

Sector: Oil & Gas  
Result Update

	Change
Reco: <b>Buy</b>	↔
CMP: <b>Rs. 134</b>	
Price Target: <b>Rs. 165</b>	↓
↑ Upgrade	↔ No change
↓ Downgrade	

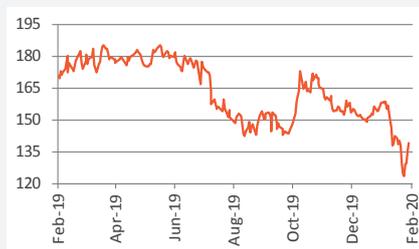
## Company details

Market cap:	Rs. 14,553 cr
52-week high/low:	Rs. 189/119
NSE volume: (No of shares)	13.5 lakh
BSE code:	533106
NSE code:	OIL
Sharekhan code:	OIL
Free float: (No of shares)	43.84 cr

## Shareholding (%)

Promoters	59.57
FII	7.27
DII	17.4
Public & others	15.78

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	-15.2	-19.1	-10.8	-16.8
Relative to Sensex	-13.9	-20.4	-18.4	-26.6

Sharekhan Research, Bloomberg

Oil India Limited's (Oil India) Q3FY2020 PAT (adjusted for IND-AS 116) at Rs. 401 crore (down 67.5% y-o-y; down 36.9% q-o-q) was substantially below our estimate of Rs. 616 crore due to: 1) lower-than expected oil sales volume of 0.7 mmt (down 11% y-o-y; down 8% q-o-q), 2) miss in gas sales volume at 0.6 bcm (down 7.4% y-o-y; down 9.5% q-o-q), 3) lower-than-expected other income (down 77.5% y-o-y) and 4) higher than-expected effective income tax rate. The net oil realisation of \$63.3/bbl (down 5.1% y-o-y; up 3.2% q-o-q) was marginally above our estimate of \$62.4/bbl. Oil India is trading at an attractive valuation of 6.1x FY2022E EPS (29% discount to its historical average one-year forward PE multiple of 8.7x) and also offers a high dividend yield of 7-8%. Hence, we maintain our Buy rating on the stock with a revised SoTP-based price target (PT) of Rs. 165.

## Key positives

- ◆ Higher-than-expected net oil realisation at \$63.3/bbl (up 3.2% q-o-q)
- ◆ Upstream PSUs continue to bear nil fuel subsidy burden

## Key negatives

- ◆ Sharp decline of 11% y-o-y in oil sales volume to 0.7 mmt and a fall of 7.4% y-o-y in gas sales volume to 0.6 bcm as production was affected by protests in Assam.

## Our Call

**Valuation – Maintain Buy rating on Oil India with revised PT Rs. 165:** We have lowered our FY2020E earnings per share (EPS) and FY2021E EPS by 13-23% to factor in: 1) lower oil & gas realisation given recent weakness in crude oil prices and domestic gas prices are also expected to decline in H1FY2021E and 2) lower oil and gas sales volume assumption. We have also introduced our FY2022E EPS of Rs. 21.8. Oil India is trading at an attractive valuation of 6.1x FY2022E EPS (29% discount to its historical average one-year forward PE multiple of 8.7x) and also offers high dividend yield of 7-8%. Hence, we maintain our Buy rating on Oil India with revised SoTP-based PT of Rs. 165.

## Key Risks

Lower-than-expected oil and gas production and realisations could adversely impact earnings and our rating on the stock.

## Valuation (Standalone)

Particulars	Rs cr				
	FY18	FY19	FY20E	FY21E	FY22E
Net sales	10,656	13,735	12,004	11,534	12,417
OPM (%)	36.7%	39.9%	38.6%	37.2%	37.4%
Adjusted PAT	2,668	3,617	2,486	2,222	2,369
Y-O-Y growth (%)	20.7%	35.6%	-31.3%	-10.6%	6.6%
Adjusted EPS (Rs.)	24.6	33.4	22.9	20.5	21.8
PE (x)	5.5	4.0	5.9	6.5	6.1
P/BV (x)	0.4	0.5	0.5	0.5	0.5
EV/EBDITA (x)	4.7	2.9	4.6	4.9	4.5
ROE (%)	9.4%	13.0%	8.8%	7.6%	7.8%
ROCE (%)	10.7%	14.5%	11.1%	9.8%	10.1%

Source: Company; Sharekhan estimates

**Adjusted PAT substantially lagged estimates due to sharp miss in oil & gas sales volume, lower other income and higher tax rate:** Operating profit (adjusted for IND-AS 116) at Rs. 1,064 crore (down 30.1% y-o-y; down 12% q-o-q) was substantially below our estimate of Rs. 1,294 crore. The miss in operating profit was mainly on the account of lower-than-expected oil sales volume at 0.7 mmt (down 11% y-o-y; down 8% q-o-q) and the gas sales volume at 0.6 bcm (down 7.4% y-o-y; down 9.5% q-o-q). The net oil realization at \$63.3/bbl (down 5.1% y-o-y; up 3.2% q-o-q) was marginally above our estimate of \$62.4/bbl. Upstream PSUs continue to bear a zero subsidy burden on domestic LPG and PDS kerosene. PAT (adjusted for IND-AS 116) at Rs401 crore (down 67.5% y-o-y; down 36.9% q-o-q) was below our estimate of Rs. 616 crore due to lower than expected oil & gas sales volume, lower other income (down 77.5% y-o-y) and a higher-than-expected effective income tax rate (ETR).

**Results (Standalone)**

Particulars	Rs cr				
	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)
Revenue	2,952	3,514	-16.0%	3,214	-8.1%
Total Expenditure	1,856	1,993	-6.9%	1,971	-5.8%
Reported operating profits	1,096	1,521	-28.0%	1,243	-11.8%
Adjusted operating profit	1,064	1,521	-30.1%	1,208	-12.0%
Other Income	135	601	-77.5%	268	-49.5%
EBIDTA	1,231	2,123	-42.0%	1,511	-18.5%
Interest	122	122	0.1%	121	0.8%
PBDT	1,110	2,001	-44.6%	1,390	-20.2%
Depreciation & prov	424	369	14.9%	415	2.1%
Exceptional items	(6)	-	NA	8	NA
Reported PBT	685	1,632	-58.0%	975	-29.7%
Adjusted PBT	680	1,632	-58.3%	983	-30.8%
Tax	279	398	-30.0%	347	-19.7%
Reported Profit After Tax	406	1,233	-67.1%	627	-35.2%
Adjusted PAT	401	1,233	-67.5%	635	-36.9%
Adj. EPS	3.7	11.4	-67.5%	5.9	-36.9%
			<b>bps</b>		<b>bps</b>
OPMs	36.0%	43.3%	(726)	37.6%	(156)
PAT	13.6%	35.1%	(2,152)	19.8%	(619)
Tax rate	40.7%	24.4%	1,629	35.6%	506

Source: Company

Note: Q3FY2020 and Q2FY2020 operating profit, PBT and PAT has been adjusted for IND-AS 116

**Key operating performance**

Particulars	Rs cr				
	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)
Net oil realisation (\$/bbl)	63.3	66.7	-5.1%	61.3	3.2%
Oil production volume (mmt)	0.75	0.84	-10.9%	0.82	-8.5%
Oil sales volume (mmt)	0.73	0.81	-10.8%	0.79	-8.1%
Crude oil business EBIT (Rs. crore)	875	1198	-26.9%	973	-10.0%
Gas production volume (bcm)	0.70	0.73	-4.8%	0.75	-6.7%
Gas sales volume (bcm)	0.60	0.65	-7.4%	0.66	-9.5%
Gas business EBIT (Rs. crore)	107	208	-48.4%	177	-39.3%

Source: Company

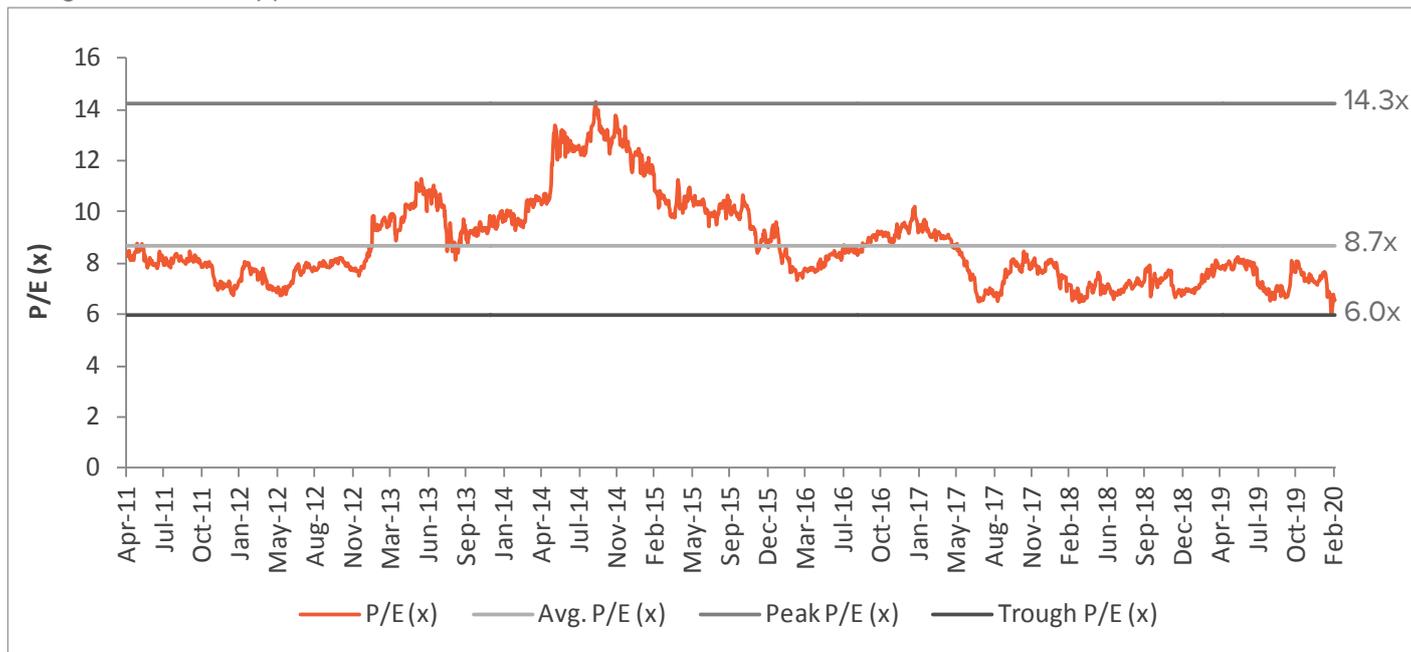
**Outlook**

**Oil & gas realisation to weaken; oil output to decline due to weak oil reserve profile:** Domestic gas prices are expected to be lowered further for H1FY2021E post sharp cut of 12.5% to \$3.23/mmBtu for H2FY2020. Additionally, crude oil prices have also corrected sharply to \$54-55/bbl. With lower oil & gas realisation and weak production profile, we expect Oil India's earnings to decline by 31% y-o-y in FY2020E and by 11% y-o-y in FY2021E. However, we expect upstream PSUs to be exempted from the fuel subsidy burden, as seen in the past few years, given an adequate fuel subsidy provision of Rs. 40,915 crore for FY2021E. We expect oil production to decline by 5% in FY2020E, 1.5% in FY2021E and 2% in FY2022E, given a weak oil reserve profile.

**Valuation**

**Maintain Buy rating on Oil India with revised PT Rs. 165:** We have lowered our FY2020E earnings per share (EPS) and FY2021E EPS by 13-23% to factor in: 1) lower oil & gas realisation given recent weakness in crude oil prices and domestic gas prices are also expected to decline in H1FY2021E and 2) lower oil and gas sales volume assumption. We have also introduced our FY2022E EPS of Rs. 21.8. Oil India is trading at an attractive valuation of 6.1x FY2022E EPS (29% discount to its historical average one-year forward PE multiple of 8.7x) and also offers high dividend yield of 7-8%. Hence, we maintain our Buy rating on Oil India with revised SoTP-based PT of Rs. 165.

One-year forward P/E (x) band



Source: Sharekhan Research

## About company

Oil India 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 India's production comes from its upper Assam basin. The company holds domestic 2P (proved and probable) reserves of 76 mmt for oil and 130 bcm for gas as of March 31, 2019. The company's oil production stood at 3.3mmt and gas production stood at 2,865mmscm in FY2019.

## Investment theme

The concern of fuel subsidy burden on upstream PSUs has eased considerably in the past couple of years with zero subsidy burden for Oil India. The absence of subsidy burden on upstream PSUs provides clarity with regards to net oil realisation. Attractive valuation of Oil India and strong dividend yield of 7-8% keeps us positive on Oil India.

## Key Risks

- ◆ Lower-than-expected oil and gas prices could adversely impact earnings and our Buy rating on the stock.
- ◆ High natural decline rates in the mature oil and gas fields could impact the company's production.

## Additional Data

### Key management personnel

Sushil Chandra Mishra	Chairman & Managing Director
Harish Madhav	Director - Finance
P. Chandrasekaran	Director - Exploration & Development

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	12.0
2	Indian Oil Corp Ltd	4.9
3	Hindustan Petroleum Corp Ltd	2.5
4	Bharat Petroleum Corp Ltd	2.5
5	ICICI Prudential Asset Management	2.1
6	Reliance Capital Trustee Co Ltd	1.9
7	Vanguard Group Inc/The	0.9
8	WisdomTree Investments Inc	0.4
9	ICICI Prudential Life Insurance Co	0.4
10	BlackRock Inc	0.3

Source: Bloomberg

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