Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Oil India Ltd

Play on rising oil & gas price

Oil & Gas	Sharekhan code: OIL
Reco/View: Buy ↔	CMP: Rs. 226	Price Target: Rs. 290 ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

ESG Disclosure Score NEW

ESG RISK RATING 46.85

Updated Jan 08, 2022

Severe Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

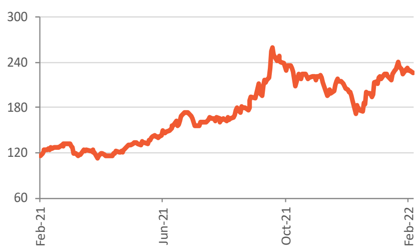
Company details

Market cap:	Rs. 24,475 cr
52-week high/low:	Rs. 268 / 112
NSE volume: (No of shares)	17.6 lakh
BSE code:	533106
NSE code:	OIL
Free float: (No of shares)	47.00 cr

Shareholding (%)

Promoters	56.7
FII	10.1
DII	17.9
Others	15.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	0	2	39	94
Relative to Sensex	8	9	37	86

Sharekhan Research, Bloomberg

Summary

- Q3FY22 standalone operating profit of Rs. 1,267 crore, up 39% q-o-q missed our estimate due to higher cost of support services. Adjusted PAT of Rs. 1,267 crore, up 147% q-o-q was above our estimate led by higher dividend income.
- Oil business EBIT up by 24% q-o-q to Rs. 1,199 crore while gas EBIT loss declined by 68.5% q-o-q to Rs. 108 crore primarily due to rise in oil & gas realisation. Oil realisations rose by 10% q-o-q to $79/bbl while volumes were in-line.
- Potential steep upward revision in domestic gas price (OIL's expectation of +90-98%/+22% for H1FY23/H2FY23 to $5.5-5.75/$7 per mmBtu) and surge in crude oil prices bodes well for earnings of upstream PSUs. We thus increase our FY22E/FY23E/FY24E EPS by 19%/25%/10% for Oil India.
- We maintain our Buy rating on Oil India with a revised SoTP-based PT of Rs. 290 as risk-reward seems favourable in the rising oil & gas price environment. The stock trades at 4x its FY2023E EPS (including earnings contribution from NRL).

Oil India Limited's (OILs) Q3FY22 standalone operating profit of Rs. 1,267 crore, up 39% q-o-q was below our estimate of Rs. 1,528 crore due to higher-than-expected cost of support services (up 50% q-o-q). Operational performance was largely in-line with crude oil realisation of $78.6/bbl (up 10% q-o-q) and oil/gas sales volume of 0.73 mmt/0.63 bcm, down 1.6%/6.2% q-o-q. EBIT from oil business increased by 24.4% q-o-q to Rs. 1,199 crore and gas EBIT loss declined by 68.5% q-o-q to Rs. 108 crore primarily due to rise in oil & gas realisation. Standalone adjusted PAT of Rs. 1,267 crore, up 147% q-o-q was above our estimate of Rs. 889 crore due to higher-than-expected other income (up 161% y-o-y; up 163% q-o-q) led by a rise in the dividend income.

Key positives

- A strong recovery in oil realisation to $78.6/bbl versus $44.1/bbl in Q3FY21 and $71.4/bbl in Q2FY22.
- The company's board declared an interim dividend of Rs. 5.75/share and thus taking total dividend to Rs. 9.25/share, which implies dividend yield of ~4%.

Key negatives

- A sharp rise in cost of support services (up 50% q-o-q).

Management Commentary

- Management has guided for impressive oil/gas production of 3.4 mmt/4 bcm as compared to FY22 annualised oil/gas production of 3 mmt/2.7 bcm based on 9MFY22 performance.
- Oil India expects domestic gas price to increase to $5.5-5.75/mmBtu H1FY23 and $7/mmBtu for H2FY23 as compared to current domestic gas price of $2.9/mmBtu.
- Standalone capex guidance at Rs. 4,300 crore for/FY2023E and expect to maintain similar capex run-rate going forward.
- NRL's expansion to 9 mtpa expected to get completed by FY25 with an estimated capex of Rs. 28,000 crore. OIL capex share at Rs. 6,500 crore. NRL will continue to receive excise duty benefits.
- Oil India's consolidated net debt at Rs. 17,000 crore as of December 31, 2021. This includes standalone net debt of
- Rs. 12,900 crore.

Revision in estimates – We maintain increased our FY22-24 earnings estimate to factor in higher oil & gas price assumption.

Our Call

Valuation – Maintain Buy on OIL with a revised PT of Rs. 290: The recent sharp surge in crude oil prices and expectation of further steep hike in domestic gas prices from April 2022 would drive a 40% CAGR in OIL's standalone PAT over FY2021-FY2024E and improve RoE to 12.5% (versus only 5.4% in FY2021). Moreover, the recent stake increase in NRL could create long-term value for OIL. Hence, we maintain a Buy rating with a revised SoTP-based PT of Rs. 290. The stock is trading at 4x its FY2023E EPS (including earnings contribution from NRL).

Key Risks

A sharp decline in international oil & gas prices and lower-than-expected production (In case of delayed ramp-up from new fields) could impact earnings outlook and valuation. Any unwarranted capex for overseas/domestic acquisition could raise capital allocation concerns.

Valuation (Standalone) Rs cr

Particulars	FY21	FY22E	FY23E	FY24E
Revenue	8,618	14,417	16,454	15,703
OPM (%)	14.7%	33.1%	35.8%	34.3%
Adjusted PAT	1,377	3,104	3,979	3,776
y-o-y growth (%)	*-57.1%*	*125.4%*	*28.2%*	*-5.1%*
Adjusted EPS (Rs.)	12.7	28.6	36.7	34.8
PE (x)	17.8	7.9	6.2	6.5
P/BV (x)	0.9	0.9	0.8	0.8
EV/EBDITA (x)	30.6	8.0	6.3	6.7
ROE (%)	5.4%	11.5%	13.9%	12.5%
ROCE (%)	4.3%	11.0%	13.2%	12.1%

Source: Company; Sharekhan estimates

Miss in operating profit on higher cost of services; PAT above estimate on higher dividend income

Q3FY22 standalone operating profit of Rs. 1,267 crore, up 39% q-o-q was below our estimate of Rs. 1,528 crore due to higher-than-expected cost of support services (up 50% q-o-q). Operational performance was largely in-line with crude oil realisation of $78.6/bbl (up 10% q-o-q) and oil/gas sales volume of 0.73 mmt/0.63 bcm, down 1.6%/6.2% q-o-q. EBIT from oil business increased by 24.4% q-o-q to Rs. 1,199 crore and gas EBIT loss declined by 68.5% q-o-q to Rs. 108 crore primarily due to rise in oil & gas realisation. Standalone adjusted PAT of Rs. 1,267 crore, up 147% q-o-q was above our estimate of Rs. 889 crore due to higher-than-expected other income (up 161% y-o-y; up 163% q-o-q) led by a rise in the dividend income.

Results (Standalone) Rs cr

Particulars	Q3FY22	Q3FY21	Y-o-Y %	Q2FY22	Q-o-Q %
Revenue	**3,737**	**2,126**	**75.8**	**3,311**	**12.9**
Total Expenditure	2,469	2,220	11.2	2,398	3.0
Operating profit	**1,267**	**406**	**212.0**	**913**	**38.7**
Other Income	969	371	161	368	163
Interest	175	122	42.9	187	-6.5
Depreciation	468	388	20.6	420	11.3
Exceptional income/(expense)	0	151	NA	0	NA
Reported PBT	1,593	-384	-514.7	674	136.5
Adjusted PBT	**1,593**	**267**	**496.3**	**674**	**136.5**
Tax	348	-1,288	-127.0	169	105.7
Reported PAT	1,245	904	37.8	504	146.8
Adjusted PAT	**1,245**	**397**	**213.9**	**504**	**146.8**
Equity Cap (cr)	108	108		108	
Reported EPS (Rs.)	11.5	8.3	37.8	4.7	146.8
Adjusted EPS (Rs.)	11.5	3.7	213.9	4.7	146.8
Margins (%)			**BPS**		**BPS**
OPM	33.9	19.1	1481.0	27.6	633.0
NPM	33.3	18.7	1466.5	15.2	1,808.3
Tax rate	21.9	335.2	NA	25.1	-327.2

Source: Company; Sharekhan Research

Key operating metrics

Particulars	Q3FY22	Q3FY21	Y-o-Y %	Q2FY22	Q-o-Q %
Net oil realisation ($/bbl)	78.6	44.1	78.2%	71.4	10.1%
Oil production volume (mmt)	0.75	0.75	0.8%	0.76	-0.8%
Oil sales volume (mmt)	0.73	0.72	0.6%	0.74	-1.6%
Crude oil business EBIT (Rs. crore)	1199	162	638.0%	964	24.4%
Gas production volume (bcm)	0.79	0.67	17.8%	0.81	-1.7%
Gas sales volume (bcm)	0.63	0.59	8.0%	0.67	-6.2%
Gas business EBIT (Rs. crore)	-108	-477	NA	-344	NA

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector view – Improving oil & gas price to drive strong earnings recovery for upstream oil companies

Earnings outlook for upstream PSUs has improved considerably given the recent rise in crude oil prices at >$90/bbl mark and expectation of a further steep hike in domestic gas price over H1-H2FY23 on current gas price of $2.9/mmBtu. High oil & gas prices would boost overall profitability of ONGC and OIL. However, oil and gas production are expected to recover gradually with majority of the growth being back-ended (i.e. by FY2024E-FY2025E).

■ Company outlook – Recovery in oil and gas price improves earnings outlook

OIL's earnings outlook is improving given the recent sharp recovery in oil price and potential upward revision in domestic gas prices in FY23. Thus, we expect OIL's standalone EBITDA/PAT to report a CAGR of 62%/40% over FY2021-FY2024E and reach Rs. 5,388 crore/Rs. 3,776 crore by FY2024E along with a marked improvement in RoE to 12.5% by FY2024E versus only 5.4% in FY2021.

■ Valuation – Maintain Buy with a revised SoTP-based PT of Rs. 290

The recent sharp surge in crude oil prices and expectation of further steep hike in domestic gas prices from April 2022 would drive a 40% CAGR in OIL's standalone PAT over FY2021-FY2024E and improve RoE to 12.5% (versus only 5.4% in FY2021). Moreover, the recent stake increase in NRL could create long-term value for OIL. Hence, we maintain a Buy rating with a revised SoTP-based PT of Rs. 290. The stock is trading at 4x its FY2023E EPS (including earnings contribution from NRL).

One-year forward P/E (x) band

Source: Sharekhan Research

About company

OIL 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's production comes from its upper Assam basin. The company holds domestic 2P (proved and probable) reserves of 191mtoe (oil + gas) as of March 31, 2021.

Investment theme

Earnings outlook for OIL has improved considerably given recent sharp rally in oil price and expectation of further steep hike in domestic gas price for H1FY2023 as benchmark international gas price has increased sharply. Higher oil and gas realisation would help earnings to recover to pre-pandemic level and improve return ratios. Moreover, NRL's acquisition is earnings accretive and creates long term value for OIL. The stock is trading at attractive valuation and offers decent dividend yield.

Key Risks

- A sharp decline in international oil & gas price and lower-than-expected production (In case of delayed ramp-up from new fields) could impact earnings outlook and valuation.
- Any unwarranted capex for overseas/domestic acquisition could raise capital allocation concerns.

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	11.9
2	Indian Oil Corp Ltd	4.9
3	FMR LLC	2.7
4	Bharat Petroleum Corp Ltd.	2.5
5	Hindustan Petroleum Corp Ltd.	2.5
6	Nippon Life India Asset Management Ltd.	2.4
7	ICICI Prudential Asset Management Co. Ltd	1.9
8	Vanguard Group Inc/The	1.1
9	BlackRock Inc.	0.8
10	Grantham Mayo Van Otterloo & Co. LLC	0.2

Source: Bloomberg; Note: Shareholding pattern as on November 11, 2021

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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