

Inventory loss dents profitability...

Indian Oil Corporation (IOC) reported Q4FY20 results, which were above our estimates on an operational basis while profitability was lower. Revenues fell 3.6% QoQ to ₹ 139618.9 crore, above our estimate of ₹ 115355 crore. Both marketing and refining segment reported inventory losses. The quarter witnessed inventory loss of US\$17.8/bbl, which led reported GRMs to -US\$9.6/bbl while core GRMs were at US\$8.2/bbl. EBITDA was at ₹ 212.2 crore (down 96.8% QoQ) against estimated loss of ₹ 514.5 crore. The company reported an exceptional loss of ₹ 11304.6 crore, owing to write down in valuation of inventories due to fall in oil prices. IOC adopted lower tax rate in the quarter and reported a net loss of ₹ 5185.3 crore vs. estimated loss of ₹ 2376.3 crore.

Stable marketing margins outlook

A sharp reduction in oil demand owing to Covid-19 outbreak resulted in a significant drop in crude oil prices. As a result, average Brent crude oil prices declined by US\$12/bbl QoQ to US\$50.6/bbl with closing Brent price at US\$21.5/bbl. On account of the same, the company reported marketing inventory loss of ₹ 2291 crore. However, core marketing margins were relatively steady during the quarter. IOC's marketing sales de-grew 4.5% YoY to 20.7 MMT (our estimate: 19 MMT) on account of lower diesel sales. Going forward, considering the extended lockdown in Q1FY21E, we expect marketing sales at 81.5 MMT and 92 MMT for FY21E and FY22E, respectively. Crude throughput in Q4FY20 was down 1.4% YoY at 17.1 MMT, above our estimate. Going forward, we estimate throughput at 64.4 MMT and 70 MMT for FY21E and FY22E, respectively.

Product spreads improvement necessary for GRM stability

Reported GRMs during the quarter were at -US\$9.6/bbl, below our estimate of -US\$2.5/bbl. Core GRMs were strong at US\$8.2/bbl while inventory gains was at US\$17.8/bbl. Benchmark Singapore GRMs are currently very low with some recovery being witnessed recently. Improvement in petrol & diesel spreads will be important for stable GRMs. Going forward, we estimate GRMs at US\$4/bbl for both FY21E and FY22E.

Valuation & Outlook

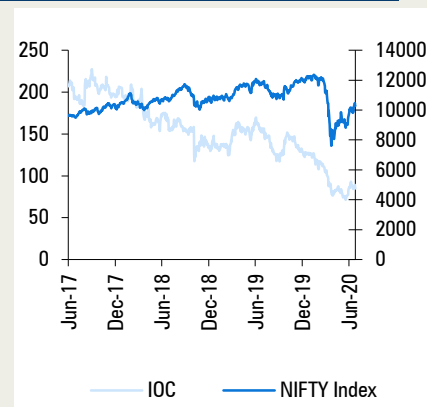
Marketing sales were down ~45% in April due to lockdown but recovered sharply in May, June. Petrol, diesel demand is currently at 85-89% of normal level. The management indicated a full recovery will take some more time. Post excise duty hike, IOC has hiked retail prices by ~₹ 9-10/litre in June, which will lead to steady marketing margins, going forward. However, we are neutral on IOC at the current juncture given the volatility in refining margins. We maintain **HOLD** rating on the stock with a target price of ₹ 90 (based on average of P/BV multiple: ₹ 94/share, P/E multiple: ₹ 86/share).

Particulars	
Particular	Amount
Market Capitalization (₹ Cr)	81,711.3
Total Debt (FY 19) (₹ Crore)	86,358.7
Cash and Investments (FY	10,091.3
EV (₹ Crore)	1,57,978.6
52 week H/L	158/ 71
Equity capital (₹ Crore)	9,181.0
Face value (₹)	10.0

Key Highlights

- Performance above our estimates on operational basis while profitability was lower
- Marketing margins to remain steady due to retail price hike
- Maintain HOLD rating on stock with target price of ₹ 90 /share

Price Chart



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Key Financial Summary

(Year-end March)	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY19-22E)
Revenues (₹ crore)	5,06,425.3	6,05,923.8	5,66,949.7	4,11,386.1	5,53,874.8	(2.9)
EBITDA (₹ crore)	39,662.8	33,826.2	18,784.7	25,554.9	26,896.4	(7.4)
Net Profit (₹ crore)	21,346.1	16,894.1	1,313.2	9,711.6	10,712.0	(14.1)
EPS (₹)	22.5	18.4	1.4	10.6	11.7	
P/E (x)	4.0	4.8	62.2	8.4	7.6	
Price / Book (x)	0.8	0.8	0.8	0.8	0.8	
EV/EBITDA (x)	2.1	2.4	4.3	3.2	3.0	
RoCE (%)	19.4	13.5	4.9	8.3	8.8	
RoE (%)	19.4	15.5	1.3	9.1	10.0	
RoE (%)	21.4	22.8	22.7	27.5	22.0	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY20	Q4FY20E	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
Total Revenues	1,39,618.9	1,15,355	1,44,472.3	-3.4	1,44,819.9	-3.6	Higher than estimated sales led to better than expected revenues
Raw materials costs	1,03,622.7	84,829.6	1,03,855.0	-0.2	1,06,891.5	-3.1	
Employees Cost	2,114.0	3,150.0	2,863.7	-26.2	2,057.0	2.8	
Other Expenses	33,670.0	27,889.6	26,876.1	25.3	29,221.0	15.2	
Total Expenditure	1,39,406.7	1,15,869	1,33,594.7	4.4	1,38,169.6	0.9	
EBITDA	212.2	-514.5	10,877.6	-98.0	6,650.3	-96.8	Above estimates due to better operational performance
EBITDA margins (%)	0.2	-0.4	7.5	-738 bps	4.6	-444 bps	
Depreciation	2,389.5	2,061.9	2,058.5	16.1	2,186.2	9.3	
EBIT	-2,177.3	-2,576.4	8,819.2	-124.7	4,464.1	-148.8	
Interest	1,850.4	1,444.0	1,244.2	48.7	1,311.7	41.1	
Other Income	1,722.3	843.5	1,059.5	62.6	569.7	202.3	
Extra Ordinary Item	-11,304.6	0.0	0.0	NA	0.0	NA	Exceptional loss on account of write down in valuation of inventories due to fall in oil prices
PBT	-13,610.2	-3,176.9	8,634.4	-257.6	3,722.2	-465.7	
Total Tax	-8,424.8	-800.6	2,535.1	-432.3	1,383.2	-709.1	Write-back of deferred tax liability on implementation of new corporate tax regime
PAT	-5,185.3	-2,376.3	6,099.3	-185.0	2,339.0	-321.7	
Key Metrics							
Exchange rate (₹\$)	72.5	72.5	70.5	2.8	71.2	1.8	
Throughput (mmt)	17.1	16.4	17.4	-1.4	17.5	-2.2	
Sales (mmt)	20.7	19.0	21.7	-4.5	21.9	-5.3	Higher than expectations due to less than anticipated effect of lockdown
GRM (\$/barrel)	-9.6	-2.5	4.1	-335.7	4.1	-335.7	Lower than estimates on account of inventory loss. Core GRMs were at US\$ 8.2/bbl

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹Crore)	FY21E			FY22E			Comments
	Old	New	Change	Old	New	Change	
Revenue	3,89,681.5	4,11,386.1	5.6	5,02,615.3	5,53,874.8	10.2	
EBITDA	25,312.9	25,554.9	1.0	26,692.0	26,896.4	0.8	Inventory gains and better marketing margins will negate weak refining performance
EBITDA Margin (%)	6.5	6.2	-28 bps	5.3	4.9	-45 bps	
PAT	9,895.2	9,711.6	-1.9	10,680.7	10,712.0	0.3	
EPS (₹)	10.8	10.6	-1.9	11.6	11.7	0.3	

Source: Company, ICICI Direct Research

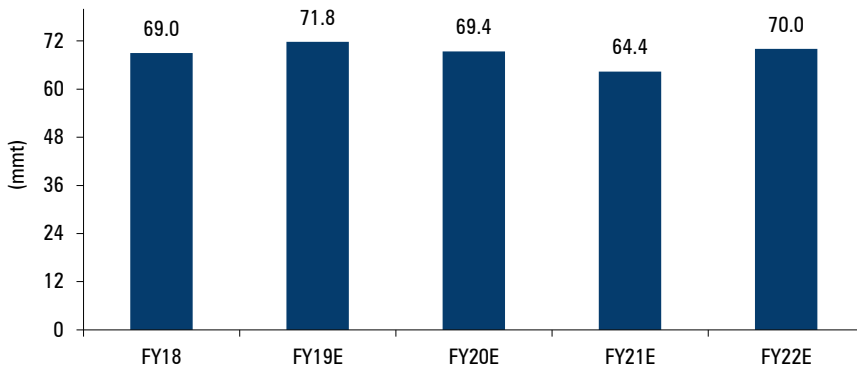
Exhibit 3: Assumptions

	Current				Earlier		Comments
	FY19	FY20E	FY21E	FY22E	FY21E	FY22E	
Exchange rate (₹\$)	69.9	70.9	75.0	75.0	74.0	74.0	
Throughput (mmt)	71.8	69.4	64.4	70.0	68.1	70.0	
Sales (mmt)	84.7	84.3	81.5	92.0	82.7	92.0	Lowered estimates for FY 21E
GRM (\$/barrel)	5.5	0.1	4.0	4.0	3.8	4.0	Inventory gains in Q1FY21E led to better GRM estimates

Source: Company, ICICI Direct Research

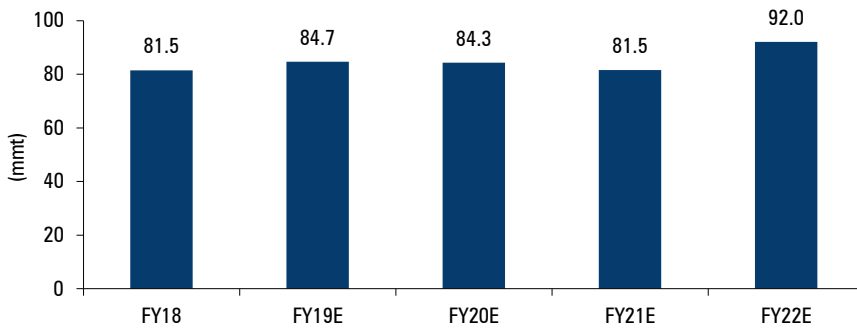
Story in charts

Exhibit 4: Oil throughput trend



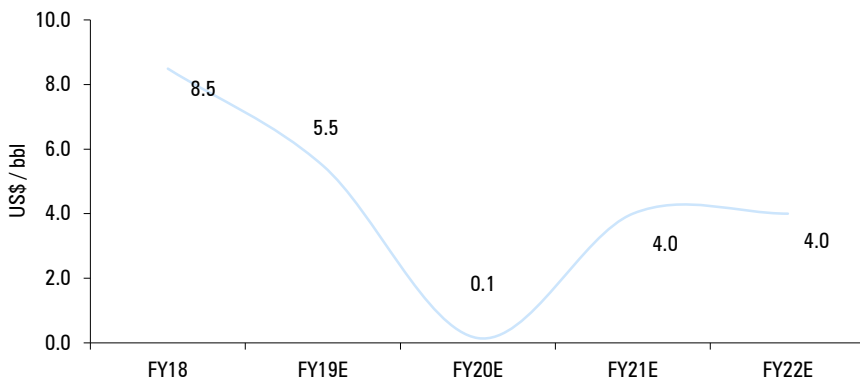
Source: Company, ICICI Direct Research

Exhibit 5: Marketing sales trend



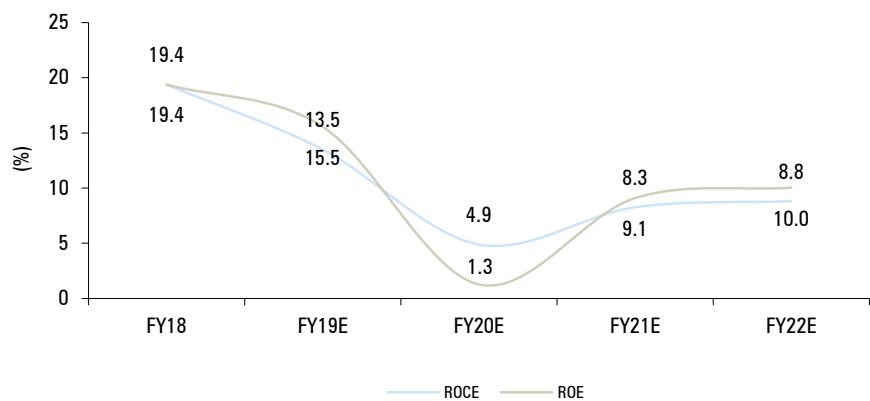
Source: Company, ICICI Direct Research

Exhibit 6: Refining margin trend



Source: Company, ICICI Direct Research

Exhibit 7: Return ratios trend



Source: Bloomberg, ICICI Direct Research

Exhibit 8: Shareholding Pattern

(in %)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoter	52.2	52.2	51.5	51.5	51.5
FII	7.0	7.7	7.2	7.6	7.2
DII	13.8	13.1	14.3	13.8	13.4
Others	27.0	27.0	27.0	27.1	27.9

Source: Company, ICICI Direct Research

Financial summary

Exhibit 9: Profit and loss statement					₹ crore
(Year-end March)	FY19	FY20E	FY21E	FY22E	
Revenue	605923.8	566949.7	411386.1	553874.8	
Growth (%)	19.6	-6.4	-27.4	34.6	
(Inc.)/(Dec.) in stock in tra	-3011.1	-6410.4	0.0	0.0	
Raw material Costs	269679.6	247077.0	141146.2	201206.3	
Purchase of Products	179055.5	178535.5	125482.5	200771.9	
Employee Costs	11102.2	8792.7	11039.5	12143.5	
Other Expenditure	115271.4	120170.2	108162.9	112856.8	
Op. Expenditure	572097.6	548165.0	385831.1	526978.5	
EBITDA	33826.2	18784.7	25554.9	26896.4	
Growth (%)	-14.7	-44.5	36.0	5.2	
Depreciation	7516.7	8766.1	9346.3	10449.1	
EBIT	26309.4	10018.6	16208.7	16447.3	
Interest	4311.0	5979.5	6198.3	5499.6	
Other Income	3128.5	-7733.3	2973.1	3373.1	
PBT	25126.9	-3694.1	12983.4	14320.9	
Growth (%)	-22.8	-114.7	-451.5	10.3	
Tax	8232.8	-5007.3	3271.8	3608.9	
Reported PAT	16894.1	1313.2	9711.6	10712.0	
Growth (%)	-20.9	-92.2	639.5	10.3	
EPS	18.4	1.4	10.6	11.7	

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement					₹ crore
(Year-end March)	FY19	FY20E	FY21E	FY22E	
Profit after Tax	16,894.1	1,313.2	9,711.6	10,712.0	
Add: Depreciation	7,516.7	8,766.1	9,346.3	10,449.1	
Add: Others	0.0	0.0	0.0	0.0	
Cash Profit	16,557.6	6,634.2	15,612.8	13,419.3	
Increase/(Decrease) in CI	4,349.0	-14,116.7	-13,409.7	28,056.6	
(Increase)/Decrease in	-7044.1	21199.2	31628.1	-4667.6	
CF from Operating Activiti	2,205.7	7,271.6	27,386.1	26,066.4	
Purchase of Fixed Assets	21,506.3	23,060.3	17,500.0	17,535.0	
(Inc)/Dec in Investments	-2,267.4	2,500.0	2,500.0	2,500.0	
Others	4.0	4.0	4.0	4.0	
CF from Investing Acti	-23,773.7	-20,560.3	-15,000.0	-15,035.0	
Inc/(Dec) in Loan Funds	28,328.8	15,000.0	-12,000.0	-9,500.0	
Dividend Paid	11,656.8	6,445.1	6,445.1	10,741.8	
Inc/(Dec) in Sh. Cap. & Re	-6,750.9	0.0	0.0	0.0	
Others	0.0	0.0	0.0	0.0	
CF from financing activ	9,921.2	8,554.9	-18,445.1	-20,241.8	
Change in cash Eq.	10.0	1,711.3	386.1	1,531.4	
Op. Cash and cash Eq.	81.3	91.3	1,802.6	2,188.7	
Cl. Cash and cash Eq.	91.3	1,802.6	2,188.7	3,720.2	

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet					₹ crore
(Year-end March)	FY19	FY20E	FY21E	FY22E	
Source of Funds					
Equity Capital	9,181.0	9,181.0	9,181.0	9,181.0	
Preference capital	0.0	0.0	0.0	0.0	
Reserves & Surplus	99,476.4	94,344.6	97,611.1	97,581.3	
Shareholder's Fund	1,08,657.5	1,03,525.6	1,06,792.2	1,06,762.3	
Loan Funds	86,358.7	1,01,358.7	89,358.7	79,858.7	
Deferred Tax Liability	15,823.1	18,823.1	21,823.1	24,823.1	
Minority Interest	0.0	0.0	0.0	0.0	
Source of Funds	210839.3	223707.4	217973.9	211444.1	
Application of Funds					
Gross Block	1,45,317.3	1,65,359.1	1,85,359.1	2,05,394.1	
Less: Acc. Depreciation	25,171.0	33,418.6	42,764.9	53,213.9	
Net Block	1,20,146.3	1,31,940.5	1,42,594.2	1,52,180.1	
Capital WIP	22,160.5	24,660.5	22,160.5	19,660.5	
Total Fixed Assets	1,42,306.8	1,56,601.0	1,64,754.7	1,71,840.7	
Investments	49,755.4	47,255.4	44,755.4	42,255.4	
Inventories	71,470.4	65,238.0	48,464.7	65,251.0	
Debtor	15,448.0	12,426.3	9,016.7	12,139.7	
Cash	91.3	1,802.6	2,188.7	3,720.2	
Loan & Advance, Other C	36635.8	31135.8	26135.8	21635.8	
Total Current assets	123645.5	110602.8	85805.9	102746.7	
Current Liabilities	93846.9	89314.0	67625.1	91047.9	
Provisions	11021.6	1437.8	9716.9	14350.7	
Total CL and Provisions	104868.4	90751.7	77342.0	105398.6	
Net Working Capital	18777.1	19851.0	8463.8	-2651.9	
Miscellaneous expense	0.0	0.0	0.0	0.0	
Application of Funds	210839.3	223707.4	217973.9	211444.1	

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios					₹ crore
(Year-end March)	FY19	FY20E	FY21E	FY22E	
Per share data (₹)					
Book Value	118.3	112.8	116.3	116.3	
Cash per share	0.1	2.0	2.4	4.1	
EPS	18.4	1.4	10.6	11.7	
Cash EPS	26.6	11.0	20.8	23.0	
DPS	9.3	6.0	6.0	10.0	
Profitability & Operating Ratios					
EBITDA Margin (%)	5.6	3.3	6.2	4.9	
PAT Margin (%)	2.8	0.2	2.4	1.9	
Fixed Asset Turnover (x)	4.3	3.6	2.5	3.2	
Inventory Turnover (Days)	43.1	42.0	43.0	43.0	
Debtor (Days)	9.3	8.0	8.0	8.0	
Current Liabilities (Days)	56.5	57.5	60.0	60.0	
Return Ratios (%)					
RoE	15.5	1.3	9.1	10.0	
RoCE	13.5	4.9	8.3	8.8	
RoIC	14.2	5.2	8.8	9.5	
Valuation Ratios (x)					
PE	4.8	62.2	8.4	7.6	
Price to Book Value	0.8	0.8	0.8	0.8	
EV/EBITDA	2.4	4.3	3.2	3.0	
EV/Sales	0.3	0.3	0.4	0.3	
Leverage & Solvency Ratios					
Debt to equity (x)	0.8	1.0	0.8	0.7	
Interest Coverage (x)	6.1	1.7	2.6	3.0	
Debt to EBITDA (x)	2.6	5.4	3.5	3.0	
Current Ratio	1.2	1.2	1.1	1.0	
Quick ratio	0.5	0.5	0.5	0.4	

Source: Company, ICICI Direct Research

Exhibit 13: ICICI Direct Coverage Universe (Oil & Gas)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
BPCL (BHAPET)	357	350	Hold	67,267	13.6	28.4	29.9	26.2	12.6	11.9	15.3	10.4	9.2	4.2	8.2	8.7	7.5	14.7	14.8
GAIL (India) (GAIL)	103	100	Hold	46,454	14.7	8.9	9.4	7.0	11.6	11.0	5.9	8.5	8.2	12.6	7.2	7.4	14.0	8.2	8.4
Gujarat Gas (GUJGA)	289	290	Hold	19,895	17.3	9.2	16.0	16.7	31.6	18.0	12.7	16.5	10.7	26.7	18.5	28.8	36.4	16.5	23.1
HPCL (HINPET)	222	215	Hold	33,867	17.3	24.2	25.9	12.8	9.2	8.6	13.5	9.1	7.5	2.8	6.2	7.0	9.1	12.1	12.5
Indian Oil Corp (INDOIL)	89	90	Hold	81,711	1.4	10.6	11.7	62.2	8.4	7.6	4.3	3.2	3.0	4.9	8.3	8.8	1.3	9.1	10.0
Indraprastha Gas (INDGAS)	450	440	Hold	31,500	16.2	15.7	19.5	27.7	28.6	23.1	20.4	19.5	15.5	25.2	21.9	23.4	22.6	18.8	19.9
Mahanagar Gas (MAHGAS)	1075	1145	Hold	10,619	80.3	58.3	88.0	13.4	18.4	12.2	9.5	11.8	7.6	32.0	22.1	29.0	28.5	18.7	23.8
ONGC (ONGC)	86	65	Reduce	1,10,367	16.2	3.0	11.3	5.3	28.6	7.6	2.6	5.9	3.7	10.8	0.3	5.8	9.4	1.7	6.4
Petronet LNG (PETLNG)	252	245	Buy	37,800	19.4	16.7	19.7	13.0	15.1	12.8	8.9	8.8	7.6	24.2	24.1	29.0	27.7	23.7	26.9

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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