

10 August 2023

India | Equity research | Q1FY24 result review

## Oil India

### Oil & Gas

#### NRL fire impacts consolidated earnings; FY24E prospects remain strong

Oil India's (OIL) adjusted EBITDA of INR 23.3bn was down 13% and PAT of INR 16.1bn was up 4%, ahead of I-sec estimates of INR 22.9bn EBITDA and INR 15bn PAT. Consolidated EBITDA of INR 22.7bn and PAT of INR 14bn declined sharply by 54% and 50% YoY respectively, due to fire at Numaligarh Refinery (NRL) leading to shutdown of the plant for 75 days and a loss of INR 776mn for the quarter (vs Q4FY23 PAT of INR 7.7bn). Due to lower offtake from NRL, oil and gas sales of 1.3mtoe declined 7% YoY / 5% QoQ. Prospects remain strong over FY24E / FY25E driven by: i) steady increase in oil & gas output (~4% growth p.a.), ii) greater monetisation opportunities in gas via the imminent NE grid commissioning, iii) resumption of NRL operations from Q2, and iv) steady realisations for both oil & gas. Reiterate **BUY**.

#### Volume growth stymied by lower NRL offtake

Oil output at 0.82mt was up 5% YoY and gas output at 0.75bcm was down 3% YoY, with the lower gas output attributable to lower offtake from NRL. Sales volume of oil fell 7% YoY as NRL offtake was lower, while gas sales decline of 8% YoY was caused by NRL shutdown. Management has put in place ambitious plans to boost oil production to annualised levels of 4mt by FY25-FY26 (from ~3.18mt in FY23) and gas output to even higher levels of 5bcm (FY23: 3.18bcm). Company aims to accomplish these targets by focusing on high-impact areas and OALP field development. Given the strong results in Q1 and reinforced guidance, we have raised volume growth estimates by ~100bps for FY24E and FY25E, with stronger growth expected on the gas front as the NE gas grid sees the first phase commissioning by end of CY23E.

#### Despite windfall tax and new domestic pricing, oil & gas realisations should stay above historical averages

Brent crude prices seem to have settled around USD 80/bbl for now though we do expect a tighter demand-supply balance by H2FY24E. However, due to the additional 'windfall' tax, net realisations seem capped at USD 76-77/bbl for the next 12-18 months. Additionally, with reduction in the domestic gas price by USD 2/mmbtu, gas prices should average USD 6.5/mmbtu for FY24E and FY25E. While these prices are lower vs FY23, we note that they are well above long-term historical averages for OIL.

#### Financial summary

Y/E March (INR bn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	300	410	262	302
EBITDA	105	153	93	108
EBITDA %	35.0	37.2	35.4	35.7
Net Profit	56	87	46	49
EPS (Rs)	51.8	80.5	42.4	45.2
EPS % Chg YoY	42.3	55.3	(47.3)	6.6
P/E (x)	5.3	3.4	6.5	6.1
EV/EBITDA (x)	4.2	2.9	5.4	5.0
RoCE (Pre-tax) (%)	18.5	24.2	10.8	10.7
RoE (%)	20.7	25.3	11.5	11.5

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#### Market Data

Market Cap (INR)	300bn
Market Cap (USD)	3,620mn
Bloomberg Code	OINL IN
Reuters Code	OILI.BO
52-week Range (INR)	280 /168
Free Float (%)	33.0
ADTV-3M (mn) (USD)	4.5

Price Performance (%)	3m	6m	12m
Absolute	8.9	25.6	52.5
Relative to Sensex	7.8	9.6	13.6

ESG Disclosure	2021	2022	Change
ESG score	38.6	-	-
Environment	26.4	-	-
Social	25.8	-	-
Governance	63.6	-	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
Revenue	(7.6)	1.7
EBITDA	(4.9)	1.3
EPS	(7.5)	(1.9)

#### Previous Reports

25-05-2023: [Q4FY23 results review](#)

12-05-2023: [Q3FY23 results review](#)

### Reiterate BUY: Prospects remain strong over the next few years

We cut our earnings estimates for FY24E / FY25E EPS by 7.5% / 2% respectively owing to lower estimates for NRL (due to the sharp dip in Q1 earnings). Yet, our target price for the stock reduces only by 3.7% and still implies a material 29% upside from CMP. At current levels, valuations are at 6.1x FY25E EPS and ~5.0x FY25E EV/EBITDA (on consolidated basis), which we think remain attractive. We value OIL using SoTP methodology, with DCF used for the upstream segment, EV/EBITDA for NRL earnings, EV/boe for the holdings in Mozambique and Russia, and investment in IOCL valued at 20% discount to CMP – delivering a target price of INR 356/sh (prior: INR 370).

**Key downside risks:** 1) Sharp reversal in oil & gas price trends, 2) policy measures to cap gas realisations at even lower levels, 3) lower production, and 4) lower GRM performance from NRL.

### Key takeaways from Q1FY24 earnings call

- During the quarter Numaligarh Refinery Limited (NRL) reported exceptional loss of ~ INR 65.6mn due to fire in the hydrocracker unit of the refinery. This led to 75 days refinery shutdown with reported net earnings dipping to a net loss of INR 0.8bn vs profit of INR 14.1bn in Q1FY23.
- NRL refinery resumed operations in the last week of Jun'23 and is back to full operations as of now.
- Though oil production volume improved YoY and QoQ, sales volume declined due to lower offtake by NRL (due to fire) partly offset by higher offtake by Indian Oil in Q1. Also, the shortfall in offtake is lying as closing stock of crude oil with OIL and offtake should increase in Q2FY24, as NRL has fully resumed operations.
- Even gas production has declined due to lower offtake by NRL and BCPL (shut due to maintenance), which should both resume operations from Q2 onwards.
- Lower sales volume has also impacted the pipeline segment during the quarter, as lower crude transportation happened to NRL in Q1.
- During the quarter, there was sharp decline in other expenditure. This was due to: i) reduction in well write-off by INR 2bn (INR 1.4bn provision towards well write-off in Mizoram vs Q1FY23, which was not present in Q1FY24); ii) other provisions reduced by INR 1.6bn, and iii) foreign exchange loss reduced by INR 2.2bn on YoY basis. Well Exploration write off during the quarter was INR 0.7bn.
- GST on royalty litigation is pending before Guwahati High Court and is scheduled for hearing in Q2. Company is also examining it and will create provision depending on outcome of the hearing.
- Cash cost of oil and gas production is USD 8-8.5/bbl and USD 2/mmbtu respectively (excluding levies).
- Oil India has planned capex of INR 49bn for FY24 and already spent INR 13bn in Q1FY24 on standalone basis. 40% of the capex would be towards exploration, 20% for development (wells drilling) and balance for other projects.
- NRL has planned capex of INR 88bn for FY24 and incurred INR 16bn in Q1FY24. Full project cost for its expansion by 6mtpa and associated petrochemical capacity still remains at INR 280bn. NRL refinery expansion from 3mtpa to 9mtpa should complete by the end of CY25. NRL's likely peak debt should be of INR 180bn.

- Gross debt as of Q1FY24 stood at INR 110bn / 180bn on standalone / consolidated basis respectively. Differential debt between consolidated and standalone are 1) Russian subsidiary debt of ~INR 40bn and 2) balance is of NRL.
- Mozambique project should resume work by Oct-Nov'23. Revision in project cost should be finalised in 2-3 months.

### Exhibit 1: Standalone quarterly snapshot

INR mn	Q1FY24	Q1FY23	% chg YoY	Q4FY23	% chg QoQ
Net Sales	45,312	59,676	-24.1	53,979	-16.1
EBITDA	23,989	26,892	-10.8	23,484	2.2
EBITDA Margin (%)	52.9	45.1		43.5	
Reported PAT	16,134	15,555	3.7	17,883	-9.8
Adjusted PAT	16,134	15,555	3.7	17,883	-9.8
Adj EPS (INR/sh)	14.9	14.3	3.7	16.5	-9.8
Gross realisations (USD/bbl)	76.9	112.7	(31.8)	81.3	(5.5)
Adj net realisations (USD/bbl)	74.3	112.7	(34.1)	76.1	(2.4)

Source: Company data, I-Sec research

### Exhibit 2: Quarterly volume highlights

Volumes	Q1FY24	Q1FY23	% chg YoY	Q4FY23	% chg QoQ
Crude oil production (mmt)	0.82	0.78	5.4	0.80	2.5
Crude oil sales (mmt)	0.75	0.76	-2.2	0.77	-2.5
Natural gas production (bcm)	0.75	0.77	-3.4	0.78	-4.5
Natural gas sales (bcm)	0.54	0.59	-8.4	0.62	-11.8

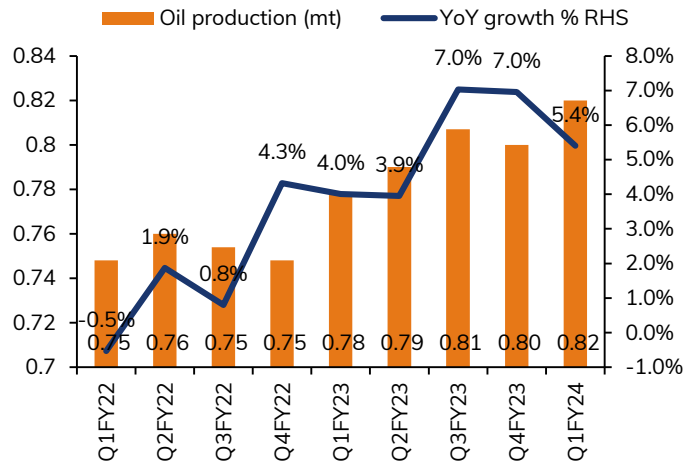
Source: Company data, I-Sec research

### Exhibit 3: NRL quarterly performance

INR mn	Q1FY24	Q1FY23	YoY	Q4FY23	QoQ
<b>PHYSICAL PERFORMANCE:</b>					
Crude Throughput ( MT) :	<b>0.1</b>	<b>0.8</b>	<b>-91.2%</b>	<b>0.7</b>	<b>-91%</b>
Distillate Yield	47.0%	88.8%		86.4%	
<b>FINANCIAL PERFORMANCE</b>					
TOTAL OPERATING INCOME	22,357	87,493	-74.4%	58,420	-62%
EBITDA	<b>-52</b>	<b>19,883</b>		<b>11,398</b>	
PBT	-988	19,065		10,284	
PAT	<b>-776</b>	<b>14,066</b>		<b>7,692</b>	
Gross Refining Margin (USD/bbl)	<b>-15.6</b>	<b>32.4</b>		<b>20.4</b>	

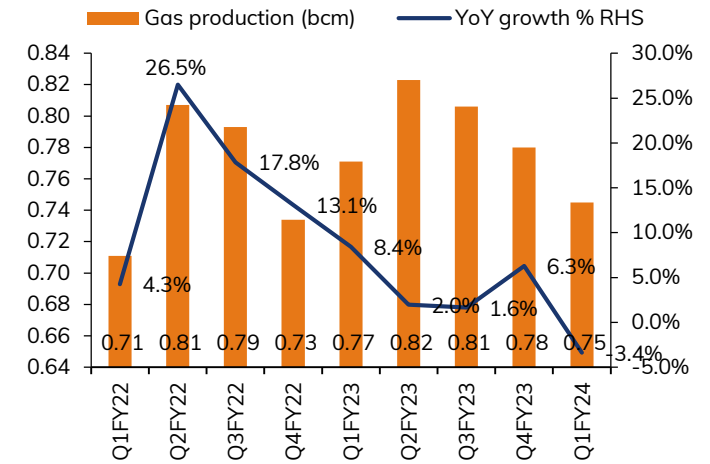
Source: Company data, I-Sec research

**Exhibit 4: Oil output increased YoY and QoQ**



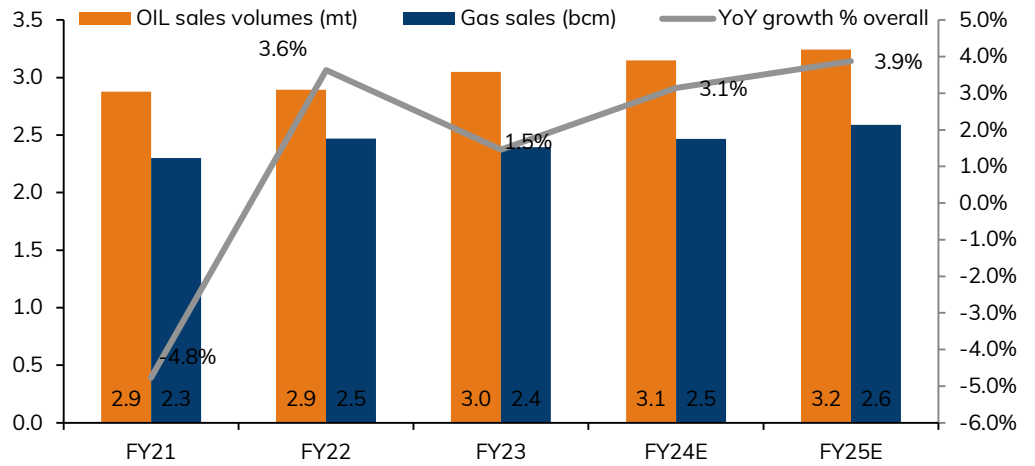
Source: Company data, I-Sec research

**Exhibit 5: But gas production declined**



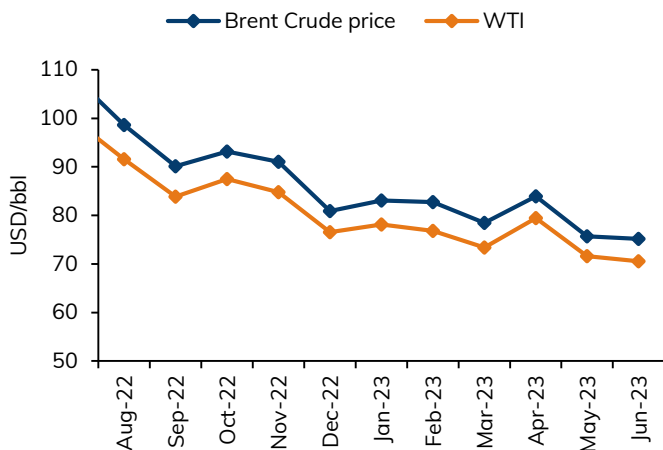
Source: Company data, I-Sec research

**Exhibit 6: OIL's output to grow steadily over FY23-25E**



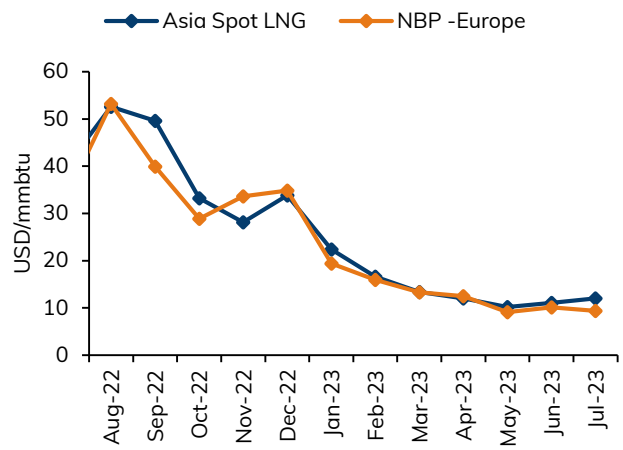
Source: Company data, I-Sec research

**Exhibit 7: Crude prices are moderating ...**



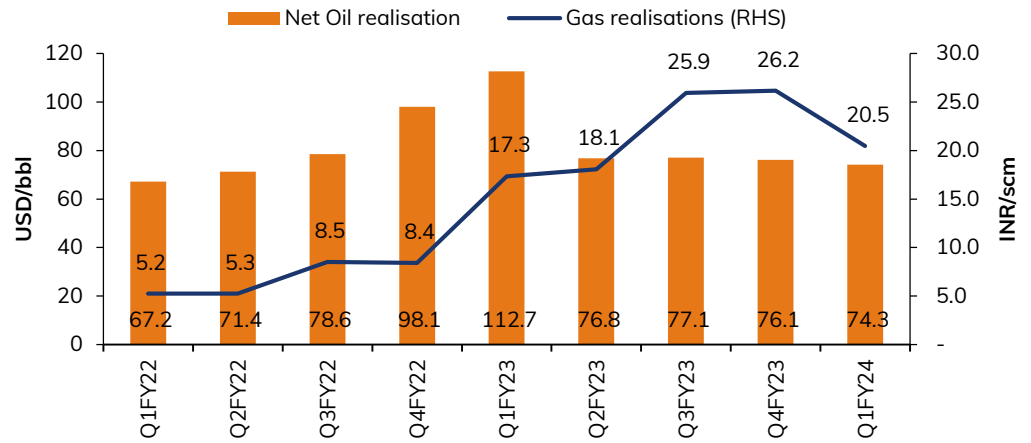
Source: Company data, I-Sec research

**Exhibit 8: ...so are global LNG prices**



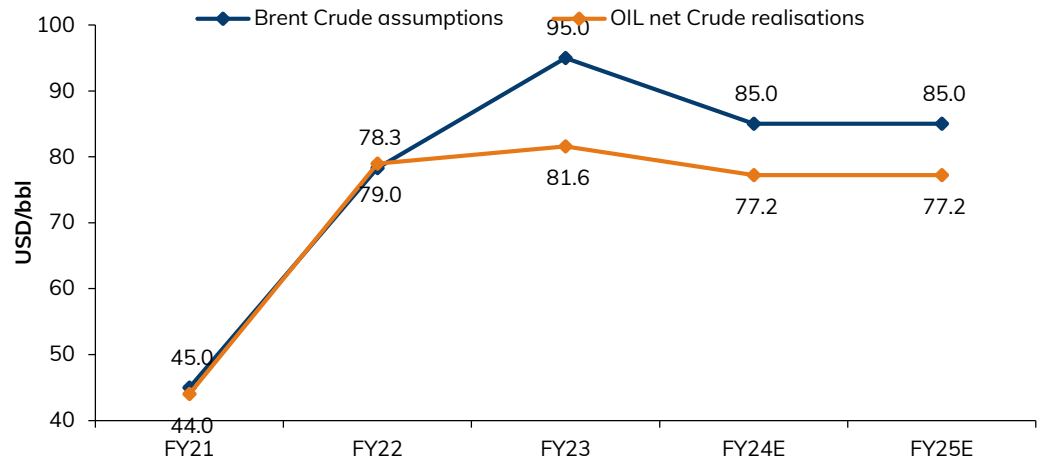
Source: Company data, I-Sec research

**Exhibit 9: OIL's domestic oil realisation remained muted QoQ...**



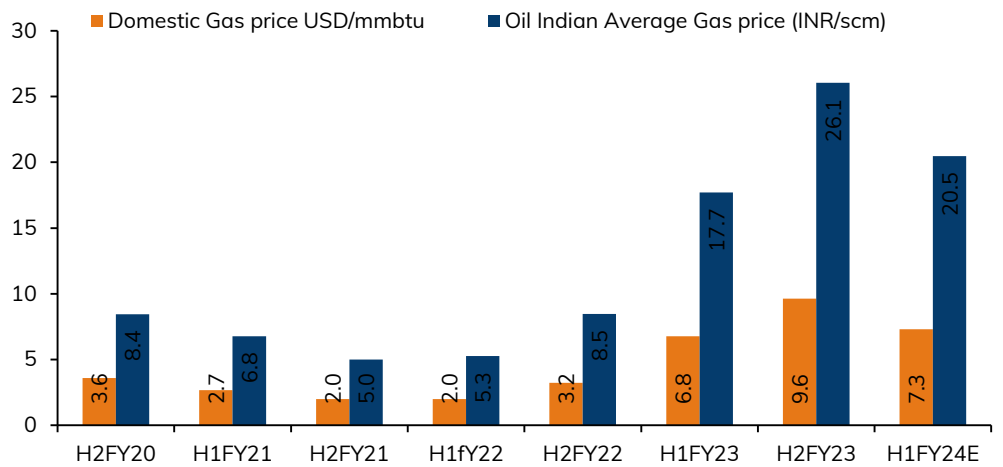
Source: Company data, I-Sec research

**Exhibit 10: ...likely to remain muted over FY23-FY25E as well**



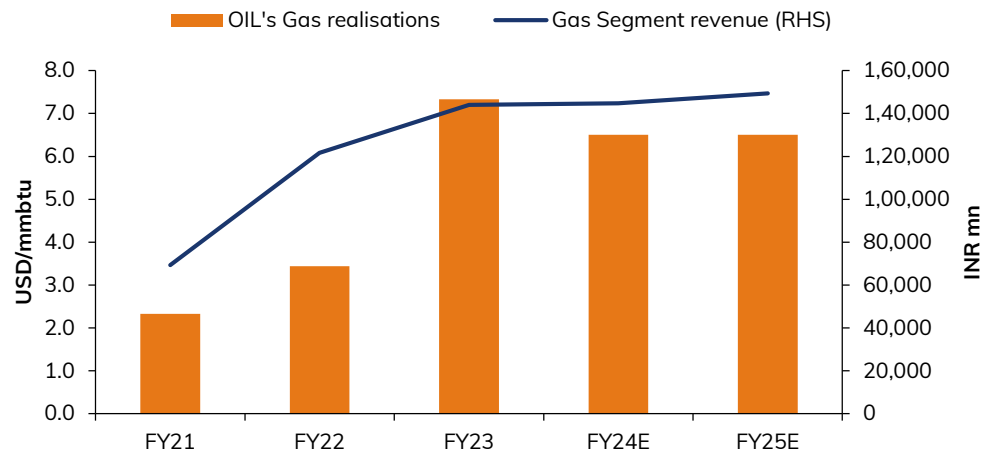
Source: Company data, I-Sec research

**Exhibit 11: Domestic gas prices dip in FY24E to reflect the new pricing cap**



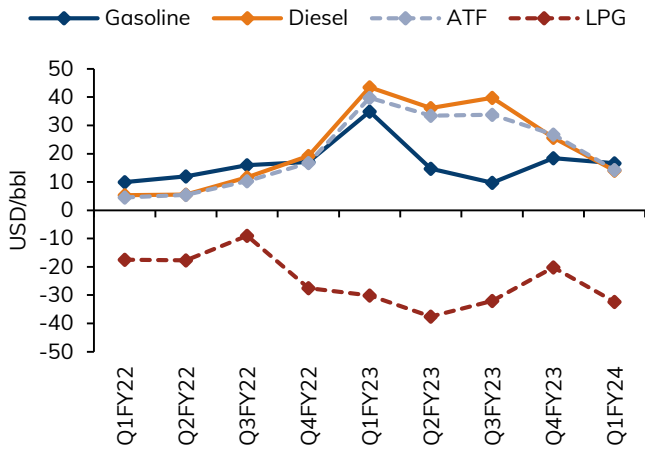
Source: Company data, I-Sec research

**Exhibit 12: OIL's realisations to drop vs FY23, higher volumes support revenue**



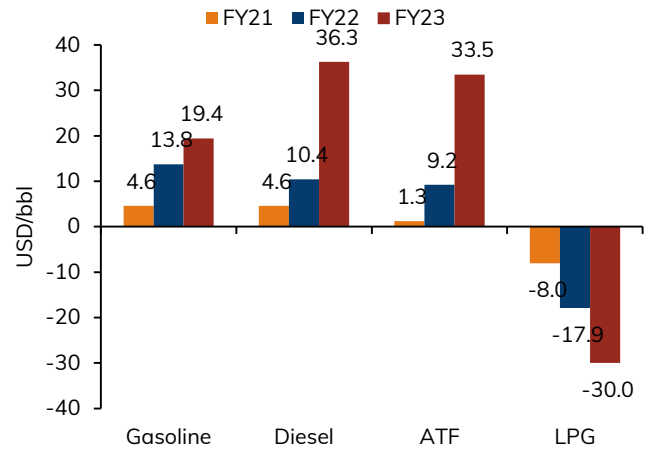
Source: Company data, I-Sec research

**Exhibit 13: Diesel, gasoline and ATF spreads declined in Q1FY24**



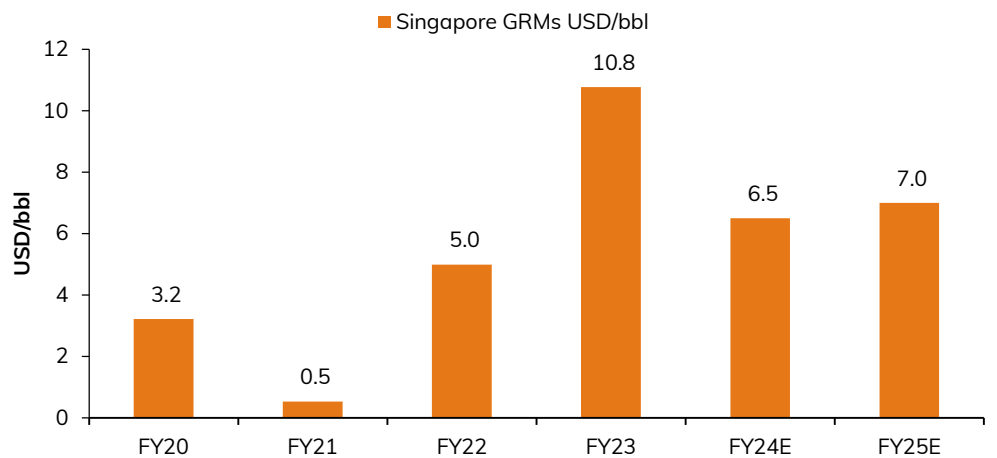
Source: Company data, I-Sec research

**Exhibit 14: Product cracks jumped sharply in FY23**



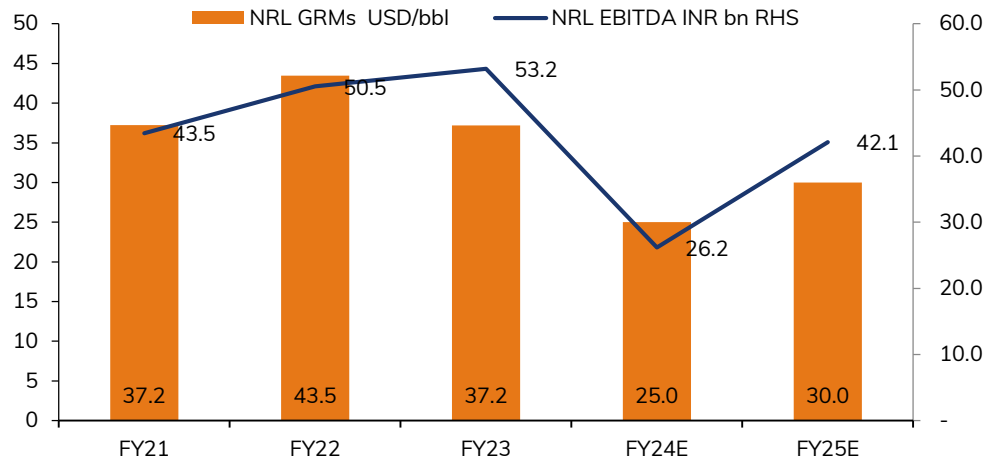
Source: Company data, I-Sec research

**Exhibit 15: Singapore GRM estimates for FY20-FY25E**



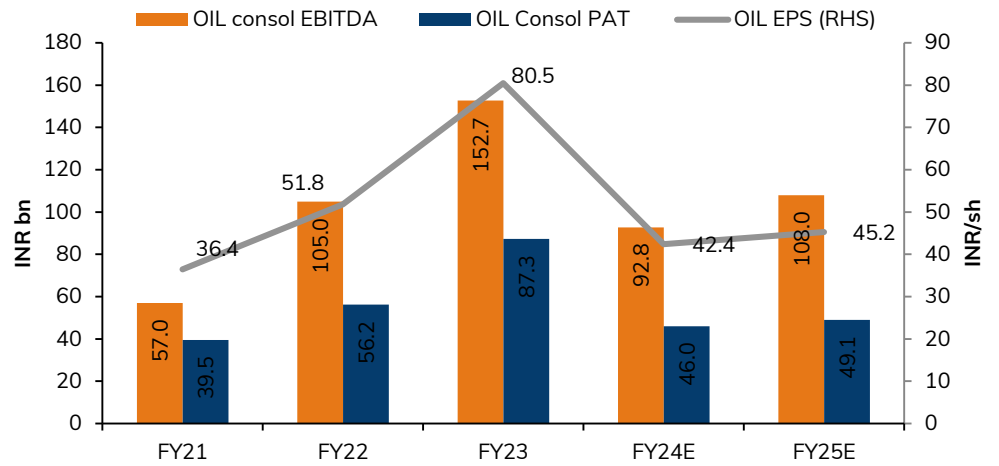
Source: Company data, I-Sec research

**Exhibit 16: NRL earnings dip in FY24E due to the fire in Q1, to recover in FY25E**



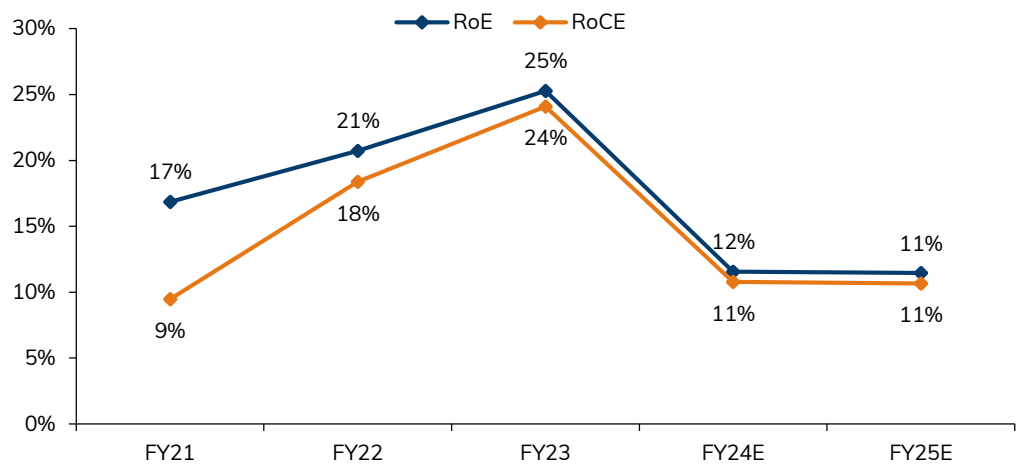
Source: Company data, I-Sec research

**Exhibit 17: Consol Earnings trends through FY21-FY25E**



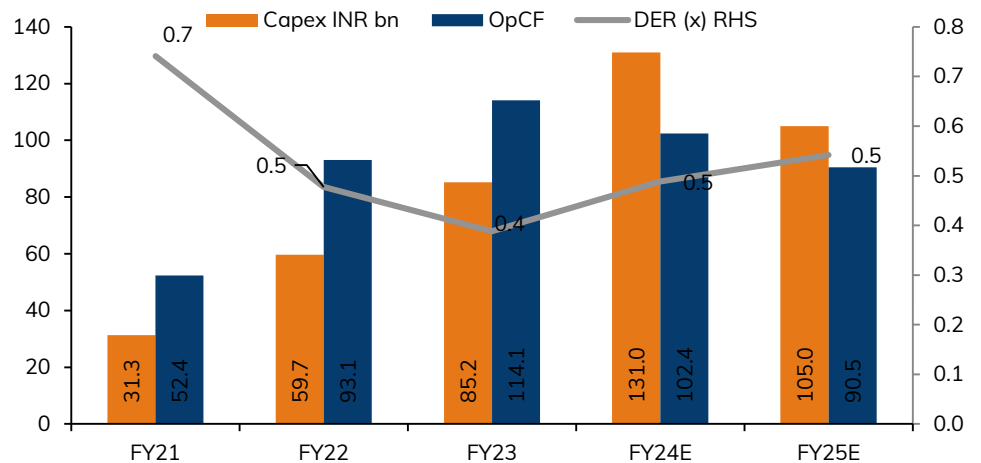
Source: Company data, I-Sec research

**Exhibit 18: Return ratios to moderate over FY23-FY25E**



Source: Company data, I-Sec research

**Exhibit 19: Strong cashflow to support higher capex over FY23-FY25E**

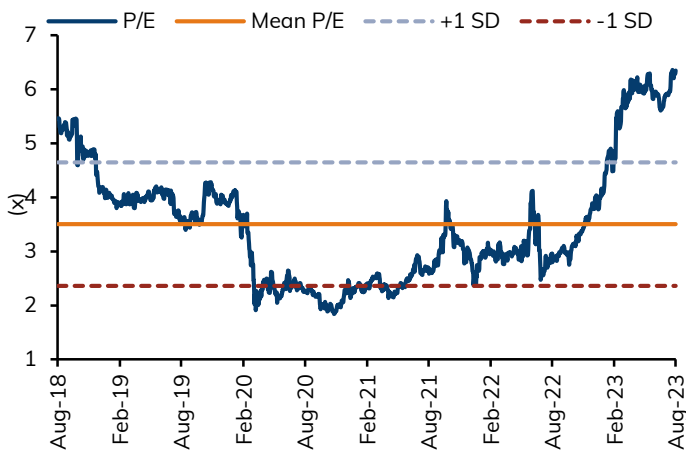


Source: Company data, I-Sec research

**Valuations unchallenging; BUY; target price of INR 356/sh**

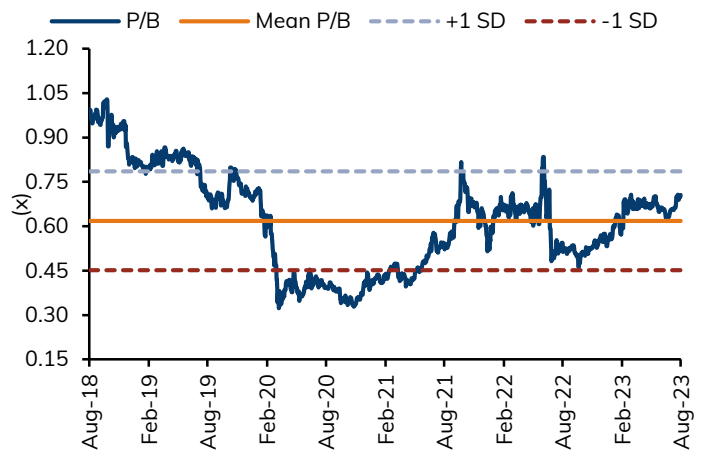
We value OIL by the SoTP methodology, with: 1) DCF used for the upstream oil & gas business, 2) EV/EBITDA for the subsidiary NRL, 3) EV/boe for smaller overseas stakes in Mozambique and Russia, and 4) the IOCL investment valued at 20% discount to CMP. This delivers a fair value of INR 356/sh, a material 29% upside to CMP. Stock trades at valuations of 6.1x FY25E EPS and ~5.0x FY25E EV/EBITDA. Even at our target price, implied P/E works out to 7.9x FY25E EPS and EV/EBITDA works out to 6.5x FY25E, which we think are attractive valuations. Reiterate **BUY**.

**Exhibit 20: Oil India P/E trading band**



Source: Company data, I-Sec research

**Exhibit 21: Oil India P/B trading band**



Source: Company data, I-Sec research



## Exhibit 22: Valuation summary

	mmboe	USD/boe	USD mn	INR/share
2P oil reserves	553	5.5	3,048	233
2P gas reserves	832	1.1	915	70
4% stake in Mozambique Area 1 gas discoveries at cost	333	2.0	667	51
Value of Russia and other overseas assets	271	0.5	135	10
<b>Valuation of E&amp;P assets</b>	<b>1,989</b>	<b>3.0</b>	<b>4,766</b>	<b>365</b>
Stake in NRL at 4.5x FY25E EV/EBITDA			1,672	128
Less: Gross debt			2,895	222
Book value of tax free bonds & other cash equivalents			467	36
20% discount to market value of stake in IOCL			646	49
<b>Target price</b>			<b>8,307</b>	<b>356</b>

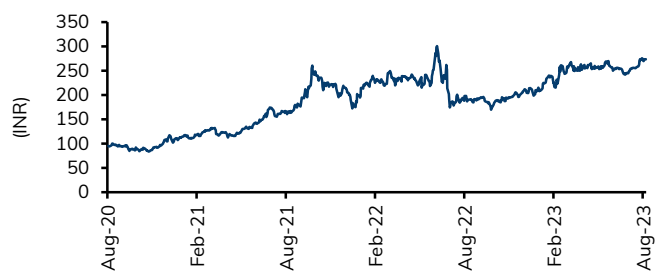
Source: Company data, I-Sec research

## Exhibit 23: Shareholding pattern

%	Dec'22	Mar'23	Jun'23
Promoters	56.7	56.7	56.7
Institutional investors	27.5	27.7	27.4
MFs and others	3.5	3.8	4.7
FIs/Banks	0.0	0.0	0.0
Insurance	12.5	12.5	11.7
FIIIs	11.5	11.4	11.0
Others	15.8	15.6	15.9

Source: Bloomberg

## Exhibit 24: Price chart



Source: Bloomberg

## Financial summary

### Exhibit 25: Profit & Loss

(INR bn, year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Net Sales</b>	<b>300</b>	<b>410</b>	<b>262</b>	<b>302</b>
<b>EBITDA</b>	<b>105</b>	<b>153</b>	<b>93</b>	<b>108</b>
EBITDA Margin (%)	35.0	37.2	35.4	35.7
Depreciation & Amortization	18	19	23	30
EBIT	87	133	70	78
Interest expenditure	9	9	13	16
Other Non-operating Income	11	7	8	9
<b>PBT</b>	<b>89</b>	<b>131</b>	<b>65</b>	<b>71</b>
<b>Profit / (Loss) from Associates</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>
Less: Taxes	23	33	16	18
PAT	66	99	48	53
Less: Minority Interest	11	11	2	4
<b>Net Income (Reported)</b>	<b>56</b>	<b>87</b>	<b>46</b>	<b>49</b>
Extraordinaries (Net)	-	-	-	-
<b>Recurring Net Income</b>	<b>56</b>	<b>87</b>	<b>46</b>	<b>49</b>

Source Company data, I-Sec research

### Exhibit 26: Balance sheet

(INR bn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	95	139	112	132
of which cash & bank	16	35	34	47
Total Current Liabilities & Provisions	66	82	78	83
<b>Net Current Assets</b>	<b>29</b>	<b>57</b>	<b>34</b>	<b>49</b>
Other Non Current Assets	10	18	18	18
Net Fixed Assets	168	180	285	357
Other Fixed Assets	-	-	-	-
Capital Work in Progress	59	120	120	120
Non Investment	267	275	275	275
Current Investment	6	4	5	5
Deferred Tax assets	3	3	3	3
<b>Total Assets</b>	<b>542</b>	<b>657</b>	<b>739</b>	<b>827</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>164</b>	<b>185</b>	<b>237</b>	<b>289</b>
<b>Deferred Tax Liability</b>	<b>31</b>	<b>33</b>	<b>33</b>	<b>33</b>
Lease Liability	3	3	3	3
Other Liabilities	12	17	17	18
Equity Share Capital	11	11	11	11
Reserves & Surplus*	295	374	402	433
<b>Total Net Worth</b>	<b>306</b>	<b>385</b>	<b>412</b>	<b>444</b>
Minority Interest	26	34	36	40
<b>Total Liabilities</b>	<b>542</b>	<b>657</b>	<b>739</b>	<b>827</b>

Source Company data, I-Sec research

### Exhibit 27: Quarterly trend

(INR mn, year ending March)

Standalone	Sep-22	Dec-22	Mar-23	Jun-23
Net Sales	46,434	53,762	53,979	45,312
% growth (YOY)	40%	44%	21%	-24%
EBITDA	19,798	28,722	23,484	23,289
Margin %	43%	53%	44%	51%
Other Income	8,949	1,022	4,259	3,341
Extraordinaries	0	0	0	0
Adjusted Net Profit	17,205	17,461	17,883	16,134

Source Company data, I-Sec research

### Exhibit 28: Cashflow statement

(INR bn, year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Cash Flow from operation before working Capital</b>	<b>117</b>	<b>169</b>	<b>96</b>	<b>111</b>
Working Capital Changes	(14)	(21)	23	(3)
Tax	(10)	(33)	(16)	(18)
<b>Operating Cashflow</b>	<b>93</b>	<b>114</b>	<b>102</b>	<b>90</b>
Capital Commitments	(60)	(85)	(131)	(105)
<b>Free Cashflow</b>	<b>33</b>	<b>29</b>	<b>(29)</b>	<b>(15)</b>
Others CFI	22	15	8	9
<b>Cashflow from Investing Activities</b>	<b>(37)</b>	<b>(70)</b>	<b>(123)</b>	<b>(96)</b>
Inc (Dec) in Borrowings	(34)	9	52	52
Interest Cost	(7)	(8)	(13)	(16)
Others	(15)	(26)	(18)	(17)
<b>Cash flow from Financing Activities</b>	<b>(56)</b>	<b>(25)</b>	<b>20</b>	<b>19</b>
<b>Chg. in Cash &amp; Bank balance</b>	<b>0</b>	<b>19</b>	<b>0</b>	<b>13</b>
Closing cash & balance	16	35	34	47

Source Company data, I-Sec research

### Exhibit 29: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Per Share Data (INR)</b>				
Recurring EPS	51.8	80.5	42.4	45.2
Diluted EPS	51.8	80.5	42.4	45.2
Recurring Cash EPS	68.7	98.4	63.6	72.9
Dividend per share (DPS)	14.2	20.0	17.0	19.0
Book Value per share (BV)	281.8	354.9	380.3	409.5
Dividend Payout (%)	27.5	24.8	40.1	42.0
<b>Growth (%)</b>				
Net Sales	33.4	36.7	(36.1)	15.3
EBITDA	84.2	45.4	(39.2)	16.4
EPS	42.3	55.3	(47.3)	6.6
<b>Valuation Ratios (x)</b>				
P/E	5.3	3.4	6.5	6.1
P/CEPS	4.0	2.8	4.4	3.8
P/BV	1.0	0.8	0.7	0.7
EV / EBITDA	4.2	2.9	5.4	5.0
EV / Operating Income	4.5	3.2	6.4	6.2
Dividend Yield (%)	5.2	7.2	6.1	6.9
<b>Operating Ratios</b>				
EBITDA Margins (%)	35.0	37.2	35.4	35.7
Effective Tax Rate (%)	25.6	25.0	25.2	25.2
Net Profit Margins (%)	18.7	21.3	17.5	16.2
NWC / Total Assets (%)	5.4	8.7	4.5	5.9
Fixed Asset Turnover (x)	1.1	1.4	0.7	0.6
Working Capital Days	69.0	77.5	53.1	72.5
Net Debt / Equity %	46.8	38.1	48.2	53.5
<b>Profitability Ratios</b>				
RoCE (%)	13.8	18.2	8.1	8.0
RoCE (Pre-tax) (%)	18.5	24.2	10.8	10.7
RoE (%)	20.7	25.3	11.5	11.5

Source Company data, I-Sec research

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