

Indian Oil Corporation

BUY

INDUSTRY OIL & GAS

CMP (as on 30 Oct 2017) Rs 416

Target Price Rs 498

Nifty 10,364

Sensex 33,266

KEY STOCK DATA

Bloomberg IOCL IN

No. of Shares (mn) 4,856

MCap (Rs bn) / (\$ mn) 2,021/31,176

6m avg traded value (Rs mn) 2,312

STOCK PERFORMANCE (%)

52 Week high / low Rs 463/282

3M 6M 12M

Absolute (%) 13.2 (5.4) 28.6

Relative (%) 10.2 (16.6) 9.5

SHAREHOLDING PATTERN (%)

Promoters 57.34

FIs & Local MFs 11.69

FPIs 5.36

Public & Others 25.61

Source : BSE

Paradip to drive profitability

IOC's 2QFY18 EBITDA came in at Rs 73.73bn, up 27.7% YoY and 42% QoQ. This has been attributed to 44.6% jump in core GRM to USD7/bbl, 6% YoY increase in marketing volumes at 20.9 mnT, and 6% YoY increase in the marketing margin at USD8.3/bbl. APAT was Rs 36.96bn, up 18.4% YoY and 38.6% QoQ.

Refining throughput is expected to increase from 65.2 mnT in FY17 to 73.5 mnT in FY20, owing to an improvement in the utilisation of the Paradip refinery (55% in FY17 to 110% in FY20E). The refinery has not processed heavy crude. However, the share of heavy crude will increase to 40% over the coming year. This would increase GRMs by ~USD1.5/bbl to USD2/bbl, from USD7.85/bbl in 2QFY18. The increase in utilisation will reduce fuel and losses, which would aid in a further improvement in GRM. We see IOCL as relatively well-placed to gain from the benefits of a ramp-up in production, and better configuration of Paradip refinery. China is the world's largest importer of plastic waste (~7.3mnT in CY16). However, the Chinese govt plans to enforce a complete ban on the import of wastes (plastic, paper, slag and textiles) from other countries by end-Financial Summary (Standalone)

Year Ending March (Rs bn)	2QFY18	2QFY17	YoY (%)	1QFY18	QoQ (%)	FY17	FY18E	FY19E	FY20E
Net Sales	905.67	803.70	12.7	1,026.26	(11.8)	3,598.7	4,170.6	4,311.4	4,460.9
EBITDA	73.73	57.72	27.7	51.92	42.0	397.3	340.7	367.3	381.0
APAT	36.96	31.22	18.4	26.67	38.6	191.1	205.5	223.5	234.5
Diluted EPS (Rs)	7.8	6.6	18.4	5.6	38.6	40.3	43.4	47.1	49.5
P/E (x)						10.3	9.6	8.8	8.4
EV / EBITDA (x)						5.7	6.6	5.8	5.4
RoE (%)						20.3	19.3	18.6	17.3

Source: Company, HDFC sec Inst Research

HDFC securities Institutional Research is also available on Bloomberg HSLB <GO> & Thomson Reuters

2017. This will lead to a rise in demand for petchem from China. This, in turn, will support petchem margins. There is no large capex in the pipeline, which will lead to generation of FCF greater than ~Rs 432bn over FY18E-FY20E. We are structurally positive on IOC, owing to its diversified business model, ramp-up of the Paradip refinery and healthy cash flows. Our SOTP target is Rs 498 (5.0x Sep 19E EV/e for standalone refining and the pipeline, 7.0x EV/e for marketing and petchem, and Rs 97/sh from investments). Maintain BUY.

Highlights of the quarter

- Core GRM was at USD7/bbl, while that of Paradip was at USD7.85/bbl. Refinery throughput increased to 16.1 mnT (+3% YoY). Paradip's utilisation stood at 97% in 2Q.
- Ennore's RLNG terminal is 80% mechanically completed, and will be commissioned by Dec-18. This is the first RLNG terminal on the east coast
- Sequentially, debt increased to Rs 388bn from Rs 349 bn, owing to payment made to the Odisha govt towards outstanding VAT. GST impact for FY18 would be Rs 20 bn.

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Increase in other operating expenses can be attributed to (1) Rs3bn provision for Kandla port rentals(2) Rs 3bn to the impact of GST, and (3) Rs 3bn for higher repair and maintenance costs, owing to the shutdown of Mathura, Barauni and Gujarat refineries

The Paradip refinery has led to higher volumes YoY

Pipeline throughput is lower on account of the shutdown of refineries

Total (refinery and marketing) inventory gains were Rs10.56bn

Quarterly Financials Snapshot (Standalone)

(Rs bn)	2QFY18	2QFY17	YoY (%)	1QFY18	QoQ (%)
Revenues	905.67	803.70	12.7	1,026.26	(11.8)
Raw Material And Traded Goods	732.98	663.30	10.5	878.25	(16.5)
Employee Expenses	23.64	18.72	26.3	24.14	(2.1)
Other Operating Expenses	75.31	63.97	17.7	71.96	4.7
EBITDA	73.73	57.72	27.7	51.92	42.0
Depreciation	16.97	15.05	12.8	17.21	(1.4)
EBIT	56.76	42.67	33.0	34.70	63.6
Other Income (Including EO Items)	5.88	8.54	(31.2)	31.09	(81.1)
Interest Cost	7.73	6.15	25.7	7.18	7.6
PBT	54.91	45.07	21.8	58.61	(6.3)
Tax	17.95	13.85	29.6	13.13	36.8
RPAT	36.96	31.22	18.4	45.49	(18.7)
EO (Loss) / Profit (Net Of Tax)	-	-		18.81	
APAT	36.96	31.22	18.4	26.67	38.6
AEPS	7.8	6.6	18.4	5.6	38.6

Margin Analysis

	2QFY18	2QFY17	YoY (bps)	1QFY18	QoQ (bps)
Raw Material As % Of Net Sales	80.9	82.5	(160)	85.6	(464)
Employee Expenses As % Of Net Sales	2.6	2.3	28	2.4	26
Other Operating Expenses As % Of Net Sales	8.3	8.0	36	7.0	130
EBITDA Margin (%)	8.1	7.2	96	5.1	308
Net Profit Margin (%)	4.1	3.9	20	2.6	148
Tax Rate (%)	32.7	30.7	196	22.4	1,029

Key Quarterly Data

	2QFY18	2QFY17	YoY (%)	1QFY18	QoQ (%)
Refinery throughput (mnT)	16.1	15.6	2.9	17.5	(8.1)
Pipeline throughput (mnT)	19.3	20.9	(7.4)	21.4	(9.4)
Marketing volumes (mnT)	20.9	19.7	6.0	22.5	(7.2)
Core GRM (USD/bbl)	7.0	4.8	44.6	7.6	(8.7)
Inventory gain/(loss) (USD/bbl)	1.0	(0.5)	(301.8)	(3.3)	(130.5)
Reported GRM (USD/bbl)	8.0	4.3	84.7	4.3	84.7
Exchange gain/(loss) (Rs bn)	(2.6)	2.5	(203.5)	6.1	(143.0)
Adventitious gain/(loss) (Rs bn)	2.7	(7.3)	(137.3)	(12.4)	(122.1)
Debt (Rs bn)	388.1	418.9	(7.4)	349.2	11.1

Source: Company, HDFC sec Inst Research

We expect blended GRM to improve in FY19 over FY18 on strong product cracks and higher utilisation of the Paradip refinery

We are factoring in CAGR of 3.9% in marketing volumes over FY17-FY20E, while we expect moderate CAGR of 5% in diesel sales' volumes over FY17-FY20E.

We expect diesel margins to increase 3% every year

Assumptions

	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
REFINING							
Throughput (mnT)	53.1	53.6	58.1	65.2	70.5	72.0	73.5
GRM (USD/bbl)	4.2	0.3	5.1	7.8	7.0	7.5	7.5
MARKETING							
Volumes (mnT)	71.5	72.2	76.1	78.8	81.9	85.1	88.5
YoY Gr (%)	(1.2)	0.9	5.4	3.5	4.0	3.9	4.0
Diesel Volume (mn T)	33.9	34.5	35.8	35.4	37.1	39.0	41.0
Diesel Volume Gr (%)	(4.7)	1.7	3.8	(1.2)	4.9	5.0	5.0
Diesel's Margin (Rs/l)	1.4	2.1	2.4	2.6	2.6	2.6	2.7
Petchem Volumes (mn T)	1.9	2.4	2.3	2.7	2.7	2.7	2.7
PIPELINE							
Volumes (mnT)	73.1	75.7	79.0	82.1	83.7	85.3	87.8
Revenues (Rs/kg/km)	58.9	63.7	63.4	67.0	68.8	72.2	73.5
MACRO							
Crude Price (USD/bbl)	107.7	85.2	48.5	50.0	55.0	55.0	55.0
USD - INR	60.5	61.2	65.5	67.1	66.0	66.0	66.0

Source: Company, HDFC sec Inst Research

Valuation (Based On Sep FY19E)

Business	EBITDA (Rs bn)	Multiple	Value (Rs bn)	Value (Rs/sh)*	Valuation basis
Standalone					
Refining	165.6	5.0	828.1	175	EV/EBIDTA on Sep 19E
Marketing	55.9	7.0	391.2	83	EV/EBIDTA on Sep 19E
Pipeline	69.3	5.0	346.5	73	EV/EBIDTA on Sep 19E
Petchem	83.4	7.0	583.4	123	EV/EBIDTA on Sep 19E
Standalone Net Debt			(252.2)	(53)	As on Sep-18E
Standalone Equity Value			1,897.1	400	
Investments					
Traded Investments			202.6	43	30% disc. to CMP
Non Traded Investments and Govt bonds			258.9	55	Investments at 30% disc. to BV and govt bonds at BV
Investments Equity Value				98	
Value Per Share				498	

Source: Company, HDFC sec Inst Research, * Valuation is based on 4.739 bn shares (net of treasury shares)

Standalone Income Statement

(Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
Revenues	3,471.76	3,598.73	4,170.58	4,311.43	4,460.87
Growth (%)	(20.7)	3.7	15.9	3.4	3.5
Material Expenses	2,893.74	2,835.76	3,449.15	3,519.94	3,607.09
Employee Expenses	71.14	96.58	106.24	116.86	128.55
Other Operating Expenses	273.73	269.12	274.51	307.32	344.22
EBIDTA	233.15	397.27	340.69	367.31	381.02
EBIDTA Margin (%)	6.7	11.0	8.2	8.5	8.5
EBITDA Growth (%)	105.8	70.4	(14.2)	7.8	3.7
Depreciation	48.19	62.23	66.78	74.56	80.73
EBIT	184.97	335.04	273.90	292.74	300.29
Other Income Incl EO	23.22	41.52	44.38	47.54	51.01
Interest	45.13	34.45	35.15	32.41	28.22
PBT	163.06	342.10	283.14	307.87	323.07
Tax	55.84	72.15	77.61	84.39	88.56
RPAT	107.22	269.96	205.53	223.48	234.51
EO (Loss) / Profit (Net Of Tax)	8.44	78.89	-	-	-
APAT	98.78	191.06	205.53	223.48	234.51
APAT Growth (%)	87.3	93.4	7.6	8.7	4.9
AEPS	20.8	40.3	43.4	47.1	49.5
AEPS Growth (%)	87.3	93.4	7.6	8.7	4.9

Source: Company, HDFC sec Inst Research

Standalone Balance Sheet

(Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital	23.70	47.39	47.39	47.39	47.39
Reserves	857.65	949.89	1,083.49	1,228.75	1,381.18
Total Shareholders' Funds	881.34	997.29	1,130.88	1,276.14	1,428.58
Long-term Debt	249.38	203.12	146.19	147.32	147.32
Short-term Debt	175.46	300.73	300.73	275.73	175.73
Total Debt	424.83	503.85	446.92	423.05	323.05
Deferred Taxes	68.59	67.59	67.59	67.59	67.59
Long Term Provisions & Others	205.43	238.91	238.91	238.91	238.91
TOTAL SOURCES OF FUNDS	1,580.20	1,807.63	1,884.30	2,005.69	2,058.12
APPLICATION OF FUNDS					
Net Block	913.47	1,078.79	1,201.34	1,248.60	1,292.69
CWIP	210.25	107.38	114.33	119.11	122.55
Investments	371.81	473.05	433.98	433.98	433.98
LT Loans & Advances	11.28	11.81	11.81	11.81	11.81
Other Non-current Assets	62.28	65.18	65.18	65.18	65.18
Total Non-current Assets	1,569.09	1,736.21	1,826.64	1,878.68	1,926.21
Inventories	387.39	624.01	615.09	627.71	643.25
Debtors	75.49	85.02	93.01	96.15	99.48
Cash & Equivalents	5.13	0.87	35.73	103.53	105.77
Other Current Assets	167.94	146.02	146.02	146.02	146.02
Total Current Assets	635.95	855.92	889.85	973.41	994.53
Creditors	223.32	301.07	318.91	325.46	333.51
Other Current Liabilities	401.52	483.43	513.28	520.95	529.10
Total Current Liabilities	624.84	784.50	832.19	846.41	862.62
Net Current Assets	11.11	71.42	57.66	127.00	131.91
TOTAL APPLICATION OF FUNDS	1,580.20	1,807.63	1,884.30	2,005.69	2,058.12

Source: Company, HDFC sec Inst Research

Standalone Cash Flow

(Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
Reported PBT	163.06	342.10	283.14	307.87	323.07
Non-operating & EO Items	(23.22)	(41.52)	(44.38)	(47.54)	(51.01)
Interest Expenses	45.13	34.45	35.15	32.41	28.22
Depreciation	48.19	62.23	66.78	74.56	80.73
Working Capital Change	59.55	(58.53)	48.63	(1.55)	(2.66)
Tax Paid	(39.69)	(73.15)	(77.61)	(84.39)	(88.56)
OPERATING CASH FLOW (a)	253.02	265.60	311.70	281.37	289.80
Capex	(147.15)	(124.68)	(196.28)	(126.61)	(128.26)
Free Cash Flow (FCF)	105.88	140.91	115.42	154.76	161.54
Investments	69.34	(104.67)	39.07	-	-
Non-operating Income	23.22	41.52	44.38	47.54	51.01
Others	-	-	-	-	-
INVESTING CASH FLOW (b)	(54.58)	(187.83)	(112.83)	(79.07)	(77.25)
Debt Issuance/(Repaid)	(47.82)	106.44	(56.93)	(23.87)	(100.00)
Interest Expenses	(45.13)	(34.45)	(35.15)	(32.41)	(28.22)
FCFE	12.93	212.89	23.35	98.47	33.32
Share Capital Issuance	-	23.70	-	-	-
Dividend	(39.47)	(106.36)	(71.94)	(78.22)	(82.08)
Others	(62.05)	(71.35)	-	-	-
FINANCING CASH FLOW (c)	(194.47)	(82.03)	(164.01)	(134.50)	(210.30)
NET CASH FLOW (a+b+c)	3.97	(4.26)	34.87	67.79	2.24
EO Items, Others	-	-	-	-	-
Closing Cash & Equivalents	5.13	0.86	35.73	103.53	105.77

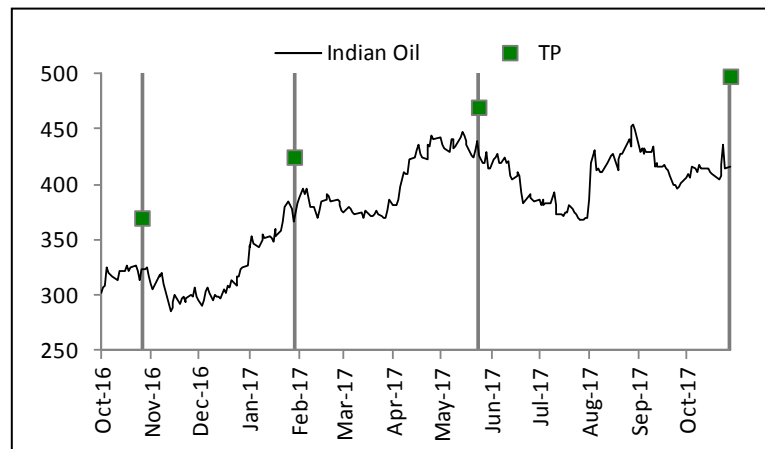
Source: Company, HDFC sec Inst Research

Standalone Key Ratios

	FY16	FY17	FY18E	FY19E	FY20E
PROFITABILITY %					
EBITDA Margin	6.7	11.0	8.2	8.5	8.5
EBIT Margin	6.0	10.5	7.6	7.9	7.9
APAT Margin	2.8	5.3	4.9	5.2	5.3
RoE	11.2	20.3	19.3	18.6	17.3
Core RoCE	15.5	21.3	20.3	19.2	17.4
RoCE	9.0	14.8	15.0	14.9	14.1
EFFICIENCY					
Tax Rate %	36.1	27.4	27.4	27.4	27.4
Asset turnover (x)	1.6	1.5	1.6	1.5	1.5
Inventory (days)	53	65	65	65	65
Debtor (days)	7	8	8	8	8
Other Current Assets (days)	18	15	13	12	12
Payables (days)	32	34	34	34	34
Other Curr Liab & Prov (days)	32	34	34	34	34
Cash conversion cycle (days)	14	21	19	18	18
Net Debt/EBITDA (x)	1.5	1.1	1.1	0.8	0.5
Net D/E	0.4	0.4	0.3	0.2	0.1
Interest Coverage	4.6	10.9	9.1	10.5	12.4
PER SHARE DATA					
EPS (Rs)	20.8	40.3	43.4	47.1	49.5
CEPS (Rs)	31.0	53.4	57.5	62.9	66.5
DPS (Rs)	7.0	19.0	12.9	14.0	14.7
BV (Rs)	185.9	210.4	238.6	269.2	301.4
VALUATION					
P/E (x)	20.0	10.3	9.6	8.8	8.4
P/Cash EPS (x)	13.4	7.8	7.2	6.6	6.3
P/BV (x)	2.2	2.0	1.7	1.5	1.4
EV/EBITDA (x)	9.5	5.7	6.6	5.8	5.4
EV/Revenue (x)	0.6	0.6	0.5	0.5	0.5
OCF/EV (%)	11.5	11.8	13.9	13.1	14.2
FCFF/EV (%)	4.8	6.3	5.2	7.2	7.9
FCFE/M CAP (%)	0.7	10.8	1.2	5.0	1.7
Dividend Yield (%)	1.7	4.6	3.1	3.4	3.5

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
28-Oct-16	324	BUY	370
1-Feb-17	366	BUY	425
28-May-17	426	BUY	470
30-Oct-17	416	BUY	498

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

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