

November 11, 2021

Q2FY22 Result Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	351		351	
Sales (Rs. m)	377,356	393,077	377,356	393,077
% Chng.	-	-	-	-
EBITDA (Rs. m)	86,489	91,000	86,489	91,000
% Chng.	-	-	-	-
EPS (Rs.)	44.8	51.5	44.8	51.5
% Chng.	-	-	-	-

Key Financials - Consolidated

Y/e Mar	FY21	FY22E	FY23E	FY24E
Sales (Rs. m)	224,976	351,486	377,356	393,077
EBITDA (Rs. m)	57,020	87,458	86,489	91,000
Margin (%)	25.3	24.9	22.9	23.2
PAT (Rs. m)	41,460	49,871	48,531	55,819
EPS (Rs.)	38.2	46.0	44.8	51.5
Gr. (%)	(17.2)	20.3	(2.7)	15.0
DPS (Rs.)	5.0	9.4	10.7	13.4
Yield (%)	2.3	4.3	5.0	6.2
RoE (%)	17.7	19.4	16.5	16.7
RoCE (%)	9.8	15.5	13.5	13.6
EV/Sales (x)	1.8	1.0	0.9	1.0
EV/EBITDA (x)	7.1	3.8	4.0	4.3
PE (x)	5.7	4.7	4.8	4.2
P/BV (x)	1.0	0.9	0.8	0.7

Key Data

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52-W High / Low	Rs.268 / Rs.89
Sensex / Nifty	59,920 / 17,874
Market Cap	Rs.235bn / \$ 3,153m
Shares Outstanding	1,084m
3M Avg. Daily Value	Rs.955.27m

Shareholding Pattern (%)

Promoter's	56.66
Foreign	9.96
Domestic Institution	18.11
Public & Others	15.27
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(9.5)	67.4	139.4
Relative	(9.2)	37.3	74.2

Avishek Datta

avishekdatta@plindia.com | 91-22-66322254

Firing on all cylinders

Quick Pointers:

- NRL EBIDTA/PAT came at Rs13.6bn (+39%Q/Q) and Rs9.6bn (+41%Q/Q), as core GRMs improved to USD13.5/bbl from USD5.2/bbl in Q1 and thruput was up 6%Q/Q.
- Higher oil and gas realization will more than make up for impacted excise duty cuts.

We maintain our FY22-24E estimates, as OINL reported strong operational results in Q2 with consolidated EBIDTA/PAT of Rs23.1bn (+7%Q/Q) and Rs14.5bn (+20%Q/Q). Standalone performance was hit by dry well write off provisions (Rs5.9bn vs Rs273m in Q1) and EBIDTA/PAT was at Rs9.1bn (-26%Q/Q PLe Rs12.4bn) and Rs5.1bn (flat Q/Q; PLe Rs5.6bn). We believe OINL's earnings will ride on improving crude oil and gas realization, along with expansion of Numaligarh refinery (NRL) by 6MTPA (3MTPA capacity), which will increase consolidated FY25E EBIDTA by ~2.7x to Rs157bn. Maintain 'BUY' with TP of Rs351, based on 5x/EV/E FY23E and add value of investment in IOCL.

- Operational performance hit by dry well provisions:** OINL reported lower than expected standalone results with EBIDTA/PAT of Rs9.1bn (-26%Q/Q) and Rs5.1bn (flat Q/Q). During the quarter company provided for dry well write offs in KG basin and Mizoram (part of NELP acquisition) amounting to Rs4.7bn as they were not economically viable. Also OINL provided Rs1.2bn for nomination block write offs.
- Volumes recover post pandemic:** OINL's oil and gas production was at 0.76MTPA (+2%Q/Q) and 807mscm (+14%Q/Q). Gas production increased 26%YoY as downstream demand recovered post pandemic.
- Strong consolidated performance led by NRL:** Consolidated EBIDTA/PAT was at Rs23.1bn (+7%Q/Q) and Rs14.5bn (+20%Q/Q). Improvement was led by NRL performance where EBIDTA/PAT was at Rs13.6bn (Q1: Rs9.8bn) and Rs9.6bn (Q1 Rs6.8bn).
- Refining thruput was at 676TMT (+6%Q/Q) and Q2 core GRM for NRL ex of duty benefit was at USD13.5/bbl vs USD5.2/bbl in Q1. NRL's capacity expansion is on track to be commissioned by FY25E and we expect consolidated EBIDTA to increase to Rs157bn (Rs57bn in FY21).
- Q2 realization improve in line with global prices:** OINL didn't have to pay any subsidies in Q2. Tracking international oil prices, the company's net realisation was at US\$71.4/bbl (Q1 US\$67.2/bbl) and USD42.7/bbl in Q2FY21).
- Our estimates factor in crude oil realization of USD70/bbl for FY22-24E as rising supplies from OPEC countries and US shale volume will help moderate prices in CY22E.

Exhibit 1: Q2FY22 Result Overview (Rs mn)

Y/e March	Q2FY22	Q2FY21	YoY gr. (%)	Q1FY22	H1FY22	H1FY21	YoY gr. (%)
Net sales	33,112	21,690	52.7	30,070	63,182	39,129	61.5
Expenses							
(Increase)/decrease in stock	954	763	25.1	577	1,531	1,556	(1.6)
Employee cost	4,530	5,414	(16.3)	4,217	8,747	9,804	(10.8)
Statutory levies	9,074	5,703	59.1	8,717	17,792	10,329	72.2
Other expenditure	9,419	2,437	286.6	4,228	13,647	8,094	68.6
Total expenditure	23,978	14,317	67.5	17,739	41,716	29,784	40.1
EBITDA	9,134	7,373	23.9	12,331	21,466	9,345	129.7
Depreciation, depletion, & amortization	4,202	3,737	12.4	3,975	8,177	7,322	11.7
Interest	1,870	1,217	53.7	2,221	4,091	2,495	64.0
Other income	3,676	1,112	230.6	638	4,314	2,417	78.5
Profit before tax	6,738	3,531	90.8	6,774	13,512	1,946	594.5
Current tax	2,018	753	168.1	(12)	2,007	947	111.9
Deferred tax	(388)	(953)	(59.3)	1,694	1,307	(1,180)	(210.8)
Profit after tax	5,108	3,731	36.9	5,091	10,199	2,178	368.2

Source: Company, PL

Conference Call Highlights:

- Most of the write offs for KG basin and Mizoram are already provided for and the company doesn't expect significant write offs, in near term.
- Gas production increase has been supported by revival in downstream demand post pandemic.
- NRL's core GRMs for Q2 was at USD13.5/bbl against USD5.2/bbl in Q1.
- Company expects to see lift in oil and gas production by FY24, when new fields will be brought to production.

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Net Revenues	224,976	351,486	377,356	393,077
YoY gr. (%)	9.0	56.2	7.4	4.2
Cost of Goods Sold	38,253	89,107	100,123	103,127
Gross Profit	186,723	262,380	277,232	289,950
Margin (%)	83.0	74.6	73.5	73.8
Employee Cost	22,914	25,186	27,704	30,475
Other Expenses	20,822	35,957	39,553	41,092
EBITDA	57,020	87,458	86,489	91,000
YoY gr. (%)	7.3	53.4	(1.1)	5.2
Margin (%)	25.3	24.9	22.9	23.2
Depreciation and Amortization	18,441	18,431	22,035	18,001
EBIT	38,579	69,027	64,454	72,999
Margin (%)	17.1	19.6	17.1	18.6
Net Interest	6,605	8,252	9,954	9,679
Other Income	10,921	17,757	19,199	19,885
Profit Before Tax	38,405	78,532	73,699	83,206
Margin (%)	17.1	22.3	19.5	21.2
Total Tax	2,227	20,095	18,799	21,188
Effective tax rate (%)	5.8	25.6	25.5	25.5
Profit after tax	36,178	58,437	54,900	62,017
Minority interest	-	8,565	6,369	6,198
Share Profit from Associate	5,282	-	-	-
Adjusted PAT	41,460	49,871	48,531	55,819
YoY gr. (%)	(17.2)	20.3	(2.7)	15.0
Margin (%)	18.4	14.2	12.9	14.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	41,460	49,871	48,531	55,819
YoY gr. (%)	(17.2)	20.3	(2.7)	15.0
Margin (%)	18.4	14.2	12.9	14.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	41,460	49,871	48,531	55,819
Equity Shares O/s (m)	1,084	1,084	1,084	1,084
EPS (Rs)	38.2	46.0	44.8	51.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Non-Current Assets				
Gross Block	201,721	295,327	340,327	385,327
Tangibles	200,215	294,784	339,784	384,784
Intangibles	1,506	543	543	543
Acc: Dep / Amortization	55,861	110,460	132,495	150,497
Tangibles	55,861	110,460	132,495	150,497
Intangibles	-	-	-	-
Net fixed assets	145,860	184,866	207,831	234,830
Tangibles	144,354	184,323	207,289	234,287
Intangibles	1,506	543	543	543
Capital Work In Progress	31,707	42,000	72,000	139,399
Goodwill	-	-	-	-
Non-Current Investments	250,954	180,713	180,957	181,216
Net Deferred tax assets	(31,905)	(31,566)	(35,058)	(39,054)
Other Non-Current Assets	14,333	687	752	824
Current Assets				
Investments	5,902	6,492	7,142	7,856
Inventories	32,216	41,713	44,634	46,921
Trade receivables	18,556	32,729	35,328	37,248
Cash & Bank Balance	15,866	75,357	62,234	67,180
Other Current Assets	32,138	34,615	36,439	38,364
Total Assets	552,139	604,237	652,679	759,515
Equity				
Equity Share Capital	10,844	10,844	10,844	10,844
Other Equity	225,820	265,499	302,379	343,645
Total Networkth	236,664	276,343	313,223	354,489
Non-Current Liabilities				
Long Term borrowings	151,055	129,889	115,911	165,707
Provisions	12,090	12,593	13,229	13,898
Other non current liabilities	154	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	43,005	53,000	63,000	63,000
Trade payables	13,935	25,255	26,971	28,333
Other current liabilities	49,703	52,791	55,978	59,379
Total Equity & Liabilities	552,139	604,237	652,679	759,515

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	43,686	78,532	73,699	83,206
Add. Depreciation	18,441	18,431	22,035	18,001
Add. Interest	6,605	8,252	9,954	9,679
Less Financial Other Income	10,921	17,757	19,199	19,885
Add. Other	(10,921)	(17,757)	(19,199)	(19,885)
Op. profit before WC changes	57,811	87,458	86,489	91,000
Net Changes-WC	(93,155)	(13,814)	571	2,083
Direct tax	(12,230)	(16,469)	(15,307)	(17,193)
Net cash from Op. activities	(47,573)	57,176	71,753	75,891
Capital expenditures	(26,609)	(53,898)	(75,000)	(112,399)
Interest / Dividend Income	-	-	-	-
Others	13,884	89,453	19,199	19,885
Net Cash from Invst. activities	(12,726)	35,555	(55,801)	(92,514)
Issue of share cap. / premium	(20,742)	(3,626)	(3,492)	(3,996)
Debt changes	66,626	(11,170)	(3,978)	49,796
Dividend paid	(5,422)	(10,192)	(11,651)	(14,552)
Interest paid	(6,605)	(8,252)	(9,954)	(9,679)
Others	-	-	-	-
Net cash from Fin. activities	33,858	(33,240)	(29,075)	21,569
Net change in cash	(26,441)	59,491	(13,123)	4,946
Free Cash Flow	(74,182)	3,278	(3,247)	(36,508)

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Net Revenue	21,260	25,795	30,070	33,112
YoY gr. (%)	(28.0)	(0.4)	72.4	52.7
Raw Material Expenses	697	648	577	954
Gross Profit	20,563	25,147	29,493	32,158
Margin (%)	96.7	97.5	98.1	97.1
EBITDA	(938)	4,247	12,331	9,134
YoY gr. (%)	(108.6)	(138.6)	525.4	23.9
Margin (%)	(4.4)	16.5	41.0	27.6
Depreciation / Depletion	3,879	4,176	3,975	4,202
EBIT	(4,817)	72	8,356	4,932
Margin (%)	(22.7)	0.3	27.8	14.9
Net Interest	1,223	1,270	2,221	1,870
Other Income	3,712	13,301	638	3,676
Profit before Tax	(2,328)	12,103	6,774	6,738
Margin (%)	(10.9)	46.9	22.5	20.3
Total Tax	(12,879)	2,926	1,683	1,630
Effective tax rate (%)	553.3	24.2	24.8	24.2
Profit after Tax	10,551	9,176	5,091	5,108
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	12,065	9,877	5,091	5,108
YoY gr. (%)	196.9	6.7	(428.0)	36.9
Margin (%)	56.8	38.3	16.9	15.4
Extra Ord. Income / (Exp)	(1,514)	(701)	-	-
Reported PAT	10,551	9,176	5,091	5,108
YoY gr. (%)	159.6	(0.9)	(304.8)	113.8
Margin (%)	49.6	35.6	16.9	15.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	10,551	9,176	5,091	5,108
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	-	-	-	-

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22E	FY23E	FY24E
Per Share(Rs)				
EPS	38.2	46.0	44.8	51.5
CEPS	55.2	63.0	65.1	68.1
BVPS	218.2	254.8	288.8	326.9
FCF	(68.4)	3.0	(3.0)	(33.7)
DPS	5.0	9.4	10.7	13.4
Return Ratio(%)				
RoCE	9.8	15.5	13.5	13.6
ROIC	7.3	13.2	11.0	10.7
RoE	17.7	19.4	16.5	16.7
Balance Sheet				
Net Debt : Equity (x)	0.7	0.4	0.3	0.4
Net Working Capital (Days)	60	51	51	52
Valuation(x)				
PER	5.7	4.7	4.8	4.2
P/B	1.0	0.9	0.8	0.7
P/CEPS	3.9	3.4	3.3	3.2
EV/EBITDA	7.1	3.8	4.0	4.3
EV/Sales	1.8	1.0	0.9	1.0
Dividend Yield (%)	2.3	4.3	5.0	6.2

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY21	FY22E	FY23E	FY24E
Gross realisation (US\$/bbl)	44	69	69	69
Net realisation (US\$/bbl)	44	69	69	69
Oil Production (mn tons)	3	3	3	3
Gas production (mscm)	2,642	2,800	2,940	3,087
US\$/Rs	74	76	78	80

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	8-Nov-21	BUY	351	222
2	5-Oct-21	BUY	328	242
3	17-Aug-21	BUY	328	167
4	2-Jul-21	UR	-	169
5	5-Apr-21	UR	-	122
6	8-Jan-21	Accumulate	117	113

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bharat Petroleum Corporation	BUY	589	418
2	Burger King India	BUY	250	168
3	GAIL (India)	BUY	184	149
4	Gujarat Gas	BUY	845	594
5	Hindustan Petroleum Corporation	BUY	445	303
6	Indian Oil Corporation	BUY	205	132
7	Indraprastha Gas	BUY	662	494
8	Mahanagar Gas	BUY	1,345	997
9	Oil & Natural Gas Corporation	UR	-	148
10	Oil India	BUY	351	222
11	Petronet LNG	BUY	351	235
12	Reliance Industries	BUY	2,955	2,627

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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