

November 11, 2022

## Q2FY23 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
<b>Rating</b>	BUY		BUY	
<b>Target Price</b>	300		300	
Sales (Rs. m)	3,68,934	7,56,932	3,95,537	8,36,890
% Chng.	(6.7)	(9.6)		
EBITDA (Rs. m)	1,06,902	1,89,728	99,744	1,68,279
% Chng.	7.2	12.7		
EPS (Rs.)	64.1	97.8	59.0	85.2
% Chng.	8.6	14.8		

### Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	3,00,112	3,92,799	3,68,934	7,56,932
EBITDA (Rs. m)	1,05,004	1,38,110	1,06,902	1,89,728
Margin (%)	35.0	35.2	29.0	25.1
PAT (Rs. m)	67,192	83,828	69,538	1,06,047
EPS (Rs.)	62.0	77.3	64.1	97.8
Gr. (%)	62.1	24.8	(17.0)	52.5
DPS (Rs.)	14.3	10.7	13.4	10.0
Yield (%)	7.3	5.5	6.9	5.1
RoE (%)	24.8	24.5	17.2	22.1
RoCE (%)	19.3	22.6	14.6	20.8
EV/Sales (x)	1.2	0.7	0.7	0.4
EV/EBITDA (x)	3.4	1.9	2.5	1.7
PE (x)	3.2	2.5	3.1	2.0
P/BV (x)	0.7	0.6	0.5	0.4

### Key Data

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52-W High / Low	Rs.306 / Rs.168
Sensex / Nifty	60,614 / 18,028
Market Cap	Rs.212bn/ \$ 2,595m
Shares Outstanding	1,084m
3M Avg. Daily Value	Rs.316.52m

### Shareholding Pattern (%)

Promoter's	56.66
Foreign	11.78
Domestic Institution	15.37
Public & Others	16.20
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	3.3	(9.0)	(11.8)
Relative	(1.1)	(18.4)	(12.2)

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## Windfall tax, weak NRL GRMs hit earnings

### Quick Pointers:

- Q2 net crude oil realization was at \$76.8/bbl adjusted for windfall tax impact of \$23.8/bbl vs net realization of \$112.7/bbl in Q1.

- Higher gas realization of USD8.57/mmbtu (\$6.1 in H1FY23) along with healthy NRL profitability to drive earnings.

**We increase our FY23E/24E/25E estimates by 13.1/8.6/14.8% to factor in higher oil realization of US\$84/75/bbl (\$73/70/bbl earlier) and NRL GRMs to USD36.8/26.4/bbl (\$28.8/24.4/bbl earlier). OINL reported Q2 results with consolidated EBIDTA/PAT of Rs27bn (-45%Q/Q) and Rs21.1bn (-34%Q/Q), led by weak NRL profitability and windfall tax impact. Standalone EBIDTA/PAT was at Rs18.5bn (-30%Q/Q PLe Rs17.5bn) and Rs17.2bn (+11% Q/Q; PLe Rs9.8bn). PAT outperformance was due to higher other income and lower tax. We believe OINL's earnings will ride on healthy crude oil and gas realization, along with expansion of Numaligarh refinery (NRL) by 6MTPA (3MTPA capacity). Maintain 'BUY' with TP of Rs300 (largely unchanged), based on 3.0x/EV/E (3.5x earlier) FY24E and add value of investment in IOCL.**

- Performance hit by windfall taxes and lower NRL profits:** OINL reported strong standalone results with Q1 EBIDTA/PAT of Rs18.5bn (-30%Q/Q) and Rs17.2bn (+11% Q/Q). QoQ drop in EBIDTA was due to imposition of windfall taxes which was at Rs11.3bn (US\$23.8/bbl). However, PAT got a boost from NRL dividend of Rs5bn, forming part of other income of Rs9bn and lower tax rate of 14%.

- Q2 consolidated EBIDTA/PAT dropped to Rs27.0bn (-45% Q/Q) and Rs21.2bn (-34%Q/Q). NRL's (Oil India stake ~70%) Q2 EBIDTA was at Rs10.7bn vs Rs19.7bn in Q1, due to drop in GRMs to USD\$13.8/bbl vs USD\$32.4/bbl in Q1.

- Globally, low inventory and strong diesel demand has helped margins and will likely to sustain. In Q3 diesel spreads (70% of NRL product slate) expanded to USD42/bbl (\$34/bbl in Q2), which will aid performance in coming quarters.

- Q2 realization hit by windfall taxes:** OINL gross realization was at US\$100.6/bbl, however net windfall taxes were imposed in Q2. Net realization was at US\$76.8/bbl vis-à-vis Q1 levels of US\$112.7/bbl.

- Gas volumes improve but oil remain muted:** OINL's oil and gas production was at 0.79MTPA (+1%Q/Q) and 823mscm (+7%Q/Q). OINL has aggressive growth plans as it expects 30% and 60% increase in oil and gas volumes to 4MTPA and 5BCM respectively by FY25E, with commencement of brownfield expansion projects in Assam.

- NRL expansion on track:** Oil India is on track to expand refining capacity to 9MTPA by FY25 at a capex of Rs290bn. Towards that NRL has taken project debt of Rs180bn, however, given strong business traction total loan drawn stands at Rs16bn out of capex of Rs65bn spent on expansion till date.

**Exhibit 1: Q2FY23 Result Overview (Rs mn)**

Y/e March	Q2FY23	Q2FY22	YoY gr. (%)	Q1FY23	H1FY23	H1FY22	YoY gr. (%)
<b>Net sales</b>	<b>57,760</b>	<b>33,112</b>	<b>74.4</b>	<b>59,676</b>	<b>1,17,435</b>	<b>63,182</b>	<b>85.9</b>
<b>Expenses</b>							
(Increase)/decrease in stock	457	954	(52.1)	931	1,388	1,531	(9.3)
Employee cost	4,672	4,530	3.1	4,446	9,117	8,747	4.2
Statutory levies	25,112	9,074	176.7	16,435	41,547	17,792	133.5
Other expenditure	9,037	9,419	(4.1)	11,501	20,537	13,647	50.5
Total expenditure	39,278	23,978	63.8	33,312	72,590	41,716	74.0
<b>EBITDA</b>	<b>18,482</b>	<b>9,134</b>	<b>102.3</b>	<b>26,364</b>	<b>44,845</b>	<b>21,466</b>	<b>108.9</b>
Depreciation, depletion, & amortization	4,236	4,202	0.8	3,868	8,104	8,177	(0.9)
Interest	2,113	1,870	13.0	2,042	4,155	4,091	1.6
Other income	8,949	3,676	143.4	623	9,572	4,314	121.9
<b>Profit before tax</b>	<b>21,081</b>	<b>6,738</b>	<b>212.9</b>	<b>21,077</b>	<b>42,158</b>	<b>13,512</b>	<b>212.0</b>
Current tax	3,401	2,018	68.5	5,349	8,751	2,007	336.1
Deferred tax	-474	-388	22.3	-173	-647	1,307	(149.5)
<b>Profit after tax</b>	<b>17,205</b>	<b>5,108</b>	<b>236.9</b>	<b>15,555</b>	<b>32,760</b>	<b>10,199</b>	<b>221.2</b>

Source: Company, PL

**Exhibit 2: OINL quarterly volume and realization details**

Sales break-up	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Crude oil	16,247	16,585	21,429	25,273	27,521	30,346	38,457	47,097	44,003
Natural gas	3,168	2,531	2,392	2,542	2,884	4,308	3,937	8,453	11,847
LPG	247	284	370	342	389	593	544	675	-
Income from transportation	909	1,051	779	894	967	881	709	971	-
Others/unallocated	1,013	706	698	891	1,245	1,114	1,008	2,354	1,910
Condensate	106	103	128	129	112	125	131	125	-
<b>Total income</b>	<b>20,677</b>	<b>20,554</b>	<b>25,098</b>	<b>29,179</b>	<b>31,873</b>	<b>36,253</b>	<b>43,778</b>	<b>57,322</b>	<b>55,849</b>
<b>Production (Quantity)</b>									
Crude oil (MMT)	0.75	0.75	0.72	0.75	0.76	0.75	0.75	0.78	0.79
Crude oil (mmbbl)	5	5	5	5	5	5	5	6	6
Natural Gas (mmscm)	638	673	649	711	807	793	734	771	823
<b>Sales (Quantity)</b>									
Crude oil (MMT)	0.72	0.72	0.70	0.72	0.74	0.73	0.73	0.76	0.78
Crude oil (mmbbl)									
Natural Gas (mmscm)	553.00	586.00	555.00	608.00	674.00	632.00	557.00	572.00	626.00
LPG (tonnes)	8,383	8,614	8,678	7,522	7,491	9,443	8,638	8,821	NA
Rs/\$	74.40	73.80	72.90	73.77	74.10	74.93	75.23	77.20	79.60
<b>Realizations (US\$/bbl)</b>									
Gross realization	42.74	44.09	59.80	67.15	71.35	78.60	98.08	112.73	100.59
Net realization	42.74	44.09	59.80	67.15	71.35	78.60	98.08	112.73	76.77
Gas (Rs/scm)	5.73	4.32	4.31	4.18	4.28	6.82	7.07	14.78	18.92
LPG (US\$/ton)	395.71	447.37	584.39	616.33	700.80	838.09	836.67	991.22	NA

Source: Company, PL

## Conference Call Highlights

NRL GRM for Q2 was at \$13.8/bbl vs \$32/bbl in Q1, due to windfall taxes and overall decline in diesel margins. Post NRL expansion, there will be no change in product mix.

**Capex:** OIL India has capex target of Rs45bn for Oil India and Rs80bn for NRL. Entire NRL expansion project is expected to be completed by FY25 with an investment of Rs280bn. Till date NRL capex has been Rs65bn of which Rs31bn has been incurred in FY22.

**Debt:** OIL debt will be the same except for Currency Exchange revaluations for overseas part. The loans taken for NRL acquisition has been repaid to the tune of 95%. Also, NRL has total debt tied up of ~Rs180bn and has started drawing from it.

## Financials

### Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Net Revenues</b>	<b>3,00,112</b>	<b>3,92,799</b>	<b>3,68,934</b>	<b>7,56,932</b>
YoY gr. (%)	33.4	30.9	(6.1)	105.2
Cost of Goods Sold	53,869	1,00,123	1,03,127	3,20,494
Gross Profit	2,46,243	2,92,676	2,65,807	4,36,438
Margin (%)	82.1	74.5	72.0	57.7
Employee Cost	20,533	22,573	24,830	29,370
Other Expenses	24,632	36,916	38,343	39,867
<b>EBITDA</b>	<b>1,05,004</b>	<b>1,38,110</b>	<b>1,06,902</b>	<b>1,89,728</b>
YoY gr. (%)	84.2	31.5	(22.6)	77.5
Margin (%)	35.0	35.2	29.0	25.1
Depreciation and Amortization	18,245	21,944	17,910	27,597
<b>EBIT</b>	<b>86,759</b>	<b>1,16,166</b>	<b>88,991</b>	<b>1,62,131</b>
Margin (%)	28.9	29.6	24.1	21.4
Net Interest	9,401	9,954	9,679	23,223
Other Income	11,426	19,556	22,032	24,606
<b>Profit Before Tax</b>	<b>88,784</b>	<b>1,25,768</b>	<b>1,01,344</b>	<b>1,63,513</b>
Margin (%)	29.6	32.0	27.5	21.6
Total Tax	22,710	32,046	25,754	41,764
Effective tax rate (%)	25.6	25.5	25.4	25.5
<b>Profit after tax</b>	<b>66,074</b>	<b>93,722</b>	<b>75,590</b>	<b>1,21,749</b>
Minority interest	-	9,895	6,052	15,702
Share Profit from Associate	1,119	-	-	-
<b>Adjusted PAT</b>	<b>67,192</b>	<b>83,828</b>	<b>69,538</b>	<b>1,06,047</b>
YoY gr. (%)	62.1	24.8	(17.0)	52.5
Margin (%)	22.4	21.3	18.8	14.0
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>67,192</b>	<b>83,828</b>	<b>69,538</b>	<b>1,06,047</b>
YoY gr. (%)	62.1	24.8	(17.0)	52.5
Margin (%)	22.4	21.3	18.8	14.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	67,192	83,828	69,538	1,06,047
<b>Equity Shares O/s (m)</b>	<b>1,084</b>	<b>1,084</b>	<b>1,084</b>	<b>1,084</b>
<b>EPS (Rs)</b>	<b>62.0</b>	<b>77.3</b>	<b>64.1</b>	<b>97.8</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>2,67,993</b>	<b>3,39,242</b>	<b>3,84,242</b>	<b>6,49,242</b>
Tangibles	2,65,900	3,38,699	3,83,699	6,48,699
Intangibles	2,093	543	543	543
<b>Acc: Dep / Amortization</b>	<b>1,10,202</b>	<b>1,32,146</b>	<b>1,50,056</b>	<b>1,77,653</b>
Tangibles	1,10,202	1,32,146	1,50,056	1,77,653
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>1,57,791</b>	<b>2,07,096</b>	<b>2,34,185</b>	<b>4,71,589</b>
Tangibles	1,55,698	2,06,553	2,33,643	4,71,046
Intangibles	2,093	543	543	543
Capital Work In Progress	58,997	72,000	1,31,086	17,000
Goodwill	-	-	-	-
Non-Current Investments	2,74,256	1,82,818	1,83,264	1,83,744
Net Deferred tax assets	(31,449)	(33,496)	(38,442)	(43,312)
Other Non-Current Assets	13,083	3,371	3,704	4,070
<b>Current Assets</b>				
Investments	5,812	4,621	5,083	5,591
Inventories	39,121	53,915	50,278	99,507
Trade receivables	17,505	35,182	33,023	52,505
Cash & Bank Balance	15,503	1,30,538	1,64,764	2,57,806
Other Current Assets	21,189	37,199	39,199	41,314
<b>Total Assets</b>	<b>6,05,241</b>	<b>7,31,724</b>	<b>8,49,850</b>	<b>11,38,684</b>
<b>Equity</b>				
Equity Share Capital	10,844	10,844	10,844	10,844
Other Equity	2,94,775	3,66,951	4,21,937	5,17,163
<b>Total Networkth</b>	<b>3,05,619</b>	<b>3,77,795</b>	<b>4,32,781</b>	<b>5,28,008</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	1,63,884	1,15,911	1,65,707	3,05,742
Provisions	10,945	13,225	13,894	14,597
Other non current liabilities	98	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	503	63,000	63,000	63,000
Trade payables	16,930	31,099	29,003	57,270
Other current liabilities	50,657	58,219	61,844	65,721
<b>Total Equity &amp; Liabilities</b>	<b>6,08,183</b>	<b>7,31,724</b>	<b>8,49,850</b>	<b>11,38,684</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	89,902	1,25,768	1,01,344	1,63,513
Add. Depreciation	18,245	21,944	17,910	27,597
Add. Interest	9,401	9,954	9,679	23,223
Less Financial Other Income	11,426	19,556	22,032	24,606
Add. Other	(11,426)	(19,556)	(22,032)	(24,606)
Op. profit before WC changes	1,06,122	1,38,110	1,06,902	1,89,728
Net Changes-WC	112	(20,029)	9,569	(34,605)
Direct tax	(24,030)	(26,034)	(20,807)	(34,100)
<b>Net cash from Op. activities</b>	<b>82,204</b>	<b>92,047</b>	<b>95,663</b>	<b>1,21,023</b>
Capital expenditures	(53,895)	(73,991)	(1,04,086)	(1,50,914)
Interest / Dividend Income	-	-	-	-
Others	(7,393)	1,10,071	22,032	24,606
<b>Net Cash from Inv. activities</b>	<b>(61,288)</b>	<b>36,081</b>	<b>(82,054)</b>	<b>(1,26,308)</b>
Issue of share cap. / premium	33,246	(6,012)	(4,947)	(7,664)
Debt changes	(29,672)	14,524	49,796	1,40,035
Dividend paid	(15,453)	(11,651)	(14,552)	(10,821)
Interest paid	(9,401)	(9,954)	(9,679)	(23,223)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(21,280)</b>	<b>(13,093)</b>	<b>20,618</b>	<b>98,327</b>
<b>Net change in cash</b>	<b>(363)</b>	<b>1,15,035</b>	<b>34,226</b>	<b>93,042</b>
Free Cash Flow	28,309	18,056	(8,424)	(29,891)

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
<b>Net Revenue</b>	<b>37,367</b>	<b>44,786</b>	<b>59,676</b>	<b>57,760</b>
YoY gr. (%)	75.8	73.6	98.5	74.4
Raw Material Expenses	772	624	931	457
Gross Profit	36,595	44,163	58,745	57,302
Margin (%)	97.9	98.6	98.4	99.2
<b>EBITDA</b>	<b>12,672</b>	<b>19,585</b>	<b>26,364</b>	<b>18,482</b>
YoY gr. (%)	(1,450.8)	361.1	113.8	102.3
Margin (%)	33.9	43.7	44.2	32.0
Depreciation / Depletion	4,678	2,113	3,868	4,236
<b>EBIT</b>	<b>7,994</b>	<b>17,471</b>	<b>22,496</b>	<b>14,246</b>
Margin (%)	21.4	39.0	37.7	24.7
Net Interest	1,748	1,993	2,042	2,113
Other Income	9,685	4,943	623	8,949
<b>Profit before Tax</b>	<b>15,932</b>	<b>20,421</b>	<b>21,077</b>	<b>21,081</b>
Margin (%)	42.6	45.6	35.3	36.5
Total Tax	3,483	3,605	5,177	2,927
Effective tax rate (%)	21.9	17.7	24.6	13.9
<b>Profit after Tax</b>	<b>12,449</b>	<b>16,817</b>	<b>15,900</b>	<b>18,154</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>12,449</b>	<b>16,817</b>	<b>15,900</b>	<b>18,154</b>
YoY gr. (%)	3.2	70.3	212.3	255.4
Margin (%)	33.3	37.5	26.6	31.4
Extra Ord. Income / (Exp)	-	1	-	-
<b>Reported PAT</b>	<b>12,449</b>	<b>16,818</b>	<b>15,900</b>	<b>18,154</b>
YoY gr. (%)	18.0	83.3	212.3	255.4
Margin (%)	33.3	37.6	26.6	31.4
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>12,449</b>	<b>16,818</b>	<b>15,900</b>	<b>18,154</b>
Avg. Shares O/s (m)	-	-	-	-
<b>EPS (Rs)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Per Share(Rs)</b>				
EPS	62.0	77.3	64.1	97.8
CEPS	78.8	97.5	80.6	123.2
BVPS	281.8	348.4	399.1	486.9
FCF	26.1	16.7	(7.8)	(27.6)
DPS	14.3	10.7	13.4	10.0
<b>Return Ratio(%)</b>				
RoCE	19.3	22.6	14.6	20.8
ROIC	14.9	19.5	13.1	18.5
RoE	24.8	24.5	17.2	22.1
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.5	0.1	0.1	0.2
Net Working Capital (Days)	48	54	54	46
<b>Valuation(x)</b>				
PER	3.2	2.5	3.1	2.0
P/B	0.7	0.6	0.5	0.4
P/CEPS	2.5	2.0	2.4	1.6
EV/EBITDA	3.4	1.9	2.5	1.7
EV/Sales	1.2	0.7	0.7	0.4
Dividend Yield (%)	7.3	5.5	6.9	5.1

Source: Company Data, PL Research

**Key Operating Metrics**

Y/e Mar	FY22	FY23E	FY24E	FY25E
Gross realisation (US\$/bbl)	79	73	70	70
Subsidy (US\$/bbl)				
Net realisation (US\$/bbl)	79	73	70	70
Oil Production (mn tons)	3	3	3	4
Gas production (mscm)	3,045	3,197	3,357	4,029
US\$/Rs	76	78	80	83

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	01-Oct-22	BUY	300	175
2	05-Jul-22	BUY	300	191
3	05-Jun-22	BUY	344	251
4	28-May-22	BUY	344	218
5	23-May-22	BUY	240	162
6	04-Apr-22	BUY	360	237
7	14-Feb-22	BUY	351	229
8	06-Jan-22	BUY	351	195

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bharat Petroleum Corporation	Reduce	260	310
2	Bharti Airtel	BUY	1,058	836
3	GAIL (India)	BUY	120	89
4	Gujarat Gas	Hold	530	495
5	Hindustan Petroleum Corporation	Hold	195	211
6	Indian Oil Corporation	Reduce	50	68
7	Indraprastha Gas	BUY	596	397
8	Mahanagar Gas	BUY	1,103	832
9	Oil & Natural Gas Corporation	BUY	160	127
10	Oil India	BUY	300	175
11	Petronet LNG	BUY	325	209
12	Reliance Industries	BUY	2,892	2,480

**PL's Recommendation Nomenclature (Absolute Performance)**

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

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