

BSE SENSEX	S&P CNX
35,591	10,652
Bloomberg	IOCL IN
Equity Shares (m)	9,479
M.Cap.(INRb)/(USDb)	1307.7 / 18.4
52-Week Range (INR)	214 / 106
1, 6, 12 Rel. Per (%)	-1/-16/-34
12M Avg Val (INR M)	2017
Free float (%)	45.9

Financials & Valuations (Cons.)(INR b)

Y/E March	2019E	2020E	2021E
Sales	5,502	6,653	7,209
EBITDA	321.2	332.3	348.3
Adj. PAT	130.7	154.4	167.1
Adj. EPS (INR)	13.8	16.3	17.6
EPS Gr. (%)	(42.3)	18.1	8.2
BV/Sh.(INR)	126.7	134.3	142.5
RoE (%)	11.2	12.5	12.7
RoCE (%)	8.6	8.6	8.5
Payout (%)	52.2	53.7	53.1

Valuations

P/E (x)	9.8	8.3	7.6
P/BV (x)	1.1	1.0	0.9
EV/EBITDA (x)	6.1	5.9	5.7
Div. Yield (%)	4.6	5.6	5.9

Estimate change

TP change

Rating change


CMP: INR135
TP: INR183 (+36%)
Buy

Core refining performance improves; op. environment to get better post elections

- **Core GRM stood at USD9.2/bbl** in 3QFY19 (our estimate: USD4.3/bbl; 3QFY18: USD6.1/bbl; 2QFY19: USD3.5/bbl). CP GRM, excluding the impact of price lags, stood at USD5.15/bbl. Higher GRM, combined with higher throughput, resulted in core EBITDA of INR122.7b (our estimate: INR102.3b; +93% YoY, +164% QoQ). However, inventory losses stood at INR80.8b for refining and INR26.6b for marketing, as against our total estimate of INR69.7b. This resulted in significantly lower reported EBITDA of INR15.3b versus our estimate of INR32.7b. Forex gain stood at INR20.8b v/s INR6.3b in 3QFY18 and a loss of INR26.2b in 2QFY19. PAT came in at INR7.2b. Effective tax rate for the quarter appears high at 46%, but stands lower at 34.5% for 9MFY19.
- **Higher GRM was on account of increase in distillate yield** to 81.1% in 3QFY19 from 79.5% in 2QFY19 and an improvement in fuel and loss to 8.4% from 8.8% in 2QFY19. Refining throughput of 19mmt reflects 109% utilization.
- **Marketing margin came in tad lower than our estimate.** Inclusive of inventory loss, the implied marketing margin stood at INR3.5/lit (our estimate: INR3.9/lit; 3QFY18: INR4/lit; 2QFY19: INR5.7/lit). Domestic sales of refined products stood at 20.3mmt (+3% YoY, +9% QoQ).
- **Petrochemical EBITDA declined 38% YoY/QoQ** to INR9.7b – USD207/mt v/s USD353/mt in 2QFY19. Sales stood at 0.65mmt (+9% YoY, +2% QoQ).

Valuation and view

- The lack of clarity on crude oil prices, possible inability to pass on the increase in cost to auto fuel prices (if oil prices were to rise) and poor refining margins have posed headwinds for the OMCs over the past few months. In our view, the stocks would again be in focus post elections, when we do not see any possibility of forced tinkering with auto fuel prices.
- 9MFY19 standalone PAT stands at INR107.9b. We cut our FY19 standalone PAT estimate from INR148b to INR129b. Our FY20 and FY21 estimates are largely unchanged. IOCL is trading at 8.3x consol. FY20E EPS of INR16.3 and 1.0x FY20E PBV. We expect RoE of ~13% in FY20/21. Dividend yield stands at ~6%. We value the stock at 1.3x (unchanged) Dec'20E PBV. With a TP of INR183, we maintain our **Buy** rating.

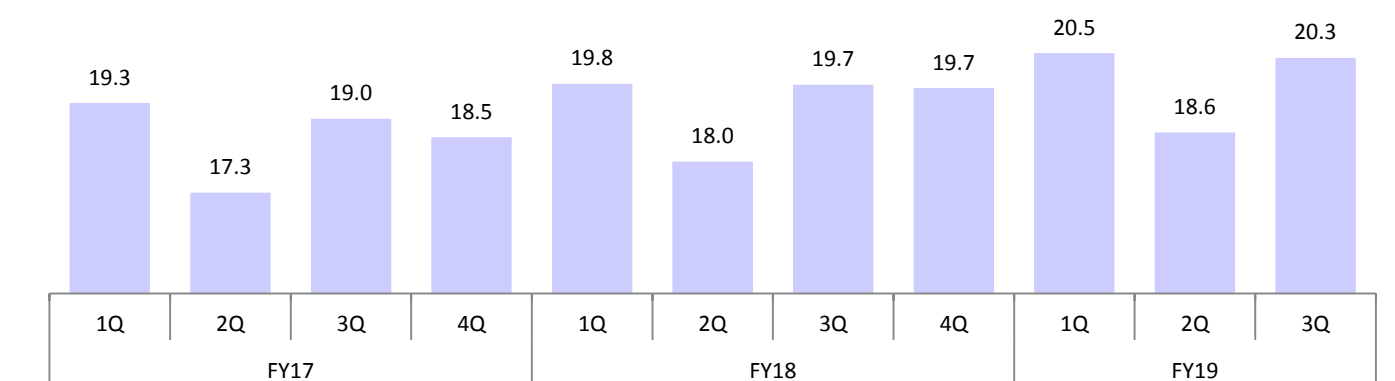
Standalone - Quarterly Earning Model

(INR Million)

Y/E March	FY18				FY19				FY18	FY19E	FY19	Var. vs
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		3QE		est.
Net Sales	1,054,342	905,667	1,106,669	1,173,685	1,294,750	1,320,348	1,399,689	1,319,095	4,240,364	5,333,882	1,240,457	13%
YoY Change (%)	23.1	13.1	18.9	17.0	22.8	45.8	26.5	12.4	18.1	25.8	37.0	
Total Expenditure	1,002,427	829,305	973,982	1,056,713	1,150,942	1,226,532	1,384,429	1,264,325	3,862,426	5,026,228	1,207,797	15%
EBITDA	51,915	76,362	132,687	116,973	143,808	93,815	15,260	54,770	377,938	307,653	32,660	-53%
Margins (%)	4.9	8.4	12.0	10.0	11.1	7.1	1.1	4.2	8.9	5.8	2.6	
EBITDA adj. for inventory and one-offs	92,335	71,802	69,657	82,553	65,148	50,850	122,700	54,770	316,348	224,013	102,339	20%
Depreciation	17,213	16,970	17,151	19,336	17,879	18,091	18,606	19,304	70,670	73,880	20,437	-9%
Forex loss	-6,120	2,630	-6,310	6,760	18,050	26,196	-20,841		-3,040	23,405	-15,052	
Interest	7,180	7,726	6,549	13,029	10,311	11,878	8,479	8,087	34,484	38,755	10,174	-17%
Other Income	6,156	5,878	7,224	2,481	5,853	10,407	4,431	4,837	21,739	25,527	8,634	-49%
PBT before EO expense	39,798	54,914	122,522	80,329	103,422	48,057	13,446	32,215	297,562	197,140	25,735	-48%
PBT	67,878	54,914	122,522	80,329	103,422	48,057	13,446	32,215	325,643	197,140	25,735	-48%
Tax	22,393	17,951	43,690	28,148	35,110	15,588	6,278	10,737	112,182	67,714	8,577	-27%
Rate (%)	33.0	32.7	35.7	35.0	33.9	32.4	46.7	33.3	34.4	34.3	33.3	
Reported PAT	45,485	36,963	78,832	52,181	68,311	32,469	7,168	21,478	213,461	129,427	17,157	-58%
Adj PAT	26,767	36,963	78,832	52,181	68,311	32,469	7,168	21,478	195,054	129,427	17,157	-58%
YoY Change (%)	-67.6	18.4	97.3	40.2	155.2	-12.2	-90.9	-58.8	8.4	-33.6	-53.6	
Margins (%)	2.5	4.1	7.1	4.4	5.3	2.5	0.5	1.6	4.6	2.4	1.4	
Key Assumptions												
Refining throughput (mmt)	17.5	16.1	18.2	17.2	17.7	17.8	19.0	18.0	69.0	72.5	18.0	6%
Core GRM (USD/bbl)	6.6	6.9	6.1	6.1	3.4	3.5	9.2	4.4	6.4	5.1	4.3	114%
Domestic sale of refined products (mmt)	19.8	18.0	19.7	19.7	20.5	18.6	20.3	20.4	77.1	79.9	20.1	1%
Marketing GM incld inv per litre (INR/litre)	4.5	4.1	4.0	5.1	5.2	5.7	3.5	3.0	4.4	4.3	3.9	-8%

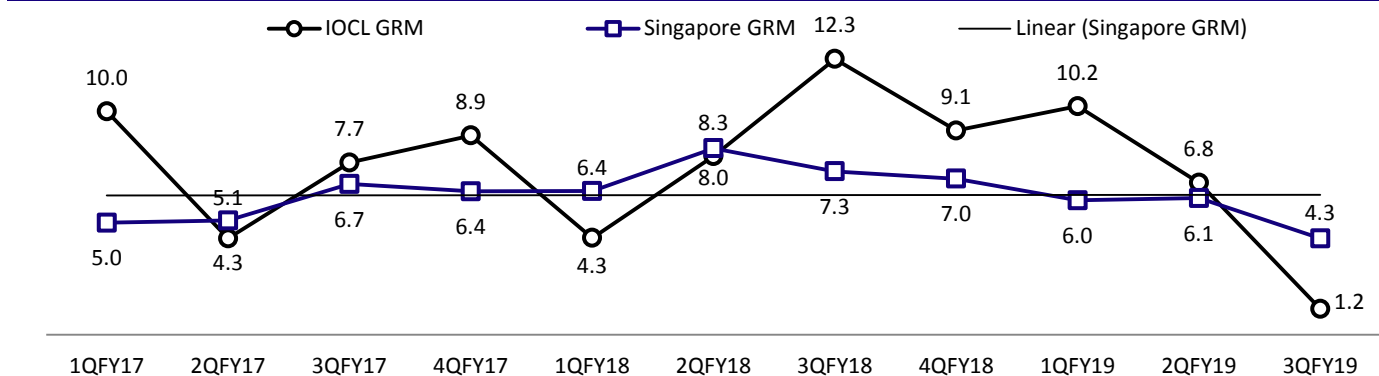
E: MOSL Estimates

Exhibit 1: Domestic sales up 3.1% YoY (mmt)

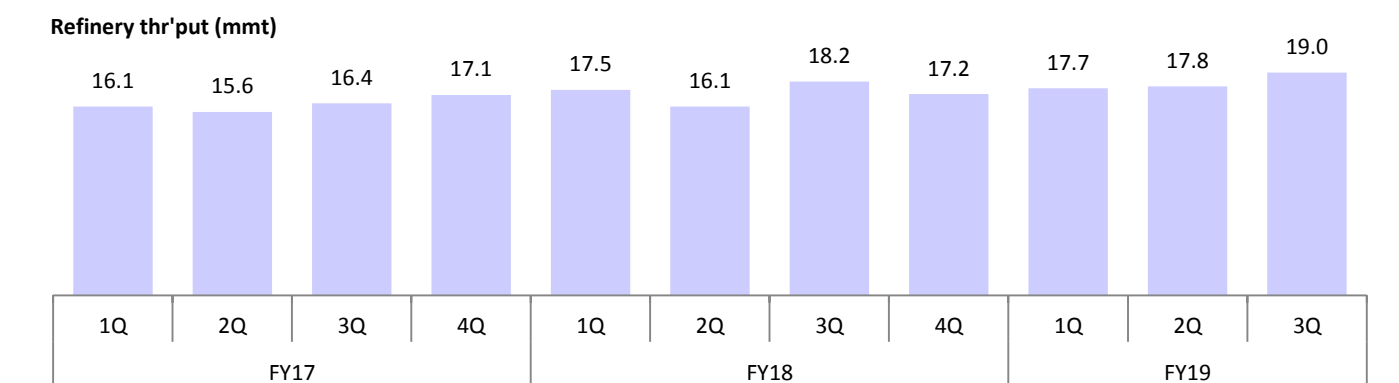


Source: Company, MOSL

Exhibit 2: Reported GRM of USD1.15/bbl inclusive of inventory loss of USD8/bbl



Source: Company, MOSL

Exhibit 3: Refinery utilization at 109% (mmt)

Source: Company, MOSL

Exhibit 4: Subsidy sharing nil in 3QFY19 (INR b)

(INRb)	FY16				FY17				FY18				FY19			3QFY19 (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	YoY	QoQ
Gross Under recovery	26	22	19	10	13	15	11	13	9	5	8	9	11.4	11.3	12.6	51.5	11.4
Less: Sharing																	
Upstream Sharing	9	5	0	(5)	0	0	0	0	0	0	0	0	0.0	0.0	0.0		
Govt. subsidy	17	17	17	17	13	15	11	13	9	5	8	9	11.4	11.3	12.6	51.5	11.4
Net Under/(over) recovery	0	0	2	(2)	0	0	0	0	0	0	0	0	0.0	0.0	0.0		
As a % of Gross	0	0	11	(20)	0	0	0	0	0	0	0	0	0.0	0.0	0.0		

Source: Company, MOSL

Valuation and view

- Crude oil and exchange rate remain the biggest risk to the OMCs, especially in a politically sensitive period till the general elections. The ability of the OMCs to pass on the increase in auto fuel prices to end-consumers would remain under shadow.
- The polypropylene plant at Paradip has achieved ~95% physical completion. We expect it to stabilize in FY20. Commissioning of the 5mmtpa Ennore LNG terminal is also underway.
- Our estimate suggests that free cash flow generation over FY20/21 would be INR13.9/share, more than 10% of the current market cap. Additionally, dividend yield appears attractive at ~6%.
- Return ratios are likely to improve to ~13% in FY20/21. IOCL is trading at 8.3x consol. FY20E EPS of INR16.3 and 1.0x FY20E PBV. We value IOCL at 1.3x Dec'20 PBV. We reiterate **Buy** with a target price of **INR183**.
- Rising oil prices, upcoming elections, the government's unwillingness to cut excise, INR depreciation and threat of subsidy sharing in light of inadequate provisioning by the government are the main risks for the stock.

Exhibit 5: IOCL – Key assumptions

Y End: March 31	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Exchange Rate (INR/USD)	54.4	60.6	61.4	65.5	67.1	64.5	70.4	73.1	74.2
Brent Crude (USD/bbl)	110	108	86	48	49	58	69	70	70
Domestic direct sales refined pdts (mmt)	69	68	68	73	74	77	80	83	86
YoY (%)	1%	-1%	1%	6%	2%	4%	4%	4%	4%
Reported GRM (USD/bbl)	2.3	4.2	0.3	5.1	7.8	8.5	5.6	5.9	5.9
Singapore GRM (USD/bbl)	7.9	5.6	6.4	7.5	5.8	7.3	5.6	6.0	6.1
Prem/(disc) (USD/bbl)	(6)	(1)	(6)	(2)	2	1	(0)	(0)	(0)
Refining capacity (mmt)	54	54	54	58	69	69	69	69	69
Refining capacity utilization (%)	101%	98%	99%	98%	94%	100%	105%	104%	104%
Total Refinery throughput (MMT)	54.7	53.1	53.6	56.7	65.2	69.0	72.5	72.0	72.0
YoY (%)	-2%	-3%	1%	6%	15%	6%	5%	-1%	0%
Pipeline throughput (mmt)	75.7	73.3	75.7	79.8	82.5	85.7	90.5	96.4	100.4
YoY (%)	3%	-3%	3%	5%	3%	4%	6%	7%	4%
Marketing Margin (INR/ltr)									
Blended gross mkting margin incld inv	4.0	4.4	4.6	3.7	4.2	4.4	4.3	3.4	3.5
Blended gross mkting margin exclud inv	3.9	4.3	4.9	4.0	3.8	4.3	4.0	3.4	3.5
Net sharing	4	12	12	0	-	-	-	-	-
Cons EPS	4.7	6.2	4.0	11.7	21.5	23.9	11.7	16.6	17.7

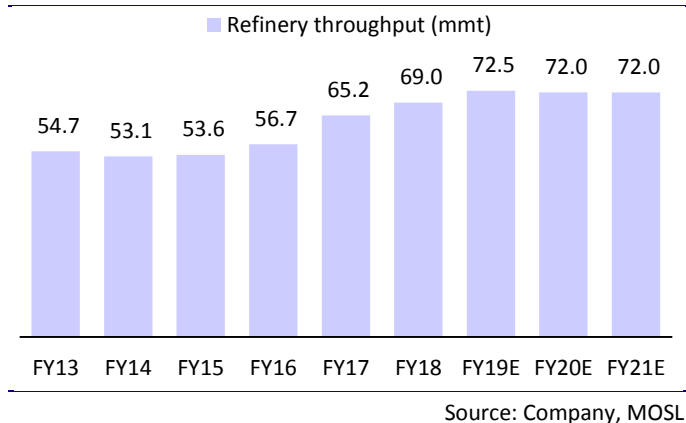
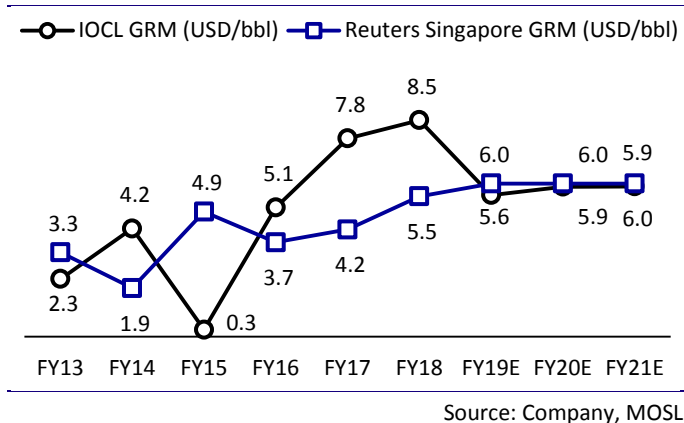
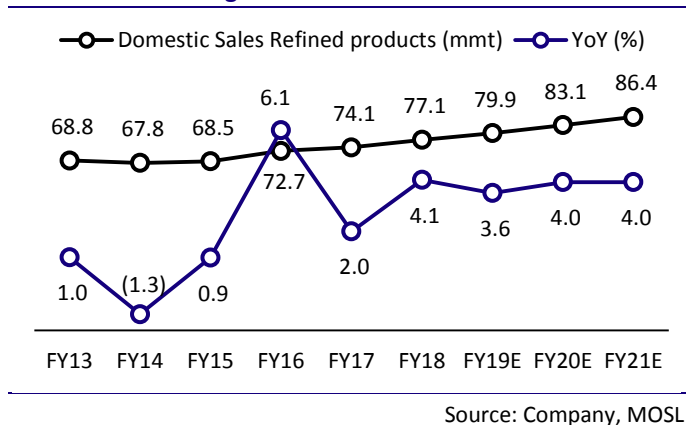
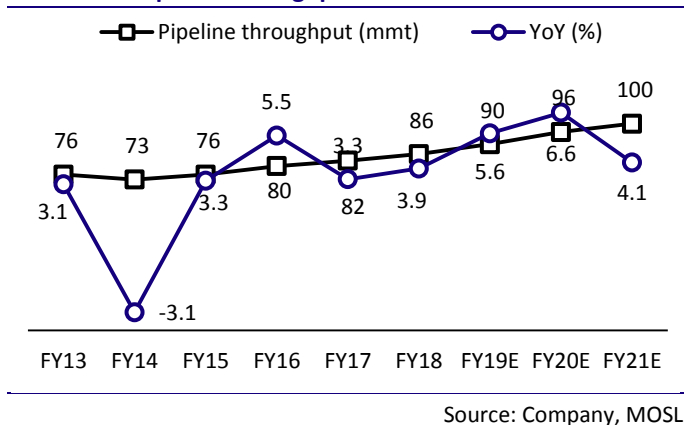
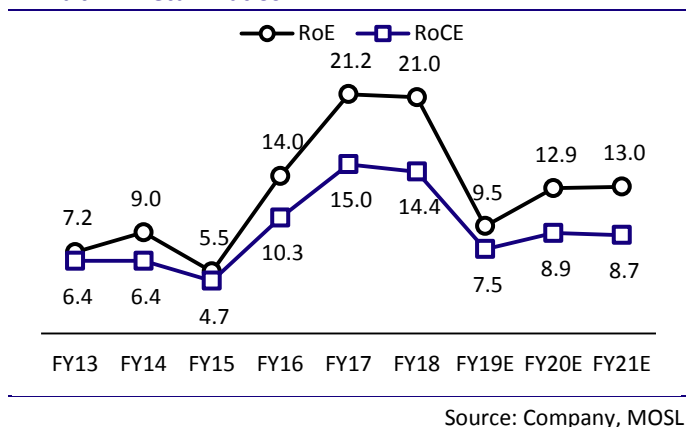
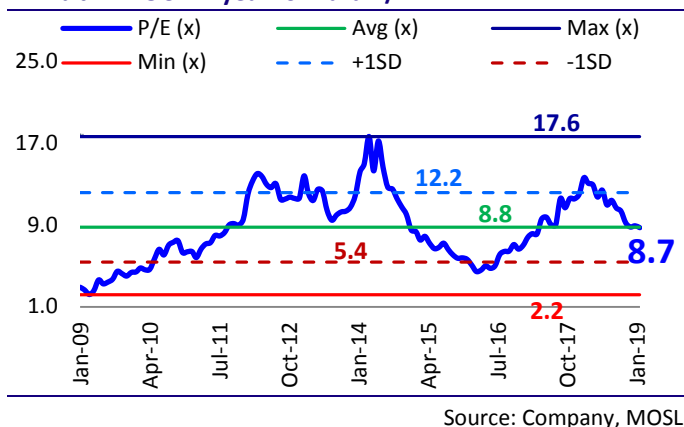
Source: Company, MOSL

Exhibit 6: Valuation summary

Dec'20 BV (INR/share)	140
Target PBV (x)	1.3
Target price (INR/share)	183

Source: Company, MOSL

Story in charts

Exhibit 7: Refining throughput of IOCL

Exhibit 8: GRM trend of IOCL

Exhibit 9: Marketing sales volume

Exhibit 10: Pipeline throughput

Exhibit 11: Return ratios

Exhibit 12: IOCL: 1-year forward P/E


Financials and Valuations

Consolidated - Income Statement								(INR m)
Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Total Income from Operations	4,872,595	4,483,152	3,460,447	3,553,101	4,214,918	5,501,661	6,652,978	7,208,667
Change (%)	5.8	-8.0	-22.8	2.7	18.6	30.5	20.9	8.4
EBITDA	159,711	93,424	234,429	340,132	415,976	321,218	332,345	348,335
Margin (%)	3.3	2.1	6.8	9.6	9.9	5.8	5.0	4.8
Depreciation	63,600	52,190	56,984	68,486	76,679	80,834	86,806	90,845
EBIT	96,111	41,234	177,445	271,646	339,297	240,384	245,539	257,491
Int. and Finance Charges (incl'd forex)	59,079	41,746	34,690	37,213	38,105	41,941	24,950	18,565
Other Income	45,278	53,975	21,865	38,724	34,199	2,366	24,429	24,531
PBT bef. EO Exp.	82,310	53,463	164,620	273,157	335,391	200,809	245,018	263,456
EO Items	17,468	16,681	13,643	0	0	0	0	0
PBT after EO Exp.	99,778	70,143	178,263	273,157	335,391	200,809	245,018	263,456
Total Tax	30,113	21,426	56,584	75,704	118,239	70,537	91,596	97,743
Tax Rate (%)	30.2	30.5	31.7	27.7	35.3	35.1	37.4	37.1
Share of JVs/associates	-1,190	-402	1,454	-6,401	-9,112	-390	-949	-1,367
Reported PAT	70,856	49,120	120,225	203,854	226,264	130,662	154,371	167,081
Adjusted PAT	58,660	37,535	110,912	203,854	226,264	130,662	154,371	167,081
Change (%)	31.8	-36.0	195.5	83.8	11.0	-42.3	18.1	8.2
Margin (%)	1.2	0.8	3.2	5.7	5.4	2.4	2.3	2.3
Consolidated - Balance Sheet								(INR m)
Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Equity Share Capital	48,559	48,559	23,697	47,393	94,787	94,787	94,787	94,787
Total Reserves	630,571	639,764	876,099	973,568	1,043,951	1,106,473	1,177,884	1,256,174
Net Worth	679,130	688,323	899,796	1,020,961	1,138,738	1,201,260	1,272,671	1,350,961
Minority Interest	11,706	10,733	14,260	19,046	21,512	21,512	21,512	21,512
Total Loans	889,325	581,541	481,492	588,300	621,410	720,000	750,000	795,000
Deferred Tax Liabilities	64,228	68,356	69,707	68,887	123,679	123,679	123,679	123,679
Capital Employed	1,644,389	1,348,952	1,465,256	1,697,194	1,905,339	2,066,450	2,167,862	2,291,152
Gross Block	1,269,522	1,375,223	1,048,008	1,271,518	1,429,148	1,697,691	1,920,700	2,125,302
Less: Accum. Deprn.	544,856	608,119	47,685	111,950	188,629	269,463	356,268	447,113
Net Fixed Assets	724,666	767,104	1,000,323	1,159,568	1,240,520	1,428,229	1,564,432	1,678,189
Goodwill on Consolidation	878	705	10	10	10	10	10	10
Capital WIP	380,609	403,781	262,190	167,784	191,304	153,761	130,752	126,150
Total Investments	158,950	160,687	311,848	436,872	448,061	448,061	448,061	448,061
Curr. Assets, Loans&Adv.	1,401,345	1,004,677	741,183	971,376	1,076,829	1,362,323	1,605,677	1,740,578
Inventory	723,394	499,174	422,567	658,843	705,679	936,738	1,142,909	1,240,498
Account Receivables	125,517	76,448	76,845	88,992	106,965	127,889	154,653	167,570
Cash and Bank Balance	37,045	12,211	10,504	4,098	4,943	38,454	48,874	73,268
Loans and Advances	515,389	416,845	231,267	219,443	259,242	259,242	259,242	259,242
Curr. Liability & Prov.	1,022,058	988,001	850,299	1,038,417	1,051,384	1,325,933	1,581,070	1,701,837
Account Payables	751,018	707,229	725,383	815,492	884,664	1,159,212	1,414,349	1,535,116
Provisions	271,040	280,773	124,916	222,925	166,721	166,721	166,721	166,721
Net Current Assets	379,287	16,676	-109,116	-67,041	25,444	36,390	24,607	38,741
Appl. of Funds	1,644,389	1,348,952	1,465,256	1,697,194	1,905,339	2,066,450	2,167,862	2,291,152

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Basic (INR)								
EPS	6.2	4.0	11.7	21.5	23.9	13.8	16.3	17.6
Cash EPS	12.9	9.5	17.7	28.7	32.0	22.3	25.4	27.2
BV/Share	71.6	72.6	94.9	107.7	120.1	126.7	134.3	142.5
DPS	2.3	1.7	3.0	11.1	11.5	6.1	7.5	8.0
Payout (%)	36.5	39.3	28.7	62.4	56.4	52.2	53.7	53.1
Valuation (x)								
P/E	21.8	34.0	11.5	6.3	5.6	9.8	8.3	7.6
Cash P/E	10.4	14.2	7.6	4.7	4.2	6.0	5.3	4.9
P/BV	1.9	1.9	1.4	1.3	1.1	1.1	1.0	0.9
EV/Sales	0.4	0.4	0.5	0.5	0.4	0.4	0.3	0.3
EV/EBITDA	13.3	19.8	7.5	5.5	4.6	6.1	5.9	5.7
Dividend Yield (%)	1.7	1.3	2.2	8.3	8.5	4.6	5.6	5.9
FCF per share	1.3	38.7	11.8	9.5	9.0	0.3	6.7	7.2
Return Ratios (%)								
RoE	9.0	5.5	14.0	21.2	21.0	11.2	12.5	12.7
RoCE	6.4	4.7	10.3	15.0	14.4	8.6	8.6	8.5
RoIC	6.1	3.1	14.7	19.9	18.7	11.6	10.4	10.2
Working Capital Ratios								
Fixed Asset Turnover (x)	3.8	3.3	3.3	2.8	2.9	3.2	3.5	3.4
Asset Turnover (x)	3.0	3.3	2.4	2.1	2.2	2.7	3.1	3.1
Inventory (Days)	54	41	45	68	61	62	63	63
Debtor (Days)	9	6	8	9	9	8	8	8
Creditor (Days)	56	58	77	84	77	77	78	78
Leverage Ratio (x)								
Current Ratio	1.4	1.0	0.9	0.9	1.0	1.0	1.0	1.0
Interest Cover Ratio	1.6	1.0	5.1	7.3	8.9	5.7	9.8	13.9
Net Debt/Equity	1.0	0.6	0.2	0.1	0.1	0.2	0.2	0.2

Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
OP/(Loss) before Tax	99,779	70,144	178,263	273,157	335,391	200,809	245,018	263,456
Depreciation	63,600	52,190	56,984	68,486	76,679	80,834	86,806	90,845
Direct Taxes Paid	-30,113	-21,425	-56,584	-75,704	-118,239	-70,537	-91,596	-97,743
(Inc)/Dec in WC	105,788	372,225	89,976	-48,481	-91,640	22,565	22,202	10,260
CF from Operations	239,054	473,133	268,638	217,458	202,191	233,671	262,430	266,818
Others	2,428	-10,986	15,075	5,580	63,903	390	949	1,367
CF from Operating incl EO	241,481	462,147	283,712	223,038	266,094	234,061	263,379	268,186
(Inc)/Dec in FA	-229,606	-94,988	-171,425	-133,324	-181,151	-231,000	-200,000	-200,000
Free Cash Flow	11,876	367,159	112,287	89,714	84,944	3,061	63,379	68,186
(Pur)/Sale of Investments	14,549	-217,542	65,511	-125,025	-11,188	0	0	0
CF from Investments	-215,056	-312,529	-105,914	-258,349	-192,339	-231,000	-200,000	-200,000
Issue of Shares	0	0	0	0	0	0	0	0
Inc/(Dec) in Debt	21,431	-335,456	-72,377	106,808	33,110	98,590	30,000	45,000
Dividend Paid	-22,129	-16,020	-28,675	-105,454	-109,005	-58,242	-70,908	-75,893
Others	-881	171,697	-73,125	27,550	2,985	-9,898	-12,051	-12,898
CF from Fin. Activity	-1,579	-179,780	-174,178	28,904	-72,910	30,450	-52,959	-43,791
Inc/Dec of Cash	24,846	-30,162	3,621	-6,406	846	33,511	10,420	24,394
Opening Balance	12,198	37,044	6,882	10,503	4,097	4,943	38,454	48,873
Closing Balance	37,044	6,882	10,503	4,097	4,943	38,454	48,873	73,267

Corporate profile

Company description

Fortune-500 Company, IOC is the largest refining and marketing company in India. It operates 9 refineries (incl BRPL) with a capacity of 70mmtpa and has a 52% stake in CPCL (11.5mmt refining capacity). The company controls a refining capacity of 81.5mmtpa. It has a pipeline network of >13,000km (62mmtpa capacity), has 27,000 petrol/diesel outlets and has interests in petrochemicals and upstream oil and gas. IOC is a Public Sector Company with 57% Government stake.

Exhibit 1: Sensex rebased

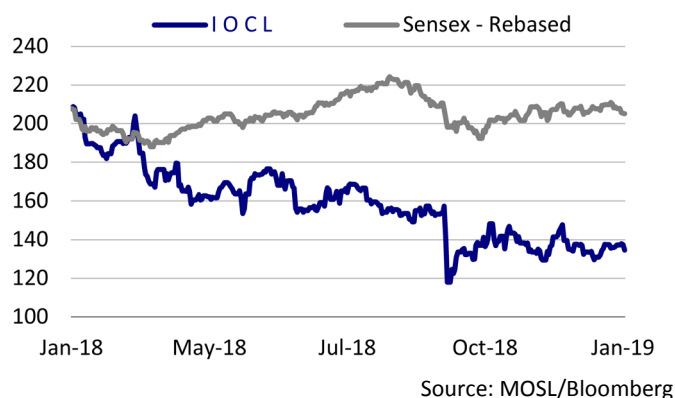


Exhibit 2: Shareholding pattern (%)

	Dec-18	Sep-18	Dec-17
Promoter	54.1	56.8	57.0
DII	13.6	11.2	10.8
FII	5.6	6.0	7.1
Others	26.8	26.1	25.2

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
Oil and Natural Gas Corporation Limited	13.8
LIFE INSURANCE CORPORATION OF INDIA	6.3
Oil India Limited	5.0
RELIANCE CAPITAL TRUSTEE CO LTD.A/C	2.5
RELIANCE MULTICAP FUND	2.5
IOC Shares Trust	2.4

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Sanjiv Singh	Chairman
A K Sharma	Director (Finance)
G K Satish	Director (Busin.Devlop. & Plan)
Ranjan Kumar Mohapatra	Director (Human Resources)
Gurmeet Singh	Director (Marketing)
Akshay Kumar Singh	Director (Pipelines)
B V Rama Gopal	Director (Refineries)
SSV Ramakumar	Director (Research & Devlpmnt)
Kamal Kumar Gwalani	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Chitta Ranjan Biswal*	Samirendra Chatterjee*
Dharmendra Singh Shekhawat*	Sankar Chakraborti*
Jagdish Kishwan*	Vinoo Mathur*
Parindu K Bhagat*	Ashutosh Jindal
	Indrani Kaushal

*Independent

Exhibit 6: Auditors

Name	Type
Shiromany Tyagi & Co	Branch
ABK & Associates	Cost Auditor
Bandyopadhyaya Bhaumik & Co	Cost Auditor
Chandra Wadhwa & Co	Cost Auditor
Mani & Co	Cost Auditor

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY19	11.7	16.6	-29.6
FY20	16.6	18.5	-10.5
FY21	17.7	21.0	-15.9

Source: Bloomberg

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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