




Industry	Oil & Gas
Bloomberg	OINL IN
BSE CODE	533106

Strong performance lead by higher realization

RATING	BUY
CMP	201
Price Target	230
Potential Upside	14%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	259/181
Mkt Capital (Rs Cr)	22749
Free float (%)	34%
Avg. Vol 1M (,000)	113
No. of Shares (Cr)	987
Promoters Pledged %	0%

Research Analyst

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Key Highlights-

- Revenue has grown by 51% YoY to Rs. 3744 Cr. and PAT grown of 33% YoY to Rs. 862 Cr. in Q2 FY19.
- EBITDA margins of the company have declined by 150bps on YoY basis and 210bps on sequential basis due to higher royalty payments.
- Volume in both crude oil and natural gas segment has remained almost flat in the last quarter.
- Company has proposed buy back of equity shares in November, 2018.

Q2 FY19 result update:

Oil India has posted good set of numbers with revenue growth of 51% YoY to Rs. 3744 Cr. and PAT growth of 33% YoY to Rs. 862 Cr. in Q2 FY19. This growth is mainly led by the hike in realization in crude oil by about 60% on YoY basis and 7% on sequential basis to Rs. 5150 /bbl in the last quarter. The company has paid higher outstanding royalty of Rs. 62 Cr. for previous quarters in the Q2 FY19 which has impacted the gross margins. The company has reported muted volume growth in both crude oil and natural gas segment with crude volume declines marginally by 2% YoY and natural gas volume surged marginally 2% YoY in the last quarter.

View and valuation:

Oil India is one of the key beneficiaries of rising crude oil prices. The realizations of the company have been expanding from the last four quarters. Further, in absence of any regulatory pressure to share subsidies with OMC's, revenue of Oil India has improved significantly from the last four quarters. Going forward we expect this growth momentum to be continued for next few quarters. On the volume front, Oil India is ramping up its crude production from Baghjan, Dirok, Ningru and Taas oilfields which will improve the crude volume by 4-5% to 3.6 MMT in FY19e. We expect revenue and PAT to grow at CAGR of 22% and 26% over FY18-20e. Considering above argument we are positive on this stock and assign BUY rating in this stock while maintaining our previous target price of Rs. 230 (0.85x FY20e P/B).

Key Risks to our rating and target

- Subsidy sharing with OMC's
- Geo political risk to its subsidiaries
- Sharp decline in crude oil price

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	9765	9510	10656	14869	15807
EBITDA	3588	3105	3911	5961	6696
EBIT	2646	2014	2641	4515	5044
PAT	2302	1549	2668	3523	4177
EPS (Rs)	19	13	24	31	37
EPS growth (%)	-8%	-33%	82%	32%	19%
ROE (%)	9%	5%	10%	12%	14%
ROCE (%)	7%	4%	8%	10%	12%
BV	207	242	246	260	271
P/B (X)	0.7	0.9	0.9	0.8	0.8
P/E (x)	7.3	17.3	9.5	6.6	5.7

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2Q FY 19
PAT below expectation
Good performance

<i>Financials</i>	<i>2QFY18</i>	<i>3QFY18</i>	<i>4QFY18</i>	<i>1QFY19</i>	<i>2QFY19</i>	<i>YoY %</i>	<i>QoQ%</i>	<i>FY17</i>	<i>FY18</i>	<i>YoY %</i>
Net Sales	2474	2853	2998	3390	3744	51.3%	10.4%	9510	10656	12.1%
Other Income	331	213	786	127	288	-13.0%	127.0%	1681	1484	-12%
COGS	863	1027	1162	1300	1425	65.0%	9.6%	3367	3905	16.0%
Gross Margin	65%	64%	61%	62%	62%	-3.2%	0.3%	65%	63%	-1.2%
Employee Cost	439	399	450	343	399	-9.1%	16.3%	1614	1693	4.9%
Other Expenses	159	202	586	339	446	179.7%	31.3%	1425	1147	-19%
EBITDA	1012	1224	801	1408	1475	45.7%	4.7%	3105	3911	26.0%
EBITDA%	41%	43%	27%	42%	39%	-1.5%	-2.1%	33%	37%	4.1%
Depreciation	324	356	300	337	366	12.9%	8.4%	1091	1270	16.4%
EBIT	688	868	501	1071	1109	61.1%	3.5%	2014	2641	31.1%
Interest	106	102	108	112	126	18.8%	11.8%	397	416	4.8%
PBT	914	979	1180	1086	1271	39.1%	17.1%	3298	3710	12.5%
Exceptional	-	-	-	-	-			1152	-	
Tax	268	274	313	382	409	52.9%	7.0%	598	1042	74.3%
PAT	646	705	867	703	862	33.4%	22.6%	1549	2668	72.3%
PAT Margin	26%	25%	29%	21%	23%	-3.1%	2.3%	16%	25%	8.8%

Volume outlook

In the last quarter company has reported flat volume growth of crude oil to 0.83 MMT. This is because of lower off-take by the Oil marketing companies. However, going forward the company is strengthening its oil resources by successful Hydrocarbon discovery in NELP VI block, KG-ONN-2004/1 in May, 2018 at well Thanelankal, the first successful High Pressure High Temperature (HPHT) well drilled by the company. Further ramp up of crude production from Baghjan, Dirok, Ningru and Taas oilfields is underway. Management expects volume to start coming from the end of FY18 which may improve volume by 6% to 3.6 MMT in FY19E.

Rising crude and natural gas prices-

Higher crude oil prices due to geo-political instability in the last quarter resulted in strong growth in the realization of the Oil exploring companies. In the last quarter, International crude oil prices has surged ~6% to Rs. 5150/bbl and natural gas prices by 10% to USD 3.06/bbl on sequential basis. We expect crude price to remain in the range of USD 65-70/bbl and USD/INR to remain in the range of 68-70. This will further improve the realizations of the company in coming fiscal.

Margin growth visibility-

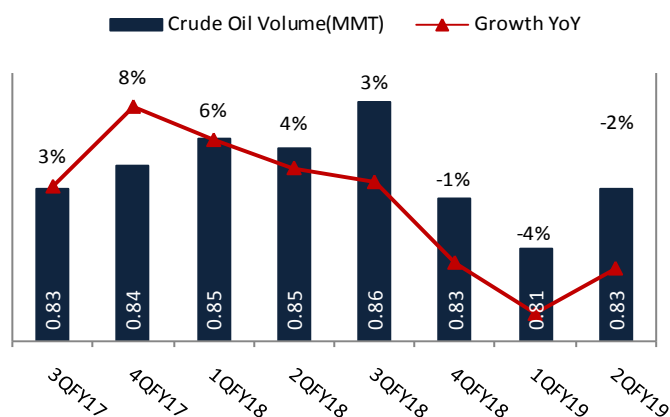
Rising realizations in both crude and natural gas segment has placed the Oil India in the higher profitable zone however in the last two quarters, higher royalty payments has offset some benefits arising out the higher realizations. In the last quarter company has received show cause cum demand notices from the Directorate General of Goods and Service Tax Intelligence for Rs. 341 crore towards service tax on Royalty for Assam, Arunachal Pradesh and Rajasthan for the period March, 2016 to June, 2017. For which the company has also deposited Royalty payment for the period July, 2017 to September, 2018 amounting to Rs. 330 crore and Rs. 11.18 crore as interest in the last quarter. Going forward we expect these Royalty payments are expected to normalize which will help the company to reap the benefits arising out of higher realizations.

Subsidy sharing-

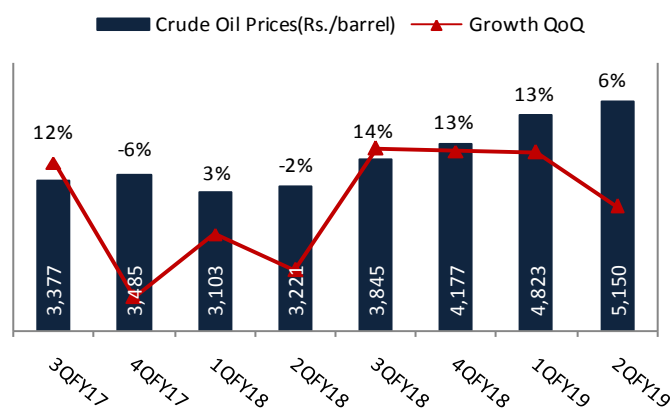
Oil Exploring companies like Oil India has to share subsidy with the OMC's if crude oil price goes above 60 USD/barrel which limits the benefits of price surge to the company. At current, the crude prices are above USD 68/bbl and hence subsidy sharing may come into play. Till date oil ministry has not communicated their stance in this regard and thus oil exploring companies have not made any provisions for the subsidy.

Exhibit: Crude Oil Volume trend

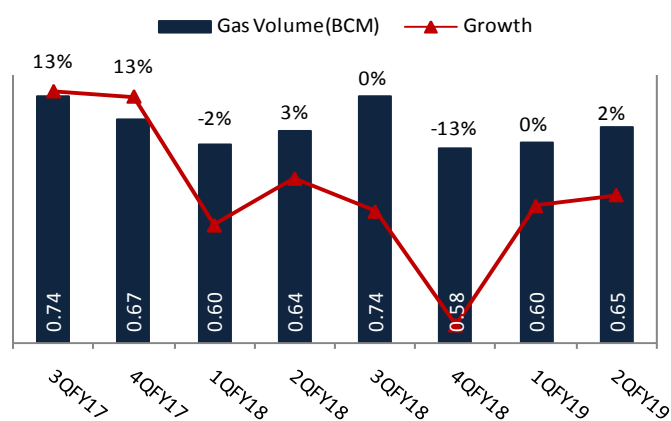
Crude volume of the company remains almost stable due to lower off take by OMC's

**Exhibit: Crude Oil Realization trend**

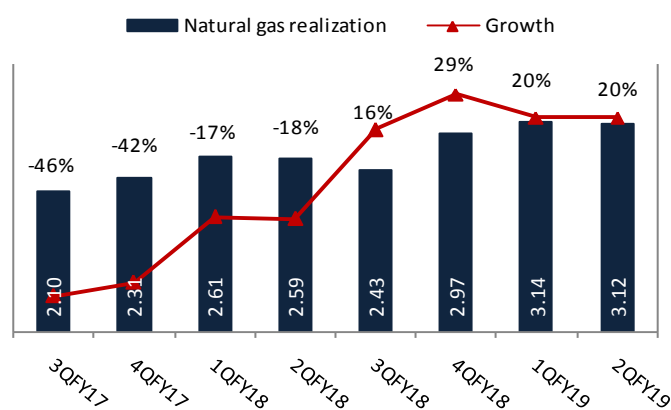
Rising crude oil prices has resulted in the improved realizations from the last four quarters

**Exhibit: Natural gas Volume trend**

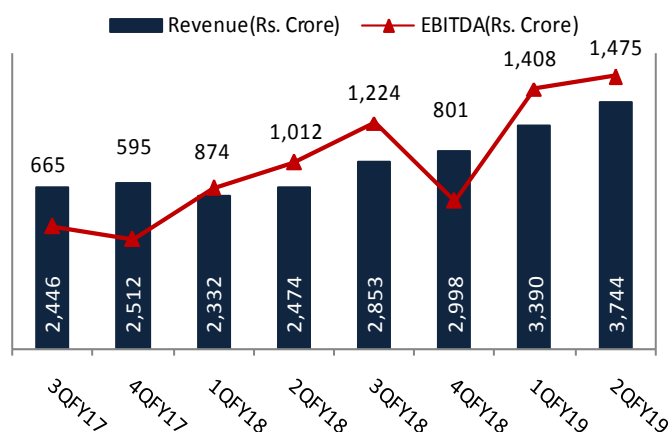
Due to the limited availability of gas at existing oil fields of Oil India, volume tends to remain stable

**Exhibit: Natural gas Realization trend**

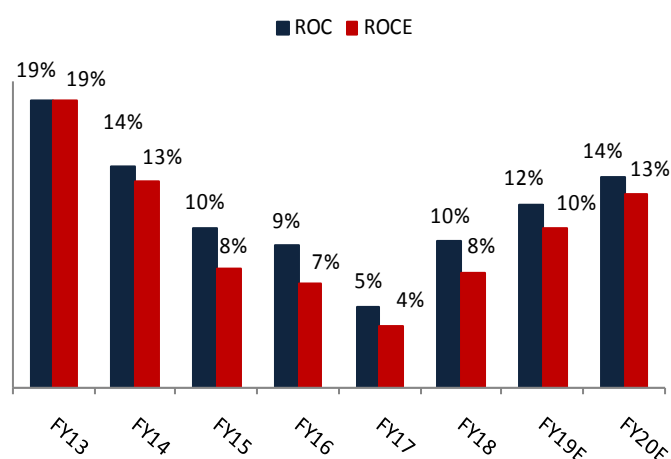
Rising international crude oil and gas prices, realizations of the company has increased significantly

**Exhibit: Revenue and EBITDA (Rs. Crore) trend**

Revenue and EBITDA has increased in last few quarters on the back of higher realizations

**Exhibit: Return ratios**

Return ratios improved from FY18 due to higher PAT and lowering of debt



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	601	601	601	601	802	757	1135	1135
Reserves	18610	20107	23366	24318	28289	27153	28421	29582
Networth	19211	20708	23967	24919	29090	27909	29556	30717
Debt	1058	9783	8265	9133	8948	7366	4547	2909
Total Capital Employed	19211	22223	32231	34052	38038	35275	34103	33626
Net Fixed Assets (incl CWIP)	6764	7556	9004	9983	12024	12948	14395	15191
Non Current Investments	1857	11257	13392	14099	20801	22180	22180	22180
Other Non Current Assets	104	102	9	18	23	45	45	45
Non Current Assets	9252	19591	23396	24865	33581	35918	37366	38162
Inventory	644	969	1024	1002	1096	1078	1240	1599
Debtors	903	466	2377	1325	1006	1408	1467	1559
Cash & Bank	12133	11544	9218	9908	6542	3093	3453	2376
Other Current Assets	891	761	103	158	105	190	595	632
Current Assets	15530	15283	14536	14284	11759	8116	9440	8691
Creditors	0	398	501	529	586	551	530	563
Provisions	1137	794	234	231	370	468	653	694
Other Current Liabilities	1416	1122	688	382	744	190	446	474
Curr Liabilities	2554	2314	3268	2260	3305	4376	8320	8844
Net Current Assets	12977	12969	11268	12024	8454	3740	1121	-153
Total Assets	24782	34874	37933	39149	45340	44034	46806	46853

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	9,948	9,587	9,748	9,765	9,510	10,656	14,869	15,807
Change (%)	1%	-4%	2%	0%	-3%	12%	40%	6%
Other Income	1530	1629	1272	1394	1681	1484	1171	1290
EBITDA	4593	3566	3530	3588	3105	3911	5961	6696
Change (%)	0%	-22%	-1%	2%	-13%	26%	52%	12%
Margin (%)	46%	37%	36%	37%	33%	37%	40%	42%
Depr & Amor.	838	716	733	942	1091	1270	1445	1652
EBIT	3755	2851	2798	2646	2014	2641	4515	5044
Int. & other fin. Cost	3	69	341	384	397	416	443	175
EBT	5283	4410	3729	3656	3298	3710	5243	6160
Exp Item	-	-	-	215	1152	0	0	-
Tax	1693.89	1429	1219	1139	598	1042	1721	1983
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	3589	2981	2510	2302	1549	2668	3523	4177
Adjusted PAT	3589	2981	2510	2154	606	2668	3523	4177
Change (%)	4%	-17%	-16%	-8%	-33%	72%	32%	19%
Margin(%)	36%	31%	26%	24%	16%	25%	24%	26%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	19%	14%	10%	9%	5%	10%	12%	14%
ROCE	19%	13%	8%	7%	4%	8%	10%	12%
Asset Turnover	0.4	0.3	0.3	0.2	0.2	0.2	0.3	0.3
Debtor Days	33	18	89	50	39	48	36	36
Inv Days	24	37	38	37	42	37	37	37
Payable Days	-	15	19	20	22	19	13	13
Int Coverage	0.0	0.0	0.1	0.1	0.2	0.2	0.1	0.0
P/E	8	9	10	7	17	9	7	6
Price / Book Value	1.4	1.2	1.0	0.7	0.9	0.9	0.8	0.8
EV/EBITDA	3	4	7	4	9	8	4	4
FCF per Share	2.8	9.3	(3.9)	13.7	3.6	9.7	48.4	33.1
Div Yield	6.6%	5.0%	0.0%	6.5%	4.6%	5.6%	8.1%	10.6%

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	5283	4410	3729	3441	2146	3710	5243	6160
(inc)/Dec in Working Capital	-881	101	-1586	343	580	-946	2979	197
Non Cash Op Exp	567	716	733	942	1091	1270	1445	1652
Int Paid (+)	3	69	341	358	372	379	443	175
Tax Paid	-2459	-1808	-1151	-855	-602	-416	-1721	-1983
others	-1138	-829	-911	-754	-1014	-902	0	0
CF from Op. Activities	1375	2658	1155	3474	2573	3095	8391	6201
(inc)/Dec in FA & CWIP	-1522	-1928	-2364	-2536	-2850	-2661	-2893	-2448
Free Cashflow	-147	730	-1209	938	-277	434	5498	3753
(Pur)/Sale of Inv	-835	-9900	-272	-1189	496	1773	0	0
others	3069	1749	1473	1550	1642	1349	0	0
CF from Inv. Activities	712	-10078	-1163	-2175	-713	460	-2893	-2448
inc/(dec) in NW	0	0	0	0	0	-1535	378	0
inc/(dec) in Debt	1048	8725	-1442	868	0	0	-2818	-1638
Int. Paid	-3	-68	-207	-349	-375	-378	-443	-175
Div Paid (inc tax)	-1956	-2089	-860	-1305	-1495	-1707	-2255	-3016
others	22	264	-319	-462	4	2	0	0
CF from Fin. Activities	-889	6831	-2828	-1248	-1865	-3618	-5138	-4829
Inc(Dec) in Cash	1197	-589	-2836	51	-5	-63	360	-1076
Add: Opening Balance	10935	12133	11544	131	183	178	3093	3453
Closing Balance	12133	11544	8707	183	178	115	3453	2377

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