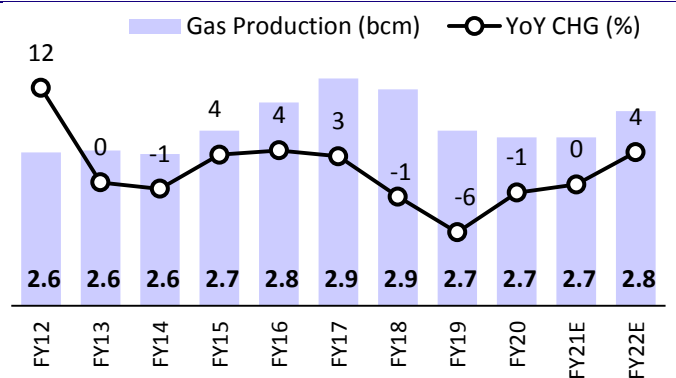
Story in charts

Exhibit 4: Oil production trend



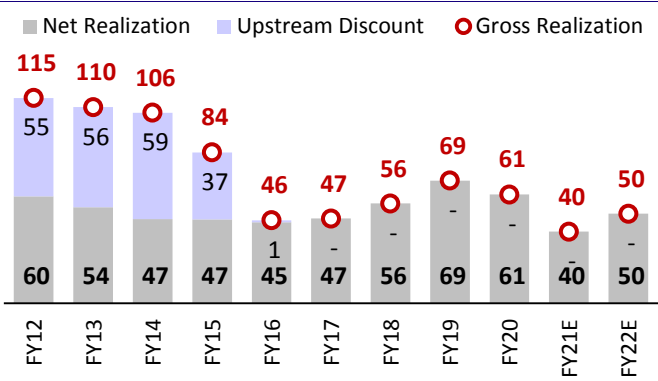
Source: Company, MOFSL

Exhibit 5: Gas production trend



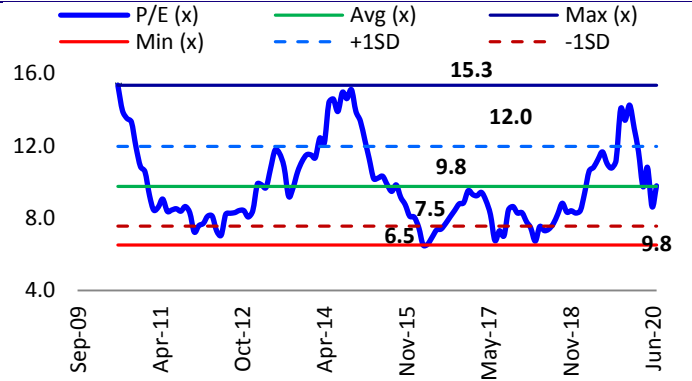
Source: Company, MOFSL

Exhibit 6: Realization trend of OINL (USD/bbl)



Source: Company, MOFSL

Exhibit 7: 1-year forward P/E for OINL



Source: Company, MOFSL

Financials and Valuations

Income Statement								(INR M)
Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E
Net Sales	92,301	92,655	93,645	1,06,565	1,37,350	1,21,285	81,190	1,02,894
Change (%)	1.1	0.4	1.1	13.8	28.9	-11.7	-33.1	26.7
EBITDA	30,141	30,692	29,589	39,113	54,838	43,705	16,635	29,075
% of Net Sales	32.7	33.1	31.6	36.7	39.9	36.0	20.5	28.3
D,D&A	10,609	9,515	10,907	12,700	14,963	32,718	10,786	14,177
Interest	3,407	3,652	3,967	4,157	4,795	4,988	5,155	4,822
Other Income	17,971	18,847	18,266	14,842	14,350	15,202	15,306	15,691
Prior period & other adj.	0	2,151	11,517	0	10,268	0	0	0
PBT	34,095	34,220	21,463	37,098	39,162	21,201	15,999	25,767
Tax	12,185	11,190	5,976	10,419	13,261	-4,640	4,027	6,485
Rate (%)	35.7	32.7	27.8	28.1	33.9	-21.9	25.2	25.2
PAT	21,910	23,030	15,487	26,679	25,901	25,841	11,972	19,281
Adj. PAT	21,910	25,181	27,004	26,679	36,169	25,841	11,972	19,281
Change (%)	-26.5	14.9	7.2	-1.2	35.6	-28.6	-53.7	61.0

Balance Sheet								(INR M)
Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E
Share Cap. (incl sh. suspense)	6,011	6,011	8,015	7,566	10,844	10,844	10,844	10,844
Reserves	2,33,656	2,43,183	2,82,890	2,71,528	2,66,608	2,33,023	2,39,607	2,50,212
Net Worth	2,39,667	2,49,195	2,90,905	2,79,094	2,77,452	2,43,867	2,50,451	2,61,056
Total Loans	82,646	91,328	89,475	73,656	72,668	88,851	78,077	78,077
Deferred Tax	17,589	21,806	30,795	34,390	34,127	24,929	24,929	24,929
Capital Employed	3,39,903	3,62,329	4,11,175	3,87,139	3,84,246	3,57,647	3,53,457	3,64,062
Gross Fixed Assets	73,164	80,104	1,06,669	1,35,722	1,49,026	1,88,981	2,08,981	2,28,981
Less: Depreciation	10,450	9,440	20,803	33,503	48,466	81,183	91,970	1,06,147
Net Fixed Assets	62,714	70,664	85,866	1,02,219	1,00,561	1,07,798	1,17,011	1,22,834
Capital WIP	16,660	18,049	18,936	9,881	12,674	20,253	29,232	38,161
Producing/pre-producing	10,663	11,116	15,442	17,380	20,719	20,413	21,433	22,505
Investments	1,37,680	1,44,530	2,19,504	2,27,856	2,20,029	1,83,887	1,83,887	1,83,887
Curr. Assets, L & Adv.								
Inventory	10,242	10,016	10,965	10,783	12,199	12,750	8,535	10,817
Debtors	23,775	13,252	10,056	14,078	13,135	10,748	7,195	9,118
Cash & Bank Balance	92,176	99,082	65,423	30,926	61,358	35,769	15,790	8,718
Loans & Adv. and Other CA	25,417	24,784	27,204	27,221	33,978	36,796	24,632	31,216
% of sales	27.5	26.7	29.0	25.5	24.7	30.3	30.3	30.3
Current Liab. & Prov.								
Liabilities	30,361	20,314	30,484	40,738	66,434	49,936	33,428	42,363
Provisions	9,065	8,849	11,736	12,464	23,973	20,831	20,831	20,831
Net Current Assets	1,12,186	1,17,970	71,427	29,804	30,264	25,296	1,893	(3,325)
Application of Funds	3,39,903	3,62,329	4,11,175	3,87,139	3,84,246	3,57,647	3,53,457	3,64,062

E: MOFSL Estimates

Financials and Valuations

Ratios

Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E
Basic (INR)								
EPS (Adj)	19.4	22.3	23.9	23.6	32.0	22.9	10.6	17.1
Cash EPS	28.8	28.8	23.4	34.8	36.2	51.8	20.1	29.6
Book Value	212.0	220.5	257.4	246.9	245.5	215.7	221.6	231.0
DPS	10.6	9.6	11.0	10.3	10.3	10.6	4.8	7.7
Payout (incl. Div. Tax.)	65.8	56.5	96.5	52.7	53.8	55.8	54.2	54.2
Valuation (x)								
P/E	4.9	4.3	4.0	4.1	3.0	4.2	9.0	5.6
Cash P/E	3.3	3.3	4.1	2.7	2.6	1.8	4.8	3.2
EV / EBITDA	3.3	3.3	4.5	3.9	2.2	3.7	10.2	6.1
EV/Sales	1.1	1.1	1.4	1.4	0.9	1.3	2.1	1.7
Price / Book Value	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Dividend Yield (%)	11.1	10.0	11.5	10.8	10.7	11.1	5.0	8.0
Profitability Ratios (%)								
RoE	9.8	9.4	5.7	9.4	9.3	9.9	4.8	7.5
RoCE	3.8	4.1	3.5	4.8	6.8	3.6	1.2	3.1
RoIC	14.6	14.7	13.0	16.8	25.3	12.9	3.6	8.6
Turnover Ratios								
Inventory (No. of Days)	41	39	43	37	32	38	38	38
Debtors (No. of Days)	94	52	39	48	35	32	32	32
Fixed Asset Turnover (x)	2	1	1	1	1	1	0	0
Creditor (No. of Days)	120	80	119	140	177	150	150	150
Leverage Ratio								
Net Debt / Equity (x)	0.0	0.0	0.1	0.2	0.0	0.2	0.2	0.3

Cash Flow Statement

Y/E March	2015	2016	2017	2018	2018	2018	2021E	2022E
(INR M)								
OP/(Loss) before Tax	34,095	34,220	21,463	37,098	39,162	21,201	15,999	25,767
Change in deferred tax	4,448	4,217	8,989	3,594	-263	-9,198	0	0
Depreciation	10,609	9,515	10,907	12,700	14,963	32,718	10,786	14,177
Direct Taxes Paid	-12,185	-11,190	-5,976	-10,419	-13,261	4,640	-4,027	-6,485
(Inc)/Dec in Wkg. Capital	-7,521	1,121	12,885	7,125	29,973	-20,622	3,424	-1,854
CF from Op. Activity	29,446	37,883	48,268	50,099	70,574	28,739	26,183	31,605
(Inc)/Dec in FA & CWIP	-25,088	-19,307	-31,323	-21,935	-19,437	-47,227	-30,000	-30,000
Free Cash Flow	4,359	18,577	16,945	28,164	51,137	-18,488	-3,817	1,605
(Pur)/Sale of Investments	-23,114	-6,851	-74,974	-8,352	7,827	36,142	0	0
CF from Inv. Activity	-48,201	-26,157	-1,06,297	-30,287	-11,610	-11,086	-30,000	-30,000
Inc / (Dec) in Debt	-15,181	8,682	-1,853	-15,820	-988	16,184	-10,775	0
Dividends Paid	-12,023	-10,821	-12,416	-11,680	-11,586	-11,982	-5,388	-8,677
CF from Fin. Activity	-4,505	-4,821	24,371	-54,310	-28,531	-43,242	-16,162	-8,677
Inc / (Dec) in Cash	-23,260	6,905	-33,658	-34,498	30,432	-25,589	-19,979	-7,072
Add: Opening Balance	1,15,437	92,176	99,082	65,423	30,926	61,358	35,769	15,790
Closing Balance	92,176	99,082	65,423	30,926	61,358	35,769	15,790	8,718

E: MOFSL Estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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