

Sector: Oil & Gas
Result Update

	Change
Reco: Hold	↓
CMP: Rs. 97	
Price Target: Rs. 106	↓
↑ Upgrade ↔ No change ↓ Downgrade	

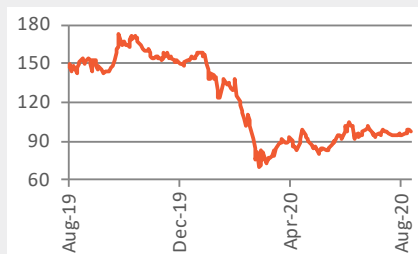
Company details

Market cap:	Rs. 10,557 cr
52-week high/low:	Rs. 175/66
NSE volume: (No of shares)	23.7 lakh
BSE code:	533106
NSE code:	OIL
Sharekhan code:	OIL
Free float: (No of shares)	47.00 cr

Shareholding (%)

Promoters	56.7
FII	7.2
DII	18.8
Others	17.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-1	17	-17	-34
Relative to Sensex	-3	-10	-14	-37

Sharekhan Research, Bloomberg

Oil India Limited (Oil India) reported weak Q1FY2021 numbers, clocking a net loss of Rs. 249 crore (as against a net profit of Rs. 625 crore in Q1FY2020) due to: 1) weak oil and gas realisations, declining by 54.1% y-o-y and 29% y-o-y respectively, 2) higher-than-expected operating expenses on account of exploration cost write-off of Rs. 115 crore (versus negative Rs. 1 crore in Q1FY2020) and 3) exceptional expenses of Rs. 93 crore related to control blowout at Baghjan Oilfields and 4) lower-than-expected other income (down 87% q-o-q). Even after adjusting for exceptional expenses, net loss of Rs. 155 crore was higher than our estimate of net loss of Rs. 76 crore. Oil sales volume at 0.73mmt (down 8.1% y-o-y; down 2% q-o-q) and net oil realisation at \$30.4/bbl (down 54.1% y-o-y; down 41.7% q-o-q) was in-line with our expectations while gas sales volume at 0.6 bcm (down 6% y-o-y; up 8.5% q-o-q) was above our estimate of 0.54 bcm. We believe that the likely further cut in the domestic gas prices over H2FY2021E-H1FY2022E and weak oil price/production outlook has made the earnings outlook weak for upstream PSUs in the near to medium term. Hence, we downgrade Oil India to Hold (from Buy earlier) as our revised SoTP based PT of Rs. 106 provides limited upside potential from current level and the stock lacks positive triggers.

Key positives

- Higher-than-expected gas sales volume at 0.6bcm (up 8.5% q-o-q).

Key negatives

- Sharp decline in oil sales volumes by 8.1% y-o-y to 0.73mmt amid weak oil demand due to COVID-19.
- Sharp decline in net oil realisation by 54.1% y-o-y and 41.7% q-o-q to \$30.4/bbl.
- EBIT loss of Rs73 crore for oil business due to weak oil realisation and sales volumes.

Our Call

Valuation – Downgrade Oil India to Hold with a revised SoTP based PT of Rs. 106: We have cut our FY2021-FY2022 earnings estimates to factor lower gas price assumption and higher operating cost. We have also introduced our FY2023 earnings estimates in this report. We believe that weak oil and gas realisation/production outlook, continued high capex plan of Rs. 4,000-4,200 crore despite weak oil & gas prices and negative value from investment in Mozambique E&P assets (given low LNG prices) would remain an overhang on the stock in the near to medium term. We have revised our SoTP-based PT for Oil India to Rs. 106 and downgrade the stock to Hold (from Buy earlier) given a muted earnings outlook (expect 44% earnings decline over FY2020-FY2022E), low RoEs of 4-7% over FY2021-FY2022E and limited upside potential. At CMP, the stock is trading at 10.1x FY2021E EPS and 5.8x FY2022E EPS.

Key Risks

Prolonged weak oil & gas price are key downside risks. Higher-than-expected oil and gas price and any positive gas pricing reforms are key upside risks.

Valuation (Standalone)

	Rs cr				
Particulars	FY19	FY20	FY21E	FY22E	FY23E
Net sales	13,735	12,129	7,892	10,212	11,492
OPM (%)	39.9%	21.4%	25.5%	31.9%	34.2%
Adjusted PAT	3,617	3,208	1,050	1,805	2,254
y-o-y growth (%)	35.6%	-11.3%	-67.3%	71.9%	24.9%
Adjusted EPS diluted (Rs.)	33.4	29.6	9.7	16.6	20.8
PE (x)	2.9	3.3	10.1	5.8	4.7
P/BV (x)	0.4	0.4	0.4	0.4	0.4
EV/EBDITA (x)	2.2	7.6	9.8	6.1	4.9
ROE (%)	13.0%	12.3%	4.3%	7.1%	8.6%
ROCE (%)	14.5%	7.3%	5.7%	8.3%	9.7%

Source: Company; Sharekhan estimates

Higher-than-expected adjusted net loss due to higher opex and lower other income: Adjusted operating profit of Rs. 197 crore (down 85.4% y-o-y; down 58.3% q-o-q) was substantially below our estimate of Rs. 282 crore due to higher-than-expected operating expenses on account of exploration cost write off of Rs. 115 crore (versus negative Rs. 1 crore in Q1FY2020). Oil sales volume at 0.73mmt (down 8.1% y-o-y; down 2% q-o-q) and net oil realisation at \$30.4/bbl (down 54.1% y-o-y; down 41.7% q-o-q) was in line with our expectations. The gas sales volume at 0.6bcm (down 6% y-o-y; up 8.5% q-o-q) was above our estimate of 0.54 bcm. The company reported a net loss of Rs249 crore due to a sharp decline in oil & gas realisation, and exceptional expenses of Rs. 93 crore related to control blowout at the Baghjan Oilfields. Adjusting for this exceptional expense, net loss at Rs155 crore (as against net profit of Rs502 crore in Q4FY2020 and Rs625 crore in Q1FY2020) was still higher than our estimate of net loss of Rs. 76 crore due to a lower-than-expected operating profit and other income (down 87% q-o-q).

Results

Particulars	Q1FY21	Q1FY20	y-o-y (%)	Q4FY20	Rs cr q-o-q (%)
Revenue	1,744	3,373	-48.3%	2,590	-32.7%
Total Expenditure	1,547	2,020	-23.4%	3,691	-58.1%
Reported operating profits	197	1,353	-85.4%	(1,101)	NA
Adjusted operating profit	197	1,353	-85.4%	473	-58.3%
Other Income	131	123	6.4%	994	-86.9%
EBIDTA	328	1,476	-77.8%	(107)	NA
Interest	128	123	3.5%	133	-3.7%
PBDT	200	1,352	-85.2%	(240)	-183.3%
Depreciation & prov	359	399	-10.2%	253	41.8%
Exceptional items	93	-	NA	1,681	NA
Reported PBT	(159)	953	NA	(493)	NA
Adjusted PBT	(65)	953	NA	1,189	NA
Tax	(3)	328	NA	(1,418)	NA
Reported Profit After Tax	(249)	625	NA	926	-NA
Adjusted PAT	(155)	625	NA	502	NA
Adj. EPS	(1.4)	5.8	NA	4.6	NA
			BPS		BPS
OPMs	11.3%	40.1%	(2,881)	18.3%	(695)
PAT	-8.9%	18.5%	(2,742)	19.4%	NA

Source: Company; Sharekhan Research

Key operating performance

Particulars	Q1FY21	Q1FY20	y-o-y (%)	Q4FY20	q-o-q (%)
Net oil realisation (\$/bbl)	30.4	66.3	-54.1%	52.2	-41.7%
Oil production volume (mmt)	0.75	0.81	-7.5%	0.76	-0.8%
Oil sales volume (mmt)	0.73	0.80	-8.1%	0.75	-2.0%
Crude oil business EBIT (Rs. crore)	-73	858	NA	360	NA
Gas production volume (bcm)	0.68	0.71	-4.2%	0.65	5.7%
Gas sales volume (bcm)	0.58	0.61	-6.0%	0.53	8.5%
Gas business EBIT (Rs. crore)	42	216	-80.6%	57	-26.5%

Source: Company

Outlook

Weak oil and gas prices to hit earnings, weak oil production profile given aging oilfields: Domestic gas prices are expected to be lowered further for H2FY2021E after a sharp cut of 26% to \$2.4/mmBtu for H1FY2021. Additionally, crude oil prices is also lower at \$44-45/bbl currently as against \$61/bbl in FY2020. With lower oil & gas realisations, we expect Oil India's standalone earnings to decline by 67% y-o-y in FY2021E. Oil production is likely to remain in a flat-declining trend giving aging oilfields (natural oil production decline of 8-10% annually).

Valuation

Downgrade Oil India to Hold with a revised SoTP based PT of Rs. 106: We have cut our FY2021-FY2022 earnings estimates to factor lower gas price assumption and higher operating cost. We have also introduced our FY2023 earnings estimates in this report. We believe that weak oil and gas realisation/production outlook, continued high capex plan of Rs. 4,000-4,200 crore despite weak oil & gas prices and negative value from investment in Mozambique E&P assets (given low LNG prices) would remain an overhang on the stock in the near to medium term. We have revised our SoTP-based PT for Oil India to Rs. 106 and downgrade the stock to Hold (from Buy earlier) given a muted earnings outlook (expect 44% earnings decline over FY2020-FY2022E), low RoEs of 4-7% over FY2021-FY2022E and limited upside potential. At CMP, the stock is trading at 10.1x FY2021E EPS and 5.8x FY2022E EPS.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

Oil India is an Indian national oil company that explores, develops, and produces crude oil and natural gas, transports crude oil, and produces LPG. The company is the second-largest E&P company in India in terms of production and reserves. More than 95% of Oil India's production comes from its upper Assam basin. The company holds domestic 2P (proved and probable) reserves of 76mmt for oil and 130bcm for gas as of March 31, 2019. The company's oil production stood at 3.1mmt and gas production stood at 2,801mmscm in FY2020.

Investment theme

The near to medium term earnings outlook for upstream PSUs remain weak given low oil prices and likely further cut in the domestic gas prices over H2FY2021E-H1FY2022E. The bleak earnings outlook and continued high capex plan (despite weak oil & gas price) and negative value from investment in Mozambique E&P assets (given low LNG prices) would remain an overhang on the stock in the near to medium term.

Key Risks

- ◆ Higher-than-expected oil and gas price and any positive gas pricing reforms are key upside risks.
- ◆ Prolonged weak oil & gas price are key downside risks

Additional Data

Key management personnel

Sushil Chandra Mishra	Chairman & Managing Director
Harish Madhav	Director – Finance
P. Chandrasekaran	Director - Exploration & Development

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	12.0
2	Indian Oil Corp Ltd	4.9
3	ICICI Prudential Asset Management	3.0
4	Bharat Petroleum Corp Ltd	2.5
5	Hindustan Petroleum Corp Ltd	2.5
6	Reliance Capital Trustee Co Ltd	2.4
7	BlackRock Inc	1.3
8	Vanguard Group Inc/The	0.9
9	WisdomTree Investments Inc	0.3
10	Dimensional Fund Advisors LP	0.2

Source: Bloomberg

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