

Retail Equity Research

Indian Oil Corporation Limited

Oil, Gas & Consumable Fuels

BSE CODE: 530965

NSE CODE: IOC

Bloomberg CODE: IOCL:IN

SENSEX: 41,893

BUY

12M Investment period

Rating as per Large Cap

CMP Rs. 80

TARGET Rs. 92

RETURN 14% ↑

(Closing: 06-11-20)

KEY CHANGES:

TARGET ↓

RATING ↔

EARNINGS ↑

Low costs, improved margins; Outlook stable

Indian Oil Corporation Limited manufactures petroleum & petroleum products in addition to exploration & refining of crude oil. Its products include lubricating oils, liquid petroleum gas, aviation turbine fuels etc.

- Q2FY21 revenue declined 12.6% YoY to Rs. 115,749cr, due to drop in sales of petroleum products (-13.1% YoY).
- EBITDA margin expanded 540bps YoY to 8.1%. Average Gross refining margin (GRM) increased to US\$ 8.6/bbl vs. US\$ 1.3/bbl in Q2FY20. PAT increased to Rs. 6,227cr vs Rs. 563cr in Q2FY20 owing to cost reduction.
- We reiterate our BUY rating on the stock given the expected pickup in fuel demand in the upcoming quarters. Also, current capex plans for petrochemical segment should help improve margins. We revise our target price to Rs. 92 based on SOTP.

Strong bottom-line performance despite lower revenue

IOCL's Q2FY21 revenue came in at Rs. 115,749cr, a fall of 12.6% YoY, due to reduction in demand for petroleum products post pandemic lockdown. Petroleum Products sales reduced 13.1% YoY to Rs. 110,715cr, due to slow growth of gasoline and gas oil in most of the quarter. However, Petrochemicals grew 32.2% YoY to Rs. 4,440cr. Domestic sales volume fell 12.3% YoY to 17.7mmt and export sales went down by 3.4% YoY to 1.2mmt. Average GRM stood at US\$8.6/bbl (vs. US\$1.3/bbl in Q2FY20). However, normalized GRMs stood at US\$(0.97)/bbl (vs. Singapore GRM of US\$0.05/bbl in Q2FY21) after adjusting for inventory loss and price impact. Total EBITDA increased to Rs. 9,427cr (vs Rs. 3,572cr) with reduction in cost of materials (-19pps YoY) and purchase of stock in trade (-360bps YoY). Hence, PAT increased to Rs. 6,227cr (vs Rs. 563cr in Q2FY21) driven by reduction in operating costs and partially offset by deferred tax charge of Rs. 1,301cr (vs Rs. 368cr in Q2FY21).

Key concall highlights

- Refinery throughput fell 20.3% YoY to 14.0mmt with a drop in capacity utilization to 67% in August with planned shutdown of Paradip refinery.
- The company plans to set up 2,400 retail outlets this year, of which it commissioned 994 retail outlets till September '20. In upcoming years, it has planned to commission 2,000-2,500 retail outlets every year.
- As of Sep 30, the debt-equity ratio dropped down to 0.9x (vs. 1.2x as of Mar 31, 2020) with a debt of Rs. 98,605cr.
- The government does not have any buyback plans similar to other PSUs.
- Management plans for capex of Rs. 26,000cr for FY21, of which Rs. 4,200cr is for PS6, the 2G ethanol plant and some brownfield projects. For pipeline, it plans to spend Rs. 4,500cr. The company plans to spend over Rs. 26,000cr in FY22 as well.

Performance in October

In October, IOCL saw a growth in demand for petroleum products, which increased the refinery utilization to 95%. Gasoline demand went up by 104% YoY at the start of month due to increase in use of personal vehicles. Gas oil also saw a tremendous growth of 102% YoY. Capacity utilization of PX-PTA and Paradip polypropylene unit stood at 85% and 65% respectively.

Valuation

The stability in crude oil prices, capital expenditure plans to reduce cost and improving margins for petrochemical and pipeline segment should support medium-term performance for the company. We thereby reiterate our BUY rating on the stock with a revised target price of Rs. 92 based on SOTP valuation.

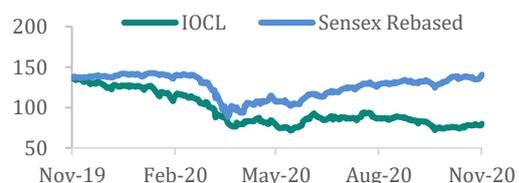
Company Data

Market Cap (cr)	Rs. 75,502
Enterprise Value (cr)	Rs. 163,303
Outstanding Shares (cr)	941.4
Free Float	26.0%
Dividend Yield	5.3%
52 week high	Rs. 140
52 week low	Rs. 71
6m average volume (cr)	0.1
Beta	1.3
Face value	Rs. 10

Shareholding %	Q4FY20	Q1FY21	Q2FY21
Promoters	51.5	51.5	51.5
FII's	7.2	6.3	6.1
MFs/Insti	13.5	14.0	13.5
Public	4.4	4.9	5.6
Others	23.4	23.3	23.4
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-8.0%	4.7%	-40.8%
Absolute Sensex	10.2%	32.2%	3.5%
Relative Return*	-18.2%	-27.5%	-44.4%

*over or under performance to benchmark index



Consolidated (cr)	FY20A	FY21E	FY22E
Sales	5,66,950	3,63,912	4,78,660
Growth (%)	(6.4)	(35.8)	31.5
EBITDA	18,785	22,885	30,783
EBITDA Margin (%)	3.3	6.3	6.4
Adj. PAT	12,618	13,743	15,334
Growth (%)	(25.3)	8.9	11.6
Adj. EPS	13.4	14.6	16.3
Growth (%)	(25.3)	8.9	11.6
P/E	6.1	5.5	4.9
P/B	0.8	0.7	0.7
EV/EBITDA	10.1	7.1	4.9
ROE (%)	1.4	13.2	13.2
D/E	1.2	0.8	0.7

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q2FY21	Q2FY20	YoY Growth %	Q1FY21	QoQ Growth %	H1FY21	H1FY20	YoY Growth %
Revenue	115,749	132,377	(12.6)	88,937	30.1	204,686	282,514	(27.5)
EBITDA	9,427	3,572	163.9	5,512	71.0	14,939	11,922	25.3
EBITDA margins	8.1	2.7	540bps	6.2	190bps	7.3	4.2	310bps
Depreciation	2,404	2,098	14.6	2,355	2.1	4,758	4,190	13.5
EBIT	7,024	1,475	376.3	3,158	122.4	10,181	7,732	31.7
Interest	221	1,308	(83.1)	1,171	(81.1)	1,392	2,817	(50.6)
Other Income	1,537	648	137.2	642	139.4	2,180	1,279	70.4
Exceptional Items	-	-	-	-	-	-	-	-
PBT	8,340	814	923.9	2,629	217.3	10,968	6,194	77.1
Tax	2,113	251	741.4	718	194.3	2,830	2,034	39.1
Sh. of profit from Associate	-	-	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-	-	-
Reported PAT	6,227	563	n.m.	1,911	225.9	8,138	4,160	95.7
Adjustments	-	-	-	-	-	-	-	-
Adj. PAT	6,227	563	n.m.	1,911	225.9	8,138	4,160	95.7
No. of shares	941.4	941.4	-	941.4	-	941.4	941.4	-
Adj. EPS (Rs.)	6.6	0.6	n.m.	2.0	225.9	8.6	4.4	95.7

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	373,616	480,750	3,63,912	4,78,660	(2.6)	(0.4)
EBITDA	24,436	32,413	22,885	30,783	(6.3)	(5)
Margins (%)	6.5	6.7	6.3	6.4	(20bps)	(30bps)
Adj. PAT	9,612	14,840	13,743	15,334	43.0	3.3
Adj. EPS	10.2	15.8	14.6	16.3	43.0	3.3

Sum of the parts (SOTP) valuation

Particulars	Methodology	Multiple	Year	Value (Rs. Cr)	Value/share (Rs.)
IOCL	EV/EBITDA	5.2x	FY22E	1,60,071	170
Less: Net debt				84,459	90
Total					80
CPCL	Market price			582	1
Investments				12,777	14
- Lanka IOC	Market price			349	0.4
- Petronet LNG	Market price			4,322	5
- ONGC	Market price			6,707	7
- GAIL	Market price			940	1
- Oil India	Market price			460	0
			20% holding discount to investments and CPCL		(3)
			Target Price		92

PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	506,428	605,932	566,950	3,63,912	4,78,660
% change	13.7	19.6	(6.4)	(35.8)	31.5
EBITDA	39,665	33,824	18,785	22,885	30,783
% change	24.8	(14.7)	(44.5)	21.8	34.5
Depreciation	7,036	7,470	8,923	9,084	9,938
EBIT	32,598	26,309	10,019	13,801	20,844
Interest	3,448	4,311	5,979	4,517	5,268
Other Income	3,415	3,129	(7,733)	3,500	3,710
PBT	32,564	25,127	(3,694)	12,783	19,286
% change	23.7	(22.8)	(114.7)	n.m.	50.9
Tax	11,218	8,233	(5,007)	(960)	3,952
Tax Rate (%)	34.4	32.8	135.5	(7.5)	20.5
Reported PAT	21,346	16,894	1,313	13,743	15,334
Adj*	-	-	11,305	-	-
Adj PAT	21,346	16,894	12,618	13,743	15,334
% change	11.7	(20.9)	(25.3)	8.9	11.6
No. of shares (cr)	947.9	941.4	941.4	941.4	941.4
Adj EPS (Rs.)	22.5	17.9	13.4	14.6	16.3
% change	(44.1)	(20.3)	(25.3)	8.9	11.6
DPS (Rs.)	21.0	9.3	4.3	5.0	7.5
CEPS (Rs.)	29.9	25.9	22.9	24.1	26.7

CASH FLOW

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	28,382	24,364	10,236	22,676	25,109
Non-cash adj.	2,335	3,576	(5,127)	25,968	8,964
Changes in W.C	(4,293)	(15,518)	3,530	5,015	10,256
C.F. Operation	26,424	12,422	8,639	53,659	44,329
Capital exp.	(16,797)	(21,288)	(29,697)	(20,233)	(22,783)
Change in inv.	(2,753)	(3,030)	(826)	(636)	(536)
Other invest.CF	3,771	3,547	3,645	0	0
C.F - Investment	(15,779)	(20,771)	(26,877)	(20,868)	(23,319)
Issue of equity	-	-	-	-	-
Issue/repay debt	3,186	28,188	29,839	(25,250)	(12,000)
Dividends paid	-	-	-	-	-
Other finance.CF	(13,830)	(19,853)	(11,104)	(7,654)	(8,958)
C.F - Finance	(10,644)	8,334	18,735	(32,904)	(20,958)
Chg. in cash	1	(15)	497	(114)	51
Closing cash	81	88	589	475	527

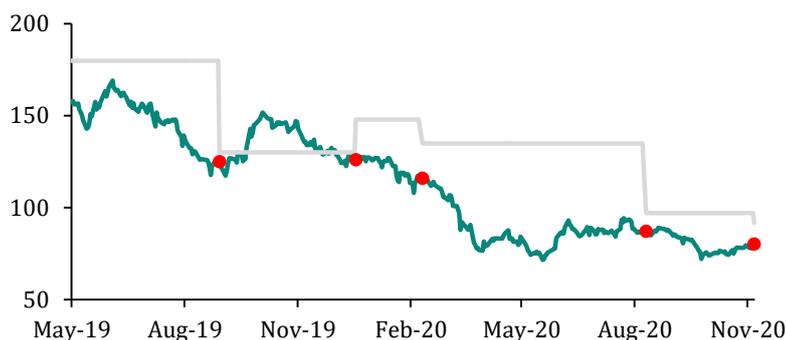
BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	81	88	589	475	527
Accounts Receivable	10,117	15,458	12,844	10,917	14,360
Inventories	65,313	71,470	63,678	60,169	48,056
Other Cur. Assets	27,544	35,919	28,931	21,770	24,147
Investments	39,089	41,422	31,052	31,788	32,324
Gross Fixed Assets	130,464	142,223	171,920	1,92,152	2,14,936
Net Fixed Assets	112,888	117,331	131,753	1,42,901	1,55,746
CWIP	13,861	22,161	28,134	28,134	28,134
Intangible Assets	1,527	2,815	3,533	3,684	3,848
Def. Tax (Net)	1,291	1,348	4,187	1,920	3,162
Other Assets	9,029	6,401	6,390	9,293	12,169
Total Assets	280,740	314,413	311,091	3,11,052	3,22,470
Current Liabilities	99,075	103,575	89,421	1,05,715	1,18,998
Provisions	2,023	884	919	956	994
Debt Funds	56,096	83,876	113,526	88,277	76,277
Other Liabilities	13,375	17,421	13,456	11,730	10,182
Equity Capital	9,479	9,181	9,181	9,181	9,181
Reserves & Surplus	100,692	99,476	84,588	95,194	1,06,838
Shareholder's Fund	110,171	108,658	93,769	1,04,375	1,16,019
Minority Interest	-	-	-	-	-
Total Liabilities	280,740	314,413	311,091	3,11,052	3,22,470
BVPS (Rs.)	116	115	100	111	123

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab. & Return					
EBITDA margin (%)	7.8	5.6	3.3	6.3	6.4
EBIT margin (%)	6.4	4.3	1.8	3.8	4.4
Net profit mgn.(%)	4.2	2.8	0.2	3.8	3.2
ROE (%)	19.4	15.5	1.4	13.2	13.2
ROCE (%)	19.6	13.7	4.8	7.2	10.8
W.C & Liquidity					
Receivables (days)	7.2	9.2	8.2	10.8	10.8
Inventory (days)	68.5	57.7	54.7	100.8	54.7
Payables (days)	34.7	30.2	21.7	41.6	30.1
Current ratio (x)	0.8	0.8	0.7	0.7	0.6
Quick ratio (x)	0.1	0.2	0.1	0.1	0.1
Turnover & Leverage					
Gross asset T.O (x)	4.1	4.4	3.6	2.0	2.4
Total asset T.O (x)	1.9	2.0	1.8	1.2	1.5
Int. coverage ratio (x)	9.5	6.1	1.7	3.1	4.0
Adj. debt/equity (x)	0.5	0.8	1.2	0.8	0.7
Valuation					
EV/Sales (x)	0.4	0.4	0.3	0.4	0.3
EV/EBITDA (x)	5.6	7.0	10.1	7.1	4.9
P/E (x)	7.8	9.0	6.1	5.5	4.9
P/BV (x)	1.5	1.4	0.8	0.7	0.7

Recommendation Summary



Dates	Rating	Target
29-Aug-19	HOLD	130
18-Dec-19	BUY	148
10-Feb-20	BUY	135
10-Aug-20	BUY	97
9-Nov-20	BUY	92

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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