

Sector	Oil and Gas
Recommendation	BUY
Upside	~18%

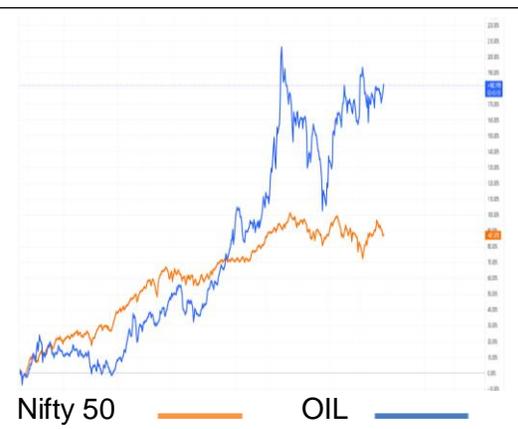
Oil India Ltd. (OIL) | CMP: ₹ 235-245 | Target: ₹ 284

Stock Data	
Sensex	57200
52 Week h/l (₹)	268/114
Market cap (₹ Cr)	26,112
BSE code	533106
NSE code	OIL
FV(₹)	10
Div. yield (%)	7.32%

Shareholding Pattern			
	Jun-21	Sep-21	Dec-21
Promoter	56.66	56.66	56.66
FII+DII	27.03	28.07	28.01
Public	16.31	15.27	15.33

Source: www.bseindia.com

### Share Price Data



### Profile

Oil India Limited (OIL) is a fully integrated Exploration & Production company in the upstream sector, with origin dating back to the glorious year (1889) of oil discovery in India. A Navratna Company, OIL is a state-owned enterprise of the Government of India, under the administrative control of the Ministry of Petroleum and Natural Gas. It is the second largest national oil and gas company in India. The company owns and operates a wide array of facilities & equipment to carry out seismic & geodetic work, 2D & 3D data acquisition, processing & analysis, drilling, oil & gas field development & production, LPG production and Pipeline transportation, with all other ancillary services to make it a fully integrated E&P Company. Also, it has vast experience in reservoir management of ageing/ depleting fields and expertise in Improved Oil Recovery (IOR)/Enhanced Oil Recovery (EOR) operations. It has over 2,000 km of trunk & feeder pipeline with in-house operation and maintenance. (Source: company website)

### Investment Rationale

**GRMs up despite oil rise:** While Brent prices are near US\$100/bbl, on the back of possible supply disruptions, SG benchmark GRMs have also moved up to US\$7.4/bbl, as POL consumption normalises, and stocks are depleted. The sharp increase in input prices is reflected well in weak deltas: PE, PP and PVC are the weakest since past 8 quarters. The upstream companies should gain from strong oil; reset of APM prices (Q1FY23), is an event to monitor. The oil markets seem to be less worried on collapse in demand due to a sharp increase in prices. While upstream companies offer good trades on oil, OMCs can be seen as contrarian portfolio allocations.

**Upward revision in gas prices:** The PPAC has revised prices of APM gas/HPHT fields for 1HFY23 by 110%/62%, to US\$6.10/US\$9.92 per mmbtu. Gas price hike bodes well for OIL & RIL, which account for the bulk of domestic gas production in India.

**Scope for re-rating:** If oil holds at US\$95/bbl (vs. base case US\$80/bbl), FY23/24ii EPS for, OIL will see an upgrade of 24- 30% on unchanged cost structure, and offer good trading opportunities. The stock prices of OMCs will remain sensitive to the oil prices; revision in auto fuel prices post elections is one of the key triggers for the stock's re-rating; their valuations are cheap as can be seen from the table below:

### Analyst:

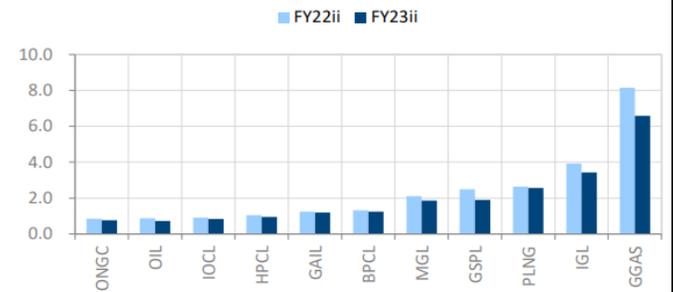
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 19<sup>th</sup> April, 2021

### Upstream companies trade cheap

	FY23ii EPS	P/E	Div yld
ONGC	46	3.57	10.98%
OIL	77	3.10	7.32%
RIL	111	23.75	0.32%

Source: Company, IIFL Research

Upstream companies and OMCs are inexpensively valued on P/B (x)



Source: Company, IIFL Research

**OPEC supply to lag:** With the opening up of the economies post-Covid, the demand for crude is likely to stay elevated. With OPEC's supply growth likely to lag the demand growth of crude globally and the rising geopolitical tensions not reducing, we expect Brent to sustain at higher levels. Brent crude is trading at ₹110/barrel, and this bodes well for Oil India. Even though there are no sanctions placed on Russian oil and gas, many companies have shunned Russian oil as there are high uncertainties regarding insurance, shipping, etc. Hence, we expect the crude prices to rise in the near term.

**Increased oil production:** The company's crude oil production is expected to increase to 3.6mmt in Fiscal 2023 and rise further to 4mmt by end of Fiscal 2024. This incremental production is to come from its existing production fields. The guidance for gas production is at 4bcm for Fiscal 2024 which would come from Baghjan.

## Risks

**Oil prices:** Extreme volatility in the Oil prices due to the Russia-Ukraine war can have an impact on the business.

**Covid:** If there are fresh lockdowns imposed due to rising covid cases in some parts of the country, the demand for oil might reduce and have an impact on the company.

**Regulatory changes:** If there is a sudden change in some regulations due to the ongoing war, it would further increase the geopolitical risks.

## Outlook & Valuation:

The demand for oil continues to be high as the economy recovers. With the supply side pressures due to the Russia-Ukraine war and OPEC supply growth likely to lag the global demand growth, the oil prices are likely to remain at elevated levels. The stock price of OIL is likely to be sensitive to oil prices, but with the revision of the auto fuel prices post the state elections is a key trigger for the stock's re-rating. If oil holds at US\$95/bbl (vs. base case US\$80/bbl), FY23/24ii EPS for OIL will see an upgrade of 24- 30% on unchanged cost structure, and offer good trading opportunities. With an attractive valuation of FY23 P/E at 3.10, OIL provides a good opportunity in turbulent times. Thus, we recommend a 'Buy' on the stock with a target of ₹284 for a 12-month period.

## Financial Summary

	FY21	FY22ii	FY23ii	FY24ii
Per Barrel Realisation	31	49	51	51
Per Barrel EBITDA	5	17	20	20
Per Barrel PAT	<b>8</b>	12	13	13
EBITDA	57,020	92,159	102,744	105,664
PAT	45,950	63,651	72,407	75,795

### DISCLAIMER

#### Recommendation Parameters for Fundamental/Technical Reports:

- Buy – Absolute return of over +10%
- Accumulate – Absolute return between 0% to +10%
- Reduce – Absolute return between 0% to -10%
- Sell – Absolute return below -10%

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