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Government of India makes hay while the sun shines...

...levies duties on export of diesel, petrol & ATF; imposes export duty on crude oil production

- Brent jumped to USD114/bbl in 1QFY23 from USD80/bbl in FY22 led by the ongoing geopolitical crisis. SG GRM also expanded to USD21/bbl in 1QFY23 from USD5/bbl in FY22, aided by lack of sufficient supply from COVID-ridden China. Domestic APM gas price also spiked to USD6.1/mmBtu in 1HFY23 from USD2.9/mmBtu in 2HFY22 and it is expected to rise to ~USD9/mmBtu in 2HFY23.
- A rise of USD1/bbl in GRM results in incremental INR40b of EBITDA for RIL; 1QFY23 extrapolated for full year would have generated incremental ~INR400b of EBITDA for RIL, considering the base GRM at USD10-11/bbl.
- Similarly, an increase of USD5/bbl in GRM raises ONGC's EPS by ~9%; 1QFY23 Brent if extrapolated for the full year would have raised its EPS by ~60%, where additional gains would arise from the gas price hike. Government appears to have taken away a part of the booty by levying the new duties, which are likely to be reviewed every 15 days.

What has the government done?

- The government has restricted exports of diesel and petrol stating that 50% of what is exported, must be sold in India, meaning ~66% of production can be exported while the rest 33% has to be sold in the domestic market.
- On export of diesel, petrol & ATF, the government has imposed duties of INR13/6/6 per liter, respectively. This corresponds to a hit of ~INR27/12/12 per bbl in crack spreads of diesel/petrol/ATF, which are likely to hit the GRM of RIL by USD8/bbl. However, it may be noted that the crack spreads of diesel/petrol/ATF have risen to USD40/33/39 per bbl in 1QFY23 from the long-term average (20-year) of USD12/11/13 per bbl, respectively. Even after the knock, the revised crack spreads of USD28/21/27 per bbl for diesel/petrol/ATF remained significantly higher than the long-term averages, respectively.
- Duty of INR23,250/mt on oil production is expected to hit upstream companies by under-realization of ~USD40/bbl. The smaller companies that produce less than 2mnbbbl/year are exempted. Additionally, any rise in oil production over FY22 is also exempted to incentivize production.

Changes to our estimates due to the aforementioned levies

- We had recently raised our Brent assumptions to USD100/90 per bbl each for ONGC/ Oil India, in FY23/24, respectively. We cut the realizations of ONGC and Oil India to USD60/bbl each for 2Q-3QFY23 and leave the same unchanged for 4QFY23 onwards. We also assume that the royalty and cess would be calculated on the realized price and the benchmark. At USD100/bbl, these two would be equivalent to the additional reduction in realization by USD12/bbl. **As a result, we cut our EPS of ONGC/Oil India by 29%/25% for FY23E, respectively.**
- Over the past few weeks, the industry has been taken aback by GRMs of USD15-30/bbl as the supply crisis created by Russia-Ukraine conflict was exacerbated by the COVID-related decline in exports from China. So far, due to the lack of clarity on GRMs, we had not raised our GRM assumptions for any of the refiners and were expected to align assumptions at the end of 1QFY23.
- Aligning our assumptions for 2Q-3QFY23 would have raised the EBITDA of RIL by INR356b. However, considering the impact of export duties, the EBITDA now increases by INR191b instead. We leave our RIL assumptions for FY24 unchanged.

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Valuation and recommendation

- **RIL:** In the sale of 33% in the domestic market, we believe that the company would continue to push most of the products to the OMCs rather than in its own retail outlets as RIL would not be able to match the under-realization of the OMCs. **As our valuation is based on FY24, numbers of which are broadly unchanged, we continue to reiterate our BUY rating on the stock, valuing O2C at 7.5x FY24E EV/EBITDA, digital at 19x EV/EBITDA and core retail at 39x FY24 EV/EBITDA. We have a target price of INR2,874 for RIL.** Key risk would be non-reversal of the duties even after normalization of the refining margins.
- **ONGC/Oil India:** We had recently raised our Brent assumptions to USD100/90 per bbl each for ONGC/ Oil India, in FY23/24, respectively. In the base case, we have cut the realization by USD40/bbl for 2Q-3QFY23. This reduces the EPS of ONGC by 29%; similarly, the EPS of Oil India gets reduced by 25% for FY23E. If the cut gets extended to 4QFY23E, then the EPS would amount to INR59.8/46.1 for ONGC/Oil India, respectively, for FY23. We have assumed that the royalty and cess would be calculated on the new realization rather than at benchmark.
- Investors had remained wary of some form of windfall taxation on both ONGC and Oil India. As a result of the same, we had been valuing the stocks at 3.5x and 5.9x standalone P/E, respectively. Now that the clarity has emerged on that front, we cut the realizations for the companies keeping our multiples unchanged at 3.5x/5.9x, for ONGC/Oil India, respectively. **We reiterate our BUY rating with revised target prices of INR171 and INR364 for ONGC and Oil India, respectively. Key risk remains continuation of the windfall tax even if oil price falls below USD100/bbl.**

Exhibit 1: Impact of the export duty hike on RIL's EBITDA

Impact of export duty on	Diesel	Petrol	ATF	Remarks
Production of product (%) [A]	35	18	5	
Export (% of product produced) [B]	66	66	66	❖ 50% of export has to be sold in domestic markets
Export (% of throughput) [C = A x B]	23.1	11.9	3.3	
Export duty on product (INR/lit) [D]	13	6	6	❖ As per govt's announcement
INR/USD [E]		77		
Export duty (USD/bbl) [F = D/E x 159]	26.8	12.4	12.4	
Impact on GRM (USD/bbl) [G = F x C]	6.2	1.5	0.4	
Total impact on GRM (USD/bbl) [H]		8		
Crude throughput (mmt) [I]		72		
Full year impact on EBITDA (INRb) [(I x 7.33 x H x E)/1000]		328		

Source: Company, MOFSL

Exhibit 2: RIL's GRM (USD/bbl) and EBITDA

	4QFY22 review	Incremental EBITDA	
		What alignment of 2-3QFY23 would have looked like	Alignment of 2-3QFY23 with current trend + impact of export duties
1QFY23	11	28	28
2QFY23	11	22	14
3QFY24	11	18	10
4QFY24	11	11	11
Standalone FY23 EBITDA (INR b)	627	983	818

Source: MOFSL

Exhibit 3: Production/consumption balances of petrol, diesel and ATF by private players

Total est. production for FY22 (MMT)	Diesel	Petrol	ATF
IOCL	32.9	12.4	1.1
BPCL	14.4	5.4	0.6
HPCL	4.5	1.7	0.4
MRPL	5.6	1.2	0.4
CPCL	4.5	1.5	0.4
Reliance	27.4	12.9	4.9
Nayara	7.7	2.9	0.3
Total production by refineries	97	38.1	8.2
Total India consumption as per PPAC data (A)	76.6	30.8	5
Total production only by OMC's (B)	51.8	19.6	2.1
Production by other players (MRPL, CPCL, RIL, Nayara)	45.1	18.5	6
Indian consumption -ex of OMC (C= A-B)	24.8	11.2	2.9
Production by MRPL and CPCL (D)	10.1	2.7	0.8
Remaining products to be supplied by private players (E= C-D)	14.7	8.5	2.1
Production by private players (33% of RIL, Nayara is only allowed) (F)	11.6	5.2	1.7
Total remains for other users	3.1	3.3	0.3

Company, MOFSL

Exhibit 4: RIL's (standalone) estimate changes

Particulars	Actual/ Revised			Previous			Change (%)		
	FY22	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue (INR b)	4,237	5,430	4,867	4,237	4,300	4,052	0	26	20
EBITDA (INR b)	523	818	621	523	627	627	0	30	-1
PAT (INR b)	391	591	500	391	426	432	0	39	16
EPS (INR)	60.6	91.7	77.6	60.6	66.0	67.0	0	39	16

Source: MOFSL

Exhibit 5: ONGC's (consolidated) estimate changes

Particulars	Actual/ Revised			Previous			Change (%)		
	FY22	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue (INR b)	5,317.6	5,345.0	5,398.0	5,317.6	5,548.0	5,703.0	0	-4	-5
EBITDA (INR b)	857.7	1,388.9	1,423.9	857.7	1,507.0	1,653.0	0	-8	-14
PAT (INR b)	512.1	767.5	870.4	512.1	1,081.0	1,149.0	0	-29	-24
EPS (INR)	39.9	59.8	67.8	39.9	84.2	89.5	0	-29	-24

Source: MOFSL

Exhibit 6: OINL's estimate changes

Particulars	Actual/ Revised			Previous			Change (%)		
	FY22	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue (INR m)	1,45,302	1,77,177	1,94,835	1,45,302	2,12,754	1,97,993	0	-17	-2
EBITDA (INR m)	53,689	83,927	93,336	53,689	1,07,352	95,157	0	-22	-2
PAT (INR m)	38,873	52,162	59,866	38,873	69,844	61,219	0	-25	-2
EPS (INR)	34.4	46.1	53.0	34.4	61.8	54.2	0	-25	-2

Source: MOFSL

Exhibit 7: Change in EPS if extended to 2Q-4QFY23

Base case (2Q-3QFY23)		2Q-4QFY23		Base case (2Q-3QFY23)		2Q-4QFY23		Base case (2Q-3QFY23)		2Q-4QFY23	
RIL		RIL		ONGC		ONGC		Oil India		Oil India	
Standalone	Conso	Standalone	Conso	Standalone	Conso	Standalone	Conso	Standalone	Standalone	Standalone	Standalone
91.7	129.3	80	118.1	39.3	59.8	34.4	57.1	46.1		38.4	

Source: MOFSL

Exhibit 8: Sensitivity of ONGC to oil price and exchange rate changes

		Brent (USD/bbl)			
		80	100	120	140
INR/USD	Base case-2 (73.9)	50.8	57.2	90.9	108.7
	Base case (75.9)	52.7	59.8	94.6	113.2
	Base case+2 (77.9)	54.7	76.2	97.8	117

Note: We have assumed exchange rate as INR75.9/USD in our base case(73.9 in base case-2; 77.9 in base case+2)

Source: MOFSL

Exhibit 9: Sensitivity of Oil India to oil price and exchange rate changes

		Brent (USD/bbl)			
		80	100	120	140
INR/USD	Base case-2 (73.9)	19.8	36.6	53.5	68.5
	Base case (75.9)	20.9	46.1	55.7	71.1
	Base case+2 (77.9)	22.1	50.2	57.9	73.8

Note: We have assumed exchange rate as INR75.9/USD in our base case(73.9 in base case-2; 77.9 in base case+2)

Source: MOFSL

RIL – financial summary and assumptions (TP: INR2,874) – BUY

Exhibit 10: Financial summary (consolidated)

(INR b)

Y/E Mar	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Sales	3,054	3,917	5,692	5,967	4,669	7,000	8,952	9,305
EBITDA	462	642	842	882	807	1,105	1,557	1,497
Adj PAT	299	361	398	432	437	584	874	857
EBITDA (%)	11%	39%	31%	5%	-8%	37%	41%	-4%
EPS (INR)	46.4	56.0	61.8	67.0	67.7	86.4	129.3	126.7
EPS Gr. (%)	1%	21%	10%	8%	1%	27%	50%	-2%
BV/Sh. (INR)	409	455	601	697	1,086	1,209	1,334	1,458
Ratios								
Net D/E	0.7	0.6	0.7	0.6	0.3	0.3	0.2	0.2
RoE (%)	12.1	13.0	11.7	10.3	7.6	7.9	10.7	9.5
RoCE (%)	7.5	8.8	9.1	8.5	8.2	7.8	9.7	9.0
Payout (%)	13.1	11.9	11.6	11.6	8.4	7.8	8.2	7.1
Valuations								
P/E (x)	51.9	43.0	38.9	35.9	35.5	27.9	18.6	19.0
P/BV (x)	5.9	5.3	4.0	3.5	2.2	2.0	1.8	1.7
EV/EBITDA (x)	37.5	26.9	21.5	20.5	21.8	17.0	11.8	12.0
Div Yield (%)	0.2	0.2	0.2	0.2	0.3	0.3	0.4	0.4
FCF Yield (%)	0.1	0.1	0.0	-0.9	0.6	-0.9	0.0	0.0

Source: Company, MOFSL

Exhibit 11: Financial summary (standalone)

(INR b)

Y/E march	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Sales	2,420	2,900	3,716	3,370	2,457	4,237	5,430	4,867
EBITDA	433	517	589	528	335	523	818	621
Adj. PAT	314	336	352	335	273	391	591	500
Adj. EPS (INR)	48.8	52.2	54.6	52.0	42.4	60.6	91.7	77.6
BV/Sh.(INR)	469	511	659	636	771	766	851	922
Ratios								
Net D:E	0.3	0.3	0.4	0.5	0.3	0.4	0.3	0.2
RoE (%)	11.6	11.1	9.8	8.4	6.3	8.3	11.9	9.2
RoCE (%)	9.1	9.2	8.7	7.5	7.5	7.1	9.5	7.7
Payout (%)	12.5	12.7	13.2	15.0	13.0	12.1	12.1	12.1
Valuations								
P/E (x)	49.3	46.1	44.1	46.3	56.8	39.7	26.2	31.0
P/BV (x)	5.1	4.7	3.7	3.8	3.1	3.1	2.8	2.6
EV/EBITDA (x)	38.1	31.8	29.0	32.9	51.1	32.9	21.1	27.2
Div. Yield (%)	0.2	0.2	0.2	0.2	0.3	0.3	0.5	0.4
FCF per share	35.1	58.0	6.7	84.3	-34.5	156.7	18.7	87.1

Source: Company, MOFSL

ONGC – financial summary and assumptions (TP: INR171) – BUY

Exhibit 12: Key assumptions

Year End: March 31 (INRm)	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Exchange Rate (INR/USD)	67.1	64.5	70.0	70.9	74.3	74.5	75.9	76.8
APM Gas Price (USD/mmbtu)	3.1	3.0	3.5	3.8	2.3	2.6	7.7	5.7
Brent crude price (USD/bbl)	48.6	57.6	70.1	61.2	44.4	80.5	80.3	90.0
Production Details (mmtoe)								
Domestic Oil Prodn (mmt)	25.5	26.2	24.2	23.4	22.5	21.7	23.2	24.8
Domestic Gas Prodn (bcm)	23.3	25.6	25.8	24.9	22.8	21.7	24.0	26.0
Domestic Prodn (mmtoe)	48.8	51.8	50.0	48.3	45.3	43.4	47.2	50.8
OVL Production (mmtoe)	12.8	14.2	14.8	14.7	13.0	12.3	14.5	14.5
Group Production (mmtoe)	61.6	66.0	64.9	62.9	58.4	55.7	61.7	65.3

Source: Company, MOFSL

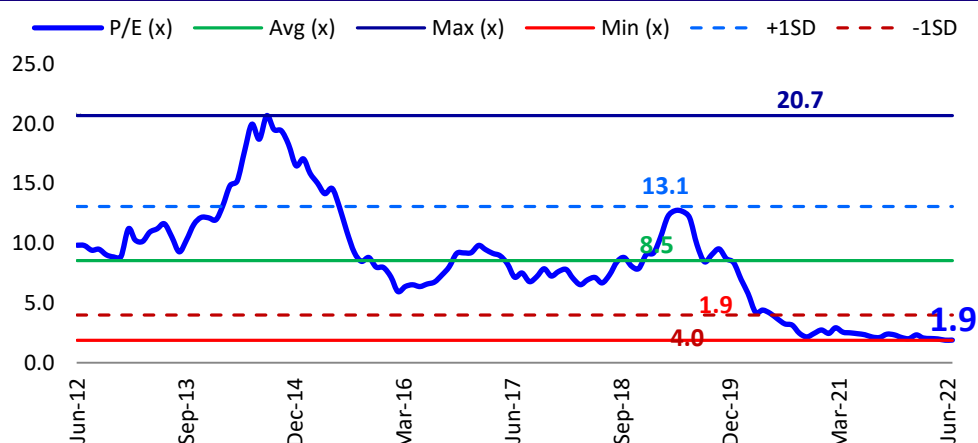
Exhibit 13: Financial summary

(INR b)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Sales	3,257	3,622	4,537	4,250	3,606	5,318	5,345	5,398
EBITDA	580	644	840	611	566	858	1,389	1,424
Adj. PAT	288	259	349	167	207	512	768	870
Adj. EPS (INR)	22.4	20.2	27.2	13.0	16.1	39.9	59.8	67.8
EPS Gr. (%)	64.9	-9.9	34.6	-52.1	23.8	147.4	49.9	13.4
BV/Sh.(INR)	151.5	158.0	167.9	159.8	172.2	202.2	242.4	287.3
Ratios								
Net D:E	0.3	0.5	0.4	0.5	0.5	0.4	0.2	0.0
RoE (%)	14.7	13.0	16.7	8.0	9.7	21.3	26.9	25.6
RoCE (%)	11.1	9.2	11.3	6.4	7.3	15.7	20.8	21.5
Payout (%)	36.0	38.0	31.3	67.5	21.6	8.5	32.9	33.7
Valuations								
P/E (x)	5.8	6.5	4.8	10.1	8.1	3.3	2.2	1.9
P/BV (x)	0.9	0.8	0.8	0.8	0.8	0.6	0.5	0.5
EV/EBITDA (x)	4.0	4.1	3.2	4.3	4.8	3.1	1.6	1.1
Div. Yield (%)	5.3	5.0	5.2	3.8	2.7	2.5	15.0	17.4
FCF Yield (%)	15.1	17.3	21.2	17.1	9.0	26.7	47.6	58.2

Source: Company, MOFSL

Exhibit 14: One-year forward P/E for ONGC at a discount of ~77% to its long-term average



Source: Company, MOFSL

OINL – financial summary and assumptions (TP: INR364) – BUY

Exhibit 15: Key assumptions

Year End: March 31 (INRm)	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Exchange Rate (INR/USD)	67.1	64.5	64.5	64.5	74.3	74.5	75.9	76.8
APM Gas Price (USD/mmbtu)	3.0	3.0	3.5	3.8	2.2	2.6	7.3	5.5
Brent Crude Price (USD/bbl)	49.0	57.6	70.1	61.2	44.4	80.5	80.3	90.0
Production Details								
Oil (mmt)	3.28	3.39	3.32	3.13	2.96	3.01	3.10	3.19
Gas (bcm)	2.94	2.89	2.72	2.77	2.48	2.89	3.07	3.25
Total (mmtoe)	6.22	6.29	6.05	5.90	5.44	5.90	6.17	6.44

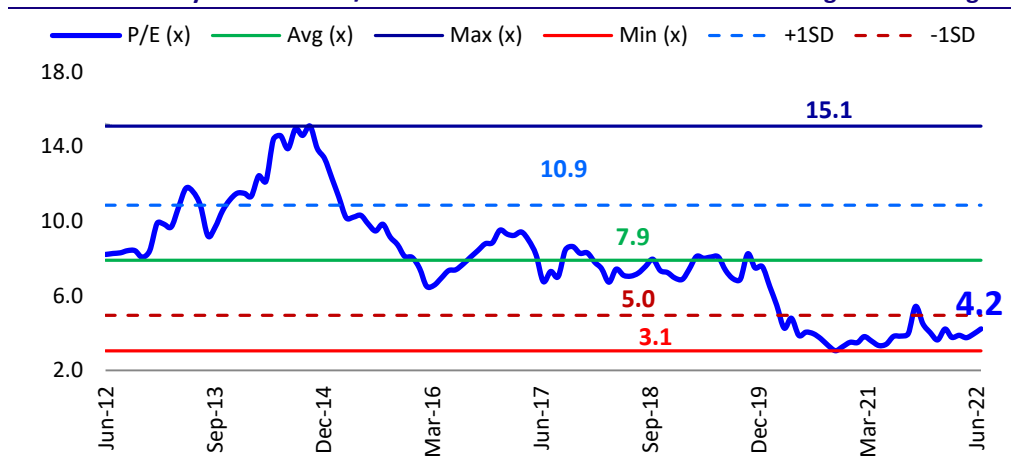
Source: Company, MOFSL:

Exhibit 16: Financial summary (INR b)

Y/E march	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Sales	93.6	106.6	137.3	121.3	86.2	145.3	177.2	194.8
EBITDA	29.6	39.1	54.8	43.7	12.7	53.7	83.9	93.3
Adj. PAT	27.0	26.7	36.2	25.8	21.9	38.9	52.2	59.9
Adj. EPS (INR)	23.9	23.6	32.0	22.9	19.4	34.4	46.1	53.0
EPS Gr. (%)	7.2	-1.2	35.6	-28.6	-15.2	77.5	34.2	14.8
BV/Sh.(INR)	257.4	246.9	245.5	215.7	231.9	264.4	291.5	322.5
Ratios								
Net D:E	0.1	0.2	0.0	0.2	0.6	0.4	0.3	0.2
RoE (%)	5.7	9.4	9.3	9.9	6.9	13.9	16.6	17.3
RoCE (%)	3.5	4.8	6.8	3.6	-1.6	6.8	9.3	9.8
Payout (%)	96.5	52.7	53.8	55.8	39.1	49.9	41.4	41.4
Valuations								
P/E (x)	9.0	9.1	6.7	9.4	11.0	6.2	4.6	4.0
P/BV (x)	0.8	0.9	0.9	1.0	0.9	0.8	0.7	0.7
EV/EBITDA (x)	9.0	7.3	4.6	6.7	30.7	6.6	4.0	3.4
Div. Yield (%)	5.1	4.8	4.8	5.0	2.3	6.7	8.9	10.3
FCF Yield (%)	-1.1	1.8	10.6	10.4	-3.1	13.4	17.9	22.3

Source: Company, MOFSL

Exhibit 17: One-year forward P/E for OINL at a discount of ~47% to its long-term average



Source: Company, MOFSL

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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