

Indian Oil Corporation

BUY

INDUSTRY OIL & GAS

CMP (as on 23 May 2018) Rs 154

Target Price Rs 224

Nifty 10,430

Sensex 34,345

KEY STOCK DATA

Bloomberg IOCL IN

No. of Shares (mn) 9,712

MCap (Rs bn) / (\$ mn) 1,491/21,787

6m avg traded value (Rs mn) 2,130

STOCK PERFORMANCE (%)

52 Week high / low Rs 231/152

3M 6M 12M

Absolute (%) (16.7) (22.2) (27.6)

Relative (%) (17.3) (24.5) (40.7)

SHAREHOLDING PATTERN (%)

Promoters 56.98

FIs & Local MFs 10.77

FPIs 7.09

Public & Others 25.16

Source : BSE

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External nuisance may spoil the show

IOC's 4QFY18 EBITDA came in at Rs 110.21bn, down 16.9% QoQ. This has been attributed to 26% QoQ fall in GRM to USD 9.1/bbl. The blended gross marketing margin was up 29.3% to USD 9.9/bbl (or Rs 4.02/lit). APAT stood at Rs 52.18bn, down 33.8% QoQ owing to lower other income at Rs 2.48bn (-81.7% QoQ) and higher interest cost at Rs 13bn (+98.9% QoQ).

We are structurally positive on IOC, owing to its diversified business model, ramp-up of the Paradeep refinery and healthy operating cash flows (Rs 430bn) over FY19-20E. However, in the year full of elections including the general election which is due in May-19, the government is likely to resort to some mechanism to control/reduce the current surge in prices of Petrol and Diesel. One of the solutions could be that government may ask OMCs to 'manage' marketing margins. If in case, the OMCs are ask to curb the marketing margin by Rs 1/ltr (on both Petrol and Diesel) then HPCL's FY19E PAT will be impacted the most (42%), followed by BPCL (26%) and IOCL (17%).

Financial Summary (Standalone)

Year Ending March (Rs bn)	4QFY18	4QFY17	YoY (%)	3QFY18	QoQ (%)	FY17	FY18	FY19E	FY20E
Revenues	1,173.69	1,003.38	17.0	1,106.67	6.1	3,598.7	4,240.4	5,131.1	5,314.1
EBITDA	110.21	110.32	(0.1)	132.69	(16.9)	397.3	396.7	380.6	396.4
APAT	52.18	86.45	(39.6)	78.83	(33.8)	191.1	213.5	222.8	233.6
AEPS (Rs)	5.5	9.1	(39.6)	8.3	(33.8)	20.2	22.5	23.5	24.6
P/E (x)						7.6	6.8	6.6	6.2
EV/EBITDA (x)						4.4	4.3	4.4	4.0
RoE (%)						20.3	20.3	19.1	18.0

Source: Company, HDFC sec Inst Research

Looking at prevailing crude oil prices the budget provisions for subsidies on cooking fuel is inadequate (Rs 249bn compared to est. Rs 480). We believe that the government will fully reimburse OMCs but with a lag. However, these dues will go up which will have implications of higher interest costs.

Increasing uncertainty on marketing margin, higher crude oil prices, a weak rupee compel us to reduce our EV/EBITDA multiple for marketing and petchem business from 7x to 5x. Our SOTP target reduce to Rs 224 (5.0x Mar-20E EV/e for standalone refining, pipeline, marketing and petchem, and Rs 47/sh from investments). Maintain BUY.

Highlights of the quarter

- Ennore's RLNG terminal is 92% mechanically completed, and will be commissioned by Oct-18.
- Polypropylene project at Paradeep has achieved 88% physical progress.
- The company has announced interim dividend of Rs 2/share.
- **Near term outlook:** GRMs should remain strong, owing to strong demand for petroleum products.

Core EBITDA (excluding adventitious gains on products and forex gains) was Rs107bn up 24.3% YoY. FY18 core EBITDA stood at Rs 355.55bn, up 5% YoY

Blended gross marketing margin up 15.7% YoY and 29.3% QoQ to Rs 4.02/lit

Overall refinery capacity utilisation was 100% vs 104% in 3Q. Fuel and losses reduce to 8.4% from 8.5% in 3Q

The Paradeep refinery has led to higher volumes YoY. Paradeep refinery utilisation was 85% in FY18 compared to 55% in FY17.

Total (refinery and marketing) inventory gains were Rs 34.4bn

Quarterly Financials Snapshot (Standalone)

(Rs bn)	4QFY18	4QFY17	YoY (%)	3QFY18	QoQ (%)	FY18	FY17	YoY (%)
Revenues	1,173.69	1,003.38	17.0	1,106.67	6.1	4,212.22	3,599.05	17.0
Raw material and Traded Goods	947.48	796.73	18.9	873.54	8.5	3,432.25	2,835.76	21.0
Employee Expenses	29.42	25.81	14.0	23.60	24.7	100.79	80.37	25.4
Other Operating Expenses	86.57	70.52	22.8	76.85	12.7	310.69	298.56	4.1
EBITDA	110.21	110.32	(0.1)	132.69	(16.9)	368.49	384.36	(4.1)
Depreciation	19.34	17.29	11.8	17.15	12.7	70.67	62.23	13.6
EBIT	90.88	93.03	(2.3)	115.54	(21.3)	297.82	322.13	(7.5)
Other Income (Including EO Items)	2.48	(28.65)	(108.7)	13.53	(81.7)	53.02	(7.48)	(809.1)
Interest Cost	13.03	4.27	205.0	6.55	98.9	34.48	27.19	26.9
PBT	80.33	60.10	33.7	122.52	(34.4)	316.36	287.47	10.0
Tax	28.15	22.90	22.9	43.69	(35.6)	102.90	86.61	18.8
RPAT	52.18	37.21	40.2	78.83	(33.8)	213.46	200.85	6.3
EO (Loss) / Profit (Net Of Tax)	-	(49.24)	-	-	-	18.85	(49.24)	-
APAT	52.18	86.45	(39.6)	78.83	(33.8)	194.61	250.10	(22.2)

Margin Analysis

	4QFY18	4QFY17	YoY (bps)	3QFY18	QoQ (bps)	FY18	FY17	YoY (bps)
Raw material as % of Net Sales	80.7	79.4	132	78.9	179	81.5	78.8	269
Employee Expenses as % of Net Sales	2.5	2.6	(7)	2.1	37	2.4	2.2	16
Other Operating Expenses as % of Net Sales	7.4	7.0	35	6.9	43	7.4	8.3	(92)
EBITDA Margin (%)	9.4	11.0	(160)	12.0	(260)	8.7	10.7	(193)
Net Profit Margin (%)	4.4	8.6	(417)	7.1	(268)	4.6	6.9	(233)
Tax Rate (%)	35.0	38.1	(306)	35.7	(62)	32.5	30.1	240

Key Quarterly Data

	4QFY18	4QFY17	YoY (%)	3QFY18	QoQ (%)	FY18	FY17	YoY (%)
Refinery throughput (mnT)	17.2	17.1	0.7	18.2	(5.5)	69.0	65.2	5.9
Pipeline throughput (mnT)	22.6	19.8	13.9	22.4	0.9	85.7	82.4	4.0
Marketing volumes (mnT)	21.4	21.1	1.4	21.5	(0.7)	86.3	83.5	3.4
Core GRM (USD/bbl)	6.2	6.9	(11.2)	6.3	(1.6)	6.8	5.2	31.0
Inventory gain/(loss) (USD/bbl)	2.9	2.0	47.4	6.0	(51.3)	1.4	2.6	(46.5)
Reported GRM (USD/bbl)	9.1	9.0	1.9	12.3	(26.0)	8.2	7.8	4.9
Exchange gain/(loss) (Rs bn)	(6.8)	15.0	(145.0)	6.3	(207.1)	3.0	11.1	(72.6)
Adventitious gain/(loss) (Rs bn)	9.9	9.2	8.5	9.6	3.6	9.9	35.2	(71.9)
Debt (Rs bn)	580.3	548.2	5.9	319.4	81.7	580.3	548.2	5.9

Source: Company, HDFC sec Inst Research

**Change in estimates led by,
1. Higher crude oil prices 2.
Change in exchange rate
assumption 3.Change in total
debt.**

Change In Estimates

(Rs bn)	FY19E Old	FY19E New	% Chg.	FY20E Old	FY20E New	% Chg.
Oil Price (USD/bbl)	65.0	70.0	7.7	65.0	70.0	7.7
Exchange rate (Rs/USD)	66.0	68.0	3.0	66.0	68.0	3.0
Revenues	4,781.6	5,131.1	7.3	4,950.3	5,314.1	7.3
Material Expenses	3,990.1	4,291.9	7.6	4,096.5	4,434.8	8.3
Employee Expenses	116.9	110.9	(5.1)	128.5	110.9	(13.7)
Other Operating Expenses	307.3	347.7	13.2	344.2	371.9	8.1
EBIDTA	367.3	380.6	3.6	381.0	396.4	4.0
Depreciation	74.6	72.2	(3.2)	80.7	74.4	(7.9)
EBIT	292.7	308.4	5.4	300.3	322.1	7.3
Other Income Incl EO	47.5	36.0	(24.2)	51.0	38.6	(24.4)
Interest	33.5	37.5	12.0	29.3	38.8	32.5
PBT	306.8	306.9	0.0	322.0	321.8	(0.1)
Tax	84.1	84.1	0.0	88.3	88.2	(0.1)
APAT	222.7	222.8	0.0	233.7	233.6	(0.1)
AEPS (Rs/sh)	23.5	23.5	0.0	24.7	24.6	(0.1)
Total Debt	439.0	589.4	34.2	339.0	599.4	76.8

Source: Company, HDFC sec Inst Research

Assumptions

	FY15	FY16	FY17	FY18	FY19E	FY20E
Refining						
Throughput (mnT)	53.6	58.1	65.2	70.5	72.0	73.5
GRM (USD/bbl)	0.3	5.1	7.8	6.9	7.4	7.4
Marketing						
Volumes (mnT)	72.2	76.1	78.8	81.9	85.1	88.5
YoY Gr (%)	0.9	5.4	3.5	4.0	3.9	4.0
Diesel Volume (mn T)	34.5	35.8	35.4	37.1	39.0	41.0
Diesel Volume Gr (%)	1.7	3.8	(1.2)	4.9	5.0	5.0
Diesel's Gross Margin (Rs/l)	2.1	2.4	2.6	2.6	2.6	2.7
MS Volume (mn T)	8.4	9.5	10.1	10.9	11.6	12.3
MS Volume Gr (%)	11.2	13.5	6.8	8.0	6.0	6.0
MS Gross Margin (Rs/l)	2.1	2.6	2.7	2.7	2.8	2.8
Petchem Volumes (mn T)	2.4	2.3	2.7	2.7	2.7	2.7
Pipeline						
Volumes (mnT)	75.7	79.0	82.1	83.7	85.3	87.8
Revenues (Rs/kg/km)	63.7	63.4	67.0	68.8	72.2	73.5
Macro						
Crude Price (USD/bbl)	85.2	48.5	50.0	57.5	70.0	70.0
USD - INR	61.2	65.5	67.1	66.0	68.0	68.0

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 Paradeep refinery

We are factoring in CAGR of 3.9% in marketing volumes over FY19-FY20E, while we expect CAGR of 5% and 6% in diesel and MS sales' volumes over FY19-FY20E.

We expect diesel and MS marketing margins at Rs 2.6/ltr and Rs 2.8/ltr FY19 and FY20.

We reduce our EV/EBITDA multiple for marketing and petchem business from 7x Mar FY20 to 5x Mar FY20 to reflect increasing uncertainty on marketing margin on Petrol and Diesel, higher crude prices, a weaker rupee. Target price reduce to Rs 224 from Rs 252.

Valuation (Based On Mar FY20E)

Business	EBITDA (Rs bn)	Multiple	Value (Rs bn)	Value (Rs/sh)*	Valuation basis
Standalone					
Refining	160.4	5.0	801.9	85	EV/EBIDTA on Mar 20E
Marketing	71.5	5.0	357.6	38	EV/EBIDTA on Mar 20E
Pipeline	70.9	5.0	354.6	37	EV/EBIDTA on Mar 20E
Petchem	93.6	5.0	468.0	49	EV/EBIDTA on Mar 20E
Standalone Net Debt			(304.4)	(32)	As on Mar 19E
Standalone Equity Value			1,677.7	177	
Investments					
Traded Investments			187.7	20	30% disc. to CMP
Non Traded Investments and Govt bonds			258.9	27	Investments at 30% disc. to BV and govt bonds at BV
Investments Equity Value				47	
Value Per Share				224	

Source: Company, HDFC sec Inst Research, * Valuation is based on 9.479bn shares (net of treasury shares)

Standalone Income Statement

(Rs bn)	FY16	FY17	FY18	FY19E	FY20E
Revenues	3,471.76	3,598.73	4,240.39	5,131.12	5,314.06
Growth (%)	(20.7)	3.7	17.8	21.0	3.6
Material Expenses	2,893.74	2,835.76	3,432.25	4,291.90	4,434.83
Employee Expenses	71.14	96.58	100.79	110.87	110.87
Other Operating Expenses	273.73	269.12	310.61	347.74	371.93
EBIDTA	233.15	397.27	396.73	380.61	396.42
EBIDTA Margin (%)	6.7	11.0	9.4	7.4	7.5
EBITDA Growth (%)	105.8	70.4	(0.1)	(4.1)	4.2
Depreciation	48.19	62.23	70.75	72.16	74.36
EBIT	184.97	335.04	325.98	308.45	322.06
Other Income Incl EO	23.22	41.52	34.15	36.01	38.57
Interest	45.13	34.45	34.48	37.52	38.83
PBT	163.06	342.10	325.64	306.94	321.80
Tax	55.84	72.15	112.18	84.13	88.21
RPAT	107.22	269.96	213.46	222.80	233.59
EO (Loss) / Profit (Net Of Tax)	8.44	78.89	-	-	-
APAT	98.78	191.06	213.46	222.80	233.59
APAT Growth (%)	87.3	93.4	11.7	4.4	4.8
AEPS	10.4	20.2	22.5	23.5	24.6
AEPS Growth (%)	87.3	93.4	11.7	4.4	4.8

Source: Company, HDFC sec Inst Research

Standalone Balance Sheet

(Rs bn)	FY16	FY17	FY18P	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital	23.70	47.39	94.79	94.79	94.79
Reserves	857.65	949.89	1,006.92	1,137.63	1,274.66
Total Shareholders' Funds	881.34	997.29	1,101.71	1,232.41	1,369.45
Long-term Debt	249.38	203.12	187.18	101.30	101.30
Short-term Debt	175.46	300.73	368.08	488.08	498.08
Total Debt	424.83	503.85	555.25	589.37	599.37
Deferred Taxes	68.59	67.59	120.20	120.20	120.20
Long Term Provisions & Others	205.43	238.91	149.41	149.41	149.41
TOTAL SOURCES OF FUNDS	1,580.20	1,807.63	1,926.57	2,091.39	2,238.42
APPLICATION OF FUNDS					
Net Block	913.47	1,078.79	1,139.27	1,188.94	1,239.40
CWIP	210.25	107.38	143.48	127.67	124.93
Investments	371.81	473.05	474.88	474.88	474.88
LT Loans & Advances	11.28	11.81	20.31	20.31	20.31
Other Non-current Assets	62.28	65.18	82.89	82.89	82.89
Total Non-current Assets	1,569.09	1,736.21	1,860.84	1,894.69	1,942.41
Inventories	387.39	624.01	653.13	764.31	789.77
Debtors	75.49	85.02	101.17	112.65	116.67
Cash & Equivalents	5.13	0.87	0.81	9.29	57.07
Other Current Assets	167.94	146.02	191.45	284.88	326.10
Total Current Assets	635.95	855.92	946.56	1,171.14	1,289.60
Creditors	223.32	301.07	331.06	395.23	408.39
Other Current Liabilities	401.52	483.43	549.77	579.21	585.20
Total Current Liabilities	624.84	784.50	880.83	974.44	993.59
Net Current Assets	11.11	71.42	65.73	196.70	296.01
TOTAL APPLICATION OF FUNDS	1,580.20	1,807.63	1,926.57	2,091.39	2,238.42

Source: Company, HDFC sec Inst Research

Standalone Cash Flow

(Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
Reported PBT	163.06	342.10	325.64	306.94	321.80
Non-operating & EO Items	(23.22)	(41.52)	(34.15)	(36.01)	(38.57)
Interest Expenses	45.13	34.45	34.48	37.52	38.83
Depreciation	48.19	62.23	70.75	72.16	74.36
Working Capital Change	59.55	(58.53)	3.04	(122.49)	(51.54)
Tax Paid	(39.69)	(73.15)	(59.58)	(84.13)	(88.21)
OPERATING CASH FLOW (a)	253.02	265.60	340.19	173.98	256.67
Capex	(147.15)	(124.68)	(167.33)	(106.01)	(122.08)
Free Cash Flow (FCF)	105.88	140.91	172.85	67.97	134.60
Investments	69.34	(104.67)	(28.04)	-	-
Non-operating Income	23.22	41.52	34.15	36.01	38.57
INVESTING CASH FLOW (b)	(54.58)	(187.83)	(161.23)	(70.00)	(83.51)
Debt Issuance/(Repaid)	(47.82)	106.44	(35.49)	34.12	10.00
Interest Expenses	(45.13)	(34.45)	(34.48)	(37.52)	(38.83)
FCFE	12.93	212.89	102.88	64.57	105.76
Share Capital Issuance	-	-	-	-	-
Dividend	(39.47)	(106.36)	(128.76)	(92.10)	(96.56)
Others	(62.05)	(71.35)	(27.68)	-	-
FINANCING CASH FLOW (c)	(194.47)	(82.03)	(179.01)	(95.50)	(125.39)
NET CASH FLOW (a+b+c)	3.97	(4.26)	(0.05)	8.48	47.77
Closing Cash & Equivalents	5.13	0.86	0.81	9.29	57.07

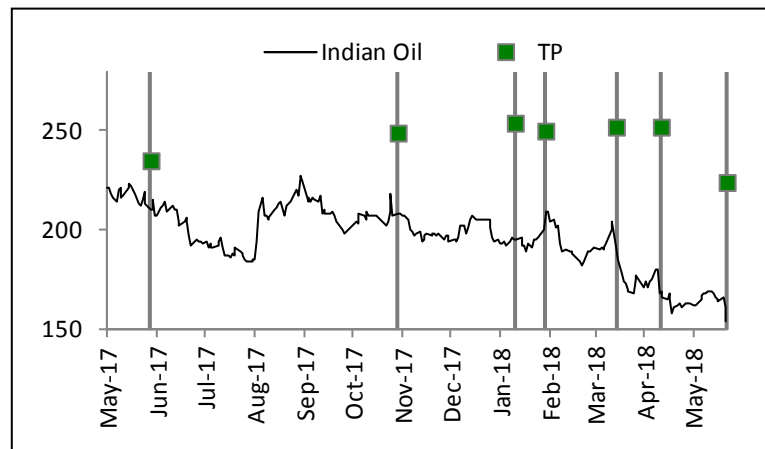
Source: Company, HDFC sec Inst Research

Standalone Key Ratios

	FY16	FY17	FY18E	FY19E	FY20E
PROFITABILITY %					
EBITDA Margin	6.7	11.0	9.4	7.4	7.5
EBIT Margin	6.0	10.5	8.5	6.7	6.8
APAT Margin	2.8	5.3	5.0	4.3	4.4
RoE	11.2	20.3	20.3	19.1	18.0
Core RoCE	15.5	21.3	22.9	23.1	21.8
RoCE	9.0	14.8	15.4	15.8	15.7
EFFICIENCY					
Tax Rate %	36.1	27.4	34.4	27.4	27.4
Asset turnover (x)	1.6	1.5	1.6	1.7	1.7
Inventory (days)	53	65	68	65	65
Debtor (days)	7	8	8	8	8
Other Current Assets (days)	18	15	16	20	22
Payables (days)	32	34	34	34	34
Other Curr Liab & Prov (days)	32	34	34	34	34
Cash conversion cycle (days)	14	21	25	26	28
Net Debt/EBITDA (x)	1.5	1.1	1.2	1.3	1.2
Net D/E	0.4	0.4	0.4	0.4	0.3
Interest Coverage	4.6	10.9	10.4	9.2	9.3
PER SHARE DATA					
EPS (Rs)	10.4	20.2	22.5	23.5	24.6
CEPS (Rs)	15.5	26.7	30.0	31.1	32.5
DPS (Rs)	3.5	9.5	11.5	8.2	8.6
BV (Rs)	93.0	105.2	116.2	130.0	144.5
VALUATION					
P/E (x)	14.8	7.6	6.8	6.6	6.2
P/Cash EPS (x)	9.9	5.8	5.1	4.9	4.7
P/BV (x)	1.7	1.5	1.3	1.2	1.1
EV/EBITDA (x)	7.3	4.4	4.3	4.4	4.0
EV/Revenue (x)	0.5	0.5	0.4	0.3	0.3
OCF/EV (%)	14.9	15.3	20.1	10.4	16.0
FCFE/EV (%)	6.2	8.1	10.2	4.0	8.4
FCFE/M CAP (%)	0.9	14.6	7.0	4.4	7.2
Dividend Yield (%)	2.3	6.2	7.5	5.3	5.6

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
28-May-17	213	BUY	235
30-Oct-17	208	BUY	249
11-Jan-18	194	BUY	254
30-Jan-18	207	BUY	250
15-Mar-18	192	BUY	252
12-Apr-18	168	BUY	252
23-May-18	154	BUY	224

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

INSTITUTIONAL RESEARCH

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