

India

**Overweight** (no change)

**Highlighted Companies**

**Oil & Natural Gas**

**ADD, TP Rs150, Rs125 close**

We reiterate our Add rating and raise our SOP-based TP from Rs115 to Rs150 on the back of a sharp increase in estimates for Brent crude and domestic gas prices.

**Oil India**

**ADD, TP Rs200, Rs142 close**

We reiterate our Add rating and raise our SOP-based TP from Rs155 to Rs200 on the back of a sharp increase in estimates for Brent crude and domestic gas prices. Cheap acquisition of NRL provides additional upside, in our view.

**Summary Valuation Metrics**

P/E (x)	Mar21-F	Mar22-F	Mar23-F
Oil & Natural Gas	11.83	6.49	6.14
Oil India	7.65	3.32	3

P/BV (x)	Mar21-F	Mar22-F	Mar23-F
Oil & Natural Gas	0.72	0.68	0.63
Oil India	0.51	0.52	0.46

Dividend Yield	Mar21-F	Mar22-F	Mar23-F
Oil & Natural Gas	2.8%	6.41%	6.41%
Oil India	4.24%	5.65%	7.06%

# Oil & Gas Exp & Prodn

## Bigger upside in gas

- We raise our Brent crude forecasts by US\$5-10/bbl and domestic gas price by US\$0.65-1.5/mmbtu over FY22F/23F.
- We maintain a cautious view on oil/gas production forecasts as both ONGC/OIL continue to under-deliver on their volume targets.
- Maintain sector Overweight. We keep our Add ratings and raise our target prices on ONGC (from Rs115 to Rs150) and OIL (from Rs155 to Rs200).

### Brent forecast up by US\$5-10/bbl in FY22F/23F, long-term unchanged

We raise our Brent oil forecasts to US\$60/US\$55/US\$50 per barrel over FY22F/FY23F/FY24F and beyond (US\$5-10/bbl increase over FY22F/23F). Our forecasts are conservative and well below the latest Brent futures curve (normally the basis of our forecasts) as the sharp upward move on the curve occurred only in the last few months (see Figure 1 below). The outlook on oil supply remains uncertain (especially from Iran) and recent price strength (over the longer term) probably assumes limited supply response from Non-OPEC countries (which remains to be seen). Every US\$1/bbl increase in Brent price in FY22F would raise our EPS by 2.8% for ONGC and 2% for OIL.

### Long-term domestic gas price raised by 33%

The domestic gas price is based on a basket of global gas prices and is revised every six months and hence any increase/decrease in global prices is reflected with a considerable lag. Global spot gas prices recovered very sharply in the last six months. Consequently, we expect the domestic gas price to rise from US\$2/mmbtu in 1HFY21 to US\$3.5/mmbtu in 2HFY21. So, we raise our domestic gas price forecast to US\$2.75/4.5/4 per mmbtu over FY22F/23F/FY24F and beyond. While the gas price is increased by US\$0.65-1.5/mmbtu over FY22F-23F, we also raise the long-term price estimate by US\$1/mmbtu (greater impact on our DCF valuation of domestic reserves).

### Cautious view on oil/gas production forecasts

Both ONGC and OIL continue to under-deliver on their guidance for domestic oil and gas production. We have cut our estimates for both companies keeping our forecasts well below company guidance. ONGC's production growth hinged on additional production from its 98/2 block, which is expected to deliver peak gas production of 15.6mmscmd and 78kbd of oil in FY24. Given the apparent delay in project delivery, we have cut our estimates for FY21F-24F.

### Stocks remain in play for higher oil/gas prices

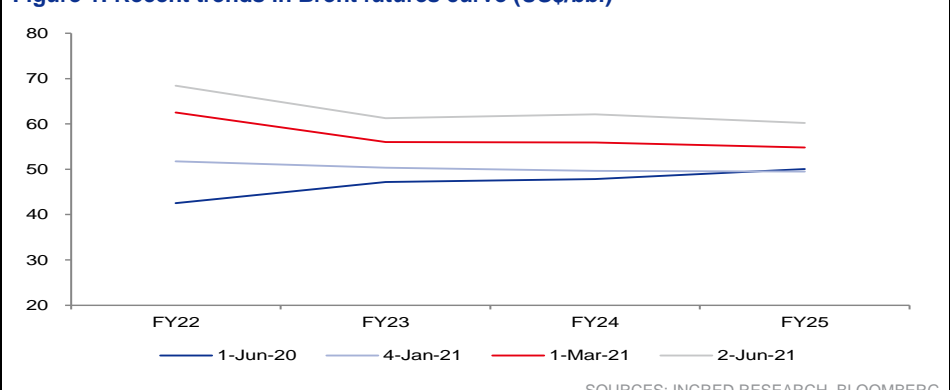
ONGC and OIL stock prices have recovered from the lows of 2020 (following the sharp drop in global oil/gas prices) on account of a jump in global oil prices, but they remain undervalued, in our view. Our assumption on Brent crude price is conservative and we note that the rebound in domestic gas price will be sharper due to the lag impact of the sharp rise in global gas prices. We believe that OIL looks particularly undervalued given its cheap acquisition of NRL. A sharp drop in oil price is the main risk to our rating.

**Analyst(s)**



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**Figure 1: Recent trends in Brent futures curve (US\$/bbl)**



## Bigger upside in gas

### We raise our Brent oil forecasts for FY22F/23F

Brent crude was trading at around US\$55-60/bbl in early 2020 prior to the outbreak of Covid. Given the disruptions in economic activity arising from Covid, Brent oil plunged in early Mar 2020. As the full implications of the global economic lockdowns became apparent, the OPEC+ group started implementing a production cut from May 2020.

Crude oil prices remain very volatile as they handle the twin forces of demand and supply. On the demand front, the International Energy Agency (IEA) estimates that global oil demand dropped from 100m b/d in CY19 to 91.5m b/d in CY20, but should recover to around 96.5m b/d in CY21 with an exit rate close to 100m b/d. This assumes a sharp demand recovery in 2HCY21 as global economic activity normalises (especially in developed markets) post vaccination.

According to IEA, after a robust supply restraint from OPEC+ over the last 12 months, bloated world oil inventories have returned to more normal levels. During Mar 2021, OECD industry oil stocks dropped by 25mb to 2951mb, reducing the overhang versus the five-year average to only 1.7mb. Under the current OPEC+ production scenario, supplies won't rise fast enough to keep pace with the expected demand recovery, as per IEA. The widening supply and demand gap paves the way for a further easing of OPEC+ supply cuts or even sharper stock draws. The extent of additional supply from Iran (not subject to OPEC quotas) post a likely easing of US sanctions also remains uncertain.

Notwithstanding the above, the rise in spot Brent prices (and indeed the futures curve) in the last few months has been unexpected. In our view, the rise in the long-term expectations probably reflects the view that supply response from non-OPEC countries (more specifically US shale) will be limited due to greater capital discipline.

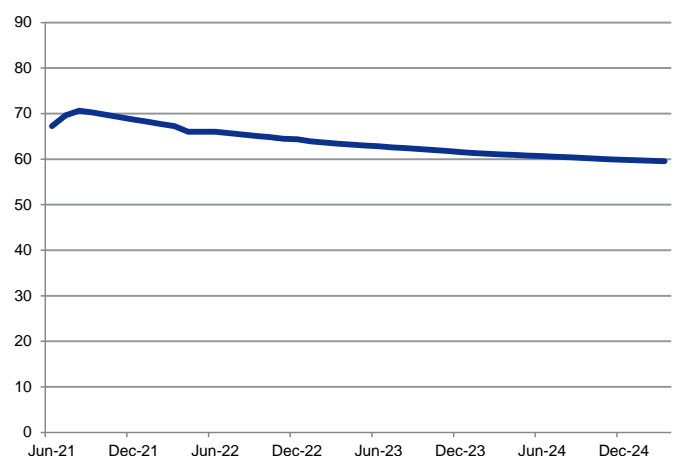
We have no special insight on the absolute level of oil prices and have always relied on the futures curve to forecast prices. However, the jump in expectations in the last few months has been too sharp and we have opted to be conservative in our forecasts. Accordingly, we have raised our Brent oil forecasts to US\$60/55/50 per barrel over FY22F/23F/FY24F and beyond. This implies an increase of US\$10/bbl in FY22F and US\$5/bbl in FY23F, while the long-term forecast remains unchanged.

Figure 2: Brent spot price (US\$/bbl)



SOURCES: INCRED RESEARCH, BLOOMBERG

Figure 3: Brent futures curve as of 2 Jun 2021 (US\$/bbl)



SOURCES: INCRED RESEARCH, BLOOMBERG

**Figure 4: Brent price forecasts (US\$/bbl)**

	FY22F	FY23F	FY24+F
Our latest forecasts	60.0	55.0	50.0
Previous forecasts	50.0	50.0	50.0
Change	10.0	5.0	0.0

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

## The rise in domestic gas price will be sharper

The gas pricing policy announced by the Indian government (GOI) in Oct 2014 linked the domestic gas price (currently applicable to production from all nominated fields, bulk of ONGC/OIL production) to a basket of four global gas prices – Henry Hub (HH), the UK National Balancing Point (NBP), and Russian and Canadian gas prices. LNG prices were not part of the basket, thus ensuring that the formula resulted in a relatively lower gas price. Further, domestic prices are fixed for six months and determined with a considerable lag. For example, the current domestic price of US\$2/mmbtu applicable for Apr-Sep 2021 is based on the average of the global basket over CY20.

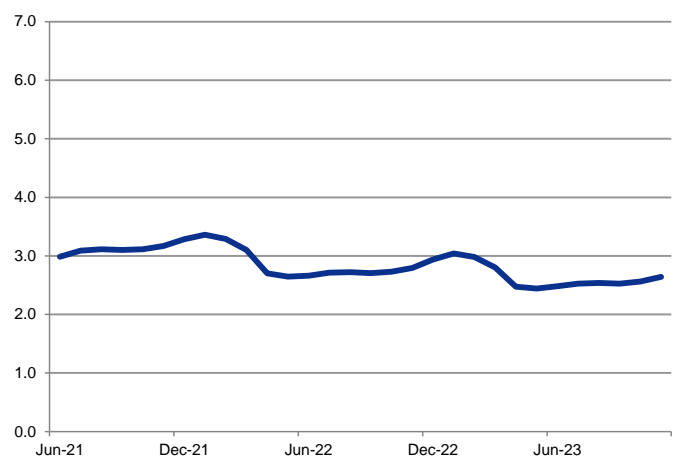
The next price change applicable for 2HFY22 will be based on global prices between Jul 2020 to Jun 2021. Given the sharp increase in global gas prices over the last 12 months, we expect the domestic gas price to move up sharply to US\$3.5/mmbtu. Further, two of the four benchmarks (HH and NBP) have a futures market and using this, we have revised up our gas pricing forecasts. So we raise our domestic gas price forecast to US\$2.75/4.5/4 per mmbtu over FY22F/23F/FY24F and beyond. While the gas price is increased by US\$0.65-1.5/mmbtu over FY22-23F, the long-term price estimate is also raised by US\$1/mmbtu (greater impact on our DCF valuation of domestic reserves).

**Figure 5: HH spot price (US\$/mmbtu)**



SOURCES: INCRED RESEARCH, BLOOMBERG

**Figure 6: HH futures curve as of 2 Jun 2021 (US\$/mmbtu)**



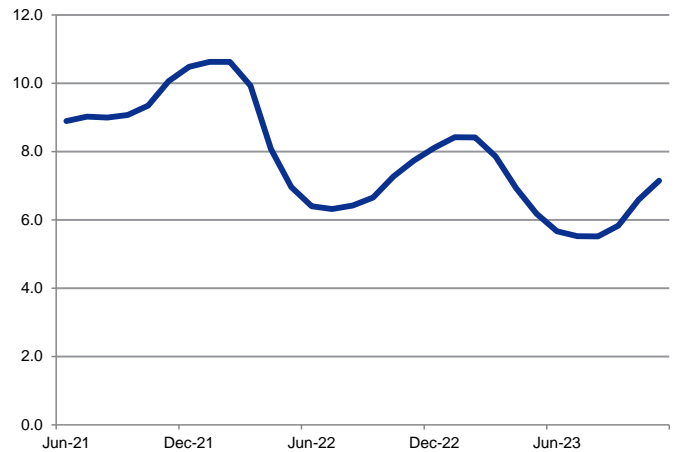
SOURCES: INCRED RESEARCH, BLOOMBERG

**Figure 7: NBP gas spot price (US\$/mmbtu)**



SOURCES: INCRED RESEARCH, BLOOMBERG

**Figure 8: NBP gas futures curve as on 2 Jun 2021 (US\$/mmbtu)**



SOURCES: INCRED RESEARCH, BLOOMBERG

**Figure 9: Domestic gas price forecasts (US\$/mmbtu)**

	FY22F	FY23F	FY24+F
Current forecasts	2.75	4.50	4.00
Previous forecasts	2.10	3.00	3.00
Change	0.65	1.50	1.00

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

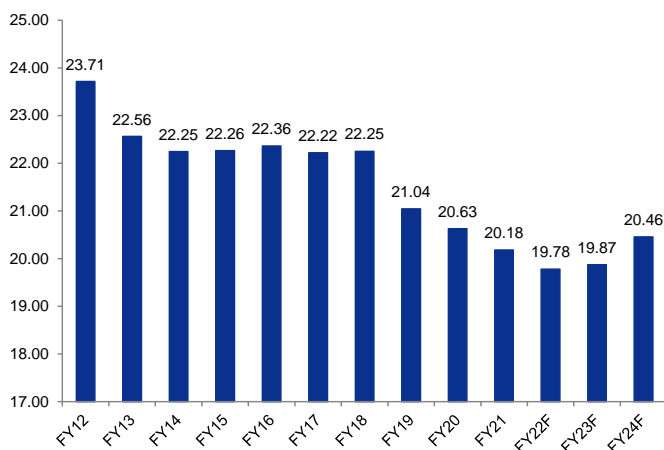
## Cautious view on oil/gas production forecasts

Both ONGC and OIL continue to under-deliver on their guidance for domestic oil and gas production. We have cut our estimates for both companies keeping our forecasts well below company guidance.

ONGC's production growth hinged on additional production from its 98/2 block, which is expected to deliver peak gas production of 15.6mmscmd and 78kbd of oil by FY24. Given the apparent delay in project delivery, we have cut our estimates for FY21F-24F.

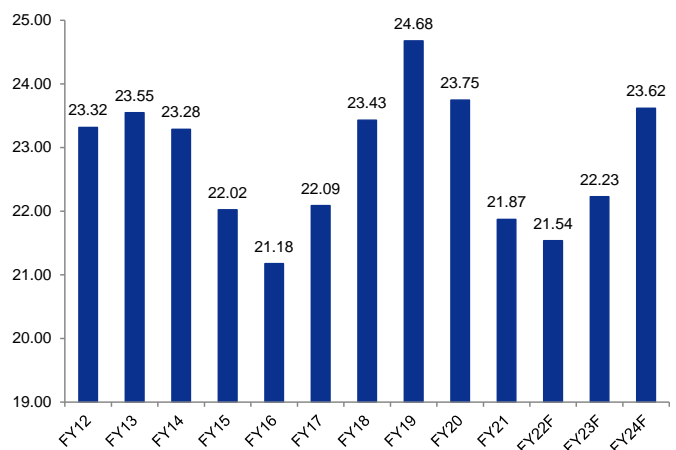
Comparatively, our expectations on production growth for OIL have always been very modest (basically flat production levels). OIL suffered a blowout in the Bhagjan well which would have negatively impacted its FY21 production levels, in our view. While this well has been capped and normal activity has resumed, we continue to expect a lower production trajectory for the company.

**Figure 10: ONGC annual domestic crude oil production (mt)**



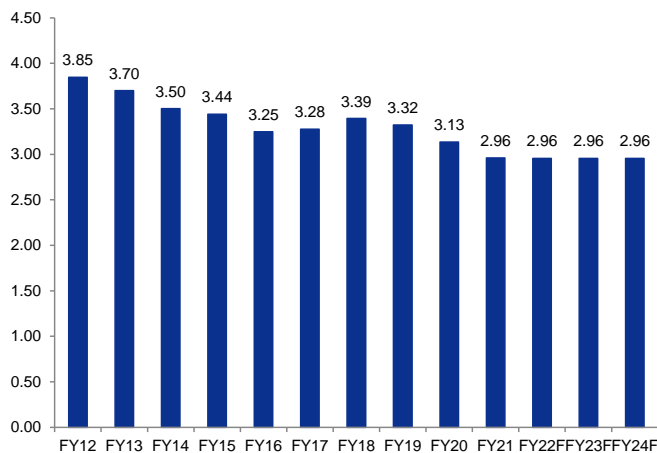
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

**Figure 11: ONGC annual domestic gas production (bcm)**



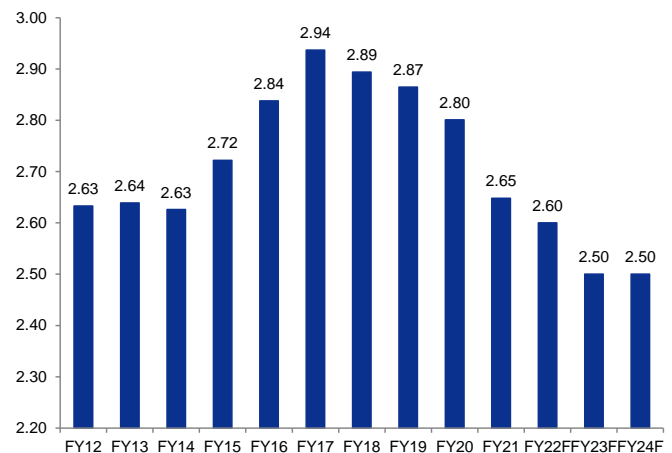
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

**Figure 12: OIL annual domestic crude oil production (mt)**



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

**Figure 13: OIL annual domestic gas production (bcm)**



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

## Stocks remain in play on global oil price recovery

ONGC and OIL stock prices have recovered from the lows of 2020 (following the sharp drop in global oil/gas prices) on account of a jump in global oil prices, but they remain undervalued, in our view. Our Brent crude price assumption is conservative and we note that the rebound in the domestic gas price will be sharper due to the lag impact of the sharp rise in global gas prices. We believe that OIL looks particularly undervalued given its cheap acquisition of NRL.

**Figure 14: Sensitivity for upstream companies in FY22F**

	ONGC	OIL
\$1/bbl change in oil price	2.8%	2%
\$0.50/mmbtu change in gas price	4.9%	4.1%
Rs1 change in INR/USD exchange rate	1.8%	1.3%

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

India

**ADD** (no change)

Consensus ratings\*: Buy 23 Hold 4 Sell 4

Current price:	Rs125
Target price:	Rs150 ▲
Previous target:	Rs115
Up/downside:	20.0%
InCred Research / Consensus:	13.2%
Reuters:	ONGC.NS
Bloomberg:	ONGC IN
Market cap:	US\$21,538m
	Rs1,570,019m
Average daily turnover:	US\$51.4m
	Rs3746.7m
Current shares o/s:	12,580.1m
Free float:	39.6%

\*Source: Bloomberg

**Key changes in this note**

- FY21F EPS increased by 23.3%
- FY22F EPS increased by 48.7%
- FY23F EPS increased by 21.2%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	12.0	5.5	37.2
Relative (%)	5.4	3.0	(10.9)

Major shareholders	% held
Government of India	60.4
LIC	10.9
Indian Oil Corporation	7.8

**Analyst(s)**



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# Oil & Natural Gas

## Rising oil/gas prices

- We raise our Brent crude forecasts by US\$5-10/bbl and domestic gas price by US\$0.65-1.5/mmbtu over FY22F/23F.
- So we raise FY21F-23F EPS by 23-49% despite some cuts in oil and gas production. Ramp up of production from 98/2 block remains below estimates.
- We maintain Add rating and raise our SOP-based target price from Rs115 to Rs150. A sharp drop in oil price is the main risk to our rating.

### We raise our oil/gas price forecasts

We have raised our forecasts for Brent crude from US\$50/bbl in FY22F-23F to US\$60/bbl in FY22F and US\$55/bbl in FY23F (albeit still significantly lower than prevailing spot prices of nearly US\$70/bbl). Similarly, we have raised our forecasts for domestic gas price from US\$2.1/mmbtu to US\$2.75/mmbtu in FY22F and from US\$3/mmbtu to US\$4.5/mmbtu in FY23F in view of the sharp rise in global spot gas prices.

### Production performance continues to be disappointing

The bulk of our estimate of growth in ONGC domestic oil/gas production is from the 98/2 block. There are clear delays in the start of production from this block and ONGC's earlier projections of production ramp up now look too optimistic. We now estimate this block to produce 1/2/5mmscmd of gas over FY21F/22F/23F and 10kbd of oil from FY23F. So given the slower ramp up, we cut our FY22F-23F estimates of domestic production of oil by 2-6% and of gas by 5-10%. On the positive side, cash opex has been under control (estimated at US\$8.1/boe in FY21F).

### Sharp jump in earnings in FY22F/23F

We raise our FY21F earnings by 23% as 4Q oil prices were slightly ahead of our estimates and HPCL's 4QFY21 earnings were significantly above estimates due to large inventory gains. We raise our EPS for FY22F by 49% and FY23F by 21%. While global crude prices have risen sharply in recent months (and may soften in the years ahead), the domestic gas price will actually rise more sharply in FY23F due to the lag impact of sharply higher global gas prices.

### Maintain Add, TP Rs150

ONGC stock price has recovered from the lows of 2020 (following the sharp drop in global oil/gas prices) on account of a jump in global oil prices, but the stock remains undervalued, in our view. Our assumption on Brent crude price is conservative and we note that the rebound in domestic gas price will be sharper due to the lag impact of the sharp rise in global gas prices. ONGC dividend payout has generally been 50% of standalone profits and hence resultant dividend yield of 6% is a key re-rating catalyst. A sharp drop in oil price is the main risk to our rating.

### Financial Summary

	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
Revenue (Rsm)	4,216,259	3,968,029	3,106,097	4,033,525	3,695,548
Operating EBITDA (Rsm)	761,486	563,102	514,356	662,565	705,491
Net Profit (Rsm)	305,461	109,072	132,676	241,797	255,829
Core EPS (Rs)	23.9	8.7	10.5	19.2	20.3
Core EPS Growth	38.5%	(63.7%)	21.6%	82.2%	5.8%
FD Core P/E (x)	5.24	14.52	11.83	6.49	6.14
DPS (Rs)	7.0	5.0	3.5	8.0	8.0
Dividend Yield	6.75%	4.82%	2.80%	6.41%	6.41%
EV/EBITDA (x)	2.52	3.99	4.39	3.45	3.14
P/FCFE (x)	20.34	64.43	(111.84)	33.79	25.46
Net Gearing	41.3%	52.3%	49.8%	49.9%	45.0%
P/BV (x)	0.74	0.76	0.72	0.68	0.63
ROE	14.5%	5.1%	6.2%	10.7%	10.6%
% Change In Core EPS Estimates			23.27%	48.70%	21.17%
InCred Research/Consensus EPS (x)			1.08	1.09	1.02

SOURCES: INCRED RESEARCH, COMPANY REPORTS. PRICED AS AT 8 JUN 2021

## Rising oil/gas prices

Around 80-85% of consolidated EPS come from domestic E&P business (standalone entity) and 10-12% from the 51% stake in HPCL (Indian refining/marketing). So, despite the purchase of HPCL, ONGC's earnings are still heavily dependent on oil and gas pricing.

FY21F net profit has been severely impacted by a sharp drop in oil and gas prices. We expect sharp recovery in FY22F/23F due to higher oil and gas prices, though production will remain stable or decline marginally.

HPCL FY21 net profit has risen sharply on the back of very large inventory gains. Without such gains, we expect profits to be lower in FY22F/23F, albeit with still higher refining margins and recovery in Indian oil demand

**Figure 15: ONGC consolidated earnings (Rs bn)**

Year to 31 Mar	2019	2020	2021F	2022F	2023F
Net sales	4,216.3	3,968.0	3,106.1	4,033.5	3,695.5
EBITDAX	853.7	653.3	592.2	741.9	784.8
Exploration expenses	92.2	90.2	77.9	79.4	79.4
EBITDA	761.5	563.1	514.4	662.6	705.5
Debt charges (incl exch losses)	-58.4	-70.0	-52.5	-63.4	-76.5
Depm, depltn, amrtsn (DD&A)	-252.9	-363.1	-271.1	-268.7	-284.6
Other income	64.0	50.1	78.3	67.4	71.3
Profit before tax	514.2	180.1	269.1	397.9	415.7
Taxation	-209.1	-75.1	-94.7	-145.5	-145.0
Profit after tax	305.1	105.1	174.4	252.4	270.6
Share in Associate/JVs	34.3	10.5	8.9	16.5	16.3
Minority interest	33.9	6.5	50.6	27.1	31.1
Group profit	305.5	109.1	132.7	241.8	255.8
FDEPS (Rs)	23.9	8.7	10.5	19.2	20.3

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

**Figure 16: ONGC standalone earnings (Rs bn)**

Year to 31 Mar	2019	2020	2021F	2022F	2023F
Net sales	1,096.5	962.1	687.1	905.0	916.5
EBITDAX	594.7	492.9	333.9	495.8	515.4
Exploration expenses	87.6	86.8	77.1	77.1	77.1
EBITDA	507.1	406.0	256.8	418.8	438.3
Debt charges (incl exch losses)	-24.9	-28.2	-18.1	-20.0	-19.0
Depm, depltn, amrtsn (DD&A)	-154.6	-235.2	-172.1	-164.1	-171.0
Other income	72.7	61.1	61.6	71.3	65.0
Profit before tax	400.3	203.7	128.2	306.0	313.3
Taxation	-141.7	-100.7	-67.4	-106.7	-108.6
Profit after tax	267.6	134.4	80.8	205.0	209.9
FDEPS (Rs)	20.9	10.7	6.4	16.3	16.7

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

**Figure 17: HPCL consolidated earnings (Rs bn)**

Year to 31 Mar	2019	2020	2021	2022F	2023F
EBITDA	121.5	55.3	160.0	107.4	132.7
Debt charges	-7.9	-11.4	-9.6	-12.3	-26.1
Depreciation	-30.9	-33.7	-36.3	-40.6	-48.2
Other income	8.3	8.1	26.4	15.5	16.3
<b>Profit before tax</b>	91.1	18.3	140.6	70.0	74.7
Taxation	-33.5	12.6	-35.3	-17.5	-18.6
<b>Profit after tax</b>	57.6	31.0	105.2	52.6	56.1
Associate/JV contribution	9.3	-4.6	1.4	4.8	7.1
Net profit	66.9	26.4	106.6	57.3	63.2
FDEPS (Rs)	43.9	17.3	70.6	39.4	44.4

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

We have significantly raised our FY22F/23F Brent oil forecasts by US\$5-10/bbl and domestic gas price forecasts by US\$0.65-1.5/mmbtu. We have cut our domestic oil/gas production forecasts due to delay in production from the 98/2 block.

**Figure 18: ONGC key assumptions**

Year to 31 Mar	2019	2020	2021F	2022F	2023F
Brent oil price (US\$/bbl)	70.2	61.0	44.9	60.0	55.0
Rupee US dollar average	69.9	70.9	74.2	75.0	75.0
Gas price for older fields (US\$/mmbtu)	3.57	3.84	2.33	2.75	4.50
Domestic opex (US\$/boe)	9.69	10.20	8.10	8.50	8.50
<b>ONGC domestic upstream operations</b>					
<u>Oil production (mt)</u>					
Own crude	21.04	20.63	20.18	19.78	19.87
Share from JVs	3.19	2.73	2.37	2.35	2.35
Total	24.23	23.35	22.55	22.13	22.22
<u>Gas production (bcm)</u>					
Own gas	24.68	23.75	21.87	21.54	22.23
Share from JVs	1.14	1.12	0.93	0.93	0.93
Total	25.81	24.86	22.80	22.46	23.16
<u>ONGC Videsh production</u>					
Oil production (mt)	10.10	9.76	8.45	7.91	7.38
Gas (bcm)	4.74	5.22	4.41	4.33	4.33
<u>HPCL</u>					
Consolidated refinery throughput (mmt)	46.92	43.33	37.98	45.69	52.53
Parent refinery GRM (US\$/bbl)	5.01	1.02	3.86	3.30	5.40
Auto fuel volumes (mmt)	25.08	24.95	22.54	25.64	26.68
Auto fuel margins (Rs/kl)	2,633	2,439	3,531	3,000	2,676
<u>MRPL</u>					
Refinery throughput (mmt)	16.23	13.95	11.48	15.90	16.30
Refinery GRM (US\$/bbl)	4.06	-0.23	3.71	4.00	5.00

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

**Figure 19: Change in estimates for ONGC**

Year to 31 Mar	Old			New			Change %		
	2021F	2022F	2023F	2021F	2022F	2023F	2021F	2022F	2023F
Brent crude (US\$/bbl)	43.0	50.0	50.0	44.9	60.0	55.0	4.3%	20.0%	10.0%
Rupee US dollar average	75.0	75.0	75.0	74.2	75.0	75.0	-1.0%	0.0%	0.0%
Domestic APM gas price (US\$/rr)	2.3	2.1	3.0	2.3	2.8	4.5	0.0%	31.0%	50.0%
Domestic opex (US\$/boe)	8.1	8.5	8.5	8.10	8.50	8.50	0.0%	0.0%	0.0%
Domestic oil production (mmt)	22.5	22.6	23.6	22.6	22.1	22.2	0.2%	-2.0%	-6.0%
Domestic gas production (bcm)	22.9	23.6	25.7	22.8	22.5	23.2	-0.3%	-4.6%	-10.1%
EBITDAX (Rs bn)	556.9	609.3	708.8	592.2	741.9	784.8	6.3%	21.8%	10.7%
EBITDA (Rsbn)	479.1	529.9	629.4	514.4	662.6	705.5	7.4%	25.0%	12.1%
Net profit (Rs bn)	107.6	162.6	211.1	132.7	241.8	255.8	23.3%	48.7%	21.2%

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

We expect profits to rise sharply on a qoq basis in 4QFY21F due to improvement in Brent crude (US\$60.7/bbl vs US\$44.5/bbl in 3QFY21).

**Figure 20: ONGC standalone quarterly result trends**

Rs bn	Mar'20	Jun'20	Sep'20	Dec'20	Mar'21F	yoy %	qoq %
Net sales	214.6	130.1	169.2	170.2	216.9	1.1%	27.4%
EBITDAX	85.9	59.1	84.4	83.5	104.9	22.2%	25.7%
Exploration expenses	30.4	11.3	14.5	18.4	33.0	8.6%	79.5%
EBITDA	55.5	47.8	69.9	65.1	71.9	29.6%	10.5%
Interest	(8.7)	(4.9)	(3.2)	(4.8)	(5.2)	-40.0%	9.2%
DD&A	(99.0)	(38.2)	(49.2)	(44.3)	(40.5)	-59.1%	-8.5%
Other income	13.3	4.4	22.4	12.2	21.4	61.5%	75.7%
Profit before tax	(38.9)	9.0	39.9	28.2	47.6	-222.3%	68.7%
Total Tax	7.9	(4.1)	(11.1)	(14.4)	(15.7)	-297.9%	8.9%
Net profit	(31.0)	5.0	28.8	13.8	31.9	-202.9%	131.4%
Quarterly EPS (Rs)	(2.5)	0.4	2.3	1.1	2.5	-202.9%	131.4%

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS



Our Brent forecasts are conservative and ONGC earnings remain positively leveraged to higher oil and gas prices.

We raise our SOP-based TP from Rs115 to Rs150 mainly due to higher valuation of domestic reserves. While our long-term Brent forecast remains unchanged at US\$50/bbl, we have raised our long-term (FY24F and beyond) domestic gas price estimate from US\$3/mmbtu to US\$4/mmbtu.

**Figure 21: ONGC EPS sensitivity**

Year to 31 Mar	2021F	2022F	2023F
EPS (Rs)	10.55	19.22	20.34
<u>EPS sensitivity assuming:</u>			
US\$1/bbl change in oil price	6.2%	2.8%	2.8%
US\$0.50/mmbtu change in APM gas price	9.3%	4.9%	4.2%
Rs1 change in INR/USD exchange rate	2.2%	1.8%	1.8%

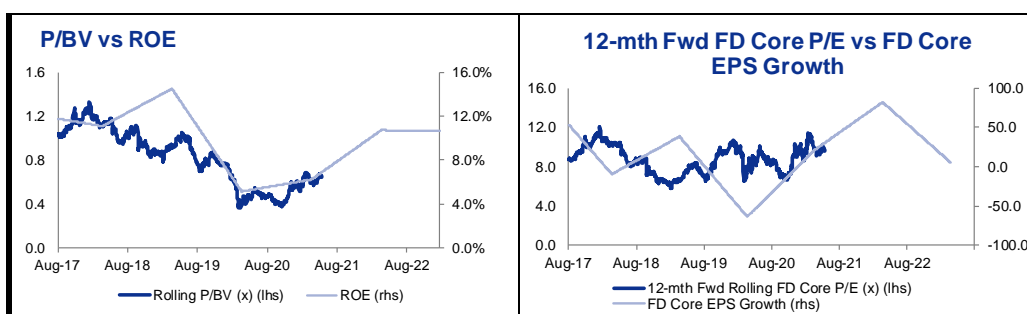
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

**Figure 22: ONGC SOP valuation**

	Valuation		per share Reserves Value		
	Rs m	US\$m	Rs	m boe	US\$/boe
Valuation of domestic P1 reserves	21,92,291	29,231	174	2,768	10.6
Valuation of overseas P1 reserves	4,20,744	5,610	33		
Subsidiary HPCL shares at 20% discount to market price	1,77,577	2,368	14		
Investments (IOC/GAIL/MRPL) at 20% discount to market price	2,32,772	3,104	19		
Net cash/(debt) (excluding abandonment deposits)	-11,32,499	-15,100	-90		
<b>Target price</b>			<b>150</b>		

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

## BY THE NUMBERS



### Profit & Loss

(Rs mn)	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
<b>Total Net Revenues</b>	<b>4,216,259</b>	<b>3,968,029</b>	<b>3,106,097</b>	<b>4,033,525</b>	<b>3,695,548</b>
<b>Gross Profit</b>	<b>853,693</b>	<b>653,337</b>	<b>592,213</b>	<b>741,923</b>	<b>784,848</b>
<b>Operating EBITDA</b>	<b>761,486</b>	<b>563,102</b>	<b>514,356</b>	<b>662,565</b>	<b>705,491</b>
Depreciation And Amortisation	(252,947)	(363,098)	(271,107)	(268,704)	(284,622)
<b>Operating EBIT</b>	<b>508,539</b>	<b>200,004</b>	<b>243,248</b>	<b>393,861</b>	<b>420,869</b>
Financial Income/(Expense)	(58,367)	(69,998)	(52,525)	(63,368)	(76,510)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	64,003	50,131	78,335	67,396	71,312
<b>Profit Before Tax (pre-EI)</b>	<b>514,175</b>	<b>180,137</b>	<b>269,059</b>	<b>397,888</b>	<b>415,671</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>514,175</b>	<b>180,137</b>	<b>269,059</b>	<b>397,888</b>	<b>415,671</b>
Taxation	(209,077)	(75,080)	(94,669)	(145,505)	(145,030)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>305,098</b>	<b>105,057</b>	<b>174,390</b>	<b>252,384</b>	<b>270,641</b>
Minority Interests	(33,920)	(6,530)	(50,623)	(27,053)	(31,085)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax	34,283	10,544	8,910	16,467	16,273
<b>Net Profit</b>	<b>305,461</b>	<b>109,072</b>	<b>132,676</b>	<b>241,797</b>	<b>255,829</b>
Recurring Net Profit	305,461	109,072	132,676	241,797	255,829
<b>Fully Diluted Recurring Net Profit</b>	<b>305,461</b>	<b>109,072</b>	<b>132,676</b>	<b>241,797</b>	<b>255,829</b>

### Cash Flow

(Rs mn)	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
<b>EBITDA</b>	<b>761,486</b>	<b>563,102</b>	<b>514,356</b>	<b>662,565</b>	<b>705,491</b>
Cash Flow from Invt. & Assoc.	64,003	50,131	78,335	67,396	71,312
Change In Working Capital	(101,204)	56,587	12,082	(30,527)	19,957
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	51,840	(15,185)	10,793	27,776	27,713
Other Operating Cashflow	20,859	(149,151)	(20,394)	(19,772)	(4,277)
Net Interest (Paid)/Received	(58,367)	(69,998)	(52,525)	(63,368)	(76,510)
Tax Paid	(209,077)	(75,080)	(94,669)	(145,505)	(145,030)
<b>Cashflow From Operations</b>	<b>529,541</b>	<b>360,407</b>	<b>447,978</b>	<b>498,564</b>	<b>598,655</b>
Capex	(443,493)	(676,751)	(459,344)	(476,309)	(465,498)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	(16,144)	124,346	(45,904)	(50,086)	(54,416)
Other Investing Cashflow					
<b>Cash Flow From Investing</b>	<b>(459,637)</b>	<b>(552,406)</b>	<b>(505,248)</b>	<b>(526,395)</b>	<b>(519,913)</b>
Debt Raised/(repaid)	8,770	216,586	43,232	74,296	(17,086)
Proceeds From Issue Of Shares					
Shares Repurchased	(40,220)				
Dividends Paid	(112,796)	(84,351)	(22,015)	(107,561)	(100,642)
Preferred Dividends					
Other Financing Cashflow					
<b>Cash Flow From Financing</b>	<b>(144,247)</b>	<b>132,235</b>	<b>21,216</b>	<b>(33,266)</b>	<b>(117,728)</b>
Total Cash Generated	(74,343)	(59,764)	(36,054)	(61,096)	(38,986)
<b>Free Cashflow To Equity</b>	<b>78,674</b>	<b>24,587</b>	<b>(14,038)</b>	<b>46,465</b>	<b>61,656</b>
<b>Free Cashflow To Firm</b>	<b>128,271</b>	<b>(122,001)</b>	<b>(4,745)</b>	<b>35,538</b>	<b>155,252</b>

SOURCES: INCRED RESEARCH, COMPANY REPORTS

## BY THE NUMBERS...cont'd

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-19A</b>	<b>Mar-20A</b>	<b>Mar-21F</b>	<b>Mar-22F</b>	<b>Mar-23F</b>
Total Cash And Equivalents	99,034	110,490	136,486	137,440	160,503
Total Debtors	174,537	115,475	139,188	190,736	180,713
Inventories	351,341	330,512	335,560	400,477	386,401
Total Other Current Assets	495,761	502,813	456,683	466,463	474,463
<b>Total Current Assets</b>	<b>1,120,673</b>	<b>1,059,290</b>	<b>1,067,918</b>	<b>1,195,115</b>	<b>1,202,081</b>
Fixed Assets	2,613,748	2,880,540	3,024,900	3,188,630	3,325,630
Total Investments	800,136	675,790	721,694	771,780	826,196
Intangible Assets	140,884	142,367	142,367	142,367	142,367
Total Other Non-Current Assets					
<b>Total Non-current Assets</b>	<b>3,554,768</b>	<b>3,698,696</b>	<b>3,888,961</b>	<b>4,102,777</b>	<b>4,294,193</b>
Short-term Debt	493,323	315,745	326,977	367,583	328,747
Current Portion of Long-Term Debt					
Total Creditors	722,291	669,983	664,697	760,414	764,272
Other Current Liabilities					
<b>Total Current Liabilities</b>	<b>1,215,614</b>	<b>985,729</b>	<b>991,673</b>	<b>1,127,996</b>	<b>1,093,019</b>
Total Long-term Debt	577,023	971,187	1,003,188	1,036,878	1,058,628
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
<b>Total Non-current Liabilities</b>	<b>577,023</b>	<b>971,187</b>	<b>1,003,188</b>	<b>1,036,878</b>	<b>1,058,628</b>
Total Provisions	532,393	553,266	564,059	591,835	619,548
<b>Total Liabilities</b>	<b>2,325,031</b>	<b>2,510,182</b>	<b>2,558,920</b>	<b>2,756,708</b>	<b>2,771,194</b>
Shareholders Equity	2,169,347	2,069,677	2,183,113	2,321,013	2,483,600
Minority Interests	181,062	178,128	214,847	220,171	241,481
<b>Total Equity</b>	<b>2,350,409</b>	<b>2,247,805</b>	<b>2,397,960</b>	<b>2,541,184</b>	<b>2,725,081</b>

<b>Key Ratios</b>					
	<b>Mar-19A</b>	<b>Mar-20A</b>	<b>Mar-21F</b>	<b>Mar-22F</b>	<b>Mar-23F</b>
Revenue Growth	30.7%	(5.9%)	(21.7%)	29.9%	(8.4%)
Operating EBITDA Growth	30.5%	(26.1%)	(8.7%)	28.8%	6.5%
Operating EBITDA Margin	18.1%	14.2%	16.6%	16.4%	19.1%
Net Cash Per Share (Rs)	(75.85)	(93.51)	(94.88)	(100.71)	(97.52)
BVPS (Rs)	169.41	164.52	173.53	184.50	197.42
Gross Interest Cover	8.71	2.86	4.63	6.22	5.50
Effective Tax Rate	40.7%	41.7%	35.2%	36.6%	34.9%
Net Dividend Payout Ratio	35.3%	69.4%	33.2%	41.6%	39.3%
Accounts Receivables Days	14.29	13.34	14.96	14.93	18.34
Inventory Days	35.66	37.54	48.35	40.81	49.34
Accounts Payables Days	73.61	76.66	96.89	79.01	95.60
ROIC (%)	10.9%	4.5%	5.3%	8.1%	8.4%
ROCE (%)	15.2%	6.4%	7.9%	10.7%	10.9%
Return On Average Assets	8.4%	3.6%	4.6%	6.2%	6.4%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

India

**ADD** (no change)

Consensus ratings*: Buy 15 Hold 3 Sell 4	
Current price:	Rs142
Target price: ▲	Rs200
Previous target:	Rs155
Up/downside:	40.8%
InCred Research / Consensus:	41.9%
Reuters:	OILI.NS
Bloomberg:	OINL.IN
Market cap:	US\$2,106m Rs153,552m
Average daily turnover:	US\$3.0m Rs215.4m
Current shares o/s:	1,084.4m
Free float:	43.3%
*Source: Bloomberg	

**Key changes in this note**

- FY21F EPS decreased by 12.4%
- FY22F EPS increased by 111%
- FY23F EPS increased by 125%



Source: Bloomberg

<b>Price performance</b>	1M	3M	12M
Absolute (%)	15.5	8.1	49.1
Relative (%)	8.8	5.5	(3.1)

<b>Major shareholders</b>	% held
Government of India	56.7
LIC	12.1
Indian Oil	4.9

**Analyst(s)**

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# Oil India

## Compelling valuation post cheap acquisition

- We raise our Brent crude forecasts by US\$5-10/bbl and domestic gas price by US\$0.65-1.5/mmbtu over FY22/23F.
- OIL's acquisition of an additional 43.6% stake in NRL at just 3.1x FY22F EV/EBITDA will be highly earnings accretive, in our view.
- We maintain Add rating and raise our SOP-based target price from Rs155 to Rs200. A sharp drop in oil price is the main risk to our rating.

### We raise our oil/gas price forecasts

We have raised our forecasts for Brent crude from US\$50/bbl in FY22-23F to US\$60/bbl in FY22F and US\$55/bbl in FY23F (albeit still significantly lower than prevailing spot prices of nearly US\$70/bbl). Similarly, we have raised our forecasts for domestic gas price from US\$2.1/mmbtu to US\$2.75/mmbtu in FY22F and from US\$3/mmbtu to US\$4.5/mmbtu in FY23F in view of the sharp rise in global spot gas prices.

### NRL acquisition will be highly earnings accretive

OIL acquired a part of BPCL's stake in Numaligarh Refinery (NRL) on 26 Mar 2021 at a very compelling valuation of 3.1x FY22F EV/EBITDA and 4.3x FY22F P/E. This will raise its stake in NRL from 26% to 69.63% (post a partial stake sale to the Assam government), resulting in full consolidation from FY22F (JV accounting till FY21F). NRL is hugely profitable due to a tax benefit linked to excise duty (which has doubled from FY21F) and we estimate its FY22F net profit at Rs37.6bn vs Rs16.1bn for OIL standalone (excluding dividend from NRL). Hence, we expect NRL consolidation from FY22F to be significantly EPS accretive for OIL. The only negative from the transaction is that it will raise OIL's consolidated net debt equity (to a still reasonable level of 46% in FY23F) as NRL is currently executing its plan to expand its refining capacity from 3mt to 9mt.

### Sharp jump in earnings in FY22/23F

We raise our FY22/23F EPS by 111%/125%. Around 40% of this increase is due to our higher forecasts for oil/gas prices and the rest is mainly due to positive impact of NRL acquisition (and resultant impact on consolidated earnings). Our estimates for domestic oil and gas production are unchanged, assuming no growth over actual FY21 levels.

### Compelling valuation post acquisition

OIL stock price has recovered from the lows of 2020 (following the collapse in global oil/gas prices) on account of a jump in global oil prices, but the stock remains significantly undervalued, in our view. Our assumption on Brent crude price is conservative and we note that the rebound in domestic gas price will be sharper due to the lag impact of the sharp rise in global gas prices. Further, we believe that the positive impact of NRL consolidation is not yet factored in (the main reason why our earnings is virtually double of consensus estimates).

Financial Summary	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
Revenue (Rsm)	137,805	121,666	86,737	274,030	273,504
Operating EBITDA (Rsm)	55,905	35,621	9,865	88,171	97,167
Net Profit (Rsm)	32,378	38,156	20,059	46,287	51,181
Core EPS (Rs)	28.6	35.2	18.5	42.7	47.2
Core EPS Growth	19.7%	23.0%	(47.4%)	130.7%	10.6%
FD Core P/E (x)	4.98	4.11	7.65	3.32	3.00
DPS (Rs)	10.3	10.6	6.0	8.0	10.0
Dividend Yield	8.71%	9.01%	4.24%	5.65%	7.06%
EV/EBITDA (x)	(0.43)	(0.73)	(3.81)	0.61	1.04
P/FCFE (x)	4.09	(4.72)	(3.40)	6.50	26.59
Net Gearing	24.6%	23.9%	49.9%	40.1%	45.8%
P/BV (x)	0.55	0.53	0.51	0.52	0.46
ROE	11.2%	13.2%	6.8%	15.6%	16.4%
% Change In Core EPS Estimates			(12.37%)	110.86%	125.40%
InCred Research/Consensus EPS (x)			0.94	2.19	2.29

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS. PRICED AS AT 8 JUN 2021

## Compelling valuation post cheap acquisition

9MFY21 standalone results have been impacted by costs relating to the blowout of Bhagjan well (reported as exceptional) which we expect to be nil in 4Q. We expect EBITDA to improve qoq in 4QFY21 due to higher oil prices though cash opex should also rise seasonally qoq.

**Figure 23: OIL standalone quarterly result trends (Rs m)**

Quarter ended	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21F	yoy %	qoq %
Net sales	25,896	17,439	21,690	21,260	26,532	2.5%	24.8%
EBITDAX	6,572	5,542	8,366	7,562	9,843	49.8%	30.2%
Exploration expenses	17,586	3,570	993	8,500	4,800	-72.7%	-43.5%
EBITDA	-11,014	1,972	7,373	-938	5,043	-145.8%	-637.7%
Interest	-1,327	-1,278	-1,217	-1,223	-1,200	-9.6%	-1.9%
DD&A	-2,528	-3,585	-3,737	-3,879	-4,100	62.2%	5.7%
Other income	9,942	1,306	1,112	3,712	11,000	10.6%	196.3%
Exceptional	0	-934	-1,341	-1,514	0		
Profit before tax	-4,928	-2,519	2,190	-3,842	10,743	-318.0%	-379.6%
Total Tax	14,184	33	200	12,879	-3,008	-121.2%	-123.4%
Net profit	9,256	-2,486	2,390	9,037	7,735	-16.4%	-14.4%
Quarterly EPS (Rs)	8.5	-2.3	2.2	8.3	7.1	-16.4%	-14.4%
Crude sales volume (mmt)	0.748	0.733	0.724	0.723	0.707	-5.5%	-2.2%
Gas sales volume (bcm)	0.531	0.576	0.553	0.586	0.565	6.4%	-3.6%
INR/USD	72.38	75.87	74.38	73.76	72.90	0.7%	-1.2%
Crude price US\$/bbl	52.18	30.43	42.74	44.09	60.67	16.3%	37.6%
Gas price US\$/mmbtu	3.54	2.67	2.74	2.03	1.98	-44.0%	-2.4%
Lifting costs, US\$/boe	17.65	9.85	10.90	11.82	13.00	-26.4%	10.0%

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Consolidated earnings reflect impact of purchase of NRL (fully consolidated from FY22F vs JV accounting till FY21F). The contributions from JVs (other than NRL) reflect post tax earnings from overseas operations.

**Figure 24: OIL consolidated earnings (Rs bn)**

Year ending March	2019	2020	2021F	2022F	2023F
Total sales	137.80	121.67	86.74	274.03	273.50
EBITDAX	64.31	43.71	27.76	100.08	106.23
Exploration expenses	8.40	8.09	17.89	11.91	9.06
EBITDA	55.91	35.62	9.86	88.17	97.17
Interest exp	-6.24	-6.45	-6.40	-8.62	-7.64
DD & A	-15.41	-18.85	-15.49	-18.84	-19.74
Other income	1.00	11.51	9.60	9.59	9.39
Associates/JVs	11.51	13.18	12.53	7.03	6.20
Profit before tax	46.77	35.01	10.11	77.33	85.39
Tax	-14.39	3.15	9.95	-31.04	-34.21
Net profit	32.38	38.16	20.06	46.29	51.18
EPS (Rs)	38.69	35.19	18.50	42.68	47.20
DPS (Rs)	10.00	10.60	6.00	8.00	10.00

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

After a sharp drop in earnings in FY21F, we expect OIL standalone earnings to rise sharply in FY22/23F on the back of improvement in oil and gas prices.

**Figure 25: OIL standalone earnings (Rs bn)**

Year ending March	2019	2020	2021F	2022F	2023F
Total sales	137.35	121.29	86.74	111.97	113.12
EBITDAX	63.23	51.03	27.76	48.75	52.16
Exploration expenses	8.39	12.06	17.89	11.91	9.06
EBITDA	54.84	38.98	9.86	36.84	43.10
Interest exp	-4.79	-4.99	-4.96	-7.15	-6.17
DD & A	-14.96	-15.70	-15.49	-15.91	-16.60
Other income	4.08	2.91	17.06	13.87	14.29
Profit before tax	39.16	21.20	6.48	27.65	34.62
Tax	-13.26	4.64	9.95	-6.97	-8.72
Net profit	25.90	25.84	16.43	20.68	25.89
EPS (Rs)	22.9	23.8	15.2	19.1	23.9
Book value per share (Rs)	256	225	235	245	259
ROE	9%	10%	7%	8%	9%
Net debt equity	14%	14%	45%	36%	32%

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

We have assumed no growth in either domestic oil or gas. We have raised oil/gas pricing in line with global trends.

**Figure 26: OIL key assumptions**

Year to 31 March	2018	2019	2020	2021F	2022F	2023F
Domestic oil production (mmt)	3.39	3.32	3.13	2.96	2.96	2.96
Domestic gas production (bcm)	2.89	2.87	2.80	2.65	2.60	2.50
Brent crude price (US\$/bbl)	57.60	70.20	61.00	44.85	60.00	55.00
Gas price including subsidy (US\$/mmbtu)	2.98	3.57	3.84	2.33	2.75	4.50
Rupee/US dollar average	64.45	69.92	70.90	74.23	75.00	75.00

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

NRL earnings have nearly doubled in FY21F due to an increase in its tax benefit (captured in its gross refining margin [GRM]). Given the enhanced profitability, OIL is acquiring an additional stake at just 3.1x FY22F EV/EBITDA and 4.3x FY22F P/E. Consequently, the acquisition would be highly EPS accretive for OIL, though it will raise its gearing due to NRL's ongoing expansion plans.

**Figure 27: NRL earnings (Rs bn)**

Year ending March	2019	2020	2021F	2022F	2023F
<b>Total sales</b>	<b>162.05</b>	<b>120.45</b>	<b>136.76</b>	<b>162.06</b>	<b>160.38</b>
<b>EBITDA</b>	<b>18.38</b>	<b>18.14</b>	<b>43.47</b>	<b>51.33</b>	<b>54.06</b>
Interest exp	-0.13	-0.02	-0.09	-0.02	-0.02
DD & A	-1.94	-2.49	-3.47	-2.92	-3.13
Other income	1.33	3.24	1.41	1.86	2.28
Profit before tax	30.64	18.87	41.31	50.24	53.18
Tax	-10.84	-3.53	-10.47	-12.66	-13.40
<b>Net profit</b>	<b>19.80</b>	<b>15.33</b>	<b>30.84</b>	<b>37.58</b>	<b>39.78</b>
EPS (Rs)	26.9	20.8	41.9	51.1	54.1
Book value per share (Rs)	74.6	73.3	76.2	115.3	155.4
<b>ROE</b>	<b>38%</b>	<b>28%</b>	<b>56%</b>	<b>53%</b>	<b>40%</b>
Net debt equity	-22%	-6%	-4%	-4%	38%
Refinery throughput (mmt)	2.9	2.4	2.7	2.8	2.9
GRM (US\$/bbl)	26.5	23.6	37.4	39.4	40.0

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

**Figure 28: Earnings revisions for OIL**

Year to 31 March	Old			New			Change %		
	2021F	2022F	2023F	2021F	2022F	2023F	2021F	2022F	2023F
Domestic oil production (mmt)	2.97	2.96	2.96	2.96	2.96	2.96	-0.2%	0.0%	0.0%
Domestic gas production (bcm)	2.64	2.60	2.50	2.65	2.60	2.50	0.3%	0.0%	0.0%
Brent crude (US\$/bbl)	43.0	50.0	50.0	44.85	60.00	55.00	4.3%	20.0%	10.0%
Domestic gas price (US\$/mmbt)	2.3	2.1	3.0	2.33	2.75	4.50	0.0%	31.0%	50.0%
EBITDAX (Rs bn)	29.3	35.1	32.3	27.8	100.1	106.2	-5.3%	185.2%	228.7%
EBITDA (Rs bn)	11.4	23.2	23.3	9.9	88.2	97.2	-13.5%	280.3%	317.7%
Net profit (Rs bn)	22.9	22.0	22.7	20.1	46.3	51.2	-12.4%	110.9%	125.4%
EPS (Rs)	21.1	20.2	20.9	18.50	42.68	47.20	-12.4%	110.9%	125.4%

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

We have valued domestic reserves based on DCF and the NRL stake at the recent transaction value.

**Figure 29: OIL SOP valuation**

	Rsm	Rs/share	Value (US\$/boe)
DCF value of domestic proved reserves	1,52,101	140	7.0
Net cash	-1,49,467	-138	
NRL stake at transaction value	1,11,160	103	
IOC stake at discount to market value	38,994	35	
Mozambique valuation	22,500	21	
Russian assets at cost	42,000	39	
<b>Total</b>	<b>2,17,288</b>	<b>200</b>	

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Sensitivity to oil/gas prices has reduced from FY22F due to large contribution from NRL earnings.

**Figure 30: OIL sensitivity analysis**

Year to 31 March	2021F	2022F	2023F
EPS (Rs) under existing assumptions	18.5	42.7	47.2
<u>EPS sensitivity assuming:</u>			
\$1/bbl change in oil price	3.8%	1.7%	1.5%
\$0.50/mmbtu change in gas price	9.5%	4.1%	3.5%
Rs1 change in INR/USD exchange rate	1.5%	1.3%	1.2%

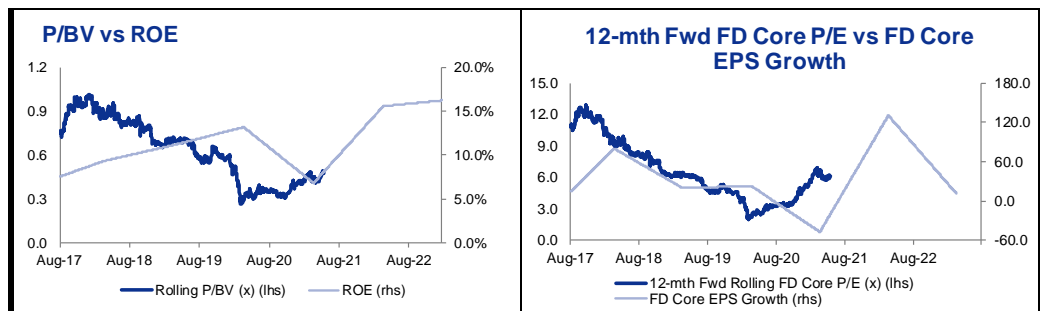
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

On 26 Mar 2021, BPCL sold its 61.65% stake in NRL to OIL, Engineers India (EIL) and Assam Government (GOA) for Rs98.76bn. GOA intends to raise its stake in NRL to 26% and hence will buy an additional 10.53% stake from OIL in FY22F at the same valuation. GOA implemented the first phase of this purchase (3.1% stake) on 1 Jun 2021. Post all transactions, OIL's ultimate stake in NRL will be 69.63%.

**Figure 31: Chronology of NRL transaction**

<b>NRL shareholding pre transaction</b>	<b>Shares</b>	<b>% stake</b>	<b>value Rsm</b>
BPCL	453.55	61.65%	
OIL	191.28	26.00%	
Assam government	90.86	12.35%	
<b>NRL transaction on 25 Mar 21</b>			
Sale by BPCL	453.55	61.65%	98760
Bought by OIL	398.44	54.16%	86760
Bought by EIL	32.15	4.37%	7000
Bought by Assam government	22.96	3.12%	5000
<b>Second stage transaction in FY22</b>			
Purch by Assam government/sale by OIL	77.46	10.53%	16866
<b>Final shareholding</b>			
OIL	512.26	69.63%	
Assam government	191.28	26.00%	
EIL	32.15	4.37%	

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

**BY THE NUMBERS**

**Profit & Loss**

(Rs mn)	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
<b>Total Net Revenues</b>	<b>137,805</b>	<b>121,666</b>	<b>86,737</b>	<b>274,030</b>	<b>273,504</b>
<b>Gross Profit</b>	<b>64,307</b>	<b>43,709</b>	<b>27,759</b>	<b>100,078</b>	<b>106,226</b>
<b>Operating EBITDA</b>	<b>55,905</b>	<b>35,621</b>	<b>9,865</b>	<b>88,171</b>	<b>97,167</b>
Depreciation And Amortisation	(15,407)	(18,851)	(15,488)	(18,836)	(19,736)
<b>Operating EBIT</b>	<b>40,498</b>	<b>16,770</b>	<b>(5,624)</b>	<b>69,334</b>	<b>77,431</b>
Financial Income/(Expense)	(6,235)	(6,446)	(6,397)	(8,618)	(7,637)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	1,001	11,508	9,597	9,587	9,394
<b>Profit Before Tax (pre-EI)</b>	<b>35,263</b>	<b>21,831</b>	<b>(2,424)</b>	<b>70,303</b>	<b>79,188</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>35,263</b>	<b>21,831</b>	<b>(2,424)</b>	<b>70,303</b>	<b>79,188</b>
Taxation	(14,394)	3,149	9,953	(19,629)	(22,125)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>20,869</b>	<b>24,981</b>	<b>7,530</b>	<b>50,675</b>	<b>57,063</b>
Minority Interests				(11,414)	(12,082)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax	11,509	13,175	12,530	7,026	6,200
<b>Net Profit</b>	<b>32,378</b>	<b>38,156</b>	<b>20,059</b>	<b>46,287</b>	<b>51,181</b>
Recurring Net Profit	32,378	38,156	20,059	46,287	51,181
<b>Fully Diluted Recurring Net Profit</b>	<b>32,378</b>	<b>38,156</b>	<b>20,059</b>	<b>46,287</b>	<b>51,181</b>

**Cash Flow**

(Rs mn)	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
<b>EBITDA</b>	<b>55,905</b>	<b>35,621</b>	<b>9,865</b>	<b>88,171</b>	<b>97,167</b>
Cash Flow from Invt. & Assoc.	1,001	11,508	9,597	9,587	9,394
Change In Working Capital	5,443	19,425	3,433	(17,792)	(6,304)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	185	(8,487)	13	2,769	176
Other Operating Cashflow	(9,676)	(20,523)	(3,918)	(54,805)	4,193
Net Interest (Paid)/Received	(6,235)	(6,446)	(6,397)	(8,618)	(7,637)
Tax Paid	(11,394)	(1,032)	9,966	(19,473)	(21,950)
<b>Cashflow From Operations</b>	<b>35,228</b>	<b>30,066</b>	<b>22,559</b>	<b>(161)</b>	<b>75,039</b>
Capex	(22,200)	(39,290)	(28,000)	(55,590)	(100,770)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	(1,465)	438	(92,257)	86,894	(900)
Other Investing Cashflow					
<b>Cash Flow From Investing</b>	<b>(23,665)</b>	<b>(38,852)</b>	<b>(120,257)</b>	<b>31,304</b>	<b>(101,670)</b>
Debt Raised/(repaid)	27,844	(24,442)	52,536	(7,502)	32,406
Proceeds From Issue Of Shares					
Shares Repurchased	(10,857)				
Dividends Paid	(12,997)	(14,131)	(5,530)	(9,651)	(10,410)
Preferred Dividends					
Other Financing Cashflow					
<b>Cash Flow From Financing</b>	<b>3,990</b>	<b>(38,573)</b>	<b>47,006</b>	<b>(17,153)</b>	<b>21,996</b>
Total Cash Generated	15,553	(47,359)	(50,692)	13,989	(4,635)
<b>Free Cashflow To Equity</b>	<b>39,408</b>	<b>(33,228)</b>	<b>(45,162)</b>	<b>23,641</b>	<b>5,775</b>
<b>Free Cashflow To Firm</b>	<b>17,799</b>	<b>(2,340)</b>	<b>(91,301)</b>	<b>39,761</b>	<b>(18,994)</b>

SOURCES: INCRED RESEARCH, COMPANY REPORTS



## BY THE NUMBERS...cont'd

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-19A</b>	<b>Mar-20A</b>	<b>Mar-21F</b>	<b>Mar-22F</b>	<b>Mar-23F</b>
Total Cash And Equivalents	79,895	57,846	29,765	43,317	36,685
Total Debtors	13,177	10,896	7,277	23,942	24,005
Inventories	12,199	12,750	13,005	32,388	32,268
Total Other Current Assets	32,902	35,561	35,561	40,188	43,238
<b>Total Current Assets</b>	<b>138,173</b>	<b>117,053</b>	<b>85,608</b>	<b>139,835</b>	<b>136,196</b>
Fixed Assets	132,073	139,797	142,503	214,445	291,420
Total Investments	248,767	248,330	340,587	253,693	254,593
Intangible Assets					
Total Other Non-Current Assets					
<b>Total Non-current Assets</b>	<b>380,840</b>	<b>388,126</b>	<b>483,089</b>	<b>468,138</b>	<b>546,013</b>
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	22,733	50,162	50,232	72,076	68,766
Other Current Liabilities					
<b>Total Current Liabilities</b>	<b>22,733</b>	<b>50,162</b>	<b>50,232</b>	<b>72,076</b>	<b>68,766</b>
Total Long-term Debt	151,137	126,695	179,231	171,729	204,135
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
<b>Total Non-current Liabilities</b>	<b>151,137</b>	<b>126,695</b>	<b>179,231</b>	<b>171,729</b>	<b>204,135</b>
Total Provisions	55,399	39,836	39,849	43,656	43,832
<b>Total Liabilities</b>	<b>229,268</b>	<b>216,693</b>	<b>269,312</b>	<b>287,461</b>	<b>316,732</b>
Shareholders Equity	289,745	288,487	299,386	294,750	330,761
Minority Interests				25,762	34,716
<b>Total Equity</b>	<b>289,745</b>	<b>288,487</b>	<b>299,386</b>	<b>320,513</b>	<b>365,477</b>

<b>Key Ratios</b>					
	<b>Mar-19A</b>	<b>Mar-20A</b>	<b>Mar-21F</b>	<b>Mar-22F</b>	<b>Mar-23F</b>
Revenue Growth	28.8%	(11.7%)	(28.7%)	215.9%	(0.2%)
Operating EBITDA Growth	42.3%	(36.3%)	(72.3%)	793.8%	10.2%
Operating EBITDA Margin	40.6%	29.3%	11.4%	32.2%	35.5%
Net Cash Per Share (Rs)	(62.94)	(63.49)	(137.83)	(118.42)	(154.42)
BVPS (Rs)	255.99	266.03	276.08	271.81	305.02
Gross Interest Cover	6.49	2.60	(0.88)	8.05	10.14
Effective Tax Rate	40.8%			27.9%	27.9%
Net Dividend Payout Ratio	43.1%	36.3%	32.4%	18.7%	21.2%
Accounts Receivables Days	36.17	36.11	38.24	20.79	31.99
Inventory Days	57.07	58.41	79.70	47.62	70.54
Accounts Payables Days	115.40	170.65	310.66	128.32	153.66
ROIC (%)	15.8%	8.4%	(2.8%)	21.7%	18.0%
ROCE (%)	8.9%	6.1%	0.8%	15.3%	15.5%
Return On Average Assets	7.3%	8.4%	4.6%	10.9%	10.7%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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**Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2020, Anti-Corruption 2020**

**ADVANC** – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BCP** - Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BH** - Good, n/a, **BJC** – Very Good, n/a, **BLA** – Excellent, Certified, **BTS** - Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – n/a, n/a, **CENTEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Very Good, Certified, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** - Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Very Good, n/a, **DELTA** - Excellent, Certified, **DDD** – Very Good, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, n/a, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** - Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** - Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Very Good, n/a, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, n/a, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** - Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – Excellent, Declared, **JMT** – Very Good, Declared, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KEX** – n/a, n/a, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – n/a, n/a, **OR** – n/a, n/a, **ORI** – Excellent, Certified, **OSP** – Very Good, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, n/a, **PSH** – Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, Certified, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RBF** – Good, n/a, **RS** – Excellent, n/a, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – n/a, n/a, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** - Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – n/a, n/a, **SHR** – Very Good, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** - Excellent, Declared, **SPRC** – Excellent, Certified, **SSP** - Good, Declared, **STEC** – n/a, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, n/a, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TISCO** - Excellent, Certified, **TKN** – Very Good, n/a, **TMB** - Excellent, Certified, **TOP** - Excellent, Certified, **TRUE** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

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Definition:

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- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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Definition:

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