Equity Research
August 13, 2021
BSE Sensex: 54844

ICICI Securities Limited is the author and distributor of this report

Q1FY22 result review

Oil & Gas and Petrochemicals

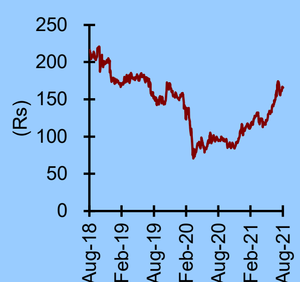
Target price: Rs232

Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	56.7	56.7	56.7
Institutional investors	26.3	26.6	27.0
MFs and others	5.2	5.0	4.7
FIs/ Banks	14.3	14.0	13.8
FIIs	6.8	7.6	8.5
Others	17.0	16.7	16.3

Source: www.nseindia.com

Price chart



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INDIA

Oil India

BUY
Maintained
Rs164

Oil & gas surge to drive strong growth & upside

Oil India's (OIL) Q1FY22 recurring standalone EPS was in the black *vs* in the red in Q1FY21, driven by oil price realisation rise. Q1 consolidated recurring EPS was up 2.8x YoY with subsidiary NRL's profit being up 60% YoY. Given the surge in UK NBP and US Henry hub (HH) gas prices and futures, 45% upside to our FY23E APM gas price estimates appears likely. Upside seems likely for subsidiary NRL's GRM too as cut in excise duty on auto fuels, which we expected earlier, appears unlikely now. Thus, based on latest oil and gas futures and NRL's FY22E GRM at US$37/bbl (US$32/bbl in base case), we estimate 13% upside to OIL's FY22E EPS and 14% to its FY23E EPS. Reiterate BUY.

- **Q1 EPS in the black on oil price rebound:** OIL's Q1FY22 standalone recurring EPS stood at Rs4.7/share *vs* minus Rs1.4/share in Q1FY21 driven by 2.1x YoY rise in oil price realisation. Oil sales volumes were down 2% YoY, but gas up 6% YoY in Q1. Consolidated EBIT was up 3.6x YoY driven by 38.3-1.6x YoY surge in oil and refinery products' (NRL) EBIT. Gas EBIT loss widened to Rs0.9bn *vs* Rs0.6bn in Q1FY21, hit by 27% YoY fall in gas price realisation. Q1 consolidated recurring EPS was up 2.8x YoY with subsidiary NRL's profit being up 60% YoY.
- **FY22E-FY23E Brent at latest futures 4-3% higher than base case:** Based on latest futures, FY22E Brent is 4% higher than our estimate of US$67.5/bbl at US$70.2/bbl and FY23E Brent is 3% higher than our estimate of US$65/bbl at US$67.2/bbl. Assuming FY22E-FY23E Brent based on latest futures, there would be 5% upside to FY22E ESP estimate and 4% upside to FY23E EPS estimate.
- **UK NBP and HH strength may mean 45% upside for OIL's FY23E APM gas price:** HH and UK NBP prices and futures continue to be strong given the strong demand, supply constraints and gas inventories in Europe being at least at 11-year low. Based on UK NBP and HH futures, we estimate OIL's FY23E APM gas price at US$6.15/mmbtu to be 45% higher than our estimate of US$4.25/mmbtu.
- **FY22E-FY23E EPS up 54-9% YoY; 13-14% upside to EPS:** We estimate FY22E EPS to be up 54% YoY on 51% YoY jump in Brent to US$67.5/bbl. At FY22E Brent based on latest futures and NRL's FY22E GRM at US$37/bbl (US$32/bbl in base case), upside to OIL's FY22E EPS would be 13%. 65% YoY rise in APM gas price to US$4.25/mmbtu is estimated to drive 9% YoY rise in FY23E EPS. Upside to FY23E EPS would be 4% at Brent based on latest futures. 45% higher APM gas price than base case based on latest futures would mean 10% upside to EPS. Overall upside to FY23E EPS due to higher oil and gas price than estimated would be 14%. **OIL's share price discounts long-term Brent of just US$47/bbl. It is attractive at FY22-FY23E P/E of 4.1-3.8x, EV/EBITDA of 3.8-3.5x, P/BV of 0.67-0.60x and dividend yield of 9.7-10.9%**.

Market Cap	Rs178bn/US$2.4bn
Reuters/Bloomberg	OILI.BO/OINL IN
Shares Outstanding (mn)	1,084.4
52-week Range (Rs)	174/84
Free Float (%)	43.3
FII (%)	8.5
Daily Volume (US$'000)	3,072
Absolute Return 3m (%)	26.4
Absolute Return 12m (%)	81.5
Sensex Return 3m (%)	13.3
Sensex Return 12m (%)	44.5

Year to March	FY20	FY21	FY22E	FY23E
Revenue (Rs bn)	206.4	225.0	271.3	271.4
Net Income (Rs bn)	47.0	35.3	43.2	47.1
EPS (Rs)	32.8	25.8	39.8	43.5
% Chg YoY	-16.5%	-21.5%	54.3%	9.1%
P/E (x)	5.0	6.4	4.1	3.8
CEPS (Rs)	49.3	42.8	55.9	59.6
EV/E (x)	4.8	6.0	3.8	3.5
Dividend Yield (%)	9%	7%	10%	11%
RoCE (%)	14%	13%	18%	18%
RoE (%)	18%	17%	19%	19%

Higher oil & gas price & NRL's GRM may bring gains

13-14% upside to FY22-FY23E EPS from higher oil, gas & GRM

FY22E-FY23E Brent at latest futures 4-3% higher than base case

We are assuming Brent at US$67.5-65/bbl in FY22E-FY23E. Based on latest futures:

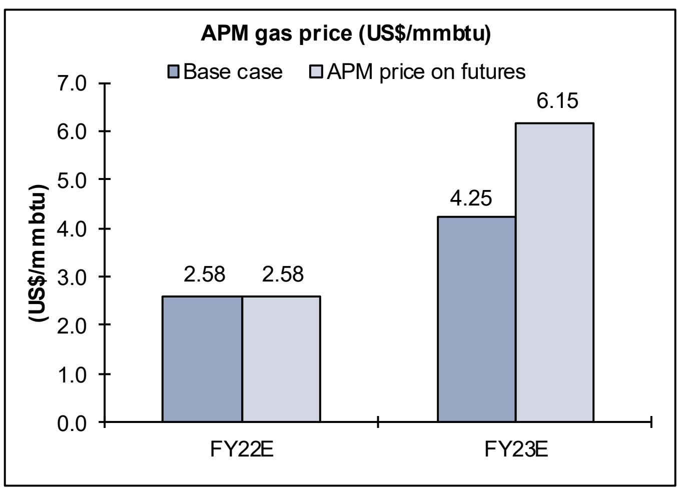
- FY22E Brent is 4% higher than our estimate at US$70.2/bbl
- FY23E Brent is 3% higher than our estimate at US$67.2/bbl.

45% upside to FY23E base case APM gas price at latest futures

The outlook for domestic gas price has improved significantly driven by the surge in UK NBP and Henry Hub prices and futures. We estimate APM gas price at:

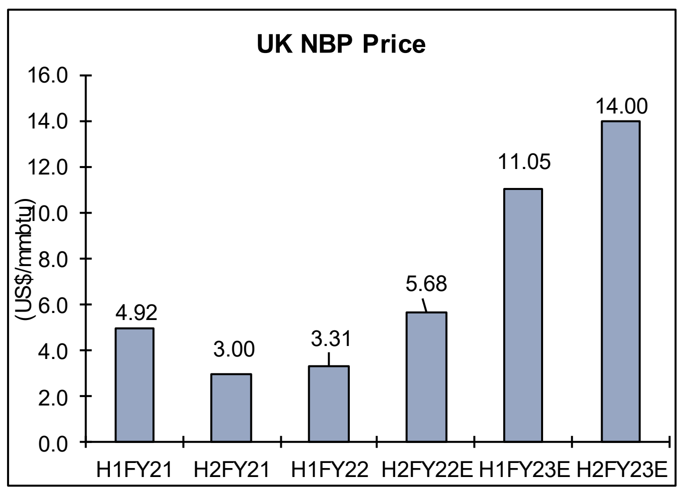
- US$5.51/mmbtu in H1FY23E (up 75% HoH) based on underlying prices from Jan-Aug'21 and futures from Sep-Dec'21.
- US$6.79/mmbtu in H2FY23E (up 23% HoH) based on underlying prices from Jul-Aug'21 and futures from Sep'21-Jun'22.
- US$6.15/mmbtu in FY23E, 45% higher than our base case estimate of US$4.25/mmbtu.

Chart 1: FY23E APM gas price based on latest futures 45% higher than base case estimate



Source: EIA, ERCE, CME, I-Sec research

Chart 2: Surge in UK NBP gas price is the main driver of FY23E APM gas price



Source: CME, Reuters, I-Sec research

Upside to OIL's FY22E-FY23E EPS at Brent futures

We estimate OIL's FY22E-FY23E EPS to be up 54-9% YoY at Brent of US$67.5-65/bbl. Assuming FY22E-FY23E Brent based on latest futures, there would be:

- 5% upside to FY22E EPS estimate
- 4% upside to FY23E EPS estimate

Table 1: Upside to OIL’s FY22E-FY23E EPS 13-14% at higher oil & gas prices and NRL’s GRM

	Upside to FY22E EPS	Upside to FY23E EPS
A. FY22-23E Brent at US$70.2-67.2/bbl	5%	4%
B. FY23E gas price at US$6.15/mmbtu		10%
C. NRL’s GRM higher at US$37/bbl	9%	
A+B+C	**13%**	**14%**

Source: Company data, I-Sec research

10% upside to OIL’s FY23E EPS if gas price based on futures

Upside to OIL’s FY23E EPS would be 10% if APM gas price is higher in line with futures at US$6.15/mmbtu *vs* US$4.25/mmbtu in the base case.

NRL’s FY22E GRM likely to be higher as excise duty cut unlikely

We estimate NRL’s FY22E GRM at US$32/bbl in the base case despite NRL’s GRM being higher at US$37.2/bbl in FY21 and US$37-45.1/bbl in Q2-Q4FY21. Before the second wave of covid in India, we were expecting excise duty on auto fuels, half of which NRL retains as income, to be cut. However, high excise duty on auto fuels appears likely to continue for longer than expected as second wave of covid has hit India’s auto fuel consumption (to hit excise revenue of GoI), third wave is possible and free food for the poor has boosted food subsidy bill by ~Rs700bn. If high excise duty on auto fuels continues, upside to our estimate of NRL’s FY22E GRM appears imminent.

9% upside to OIL’s FY22E EPS if NRL’s GRM higher at US$37/bbl

Upside to OIL’s FY22E EPS would be 9% and to fair value would be 7% (Rs16/share) to Rs248/share if NRL’s GRM is higher than base case at US$37/bbl. We value OIL’s 69.63% stake in NRL at 3x FY22E EBITDA. OIL’s stake in NRL was up to 80.16% in Mar’21, is down to 77.06% now, and is slated to fall to 69.63% once it sells stake to Assam government, which raises its stake up to 26%.

13-14% upside to FY22-FY23E EPS at higher oil & gas prices and GRM

We estimate upside to OIL’s:

- FY22E EPS at 13% if oil price is higher than base case in line with latest futures and NRL’s GRM is higher at US$37/bbl (US$32.2/bbl in the base case).

- FY23E EPS at 14% if oil and gas prices are higher than base case in line with latest futures.

Risks to recommendation

Risks to our recommendation are: 1) NRL stops getting excise benefit leading to plunge in GRM; 2) lower than estimated oil and gas prices.

2.1x oil price surge drives 6.25x YoY EBITDA jump

Q1FY22 EPS in the black *vs* in the red in Q1FY21

Q1 standalone EPS in the black due to oil price surge

Q1FY22 standalone EPS stood at Rs4.7/share *vs* minus Rs1.4/share in Q1FY21, despite 27% YoY fall in domestic gas price realisation, driven by 2.1x YoY rise in oil price realisation at Rs4,954/bbl *vs* Rs2,309/bbl in Q1FY21.

Table 2: Q1FY22 standalone EPS in the black driven by oil price realisation

(Rs mn)	Q1FY22	Q1FY21	Change	Q4FY21	Change
Net sales	30,070	17,439	72%	25,795	17%
Total expenditure	17,739	15,467	15%	21,548	-18%
EBDITA	**12,331**	**1,972**	**525%**	**4,247**	**190%**
EBDITA margin	**41.0%**	**11.3%**		**16.5%**	
Interest	2,221	1,278	74%	1,270	75%
Depreciation	3,975	3,585	11%	4,176	-5%
Other Income	638	1,306	-51%	13,301	-95%
PBT	6,774	-1,585	NM	12,103	-44%
Current tax	1,694	-33	NM	2,926	-42%
Recurring PAT	**5,079**	**-1,552**	**NM**	**9,177**	**-45%**
Exceptional items		-934		-701	
Reported PAT	**5,079**	**-2,486**	**NM**	**8,476**	**-40%**
Recurring EPS	**4.68**	**-1.43**	**NM**	**8.46**	**-45%**
Reported EPS	**4.68**	**-2.29**	**NM**	**7.82**	**-40%**

Source: Company data, I-Sec research

Q1 earnings beat mainly due to lower than estimated opex

Q1FY22 EBITDA and EPS were 79-75% higher than our estimates mainly due to opex being 21% (Rs4.7bn) lower than our estimate. Opex was lower than estimated mainly due to:

- Contract cost and other expenses being Rs4.2bn lower than our estimate
- Employee costs being Rs847mn lower than our estimate

Table 3: OIL's Q1FY22 oil price realisation up 2.1x YoY; gas price realisation down 27% YoY

	Q1FY22	Q1FY21	Change	Q4FY21	Change
Oil price realisation (US$/bbl)	67.2	30.4	121%	59.8	12%
Price realisation (Rs/bbl)	4954	2309	115%	4360	14%
Gas price realisation (US$/mmbtu)	2.0	2.7	-25%	2.0	0%
Gas price realisation (Rs/mmbtu)	147	201	-27%	145	1%

Source: Company data, I-Sec research

Q1 oil sales volumes down 2% YoY, but gas up 6% YoY

In Q1FY22:

- Oil sales volumes were 2% YoY
- Gas sales volumes were up 6% YoY

Table 4: Q1FY22 oil and LPG sales volumes down 2-10% YoY, gas volumes up 6% YoY

	Q1FY22	Q1FY21	Change	Q4FY21	Change
Sales volumes					
Crude oil (mmt)					
OIL	0.72	0.73	-2%	0.70	3%
JV	0.00	0.00	0%	0.00	0%
Total crude oil	**0.72**	**0.73**	**-2%**	**0.70**	**3%**
Natural gas (bcm)					
OIL	0.57	0.56	2%	0.52	10%
JV	0.04	0.02	111%	0.04	3%
Total natural gas	**0.61**	**0.58**	**6%**	**0.56**	**10%**
LPG (tmt)	**7.52**	**8.40**	**-10%**	**8.68**	**-13%**

Source: Company data, I-Sec research

Q1 consolidated EPS up 2.8x YoY; NRL's profit up 60% YoY

Q1 consolidated EPS was up 2.8x YoY, despite 40% YoY fall in share of profit of associates, as subsidiary NRL's profit was up 60% YoY.

Table 5: Consolidated Q1FY22 recurring EPS up 2.8x YoY due to increase in stake in NRL

(Rs mn)	Q1FY22	Q1FY21	Change	Q4FY21	Change
Net sales	62,052	41,946	48%	65,049	-5%
Total expenditure	40,441	34,164	18%	46,181	-12%
EBDITA	**21,610**	**7,782**	**178%**	**18,869**	**15%**
EBDITA margin	**34.8%**	**18.6%**		**29.0%**	
Interest	2,601	1,679	55%	1,692	54%
Depreciation	4,721	4,268	11%	5,182	-9%
Other Income	714	1,399	-49%	6,885	-90%
PBT	15,003	3,234	364%	18,879	-21%
Share of profit of associates	1,778	2,957	-40%	1,965	-10%
Minority interest	1,601	917	75%	1,919	-17%
Current tax	4,634	1,481	213%	8,719	-47%
Recurring PAT	**10,545**	**3,793**	**178%**	**10,206**	**3%**
Exceptional items	0	-934		-701	
Reported PAT	**10,545**	**2,859**	**269%**	**9,505**	**11%**
Recurring EPS	**9.7**	**3.5**	**178%**	**9.4**	**3%**
Reported EPS	**9.7**	**2.6**	**269%**	**8.8**	**11%**

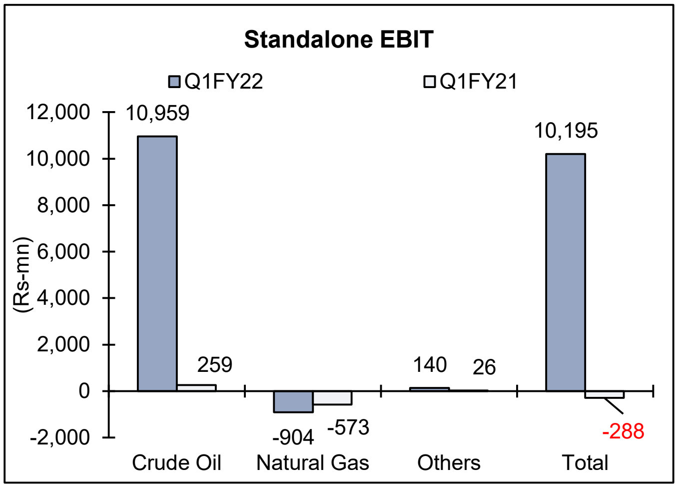
Source: Company data, I-Sec research

Table 6: Standalone oil EBIT up 42.4x YoY while loss of gas EBIT widened

(Rs mn)	Q1FY22	Q1FY21	Change	Q4FY21	Change
Crude oil	10,959	259	4136%	6,584	66%
Natural gas	-904	-573	NM	-2,687	NM
LPG	194	105	84%	121	60%
Pipeline transportation	-221	-197	NM	-631	NM
Renewable energy	144	111	NM	-57	NM
Others	24	7	239%	4	439%
Total	**10,195**	**-288**	**NM**	**3,333**	**206%**

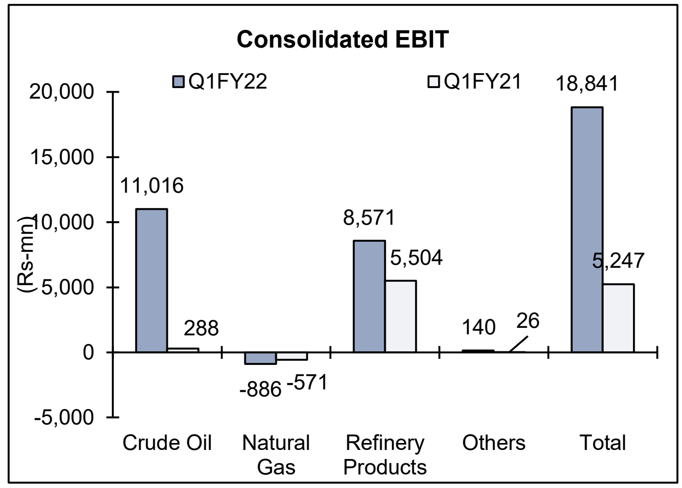
Source: Company data, I-Sec research

Chart 3: Q1FY22 standalone EBIT in black due to 42.4x YoY jump in oil EBIT



Source: Company data, I-Sec research

Chart 4: Q1FY22 consolidated EBIT up 3.6x YoY on 38.3-1.6x YoY surge in oil and refinery products



Source: Company data, I-Sec research

Table 7: Consolidated oil & refinery EBIT up 38.3-1.6x YoY while loss of gas EBIT widened

(Rs mn)	Q1FY22	Q1FY21	Change	Q4FY21	Change
Crude oil	11,016	288	3730%	6,610	67%
Natural gas	-886	-571	NM	-2,678	NM
Refinery products	8,571	5,504	56%	13,220	-35%
LPG	194	105	84%	121	60%
Pipeline transportation	-221	-197	NM	-631	NM
Renewable energy	144	111	29%	-57	NM
Others	24	7	239%	4	439%
Total	**18,841**	**5,247**	**259%**	**16,588**	**14%**

Source: Company data, I-Sec research

Financial summary

Table 8: Profit & Loss statement

(Rs bn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Operating Income (Sales)	**206.4**	**225.0**	**271.3**	**271.4**
Operating Expenses	**153.2**	**168.0**	**185.3**	**181.0**
EBITDA	**53.2**	**57.0**	**83.5**	**87.9**
Margins (%)	25.8%	25.3%	30.8%	32.4%
Depreciation & Amortisation	17.9	18.4	17.4	17.5
Gross Interest	6.5	6.6	11.2	10.1
Other Income	13.2	10.9	9.3	9.4
Recurring PBT	**42.0**	**42.9**	**64.2**	**69.7**
Less: Taxes	13.9	14.0	16.2	17.5
Net Income (Reported)	**47.0**	**35.3**	**43.2**	**47.1**
Recurring Net Income	**35.6**	**28.0**	**43.2**	**47.1**

Source: Company data, I-Sec research

Table 9: Balance sheet

(Rs bn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Assets				
Total Current Assets	55.4	87.5	87.5	87.3
of which cash & cash eqv.	38.5	15.9	49.3	43.4
Total Current Liabilities & Provisions	47.7	59.1	59.7	62.7
Net Current Assets	**-13.3**	**11.8**	**26.0**	**22.0**
Investments	252.1	238.4	205.9	205.9
Net Fixed Assets	**128.8**	**159.3**	**178.7**	**198.7**
of which				
Capital Work-in-Progress	20.3	31.7	34.9	34.9
Total Assets	**407.2**	**460.5**	**464.8**	**480.8**
Liabilities				
Borrowings	**126.7**	**194.1**	**200.7**	**180.7**
Equity Share Capital	10.8	10.8	10.8	10.8
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus*	277.6	225.8	254.3	284.3
Net Worth	**288.5**	**236.7**	**265.1**	**295.1**
Total Liabilities	**407.2**	**460.5**	**464.8**	**480.8**

Source: Company data, I-Sec research

Table 10: Quarterly trend

(Rs bn, year ending March 31)

	Sep-20	Dec-20	Mar-21	Jun-21
Net sales	21.8	21.4	65.0	62.1
growth (YoY)	(32%)	(28%)	43%	48%
EBITDA	7.1	(0.0)	18.9	21.6
EBITDA Margin (%)	32.7	(0.3)	29.0	34.8
Other income	1.1	1.1	6.9	0.7
Add: Extraordinaries	1.3	(10.1)	(0.7)	0.0
Recurring Net Profit	5.1	(1.2)	10.2	10.5
Reported Net Profit	3.8	8.9	9.5	10.5

Source: Company data, I-Sec research

Table 11: Cashflow statement

(Rs bn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Operating Cashflow				
Working Capital Changes	24.3	25.1	14.2	(4.0)
Capital Commitments	(33.4)	(61.8)	(42.4)	(40.0)
Free Cashflow	**(9.3)**	**(31.7)**	**37.1**	**26.8**
Cashflow from Investing Activities	**(14.6)**	**(48.1)**	**(9.9)**	**(40.0)**
Inc (Dec) in Borrowings	19.1	67.4	6.6	(20.0)
Dividend paid	(17.2)	(13.5)	(19.6)	(22.1)
Chg. in Cash & Bank balance	**70.0**	**71.6**	**49.3**	**43.4**

Source: Company data, I-Sec research

Table 12: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
Per Share Data (in Rs.)				
Reported EPS	32.8	25.8	39.8	43.5
Diluted Recurring EPS	4.9	15.1	43.4	61.6
Recurring Cash EPS	49.3	42.8	55.9	59.6
Dividend per share (DPS)	14.0	11.0	16.0	18.0
Book Value per share (BV)	266.0	218.2	244.5	272.2
Growth Ratios (%)				
Operating Income	-13%	9%	71%	6%
EBITDA	-5%	7%	47%	5%
Recurring Net Income	-16%	-21%	54%	9%
Diluted Recurring EPS	-16%	-21%	54%	9%
Diluted Recurring CEPS	-8%	-13%	30%	7%
Valuation Ratios (x)				
P/E	5.0	6.4	4.1	3.8
P/CEPS	3.3	3.8	2.9	2.8
P/BV	0.6	0.75	0.67	0.60
EV / EBITDA	4.8	6.0	3.8	3.5
EV / Operating Income	14.9	19.3	19.0	18.0
EV / FCF	(28.7)	(11.3)	8.9	11.8
Operating Ratios				
Other Income / PBT (%)	31.4%	25.5%	14.5%	13.5%
Effective Tax Rate (%)	33.2%	32.7%	25.2%	25.2%
NWC / Total Assets (%)	-3.3%	2.6%	5.6%	4.6%
D/E Ratio (%)	43.9%	82.0%	75.7%	61.2%
Profitability Ratios (%)				
Rec. Net Income Margins	17.6%	33.4%	36.1%	38.7%
RoCE	13.8%	13.1%	18.3%	18.3%
RoNW	17.8%	16.8%	19.5%	18.5%
Dividend Payout Ratio	42.6%	42.6%	40.2%	41.4%
Dividend Yield	8.5%	6.7%	9.7%	10.9%
EBITDA Margins	28.1%	69.8%	72.0%	74.4%

Source: Company data, I-Sec research

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