

INDIAN OIL CORPORATION

Inventory loss shadows strong operational performance

India Equity Research | Oil, Gas and Services



Indian Oil Corporation (IOCL) reported strong core GRM of USD7.7/bbl (up 12% QoQ, 19% ahead). Profit, however, was dragged by severe inventory loss (USD3.4/bbl versus USD2.0/bbl estimated) and, hence, came 34% below estimate. Core EBITDA (ex-inventory losses and large INR28bn one-off write-back) came in strong at INR86bn (up 32% YoY, 34% QoQ). We remain upbeat on IOCL given strong structural earnings growth prospects as ongoing successful ramp up of the highly profitable Paradip refinery (88% utilisation in Q1FY18 versus 82% in Q4FY17) will enhance profitability (refer note, [Paradip refinery visit: Scaling competitive paradigm](#)), and as value-accretive mega INR1.8tn capex over 7 years will be funded via internal accruals. IOCL offers an attractive dividend yield of 4%. Maintain 'BUY' with revised TP of INR445 (INR484 earlier).

Paradip ramp up as scheduled; large provision write-backs

GRM of USD4.3/bbl (down 57% YoY, 52% QoQ), at USD2.1/bbl discount to Singapore benchmark, was primarily attributed to adverse inventory impact (7% QoQ fall in Brent). Core GRM (up 119% YoY, 12% QoQ), however, surpassed estimate on higher utilisation of Paradip. Refinery throughput, at 17.5MMT (up 9% YoY, 3% QoQ), came 1% below estimate. MS/HSD sales rose 10%/3% YoY and marketing EBITDA (ex-inventory) was, therefore, up 25% YoY. Reported standalone PAT came 13% ahead owing to INR28.1bn provision write-back pertaining to settlement of state entry tax with Haryana.

Better-than-expected pipeline and petchem performance

Pipeline EBITDA came at INR16bn (down 1% YoY, up 9% QoQ, **8% ahead**) due to 7% higher-than-expected throughput. Petchem EBITDA at INR18bn (down 10% YoY, 10% QoQ) surpassed estimate 19%.

Outlook and valuations: Paradip to perk up profitability; retain 'BUY'

GRM is likely to structurally enhance as the Paradip refinery (core GRM of USD12/bbl) has been fully commissioned (IOCL earlier guided for 92-95% utilisation in FY18). INR1.8tn capex balanced across verticals will be funded via internal accruals (INR300bn p.a. operating cash flow). *We have revised down FY18/FY19E EPS 23%/17% mainly factoring lower inventory gains on revised oil price estimates and stronger INR.* On our revised EV/EBITDA multiples (to reflect global peers), we maintain 'BUY/SO'. IOCL is trading at attractive 9x FY19E PER.

Financials (Consolidated)

(INR bn)

Year to March	Q1FY18	Q1FY17	YoY %	Q4FY17	QoQ %	FY17	FY18E	FY19E
Net revenue	1,026	861	19.2	1,003	2.3	3,553	3,037	3,429
EBITDA	52	137	(62.1)	44	17.8	340	339	387
Adjusted Profit	27	83	(67.7)	37	(28.3)	199	173	208
Adjusted Diluted EP!	5.5	17.0	(67.7)	7.7	(28.3)	40.9	35.7	42.8
Diluted P/E (x)						9.5	10.8	9.0
EV/EBITDA (x)						7.1	6.9	6.3
ROAE (%)						20.9	16.7	18.3

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperform
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Equalweight

MARKET DATA (R: IOC.BO, B: IOCL IN)

CMP	: INR 387
Target Price	: INR 445
52-week range (INR)	: 451 / 266
Share in issue (mn)	: 4,855.9
M cap (INR bn/USD mn)	: 1,879 / 29,502
Avg. Daily Vol.BSE/NSE('000)	: 5,220.2

SHARE HOLDING PATTERN (%)

	Current	Q4FY17	Q3FY17
Promoters *	57.3	57.3	58.3
MF's, FI's & BK's	10.9	11.8	11.2
FII's	6.5	5.4	5.3
Others	25.3	25.5	25.2
* Promoters pledged shares (% of share in issue)	:	NIL	

PRICE PERFORMANCE (%)

	Stock	Nifty	EW O & G Index
1 month	(3.9)	5.9	7.9
3 months	(16.5)	8.2	(2.5)
12 months	33.3	16.9	34.8

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Table 1: Computation of core EBITDA

IOCL core EBITDA (INR mn)	Q1FY18	Q1FY17	YoY (%)	Q4FY17	QoQ (%)
Reported EBITDA	79,996	136,835	(41.5)	44,086	81.5
One-offs (gains) / losses	(28,081)	0	NM	61,511	(145.7)
Inventory (gains) / losses	40,420	(74,790)	NM	(26,330)	NM
Adjusted EBITDA (incl. Exchange fluctuations)	92,335	62,045	48.8	79,267	16.5
Reported exchange gain / (loss)	6,120	(3,330)	NM	15,010	NM
Core EBITDA (ex. Exchange fluctuations)	86,215	65,375	31.9	64,257	34.2

Table 2: Key operational metrics

Key Operational metrics	Q1FY18	Q1FY17	Q4FY17	% YoY	% QoQ
Refining					
Reported GRM (USD/bbl)	4.3	10.0	9.0	(56.7)	(51.7)
Inventory gains (USD/bbl)	(3.4)	6.5	2.0	NM	NM
Core GRM (USD/bbl)	7.7	3.5	6.9	118.8	11.7
Reported EBITDA (INR mn)	44,240	60,360	33,320	-26.7	32.8
Inventory gains (INR mn)	(28,060)	51,000	17,170	NM	NM
Core EBITDA (INR mn)	72,300	9,360	16,150	672.4	347.7
Singapore GRM (USD/bbl)	6.4	5.0	6.4	28.0	-
Premium / (Discount)	(2.1)	5.0	2.6	NM	NM
Throughput (TMT)	17,521	16,099	17,087	8.8	2.5
Paradip (TMT)	3,300	1,190	3,060	177.4	7.8
Distillate yield (%)	78.6	78.9	78.7	(0.3)	(0.1)
Marketing (TMT)					
Reported EBITDA (INR mn)	9,080	40,970	(15,880)	(77.8)	NM
Inventory gains (INR mn)	(12,360)	23,790	9,160	NM	NM
Core EBITDA (INR mn)	21,440	17,180	(25,040)	24.8	NM
MS	2,811	2,567	2,464	9.5	14.1
HSD	9,702	9,435	8,664	2.8	12.0
LPG	2,497	2,289	2,648	9.1	(5.7)
SKO	697	1,053	767	(33.8)	(9.1)
Others	4,011	3,972	3,999	1.0	0.3
Domestic Sales Volume	19,718	19,316	18,542	2.1	6.3
Exports Sales Volume	1,755	932	1,416	88.3	23.9
Total Sales Volume	21,473	20,248	19,958	6.1	7.6
Product inventory gains / (losses) [INR mn]	(12,360)	23,790	9,160	NM	NM
Pipelines					
EBITDA (INR mn)	15,900	16,060	14,550	(1.0)	9.3
Throughput (TMT)	21.4	21.4	19.8	(0.2)	7.8
Chemicals EBITDA (INR mn)	18,190	20,320	20,310	(10.5)	(10.4)

Source: Company, Edelweiss research

Chart 1: Reported GRMs, at USD4.3/bbl, fell 57% YoY, 52% QoQ on inventory losses

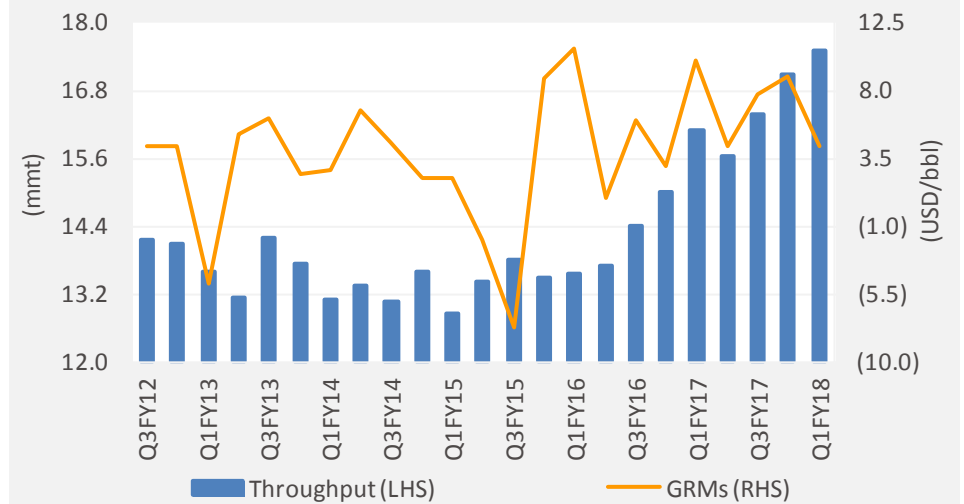


Chart 2: GRM trend – IOCL's reported GRMs down 52% QoQ

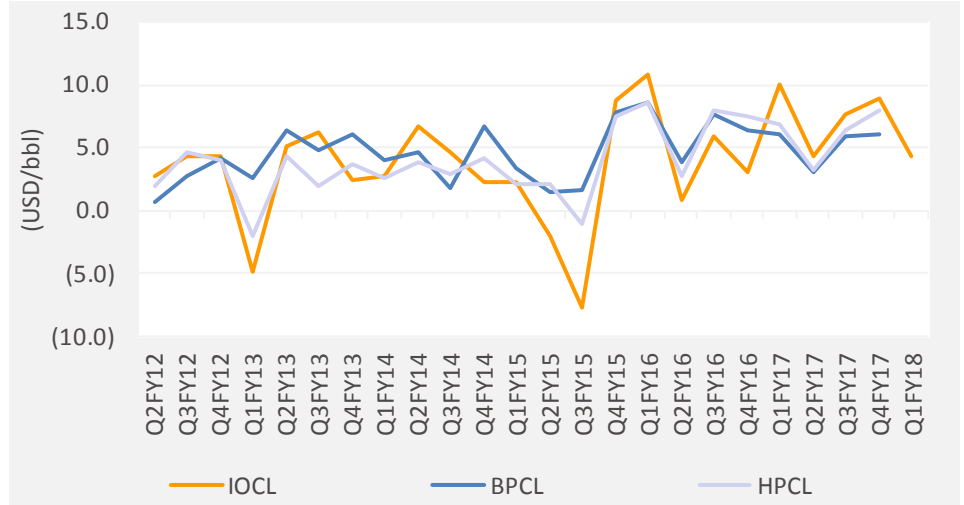
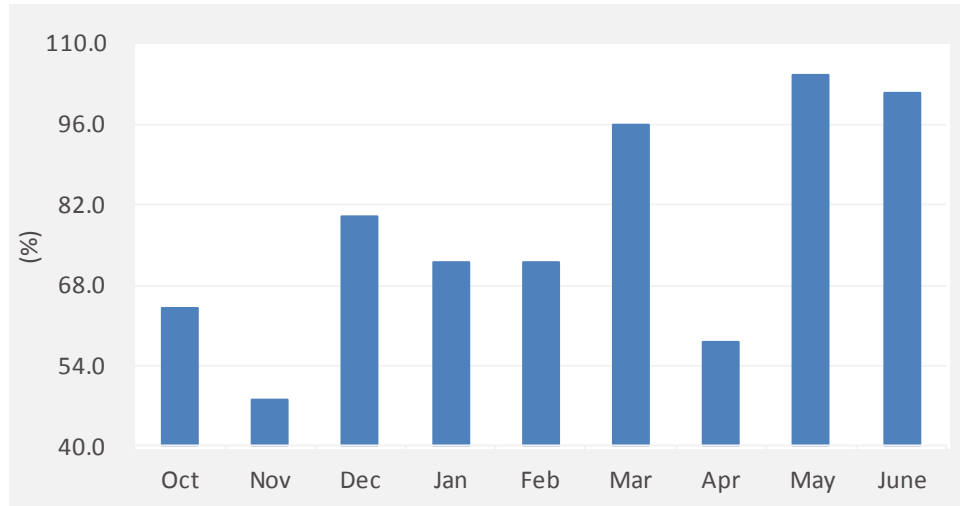
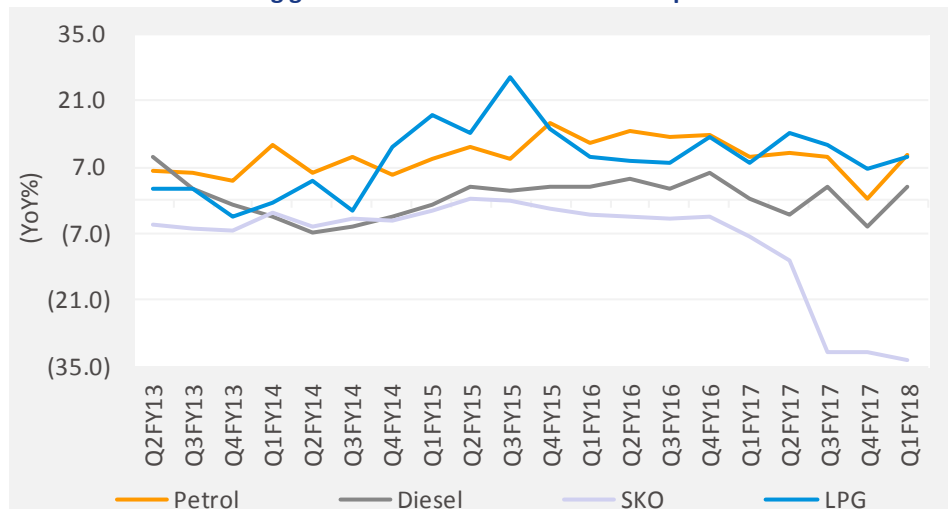


Chart 3: IOCL's Paradip refinery has been running at full utilisation



Source: Company, Edelweiss research

Chart 4: IOCL's marketing growth—MS and HSD sales were up 10% and 3% YoY


Source: Company, Edelweiss research

Table 3: Summary of net under-recovery

(INR bn)	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Gross under-recovery	26.1	21.8	19.4	10.3	13.3	14.5	11.0	12.7	8.8
Discount from upstream	8.8	4.6	0.0	(4.8)	0.0	0.0	0.0	0.0	0.0
Gol subsidy	17.3	17.2	17.3	17.0	13.3	14.5	10.9	12.7	8.8
Net under-recovery	0.0	0.0	2.1	(2.0)	0.0	0.0	0.0	(0.0)	0.0
Upstream subsidy YTD (%)	33.6	28.0	19.9	-0.3	0.0	0.0	0.0	0.0	0.0
Gol subsidy YTD (%)	66.3	71.9	77.0	100.2	100.0	100.0	100.0	100.0	100.0
Net under-recovery YTD (%)	0.0	0.1	3.1	0.1	0.0	0.0	0.0	0.0	0.0

Source: Edelweiss research

Table 4: SOTP valuation

	Base value (USD bn)	Base value (INR bn)	Base value (INR/share)
IOCL refining (@ EV/EBITDA 6.2x)	10.8	730	152
IOCL marketing (@ EV/EBITDA 6.5x)	10.3	696	145
IOCL pipelines (@ EV/EBITDA 6.5x)	6.5	436	91
IOCL chemicals (@ EV/EBITDA 6.5x)	6.7	455	95
Enterprise value of operating assets	34.3	2,318	483
Investments at 30% discount	4.3	290	60
Cash & cash equivalents	0.8	52	11
Gross debt, net of GOI receivables	7.7	523	109
Net debt	2.7	181	38
Equity value	31.7	2,137	445
CMP (INR)			387
Upside (%)			15.1%

Source: Edelweiss research

Financial snapshot

(INR mn)

Year to March	Q1FY18	Q1FY17	% change	Q4FY17	% change	FY17	FY18E	FY19E
Net revenues	1,026,262	860,807	19.2	1,003,375	2.3	3,553,101	3,037,431	3,429,298
Raw material costs	878,246	637,009	37.9	796,730	10.2	2,751,190	2,226,594	2,556,897
Gross profit	148,015	223,799	(33.9)	206,646	(28.4)	801,911	810,837	872,401
Employee expenses	24,141	17,716	36.3	42,020	(42.5)	102,040	92,426	99,622
Other expenses	71,960	69,247	3.9	120,540	(40.3)	359,738	379,873	385,618
EBITDA	51,915	136,835	(62.1)	44,086	17.8	340,132	338,538	387,161
Depreciation	17,213	14,350	20.0	17,290	(0.4)	68,486	73,995	77,917
EBIT	34,702	122,485	(71.7)	26,796	29.5	271,646	264,543	309,244
Other income	12,276	4,703	161.0	20,593	(40.4)	38,724	36,676	38,151
Interest	7,180	6,800	5.6	11,541	(37.8)	37,213	36,612	32,283
Add: Prior period items								
Add: Exceptional items	28,081	-		-		-	-	-
Profit before tax	67,878	120,388	(43.6)	35,849	89.3	273,157	264,607	315,111
Tax	22,393	37,698	(40.6)	(1,358)	(1,749.5)	75,704	87,198	103,954
Minority interest								
Associate profit share								
Reported net profit	45,485	82,690	(45.0)	37,206	22.3	198,642	192,128	207,967
Adjusted Profit	26,668	82,690	(67.7)	37,206	(28.3)	198,642	173,312	207,967
Diluted shares (mn)	4,856	4,856		4,856		4,856	4,856	4,856
Adjusted Diluted EPS	5.5	17.0	(67.7)	7.7	(28.3)	40.9	35.7	42.8
Diluted P/E (x)	-	-		-		9.5	10.8	9.0
EV/EBITDA (x)	-	-		-		7.1	6.9	6.3
ROAE (%)	-	-		-		20.9	16.7	18.3
As % of net revenues								
Gross profit	14.4	26.0		20.6		22.6	26.7	25.4
EBITDA	5.1	15.9		4.4		9.6	11.1	11.3
PBT	6.6	14.0		3.6		7.7	8.7	9.2
Reported net profit	4.4	9.6		3.7		5.6	6.3	6.1

Company Description

Indian Oil Corporation (IOCL) is the largest oil marketing company in India with a ~47% market share. It also has the largest network of retail outlets across the country (more than 25,000 outlets). It also has the largest refining capacity in the country at 80.7mtpa. It has commissioned its 15mtpa refinery at Paradip which is the most complex PSU refinery. IOCL also has a large presence in pipelines and chemicals.

Investment Theme

Among OMCs, IOCL's refineries are better in terms of complexity and on average have generated higher refining margins. The Paradip refinery, on full capacity utilisation, will consistently generate GRMs at a premium to Singapore benchmarks given its high complexity adding to IOCL's refining margins.

IOCL enjoys a first mover advantage and strong presence in the high entry barrier rural areas (~26%) which will enable it to ride the robust rural demand growth.

Diesel deregulation from Oct 19, 2014 will lead to further drop in interest costs and an increase in retail margins as well. We believe benefits of recent deregulation are more permanent and will in fact progressively show through more significantly going forward.

Stable earnings from pipelines cushion it from the volatility of the refining and marketing segments.

Key Risks

Roll-back of de-regulation due to sharp rally in crude price

Regulatory change in the form of reduction in duty protection will lower refining margins.

Financial Statements

Key Assumptions

Year to March	FY16	FY17	FY18E	FY19E
Macro				
GDP(Y-o-Y %)	7.2	6.5	7.1	7.7
Inflation (Avg)	4.9	4.8	5.0	5.2
Repo rate (exit rate)	6.8	6.3	6.3	6.3
USD/INR (Avg)	65.0	67.5	66.0	66.0
Sector				
Brent Crude (USD/bbl)	47.6	49.0	50.0	53.0
Under-recovery (INR bn)	276	227	81	35
% sharing by Govt	90.6	100.0	100.0	100.0
% sharing by upstream	9.4	-	-	-
Company				
Refining				
Refining thrput (mmt)	58	65	74	75
GRM (USD/bbl)	5.1	7.8	6.5	7.0
Opex (USD/bbl)	2.9	3.7	3.2	3.2
Chemicals				
Chem prodn (mmt)	5.8	5.8	5.8	5.8
Chem EBITDA (USD/mt)	10.5	13.0	11.5	12.0
Marketing				
Export sales (mmt)	3.5	4.7	6.4	8.7
Tot dom. sales (mmt)	72.7	74.1	77.0	79.9
Gasoline sales (mmt)	9.5	10.1	10.5	11.5
Diesel sales (mmt)	35.8	35.4	35.8	36.3
Nor. gross mgn (INR/mt)	3,791	3,524	4,581	4,764
Pipelines				
Ppl thrput (BTKM)	50.9	53.0	53.0	53.0
Ppl EBITDA INR/mmt/km	1.2	1.2	1.2	1.3
Financial assumptions				
Avg. Interest rate (%)	8.1	7.0	8.0	8.5
Gross debt (INR bn)	425	504	534	476
Capex (INR bn)	128	(12)	275	291
Cash conversion cycle	28	39	48	29

Income statement

(INR mn)

Year to March	FY16	FY17	FY18E	FY19E
Net revenue	3,460,447	3,553,101	3,037,431	3,429,298
Materials costs	2,850,235	2,751,190	2,226,594	2,556,897
Gross profit	610,212	801,911	810,837	872,401
Employee costs	75,018	102,040	92,426	99,622
Other Expenses	300,765	359,738	379,873	385,618
EBITDA	234,429	340,132	338,538	387,161
Depreciation	56,984	68,486	73,995	77,917
EBIT	177,445	271,646	264,543	309,244
Add: Other income	21,864.9	38,723.9	36,676.12	38,151.12
Less: Interest Expense	34,690	37,213	36,612	32,283
Add: Exceptional items	13,643	-	-	-
Profit Before Tax	178,263	273,157	264,607	315,111
Less: Provision for Tax	56,584	75,704	87,198	103,954
Less: Minority Interest	3,823	5,212	6,217	5,446
Associate profit share	2,455	6,401	2,119	2,255
Reported Profit	120,311	198,642	192,128	207,967
Exceptional Items	9,312	-	18,817	-
Adjusted Profit	110,999	198,642	173,312	207,967
Shares o/s (mn)	4,856	4,856	4,856	4,856
Adjusted Basic EPS	24.8	40.9	39.6	42.8
Diluted shares o/s (mn)	4,856	4,856	4,856	4,856
Adjusted Diluted EPS	22.9	40.9	35.7	42.8
Adjusted Cash EPS	38.5	54.5	51.0	59.0
Dividend per share (DPS)	14.0	19.0	15.9	19.4
Dividend Payout Ratio(%)	65.9	54.2	46.8	52.7

Common size metrics

Year to March	FY16	FY17	FY18E	FY19E
Operating expenses	93.2	90.4	88.9	88.7
Materials costs	82.4	77.4	73.3	74.6
Staff costs	2.2	2.9	3.0	2.9
S G & A expenses	8.7	10.1	12.5	11.2
Depreciation	1.6	1.9	2.4	2.3
Interest Expense	1.0	1.0	1.2	0.9
EBITDA margins	6.8	9.6	11.1	11.3
Net Profit margins	3.3	5.7	5.9	6.2

Growth ratios (%)

Year to March	FY16	FY17	FY18E	FY19E
Revenues	(23.0)	2.7	(14.5)	12.9
EBITDA	122.2	45.1	(0.5)	14.4
PBT	154.1	53.2	(3.1)	19.1
Adjusted Profit	194.7	79.0	(12.8)	20.0
EPS	194.7	79.0	(12.8)	20.0

Balance sheet		(INR mn)			
As on 31st March	FY16	FY17	FY18E	FY19E	
Share capital	23,697	47,393	23,697	23,697	
Reserves & Surplus	876,099	973,568	1,063,833	1,168,881	
Shareholders' funds	899,796	1,020,961	1,087,530	1,192,578	
Minority Interest	14,260	19,046	25,262	30,709	
Short term borrowings	202,079	332,841	320,103	313,885	
Long term borrowings	279,413	255,459	304,584	253,180	
Total Borrowings	481,492	588,300	624,687	567,065	
Long Term Liabilities	208,219	242,298	242,298	242,298	
Def. Tax Liability (net)	69,707	68,887	70,463	70,841	
Sources of funds	1,673,475	1,939,492	2,050,241	2,103,491	
Gross Block	1,661,905	-	1,813,280	1,902,719	
Net Block	993,130	1,150,323	1,018,535	1,030,057	
Capital work in progress	262,190	167,784	343,910	525,071	
Intangible Assets	7,589	9,848	9,252	9,252	
Total Fixed Assets	1,262,909	1,327,955	1,371,697	1,564,379	
Non current investments	285,070	410,611	413,746	416,001	
Cash and Equivalents	81,461	78,792	187,495	20,855	
Inventories	422,567	658,843	355,481	398,415	
Sundry Debtors	76,845	88,992	76,405	86,095	
Loans & Advances	117,351	102,663	165,463	172,317	
Other Current Assets	69,352	67,754	84,029	89,091	
Current Assets (ex cash)	686,115	918,252	681,378	745,917	
Trade payable	243,366	311,697	215,734	238,920	
Other Current Liab	398,713	484,422	388,341	404,741	
Total Current Liab	642,079	796,119	604,075	643,661	
Net Curr Assets-ex cash	44,035	122,134	77,304	102,256	
Uses of funds	1,673,475	1,939,492	2,050,241	2,103,491	
BVPS (INR)	185.3	210.3	224.0	245.6	
Contingent Liability	(0.3)	-	-	-	

Free cash flow		(INR mn)			
Year to March	FY16	FY17	FY18E	FY19E	
Reported Profit	120,311	198,642	192,128	207,967	
Add: Depreciation	56,984	68,486	73,995	77,917	
Deferred tax	23,679	26,899	24,547	21,633	
Others	266,761	(66,069)	267,168	(31,641)	
Less: Changes in WC	191,859	(28,428)	143,652	(3,855)	
Operating cash flow	275,875	256,387	414,187	279,730	
Less: Capex	156,000	(5,114)	240,473	270,599	
Free Cash Flow	119,876	261,501	173,714	9,131	

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
		FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Indian Oil Corporation	29,502	10.8	9.0	6.9	6.3	16.7	18.3
Bharat Petroleum Corporation	16,685	6.2	5.3	6.3	6.0	30.8	31.2
Hindustan Petroleum Corporation	9,491	4.4	3.8	6.4	5.9	40.1	38.1
Reliance Industries	84,225	15.5	12.4	11.5	8.6	10.6	11.6
Median	-	8.5	7.2	6.6	6.1	23.7	24.7
AVERAGE	-	9.2	7.7	7.8	6.7	24.6	24.8

Source: Edelweiss research

Cash flow metrics		FY16	FY17	FY18E	FY19E
Year to March					
Operating cash flow	275,875	256,387	414,187	279,730	
Investing cash flow	(138,048)	(15,377)	(263,928)	(234,704)	
Financing cash flow	(124,262)	(35,458)	(94,273)	(198,271)	
Net cash Flow	13,565	205,552	55,986	(153,244)	
Capex	(156,000)	5,114	(240,473)	(270,599)	
Dividend paid	-	(110,312)	(86,994)	(108,365)	

Profitability and efficiency ratios

Year to March	FY16	FY17	FY18E	FY19E
ROAE (%)	14.2	20.9	16.7	18.3
ROACE (%)	14.5	20.5	17.9	19.7
Inventory Days	58	72	83	54
Debtors Days	8	9	10	9
Payable Days	36	37	43	32
Cash Conversion Cycle	30	43	50	30
Current Ratio	1.2	1.3	1.4	1.2
Gross Debt/EBITDA	2.1	1.7	1.8	1.5
Gross Debt/Equity	0.5	0.6	0.6	0.5
Adjusted Debt/Equity	0.5	0.6	0.6	0.5
Net Debt/Equity	0.4	0.5	0.4	0.4
Interest Coverage Ratio	5.1	7.3	7.2	9.6

Operating ratios

Year to March	FY16	FY17	FY18E	FY19E
Total Asset Turnover	2.1	2.0	1.5	1.7
Fixed Asset Turnover	3.9	3.3	2.8	3.3
Equity Turnover	4.3	3.6	2.8	2.9

Valuation parameters

Year to March	FY16	FY17	FY18E	FY19E
Adj. Diluted EPS (INR)	22.9	40.9	35.7	42.8
Y-o-Y growth (%)	194.7	79.0	(12.8)	20.0
Adjusted Cash EPS (INR)	38.5	54.5	51.0	59.0
Diluted P/E (x)	16.9	9.5	10.8	9.0
P/B (x)	2.1	1.8	1.7	1.6
EV / Sales (x)	0.7	0.7	0.8	0.7
EV / EBITDA (x)	9.8	7.1	6.9	6.3
Dividend Yield (%)	3.6	4.9	4.1	5.0
EV	2,293,758	2,408,021	2,341,922	2,456,386

Additional Data

Directors Data

Sanjiv Singh	Chairman	G K Satish	Whole Time Director (Planning & Business Development)
Anish Aggarwal	Whole Time Director (Pipelines)	Verghese Cherian	Whole Time Director (Human Resources)
A K Sharma	Whole Time Director (Finance)	A.P.Sawhney	Government Nominee Director
Archana Mathur	Government Nominee Director	B.S.Canth	Whole Time Director (Marketing)
Ashutosh Jindal	Government Director	Subroto Bagchi	Independent Director
Sanjay Kapoor	Independent Director	Parindu Bhagat	Independent Director

Auditors - M/s Parakh & Co, Dass Gupta & Associates, J Gupta & Associates

**as per last annual report*

Holding - Top 10

	Perc. Holding		Perc. Holding
Vanguard Group	0.77	Benchmark Asset Management Co Lt	0.61
Icici Prudential Asset Mgmt Co	0.58	Norges Bank	0.50
Blackrock	0.41	Sbi Funds Management	0.36
Uti Asset Management Co Ltd	0.26	Reliance Capital Trustee Co Ltd	0.22
Templeton Asset Mgmt	0.21	Birla Sun Life Asset Management	0.19

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
27 Mar 2017	PRESIDENT OF INDIA	Sell	12464272.00

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Bharat Petroleum Corporation	BUY	SO	M	Cairn India	HOLD	SP	M
GAIL (INDIA)	BUY	SO	L	Gujarat Gas	BUY	SO	M
Gujarat State Petronet	BUY	SO	M	Hindustan Petroleum Corporation	HOLD	SP	L
Indian Oil Corporation	BUY	SO	M	Indraprastha Gas	BUY	SO	M
Mahanagar Gas Ltd	BUY	SO	H	ONGC	BUY	SO	L
Petronet LNG	HOLD	SP	L	Reliance Industries	BUY	SO	M

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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Aditya Narain

Head of Research

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Coverage group(s) of stocks by primary analyst(s): Oil, Gas and Services

Bharat Petroleum Corporation, Cairn India, GAIL (INDIA), Gujarat Gas, Gujarat State Petronet, Hindustan Petroleum Corporation, Indraprastha Gas, Indian Oil Corporation, Mahanagar Gas Ltd, ONGC, Petronet LNG, Reliance Industries

Recent Research

Date	Company	Title	Price (INR)	Recos
02-Aug-17	Petronet LNG	Red flag: Utilisation to take a knock?; <i>Company Update</i>	213	Hold
27-Jul-17	ONGC	Cost efficiencies drive operational beat; <i>Result Update</i>	163	Buy
22-Jul-17	Reliance Industries	2018 by 2018!; <i>Company Update</i>	1,585	Buy

Distribution of Ratings / Market Cap

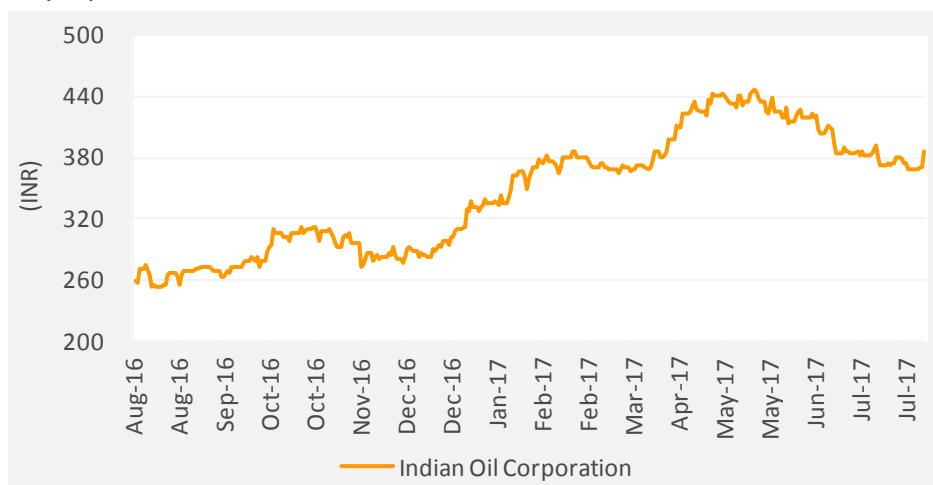
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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