Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

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 47.76

Updated Jun 08, 2023

Severe Risk

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

Source: Morningstar

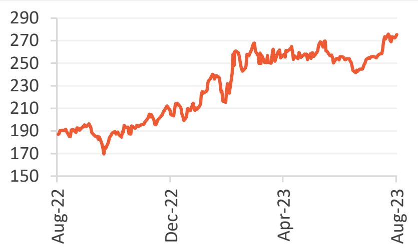
Company details

Market cap:	Rs. 29,859 cr
52-week high/low:	Rs. 280/168
NSE volume: (No of shares)	17.5 lakh
BSE code:	533106
NSE code:	OIL
Free float: (No of shares)	47.0 cr

Shareholding (%)

Promoters	56.7
FII	11.0
DII	16.4
Public & others	16.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	8.0	6.2	23.2	47.2
Relative to Sensex	7.0	-0.3	14.4	35.0

Sharekhan Research, Bloomberg

Oil India Ltd

Weak Q1; maintain Hold

Oil & Gas	Sharekhan code: OIL
Reco/View: Hold ↔	CMP: **Rs. 275**
	Price Target: **Rs. 290** ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- Q1 standalone operating profit of Rs. 2,329 crore (largely flat q-o-q) lagged our estimate as a steep decline in oil & gas sales volumes offset the benefit of lower well write-offs and provisions. PAT of Rs. 1,613 crore was 5% above estimates led by higher other income and lower-than-expected DD&A costs.
- Gas EBIT fell by 25% q-o-q to Rs. 619 crore while oil EBIT was marginally up by 2% q-o-q to Rs. 1,504 crore. Volume performance disappointed with a 7%/15% miss in oil/gas sales volume at 0.75 mmt/0.54 bcm, down 2.5%/7.2% q-o-q due to shutdown at NRL/BCPL. Net oil realisation also fell by 2.4% q-o-q to $74.3/bbl.
- The management maintained its oil/gas production guidance of 3.4 mmt/3.3 bcm for FY24 and 4 mmt/5bcm for FY25 and expects volume to recover as both NRL/BCPL are now operating at normal utilisation rates. 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 for domestic gas prices and normalisation of crude oil prices.
- We maintain a Hold rating on Oil India (OIL) with a revised PT of Rs. 290 as ad-hoc tax policy changes create valuation concerns. Dividend yield of 6-7% limits meaningful downside from current levels.

Q1FY24 standalone operating profit Rs. 2,329 crore (down 11.7% y-o-y; down 0.9% q-o-q) was 6% below our estimate of Rs. 2,477 crore due to weak oil/gas sales volume and marginally lower-than-expected net oil realisations, which offsets lower well write-off & provisions and a steep decline in forex loss. OIL's oil production rose by 5.3%/2.5% y-o-y/q-o-q to 0.82 mmt but sales volume disappointed with 2.2%/2.5% y-o-y/q-o-q decline to 0.75 mmt (91% of oil production) as volumes were impacted due to a shutdown of 75 days at Numaligarh Refinery Ltd (NRL) for maintenance and fire accident. Gas production/sales volume also plunged by 4.5%/7.2% q-o-q to 0.75 bcm/0.54 bcm given a shutdown at NRL and Brahmaputra Cracker and Polymer Limited (BCPL). Net oil realisations (post SAED) of $74.3/bbl (down 2.4% q-o-q) marginally lagged estimate and our backward calculation implies SAED of $2.3/bbl as compared to $5.2/bbl in Q4FY23. Oil EBIT was up 2% q-o-q to Rs. 1504 crore while gas EBIT declined sharply by 25% q-o-q to 619 crore. Standalone PAT at Rs. 1,613 crore (up 3.7% y-o-y, down 9.8% q-o-q) was 5% above our estimate as miss in operating profit was more than offset by higher other income and lower DD&A cost.

Key positives

- Sharply lower well write-offs and provisions.

Key negatives

- Miss of 7%/15% in oil/gas sales volume at 0.75 mmt/0.55 bcm, down 2.5%/7.2% q-o-q.

Management Commentary

- It maintained oil/gas production guidance of 3.4 mmt/3.3 bcm for FY24 and 4 mmt/5bcm for FY25, which implies oil/gas volume CAGR of 12%/25% over FY23-25, which seems quite aggressive in our view.
- Oil/gas volume expected to recovery as NRL/BCPL is now operating at normal utilisation.
- FY24 standalone capex guidance of Rs. 4900 crore. Q1FY24 capex of Rs. 1400 crore. Capex of NRL expansion remains same at Rs. 28,000 crore.
- As of now there is no clarity on applicability of 20% higher gas price for IOR/EOR production.
- The matter related to GST on royalty is up for hearing at Guwahati High Court. The company will take view on the same in current fiscal.
- Gross standalone/consolidated debt at Rs. 11,000 crore/Rs. 18,000 crore.

Revision in estimates: We have increased our FY24-25 earnings estimate to factor Rs. /USD rate of Rs. 82 and lower operating costs.

Our Call

Valuation – Maintain Hold on OIL with a revised PT of Rs. 290: We believe that earnings for upstream PSUs have peak-out in FY23 and expected to decline sharply going ahead due to likely capping of domestic gas price and normalization of crude oil prices. Hence, we maintain a Hold rating on Oil India with a revised PT of Rs. 290 (reflects an upward revision in standalone earnings + higher value for listed investments). Decent yield of 6-7% limits material downside risk for Oil India. The stock trades (including earnings contribution from NRL) at 4.6x/4.2x 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 a key upside risk and continued ad-hoc cess rate, sharp decline in oil price and likely capping of domestic gas prices are downside risks.

Valuation (Standalone) Rs cr

Particulars	FY22	FY23	FY24E	FY25E
Revenue	14,530	23,273	21,961	20,603
OPM (%)	37.0%	41.6%	31.6%	39.9%
Adjusted PAT	3,887	6,810	4,688	5,580
y-o-y growth (%)	182.3	75.2	-31.2	19.0
Adjusted EPS (Rs.)	35.8	62.8	43.2	51.5
PE (x)	7.5	4.3	6.3	5.3
P/BV (x)	1.0	0.9	0.8	0.8
EV/EBDITA (x)	7.1	3.8	5.3	4.2
ROE (%)	13.9	21.2	13.2	14.8
ROCE (%)	13.3	20.8	14.2	15.9

Source: Company; Sharekhan estimates

Weak Q1 as oil & gas sales volume hit by NRL/BCPL shutdown

Q1FY24 standalone operating profit Rs. 2,329 crore (down 11.7% y-o-y; down 0.9% q-o-q) was 6% below our estimate of Rs. 2,477 crore due to weak oil/gas sales volume and marginally lower-than-expected net oil realisations, which offsets lower well write-off & provisions and a steep decline in forex loss. OIL's oil production rose by 5.3%/2.5% y-o-y/q-o-q to 0.82 mmt but sales volume disappointed with 2.2%/2.5% y-o-y/q-o-q decline to 0.75 mmt (91% of oil production) as volumes were impacted due to a shutdown of 75 days at Numaligarh Refinery Ltd (NRL) for maintenance and fire accident. Gas production/sales volume also plunged by 4.5%/7.2% q-o-q to 0.75 bcm/0.54 bcm given a shutdown at NRL and Brahmaputra Cracker and Polymer Limited (BCPL). Net oil realisations (post SAED) of $74.3/bbl (down 2.4% q-o-q) marginally lagged estimate and our backward calculation implies SAED of $2.3/bbl as compared to $5.2/bbl in Q4FY23. Oil EBIT was up 2% q-o-q to Rs. 1504 crore while gas EBIT declined sharply by 25% q-o-q to 619 crore. Standalone PAT at Rs. 1,613 crore (up 3.7% y-o-y, down 9.8% q-o-q) was 5% above our estimate as miss in operating profit was more than offset by higher other income and lower DD&A cost.

Results (Standalone) Rs cr

Particulars	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Revenue	**4,645**	**5,968**	**-22.2**	**5,650**	**-17.8**
Total Expenditure	2,316	3,331	-30.5	3,299	-29.8
Operating profit	**2,329**	**2,636**	**-11.7**	**2,351**	**-0.9**
Other Income	334	62	436.1	426	-22
Interest	166	204	-18.8	108	54.0
Depreciation	397	387	2.7	331	20.1
Reported PBT	**2,100**	**2,108**	**-0.4**	**2,338**	**-10.2**
Tax	486	552	-11.9	550	-11.6
Reported PAT	**1,613**	**1,555**	**3.7**	**1,788**	**-9.8**
Equity Cap (cr)	108	108		108	
Reported EPS (Rs.)	14.9	14.3	3.7	16.5	-9.8
Margins (%)			**BPS**		**BPS**
OPM	50.1	44.2	596.3	41.6	852.7
NPM	34.7	26.1	867.1	31.7	308.4
Tax rate	23.2	26.2	-304.1	23.5	-36.5

Source: Company, Sharekhan Research

Key operating metrics

Particulars	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Crude oil realisation ($/bbl)	76.6	112.7	-32.1%	81.3	-5.9%
SAED ($/bbl)	2.3	0	NA	5.2	-55.9%
Net crude oil realisation ($/bbl)	74.3	112.7	-34.1%	76.1	-2.4%
Gas price realisation ($/mmbtu)	6.5	6.1	6.6%	8.6	-24.2%
Oil production volume (mmt)	0.82	0.78	5.3%	0.80	2.5%
Oil sales volume (mmt)	0.75	0.76	-2.2%	0.77	-2.5%
Crude oil business EBIT (Rs. crore)	1504	2312	-35.0%	1474	2.0%
Gas production volume (bcm)	0.75	0.77	-3.4%	0.78	-4.5%
Gas sales volume (bcm)	0.54	0.59	-8.4%	0.59	-7.2%
Gas business EBIT (Rs. crore)	619	330	87.9%	824	-24.8%

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 & gas sector in the volatile crude oil price environment has raised concerns over the earnings outlook of upstream PSUs and is a divergence from the government's earlier intent of doing away with an oil subsidy mechanism. The government has introduced a windfall tax in the form of a 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.

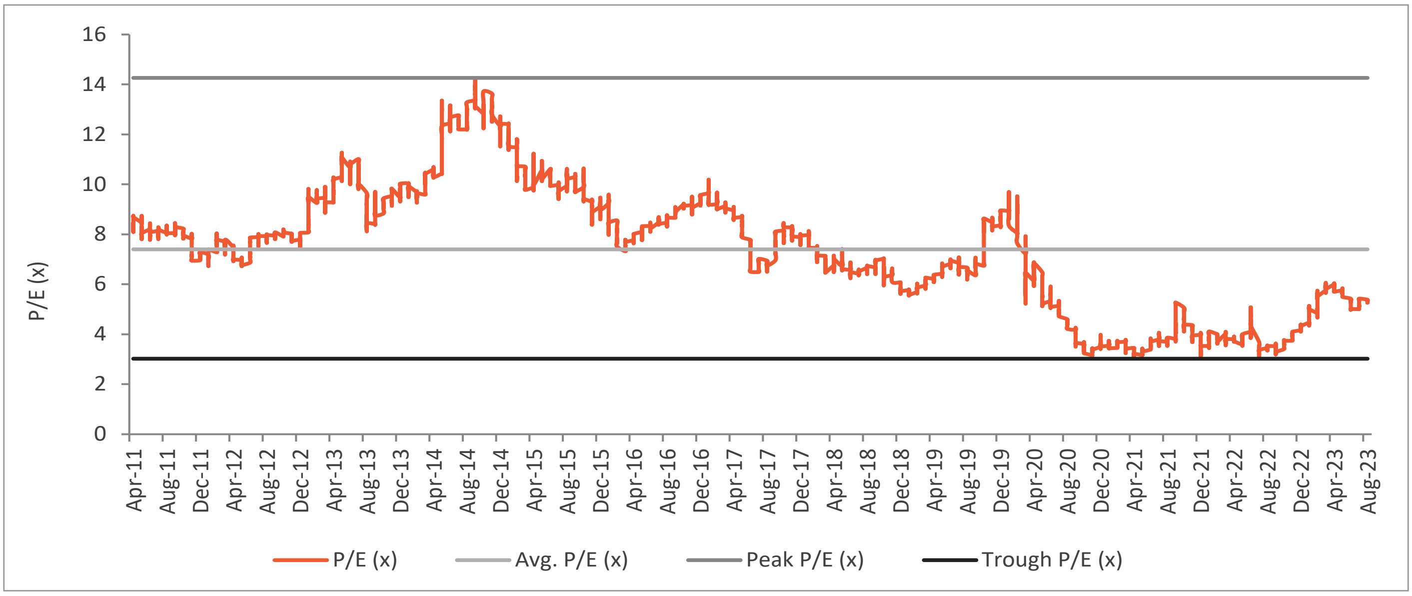
■ Company outlook - Muted earnings outlook

OIL's earnings outlook has been hit by a windfall tax (in the form of a higher cess) 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.

■ Valuation - Maintain Hold on OIL with a revised PT of Rs. 290

We believe that earnings for upstream PSUs have peak-out in FY23 and expected to decline sharply going ahead due to likely capping of domestic gas price and normalization of crude oil prices. Hence, we maintain a Hold rating on Oil India with a revised PT of Rs. 290 (reflects an upward revision in standalone earnings + higher value for listed investments). Decent yield of 6-7% limits material downside risk for Oil India. The stock trades (including earnings contribution from NRL) at 4.6x/4.2x 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 + overseas 2P (proved and probable) reserves of 1,736 mmboe (oil + gas) as of March 31, 2023.

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 price, 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 and likely capping of domestic gas price are downside risk.

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	10.53
2	Indian Oil Corp Ltd	4.93
3	FMR LLC	3.7
4	Bharat Petroleum Corp Ltd	2.47
5	Hindustan Petroleum Corp Ltd	2.47
6	Nippon Life India Asset Management	2.29
7	ICICI Prudential Asset Management	1.72
8	Fidelity Low-Priced Stock Fund	1.21
9	Vanguard Group Inc/The	0.97
10	BlackRock Inc	0.72

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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