

Indian Oil Corporation Ltd. (IOC)



Indian Oil Corporation Ltd.

Inventory gains aid margins; good show from marketing

CMP INR 157	Target INR 185	Potential Upside 17.8%	Market Cap (INR Mn) 1,482,259	Recommendation BUY	Sector Oil & Gas
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Result highlights

Revenues came in at INR 1,262.1 bn, up 7.6% YoY declining QoQ by 9.8% due to lower throughput QoQ of 17.35 MMT (18.9 MMT in QFY19 and 17.2 MMT in Q4FY18). Gross margins improved significantly QoQ (+870 bps) to 17.7% (-155 bps YoY) on the back of inventory gains of INR 5.95 bn as against inventory losses of INR 49.5 bn in Q3FY19. GRM for the quarter came at 4.09/bbl v/s \$9.12/bbl in Q4FY18 due to weak light and middle distillate spreads. Employee expenses increased by 32.3% QOQ (-1.4% YoY) due to one-time contribution for super-annuation benefit scheme, while other expenses also increased by 25.8% QoQ, although it was negated to some extent by forex gains of INR 8.4 bn as v/s forex losses of INR 6.7 bn in Q4FY19 leading to an operational performance with OPM at 8.6% (-73 bps YoY, +604 bps QoQ). EBITDA stood at INR 108.7 bn (-0.9% YoY, +201.3% QoQ). Finance cost increased by 46.7% QoQ (-0.4% YoY) while other income increased by 139.1% QoQ (+327% YoY) leading to PAT at INR 61.0 bn with NPM of 4.8% (+38 bps YoY, +432 bps QoQ). The board has declared a final dividend of INR 1/share on a FV of INR 10.

MARKET DATA

Shares outs (Mn)	9414
Equity Cap (INR Mn)	94142
Mkt Cap (INR Mn)	1482259
52 Wk H/L (INR)	177/106
Volume Avg (3m K)	16733
Face Value (INR)	10
Bloomberg Code	IOCLIN

KEY FINANCIALS

Particulars (INR mn)	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operations	35,53,101	42,14,918	52,81,489	59,53,610	63,60,177
EBITDA	3,40,132	4,16,055	3,52,269	3,91,425	4,18,155
Adj. PAT	2,03,854	2,26,386	1,72,781	1,86,140	1,99,683
EPS Diluted (Rs.)	20.99	23.31	18.35	19.77	21.21
OPM (%)	9.57%	9.87%	6.67%	6.57%	6.57%
NPM (%)	5.74%	5.37%	3.27%	3.13%	3.14%
P/E (x)	7.5	6.8	8.6	8.0	7.4

Source: Company, KRChoksey Research

Key Highlights

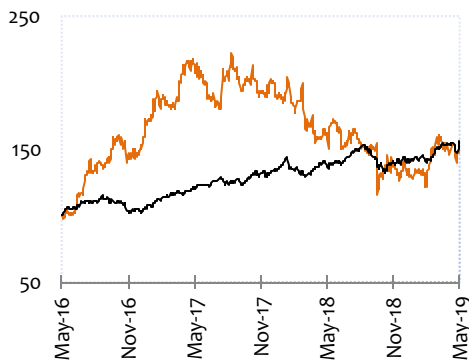
Refining margin for Q4 revive; IMO regulations to benefit

Reported GRM for Q4 stood at \$4.09/bbl (v/s \$1.5/bbl in Q3FY19 & \$9.12/bbl in Q4FY18) backed by stable crude prices. However, normalized GRM declined to \$3.5/bbl attributed to the steep decline in gasoline spreads as well as fuel & loss impact. Despite, the steep rise in refining capacity addition for CY19, we remain positive for GRMs to improve on the back of recovery in products spreads especially in gasoline cracks since Q4 (-9/bbl as against \$1-4/bbl) which could support margin levels. In addition, implementation of IMO norms from 2020 could drive demand for blended diesel from the shipping industry further lifting the cracks for IOC's middle distillates (diesel) slate from the thus giving thrust to the refining margins. We estimate GRM levels at \$6-7/bbl over FY20/21.

Inventory gains help rekindle operational performance

EBITDA for Q4 improved considerably by 201.3% QoQ to INR 1.08 bn (-0.9% YoY), on account of inventory gains of INR 5.9 bn as against inventory losses of INR 49.5 bn in Q3FY19. Amidst global tensions of crude supply disruptions since the past few days, crude prices have remained below levels of \$80/bbl which bodes well for OMCs and we expect the same to continue with the potential for any supply gap to be filled by OPEC and rising US production. The management indicated that it has stopped imports of Iranian crude and has alternate sources for its imports indicating stability in supply. It has also contracted with the US to source 2.4 MMTPA of crude.

SHARE PRICE PERFORMANCE



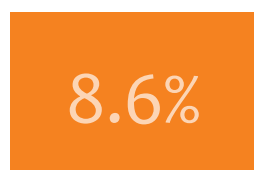
— Indian Oil Corporation Ltd — SENSEX

MARKET INFO

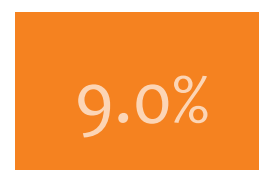
SENSEX	39353
NIFTY	11828

SHARE HOLDING PATTERN (%)

Particulars	Mar 19	Dec 18	sep 18
Promoters	52.18	54.06	56.75
FIIIs	7.04	5.6	5.99
DIIIs	13.72	13.46	11.05
Others	27.07	26.87	26.22
Total	100	100	100



Revenue CAGR between FY 19 and FY 21E



EBITDA CAGR between FY 19 and FY 21E

ANALYST

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FY20 remains capex intensive; Concern over debt levels

IOC's 5-MMTPA Ennore terminal has commissioned in March'19 and the management has indicated supplying LNG on a long-term as well as spot-basis. Supplies have begun to customers namely, Chennai Petroleum (Manali refinery), Madras Fertilizers thereby catering to the gas requirements in Tamil Nadu and adjoining regions. The management has targeted supplies of 0.5 MMTPA by CY19 and 1.3-1.4 MMTPA by CY20. The overall physical progress for its refineries for BS-VI upgradation is close to 86% completion and implementation is expected before the given deadline of Apr'20. Capex guidance for FY20 stands at INR 25,000 crore. However, we remain wary of debt levels where gross debt has increased from INR 621 bn in FY18 to INR 927 bn in FY19 indicating a D/E ratio of 0.8x (0.5x in FY18).

Good show from marketing segment

Marketing segment delivered a good performance on the back of strong marketing margins. Sales witnessed a decline on both YoY (-4.8%) and QoQ (-5.8%) basis to 21.48 MMT. Marketing margins for OMCs have remained subdued (<INR 2.5/ltr), given the impending general election outcomes. However, going forward we expect OMCs to fare well with respect to their marketing performance as they bring margins in-line with the global crude prices. We estimate marketing margins for FY20/21E to be around INR 3-3.5/ltr.

Valuation and outlook:

Crude price volatility over the past few months have deterred stock performance of the OMCs. In addition, heavy capex have caused a drag on their margins from higher debt and finance costs. As for IOC, gross debt has increased to INR 927 bn as of FY19 (v/s INR 621 bn in FY18) and heavy capex for FY20 may further weigh down financial performance. With respect to refining, we maintain a modest outlook and believe rising US production along with potential production increase by OPEC could keep crude price levels below \$78-80/bbl hence supporting operational performance to some extent. We expect revenues to grow at a CAGR of 8.6% over FY19-21E and EBITDA to grow at a CAGR of 9.0% over FY19-21E. At a CMP of INR 157, IOC is trading at 6.1x FY20E EV/EBITDA and 5.7x FY21E EV/EBITDA. We maintain our EV/EBITDA-based multiple target price of INR 185 (potential upside – 17.8%). **We maintain BUY rating on the stock.**

KEY METRICS - QUARTERLY

Particulars	UoM	Q4FY18	Q3FY19	Q4FY19	YoY (%)	QoQ (%)
Throughput	MMT	17.15	18.98	17.35	1.2%	-8.6%
GRM	USD/bbl	9.12	1.50	4.09	-55.2%	172.7%

Source: Company, KRChoksey Research

MARKET SALES

Particulars	UoM	Q4FY18	Q3FY19	Q4FY19	YoY (%)	QoQ (%)
Domestic	MMT	20.80	21.55	20.52	-1.3%	-4.8%
Exports	MMT	1.76	1.25	0.96	-45.7%	-23.4%

Source: Company, KRChoksey Research

KEY ASSUMPTIONS FOR FY20E/FY21E

Particulars	UoM	FY17	FY18	FY19E	FY20E	FY21E
Throughput	MMTPA	65.2	69.0	71.8	73.6	75.7
GRM	USD/bbl	7.77	8.49	5.62	7.20	8.30
Oil Price	USD/bbl	48.6	61.6	69.0	72.8	73
USD/INR		66.0	65.5	70.0	71.5	73

Source: Company, KRChoksey Research

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Q4FY19 – Earnings Concall Highlights

- Physical performance on BS-VI fuels is 86% and implementation of supply fuels will be done before the given deadline.
- Mechanical completion of 680 KTA polypropylene plant is done and will likely be commissioned in Q1FY20.
- 650 new retail outlets opened in FY19. It registered a footfall of 15 mn for all outlets leading to a market share of 0.6%.
- IOC has a solar power capacity of 45 MW and wind power capacity of 168 MW.
- Petchem EBITDA contribution was lower due to decline in polymer margins as well as shutdown of the PTA plant.
- Gasoline cracks were lower in FY19 at \$5.7/bbl as against \$11.4/bbl in FY18.
- Borrowings have increased significantly due to 1. Increase in govt outstanding dues for subsidy of LPG and kerosene which is close to 10k crore. 2. 1 million to be paid for mature one time entry of INR 2,000 crores. 3. MTM losses of INR 2,000 crores.
- Encore terminal - have contracted to supply LNG on long term as well as spot basis. By CY19 - targeting supply of 0.5 MMTPA and by FY20 targeting 1.3-1.4 MMTPA. Not all pipelines are yet in place.
- Average hurdle rate to decide returns on a project is 13-14%.
- There would be planned maintenance shutdowns of some units between Aug'19 and Mar'20.
- MEG project has a 375 KTA capacity plant which is in progress. Capex for the same is INR 5,600 crores.
- Refining margins - Generally, IOCs refining margins stand close to those of the benchmark Singapore GRM.
- IOC has completely stopped imports of Iranian oil and at the same time has also lined up imports from other countries such as US where it has contracted to source 2.4 MMTPA of crude. There has not been any impact on sourcing however there has been a marginal impact with the cost of the crude from other countries vis-a-vis Iran.
- GRM for Paradip refinery came at \$4.46/bbl for FY19 with a capacity utilization of 97%. Paradip refinery is currently processing 21% heavy crudes and the share will increase to 35-40% in FY20.
- FY19 Capex stood at INR 26,500 - Refinery at 7,100, Pipelines at 3,500, Marketing at 7,700, E&P at 3,000, Petchem 1,500, Maintenance & others 3,000.
- FY20E capex guidance - INR 25k crores.
- Paradip refinery is designed to process 30-40% heavy crudes. But light heavy crude differential has been narrowing and hence no incentives to import heavy crude. Importing heavy crudes becomes attractive at a differential of \$2.5-3/bbl.
- Not yet sure of what type of yields can processing of US crude give.
- BS-VI products will be sold based on prices linked to international prices.

Source: Company, KRChoksey Research

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QUARTERLY PERFORMANCE

Particulars (INR mn)	Q4FY19	Q3FY19	Q4FY18	Q-o-Q (%)	Y-o-Y (%)
Revenue from operations	12,62,141	13,99,689	11,73,520	-9.8%	7.6%
Cost of Materials Consumed	5,80,832	8,04,635	5,43,910	-27.8%	6.8%
Purchases of Stock-in-trade	4,63,676	4,19,266	4,26,275	10.6%	8.8%
(Increase)/Decrease in inventories	-5,958	49,548	-22,778	-112.0%	-73.8%
Cost of Goods Sold	10,38,550	12,73,448	9,47,407	-18.4%	9.6%
Gross Profit	2,23,591	1,26,240	2,26,113	77.1%	-1.1%
Gross Margin (%)	17.7%	9.0%	19.3%	870 bps	-155 bps
Employee benefit expense	28,637	21,638	29,048	32.3%	-1.4%
Other expenses	86,178	68,494	87,354	25.8%	-1.3%
Total Expenditure	1,14,815	90,133	1,16,401	27.4%	-1.4%
EBITDA	1,08,776	36,108	1,09,712	201.3%	-0.9%
EBITDA Margin (%)	8.6%	2.6%	9.3%	604 bps	-73 bps
Depreciation	20,567	18,606	19,336	10.5%	6.4%
EBIT	88,209	17,502	90,376	404.0%	-2.4%
Finance Cost	12,442	8,479	12,490	46.7%	-0.4%
Other Income	10,595	4,431	2,481	139.1%	327.0%
Profit before Tax (PBT)	86,362	13,453	80,367	541.9%	7.5%
Tax Expense	25,351	6,278	28,148	303.8%	-9.9%
Adjusted Profit after Tax (PAT)	61,010	7,175	52,219	750.3%	16.8%
Net Profit Margin (%)	4.8%	0.5%	4.4%	432 bps	38 bps
Adjusted EPS Basic (INR)	6.48	0.76	5.55		

Source: Company, KRChoksey Research

INCOME STATEMENT

Particulars (INR mn)	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operations	35,53,101	42,14,918	52,81,489	59,53,610	63,60,177
Cost of goods sold	27,51,190	33,68,464	44,20,968	50,01,032	53,42,549
Gross Profit	8,01,911	8,46,454	8,60,522	9,52,578	10,17,628
Gross Margin (%)	22.6%	20.1%	16.3%	16.0%	16.0%
Employee benefit expenses	1,02,040	1,06,807	1,15,963	1,28,032	1,36,776
Other expenses	3,59,738	3,23,592	3,92,290	4,33,120	4,62,698
Total Operating Expense	4,61,779	4,30,399	5,08,253	5,61,153	5,99,473
EBITDA	3,40,132	4,16,055	3,52,269	3,91,425	4,18,155
EBITDA Margin (%)	9.6%	9.9%	6.7%	6.6%	6.6%
Depreciation	68,486	76,635	85,065	93,010	98,308
EBIT	2,71,646	3,39,420	2,67,204	2,98,414	3,19,847
Finance Cost	37,213	38,105	48,880	49,639	49,959
Other Income	38,724	34,199	27,143	26,330	25,233
Profit before Tax (PBT)	2,73,157	3,35,514	2,45,467	2,75,105	2,95,121
Share of profit of associates & JVs	6,401	9,112	13,844	8,253	8,854
Profit before Tax (PBT)	2,79,558	3,44,625	2,59,311	2,83,358	3,03,975
Total Tax expense	75,704	1,18,239	86,531	97,218	1,04,292
Profit after Tax (PAT)	2,03,854	2,26,386	1,72,781	1,86,140	1,99,683
PAT Margin (%)	5.7%	5.4%	3.3%	3.1%	3.1%
EPS Basic (INR)	20.99	23.31	18.35	19.77	21.21

Source: Company, KRChoksey Research

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Indian Oil Corporation Ltd.

BALANCE SHEET

Particulars (INR mn)	FY17	FY18	FY19E	FY20E	FY21E
EQUITY AND LIABILITIES					
Equity					
Share capital	47,393	94,787	91,810	91,810	91,810
Reserves and surplus	9,73,568	10,43,951	10,32,882	11,14,395	12,01,838
Non controlling interest	19,046	21,512	18,774	18,774	18,774
Total Equity	10,40,007	11,60,250	11,43,466	12,24,979	13,12,422
Non-current liabilities					
Long term borrowings	2,55,459	2,30,605	3,91,525	3,52,372	2,99,516
Other Financial liabilities	2,02,515	5,710	6,160	6,944	7,418
Long term provisions	32,259	24,227	22,120	21,336	22,793
Other non-current liabilities	76,411	1,37,291	1,81,092	1,80,525	1,81,578
Total non-current liabilities	5,66,644	3,97,832	6,00,896	5,61,177	5,11,306
Current liabilities					
Financial Liabilities	8,02,743	11,42,500	13,80,695	15,41,801	16,65,772
Short term provisions	1,90,665	1,42,494	1,01,741	98,134	1,04,835
Other Current liabilities	1,35,552	1,13,646	1,24,754	1,20,331	1,28,548
Total current liabilities	11,28,960	13,98,641	16,07,189	17,60,266	18,99,156
SOURCES OF FUNDS	27,35,610	29,56,723	33,51,551	35,46,421	37,22,883
ASSETS					
Non-current assets					
Net Block	12,89,505	13,93,391	15,58,948	16,34,464	17,49,299
Intangible Assets under development	37,857	38,443	48,797	51,237	53,799
Investment in Joint Ventures	0	1,10,485	1,18,934	1,18,934	1,18,934
Financial Assets	4,10,611	3,12,007	2,74,913	2,59,889	2,39,829
Other non-current assets	31,532	45,652	52,199	50,843	53,363
Total non-current assets	17,69,505	18,99,978	20,53,791	21,15,367	22,15,225
Current Assets					
Inventories	6,58,843	7,05,679	7,71,265	8,69,416	9,28,787
Other Financial Assets	2,66,349	3,08,515	4,62,972	4,87,341	5,05,048
Cash and cash equivalents	4,098	4,943	10,647	23,044	19,553
Other current assets	36,815	37,608	52,877	51,254	54,269
Total current assets	9,66,105	10,56,745	12,97,760	14,31,055	15,07,659
APPLICATION OF FUNDS	27,35,610	29,56,723	33,51,551	35,46,421	37,22,883

Source: Company, KRChoksey Research

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CASH FLOW STATEMENT

Particulars (INR mn)	FY17	FY18	FY19E	FY20E	FY21E
Profit before Tax (PBT)	2,79,558	3,44,502	2,59,311	2,83,358	3,03,975
Operating profit before working capital changes	4,28,234	3,94,020	2,92,360	4,26,008	4,52,242
Cash Generated from/(used in) operations	2,81,680	2,90,817	1,07,410	3,23,223	3,68,354
Less: Income Tax Paid (net of refunds)	70,334	73,045	86,531	97,218	1,04,292
Net Cash generated from/(used in) operating activities	2,81,680	2,90,817	1,07,410	3,23,223	3,68,354
Net Cash Used In Investing Activities	-1,76,363	-1,71,187	-2,60,976	-1,70,966	-2,15,705
Net Cash Used in Financing Activities	-1,09,371	-1,19,736	1,59,709	-1,39,860	-1,56,139
Net Increase/(Decrease) in Cash and Cash Equivalents	-4,053	-106	6,144	12,397	-3,491
Cash and Cash Equivalents at the beginning of the year	7,349	3,295	3,189	9,333	21,730
Cash and Cash Equivalents at the end of the year	3,295	3,189	9,333	21,730	18,239
Add: Balance with Bank	803	1,754	1,314	1,314	1,314
Cash & Bank Balance	4,098	4,943	10,647	23,044	19,553

Source: Company, KRChoksey Research

RATIOS

Particulars	FY17	FY18	FY19	FY20E	FY21E
<u>Profitability</u>					
Return on Assets (%)	7.5%	7.7%	5.2%	5.2%	5.4%
Return on Capital (%)	16.7%	19.1%	12.9%	13.8%	14.2%
Return on Equity (%)	19.6%	19.5%	15.1%	15.2%	15.2%
<u>Margin Trend</u>					
Gross Margin (%)	22.6%	20.1%	16.3%	16.0%	16.0%
EBITDA Margin (%)	9.6%	9.9%	6.7%	6.6%	6.6%
Net Margin (%)	5.7%	5.4%	3.3%	3.1%	3.1%
<u>Liquidity</u>					
Current Ratio	0.9	0.8	0.8	0.8	0.8
Quick Ratio	0.1	0.1	0.2	0.2	0.2
Debtor Days	9	9	11	11	11
Inventory Days	68	61	53	53	53
Creditor Days	32	32	28	28	28
Working Capital Days	45	39	36	36	36
<u>Solvency</u>					
Total Debt/ Equity	0.6	0.5	0.8	0.8	0.7
Interest Coverage	7.3	8.9	5.5	6.0	6.4
<u>Valuation Ratios</u>					
EV/EBITDA	6.1	5.0	6.81	6.13	5.76
P/E	7.5	6.8	8.6	8.0	7.4
P/B	1.4	1.3	1.3	1.2	1.1

Source: Company, KRChoksey Research

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Bharat Petroleum Corporation Ltd.

Bharat Petroleum Corporation Ltd.				Rating Legend	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
21-May-19	157	185	BUY	Buy	More than 15%
4-Feb-19	136	185	BUY		
4-Jun-18	173	203	BUY	Accumulate	5% – 15%
16-Feb-18	377	470	BUY		
14-Nov-17	493	650	BUY	Hold	0 – 5%
30-MAY-16	1012	1176	BUY		
15-FEB-16	772	979	BUY	Reduce	-5% – 0
10-Nov-15	904	1,109	BUY		
18-Aug-15	864	1,116	BUY	Sell	Less than – 5%
30-May-15	849	894	ACCUMULATE		
14-Nov-14	734	858	BUY		

ANALYST CERTIFICATION:

I, Neha Raichura (CFA Level III Cleared, M.Com), research analyst, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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