

REDUCE

TP: Rs 92 | ▼ 4%

OIL INDIA

Oil & Gas

29 June 2020

Gloomy outlook – cut to REDUCE

Oil India's (OINL) Q4FY20 earnings at Rs 9.2bn were boosted by one-off tax writebacks and refunds. Key highlights: (a) EBITDA loss of Rs 11bn due to Rs 17bn in exceptional impairment provisions (ex-provisions, operating cost still high at US\$ 10.7/bbl), (b) sales volume underperformed for both oil (0.75mmt, -3.7% YoY) and gas (0.53bcm, -14.4% YoY). We cut FY21/FY22 earnings by 76%/43, revise our Mar'21 TP to Rs 92 (vs. Rs 130), and downgrade from BUY to REDUCE on full valuations at 11.6x FY22E. Low oil prices remain a key worry.

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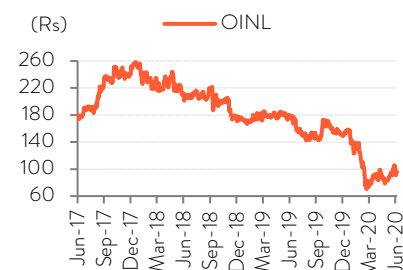
Operating costs elevated: OINL's operating costs were well above estimates at US\$ 10.7/bbl (ex-impairment provisions). Recent disruptions in the Baghjan area of Assam due to floods could lead to additional restoration costs of Rs 1.5bn-2bn in H1FY21. This will keep operating costs elevated through FY21, while also marginally disrupting volumes. We accordingly recalibrate our cost assumptions for FY21/FY22 to US\$ 9/bbl each, which underpins our earnings downgrade (further exaggerated by low oil prices)

Ticker/Price	OINL IN/Rs 96
Market cap	US\$ 1.4bn
Shares o/s	1,084mn
3M ADV	US\$ 2.8mn
52wk high/low	Rs 182/Rs 64
Promoter/FPI/DII	57%/7%/37%

Source: NSE

Volume disruptions remain a drag: OINL's oil/gas production continues to decline – down 3.4%/8.3% YoY to 0.76mmt/0.65bcm in Q4. With repeated disruptions afflicting its producing assets in the state of Assam (political turmoil, natural calamities), the company may struggle to maintain current levels of production over FY21-FY22. We accordingly cut our oil and gas production/sales estimates by ~5% each over this period.

STOCK PERFORMANCE



Source: NSE

Upsides capped – cut to REDUCE: OINL's current valuations at 11.6x FY22E EPS look elevated in the wake of rising concerns on production and operating costs. Low oil prices are a primary worry and hence earnings recovery may remain elusive. Post earnings revision, our Mar'21 TP stands revised to Rs 92 (from Rs 130) and we downgrade the stock to REDUCE (from BUY).

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	106,565	137,350	121,285	81,572	105,283
EBITDA (Rs mn)	41,013	54,838	25,905	16,007	29,722
Adj. net profit (Rs mn)	26,679	36,169	21,662	1,629	8,844
Adj. EPS (Rs)	24.6	33.4	20.0	1.5	8.2
Adj. EPS growth (%)	12.1	35.6	(40.1)	(92.5)	443.0
Adj. ROAE (%)	9.4	13.0	8.3	0.7	3.6
Adj. P/E (x)	3.9	2.9	4.8	63.7	11.7
EV/EBITDA (x)	2.7	2.5	5.0	8.5	6.4

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

Y/E March (Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Net sales	25,896	30,869	(16.1)	29,520	(12.3)	121,285	137,350	(11.7)
Employee cost	4,366	4,217	3.5	4,603	(5.2)	18,994	15,765	20.5
% of sales	16.9	13.7	-	15.6	-	15.7	11.5	-
Other expenditure	32,544	15,859	105.2	13,957	133.2	76,386	64,664	18.1
% of sales	125.7	51.4	-	47.3	-	63.0	47.1	-
EBITDA	(11,014)	10,793	-	10,960	-	25,905	56,920	(54.5)
EBITDA margin (%)	(42.5)	35.0	-	37.1	-	21.4	41.4	-
Depreciation and amortisation	2,528	4,241	(40.4)	4,243	(40.4)	14,918	14,963	(0.3)
Interest	1,327	1,198	10.8	1,218	9.0	4,988	4,795	4.0
Other income	9,942	4,192	137.1	1,354	634.3	15,202	14,350	5.9
PBT	(4,928)	9,546	-	6,853	-	21,201	51,512	(58.8)
Non-recurring items		10,268	-	-	-	4,179	10,268	-
Provision for tax	(14,184)	1,363	1,140.4	2,789	-	(4,640)	13,261	-
Reported PAT	9,256	18,450	(49.8)	4,064	127.8	25,841	38,252	(32.4)
Adjusted PAT	9,256	8,183	13.1	4,064	127.8	21,662	27,984	(22.6)
Other comprehensive income	(20,785)	14,233	-	(10,794)	-	(43,780)	(2,978)	-
Total Income	(11,529)	22,416	-	(6,730)	(71.3)	(22,119)	25,006	-
NPM (%)	35.7	26.5	-	13.8	-	17.9	20.4	-
Adj. EPS (Rs)	8.5	7.5	13.1	3.7	127.8	20.0	24.7	(19.0)

Source: Company, BOBCAPS Research

FIG 2 – PRODUCTION VOLUMES

	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Oil (mmt)	0.76	0.79	(3.4)	0.75	1.5	3.13	3.32	(5.7)
Gas (bcm)	0.65	0.70	(8.3)	0.70	(7.6)	2.80	2.87	(2.2)
Total (mmtoe)	1.40	1.49	(5.7)	1.45	(2.9)	5.94	6.19	(5.7)

Source: Company, BOBCAPS Research

FIG 3 – VOLUME AND REALISATION SNAPSHOT

	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Crude Oil								
Sales Volume (mmt)	0.75	0.78	(3.7)	0.73	3.0	3.06	3.23	(5.3)
Revenues (Rs mn)	20,067	23,914	(16.1)	23,197	(13.5)	93,397	109,560	(14.8)
Oil realisation (US\$/bbl)	52.3	61.6	(15.1)	63.3	(17.4)	60.8	68.4	(11.2)
Natural Gas								
Sales Volume (bcm)	0.53	0.62	(14.4)	0.60	(11.2)	2.40	2.51	(4.2)
Revenues (Rs mn)	3,808	4,487	(15.1)	4,179	(8.9)	17,502	16,990	3.0
Gas realisation (Rs/scm)	7.17	7.24	(0.9)	6.99	2.6	7.53	6.77	11.3
Volume (mmscmd)	5.77	6.74	(14.4)	6.57	(12.2)	8.74	9.12	(4.2)

Source: Company, BOBCAPS Research

FIG 4 – ADJUSTED PAT FOR FY20

Particulars	(Rs mn)
Reversal of DTL on adoption of NTR	8,210
Reversal (settlement of income tax disputes)	3,534
Impairment in international assets	12,292
Impairment in domestic assets	4,578
Favourable court decision refund	9,305
Reported PAT	25,841
Adjusted PAT	21,661

Source: Company, BOBCAPS Research

Earnings call highlights

- About 1% of OINL's total gas production was affected by the recent floods in Baghjan (Assam).
- Baghjan contributes less than 2-3% of total gas production and 10-12% of total oil production for the company. However, OINL believes the region harbours potential to contribute over 40% of its gas production over 5-10 years.
- P1 reserves increased by ~8mmtoe during the year. This may spur an increase in gas production up to 12mmscmd (from 6.7mmscmd currently) by FY24-FY25. Oil production can rise 10% (0.3mmt) over the same period. However, the focus for the next couple of years will be to sustain the current level of oil output. In the gas segment, management is certain of meeting production targets.
- The cost of producing gas is US\$ 2-2.1/mmbtu (ex-investment cost but inclusive of depreciation and depletion cost of ~US\$ 0.4-0.45/mmbtu).
- Lifting cost per barrel is expected to remain in the range of US\$ 11-13, as seen in the last 3-4 years.
- Capex for FY20 stood at Rs 39bn; for FY21, this will rise to Rs 40bn-42bn.
- Standalone debt was at US\$ 1.2bn and consolidated debt at US\$ 1.7bn in FY20.
- Forex loss during Q4 totalled Rs 3.2bn.

Valuation methodology

OINL's current valuations at 11.6x FY22E P/E look elevated in the wake of rising concerns over production and operating costs. Low oil prices are a primary worry and hence earnings recovery may remain elusive. Post deep earnings cuts of 76%/43% for FY21/FY22 on lower volumes and slightly higher operating costs, our Mar'21 SOTP-based target price reduces to Rs 92 (from Rs 130) – downgrade to REDUCE (from BUY).

FIG 5 – REVISED ESTIMATES

(Rs mn)	FY21E			FY22E		
	Old	New	Var (%)	Old	New	Var (%)
Revenue	90,562	81,572	(9.9)	112,217.0	105,283	(6.2)
EBITDA	20,131	16,007	(20.5)	33,228.4	29,722	(10.6)
EBITDA margin (%)	22.2	19.6		29.6	28.2	
PAT	6,964	1,629	(76.6)	15,350.3	8,844	(42.4)
PAT margin (%)	7.7	2.0		13.7	8.4	
EPS (Rs)	6.4	1.50	(76.5)	14.2	8.2	(42.6)

Source: Company, BOBCAPS Research

We arrive at our SOTP-based target price as follows (all multiples unchanged):

- consolidated cash earnings valued at 3.5x FY22E,
- reserve upsides from high-potential international E&P assets (Mozambique) valued at an EV/boe of US\$ 1/bbl (adjusted for debt, especially Mozambique),
- Numaligarh refinery (26% stake) valued at 6x FY22E EBITDA,
- LPG production and transportation businesses at 6x FY22E EBITDA, and
- investment in IOCL valued at 20% discount to CMP (net of costs).

FIG 6 – VALUATION SUMMARY

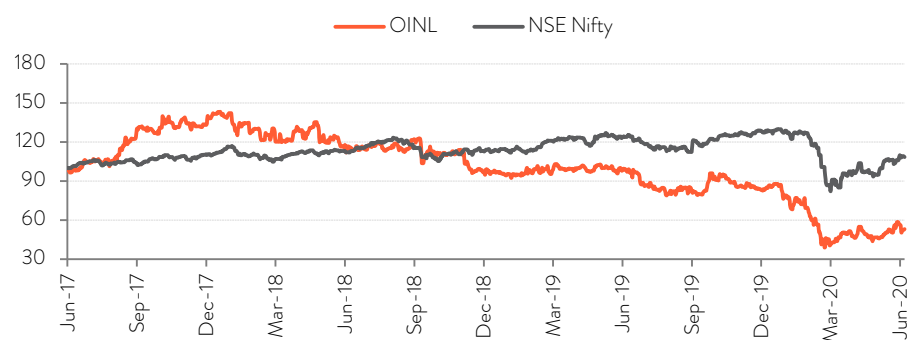
Particulars	Value (Rs mn)	Value (Rs/sh)	Comments
Core business value	199,063	79	3.5x FY22E cash earnings
LPG business EV	8,658	8	6x FY22E EBITDA
Transportation Business EV	26,229	24	6x FY22E EBITDA
Investment in IOCL	26,289	13	20% discount to CMP
Numaligarh refinery stake EV	11,975	11	6x FY22E EBITDA
Net debt	55,981	43	Consolidated debt
OINL total equity value	244,252	92	

Source: BOBCAPS Research

FIG 7 – KEY ASSUMPTIONS

	FY21E	FY22E
USD/INR	76.0	78.0
Crude oil prices (US\$/bbl)	35.0	40.0
Oil production (mmt)	3.06	3.10
Gas production (bcm)	2.85	2.90
Gas prices (US\$/mmbtu)	2.28	2.93

Source: BOBCAPS Research

FIG 8 – RELATIVE STOCK PERFORMANCE

Source: NSE

Key risks

Key upside risks to our estimates are:

- higher-than-expected growth in oil and gas production,
- above-expected oil and gas prices,
- any reforms related to freeing up of domestic gas prices, and
- lowering of cess and royalty rates.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue	106,565	137,350	121,285	81,572	105,283
EBITDA	41,013	54,838	25,905	16,007	29,722
Depreciation	(14,600)	(14,963)	(14,918)	(19,842)	(21,344)
EBIT	26,413	39,875	10,987	(3,835)	8,378
Net interest income/(expenses)	(4,157)	(4,795)	(4,988)	(10,685)	(13,785)
Other income/(expenses)	14,842	14,350	15,202	16,698	17,230
Exceptional items	0	(10,267)	(4,179)	0	0
EBT	37,098	49,430	21,201	2,178	11,823
Income taxes	(10,419)	(13,261)	4,640	(549)	(2,979)
Reported net profit	26,679	25,902	25,841	1,629	8,844
Adjusted net profit	26,679	36,169	21,662	1,629	8,844

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Accounts payables	5,533	6,415	6,047	4,131	4,761
Other current liabilities	35,206	60,018	43,889	43,889	43,889
Provisions	12,464	23,973	20,831	14,370	16,561
Debt funds	73,656	72,668	88,851	124,851	150,851
Other liabilities	34,390	34,127	24,929	24,972	25,209
Equity capital	7,566	10,844	10,844	10,844	10,844
Reserves & surplus	271,528	266,321	233,023	233,803	238,043
Shareholders' fund	279,094	277,165	243,867	244,647	248,887
Total liabilities and equities	440,342	474,366	428,414	456,862	490,158
Cash and cash eq.	30,926	61,358	35,769	6,216	7,733
Accounts receivables	14,078	13,135	10,748	7,330	9,598
Inventories	10,783	12,199	12,750	8,377	10,969
Other current assets	27,221	33,978	36,796	36,796	36,796
Investments	227,856	220,029	183,887	183,887	183,887
Net fixed assets	102,720	100,608	108,284	159,376	179,346
CWIP	26,760	33,059	40,179	54,879	61,829
Total assets	440,342	474,366	428,414	456,862	490,158

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Net income + Depreciation	40,074	(36,083)	40,571	79,790	22,411
Changes in working capital	7,125	29,973	(20,622)	(585)	(2,040)
Other operating cash flows	(11,247)	(4,346)	(20,221)	(16,655)	(16,994)
Cash flow from operations	35,952	(10,457)	(271)	62,550	3,378
Capital expenditures	(22,630)	57,798	(29,527)	(143,953)	(40,487)
Change in investments	(8,352)	7,827	36,142	0	0
Other investing cash flows	14,842	14,350	15,202	16,698	17,230
Cash flow from investing	(16,140)	79,975	21,817	(127,255)	(23,256)
Equities issued/Others	(449)	3,278	0	0	0
Debt raised/repaid	(15,820)	(988)	16,184	36,000	26,000
Dividends paid	(13,631)	(13,031)	(13,454)	(848)	(4,605)
Other financing cash flows	(9,583)	(28,345)	(49,864)	0	0
Cash flow from financing	(54,310)	(39,086)	(47,135)	35,152	21,395
Changes in cash and cash eq.	(34,498)	30,432	(25,589)	(29,553)	1,517
Closing cash and cash eq.	30,926	61,358	35,769	6,216	7,733

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20P	FY21E	FY22E
Reported EPS	24.6	23.9	23.8	1.5	8.2
Adjusted EPS	24.6	33.4	20.0	1.5	8.2
Dividend per share	15.0	10.3	10.6	0.7	3.6
Book value per share	368.9	255.6	224.9	225.6	229.5

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20P	FY21E	FY22E
EV/Sales	1.0	1.0	1.1	1.7	1.8
EV/EBITDA	2.7	2.5	5.0	8.5	6.4
Adjusted P/E	3.9	2.9	4.8	63.7	11.7
P/BV	0.3	0.4	0.4	0.4	0.4

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20P	FY21E	FY22E
Tax burden (Net profit/PBT)	71.9	92.4	127.3	74.8	74.8
Interest burden (PBT/EBIT)	140.5	98.2	154.9	(56.8)	141.1
EBIT margin (EBIT/Revenue)	24.8	29.0	9.1	(4.7)	8.0
Asset turnover (Revenue/Avg TA)	23.8	30.0	26.9	18.4	22.2
Leverage (Avg TA/Avg Equity)	1.6	1.6	1.7	1.8	1.9
Adjusted ROAE	9.4	13.0	8.3	0.7	3.6

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

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
YoY growth (%)					
Revenue	12.1	28.9	(11.7)	(32.7)	29.1
EBITDA	21.5	33.7	(52.8)	(38.2)	85.7
Adjusted EPS	12.1	35.6	(40.1)	(92.5)	443.0
Profitability & Return ratios (%)					
EBITDA margin	38.5	39.9	21.4	19.6	28.2
EBIT margin	24.8	29.0	9.1	(4.7)	8.0
Adjusted profit margin	25.0	26.3	17.9	2.0	8.4
Adjusted ROAE	9.4	13.0	8.3	0.7	3.6
ROCE	5.2	7.5	3.2	(0.8)	1.6
Working capital days (days)					
Receivables	41	36	36	40	29
Inventory	83	64	62	90	70
Payables	32	26	24	28	21
Ratios (x)					
Gross asset turnover	0.5	0.8	0.8	0.3	0.3
Current ratio	1.6	1.3	1.4	0.7	0.6
Net interest coverage ratio	6.4	8.3	2.2	0.0	0.6
Adjusted debt/equity	0.2	0.0	0.2	0.5	0.6

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

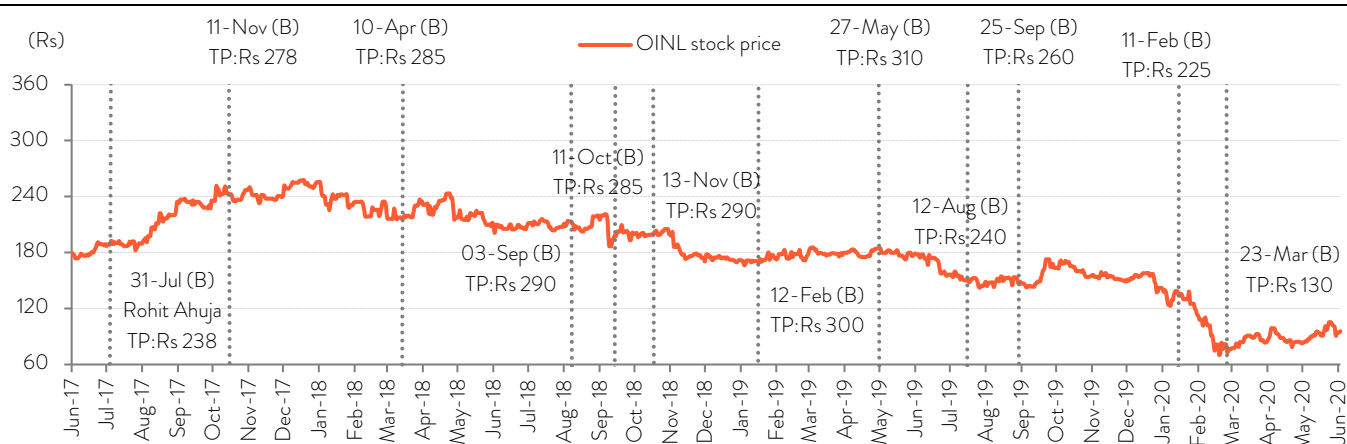
ADD – Expected return from >+5% to +15%

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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