

Pessimism unwarranted

We maintain BUY on OIL post an inline performance in 2QFY20. Though concerns over lack of production growth still persist, we think that the current valuations (2.8/2.1x FY21/22 EV/EBITDA and 5.2/5.0x FY21/22 PER) indicate strong pessimism.

HIGHLIGHTS OF THE QUARTER

- Oil reported net revenue of Rs 32.14bn, down 14.2% YoY due to 16.2% decreased in crude oil realisation to Rs 4,317/bbl, 1.8% fall in crude oil sales volumes offset by 23% jump in Gas realisation to USD 3.57/mmbtu. EBITDA was down 15.7/8.2% YoY/QoQ to Rs 12.43bn while APAT fell 27.2% to Rs 6.27bn given a 13.6% jump in depreciation and depletion cost to Rs 4.15bn.
- Oil price realisation was USD 61.3/bbl (-16.5/-7.6% YoY/QoQ). Gas price realisation was USD 3.57/mmbtu, +23.0/0.4% YoY/QoQ. Oil sales volume was 0.82mmt, -1.8/+4.6% YoY/QoQ while Gas volume was 0.66bcm, +2.5/+7.8%. There was no subsidy burden in 2Q.
- We expect crude oil and natural gas production volumes to increase at 3.0% and 2.0% CAGR over FY19-

Financial Summary (Standalone)

YE March (Rs bn)	2QFY20	2QFY19	YoY %	1QFY20	QoQ %	FY19	FY20E	FY21E	FY22E
Net Sales	32.14	37.44	(14.2)	33.73	(4.7)	137.35	126.88	130.19	133.61
EBITDA	12.43	14.75	(15.7)	13.53	(8.2)	54.84	47.93	49.23	50.60
APAT	6.27	8.62	(27.2)	6.25	0.4	36.17	33.44	34.40	35.43
Diluted EPS (Rs)	5.8	7.9	(27.2)	5.8	0.4	33.4	30.8	31.7	32.7
P/E (x)						4.9	5.3	5.2	5.0
EV / EBITDA (x)						3.4	3.4	2.8	2.1
RoE (%)						13.0	11.4	10.5	9.8

Source: Company, HDFC sec Inst Research

22E. The surge in oil supply from US coupled with fall in global oil demand owing to trade war between US-China will result in subdued oil prices in the near term. Thus, we expect oil realisation to fall from USD 66.33/bbl in 1Q to USD 61/bbl in FY21.

- Key monitorable: Crude oil price movement.

STANCE

We expect oil prices to remain muted owing to robust supply from US Shale, despite production cut from OPEC and non-OPEC countries. Thus, concerns over subsidy sharing are overrated. Upstream companies were undesirable despite realising market price for crude oil, mainly on account of the subsidy sharing with OMCs. OIL will generate OCF yield of almost 30% and dividend yield of 7.5% over FY20/21E. The current valuations are contextually low at 2.8/2.1x FY21/22E EV/EBITDA and 5.2/5.0x FY21/22 PER. **Our TP is Rs 230/sh (6x Sep-21E standalone + Rs 85 from investments). Maintain BUY.**

INDUSTRY	OIL & GAS		
CMP (as on 11 Nov 19)	Rs 164		
Target Price	Rs 230		
Nifty	11,913		
Sensex	40,345		
KEY STOCK DATA			
Bloomberg	OINL IN		
No. of Shares (mn)	1,084		
MCap (Rs bn) / (\$ mn)	178/2,494		
6m avg traded value (Rs mn)	242		
STOCK PERFORMANCE (%)			
52 Week high / low	Rs 207/140		
	3M	6M	12M
Absolute (%)	9.5	(6.4)	(17.5)
Relative (%)	2.1	(14.1)	(32.2)
SHAREHOLDING PATTERN (%)			
	Jun-19	Sep-19	
Promoters	61.61	59.57	
FIs & Local MFs	16.43	18.08	
FPIs	5.83	6.37	
Public & Others	16.13	15.98	
Pledged Shares	0.00	0.00	
Source : BSE			

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Revenue declined 14.2% YoY consequential to 16.2% fall in net crude oil realisation to Rs 4,314/bbl, offset by 23.0% increase in NG realisation to USD 3.57/mmbtu

Sequentially, crude oil realisation were down 6.5% while sales volumes were up 0.4% resulting in a 4.7% reduction in revenue

Quarterly Financials: Snapshot (Standalone)

Rs bn	2QFY20	2QFY19	YoY %	1QFY20	QoQ %	1HFY20	1HFY19	YoY%
Net Sales	32.14	37.44	(14.2)	33.73	(4.7)	65.87	71.34	(7.7)
Material Expenses	0.64	0.44	44.8	0.74	(13.6)	1.38	0.50	174.9
Employee Expenses	5.48	3.99	37.4	4.54	20.6	10.03	7.42	35.2
Other Operating Expenses	13.59	18.26	(25.6)	14.92	(8.9)	28.50	34.59	(17.6)
EBITDA	12.43	14.75	(15.7)	13.53	(8.2)	25.96	28.83	(10.0)
Depreciation	4.15	3.66	13.6	3.99	4.0	8.15	7.03	15.9
EBIT	8.27	11.09	(25.4)	9.54	(13.2)	17.81	21.80	(18.3)
Other Income including EO	2.68	2.88	(6.9)	1.23	118.3	3.91	4.15	(5.8)
Interest Cost	1.21	1.26	(3.9)	1.23	(2.1)	2.44	2.38	2.6
PBT	9.75	12.71	(23.3)	9.53	NA	19.28	23.57	(18.2)
EO (Loss) / Profit (Net Of Tax)	-	-	NA	-	NA	-	-	NA
Tax	3.47	4.09	(15.1)	3.28	5.8	6.76	7.91	(14.6)
RPAT	6.27	8.62	(27.2)	6.25	0.4	12.52	15.65	(20.0)
APAT	6.27	8.62	(27.2)	6.25	0.4	12.52	15.65	(20.0)
AEPS (Rs/sh)	5.8	7.9	(27.2)	5.8	0.4	11.55	14.4	(20.0)

Source: Company, HDFC sec Inst Research

Margin Analysis (Standalone)

	2QFY20	2QFY19	YoY (bps)	1QFY20	QoQ (bps)	1HFY20	1HFY19	YoY (bps)
Employee Expenses as % of Net Sales	17.1	10.7	640	13.5	358	15.2	10.4	482
Other Expenses as % of Net Sales	42.3	48.8	(650)	44.2	(194)	43.3	48.5	(521)
EBITDA Margin (%)	38.7	39.4	(72)	40.1	(144)	39.4	40.4	(100)
APAT Margin (%)	19.5	23.0	(351)	18.5	100	19.0	21.9	(293)
Tax Rate (%)	35.6	32.2	345	34.4	120	35.0	33.6	146

Physical Performance (Standalone)

	2QFY20	2QFY19	YoY %	1QFY20	QoQ %	1HFY20	1HFY19	YoY%
Production Volume								
Oil (mnT)	0.816	0.83	(1.8)	0.81	0.4	1.629	1.64	(0.8)
Gas (BCM)	0.747	0.73	1.8	0.71	4.9	1.459	1.43	2.0
Sales Volume								
Oil (mnT)	0.816	0.831	(1.8)	0.813	0.4	1.629	1.642	(0.8)
Gas (BCM)	0.661	0.645	2.5	0.613	7.8	1.274	1.242	2.6
Realisation								
Crude - Post subsidy (USD/bbl)	61.300	73.4	(16.5)	66.3	(7.6)	63.815	72.710	(12.2)
Crude - Post subsidy (Rs/bbl)	4,314	5,150	(16.2)	4,613	(6.5)	4,464	4,987	(10.5)
NG realisation (USD/mmbtu)	3.571	2.90	23.0	3.6	0.4	3.565	2.92	22.3

Source: Company, HDFC sec Inst Research

There was no subsidy burden in 2QFY20

A 25.6% decline in EBIT from crude oil segment is attributable to a 16.5% fall in oil price realisation to Rs 4,314/bbl

Segmental Performance (Standalone)

	2QFY20	2QFY19	YoY %	1QFY20	QoQ %	1HFY20	1HFY19	YoY%
Segmental Revenues (Rs bn)								
Crude Oil	24.1	30.3	(20.5)	26.0	(7.5)	50.1	53.7	(6.7)
Natural Gas	5.3	4.1	29.2	4.9	9.7	10.2	8.5	19.7
LPG	0.2	0.4	(63.2)	0.4	(61.4)	0.5	0.7	(19.7)
Pipeline	1.0	1.0	(0.1)	0.9	9.4	1.9	1.8	5.4
Others	0.5	0.7	(28.6)	0.6	(15.3)	1.1	1.2	(8.1)
Segmental EBIT (Rs bn)								
Crude Oil	9.7	13.1	(25.6)	8.6	13.4	18.3	19.9	(8.2)
Natural Gas	1.8	1.6	9.4	2.16	(18.1)	3.9	3.3	17.2
LPG	0.1	0.2	(75.4)	0.2	(71.8)	0.2	0.3	(9.7)
Pipeline	(0.3)	(0.1)	NA	(0.2)	NA	(0.6)	(0.5)	NA
Others	0.1	0.4	(70.4)	0.2	(52.7)	0.3	0.3	(1.8)
EBIT Margins (%)								
	2QFY20	2QFY19	YoY (bps)	1QFY20	QoQ (bps)	1HFY20	1HFY19	YoY (bps)
Crude Oil	40.4	43.2	(279)	32.9	642	36.5	37.1	(60)
Natural Gas	33.2	39.2	(601)	44.5	(1,227)	38.6	39.4	(82)
LPG	35.7	53.6	(1,784)	48.9	(1,411)	45.2	40.2	498
Pipeline	(32.6)	(11.7)	NA	(27.2)	NA	(30.0)	(28.1)	NA
Others	20.6	49.7	(2,908)	37.0	(1,733)	29.5	27.6	187

Source: Company, HDFC sec Inst Research

Key variables for OIL:
 1) Net oil realisations
 2) Exchange rate

FY20E EPS Sensitivity With Crude Prices, INR-USD

Oil price (USD/bbl)	INR-USD		
	68	70	72
60	25.5	27.0	28.6
65.0	29.2	30.8	32.5
70	32.9	34.6	36.4

Base case assumptions 1) Brent price USD 60/ bbl, (2) INR-USD at 70 in FY20E.

Sensitivity Of Our Target Price With Crude Prices, INR-USD

Oil price (USD/bbl)	INR-USD		
	68	70	72
60	212	217	222
65.0	224	229	234
70	235	241	246

Base case assumptions 1) Brent price USD 60/ bbl, (2) INR-USD at 70 in FY20E. At base case, our target price for OIL is Rs 225/sh (6x Jun21E core EPS and Rs 84/sh from investments).

Change In Estimates

(Rs bn)	FY20E New	FY20E New	Ch%	FY21E New	FY21E New	Ch%	FY22E New	FY22E New	Ch%
Net Revenues	126.88	126.88	-	130.19	130.19	-	133.61	133.61	-
EBIDTA	47.93	47.93	-	49.23	49.23	-	50.60	50.60	-
APAT	33.56	33.44	(0.4)	34.51	34.40	(0.3)	35.53	35.43	(0.3)
Adjusted EPS (Rs)	30.95	30.84	(0.4)	31.83	31.72	(0.3)	32.76	32.67	(0.3)

Source: Company, HDFC sec Inst Research

Assumptions

	FY17	FY18	FY19	FY20E	FY21E	FY22E
Sales Volumes						
Oil (mmt)	3.2	3.4	3.23	3.34	3.44	3.54
Gas (bcm)	2.4	2.4	2.23	2.28	2.32	2.37
Macros						
Net Oil Realisation (US\$/bbl)	47.4	55.7	68.5	61.0	61.0	61.0
Gas Price (US\$/mmbtu)	-	-	-	-	-	-
INR-US\$	47.4	55.7	68.5	61.0	61.0	61.0

Source: Company, HDFC sec Inst Research

Valuation (Based On Sep-21E)

Business	(Rs/sh)	Value (Rs bn)	Multiple	Value (Rs/sh)	Valuation basis
Standalone EPS	32.2				
Less: EPS From Other Income Valued Separately	8.0				
Net EPS (Rs/sh)	24.2		6.0	145	P/E multiple
Investments					
Investments In IOC		46.23		43	30% discount to CMP
Other Investments At BV		45.44		42	0.3x Book value
Investments Equity Value				85	
Value Per Share				230	

Source: HDFC sec Inst Research

Peer Set Comparison

	MCap (Rs bn)	CMP (Rs)	RECO	TP (Rs)	Upside %	EPS (Rs/sh)				P/E (x)				P/BV (x)				ROE (%)			
						FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E
Reliance Industries	9,052	1,428	NEU	1,527	7.0	55.5	61.2	60.6	65.4	25.7	23.3	23.6	21.8	2.2	2.1	1.9	1.8	9.8	9.2	8.4	8.5
ONGC	1,749	139	BUY	207	48.7	21.2	23.0	23.5	24.1	6.5	6.05	5.9	5.8	0.9	0.8	0.8	0.7	13.5	13.8	13.2	12.7
Indian Oil Corp	1,249	136	BUY	185	36.4	18.4	16.5	20.3	23.1	7.4	8.2	6.7	5.9	1.1	1.1	1.0	0.9	15.4	13.5	15.4	16.1
BPCL	1,019	518	SELL	451	(13.0)	36.3	37.5	39.5	39.0	14.3	13.8	13.1	13.3	2.8	2.5	2.3	2.1	20.1	19.0	18.1	16.3
GAIL	586	130	BUY	197	51.5	13.8	12.0	14.3	15.4	9.4	10.8	9.1	8.4	1.3	1.2	1.1	1.0	14.8	11.8	13.0	12.9
HPCL	456	299	BUY	362	21.1	39.9	29.1	33.5	35.9	7.5	10.3	8.9	8.3	1.6	1.5	1.3	1.2	23.3	15.0	15.6	15.1
Petronet LNG	426	284	BUY	390	37.3	14.4	18.0	22.0	23.8	19.8	15.8	12.9	11.9	4.2	4.1	3.8	3.7	21.8	26.2	30.5	31.8
Indraprastha Gas	299	427	BUY	483	13.1	11.2	15.5	16.7	18.7	38.0	27.6	25.5	22.8	7.2	6.1	5.3	4.6	20.6	24.1	22.4	21.7
Oil India	178	164	BUY	229	39.5	33.4	30.8	31.7	32.7	4.9	5.3	5.2	5.0	0.6	0.6	0.5	0.5	13.0	11.4	10.5	9.8
Gujarat Gas	137	199	BUY	261	31.3	6.3	12.5	12.2	13.9	31.5	15.9	16.3	14.3	6.2	4.3	3.5	2.9	21.3	32.1	23.7	22.2
GSPL	121	215	BUY	251	16.7	14.1	16.6	20.2	21.4	15.3	12.9	10.7	10.0	2.1	1.9	1.6	1.5	14.7	15.3	16.4	15.5
Mahanagar Gas	96	973	BUY	1,157	18.9	55.3	60.0	60.5	62.1	17.6	16.2	16.1	15.7	4.0	3.5	3.1	2.7	24.3	23.0	20.0	18.5

Source: Company, HDFC sec Inst Research

Standalone Income Statement

Rs bn	FY18	FY19	FY20E	FY21E	FY22E
Net Revenues	106.56	137.35	126.88	130.19	133.61
Growth (%)	12.1	28.9	(7.6)	2.6	2.6
Material cost	0.49	1.82	1.84	1.86	1.88
Statutory Levies	29.29	38.38	35.34	36.38	37.45
Employee Cost	16.93	15.77	16.24	16.73	17.23
Other Expenses	20.74	26.55	25.53	25.99	26.47
EBIDTA	39.11	54.84	47.93	49.23	50.60
EBIDTA Margin %	36.7	39.9	37.8	37.8	37.9
EBIDTA Growth %	12.4	8.8	(5.4)	0.1	0.1
Depreciation	12.70	14.96	15.26	15.57	15.88
EBIT	26.41	39.87	32.67	33.66	34.72
Other Income (Incl. EO Items)	14.84	14.35	14.70	15.06	15.46
Interest	4.16	4.79	4.84	4.89	4.94
PBT	37.10	49.43	42.52	43.83	45.23
Tax	10.42	13.26	9.08	9.43	9.81
EO (Loss) / Profit (Net Of Tax)	-	10.27	-	-	-
RPAT	26.68	25.90	33.44	34.40	35.43
APAT	26.68	36.17	33.44	34.40	35.43
APAT Growth %	(1.2)	35.6	(7.5)	2.9	3.0
Adjusted EPS (Rs)	24.6	33.4	30.8	31.7	32.7
EPS Growth (%)	(1.2)	35.6	(7.5)	2.9	3.0

Source: Company, HDFC sec Inst Research | *No. of shares have been adjusted for buyback

Standalone Balance Sheet

Rs bn	FY18	FY19	FY20E	FY21E	FY22E
SOURCES OF FUNDS					
Share Capital	7.57	10.84	10.84	10.84	10.84
Reserves And Surplus	271.53	266.61	300.05	334.45	369.88
TOTAL SHAREHOLDERS FUNDS	279.09	277.45	310.89	345.29	380.72
Long-term Debt	73.66	72.67	74.48	76.72	79.02
Short-term Debt	-	-	-	-	-
Total Debt	73.66	72.67	74.48	76.72	79.02
Deferred Taxes	34.39	34.13	33.44	32.78	32.12
Long Term Provisions, Others	9.44	9.07	9.07	9.07	9.07
TOTAL SOURCES OF FUNDS	396.58	393.32	427.89	463.86	500.93
APPLICATION OF FUNDS					
Net Block	102.72	100.89	103.78	104.82	105.12
CWIP	26.76	33.06	31.41	32.03	32.67
Investments	221.80	217.50	221.85	226.29	230.81
LT Loans & Advances and Other	7.90	9.47	9.93	10.41	10.91
NON - CURRENT ASSETS	359.18	360.92	366.97	373.55	379.52
Inventories	10.78	12.20	11.21	11.50	11.81
Debtors	14.08	13.14	12.07	12.38	12.71
Cash & Equivalents	36.98	63.89	87.16	117.18	148.94
Other Current Assets	19.32	24.51	25.21	25.92	26.66
TOTAL CURRENT ASSETS	81.16	113.73	135.64	166.98	200.12
Creditors	5.51	6.39	5.87	6.02	6.18
Other Current Liabilities & Provns	38.25	74.95	68.84	70.65	72.53
TOTAL CURRENT LIABILITIES	43.76	81.33	74.71	76.67	78.71
NET CURRENT ASSETS	37.40	32.40	60.93	90.31	121.41
TOTAL APPLICATION OF FUNDS	396.58	393.32	427.89	463.86	500.93

Source: Company, HDFC sec Inst Research

Standalone Cash Flow

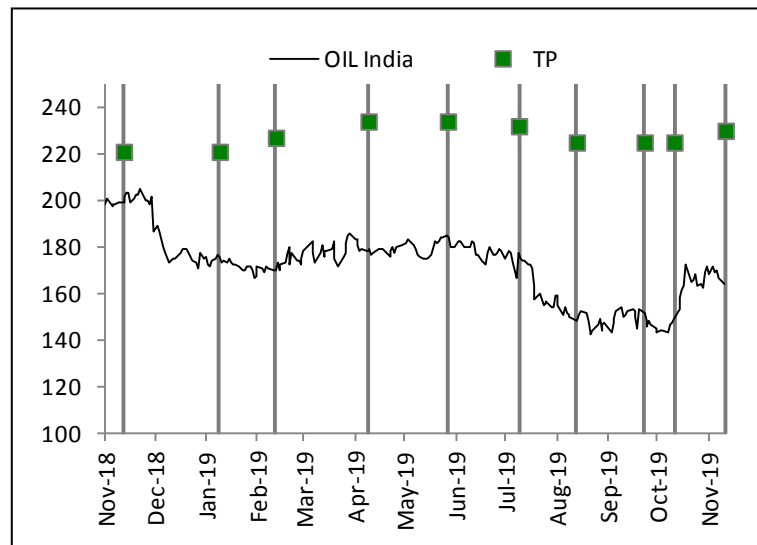
(Rs bn)	FY18	FY19	FY20E	FY21E	FY22E
Reported PBT	37.10	49.43	42.52	43.83	45.23
Non-operating & EO Items	-	(10.27)	-	-	-
Interest Expenses	(10.68)	(9.56)	(9.85)	(10.17)	(10.52)
Depreciation	12.70	14.96	15.26	15.57	15.88
Working Capital Change	7.36	30.22	(5.70)	0.17	0.18
Tax Paid	(6.82)	(13.52)	(9.76)	(10.10)	(10.46)
OPERATING CASH FLOW (a)	39.65	61.26	32.47	39.30	40.32
Capex	(21.94)	(19.44)	(16.50)	(17.23)	(16.82)
Free Cash Flow (FCF)	17.72	41.83	15.98	22.07	23.50
Investments	(8.58)	7.57	(4.37)	(4.46)	(4.55)
Non-operating Income	14.84	14.35	14.70	15.06	15.46
Others	-	-	-	-	-
INVESTING CASH FLOW (b)	(15.67)	2.48	(6.17)	(6.63)	(5.91)
Debt Issuance/(Repaid)	(15.82)	(0.99)	1.82	2.23	2.30
Interest Expenses	(4.16)	(4.79)	(4.84)	(4.89)	(4.94)
FCFE	(2.26)	36.05	12.95	19.41	20.86
Share Capital Issuance	(0.45)	3.28	-	-	-
Dividend	(13.44)	(12.73)	(16.10)	(16.56)	(17.06)
Others	(24.61)	(18.09)	16.10	16.56	17.06
FINANCING CASH FLOW (c)	(58.48)	(33.32)	(3.03)	(2.66)	(2.64)
NET CASH FLOW (a+b+c)	(34.50)	30.43	23.27	30.02	31.77
EO Items, Others					
Closing Cash & Equivalents	30.93	61.36	84.63	114.65	146.42

Source: Company, HDFC sec Inst Research

Standalone Key Ratios

	FY18	FY19	FY20E	FY21E	FY22E
PROFITABILITY %					
EBITDA margin	36.7	39.9	37.8	37.8	37.9
EBIT margin	24.8	29.0	25.7	25.9	26.0
APAT margin	25.0	26.3	26.4	26.4	26.5
RoE	9.4	13.0	11.4	10.5	9.8
RoIC (or Core RoCE)	21.7	31.8	32.3	32.0	32.5
RoCE	10.1	13.7	11.5	10.9	10.4
EFFICIENCY					
Tax rate %	28.1	26.8	21.4	21.5	21.7
Fixed Asset Turnover (x)	0.2	0.3	0.3	0.2	0.2
Inventory (days)	37	32	32	32	32
Debtor (days)	48	35	35	35	35
Other Current Assets (days)	66	65	73	73	73
Payables (days)	30	28	27	27	27
Other Current Liab (days)	131	199	198	198	198
Cash conversion cycle (days)	(10)	(95)	(86)	(86)	(85)
Debt/EBITDA (x)	1.9	1.3	1.6	1.6	1.6
Net D/E	0.1	0.0	(0.0)	(0.1)	(0.2)
Interest coverage	9.9	11.3	9.8	10.0	10.2
PER SHARE DATA (Rs)					
EPS	24.6	33.4	30.8	31.7	32.7
CEPS	36.3	47.2	44.9	46.1	47.3
Book Value	257.4	255.9	286.7	318.4	351.1
DPS	10.3	9.8	12.3	12.7	13.1
VALUATION					
P/E (x)	6.7	4.9	5.3	5.2	5.0
P/BV (x)	0.6	0.6	0.6	0.5	0.5
EV/EBITDA (x)	5.5	3.4	3.4	2.8	2.1
EV/Revenues (x)	2.0	1.4	1.3	1.1	0.8
OCF/EV (%)	18.5	32.8	19.7	28.6	37.4
FCF/EV (%)	8.3	22.4	9.7	16.1	21.8
FCFE/MCap (%)	(1.3)	20.3	7.3	10.9	11.7
Dividend yield (%)	6.3	5.9	7.5	7.7	8.0

Source: Company, HDFC sec Inst Research | *No. of shares adjusted for buyback

RECOMMENDATION HISTORY


Date	CMP	Reco	Target
13-Nov-18	199	BUY	221
9-Jan-19	176	BUY	221
13-Feb-19	170	BUY	227
9-Apr-19	179	BUY	234
28-May-19	185	BUY	234
9-Jul-19	177	BUY	232
13-Aug-19	150	BUY	225
22-Sep-19	148	BUY	225
11-Oct-19	147	BUY	225
12-Nov-19	164	BUY	230

Rating Definitions

- BUY** : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

Disclosure:

We, **Nilesh Ghuge, MMS & Divya Singhal, CA**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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