

Inventory gains lead to PAT beat...

Indian Oil Corporation (IOC) reported its Q1FY20 results that were above our estimates on the profitability front mainly on account of higher GRMs and better-than-expected performance in the marketing segment. Reported GRMs were at US\$4.7/bbl, above our estimate of US\$3.2/bbl during the quarter due to inventory gains of US\$1.1/bbl vs. expected loss of US\$0.3/bbl. Revenues increased 3.9% QoQ to ₹ 150135.2 crore on account of higher average oil prices. On account of inventory gains and better marketing segment performance, EBITDA was at ₹ 8350 crore (down 23.2% QoQ) above our estimate of ₹ 5029.8 crore. On the profitability front, reported PAT was at ₹ 3596.1 crore, above our estimate of ₹ 1703.7 crore. The company is currently trading at ~6% dividend yield on FY20E earnings.

Better marketing margins help improve profit

The correction in oil prices led to super-normal marketing margins for OMCs in Q4FY19, which led to lower margins on a QoQ basis. However, on an absolute basis, marketing segment reported a stable Q1FY20 performance. IOC expects similar profitability from this segment in coming quarters. In terms of marketing sales, IOC reported de-growth of 0.6% YoY to 21.5 MMT (below our estimates) on account of lower-than-expected diesel sales. Going forward, we expect marketing sales volumes to grow at 3-4% CAGR over the next two years. The crude throughput in Q1FY20 was marginally lower YoY at 17.3 MMT, in line with our estimates. Going forward, we estimate throughput of ~69.7 MMT for both FY20E and FY21E.

GRMs to improve from lower levels due to IMO regulations

Reported GRMs during the quarter were at US\$4.7/bbl above our estimate of US\$3.2/bbl during the quarter on account of inventory gains of US\$1.1/bbl vs. expected loss of US\$ 0.3/bbl. The company's core GRMs remained weak at US\$3.6/bbl, in line with our estimates. Benchmark Singapore GRMs have improved in current quarter (Q2FY20-TD) at US\$6-7/bbl with improved product spreads. IOC operational efficiencies will play a key role in deciding IOC's performance in coming quarters. We estimate GRM at US\$5.7/bbl and US\$6.5/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 global GRMs and uncertainty on the company's ability to pass on costs to customers during high oil prices. IOC's 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 ₹ 150.

Particulars	
Particular	Amount
Market Capitalization (₹ Crore)	126,698.9
Total Debt (FY18) (₹ Crore)	58,029.9
Cash and Investments (FY18)	10,081.3
EV (₹ Crore)	174,647.5
52 week H/L	171/105
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 inventory gains and better than expected performance in the marketing segment
- As per the management, marketing margins are expected to remain stable in the coming quarters
- Assume GRMs to improve from Q1FY20 due to IMO regulations from CY20
- Recommend HOLD on stock with target price of ₹ 150 /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	582,020.3	576,508.7	(2.5)
EBITDA (₹ crore)	31,812.9	39,662.8	33,826.2	33,712.6	35,652.2	2.7
Net Profit (₹ crore)	19,106.4	21,346.1	16,894.1	15,337.4	17,358.7	1.4
EPS (₹)	20.2	22.5	18.4	16.7	18.9	
P/E (x)	6.8	6.1	7.5	8.3	7.3	
Price / Book (x)	0.7	1.2	1.1	1.1	1.0	
EV/EBITDA (x)	2.1	3.3	3.7	3.8	3.6	
RoCE (%)	16.6	19.4	13.4	13.3	14.0	
RoE (%)	19.2	19.4	15.0	12.8	13.8	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q1FY20	Q1FY20E	Q1FY19	YoY (%)	Q4FY19	QoQ (%)	Comments
Total Revenues	150,135.2	141,995.6	149,746.9	0.3	144,472.3	3.9	
Raw materials costs	134,473.8	130,218.6	104,553.7	28.6	103,855.0	29.5	
Employees Cost	2,388.1	2,605.4	2,368.6	0.8	2,863.7	-16.6	
Other Expenses	4,923.4	4,141.8	30,248.8	-83.7	26,876.1	-81.7	
Total Expenditure	141,785.2	136,965.9	137,171.1	3.4	133,594.7	6.1	
EBITDA	8,350.0	5,029.8	12,575.8	-33.6	10,877.6	-23.2	Higher than estimated EBITDA on account of inventory gains and better-than-expected performance in marketing segment
EBITDA margins (%)	5.6	3.5	8.4	-284 bps	7.5	-197 bps	
Depreciation	2,092.9	2,078.1	1,787.9	17.1	2,058.5	1.7	
EBIT	6,257.1	2,951.7	10,787.9	-42.0	8,819.2	-29.1	
Interest	1,509.1	1,252.0	1,031.1	46.4	1,244.2	21.3	Higher working capital led to increase in interest costs
Other Income	631.4	843.2	585.3	7.9	1,059.5	-40.4	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	5,379.4	2,542.9	10,342.2	-48.0	8,634.4	-37.7	
Total Tax	1,783.3	839.1	3,511.0	-49.2	2,535.1	-29.7	
PAT	3,596.1	1,703.7	6,831.1	-47.4	6,099.3	-41.0	

Key Metrics

Exchange rate (₹/\$)	69.6	69.6	67.1	3.7	70.5	-1.3	
Under-recoveries (₹ cr)*	7848.8	8234.0	6686.0	17.4	6567.0	19.5	
Downstream share (%)	0.0	0.0	0.0	NA	0.0	NA	
Net Under-recovery (₹ cr)	0.0	0.0	0.0	NA	0.0	NA	
Throughput (mmt)	17.3	17.3	17.7	-2.2	17.4	-0.4	In line with our estimates
Sales (mmt)	21.5	22.5	21.7	-0.6	21.7	-0.5	Lowered diesel sales led to lower sales
GRM (\$/barrel)	4.7	3.2	10.2	-54.1	4.1	14.7	Higher than estimates on account of inventory gains

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY20E			FY21E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	609412.2	582,020.3	-4.5	628709.1	576,508.7	-8.3	Lower oil price estimates
EBITDA	31,525.9	33,712.6	6.9	37,789.2	35,652.2	-5.7	FY20E estimates increased due to better marketing performance & FY21E lowered on account of reduction in GRM estimates
EBITDA Margin (%)	5.2	5.8	62 bps	6.0	6.2	17 bps	
PAT	14,548.1	15,337.4	5.4	19,333.3	17,358.7	-10.2	Estimate increase in interest costs
EPS (₹)	15.8	16.7	5.4	21.1	18.9	-10.2	

Source: Company, ICICI Direct Research

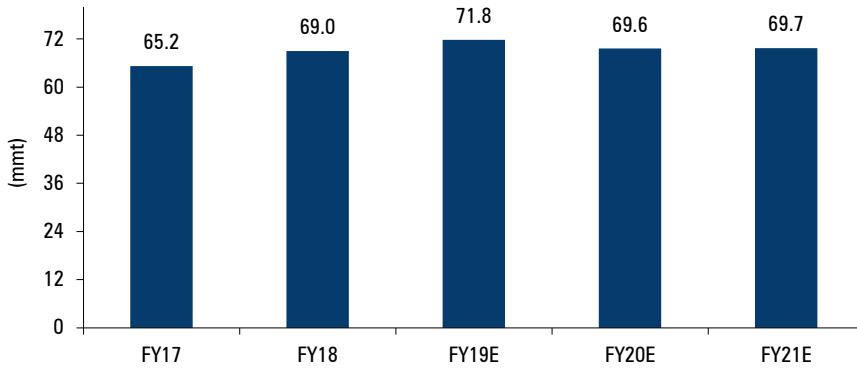
Exhibit 3: Assumptions

	Current				Earlier		Comments
	FY18	FY19	FY20E	FY21E	FY20E	FY21E	
Exchange rate (₹/\$)	64.4	69.9	69.9	70.0	70.7	71.0	
Under-recoveries (₹ cr)	25,697.8	37,391.0	33,437.6	34,486.1	38047.9	40667.0	Lowered Brent oil prices estimates to US\$65 per barrel
Downstream share (%)	0.0	0.0	0.0	0.0	0.0	0.0	
Net Under-recovery (₹ cr)	0.0	0.0	0.0	0.0	0.0	0.0	Assume no subsidy burden for OMCs
Throughput (mmt)	69.0	71.8	69.6	69.7	69.6	69.7	
Sales (mmt)	81.5	84.7	86.7	90.2	88.1	91.6	Marginally lower growth rate
GRM (\$/barrel)	8.5	5.5	5.7	6.5	5.6	7.0	Assume GRMs to improve in FY21E on account of implementation of IMO regulations. However, we have lowered our premium to Singapore GRMs

Source: Company, ICICI Direct Research

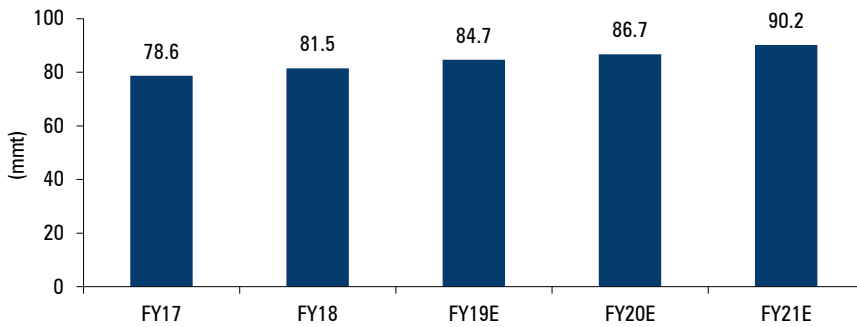
Story in charts

Exhibit 4: Oil throughput trend



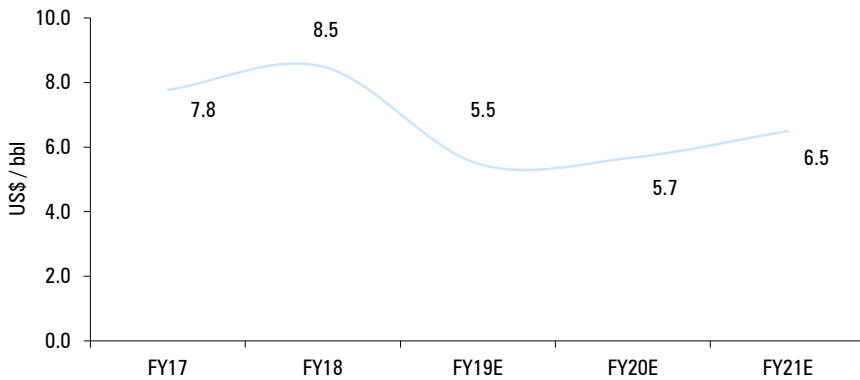
Source: Company, ICICI Direct Research

Exhibit 5: Marketing sales volume trend



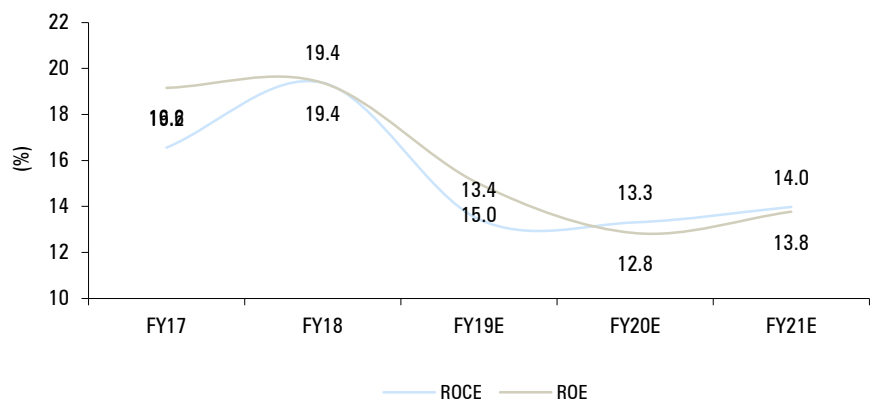
Source: Company, ICICI Direct Research

Exhibit 6: Refining margin trend



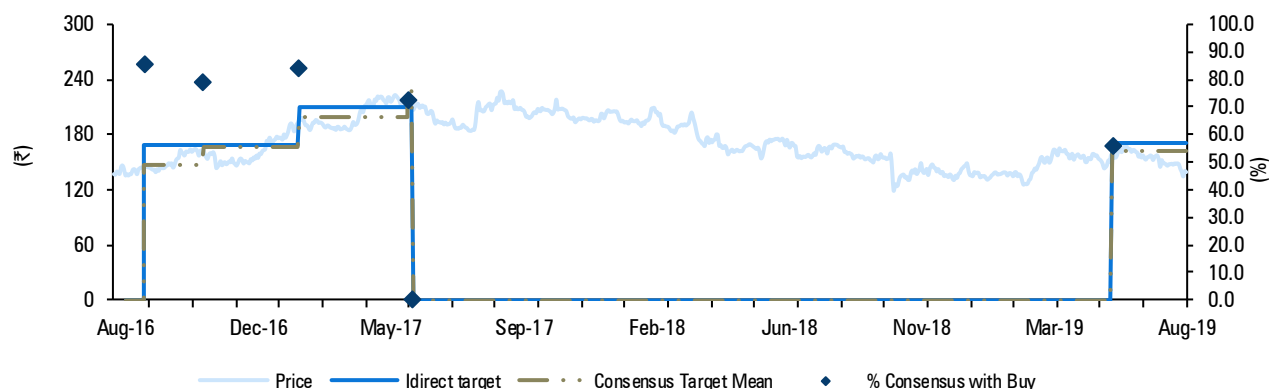
Source: Company, ICICI Direct Research

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	30-Jun-19	52.2	4912.3	0.2
2	Oil and Natural Gas Corporation Ltd	30-Jun-19	14.2	1337.2	0.0
3	Life Insurance Corporation of India	30-Jun-19	6.5	612.9	0.0
4	Oil India, Ltd.	30-Jun-19	5.2	485.6	0.0
5	IOC BRPL Merger Scheme Trust	30-Jun-19	2.5	233.1	0.0
6	ICICI Prudential Asset Management Co. Ltd.	30-Jun-19	2.2	210.0	-1.0
7	Reliance Nippon Life Asset Management Limited	30-Jun-19	1.7	163.1	-12.5
8	The Vanguard Group, Inc.	30-Jun-19	0.8	77.8	0.0
9	Franklin Templeton Asset Management (India) Pvt. L	30-Jun-19	0.6	59.5	-1.2
10	BlackRock Institutional Trust Company, N.A.	30-Jun-19	0.6	57.6	-0.2

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	Reliance Nippon Life Asset Management Limited	-28.33	-12.53
Caisse de Depot et Placement du Quebec	5.14	2.61	Unigestion	-9.81	-4.12
Kotak Mahindra Asset Management Company Ltd.	3.34	1.48	CPP Investment Board	-7.01	-2.98
SBI Funds Management Pvt. Ltd.	3.23	1.43	UTI Asset Management Co. Ltd.	-5.88	-2.60
Edelweiss Asset Management Ltd.	2.44	1.08	Franklin Templeton Asset Management (India) Pvt. Ltd.	-2.82	-1.25

Source: Reuters, ICICI Direct Research

Exhibit 11: Shareholding Pattern

(in %)	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Promoter	56.8	56.8	54.1	52.2	52.2
FII	5.9	6.0	5.6	7.0	7.7
DII	11.3	11.2	13.3	13.8	13.1
Others	26.1	26.1	27.1	27.0	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	582020.3	576508.7
Growth (%)	13.7	19.6	-3.9	-0.9
(Inc.)/(Dec.) in stock in trade	2327.5	-3011.1	2246.0	0.0
Raw material Costs	188780.1	269679.6	246713.5	243084.0
Purchase of Products	152117.6	179055.5	177590.7	173430.4
Employee Costs	10079.4	11102.2	11217.7	12179.2
Other Expenditure	113457.9	115271.4	110539.9	112162.9
Op. Expenditure	466762.5	572097.6	548307.7	540856.5
EBITDA	39662.8	33826.2	33712.6	35652.2
Growth (%)	24.7	-14.7	-0.3	5.8
Depreciation	7067.0	7516.7	8430.2	8449.7
EBIT	32595.8	26309.4	25282.4	27202.5
Interest	3448.4	4311.0	5540.0	4867.1
Other Income	3416.9	3128.5	3161.3	3573.1
PBT	32564.3	25126.9	22903.7	25908.5
Growth (%)	23.7	-22.8	-8.8	13.1
Tax	11218.2	8232.8	7566.3	8549.8
Reported PAT	21346.1	16894.1	15337.4	17358.7
Growth (%)	11.7	-20.9	-9.2	13.2
EPS	22.5	18.4	16.7	18.9

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	15,337.4	17,358.7
Add: Depreciation	7,067.0	7,516.7	8,430.2	8,449.7
Add: Others	0.0	0.0	0.0	0.0
Cash Profit	22,273.3	14,774.7	15,474.0	15,366.5
Increase/(Decrease) in CL	2,613.6	-1,365.3	6,216.3	973.1
(Increase)/Decrease in CA	-248.3	392.4	20054.5	17042.2
CF from Operating Activities	13,238.4	3,865.6	33,151.4	22,640.0
Purchase of Fixed Assets	16,767.0	25,031.6	22,480.4	16,397.8
(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	-19,980.4	-13,897.8
Inc/(Dec) in Loan Funds	3,210.4	25,000.0	-12,500.0	-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	-21,093.5	-12,741.9
Change in cash Eq.	-5.2	1,899.7	670.9	6,742.1
Op. Cash and cash Eq.	86.5	81.3	1,981.0	2,651.9
Cl. Cash and cash Eq.	81.3	1,981.0	2,651.9	9,394.1

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	110,257.5	116,874.3
Shareholder's Fund	110,171.0	112,694.7	119,438.5	126,055.4
Loan Funds	58,029.9	83,029.9	70,529.9	68,529.9
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	202588.0	207504.8
Application of Funds				
Gross Block	132,215.4	147,215.4	167,215.4	187,215.4
Less: Acc. Depreciation	17,759.2	25,244.2	33,694.0	43,245.9
Net Block	114,456.3	121,971.2	133,521.5	143,969.6
Capital WIP	13,861.0	23,861.0	26,361.0	23,861.0
Total Fixed Assets	128,317.3	145,832.2	159,882.4	167,830.6
Investments	47,487.9	44,987.9	42,487.9	39,987.9
Inventories	65,313.2	74,702.9	71,755.9	71,076.4
Debtor	10,116.5	15,770.6	12,756.6	12,635.8
Cash	81.3	1,981.0	2,651.9	9,394.1
Loan & Advance, Other CA	29423.6	23923.6	18423.6	12923.6
Total Current assets	104934.7	116378.2	105588.1	106029.9
Current Liabilities	84334.5	88979.5	95674.6	94768.6
Provisions	16184.9	10174.6	9695.9	11575.0
Total CL and Provisions	100519.4	99154.1	105370.4	106343.5
Net Working Capital	4415.2	17224.0	217.6	-313.7
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	180220.5	208044.1	202588.0	207504.8

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	130.1	137.3
Cash per share	0.1	2.2	2.9	10.2
EPS	22.5	18.4	16.7	18.9
Cash EPS	30.0	26.6	25.9	28.1
DPS	10.0	9.3	8.0	10.0
Profitability & Operating Ratios				
EBITDA Margin (%)	7.8	5.6	5.8	6.2
PAT Margin (%)	4.2	2.8	2.6	3.0
Fixed Asset Turnover (x)	3.9	4.2	3.6	3.4
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	12.8	13.8
RoCE	19.4	13.4	13.3	14.0
RoIC	20.6	14.3	14.3	15.5
Valuation Ratios (x)				
PE	6.1	7.5	8.3	7.3
Price to Book Value	1.2	1.1	1.1	1.0
EV/EBITDA	3.3	3.7	3.8	3.6
EV/Sales	0.4	0.3	0.3	0.3
Leverage & Solvency Ratios				
Debt to equity (x)	0.5	0.7	0.6	0.5
Interest Coverage (x)	9.5	6.1	4.6	5.6
Debt to EBITDA (x)	1.5	2.5	2.1	1.9
Current Ratio	1.0	1.2	1.0	1.0
Quick ratio	0.4	0.4	0.3	0.3

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 (%)		
					FY19	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
BPCL (BHAPET)	336	375	Hold	72,886	36.3	32.0	41.0	9.3	10.5	8.2	7.8	8.1	6.5	13.0	11.6	14.8	19.3	16.0	18.8
Castrol India (CASIND)	127	120	Reduce	12,562	7.2	7.2	7.1	17.7	17.7	17.9	11.0	10.8	10.9	88.3	87.6	90.7	61.6	60.9	63.1
GAIL (India) (GAIL)	129	160	Hold	58,179	13.4	11.7	12.2	9.7	11.0	10.6	6.3	7.3	7.8	16.9	13.4	11.8	13.8	11.5	11.4
Gujarat Gas (GUJGA)	174	205	Buy	11,978	6.3	11.2	11.5	27.5	15.6	15.2	13.9	8.2	7.7	16.8	27.9	25.5	19.8	26.7	22.3
Gujarat State Petro (GSPL)	205	180	Hold	11,548	14.1	12.7	13.1	14.5	16.2	15.7	9.4	10.3	9.8	15.7	13.2	13.1	13.9	11.4	10.8
Gulf Oil Lubricants (GULO)	756	810	Hold	3,748	35.8	41.5	45.0	21.1	18.2	16.8	12.9	11.1	10.0	35.8	34.4	32.0	30.7	29.3	26.4
HPCL (HINPET)	258	300	Hold	39,359	39.5	29.3	36.0	6.5	8.8	7.2	5.2	6.9	6.0	16.6	10.2	11.2	22.1	15.5	17.4
Indian Oil Corp (INDOIL)	138	150	Hold	126,699	18.4	16.7	18.9	7.5	8.3	7.3	3.7	3.8	3.6	13.4	13.3	14.0	15.0	12.8	13.8
Indraprastha Gas (INDGAS)	300	350	Hold	21,000	11.2	12.5	13.1	26.7	24.0	22.8	16.5	14.5	13.3	25.6	24.0	22.0	19.2	18.3	16.9
Mahanagar Gas (MAHGAS)	786	1050	Buy	7,764	55.3	61.9	65.6	14.2	12.7	12.0	8.2	7.1	6.3	31.5	30.5	28.4	22.7	22.1	20.6
Mangalore Refinery (MRPL)	55	68	Hold	9,640	1.8	3.8	7.2	30.1	14.5	7.7	8.6	6.8	4.7	5.7	7.7	12.4	2.9	5.8	10.3
ONGC (ONGC)	139	180	Hold	178,383	21.2	20.1	22.6	6.5	6.9	6.1	3.3	3.3	3.0	15.4	14.4	15.2	13.0	11.4	11.9
Petronet LNG (PETLNG)	233	245	Hold	34,950	14.4	16.9	18.9	16.2	13.8	12.3	10.7	8.6	7.5	26.5	32.9	34.6	21.3	23.5	24.7

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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