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Bloomberg	IOCL IN
Equity Shares (m)	9,181
M.Cap.(INRb)/(USD\$)	833.6 / 11.1
52-Week Range (INR)	156 / 71
1, 6, 12 Rel. Per (%)	-4/-14/-37
12M Avg Val (INR M)	1874

Financials & Valuations (INR b)

Y/E March	2020	2021E	2022E
Sales	4,844	3,760	5,120
EBITDA	168.2	325.8	417.1
Adj. PAT	94.3	134.9	196.7
Adj. EPS (INR)	10.3	14.7	21.4
EPS Gr. (%)	(45.4)	43.1	45.8
BV/Sh.(INR)	103.9	110.9	121.5

Ratios

Net D:E	0.9	0.9	0.8
RoE (%)	9.1	13.7	18.4
RoCE (%)	1.7	8.1	10.5
Payout (%)	NM	52.2	50.5

Valuations

P/E (x)	8.6	6.0	4.1
P/BV (x)	0.9	0.8	0.7
EV/EBITDA (x)	12.2	6.5	5.0
Div. Yield (%)	4.8	7.4	10.5
FCF Yield (%)	(30.0)	0.9	16.2

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	51.5	51.5	52.2
DII	14.0	13.5	13.3
FII	6.3	7.2	7.7
Others	28.2	27.8	26.9

FII Includes depository receipts

CMP: INR89 TP: INR145 (+64%) Buy

Well packed results; Debt decreases; Reiterate Buy

- IOCL reported better-than-expected margins on all fronts – refining (core at USD4.4/bbl), marketing (INR8.6/liter) and petchem (EBITDA/mt at USD200), with in line refining throughput. Marketing sales were 6% lower than est. owing to impact of the COVID-19 led lockdown.
- Despite the sharp crude price increase (from its multi-decade trough) during 1QFY21, IOCL reported total inventory loss of INR32b owing to its longer inventory cycle. However, margins led to a huge beat on our EBITDA estimates. Also, debt has decreased QoQ from INR1,165b to INR986b.
- For IOCL, share of marketing in total EBITDA increased from ~20% in FY17 to ~32-40% in FY19-20, reflecting a more diversified earnings mix. While refining margins are dependent completely on global macros, marketing margins are more under the control of the Oil Marketing Companies (OMCs).
- We continue to prefer IOCL. Despite annual capex of ~INR260b (highest among OMCs), IOCL is expected to report ~17% cumulative FCF yield in FY21/FY22E. Additionally, dividend yield appears attractive at 8-10%.
- IOCL trades at 6.0x consol. FY21E EPS of INR14.7 (~40% discount to FY15-18) and 0.8x FY21E PBV (~11% discount to FY15-18). IOCL has traded at a huge discount in the past decade owing to its capex cycle and CPSE led liquidity. The company is now at the end of its capex cycle, and therefore, we believe RoE should double from ~9.1% in FY20 to ~18.4% in FY22E.
- We also expect the discount gap between IOCL and its peers to shrink. We value it at 1.2x FY22E PBV (at par with FY15-18 post reform period), to arrive at a target price of INR145. Reiterate IOCL as our top pick among the OMCs.

Beat on EBITDA, despite higher than est. inventory loss...

- IOCL recorded inventory loss of INR32b (refining loss at INR45.9b and marketing gain at INR13.9b) during the quarter (v/s est. INR20b).
- Despite this, adjusted EBITDA for inventory stood at INR87.1b (v/s est. 63%; +36% YoY), primarily due to better refining and petchem margins.
- Reported EBITDA came in at INR55.1b (v/s est. 65%). Lower interest cost was offset by lower other income. PAT came in at INR19.1b (v/s est. loss of INR1.6b and gain of INR36b in 1QFY20).

...due to better than est. margins in all segments

- Refining:** IOCL reported GRM at -USD2.0/bbl (v/s est. +USD0.5/bbl).
- Refining inventory loss of INR45.9b translates into loss of ~USD6.4/bbl. Thus, core GRM stood at ~USD4.4/bbl (v/s est. USD3 and USD3.6 in 1QFY20).
- Refining throughput for the quarter was affected and stood at 12.9mmt (in-line; -25% YoY; -24% QoQ), as the nationwide lockdown impacted sales demand. Refinery utilization stood at ~74.4%, after a dip (~50% of normal) in Apr'20.
- Lower utilization during the quarter resulted in fuel and loss rising from 9% in 4QFY20 to 10.9% in 1QFY21. Distillate yield also declined from 81% in the previous quarter to 78.3% in 1QFY21.

Swarnendu Bhushan- Research Analyst (Swarnendu.Bhushan@MotilalOswal.com)

Sarfraz Bhimani - Research Analyst (Sarfraz.Bhimani@MotilalOswal.com)

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Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

- **Marketing:** Sales were 6% below est. at 14.2mmt (-31% YoY, -26% QoQ), although marketing margin remained healthy at INR8.6/liter (v/s est. +17%; +68% YoY, -9% QoQ) in 1QFY21. This was despite vulnerabilities in terms of (a) rapid increase in international crude prices from trough, (b) no domestic retail price hikes for ~80 days during the quarter, and (c) [increase in VAT by some states](#), which resulted in retail prices touching all-time highs.
- **Petchem:** Sales were down 9% YoY to 0.48mmt (-27% QoQ), although EBITDA/mt improved 7% YoY to USD200 (2x QoQ). This is in line with the steep decline in Naphtha prices (~42% QoQ) relative to product prices, which have improved (~10-22%) in 1QFY21.
- **Pipeline** EBITDA was down 29% YoY to INR11.5b with total capacity utilization of the pipeline at 63.5%, reflecting impact of demand destruction amidst the lockdown during the quarter.

GRMs and outlook – margins to remain under pressure

- Global demand recovery is likely to remain capped in the near term with concerns over high inventory and further delayed recovery in Jet fuel demand. Also, China is likely to export more with an increase in its refinery throughput, deepening the supply glut and enhancing the pressure on product margins. However, with lifting of lockdowns across the world, demand is once again seeing an uptick.
- We have built in GRM of USD3.6/6/bbl and blended marketing margin of INR5.3/INR4.2/liter for FY21/22E. According to our calculation, OMCs are currently making marketing margin of ~INR3.5-4.5/liter on petrol-diesel, which is slightly higher than the long-term average.
- Huge new petrochem capacity additions coming from China and the US are likely to keep margins under pressure. However, improving demand for PE and PP across the essential sector should provide some support to demand, and consequently, to margins. Resumption in construction activities is likely to aid PVC demand as well.
- For IOCL, share of marketing in total EBITDA increased from ~20% in FY17 to ~32-40% in FY19-20, reflecting a more diversified earnings mix.

Valuation and view - Preferred pick among OMCs

- According to a recent news [article](#), the price of subsidized cooking gas increased by an average of ~INR10/cylinder per month during Jul'19-Jun'20, resulting in nil/zero subsidy since May'20. The scenario played out in line with our thesis - [LPG subsidy: Moving closer to free market pricing](#).
- In our note, we have highlighted that raising prices or reducing subsidies on LPG cylinder augurs well for the OMCs. Deregulating LPG would boost the working capital of OMCs. However, the government's resolve would be tested if oil prices spike.
- In the current benign crude price environment (our est. USD40/50/bbl for FY21/FY22E), we expect structural changes in LPG and kerosene pricing, which may bid farewell to all under-recoveries in the petroleum sector.
- Refining should contribute ~32% of IOCL's consol. EBITDA in FY22E – a normalized GRM scenario of USD6/bbl. Our calculations suggest that IOCL requires INR0.5/liter of incremental gross marketing margin on auto fuels for the full year to offset the decrease of USD1/bbl in GRM.

- The discount gap to its peers should shrink and we value it at 1.2x FY22E PBV (at par with FY15-18 post reform period), to arrive at target price of INR145. Reiterate **Buy**.

Standalone - Quarterly Earning Model

Y/E March	FY20				FY21				FY20	FY21E	FY21	Var. vs
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			1QE	est.
Net Sales	1,315.1	1,116.9	1,246.2	1,184.4	624.0	917.4	1,129.7	1,099.4	4,862.6	3,770.5	468.5	33%
YoY Change (%)	1.6	-15.4	-11.0	-6.2	-52.6	-17.9	-9.3	-7.2	-7.9	-22.5	-64.4	
EBITDA	82.6	47.1	68.3	29.3	55.1	89.2	91.6	91.1	227.3	327.0	33.3	65%
Margins (%)	6.3	4.2	5.5	2.5	8.8	9.7	8.1	8.3	4.7	8.7	7.1	
EBITDA adj. for inventory	64.0	58.9	50.3	214.1	87.1	89.2	91.6	91.1	387.2	358.9	53.4	63%
Depreciation	20.9	21.0	21.9	23.9	23.5	24.4	24.4	25.2	87.7	97.5	24.4	-3%
Forex loss	-0.9	11.4	1.8	27.2	0.0	0.0	0.0	0.0	39.4	0.0	0.2	
Interest	15.1	13.1	13.1	18.5	11.7	17.2	17.2	17.2	59.8	63.3	17.2	-32%
Other Income	6.3	6.5	5.7	17.2	6.4	9.0	9.0	11.5	35.7	35.8	6.3	1%
PBT before EO expense	53.8	8.1	37.2	-23.1	26.3	56.6	59.0	60.2	76.1	202.0	-2.1	NM
PBT	53.8	8.1	37.2	-136.1	26.3	56.6	59.0	60.2	-36.9	202.0	-2.1	NM
Rate (%)	33.2	30.8	37.2	61.9	27.3	25.2	25.2	25.2	135.5	25.4	25.2	
Reported PAT	36.0	5.6	23.4	-51.9	19.1	42.3	44.1	45.0	13.1	150.6	-1.6	NM
Adj PAT	36.0	5.6	23.4	61.2	19.1	42.3	44.1	45.0	126.2	150.6	-1.6	NM
YoY Change (%)	-47.4	-82.6	226.3	0.3	-46.9	651.5	88.7	-26.4	-25.3	19.4	-104.3	
Margins (%)	2.7	0.5	1.9	5.2	3.1	4.6	3.9	4.1	2.6	4.0	-0.3	
Key Assumptions												
Refining throughput (mmt)	17.3	17.5	17.5	17.1	12.9	17.5	17.5	17.5	69.4	65.3	12.6	3%
Core GRM (USD/bbl)	3.6	3.0	2.0	8.2	4.4	5.0	5.0	5.0	4.2	4.9	3.0	47%
Domestic sale of products (mmt)	20.5	19.0	20.4	19.2	14.2	19.0	20.4	19.9	79.0	73.5	15.2	-6%
Marketing GM incld inv (INR/litre)	5.1	5.3	4.8	9.4	8.6	4.3	4.2	4.2	6.2	5.3	7.3	17%

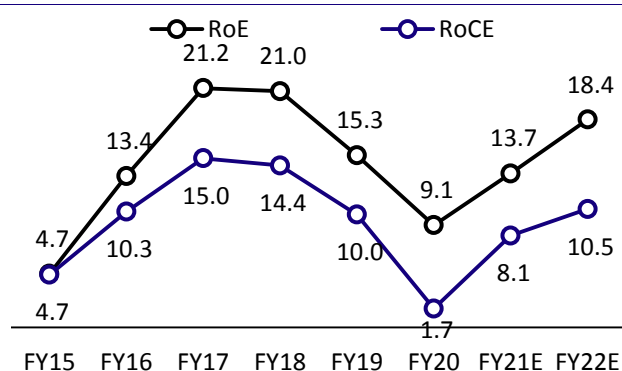
E: MOFSL Estimates

Exhibit 1: Key Assumptions

Y End: March 31	2015	2016	2017	2018	2019	2020	2021E	2022E
Exchange Rate (INR/USD)	61.4	65.5	67.1	64.5	70.0	70.9	74.9	75.8
Brent Crude (USD/bbl)	86	48	49	58	70	61	40	50
Domestic direct sales refined pdts (MMT)	68	73	74	77	80	79	73	83
YoY (%)	1%	6%	2%	4%	4%	-1%	-7%	13%
Reported GRM (USD/bbl)	0.3	5.1	7.8	8.5	5.4	0.1	3.6	6.0
Singapore GRM (USD/bbl)	6.4	7.5	5.8	7.3	4.9	3.2	3.5	6.0
Prem/(disc) (USD/bbl)	(6)	(2)	2	1	1	(3)	0	0
Refining capacity utilization (%)	99%	98%	94%	100%	104%	100%	94%	104%
Total Refinery throughput (MMT)	53.6	56.7	65.2	69.0	71.8	69.4	65.3	72.0
YoY (%)	1%	6%	15%	6%	4%	-3%	-6%	10%
Marketing Margin (INR/ltr)								
Blended gross marketing margin incld inventory	4.6	3.7	4.2	4.4	5.3	6.2	5.3	4.2
Cons EPS	3.5	11.6	22.2	24.6	18.8	10.3	14.7	21.4

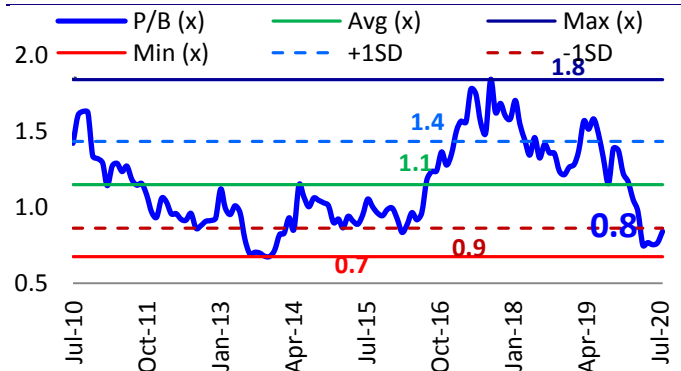
Source: Company, MOFSL

Exhibit 2: IOCL return ratios to double over next two years

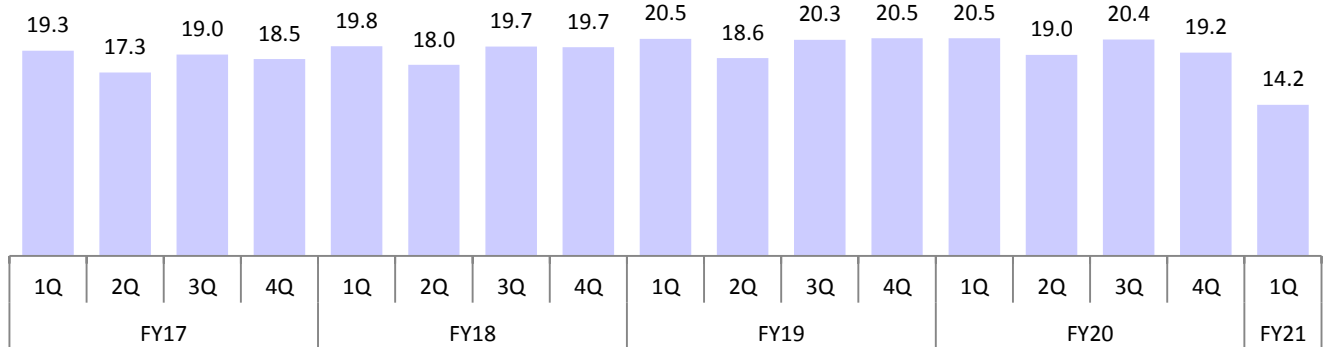


Source: Company, MOFSL

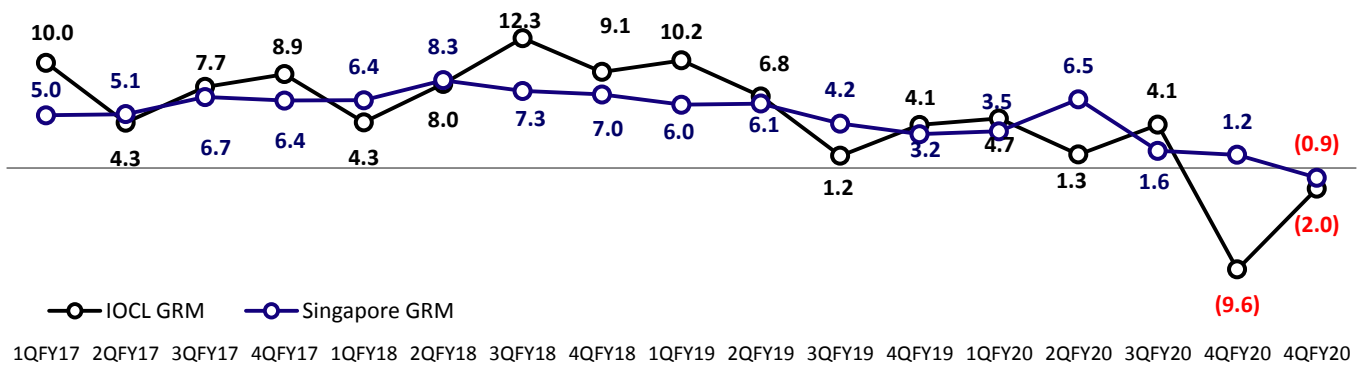
Exhibit 3: IOCL trades at ~28% discount to its LT PBV average



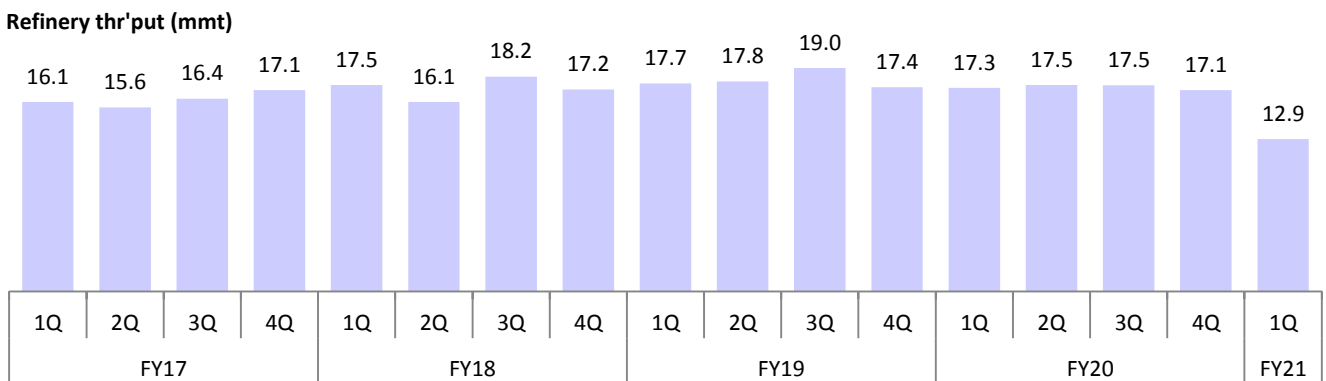
Source: Company, MOFSL

Exhibit 4: Domestic sales down 30.6% YoY and 25.6% QoQ (14.2 mmt)

Source: Company, MOFSL

Exhibit 5: Reported GRM of -USD2.0/bbl, inclusive of inventory loss of USD6.4/bbl

Source: Company, MOFSL

Exhibit 6: Refinery utilization at ~74.4% (mmt)

Source: Company, MOFSL

Story in charts

Exhibit 7: Refining throughput of IOCL

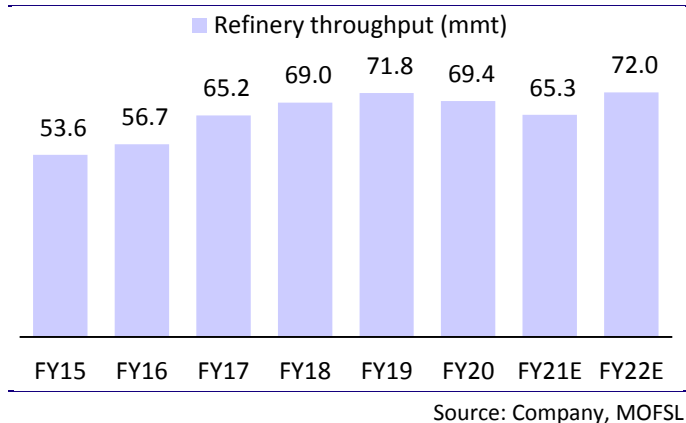


Exhibit 8: GRM trend of IOCL

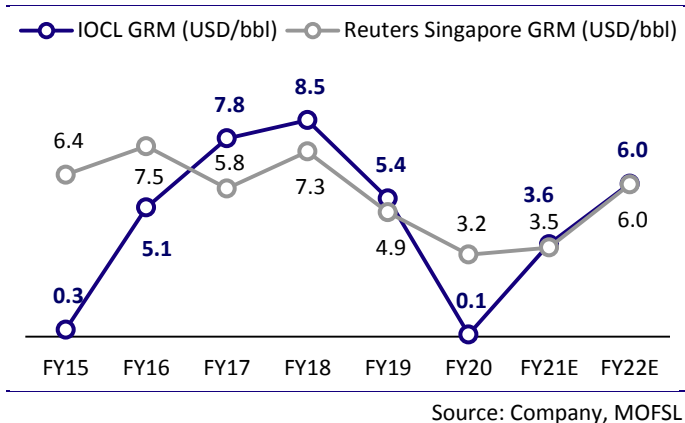


Exhibit 9: Marketing sales volume

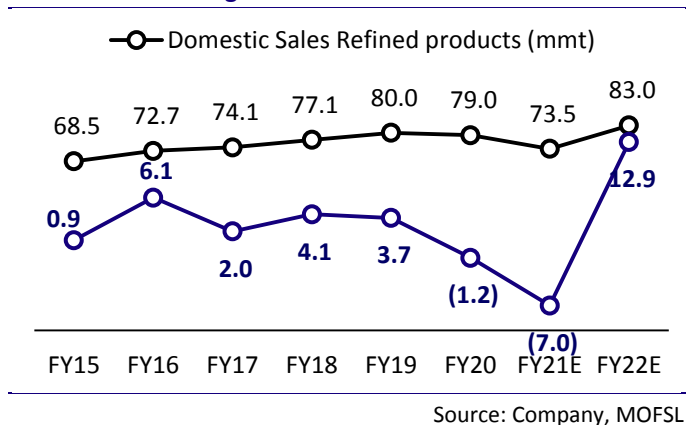
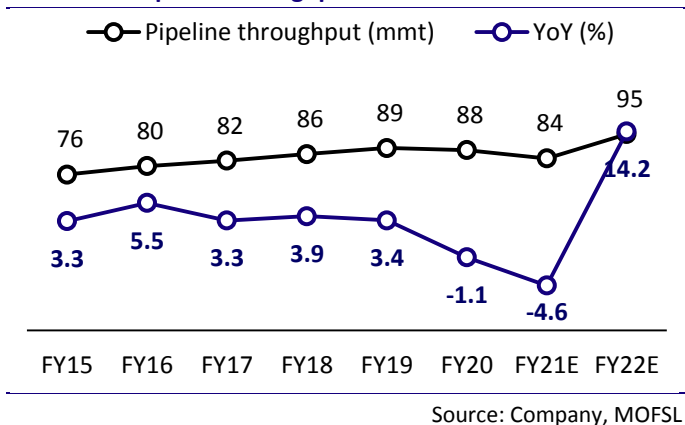


Exhibit 10: Pipeline throughput



Financials and Valuations

Consolidated - Income Statement

(INR Million)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Total Income from Operations	44,83,152	34,60,447	35,53,101	42,14,918	52,81,575	48,43,623	37,60,344	51,19,703
EBITDA	93,424	2,34,429	3,40,132	4,16,318	3,52,236	1,68,245	3,25,779	4,17,120
Margin (%)	2.1	6.8	9.6	9.9	6.7	3.5	8.7	8.1
Depreciation	52,190	56,984	68,486	76,679	85,074	1,02,745	1,07,900	1,12,564
EBIT	41,234	1,77,445	2,71,646	3,39,640	2,67,162	65,500	2,17,879	3,04,556
Int. and Finance Charges	41,746	34,690	37,213	38,448	48,880	65,787	69,226	74,735
Other Income (incl'd forex)	53,975	21,865	38,724	34,199	27,143	27,903	26,249	26,249
PBT bef. EO Exp.	53,463	1,64,620	2,73,157	3,35,391	2,45,425	27,615	1,74,902	2,56,070
EO Items	16,681	13,643	0	0	0	-1,13,046	0	0
PBT after EO Exp.	70,143	1,78,263	2,73,157	3,35,391	2,45,425	-85,431	1,74,902	2,56,070
Total Tax	21,426	56,584	75,704	1,18,239	86,531	-53,007	41,959	61,828
Tax Rate (%)	30.5	31.7	27.7	35.3	35.3	62.0	24.0	24.1
Reported PAT	49,120	1,20,225	2,03,854	2,26,264	1,72,739	-18,763	1,34,921	1,96,723
Adjusted PAT	32,439	1,06,582	2,03,854	2,26,264	1,72,739	94,283	1,34,921	1,96,723
Change (%)	-44.7	228.6	91.3	11.0	-23.7	-45.4	43.1	45.8
Margin (%)	0.7	3.1	5.7	5.4	3.3	1.9	3.6	3.8

Consolidated - Balance Sheet

(INR Million)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Equity Share Capital	48,559	23,697	47,393	94,787	91,810	91,810	91,810	91,810
Total Reserves	6,39,764	8,76,099	9,73,568	10,43,951	10,32,882	8,62,169	9,26,605	10,23,903
Net Worth	6,88,323	8,99,796	10,20,961	11,38,738	11,24,692	9,53,979	10,18,415	11,15,713
Minority Interest	10,733	14,260	19,046	21,512	18,774	8,763	8,763	8,763
Total Loans	5,81,541	4,81,492	5,88,300	6,21,410	9,27,117	12,59,681	13,22,665	13,22,665
Deferred Tax Liabilities	68,356	69,707	68,887	1,23,679	1,65,097	1,14,393	1,14,393	1,14,393
Capital Employed	13,48,952	14,65,256	16,97,194	19,05,339	22,35,681	23,36,815	24,64,235	25,61,533
Gross Block	13,75,223	10,48,008	12,71,518	14,29,148	15,98,630	18,46,659	22,14,685	24,59,390
Less: Accum. Deprn.	6,08,119	47,685	1,11,950	1,88,629	2,73,703	3,76,448	4,84,348	5,96,911
Net Fixed Assets	7,67,104	10,00,323	11,59,568	12,40,520	13,24,927	14,70,211	17,30,337	18,62,479
Capital WIP	4,03,781	2,62,190	1,67,784	1,91,304	2,49,872	3,11,908	1,80,882	1,36,176
Total Investments	1,60,687	3,11,848	4,36,872	4,48,061	4,41,123	3,55,709	3,55,709	3,55,709
Curr. Assets, Loans&Adv.	10,04,677	7,41,183	9,71,376	10,76,829	13,35,636	11,59,530	9,85,388	12,44,835
Inventory	4,99,174	4,22,567	6,58,843	7,05,679	7,71,265	6,70,108	5,29,421	7,24,880
Account Receivables	76,448	76,845	88,992	1,06,965	1,58,075	1,32,595	1,12,831	1,53,619
Cash and Bank Balance	12,211	10,504	4,098	4,943	10,610	22,960	22,421	54,828
Loans and Advances	4,16,845	2,31,267	2,19,443	2,59,242	3,95,686	3,33,868	3,20,715	3,11,508
Curr. Liability & Prov.	9,88,001	8,50,299	10,38,417	10,51,384	11,15,888	9,60,553	7,88,091	10,37,676
Account Payables	7,07,229	7,25,383	8,15,492	8,84,664	9,92,027	8,48,491	6,76,029	9,25,614
Provisions	2,80,773	1,24,916	2,22,925	1,66,721	1,23,860	1,12,062	1,12,062	1,12,062
Net Current Assets	16,676	-1,09,116	-67,041	25,444	2,19,748	1,98,977	1,97,297	2,07,159
Appl. of Funds	13,48,952	14,65,256	16,97,194	19,05,339	22,35,681	23,36,815	24,64,235	25,61,533

E: MOFSL Estimates

Financials and Valuations

Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Basic (INR)								
EPS	3.5	11.6	22.2	24.6	18.8	10.3	14.7	21.4
Cash EPS	9.2	17.8	29.7	33.0	28.1	21.5	26.4	33.7
BV/Share	75.0	98.0	111.2	124.0	122.5	103.9	110.9	121.5
DPS	1.7	3.1	11.5	11.5	9.3	4.3	6.6	9.3
Payout (%)	39.3	28.7	62.4	54.6	57.5	-243.3	52.2	50.5
Valuation (x)								
P/E	25.1	7.6	4.0	3.6	4.7	8.6	6.0	4.1
Cash P/E	9.6	5.0	3.0	2.7	3.2	4.1	3.3	2.6
P/BV	1.2	0.9	0.8	0.7	0.7	0.9	0.8	0.7
EV/Sales	0.3	0.4	0.4	0.3	0.3	0.4	0.6	0.4
EV/EBITDA	14.8	5.5	4.1	3.4	4.9	12.2	6.5	5.0
Dividend Yield (%)	2.0	3.5	13.0	13.0	10.4	4.8	7.4	10.5
FCF per share	40.0	12.2	9.8	9.3	-12.8	-26.5	0.8	14.4
Return Ratios (%)								
RoE	4.7	13.4	21.2	21.0	15.3	9.1	13.7	18.4
RoCE	4.7	10.3	15.0	14.4	10.0	1.7	8.1	10.5
RoIC	3.1	14.7	19.9	18.7	12.4	1.6	9.3	11.8
Working Capital Ratios								
Fixed Asset Turnover (x)	3.3	3.3	2.8	2.9	3.3	2.6	1.7	2.1
Asset Turnover (x)	3.3	2.4	2.1	2.2	2.4	2.1	1.5	2.0
Inventory (Days)	41	45	68	61	53	50	51	52
Debtor (Days)	6	8	9	9	11	10	11	11
Creditor (Days)	58	77	84	77	69	64	66	66
Leverage Ratio (x)								
Current Ratio	1.0	0.9	0.9	1.0	1.2	1.2	1.3	1.2
Interest Cover Ratio	1.0	5.1	7.3	8.8	5.5	1.0	3.1	4.1
Net Debt/Equity	0.6	0.2	0.1	0.1	0.4	0.9	0.9	0.8

Consolidated - Cash Flow Statement

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
OP/(Loss) before Tax	70,144	1,78,263	2,73,157	3,35,391	2,45,425	-85,431	1,74,902	2,56,070
Depreciation	52,190	56,984	68,486	76,679	85,074	1,02,745	1,07,900	1,12,564
Direct Taxes Paid	-21,425	-56,584	-75,704	-1,18,239	-86,531	53,007	-41,959	-61,828
(Inc)/Dec in WC	3,72,225	89,976	-48,481	-91,640	-1,88,637	33,121	1,141	22,545
CF from Operations	4,73,133	2,68,638	2,17,458	2,02,191	55,332	1,03,443	2,41,984	3,29,352
CF from Operating incl EO	4,62,147	2,83,712	2,23,038	2,66,094	1,10,594	66,399	2,43,962	3,31,832
(Inc)/Dec in FA	-94,988	-1,71,425	-1,33,324	-1,81,151	-2,28,050	-3,10,065	-2,37,000	-2,00,000
Free Cash Flow	3,67,159	1,12,287	89,714	84,944	-1,17,456	-2,43,665	6,962	1,31,832
(Pur)/Sale of Investments	-2,17,542	65,511	-1,25,025	-11,188	6,938	85,414	0	0
CF from Investments	-3,12,529	-1,05,914	-2,58,349	-1,92,339	-2,21,112	-2,24,651	-2,37,000	-2,00,000
Inc/(Dec) in Debt	-3,35,456	-72,377	1,06,808	33,110	3,05,707	3,32,563	62,984	0
Dividend Paid	-16,020	-28,675	-1,05,454	-1,05,582	-84,925	-39,019	-60,246	-84,983
CF from Fin. Activity	-1,79,780	-1,74,178	28,904	-72,910	1,16,184	1,70,602	-7,501	-99,425
Inc/Dec of Cash	-30,162	3,621	-6,406	846	5,666	12,350	-539	32,407
Opening Balance	37,044	6,882	10,503	4,097	4,943	10,609	22,960	22,421
Closing Balance	6,882	10,503	4,097	4,943	10,609	22,960	22,421	54,828

NOTES

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Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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