Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Oil India Ltd

Subdued Q4 on high opex

Oil & Gas	Sharekhan code: OIL
Reco/View: Hold ↔	CMP: **Rs. 261**
Price Target: **Rs. 280** ↑	

↑ 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 47.68

Updated Mar 08, 2023

Severe Risk

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

Source: Morningstar

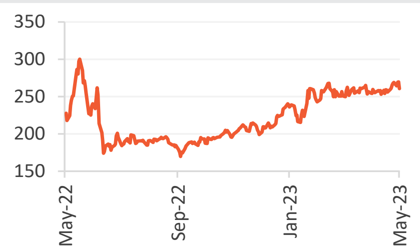
Company details

Market cap:	Rs. 28,270 cr
52-week high/low:	Rs. 306/168
NSE volume: (No of shares)	16.5 lakh
BSE code:	533106
NSE code:	OIL
Free float: (No of shares)	47.0 cr

Shareholding (%)

Promoters	56.7
FII	11.4
DII	16.3
Public & others	15.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	0.5	7.3	30.5	14.5
Relative to Sensex	-2.1	3.2	31.2	0.5

Sharekhan Research, Bloomberg

Summary

- Q4FY23 standalone operating profit of Rs. 2351 crore (down 18% q-o-q) was 17% below our estimate due to higher operating cost (rise in employee costs and exploration cost write-off). However, the miss in PAT was at only 3% as high opex largely gets offset by higher other income and lower depreciation/interest cost/tax rate.
- Oil/Gas EBIT declined by 4.5%/25% q-o-q to Rs. 1,474 crore/ Rs. 824 crore. Volume performance was also weak with 4%/8% miss in oil/gas sales volumes to 0.77mmt/0.59 bcm, down 1%/3.9% q-o-q while net oil realisation came in at $76/bbl (versus estimate of $77/bbl).
- We believe that earnings of upstream PSUs have peaked out in FY23 and would decline going forward due to a cap of $6.5/mmBtu on domestic gas price and normalization of crude oil price.
- We maintain our Hold rating on Oil India with a revised PT of Rs. 280 as ad hoc tax policy changes create valuation concerns. Dividend yield of ~7% limits meaningful downside from current levels.

Oil India Limited's (OIL) Q4FY23 standalone operating profit Rs. 2,351 crore (up 20% y-o-y; down 17.7% q-o-q) was 17% below our estimate of Rs. 2,820 crore due to higher-than-expected other operating cost (up 18% y-o-y; 2.9x q-o-q), marginally lower oil & gas sales volume and net oil realisations. Higher operating cost was due to a steep rise of 43% q-o-q in employee cost and substantially higher exploration cost write-off at Rs. 251 crore (versus Rs. 28 crore in Q3FY23). Oil EBIT declined by 4.5% q-o-q to Rs. 1,474 crore due to lower net oil realisation post SAED/sales volumes of $76/bbl (down 1.3% q-o-q) and 0.77mmt (down 1% q-o-q) respectively. Gas EBIT declined by 25% q-o-q to Rs. 824 crore due to lower gas sales volume of 0.59 bcm (down 3.9% q-o-q) and higher cost as gas realisation remain stable q-o-q at $8.57/mmBtu. Standalone PAT at Rs. 1,788 crore (up 9.7% y-o-y, up 2.4% q-o-q) was 3% below our estimate of Rs. 1848 crore. The miss in PAT was lower as compared to that of operating profit as higher cost gets largely offset by higher other income and lower depreciation/interest cost/tax rate.

Key positives

- OIL declared a final dividend of Rs. 5.5/share; FY23 DPS of Rs. 20/share implies dividend yield of ~8% on CMP.

Key negatives

- Miss of 4%/8% in oil/gas sales volume at 0.77 mmt/0.59 bcm, down 1%/3.9% q-o-q.
- Sharply higher employee cost and exploration cost write-off.

Revision in estimates: We have fine-tuned our FY24-25 earnings estimate to factor FY23 P&L and balance sheet numbers.

Our Call

Valuation – Maintain Hold on OIL with a revised PT of Rs. 280: We believe that earnings for upstream PSUs has peak-out in FY23 and expected to decline sharply going ahead due to likely capping of domestic gas price and normalization of crude oil price. Hence, we maintain a Hold rating on Oil India with a revised PT of Rs. 280 to reflects higher value for NRL and listed investments. Decent dividend yield of 7% limits material downside risk for Oil India. The stock trades (including earnings contribution from NRL) at 4.8x/4.4x its FY2024E/FY2025E EPS.

Key Risks

A sharp rise in crude oil & gas prices, removal of windfall tax and policy clarity on various duties is key upside risk and continued ad-hoc cess rate, sharp decline in oil price are downside risks.

Valuation (Standalone) Rs cr

Particulars	FY22	FY23	FY24E	FY25E
Revenue	14,530	23,273	21,199	19,651
OPM (%)	37.0	41.6	30.1	38.5
Adjusted PAT	3,887	6,810	4,191	5,044
y-o-y growth (%)	182.3	75.2	-38.5	20.3
Adjusted EPS (Rs.)	35.8	62.8	38.6	46.5
PE (x)	7.3	4.2	6.8	5.6
P/BV (x)	0.9	0.8	0.8	0.7
EV/EBDITA (x)	7.0	3.7	5.6	4.5
ROE (%)	13.9	21.2	11.9	13.5
ROCE (%)	13.3	20.8	12.9	14.6

Source: Company; Sharekhan estimates

Q4 operating miss estimates on higher opex

Q4FY23 standalone operating profit Rs. 2,351 crore (up 20% y-o-y; down 17.7% q-o-q) was 17% below our estimate of Rs. 2,820 crore due to higher-than-expected other operating cost (up 18% y-o-y; 2.9x q-o-q), marginally lower oil & gas sales volume and net oil realisations. Higher operating cost was due to a steep rise of 43% q-o-q in employee cost and substantially higher exploration cost write-off at Rs. 251 crore (versus Rs. 28 crore in Q3FY23). Oil EBIT declined by 4.5% q-o-q to Rs. 1,474 crore due to lower net oil realisation post SAED/sales volumes of $76/bbl (down 1.3% q-o-q) and 0.77mmt (down 1% q-o-q) respectively. Gas EBIT declined by 25% q-o-q to Rs. 824 crore due to lower gas sales volume of 0.59 bcm (down 3.9% q-o-q) and higher cost as gas realisation remain stable q-o-q at $8.57/mmBtu. Standalone PAT at Rs. 1,788 crore (up 9.7% y-o-y, up 2.4% q-o-q) was 3% below our estimate of Rs. 1848 crore. The miss in PAT was lower as compared to that of operating profit as higher cost gets largely offset by higher other income and lower depreciation/ interest cost/tax rate.

Results (Standalone) Rs cr

Particulars	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)
Revenue	**5,650**	**4,479**	**26.1**	**5,879**	**-3.9**
Total Expenditure	3,299	2,520	30.9	3,024	9.1
Operating profit	**2,351**	**1,958**	**20.0**	**2,855**	**-17.7**
Other Income	426	494	-13.8	102	317
Interest	108	199	-46.0	201	-46.4
Depreciation	331	211	56.6	454	-27.1
PBT	**2,338**	**2,042**	**14.5**	**2,303**	**1.5**
Tax	550	412	33.5	557	-1.2
Reported PAT	**1,788**	**1,630**	**9.7**	**1,746**	**2.4**
Equity Cap (cr)	108	108		108	
Reported EPS (Rs.)	16.5	15.0	9.7	16.1	2.4
Margins (%)			**BPS**		**BPS**
OPM	41.6	43.7	-211.5	48.6	-695.0
NPM	31.7	36.4	-474.3	29.7	195.4
Tax rate	23.5	20.2	334.2	24.2	-65.6

Source: Company, Sharekhan Research

Key operating metrics

Particulars	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)
Crude oil realisation ($/bbl)	81.3	98.1	-17.1%	88.3	-7.9%
SAED ($/bbl)	5.2	0	NA	11.2	-53.4%
Net crude oil realisation ($/bbl)	76.1	98.1	-22.4%	77.1	-1.3%
Gas price realisation ($/mmBtu)	8.6	2.9	195.5%	8.6	0.0%
Oil production volume (mmt)	0.80	0.75	7.0%	0.81	-0.9%
Oil sales volume (mmt)	0.77	0.73	4.5%	0.77	-0.8%
Crude oil business EBIT (Rs. crore)	1474	2089	-29.4%	1543	-4.5%
Gas production volume (bcm)	0.78	0.73	6.3%	0.81	-3.2%
Gas sales volume (bcm)	0.59	0.56	5.2%	0.61	-3.9%
Gas business EBIT (Rs. crore)	824	77	973.6%	1091	-24.5%

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Ad-hoc policy changes a key concern for upstream PSUs

The government's ad-hoc tax policy changes for the oil and gas sector in the volatile oil price environment has raised concerns over the earnings outlook of upstream PSUs and is divergence from government's earlier intent of doing away with an oil subsidy mechanism. The government has introduced a windfall tax in the form of fixed cess rate, which is in addition to current ad valorem effective cess rate of 16.67% on realised oil price for upstream PSUs. Additionally, a cap of $6.5/mmBtu on domestic gas price would further limit earnings growth for upstream PSUs.

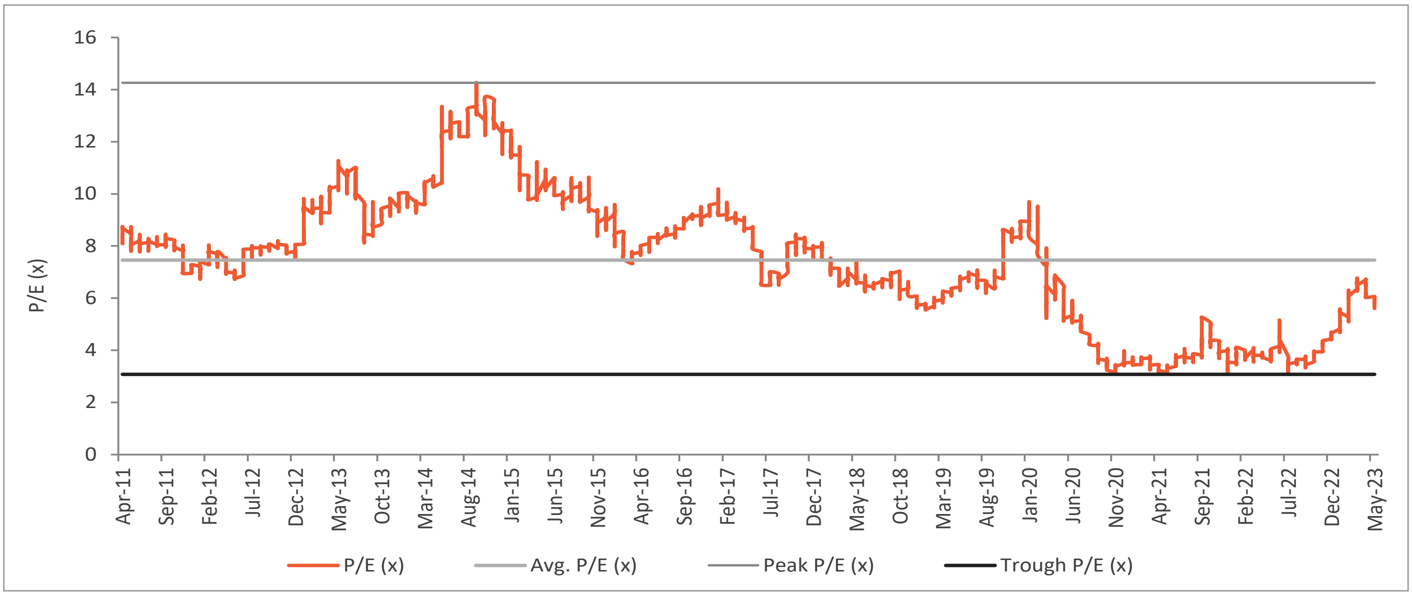
■ Company outlook - Muted earnings outlook

OIL's earnings outlook has been hit by a windfall tax (in form of higher cess rate) imposed by the government and capping of APM gas price at $6.5/mmBtu. Management's guidance of ramp-up in oil & gas production is impressive but the poor track record and maturing oil & gas fields makes us remain conservative on volume growth over the next of years.

■ Valuation - Maintain Hold on OIL with a revised PT of Rs. 280

We believe that earnings for upstream PSUs has peak-out in FY23 and expected to decline sharply going ahead due to likely capping of domestic gas price and normalization of crude oil price. Hence, we maintain a Hold rating on Oil India with a revised PT of Rs. 280 to reflects higher value for NRL and listed investments. Decent dividend yield of 7% limits material downside risk for Oil India. The stock trades (including earnings contribution from NRL) at 4.8x/4.4x its FY2024E/FY2025E EPS.

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

Recent cap of $6.5/mmbtu on domestic gas price and normalization of international crude oil price would impact earnings of upstream PSUs (including OIL) in FY24. Additionally, poor track record of growth in oil & gas production makes us cautious on improvement in operational parameters of Oil India. However, healthy dividend yield provides some comfort to the investors.

Key Risks

A sharp rise in crude oil & gas prices, removal of windfall tax and policy clarity on various duties is key upside risk and continued ad-hoc cess rate, sharp decline in oil price are downside risks.

Additional Data

Key management personnel

Dr. Ranjit Rath	Chairman & Managing Director
Harish Madhav	Director – Finance
Dr. Manas Kumar Sharma	Director - Exploration & Development

Source: Bloomberg

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	11.31
2	Indian Oil Corp Ltd	4.93
3	FMR LLC	4.40
4	Nippon Life India Asset Management	2.53
5	Bharat Petroleum Corp Ltd	2.47
6	Hindustan Petroleum Corp Ltd	2.47
7	Fidelity Low-Priced Stock Fund	2.10
8	Vanguard Group Inc/The	1.12
9	BlackRock Inc	0.70
10	WisdomTree Inc	0.48

Source: Bloomberg

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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Compliance Officer: Ms. Binkle Oza; Tel: 022-61169602; email id: complianceofficer@sharekhan.com

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