

Marketing margins to be key

Indian Oil Corporation (IOC) reported its Q4FY19 results that were above our estimates on the profitability front mainly on account of a better-than-expected performance in the marketing segment. However, reported GRMs disappointed and were at US\$4.1/bbl below our estimate of US\$6.8/bbl during the quarter on a weak operational performance. Revenues declined 9.8% QoQ to ₹ 144472.3 crore on account of lower throughput as well as average oil prices. On account of healthy numbers from the marketing segment, EBITDA increased to ₹ 10877.6 crore above our estimate of ₹ 8315.1 crore. On the profitability front, reported PAT was at ₹ 6099.3 crore above our estimate of ₹ 4185.3 crore. The company is currently trading at a dividend yield of ~6% taking into account dividend of FY19.

Better marketing margins help improve profit

The correction in oil prices from ~US\$85/bbl to US\$60-70/bbl provided respite to OMCs. They were able to get super-normal marketing margins in the last quarter. The intention of the new government and ability to pass on costs during high oil prices, will determine the performance of OMCs, going forward. In terms of marketing sales, IOC reported growth of 4.2% YoY to 21.7 MMT and came in line with our estimates. Going forward, we expect marketing sales volumes to grow at 4-5% CAGR in the next two years. Crude throughput in Q4FY19 was flattish YoY at 17.4 MMT, marginally below our estimates. Going forward, we estimate throughput of 69.7 MMT for both FY20E and FY21E.

Weak global GRMs to impact refining business performance

Reported GRMs during the quarter were at US\$4.1/bbl, below our estimate of US\$6.8/bbl despite inventory gain of US\$2/bbl. The company reported weak core GRMs at US\$2.1/bbl on account of a weak operational performance. The benchmark Singapore GRMs are remaining weak in the current quarter as well (Q1FY20-TD) at US\$4/bbl with weak product spreads. Hence, operational efficiencies will play a key role in deciding IOC's performance in coming quarters. We estimate GRM at US\$5.9/bbl and US\$7/bbl for FY20E and FY21E, respectively, taking into account an improvement in diesel spreads due to IMO regulations from CY20.

Valuation & Outlook

We are neutral on IOC at the current juncture given the volatility in oil prices and intention of the new government to pass on costs to consumers when oil prices are high. IOC's ability to maintain normal marketing margins and trend in refining margins will determine its near term performance. We have a **HOLD** recommendation on the stock with a target price of ₹ 170 (based on average of P/BV multiple: ₹ 164/share and P/E multiple: ₹ 176/share).

Particulars	
Particular	Amount
Market Capitalization (₹ Crore)	144,143.0
Total Debt (FY18) (₹ Crore)	58,029.9
Cash and Investments (FY18)	10,081.3
EV (₹ Crore)	192,091.5
52 week H/L	177/105
Equity capital (₹ Crore)	9,181.1
Face value (₹)	10.0

Key Highlights

- Results were above our estimates on the profitability front mainly on account of better-than-expected performance in the marketing segment
- The intention of the new government and the ability to pass on costs during high oil prices, will determine the performance of IOC
- Assume GRMs to improve in future due to IMO regulations from CY20
- Recommend HOLD on the stock with target price of ₹ 170/share

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Key Financial Summary

(Year-end March)	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
Revenues (₹ crore)	445,404.8	506,425.3	605,923.8	621,102.2	626,806.2	1.7
EBITDA (₹ crore)	31,812.9	39,662.8	33,826.2	33,673.1	37,789.2	5.7
Net Profit (₹ crore)	19,106.4	21,346.1	16,894.1	16,016.9	19,333.3	7.0
EPS (₹)	20.2	22.5	18.4	17.4	21.1	
P/E (x)	7.8	7.0	8.5	9.0	7.5	
Price / Book (x)	0.7	1.4	1.3	1.2	1.1	
EV/EBITDA (x)	2.3	3.8	4.3	4.3	3.8	
RoCE (%)	16.6	19.4	13.4	13.7	15.3	
RoE (%)	19.2	19.4	15.0	13.3	15.0	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY19	Q4FY19E	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	Comments
Total Revenues	144,472.3	136,598.2	136,732.6	5.7	160,138.0	-9.8	
Raw materials costs	125,802.8	119,245.2	94,748.4	32.8	127,344.8	-1.2	
Employees Cost	2,863.7	3,236.0	2,941.9	-2.7	2,163.8	32.3	
Other Expenses	4,928.3	5,801.8	28,021.1	-82.4	27,018.5	-81.8	
Total Expenditure	133,594.7	128,283.1	125,711.4	6.3	156,527.2	-14.7	
EBITDA	10,877.6	8,315.1	11,021.3	-1.3	3,610.8	201.3	Higher than estimated EBITDA on account of better-than-expected performance in the marketing segment and inventory gains
EBITDA margins (%)	7.5	6.1	8.1	-53 bps	2.3	527 bps	
Depreciation	2,058.5	1,868.2	1,933.6	6.5	1,861.3	10.6	
EBIT	8,819.2	6,446.9	9,087.6	-3.0	1,749.5	404.1	
Interest	1,244.2	993.6	1,302.9	-4.5	847.9	46.7	Higher working capital led to increase in interest costs
Other Income	1,059.5	793.5	248.1	327.0	443.1	139.1	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	8,634.4	6,246.8	8,032.9	7.5	1,344.6	542.1	
Total Tax	2,535.1	2,061.4	2,814.8	-9.9	627.8	303.8	
PAT	6,099.3	4,185.3	5,218.1	16.9	716.8	750.9	
Key Metrics							
Exchange rate (₹/\$)	70.5	70.1	64.5	9.3	72.1	-2.2	
Under-recoveries (₹ cr)*	6567.0	8142.0	8248.1	-20.4	13593.0	-51.7	
Downstream share (%)	0.0	100.0	0.0	NA	0.0	NA	
Net Under-recovery (₹ cr)	0.0	0.0	0.0	NA	0.0	NA	
Throughput (mmt)	17.4	17.8	17.2	1.2	19.0	-8.6	Marginally below estimates
Sales (mmt)	21.7	21.8	20.8	4.2	21.5	0.6	
GRM (\$/barrel)	4.1	6.8	9.1	-55.2	1.2	255.7	Lower than estimates on account of weak global GRMs as well as operational performance

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY20E			FY21E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	NA	621,102.2	NA	NA	626,806.2	NA	
EBITDA	NA	33,673.1	NA	NA	37,789.2	NA	
EBITDA Margin (%)	NA	5.4	NA	NA	6.0	NA	
PAT	NA	16,016.9	NA	NA	19,333.3	NA	
EPS (₹)	NA	17.4	NA	NA	21.1	NA	

Source: Company, ICICI Direct Research

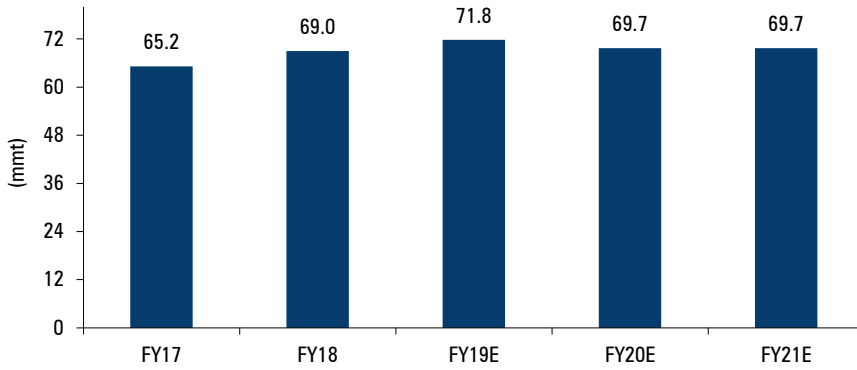
Exhibit 3: Assumptions

	Current				Earlier		Comments
	FY18	FY19	FY20E	FY21E	FY20E	FY21E	
Exchange rate (₹/\$)	64.4	69.9	71.0	71.0	NA	NA	
Under-recoveries (₹ cr)	25,697.8	37,391.0	39,156.1	41,047.7	NA	NA	
Downstream share (%)	0.0	0.0	0.0	0.0	NA	NA	
Net Under-recovery (₹ cr)	0.0	0.0	0.0	0.0	NA	NA	Assume no subsidy burden for OMCs
Throughput (mmt)	69.0	71.8	69.7	69.7	NA	NA	
Sales (mmt)	81.5	84.7	88.1	91.6	NA	NA	
GRM (\$/barrel)	8.5	5.5	5.9	7.0	NA	NA	Assume GRMs to improve in FY21E on account of implementation of IMO regulations

Source: Company, ICICI Direct Research

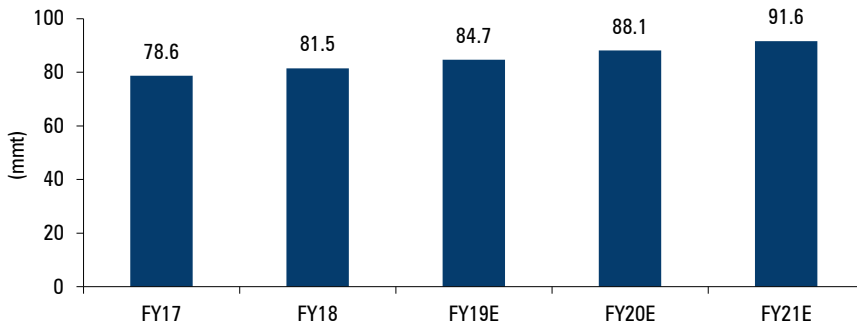
Story in charts

Exhibit 4: Oil throughput trend



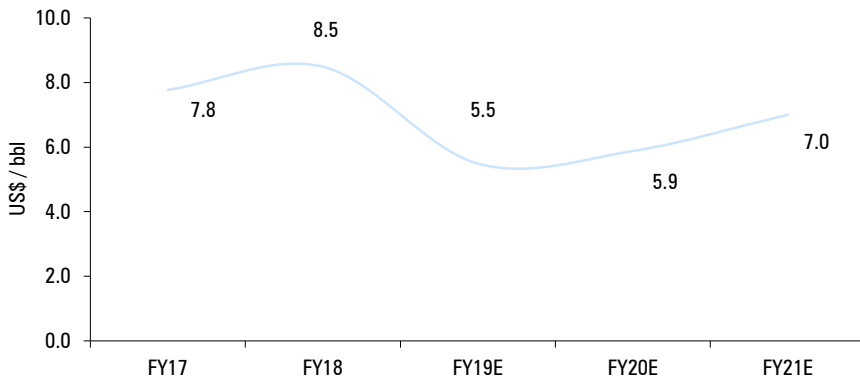
Source: Company, ICICI Direct Research

Exhibit 5: Marketing sales volume trend



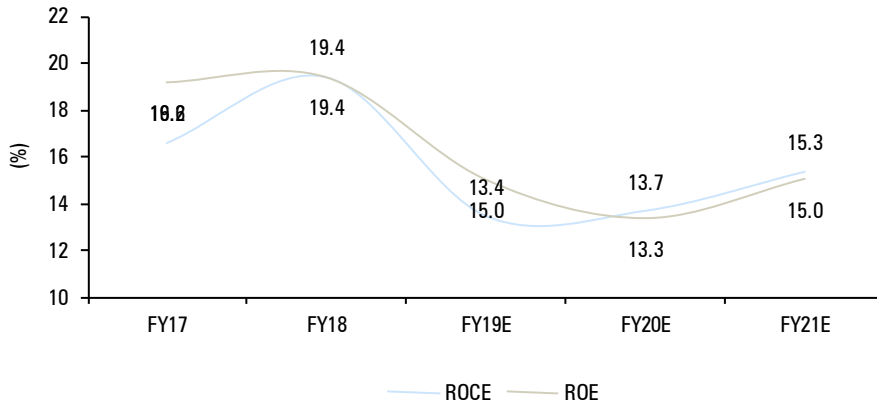
Source: Company, ICICI Direct Research

Exhibit 6: Refining margin trend



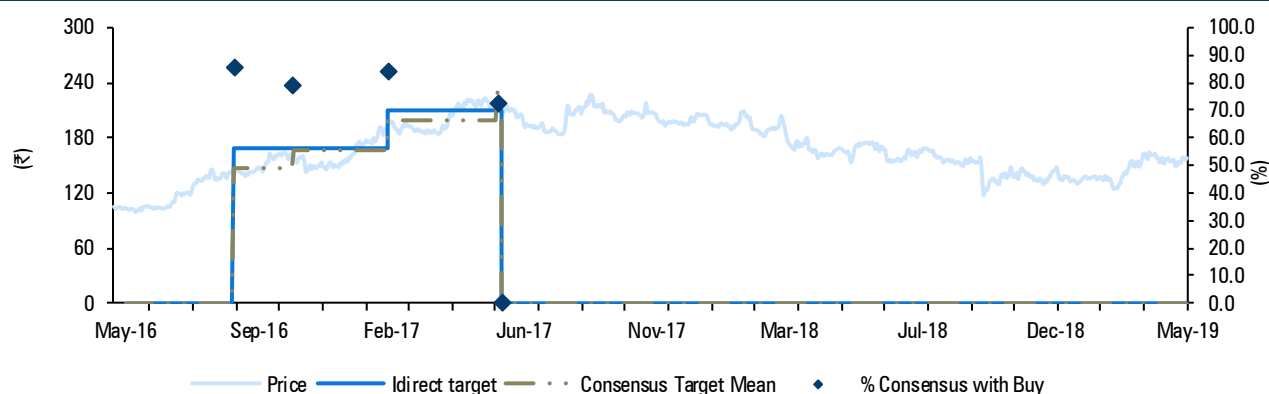
Source: Company, ICICI Direct Research

Exhibit 7: Return ratios trend



Source: Company, ICICI Direct Research

Exhibit 8: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 9: Top 10 shareholders

Rank	Name	Filing Date	% O/S	Sh (m)	Change (m)
1	Government of India	31-Mar-19	52.2	4912.1	-123.0
2	Oil and Natural Gas Corporation Ltd	31/Mar/19	14.2	1337.2	0.0
3	Life Insurance Corporation of India	31-Mar-19	6.5	612.9	0.0
4	Oil India, Ltd.	31/Mar/19	5.2	485.6	0.0
5	Reliance Nippon Life Asset Management Limited	31-Mar-19	2.6	244.8	4.2
6	IOC BRPL Merger Scheme Trust	31/Mar/19	2.5	233.1	0.0
7	ICICI Prudential Asset Management Co. Ltd.	31-Mar-19	2.2	211.1	-1.3
8	The Vanguard Group, Inc.	31/Mar/19	0.8	76.6	2.5
9	Franklin Templeton Asset Management (India) Pvt. L	31-Mar-19	0.6	57.8	-0.5
10	BlackRock Institutional Trust Company, N.A.	31/Mar/19	0.6	55.5	3.8

Source: Reuters, ICICI Direct Research

Exhibit 10: Recent Activity

BUYS			SELLS		
Investor name	Value(m)	Shares(m)	Investor name	Value(m)	Shares(m)
Norges Bank Investment Management (NBIM)	8.78	4.46	Government of India	-289.46	-122.96
Reliance Nippon Life Asset Management Limited	10.00	4.25	UTI Asset Management Co. Ltd.	-8.75	-3.72
Invesco Capital Management LLC	9.74	4.14	Investec Asset Management Ltd.	-6.71	-3.47
BlackRock Institutional Trust Company, N.A.	8.95	3.80	Robeco Institutional Asset Management B.V.	-6.72	-3.29
JPMorgan Asset Management U.K. Limited	6.98	2.97	Amundi Hong Kong Limited	-4.91	-2.41

Source: Reuters, ICICI Direct Research

Exhibit 11: Shareholding Pattern

(in %)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	57.0	56.8	56.8	54.1	52.2
FII	6.2	5.9	6.0	5.6	7.0
DII	10.4	11.3	11.2	13.3	13.8
Others	26.4	26.1	26.1	27.1	27.0

Source: Company, ICICI Direct Research

Financial summary

Exhibit 12: Profit and loss statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Revenue	506425.3	605923.8	621102.2	626806.2
Growth (%)	13.7	19.6	2.5	0.9
(Inc.)/(Dec.) in stock in trade	2327.5	-3011.1	0.0	0.0
Raw material Costs	188780.1	269679.6	265522.5	265522.5
Purchase of Products	152117.6	179055.5	187913.3	187913.3
Employee Costs	10079.4	11102.2	11435.0	12418.2
Other Expenditure	113457.9	115271.4	122558.3	123162.9
Op. Expenditure	466762.5	572097.6	587429.1	589017.0
EBITDA	39662.8	33826.2	33673.1	37789.2
Growth (%)	24.7	-14.7	-0.5	12.2
Depreciation	7067.0	7516.7	8312.2	8312.2
EBIT	32595.8	26309.4	25360.8	29477.0
Interest	3448.4	4311.0	4828.2	4194.4
Other Income	3416.9	3128.5	3373.1	3573.1
PBT	32564.3	25126.9	23905.8	28855.6
Growth (%)	23.7	-22.8	-4.9	20.7
Tax	11218.2	8232.8	7888.9	9522.4
Reported PAT	21346.1	16894.1	16016.9	19333.3
Growth (%)	11.7	-20.9	-5.2	20.7
EPS	22.5	18.4	17.4	21.1

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Profit after Tax	21,346.1	16,894.1	16,016.9	19,333.3
Add: Depreciation	7,067.0	7,516.7	8,312.2	8,312.2
Add: Others	0.0	0.0	0.0	0.0
Cash Profit	22,273.3	14,774.7	16,035.6	17,203.6
Increase/(Decrease) in CL	2,613.6	-1,365.3	12,834.3	3,206.7
(Increase)/Decrease in CA	-248.3	392.4	14379.6	15413.6
CF from Operating Activities	13,238.4	3,865.6	34,656.0	25,082.1
Purchase of Fixed Assets	16,767.0	25,031.6	17,500.0	12,922.8
(Inc)/Dec in Investments	-183.3	2,500.0	2,500.0	2,500.0
Others	4.0	4.0	4.0	4.0
CF from Investing Activities	-16,950.3	-22,531.6	-15,000.0	-10,422.8
Inc/(Dec) in Loan Funds	3,210.4	25,000.0	-17,500.0	-2,000.0
Dividend Paid	11,400.1	9,936.2	8,593.5	10,741.9
Inc/(Dec) in Sh. Cap. & Res.	496.3	-4,434.2	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activities	-7,693.4	10,629.5	-26,093.5	-12,741.9
Change in cash Eq.	-5.2	1,899.7	2,156.0	12,659.3
Op. Cash and cash Eq.	86.5	81.3	1,981.0	4,137.0
Cl. Cash and cash Eq.	81.3	1,981.0	4,137.0	16,796.3

Source: Company, ICICI Direct Research

Exhibit 14: Balance sheet				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Source of Funds				
Equity Capital	9,478.7	9,181.1	9,181.1	9,181.1
Preference capital	0.0	0.0	0.0	0.0
Reserves & Surplus	100,692.3	103,513.6	110,936.9	119,528.4
Shareholder's Fund	110,171.0	112,694.7	120,118.0	128,709.4
Loan Funds	58,029.9	83,029.9	65,529.9	63,529.9
Deferred Tax Liability	12,019.6	12,319.6	12,619.6	12,919.6
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	180220.5	208044.1	198267.5	205158.9
Application of Funds				
Gross Block	132,215.4	147,215.4	162,215.4	177,215.4
Less: Acc. Depreciation	17,759.2	25,244.2	33,556.5	42,695.9
Net Block	114,456.3	121,971.2	128,659.0	134,519.6
Capital WIP	13,861.0	23,861.0	26,361.0	25,111.0
Total Fixed Assets	128,317.3	145,832.2	155,019.9	159,630.6
Investments	47,487.9	44,987.9	42,487.9	39,987.9
Inventories	65,313.2	74,702.9	76,574.2	77,277.5
Debtor	10,116.5	15,770.6	13,613.2	13,738.2
Cash	81.3	1,981.0	4,137.0	16,796.3
Loan & Advance, Other CA	29423.6	23923.6	18423.6	12923.6
Total Current assets	104934.7	116378.2	112748.1	120735.6
Current Liabilities	84334.5	88979.5	102099.0	103036.6
Provisions	16184.9	10174.6	9889.4	12158.5
Total CL and Provisions	100519.4	99154.1	111988.4	115195.2
Net Working Capital	4415.2	17224.0	759.6	5540.4
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	180220.5	208044.1	198267.5	205158.9

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Per share data (₹)				
Book Value	116.2	122.7	130.8	140.2
Cash per share	0.1	2.2	4.5	18.3
EPS	22.5	18.4	17.4	21.1
Cash EPS	30.0	26.6	26.5	30.1
DPS	10.0	9.3	8.0	10.0
Profitability & Operating Ratios				
EBITDA Margin (%)	7.8	5.6	5.4	6.0
PAT Margin (%)	4.2	2.8	2.6	3.1
Fixed Asset Turnover (x)	3.9	4.2	4.0	3.9
Inventory Turnover (Days)	47.1	45.0	45.0	45.0
Debtor (Days)	7.3	9.5	8.0	8.0
Current Liabilities (Days)	60.8	53.6	60.0	60.0
Return Ratios (%)				
RoE	19.4	15.0	13.3	15.0
RoCE	19.4	13.4	13.7	15.3
RoIC	20.6	14.3	14.8	17.8
Valuation Ratios (x)				
PE	7.0	8.5	9.0	7.5
Price to Book Value	1.4	1.3	1.2	1.1
EV/EBITDA	3.8	4.3	4.3	3.8
EV/Sales	0.4	0.4	0.3	0.3
Leverage & Solvency Ratios				
Debt to equity (x)	0.5	0.7	0.5	0.5
Interest Coverage (x)	9.5	6.1	5.3	7.0
Debt to EBITDA (x)	1.5	2.5	1.9	1.7
Current Ratio	1.0	1.2	1.0	1.0
Quick ratio	0.4	0.4	0.3	0.4

Source: Company, ICICI Direct Research

Exhibit 16: ICICI Direct Coverage Universe (Oil & Gas)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
BPCL (BHAPET)	378	320	Hold	81,997	40.3	33.1	34.5	9.4	11.4	10.9	8.4	8.6	7.7	15.7	13.0	13.1	23.2	18.6	18.3
Castrol India (CASIND)	152	140	Reduce	15,035	7.2	7.9	7.4	21.2	19.3	20.5	13.4	11.8	12.6	88.3	91.0	86.1	61.6	63.1	60.3
GAIL (India) (GAIL)	342	390	Buy	77,121	13.6	15.5	20.5	25.2	22.0	16.7	15.0	12.6	10.0	6.8	11.7	14.7	6.6	9.2	11.5
Gujarat Gas (GUJGA)	164	190	Buy	11,290	3.2	4.2	6.3	50.6	38.7	26.0	18.1	14.9	13.2	12.3	15.3	16.8	13.6	15.8	19.8
Gujarat State Petro (GSPL)	176	180	Hold	9,915	8.8	11.9	14.1	20.0	14.8	12.5	11.9	11.5	8.4	13.8	11.6	15.7	11.0	13.2	13.9
Gulf Oil Lubricants (GULO)	827	900	Hold	4,100	31.9	35.8	41.2	25.9	23.1	20.1	17.1	14.1	12.4	31.5	35.8	34.0	33.9	30.7	29.2
HPCL (HINPET)	285	225	Hold	43,478	13.6	13.9	11.1	7.0	6.8	8.6	6.1	6.0	6.7	19.3	17.5	13.8	30.5	26.5	19.3
Indian Oil Corp (INDOIL)	157	170	Hold	76,238	22.5	18.4	17.4	7.0	8.5	9.0	3.8	4.3	4.3	19.4	13.4	13.7	19.4	15.0	13.3
Indraprastha Gas (INDGAS)	303	300	Hold	21,210	8.2	9.6	10.8	37.1	31.6	28.1	21.4	18.5	16.5	27.2	26.5	25.6	19.5	19.1	18.6
Mahanagar Gas (MAHGAS)	895	1050	Buy	8,841	39.8	48.4	55.3	22.5	18.5	16.2	13.5	11.2	9.4	29.8	31.9	31.5	21.4	22.8	22.7
Mangalore Refinery (MRPL)	63	70	Hold	11,042	12.8	1.8	5.7	4.9	34.4	11.0	3.5	9.5	5.7	23.2	5.7	10.5	20.4	2.9	8.5
ONGC (ONGC)	171	153	Hold	219,450	16.9	24.8	22.5	10.1	6.9	7.6	5.8	3.9	4.0	7.9	13.6	12.2	9.4	12.4	10.7
Petronet LNG (PETLNG)	220	245	Hold	33,000	13.9	14.4	16.4	15.9	15.3	13.4	10.2	10.1	8.3	25.9	26.5	32.2	21.4	21.3	23.1

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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