

BUY

TP: Rs 260 | ▲ 57%

OIL INDIA

Oil & Gas

10 November 2019

Operationally strong

Oil India's (OINL) Q2 FY20 earnings at Rs 6.2bn (-27% YoY) was below estimates. Key highlights: (a) EBITDA at Rs12.4 bn (-16% YoY) was above estimates on low operating costs (at ~US\$6.3/bbl), (b) Oil (0.79 mmt, -4.9% YoY) and Gas (0.66 bcm, +2.5% YoY) sales volumes were in-line. We maintain FY20/FY21 EPS at Rs 37.4/Rs39.9 and production estimates. Our Sept'21 TP remains unchanged at Rs 260. Valuations remain undemanding at 4.4x/4.1x FY21/22E EPS, offering ~8% dividend yields. Maintain BUY.

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Volumes remain a drag: OINL's oil production continues to decline (0.82 mmt, -4.7% YoY), while gas remains robust (0.75 bcm, +1.8% YoY). Oil production continues to trend well below management's earlier guidance of oil production at 3.66mmt. However, gas production remains well in-line with the guidance of 3.02bcm for FY20. Oil price realisation at US\$61/bbl (at nil subsidies), while Brent's average price for the quarter was at US\$62. Gas production however continues to buck the trend, while realisation too improved to Rs 8.05/scm.

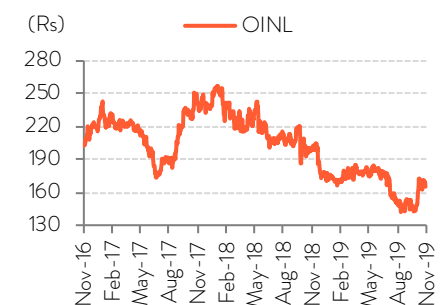
EBITDA beat on low operating costs: OINL's operating costs came in much lower than estimates at US\$6.3/bbl in Q2 FY20 (Vs est. US\$9/bbl). Costs are trending well below our estimates of US\$9/bbl for FY21/22 (US\$7/bbl for H1 FY20).

Undemanding valuations, maintain BUY: OINL's current valuations, at 4.1x FY22E, imply Brent at ~US\$ 48/bbl levels, offers an unjustifiably steep discount to spot oil prices (US\$ 62/bbl). Additionally, dividend yields at ~8.3% for FY20E makes valuations look extremely attractive. OINL seems to be pricing in the worst case.

| | |
|------------------|----------------|
| Ticker/Price | OINL IN/Rs 166 |
| Market cap | US\$ 2.5bn |
| Shares o/s | 1,084mn |
| 3M ADV | US\$ 2.8mn |
| 52wk high/low | Rs 207/Rs 140 |
| Promoter/FPI/DII | 62%/5%/34% |

Source: NSE

STOCK PERFORMANCE



KEY FINANCIALS

| Y/E 31 Mar | FY18A | FY19A | FY20E | FY21E | FY22E |
|-------------------------|----------|----------|----------|----------|----------|
| Total revenue (Rs mn) | 1,06,565 | 1,37,350 | 1,42,263 | 1,58,444 | 1,71,003 |
| EBITDA (Rs mn) | 41,013 | 54,838 | 57,623 | 65,202 | 70,706 |
| Adj. net profit (Rs mn) | 26,679 | 32,693 | 35,282 | 40,556 | 43,261 |
| Adj. EPS (Rs) | 24.6 | 30.1 | 32.5 | 37.4 | 39.9 |
| Adj. EPS growth (%) | 12.1 | 22.5 | 7.9 | 14.9 | 6.7 |
| Adj. ROAE (%) | 9.4 | 11.8 | 12.3 | 13.3 | 13.3 |
| Adj. P/E (x) | 6.7 | 5.5 | 5.1 | 4.4 | 4.1 |
| EV/EBITDA (x) | 5.0 | 4.1 | 3.3 | 3.6 | 3.5 |

Source: Company, BOBCAPS Research

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Important disclosures, including any required research certifications, are provided at the end of this report.



FIG 1 – QUARTERLY PERFORMANCE

| Y/E March (Rs mn) | Q2FY20 | Q2FY19 | YoY (%) | Q1FY20 | QoQ (%) | H1FY20 | H1FY19 | YoY (%) |
|-------------------------------|----------------|---------------|----------------|---------------|--------------|---------------|---------------|---------------|
| Net sales | 32,136 | 37,436 | (14.2) | 33,734 | (4.7) | 65,870 | 71,340 | (7.7) |
| Employee cost | 5,480 | 3,988 | 37.4 | 4,545 | 20.6 | 10,025 | 7,418 | 35.2 |
| % of sales | 17.1 | 10.7 | - | 13.5 | - | 15.2 | 10.4 | - |
| Other expenditure | 14,227 | 18,702 | (23.9) | 15,657 | (9.1) | 28,503 | 35,093 | (18.8) |
| % of sales | 44.3 | 50.0 | - | 46.4 | - | 43.3 | 49.2 | - |
| EBITDA | 12,429 | 14,746 | (15.7) | 13,532 | (8.2) | 27,342 | 28,830 | (5.2) |
| EBITDA margin (%) | 38.7 | 39.4 | - | 40.1 | - | 41.5 | 40.4 | - |
| Depreciation and amortisation | 4,154 | 3,656 | 13.6 | 3,994 | 4.0 | 8,148 | 7,028 | 15.9 |
| Interest | 1,208 | 1,257 | (3.9) | 1,235 | (2.1) | 2,443 | 2,381 | 2.6 |
| Other income | 2,679 | 2,878 | (6.9) | 1,227 | 118.3 | 3,907 | 4,146 | (5.8) |
| PBT | 9,746 | 12,712 | (23.3) | 9,530 | 2.3 | 20,657 | 23,567 | (12.3) |
| Provision for tax | 3,473 | 4,092 | 15.1 | 3,282 | 5.8 | 6,756 | 7,915 | (14.6) |
| Adj. PAT | 6,272 | 8,620 | (27.2) | 6,248 | 0.4 | 13,902 | 15,652 | (11.2) |
| Other comprehensive income | (9,094) | (1,119) | - | (3,107) | - | - | (10,137) | - |
| Total Income | (2,822) | 7,501 | (137.6) | 3,141 | 189.8 | 13,902 | 5,515 | 152.1 |
| NPM (%) | 19.5 | 23.0 | - | 18.5 | - | 21.1 | 21.9 | - |
| Adj. EPS (Rs) | 5.8 | 7.6 | (23.8) | 5.8 | 0.4 | 12.8 | 13.8 | (7.0) |

Source: Company, BOBCAPS Research

FIG 2 – PRODUCTION DETAILS

| | Q2FY20 | Q2FY19 | YoY (%) | Q1FY20 | QoQ (%) | H1FY20 | H1FY19 | YoY (%) |
|----------------------|-------------|-------------|--------------|-------------|------------|-------------|-------------|--------------|
| Production | | | | | | | | |
| Oil (mmt) | 0.82 | 0.86 | (4.7) | 0.81 | 0.4 | 1.63 | 1.70 | (4.2) |
| Gas (bcm) | 0.75 | 0.73 | 1.8 | 0.71 | 4.9 | 1.46 | 1.43 | 2.0 |
| Total (mmtoe) | 1.56 | 1.59 | (1.7) | 1.53 | 2.5 | 3.09 | 3.13 | (1.9) |

Source: Company, BOBCAPS Research

FIG 3 – VOLUME AND REALISATION SNAPSHOT

| | Q2FY20 | Q2FY19 | YoY (%) | Q1FY20 | QoQ (%) | H1FY20 | H1FY19 | YoY (%) |
|----------------------------|--------|--------|---------|--------|---------|--------|--------|---------|
| Crude Oil | | | | | | | | |
| Sales Volume (mmt) | 0.79 | 0.83 | (4.9) | 0.80 | (1.0) | 1.58 | 1.64 | (3.6) |
| Revenues (Rs million) | 24,091 | 30,288 | (20.5) | 26,042 | (7.5) | 48,150 | 57,961 | (16.9) |
| Oil realisation (US\$/bbl) | 61.1 | 73.3 | (16.7) | 66.1 | (7.7) | 61.5 | 72.6 | (15.3) |
| Natural Gas | | | | | | | | |
| Sales Volume (bcm) | 0.66 | 0.65 | 2.5 | 0.61 | 7.8 | 1.27 | 1.24 | 2.6 |
| Revenues (Rs million) | 5,323 | 4,119 | 29.2 | 4,851 | 9.7 | 9,704 | 7,765 | 25.0 |
| Gas realisation (Rs/scm) | 8.05 | 6.39 | 26.1 | 7.91 | 1.8 | 7.98 | 6.25 | 27.7 |
| Volume (mmscmd) | 7.18 | 7.01 | 2.5 | 6.74 | 6.7 | 4.63 | 4.52 | 2.6 |

Source: Company, BOBCAPS Research

Valuation methodology

We maintain FY20/FY21 EPS at Rs 37.4/Rs39.9 and production estimates. Our Sept'21 TP remains unchanged at Rs 260. Valuations remain undemanding at 4.4x/4.1x FY21/22E EPS, offering ~8% dividend yields.

OINL's current valuations, at 4.1x FY22E, imply Brent at ~US\$ 48/bbl levels, offers an unjustifiably steep discount to spot oil prices (US\$ 62/bbl). Additionally, dividend yields at ~8.3% for FY20E makes valuations look extremely attractive. OINL seems to be pricing in the worst case.

We arrive at our SOTP-based target price as follows:

- Consolidated cash earnings valued at 3.5x Sept'21E,
- Reserve upsides from high-potential international E&P assets (Mozambique) valued at an EV/boe of US\$ 2/bbl (adjusted for debt, especially Mozambique),
- Numaligarh refinery (26% stake) valued at 6x Sept'21E EBITDA,
- LPG production and transportation businesses 6x Sept'21E EBITDA, and
- Investment in IOCL valued at 20% discount to CMP (net of costs).

FIG 4 – VALUATION SUMMARY

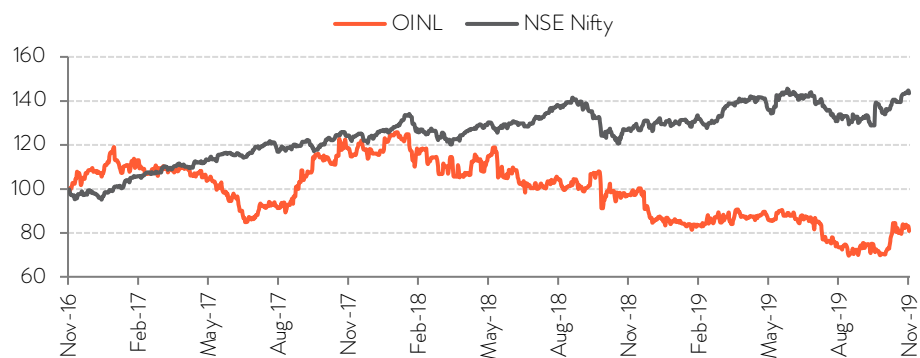
| Particulars | Value (Rs mn) | Value (Rs/sh) | Comments |
|--------------------------------|----------------|---------------|--|
| Core business value | 199,063 | 184 | 4x Sept'21E cash earnings |
| Reserve upsides | 56,516 | 52 | Overall EV/boe of US\$ 2/bbl on P2 potential reserves net to OINL (Area 1 Mozambique and Tomsk region) |
| LPG business EV | 8,658 | 8 | 6x Sept'21E EBITDA |
| Transportation Business EV | 26,229 | 24 | 6x Sept'21E EBITDA |
| Investment in IOCL | 30,173 | 28 | 20% discount to CMP |
| Numaligarh refinery stake EV | 11,975 | 11 | 6x Sept'21E EBITDA |
| Net debt | 54,107 | 50 | Consolidated debt |
| OINL total equity value | 278,507 | 260 | Implies ~7x FY21E EPS @ US\$ 70/bbl oil) |

Source: BOBCAPS Research

FIG 5 – KEY ASSUMPTIONS

| | FY20E | FY21E | FY21E |
|-----------------------------|-------|-------|-------|
| USD/INR | 72.0 | 74.0 | 74.0 |
| Crude oil prices (US\$/bbl) | 65.0 | 70.0 | 75.0 |
| Subsidy (Rs mn) | - | - | - |
| Oil production (mmt) | 3.32 | 3.35 | 3.39 |
| Gas production (bcm) | 2.84 | 2.88 | 2.91 |
| Gas prices (US\$/mmbtu) | 4.23 | 4.55 | 4.88 |

Source: BOBCAPS Research

FIG 6 – RELATIVE STOCK PERFORMANCE

Source: NSE

Key risks

Key downside risks to our estimates are:

- lower-than-expected growth in oil and gas production, and
- above-expected subsidies, in the wake of rising oil prices, which could impact earnings and multiples

FINANCIALS

Income Statement

| Y/E 31 Mar (Rs mn) | FY18A | FY19A | FY20E | FY21E | FY22E |
|--------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Total revenue | 1,06,565 | 1,37,350 | 1,42,263 | 1,58,444 | 1,71,003 |
| EBITDA | 41,013 | 54,838 | 57,623 | 65,202 | 70,706 |
| Depreciation | (14,600) | (14,963) | (18,473) | (20,032) | (21,529) |
| EBIT | 26,413 | 39,875 | 39,149 | 45,170 | 49,177 |
| Net interest income/(expenses) | (4,157) | (4,795) | (6,540) | (8,067) | (9,167) |
| Other income/(expenses) | 14,842 | 14,350 | 14,560 | 17,116 | 17,826 |
| Exceptional items | 0 | (10,267) | 0 | 0 | 0 |
| EBT | 37,098 | 49,430 | 47,169 | 54,220 | 57,836 |
| Income taxes | (10,419) | (13,261) | (11,887) | (13,663) | (14,575) |
| Reported net profit | 26,679 | 25,902 | 35,282 | 40,556 | 43,261 |
| Adjusted net profit | 26,679 | 32,693 | 35,282 | 40,556 | 43,261 |

Balance Sheet

| Y/E 31 Mar (Rs mn) | FY18A | FY19A | FY20E | FY21E | FY22E |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Accounts payables | 5,533 | 6,415 | 8,116 | 8,941 | 9,618 |
| Other current liabilities | 35,206 | 60,018 | 60,018 | 60,018 | 60,018 |
| Provisions | 12,464 | 23,973 | 16,232 | 17,882 | 19,235 |
| Debt funds | 73,656 | 72,668 | 72,668 | 88,668 | 94,668 |
| Other liabilities | 34,390 | 34,127 | 35,070 | 36,154 | 37,311 |
| Equity capital | 7,566 | 10,844 | 10,844 | 10,844 | 10,844 |
| Reserves & surplus | 2,71,528 | 2,66,321 | 2,84,330 | 3,04,701 | 3,26,432 |
| Shareholders' fund | 2,79,094 | 2,77,165 | 2,95,174 | 3,15,545 | 3,37,276 |
| Total liabilities and equities | 4,40,342 | 4,74,366 | 4,87,279 | 5,27,209 | 5,58,125 |
| Cash and cash eq. | 30,926 | 61,358 | 16,033 | 23,620 | 24,922 |
| Accounts receivables | 14,078 | 13,135 | 15,283 | 17,052 | 18,424 |
| Inventories | 10,783 | 12,199 | 16,811 | 18,757 | 20,266 |
| Other current assets | 27,221 | 33,978 | 33,978 | 33,978 | 33,978 |
| Investments | 2,27,856 | 2,20,029 | 2,20,029 | 2,20,029 | 2,20,029 |
| Net fixed assets | 1,02,720 | 1,00,608 | 1,38,717 | 1,58,894 | 1,78,678 |
| CWIP | 26,760 | 33,059 | 46,427 | 54,879 | 61,829 |
| Total assets | 4,40,342 | 4,74,366 | 4,87,279 | 5,27,209 | 5,58,125 |

Source: Company, BOBCAPS Research

Cash Flows

| Y/E 31 Mar (Rs mn) | FY18A | FY19A | FY20E | FY21E | FY22E |
|-------------------------------------|-----------------|-----------------|-------------------|-----------------|-----------------|
| Net income + Depreciation | 40,074 | (36,083) | 1,16,471 | 52,742 | 57,014 |
| Changes in working capital | 7,125 | 29,973 | (12,800) | (1,240) | (851) |
| Other operating cash flows | (11,247) | (4,346) | (13,616) | (16,032) | (16,669) |
| Cash flow from operations | 35,952 | (10,457) | 90,055 | 35,470 | 39,494 |
| Capital expenditures | (22,630) | 57,798 | (1,32,665) | (40,814) | (40,487) |
| Change in investments | (8,352) | 7,827 | 0 | 0 | 0 |
| Other investing cash flows | 14,842 | 14,350 | 14,560 | 17,116 | 17,826 |
| Cash flow from investing | (16,140) | 79,975 | (1,18,106) | (23,698) | (22,661) |
| Equities issued/Others | (449) | 3,278 | 0 | 0 | 0 |
| Debt raised/repaid | (15,820) | (988) | 0 | 16,000 | 6,000 |
| Dividends paid | (13,631) | (12,891) | (17,560) | (20,185) | (21,531) |
| Other financing cash flows | (9,583) | (28,485) | 287 | 0 | 0 |
| Cash flow from financing | (54,310) | (39,086) | (17,273) | (4,185) | (15,531) |
| Changes in cash and cash eq. | (34,498) | 30,432 | (45,325) | 7,587 | 1,302 |
| Closing cash and cash eq. | 30,926 | 61,358 | 16,033 | 23,620 | 24,922 |

Per Share

| Y/E 31 Mar (Rs) | FY18A | FY19A | FY20E | FY21E | FY22E |
|----------------------|-------|-------|-------|-------|-------|
| Reported EPS | 24.6 | 23.9 | 32.5 | 37.4 | 39.9 |
| Adjusted EPS | 24.6 | 30.1 | 32.5 | 37.4 | 39.9 |
| Dividend per share | 15.0 | 10.2 | 13.8 | 15.9 | 17.0 |
| Book value per share | 368.9 | 255.6 | 272.2 | 291.0 | 311.0 |

Valuations Ratios

| Y/E 31 Mar (x) | FY18A | FY19A | FY20E | FY21E | FY22E |
|----------------|-------|-------|-------|-------|-------|
| EV/Sales | 1.9 | 1.6 | 1.3 | 1.5 | 1.4 |
| EV/EBITDA | 5.0 | 4.1 | 3.3 | 3.6 | 3.5 |
| Adjusted P/E | 6.7 | 5.5 | 5.1 | 4.4 | 4.1 |
| P/BV | 0.4 | 0.6 | 0.6 | 0.6 | 0.5 |

DuPont Analysis

| Y/E 31 Mar (%) | FY18A | FY19A | FY20E | FY21E | FY22E |
|---------------------------------|-------|-------|-------|-------|-------|
| Tax burden (Net profit/PBT) | 71.9 | 83.5 | 74.8 | 74.8 | 74.8 |
| Interest burden (PBT/EBIT) | 140.5 | 98.2 | 120.5 | 120.0 | 117.6 |
| EBIT margin (EBIT/Revenue) | 24.8 | 29.0 | 27.5 | 28.5 | 28.8 |
| Asset turnover (Revenue/Avg TA) | 23.8 | 30.0 | 29.6 | 31.2 | 31.5 |
| Leverage (Avg TA/Avg Equity) | 1.6 | 1.6 | 1.7 | 1.7 | 1.7 |
| Adjusted ROAE | 9.4 | 11.8 | 12.3 | 13.3 | 13.3 |

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

| Y/E 31 Mar | FY18A | FY19A | FY20E | FY21E | FY22E |
|--|-------|-------|-------|-------|-------|
| YoY growth (%) | | | | | |
| Revenue | 12.1 | 28.9 | 3.6 | 11.4 | 7.9 |
| EBITDA | 21.5 | 33.7 | 5.1 | 13.2 | 8.4 |
| Adjusted EPS | 12.1 | 22.5 | 7.9 | 14.9 | 6.7 |
| Profitability & Return ratios (%) | | | | | |
| EBITDA margin | 38.5 | 39.9 | 40.5 | 41.2 | 41.3 |
| EBIT margin | 24.8 | 29.0 | 27.5 | 28.5 | 28.8 |
| Adjusted profit margin | 25.0 | 23.8 | 24.8 | 25.6 | 25.3 |
| Adjusted ROAE | 9.4 | 11.8 | 12.3 | 13.3 | 13.3 |
| ROCE | 5.2 | 7.5 | 8.2 | 8.8 | 8.8 |
| Working capital days (days) | | | | | |
| Receivables | 41 | 36 | 36 | 37 | 38 |
| Inventory | 83 | 65 | 81 | 90 | 92 |
| Payables | 32 | 26 | 31 | 33 | 34 |
| Ratios (x) | | | | | |
| Gross asset turnover | 0.5 | 0.8 | 0.7 | 0.6 | 0.5 |
| Current ratio | 1.6 | 1.3 | 1.0 | 1.1 | 1.1 |
| Net interest coverage ratio | 6.4 | 8.3 | 6.0 | 5.6 | 5.4 |
| Adjusted debt/equity | 0.2 | 0.0 | 0.2 | 0.2 | 0.2 |

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

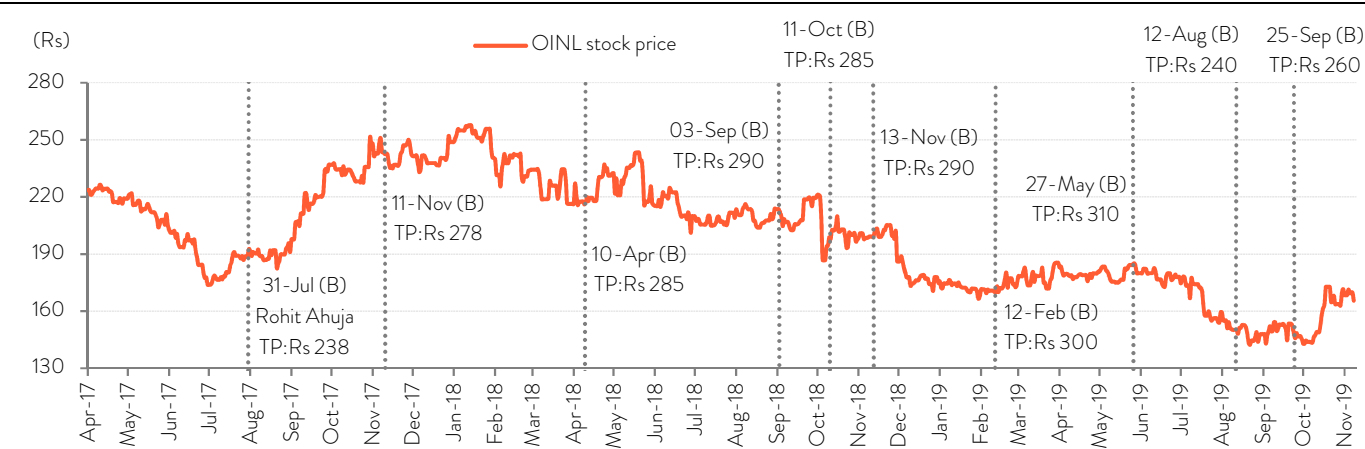
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

HISTORICAL RATINGS AND TARGET PRICE: OIL INDIA (OINL IN)



B – Buy, A – Add, R – Reduce, S – Sell

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