

May 20, 2019

Q4FY19 Result Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	BUY		BUY	
Target Price	207		207	
Sales (Rs. m)	6,004,823	6,560,976	6,004,823	6,560,976
% Chng.	-	-	-	-
EBITDA (Rs. m)	351,908	399,089	351,908	399,089
% Chng.	-	-	-	-
EPS (Rs.)	19.9	23.5	19.9	23.5
% Chng.	-	-	-	-

Key Financials

	FY18	FY19	FY20E	FY21E
Sales (Rs. bn)	4,215	5,471	6,005	6,561
EBITDA (Rs. bn)	416	358	352	399
Margin (%)	9.9	6.5	5.9	6.1
PAT (Rs. bn)	208	185	193	228
EPS (Rs.)	21.9	19.0	19.9	23.5
Gr. (%)	(45.6)	(13.4)	4.5	18.3
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	23.2	16.6	14.5	15.7
RoCE (%)	21.5	14.5	12.6	15.5
EV/Sales (x)	0.5	0.5	0.4	0.3
EV/EBITDA (x)	5.1	7.1	6.2	5.0
PE (x)	7.2	8.3	7.9	6.7
P/BV (x)	1.6	1.2	1.1	1.0

Key Data

IOC.BO | IOCL IN

52-W High / Low	Rs.177 / Rs.105
Sensex / Nifty	39,353 / 11,828
Market Cap	Rs.1,484bn / \$ 21,297m
Shares Outstanding	9,414m
3M Avg. Daily Value	Rs.4917.68m

Shareholding Pattern (%)

Promoter's	52.29
Foreign	7.04
Domestic Institution	13.72
Public & Others	26.95
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	1.0	13.4	(3.7)
Relative	0.4	2.2	(14.7)

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Steady performance

Key Pointers:

- Core operations improve led by healthy marketing margins.
- Easing political uncertainty post Central elections and benign crude oil prices from rising US supplies are likely to support stable earnings growth for the OMCs.

We maintain our FY20/21E earnings. During Q4, core performance for IOCL improved led by better marketing performance. Benign crude price outlook given rising US supplies and weak global macros is likely to keep marketing margins buoyant. Oil prices likely to remain benign, as rising US supplies cushions the impact of supply disruptions of over 3mbpd. Weak global macros and US-China trade dispute will prevent crude prices flare-up. Also, completion of Central elections is likely to ease policy overhang. Maintain ACCUMULATE.

In-line performance: IOCL reported steady Q4FY19 results with EBITDA of Rs108.7bn (PLe Rs103bn; -1%YoY) and PAT of Rs60.9bn (PLe Rs52.6bn; +17%YoY). Operational results came in line with our estimates, however, higher other income led to better than expected PAT. For Q4, inventory gain was at Rs26.4bn. For FY19, EBITDA was at Rs338.2bn (-15%YoY) due to lower inventory gains of Rs41.7bn (Rs67.6bn in FY18) and weak GRMs of US\$5.4/bbl vs US\$8.5/bbl in FY18. PAT for FY19 was at Rs169bn (-21%YoY).

Core refining margins remain muted: IOCL's refining margins for Q4FY19 came in at US\$4.1/bbl (Q3FY19 at US\$1.2/bbl) and included inventory gains of Rs23.9bn or US\$2.7/bbl. Adjusted for inventory and time lag, management expects GRMs at US\$3.04/bbl against US\$5.1/bbl in Q3FY19. For FY19, normalized GRMs were at US\$4.8/bbl vis-à-vis US\$7.37/bbl in FY18 due to lower gasoline spreads. GRMs are likely to improve going ahead as the company increase its heavy crude diet to ~40% in FY20E vs 21% last year.

Global GRM's are likely to remain under pressure, as new refining capacity addition of ~2mbpd is higher than demand expectation of 1.1mbpd. However, OMCs with ~40% diesel product slate remain well placed to benefit from IMO2020 regulation which will increase diesel demand by >1mbpd if they are implemented immediately. For Q4, refining throughput was at 17.4MTPA (18.9MTPA in Q3) due to maintenance shutdown at the Panipat and Koyali refinery.

Marketing volumes lagged industry trend: IOCL's marketing volumes lagged industry run rate for HSD (2.3% YoY vs 4% for industry and for MS (8.2%YoY against industry rate of 9%YoY). For FY19 the company added 650 new retail outlets and plans to add 1000 new outlets in FY20E.

However, marketing earnings improved: IOCL's Q4FY19 marketing EBITDA was at Rs68.5bn against loss of Rs3.9bn in Q3FY19. However, adjusted for inventory gains, core-marketing earnings for Q4 were at Rs65.9bn (Rs22.7bn in Q3) from smart recovery in margins.

Stable petrochemicals performance: For Q4FY19, petrochemicals EBITDA improved to Rs10.0bn against Rs9.7bn in Q3. However, pipeline business was steady with EBITDA of Rs15.9bn (Rs16.1bn in Q3).

Exhibit 1: Q4FY19 Result Overview (Rs m)

Y/e March	Q4FY19	Q4FY18	YoY gr. (%)	Q3FY19	FY19	FY18	YoY gr. (%)
Net sales	1,444,723	1,367,326	5.7	1,601,380	6,059,238	5,064,253	19.6
Inc/dec in stock	(5,958)	(22,778)	NA	49,548	(30,111)	23,275	NA
Purchases	463,676	426,275	8.8	419,266	1,790,555	1,521,176	17.7
Raw material cons	580,832	543,987	6.8	804,635	2,696,796	1,887,801	42.9
Duties	182,583	193,641	(5.7)	201,691	782,311	823,889	(5.0)
Staff cost	28,637	29,419	(2.7)	21,638	111,022	100,794	10.1
Other expenditure	86,196	86,570	(0.4)	68,501	370,426	310,690	19.2
Exp	(1,335,965)	(1,257,114)	NA	(1,565,279)	(5,720,998)	(4,667,625)	NA
Operating profit	108,759	110,213	(1.3)	36,101	338,240	396,628	(14.7)
Interest	(12,442)	(13,029)	NA	(8,479)	(43,110)	(34,484)	NA
Depreciation	(20,567)	(19,336)	NA	(18,606)	(75,143)	(70,670)	NA
Other income	10,595	2,481	327.0	4,431	31,285	34,169	(8.4)
Profit before tax	86,344	80,329	7.5	13,446	251,272	325,643	(22.8)
Current tax	(19,175)	(18,428)	NA	(882)	(51,010)	(72,765)	NA
Profit after current tax	67,169	61,901	8.5	12,564	200,262	252,878	(20.8)
Deferred tax	(6,176)	(9,720)	NA	(5,396)	(31,318)	(39,417)	NA
Net profit	60,993	52,181	16.9	7,168	168,944	213,461	(20.9)

Source: Company, PL

Exhibit 2: IOCL internals

EBIDTA (Rs mn)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Refining	40,300	58,170	20,800	(8,680)	12,080
Marketing	29,910	43,690	42,100	(3,950)	68,480
Pipeline	17,470	16,270	16,100	16,130	15,890
Petrochem	16,890	16,300	15,620	9,670	10,050
Others	8,120	(2,830)	(16,590)	27,360	12,860
Total	112,690	131,600	78,030	40,530	119,360
GRM (\$/bbl)	9.12	10.21	6.79	1.15	4.09
Thruput MTPA	17.15	17.70	17.82	18.98	17.35

Source: Company, PL

Conference Call Highlights

Ennore LNG terminal: The 5MTPA Ennore LNG terminal was commissioned in March 2019. The terminal will target both short term and long-term LNG volumes. Currently it is supplying to Manali refinery and will supply LNG to TNPL and Madras refinery going forward. For FY20/21 the terminal plans to supply 0.5/1.5MTPA LNG.

Capex at Rs250bn for FY20E: IOCL has lined up capex of Rs250bn for FY20E including Rs40bn for BSVI norms. For FY19, the company had capex of Rs265bn across marketing (Rs77bn), refining (Rs71bn), pipeline (Rs35bn), E&P (Rs 30bn), petchem (Rs15bn) and Rs30bn for R&D and maintenance. For FY19 BSVI capex were at Rs40bn.

Debt higher from government dues: FY19 end debt of IOCL were at Rs863bn against Rs580bn last year. Higher debt was due to increased receivables from various government department. Also lower budgetary provision of Rs100bn has added to the debt levels. Payments for Mathura entry tax of Rs33bn, mark-to-mark loss of Rs20bn, higher capex of Rs60bn and lower internal accruals also added to debt levels.

BSVI compliance on track: IOCL is spending Rs165bn to meet the BSVI fuel norms and compliance levels stand at 88% as on FY19 end. They remain on track to meet the norms by April 2020. Pricing of the premium fuels will be done on import parity basis.

Geared up for IMO 2020 compliance: IOCL has upgraded refinery capacity to produce 1.5MTPA of low Sulphur marine fuel. This is against domestic requirement of 1MTPA effective January 2020.

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Net Revenues	4,214,918	5,470,769	6,004,823	6,560,976
YoY gr. (%)	18.6	29.8	9.8	9.3
Cost of Goods Sold	3,368,464	4,657,977	5,159,115	5,626,238
Gross Profit	846,454	812,792	845,709	934,738
Margin (%)	20.1	14.9	14.1	14.2
Employee Cost	-	-	-	-
Other Expenses	430,522	454,482	493,800	535,649
EBITDA	415,932	358,309	351,908	399,089
YoY gr. (%)	22.4	(13.9)	(1.8)	13.4
Margin (%)	9.9	6.5	5.9	6.1
Depreciation and Amortization	76,635	71,878	76,900	81,922
EBIT	339,297	286,432	275,009	317,167
Margin (%)	8.0	5.2	4.6	4.8
Net Interest	38,105	51,004	28,543	21,732
Other Income	34,199	36,063	37,084	38,475
Profit Before Tax	335,391	271,491	283,550	333,910
Margin (%)	8.0	5.0	4.7	5.1
Total Tax	118,239	82,209	85,832	100,935
Effective tax rate (%)	35.3	30.3	30.3	30.2
Profit after tax	217,152	189,282	197,717	232,975
Minority interest	9,112	4,781	4,842	4,781
Share Profit from Associate	-	-	-	-
Adjusted PAT	208,041	184,501	192,875	228,194
YoY gr. (%)	8.9	(11.3)	4.5	18.3
Margin (%)	4.9	3.4	3.2	3.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	208,041	184,501	192,875	228,194
YoY gr. (%)	8.9	(11.3)	4.5	18.3
Margin (%)	4.9	3.4	3.2	3.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	208,041	184,501	192,875	228,194
Equity Shares O/s (m)	9,479	9,712	9,712	9,712
EPS (Rs)	21.9	19.0	19.9	23.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Non-Current Assets				
Gross Block	1,426,726	1,665,632	1,673,635	1,681,639
Tangibles	1,426,726	1,665,632	1,673,635	1,681,639
Intangibles	-	-	-	-
Acc: Dep / Amortization	196,852	233,283	302,187	375,413
Tangibles	196,852	233,283	302,187	375,413
Intangibles	-	-	-	-
Net fixed assets	1,229,874	1,432,349	1,371,449	1,306,227
Tangibles	1,229,874	1,432,349	1,371,449	1,306,227
Intangibles	-	-	-	-
Capital Work In Progress	201,949	122,094	150,679	199,264
Goodwill	10	-	-	-
Non-Current Investments	312,007	593,821	619,561	655,628
Net Deferred tax assets	(123,679)	(144,385)	(171,796)	(204,256)
Other Non-Current Assets	45,652	-	-	-
Current Assets				
Investments	81,988	-	-	-
Inventories	705,679	894,620	746,126	784,671
Trade receivables	106,965	128,656	143,605	159,195
Cash & Bank Balance	4,943	12,058	16,332	21,773
Other Current Assets	35,991	31,020	30,802	30,584
Total Assets	2,846,238	3,333,534	3,197,469	3,276,257
Equity				
Equity Share Capital	94,787	97,118	97,118	97,118
Other Equity	855,898	1,178,463	1,290,055	1,419,789
Total Network	950,684	1,275,581	1,387,173	1,516,907
Non-Current Liabilities				
Long Term borrowings	230,605	129,146	129,145	128,055
Provisions	24,227	-	-	-
Other non current liabilities	13,612	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	468,374	892,570	544,289	374,267
Trade payables	367,667	606,043	643,447	677,299
Other current liabilities	640,169	252,871	283,838	332,910
Total Equity & Liabilities	2,846,238	3,333,534	3,197,469	3,276,257

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
PBT	335,391	271,491	283,550	333,910
Add. Depreciation	76,635	71,878	76,900	81,922
Add. Interest	38,105	51,004	28,543	21,732
Less Financial Other Income	34,199	36,063	37,084	38,475
Add. Other	-	-	-	-
Op. profit before WC changes	450,131	394,373	388,992	437,564
Net Changes-WC	(147,649)	(105,826)	202,134	29,007
Direct tax	(76,483)	(55,991)	(58,421)	(68,475)
Net cash from Op. activities	225,999	232,556	532,705	398,097
Capital expenditures	(131,186)	(243,815)	(44,584)	(65,285)
Interest / Dividend Income	-	-	-	-
Others	(204,193)	(27,449)	(25,741)	(36,067)
Net Cash from Invst. activities	(335,379)	(271,264)	(70,325)	(101,352)
Issue of share cap. / premium	-	-	-	-
Debt changes	61,598	169,303	(348,282)	(171,111)
Dividend paid	(128,470)	(86,962)	(90,967)	(108,022)
Interest paid	(38,105)	(51,004)	(28,543)	(21,732)
Others	(58,412)	(62,315)	(67,215)	(72,360)
Net cash from Fin. activities	(163,389)	(30,978)	(535,007)	(373,225)
Net change in cash	(272,769)	(69,686)	(72,626)	(76,480)
Free Cash Flow	94,813	(11,258)	488,121	332,812

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Net Revenue	1,294,750	1,320,348	1,399,689	1,262,141
YoY gr. (%)	22.8	45.8	26.5	7.5
Raw Material Expenses	1,045,537	1,099,705	1,273,448	1,038,550
Gross Profit	249,213	220,643	126,240	223,591
Margin (%)	19.2	16.7	9.0	17.7
EBITDA	125,761	67,620	36,101	108,759
YoY gr. (%)	14.1	-	-	-
Margin (%)	9.7	5.1	2.6	8.6
Depreciation / Depletion	17,879	18,091	18,606	20,567
EBIT	107,881	49,529	17,495	88,192
Margin (%)	8.3	3.8	1.2	7.0
Net Interest	10,311	11,878	8,479	12,442
Other Income	5,853	10,407	4,431	10,595
Profit before Tax	103,424	48,057	13,446	86,344
Margin (%)	8.0	3.6	1.0	6.8
Total Tax	35,110	15,588	6,278	25,351
Effective tax rate (%)	33.9	32.4	46.7	29.4
Profit after Tax	68,314	32,469	7,168	60,993
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	68,314	32,469	7,168	60,993
YoY gr. (%)	50.2	(12.2)	(90.9)	16.9
Margin (%)	5.3	2.5	0.5	4.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	68,314	32,469	7,168	60,993
YoY gr. (%)	50.2	(12.2)	(90.9)	16.9
Margin (%)	5.3	2.5	0.5	4.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	68,314	32,469	7,168	60,993
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	-	-	-	-

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY18	FY19	FY20E	FY21E
Per Share(Rs)				
EPS	21.9	19.0	19.9	23.5
CEPS	30.0	26.4	27.8	31.9
BVPS	100.3	131.3	142.8	156.2
FCF	10.0	(1.2)	50.3	34.3
DPS	-	-	-	-
Return Ratio(%)				
RoCE	21.5	14.5	12.6	15.5
ROIC	12.3	8.6	8.6	9.7
RoE	23.2	16.6	14.5	15.7
Balance Sheet				
Net Debt : Equity (x)	0.6	0.8	0.5	0.3
Net Working Capital (Days)	39	28	15	15
Valuation(x)				
PER	7.2	8.3	7.9	6.7
P/B	1.6	1.2	1.1	1.0
P/CEPS	30.5	26.8	28.2	32.4
EV/EBITDA	5.1	7.1	6.2	5.0
EV/Sales	0.5	0.5	0.4	0.3
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY18	FY19	FY20E	FY21E
Crude /bbl	58	70	75	80
US\$/Rs	65	71	73	75
GRM (US\$/bbl)	8	5	6	7
Refining volume (MTPA)	69	72	73	73
Net subsidy burden (Rs m)		81,268	125,559	

Source: Company Data, PL Research



Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	23-May-18	BUY	257	154
2	23-May-18	BUY	257	162
3	21-Jun-18	BUY	257	170
4	28-Jun-18	BUY	234	155
5	10-Jul-18	BUY	234	155
6	13-Aug-18	BUY	234	161
7	5-Oct-18	Accumulate	142	140
8	2-Nov-18	Accumulate	142	148
9	7-Jan-19	Accumulate	142	133
10	30-Jan-19	Accumulate	142	135

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bharat Petroleum Corporation	BUY	499	358
2	GAIL (India)	BUY	482	349
3	Hindustan Petroleum Corporation	BUY	326	264
4	I.G. Petrochemicals	BUY	477	248
5	Indian Oil Corporation	Accumulate	207	158
6	Indraprastha Gas	BUY	530	305
7	Mahanagar Gas	BUY	1,179	889
8	NOCIL	BUY	221	117
9	Oil & Natural Gas Corporation	BUY	223	157
10	Oil India	Accumulate	236	180
11	Petronet LNG	BUY	306	233
12	Reliance Industries	Accumulate	1,406	1,386

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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