



3R MATRIX

	+	=	-
Right Sector (RS)	Green	Grey with check	Red
Right Quality (RQ)	Green	Grey	Red
Right Valuation (RV)	Green	Grey	Red

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	Grey	↔	Grey
RQ	Green	↔	Green
RV	Green	↔	Green

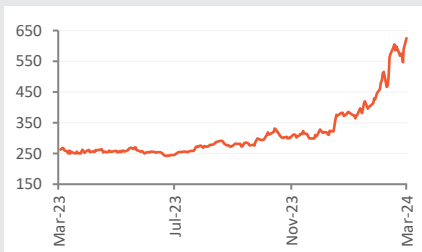
Company details

Market cap:	Rs. 67,748 cr
52-week high/low:	Rs. 639/241
NSE volume: (No of shares)	47.7 lakh
BSE code:	533106
NSE code:	OIL
Free float: (No of shares)	47.0 cr

Shareholding (%)

Promoters	56.7
FII	11.0
DII	16.0
Public & others	16.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	36.0	92.7	122.5	138.3
Relative to Sensex	33.1	86.1	110.2	115.6

Sharekhan Research, Bloomberg

Oil India Ltd

NRL not fully priced-in; upgrade to Buy

Oil & Gas	Sharekhan code: OIL		
Reco/View: Buy	↑	CMP: Rs. 625	Price Target: Rs. 755
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- Oil India Limited's (OIL) current market capitalisation does not fully reflect the value of Numaligarh Refinery Limited's (NRL's) expansion. The 3x expansion in refinery capacity to 9mtpa and high GRM (given excise benefit) would mean valuation of Rs. 34,017 crore for OIL's 70% stake in NRL. We upgrade OIL to Buy (from Hold) with increased PT of Rs. 755.
- Management expects oil/gas production to register a robust CAGR of 8%/26% over FY2024E-FY2026E, led by higher drilling activity. We have increased our FY2024-FY2026 earnings estimate by 3-16% to factor higher oil and gas production and lower operating cost.
- Stability in oil and gas realisation along with recovery in oil/gas production to drive 11% CAGR in standalone earnings over FY2024E-FY2026E. Consolidated earnings to benefit from NRL expansion.
- Valuation (including earnings contribution from NRL) of 6.8x FY2026E EPS seems reasonable, and the stock offers a healthy dividend yield of 3-4%. The valuation would look further attractive if we include incremental earnings from NRL expansion. A potential IPO for NRL could unlock value for investors going forward.

We see a risk-reward scenario turning favourable for Oil India Limited (OIL), given: 1) a healthy earnings outlook for the core oil and gas E&P business, led by a likely increase in oil and gas production over FY25-26 and 2) potential value creation from NRL's expansion to 9mtpa (from 3mtpa currently). The stock is available at a reasonable valuation of 6.8x its FY2026E EPS (including earnings from NRL's exiting 3mtpa capacity). The stock would look further attractive if we include potential incremental earnings from NRL's expansion. We upgrade OIL to Buy (from Hold).

- NRL capacity expansion – To create significant long-term value:** NRL is undergoing expansion (expected to be commissioned in September 2025) of its refining capacity to 9mtpa (from 3mtpa currently) at an estimated capex of Rs. 28,000 crore. NRL's reported GRMs are high at \$25-30/bbl, given excise duty benefit (of \$15-20/bbl) and the company reported EBITDA of Rs. 5,319 crore in FY2023. We estimate NRL's EBITDA could almost double with an annual EBITDA potential of >Rs. 9,000 crore post expansion and could generate a meaningful long-term value for OIL. At 6x EBITDA less net debt, we arrive at an equity valuation of Rs. 34,017 crore (or Rs. 314/share) for OIL's 70% stake in NRL.
- Implied NRL value is at a steep discount to our valuation:** Excluding the value of the core E&P business and investments, OIL's current market capitalisation of Rs. 67,748 crore implies a NRL value of just Rs. 18,785 crore, which is at only 55% of our valuation of Rs. 34,017 crore (for OIL's 70% stake in NRL). Thus, OIL's market capitalisation does not fully reflect the value of NRL's expansion to 9mtpa and the same provides an opportunity for investors to enter the stock.
- Core E&P business to benefit from higher oil and gas production:** OIL, in its recent analyst conference call, had guided for oil production of 3.4mmt/3.8mmt/4mmt for FY2024/FY2025/FY2026 and gas production guidance at 3.8-3.9bcm for FY2025 and expects it to further rise to 5bcm in FY2026. This implies an oil/gas production CAGR of 8%/26% over FY2024E-FY2026E.

Our Call

Valuation – Upgrade OIL to Buy with a revised PT of Rs. 755: The current oil/gas price regulations provide earnings/cashflow visibility, while NRL expansion would create a long-term value for OIL. Moreover, the valuation (including earnings contribution from NRL) of 6.8x its FY2026E EPS seems reasonable, and the stock offers a healthy dividend yield of 3-4%. The valuation would look further attractive if we include incremental earnings from NRL expansion. A potential IPO for NRL could unlock value for investors going forward. Hence, we upgrade OIL to Buy (from Hold) with an increased price target (PT) of Rs. 755 (reflects higher value for NRL).

Key Risks

A sharp decline in international oil and 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. Delay in commissioning of capacity expansion at NRL could impact earnings/valuation.

Valuation (Standalone)

	Rs cr				
Particulars	FY22	FY23	FY24E	FY25E	FY26E
Revenue	14,530	23,273	22,359	20,983	22,375
OPM (%)	37.0	41.6	38.5	46.6	46.5
Adjusted PAT	3,887	6,810	5,843	6,728	7,168
y-o-y growth (%)	182.3	75.2	-14.2%	15.1	6.5
Adjusted EPS (Rs.)	35.8	62.8	53.9	62.0	66.1
PE (x)	17.4	9.9	11.6	10.1	9.5
P/BV (x)	2.3	2.0	1.8	1.7	1.5
EV/EBDITA (x)	14.3	7.8	8.4	7.1	6.4
ROE (%)	13.9	21.2	16.3	17.2	16.8
ROCE (%)	13.3	20.8	17.2	18.3	18.2

Source: Company; Sharekhan estimates

NRL capacity expansion – To create significant value; we estimate the value of Rs. 314/share for OIL

NRL plans to increase its refining capacity to 9mtpa (from 3mtpa currently) along with a petrochemical complex with an estimated capex of Rs. 28,000 crore, and the expansion is scheduled to be completed by September 2025. Given the excise duty benefit, we estimate NRL's EBITDA/PAT to increase by 4x/3x to Rs. 13,504 crore/Rs. 7,884 crore by FY2027E as compared to Rs. 3,562 crore/Rs. 2,492 crore in FY2024E. Sustained high profitability and expansion at NRL would create long-term value for OIL.

OIL's current market capitalisation does not fully reflect the value of NRL's expansion. The 3x expansion in refinery capacity to 9mtpa and high GRM (given excise benefit) would mean a valuation of Rs. 34,017 crore for OIL's 70% stake in NRL.

NRL profitability to remain strong over FY2025E-FY2027E

Particulars	FY22	FY23	FY24E	FY25E	FY26E	FY27E
Capacity (mmt)	3.0	3.0	3.0	3.0	9.0	9.0
Utilisation	87%	103%	85%	100%	60%	95%
Throughput (mmt)	2.6	3.1	2.6	3.0	5.4	8.6
Reported GRM (\$/bbl)	43.5	35.8	29.0	31.0	31.0	31.0
Excise duty benefit (\$/bbl)	29.1	16.0	16.0	16.0	16.0	16.0
Core GRM (\$/bbl)	14.3	19.9	13.0	15.0	15.0	15.0
EBITDA (Rs. crore)	5,053	5,205	3,562	4,738	8,529	13,504
PAT (Rs. crore)	3,614	3,707	2,492	3,371	4,152	7,884

Source: NRL; Sharekhan Research

OIL's mcap does not reflect full value of NRL's expansion

Particulars	Rs crore
Oil India current market capitalisation	67,748
Value of core E&P business (6x FY26E EPS)	43009
Value of investments	5955
Implied value of NRL	18,785
Our NRL value post capacity expansion	34017

Source: Sharekhan Research

NRL (9mtpa) valuation

Particulars	Amount
EBITDA (Rs crore)	13,504
EV/EBITDA (x)	6
EV (Rs crore)	81,022
Net debt (Rs crore)	32,168
NRL equity value (Rs crore)	48,854
OIL share (70% stake) – Rs crore	34,017
Value per share for OIL (Rs./share)	314

Source: 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 crude oil price environment have raised concerns over the earnings outlook of upstream PSUs and are 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 the current ad valorem effective cess rate of 16.67% on the realised oil price for upstream PSUs. Additionally, a cap of \$6.5/mmbtu on domestic gas prices would further limit earnings growth for upstream PSUs.

■ Company Outlook – Expect healthy earnings growth

OIL's management has given robust oil and gas production CAGR guidance of 8%/26% over FY2024E-FY2026E along with a stable oil and gas realisation environment. Higher volume and likely gradual improvement in the gas prices would drive a healthy 11% PAT CAGR over FY2024E-FY2026E for OIL.

■ Valuation – Upgrade OIL to Buy with a revised PT of Rs. 755

The current oil/gas price regulations provide earnings/cashflow visibility, while NRL expansion would create a long-term value for OIL. Moreover, the valuation (including earnings contribution from NRL) of 6.8x its FY2026E EPS seems reasonable, and the stock offers a healthy dividend yield of 3-4%. The valuation would look further attractive if we include incremental earnings from NRL expansion. A potential IPO for NRL could unlock value for investors going forward. Hence, we upgrade OIL to Buy (from Hold) with an increased price target (PT) of Rs. 755 (reflects higher value for 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. Over 95% of OIL's production comes from its upper Assam basin. The company holds domestic + overseas 2P (proved and probable) reserves of 1,736 mmbob (oil + gas) as of March 31, 2023.

Investment theme

Management's robust oil and gas production guidance bode well for earnings growth of core E&P business. OIL's plan for 3x capacity expansion for NRL would create significant value for its shareholders and OIL's current market capitalization does not fully reflect the value for NRL post expansion. The stock is available at reasonable valuation and offers healthy dividend yield.

Key Risks

A sharp decline in international oil and 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. Delay in commissioning of capacity expansion at NRL could impact earnings/valuation.

Additional Data

Key management personnel

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

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	8.3
2	FMR LLC	2.3
3	Nippon Life India Asset Management	2.1
4	ICICI Prudential Asset Management	1.7
5	Vanguard Group Inc/The	1.2
6	UTI Asset Management	1.1
7	WisdomTree	0.9
8	HSBC Asset Management	0.5
9	Mahindra Manulife Investment	0.4
10	BlackRock Inc	0.3

Source: Bloomberg

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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 deteriorating 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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