

Subdued performance...

Indian Oil Corporation (IOC) reported Q1FY21 results below our estimates on profitability front. Revenues fell 36.3% QoQ to ₹ 88936.5 crore, (our estimate: ₹ 81101 crore) due to nationwide lockdown. The quarter saw inventory loss of US\$6.3/bbl leading to reported GRMs at -US\$2/bbl (our estimate: US\$ 5.4/bbl) while core GRMs were at US\$4.3/bbl. Weaker than expected refining performance led to EBITDA at ₹ 5512.3 crore (up 25x QoQ) vs. our estimate of ₹ 8691 crore. Subsequently, PAT was at ₹ 1910.8 crore (our estimate: ₹ 4149.9 crore) against net loss of ₹ 5185.3 crore in Q4FY20.

Hike in retail prices support marketing margins

Global oil prices fell to multi-year lows in April due to a sharp reduction in demand. With increase in demand following a resumption of economic activities, oil prices recovered. Brent crude oil prices on a closing basis increased by US\$19.4/bbl QoQ to US\$40.9/bbl. IOC reported marketing inventory gain of ₹ 1392 crore. Core marketing margins were stable during the quarter as the company increased petrol & diesel prices post excise duty hike. IOC's marketing sales de-grew 29.2% YoY to 15.2 MMT (our estimate: 16 MMT) on account of lockdown. Going forward, considering the localised lockdowns in some parts, we expect marketing sales at 76.2 MMT and 92 MMT for FY21E and FY22E, respectively. Crude throughput in Q1FY21 was down 25.2% YoY at 12.9 MMT, above our estimate. Crude throughput was reduced by July end due to subdued demand and it is likely to take longer time for utilisation to return to normal levels. Going ahead, we estimate throughput at 58.9 MMT and 70 MMT for FY21E and FY22E, respectively.

GRM outlook subdued

Reported GRMs during the quarter were at -US\$2/bbl, below our estimate of US\$5.4/bbl. Core GRMs were at US\$4.3/bbl while inventory loss was at US\$6.3/bbl. The management attributed the inventory loss to higher time lag to sell final products mainly due to presence of inland refineries. The management expects inventory loss to reverse in subsequent quarters if oil prices remain at current levels. Benchmark Singapore GRMs are currently very low due to subdued global product spreads. Improvement in petrol & diesel spreads will be important for stable GRMs. Going forward, we estimate GRMs at US\$2.7/bbl for FY21E and US\$4/bbl for FY22E.

Valuation & Outlook

Marketing sales have improved from April lows but were still lower YoY. Fuel demand in July fell MoM due to localised lockdowns and monsoon. The management indicated fuel demand is likely to remain lower than normal level for rest of FY21E. Post excise duty hike, IOC increased retail prices by ~₹ 9-12/litre, 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: ₹ 93/share, P/E multiple: ₹ 86/share).

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	3,98,201.2	5,14,936.6	(5.3)
EBITDA (₹ crore)	39,662.8	33,826.2	18,784.7	24,143.9	26,896.4	(7.4)
Net Profit (₹ crore)	21,346.1	16,894.1	1,313.2	9,062.2	10,712.0	(14.1)
EPS (₹)	22.5	18.4	1.4	9.9	11.7	
P/E (x)	3.9	4.7	60.8	8.8	7.5	
Price / Book (x)	0.7	0.7	0.8	0.8	0.8	
EV/EBITDA (x)	2.1	2.4	4.3	3.3	3.0	
RoCE (%)	19.4	13.5	4.9	7.6	8.8	
RoE (%)	19.4	15.5	1.3	8.5	10.1	
RoE (%)	21.4	22.8	22.7	27.5	22.0	

Source: Company, ICICI Direct Research

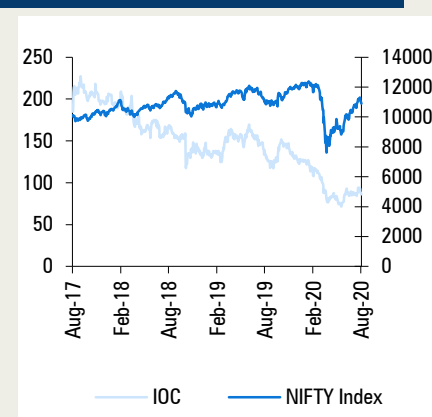
Particulars

Particular	Amount
Market Capitalization (₹ Cr)	79,875.0
Total Debt (FY 19) (₹ Crore)	86,358.7
Cash and Investments (FY	10,091.3
EV (₹ Crore)	1,56,142.4
52 week H/L	156 / 71
Equity capital (₹ Crore)	9,181.0
Face value (₹)	10.0

Key Highlights

- Performance below our estimates on profitability front
- 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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Exhibit 1: Variance Analysis

	Q1FY21	Q1FY21E	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Comments
Total Revenues	88,936.5	81,101	1,50,135.2	-40.8	1,39,618.9	-36.3	
Raw materials costs	47,633.5	48,742.4	1,12,526.0	-57.7	1,03,622.7	-54.0	
Employees Cost	2,204.0	2,626.9	2,388.1	-7.7	2,114.0	4.3	
Other Expenses	33,586.7	21,040.7	26,871.2	25.0	33,670.0	-0.2	
Total Expenditure	83,424.3	72,410	1,41,785.2	-41.2	1,39,406.7	-40.2	
EBITDA	5,512.3	8,691.0	8,350.0	-34.0	212.2	2,497.9	Below estimates due to weaker refining performance
EBITDA margins (%)	6.2	10.7	5.6	64 bps	0.2	605 bps	
Depreciation	2,354.5	2,336.6	2,092.9	12.5	2,389.5	-1.5	
EBIT	3,157.7	6,354.4	6,257.1	-49.5	-2,177.3	-245.0	
Interest	1,171.3	1,549.6	1,509.1	-22.4	1,850.4	-36.7	
Other Income	642.2	743.2	631.4	1.7	1,722.3	-62.7	
Extra Ordinary Item	0.0	0.0	0.0	NA	-11,304.6	NA	
PBT	2,628.6	5,548.0	5,379.4	-51.1	-13,610.2	-119.3	
Total Tax	717.7	1,398.1	1,783.3	-59.8	-8,424.8	-108.5	
PAT	1,910.8	4,149.9	3,596.1	-46.9	-5,185.3	-136.9	Lower than expected sales and weaker refining performance led to below estimated profits

Key Metrics

Exchange rate (₹\$)	75.9	75.9	69.6	9.1	72.5	4.7	
Throughput (mmt)	12.9	12.1	17.3	-25.2	17.1	-24.4	Better than expectations
Sales (mmt)	15.2	16.0	21.5	-29.2	20.7	-26.3	Product sales lower than anticipated due to higher degree of effect of lockdown
GRM (\$/barrel)	-2.0	5.4	4.7	-142.2	-9.6	-79.5	Surprisingly, IOC reported inventory loss of US\$ 6.3/bbl. Core GRMs were at US\$ 4.3/bbl

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(\$ Crore)	FY21E			FY22E			Comments
	Old	New	Change	Old	New	Change	
Revenue	4,14,333.9	3,98,201.2	-3.9	5,51,509.3	5,14,936.6	-6.6	
EBITDA	28,724.9	24,143.9	-15.9	26,896.4	26,896.4	0.0	
EBITDA Margin (%)	6.9	6.1	-87 bps	4.9	5.2	35 bps	Profitability estimates lowered for FY21E due to weak Q1 performance and lowering of refining throughput and sales estimates
PAT	12,082.7	9,062.2	-25.0	10,712.0	10,712.0	0.0	
EPS (₹)	13.2	9.9	-25.0	11.7	11.7	0.0	

Source: Company, ICICI Direct Research

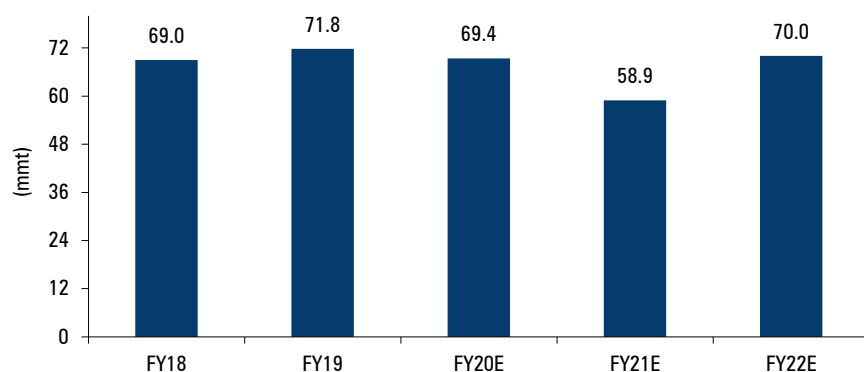
Exhibit 3: Assumptions

	Current				Earlier		Comments
	FY19	FY20	FY21E	FY22E	FY21E	FY22E	
Exchange rate (₹\$)	69.9	70.9	75.2	75.0	75.2	75.0	
Throughput (mmt)	71.8	69.4	58.9	70.0	64.4	70.0	
Sales (mmt)	84.7	84.3	76.2	92.0	82.0	92.0	Lowered estimates for FY 21E considering the impact of lockdown
GRM (\$/barrel)	5.5	0.1	2.7	4.0	4.3	4.0	Realigned estimates after Q1FY 21 performance

Source: Company, ICICI Direct Research

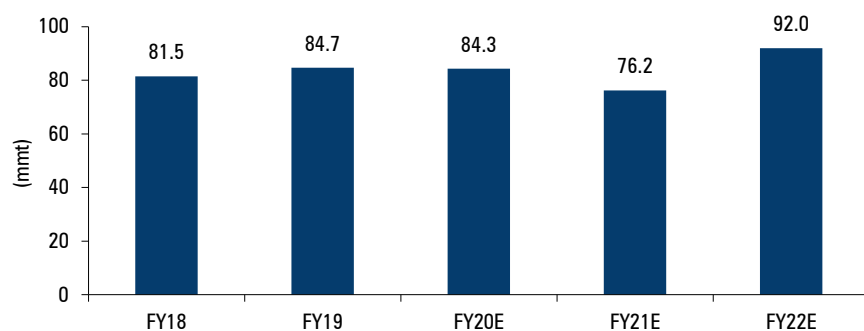
Story in charts

Exhibit 4: Oil throughput trend



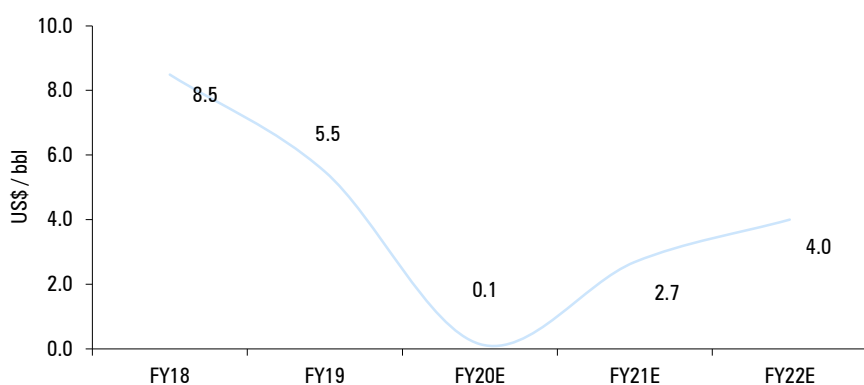
Source: Company, ICICI Direct Research

Exhibit 5: Marketing sales trend



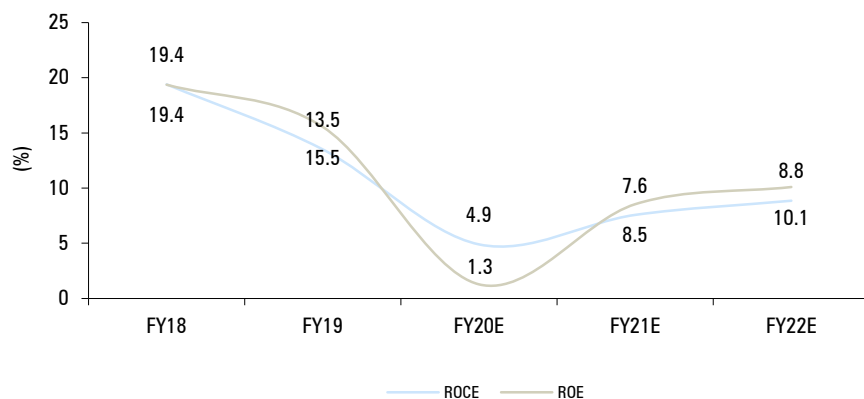
Source: Company, ICICI Direct Research

Exhibit 6: Refining margin trend



Source: Company, ICICI Direct Research

Exhibit 7: Return Ratios



Source: Bloomberg, ICICI Direct Research

Exhibit 8: Shareholding Pattern

(in %)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoter	52.2	51.5	51.5	51.5	51.5
FII	7.7	7.2	7.6	7.2	6.3
DII	13.1	14.3	13.8	13.4	13.9
Others	27.0	27.0	27.1	27.9	28.3

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	398201.2	514936.6
Growth (%)	19.6	-6.4	-29.8	29.3
(Inc.)/(Dec.) in stock in tra	-3011.1	-6410.4	693.2	0.0
Raw material Costs	269679.6	247077.0	134654.9	201206.3
Purchase of Products	179055.5	178535.5	112411.2	164529.1
Employee Costs	11102.2	8792.7	8589.1	9448.1
Other Expenditure	115271.4	120170.2	117708.9	112856.8
Op. Expenditure	572097.6	548165.0	374057.3	488040.2
EBITDA	33826.2	18784.7	24143.9	26896.4
Growth (%)	-14.7	-44.5	28.5	11.4
Depreciation	7516.7	8766.1	9364.3	10449.1
EBIT	26309.4	10018.6	14779.7	16447.3
Interest	4311.0	5979.5	5462.5	5499.6
Other Income	3128.5	-7733.3	2872.1	3373.1
PBT	25126.9	-3694.1	12189.3	14320.9
Growth (%)	-22.8	-114.7	-430.0	17.5
Tax	8232.8	-5007.3	3127.0	3608.9
Reported PAT	16894.1	1313.2	9062.2	10712.0
Growth (%)	-20.9	-92.2	590.1	18.2
EPS	18.4	1.4	9.9	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	9,062.2	10,712.0
Add: Depreciation	7,516.7	8,766.1	9,364.3	10,449.1
Add: Others	0.0	0.0	0.0	0.0
Cash Profit	16,557.6	6,634.2	14,981.4	13,419.3
Increase/(Decrease) in CI	4,349.0	-14,116.7	-15,721.9	23,967.9
(Increase)/Decrease in	-7044.1	21199.2	33470.3	-1069.2
CF from Operating Activiti	2,205.7	7,271.6	26,284.8	25,576.2
Purchase of Fixed Assets	21,506.3	23,060.3	17,518.0	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	-15,018.0	-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	-733.2	1,041.2
Op. Cash and cash Eq.	81.3	91.3	1,802.6	1,069.5
Cl. Cash and cash Eq.	91.3	1,802.6	1,069.5	2,110.7

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	96,961.7	96,931.9
Shareholder's Fund	1,08,657.5	1,03,525.6	1,06,142.8	1,06,113.0
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	217324.6	210794.8
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	46,911.4	60,663.8
Debtor	15,448.0	12,426.3	8,727.7	11,286.3
Cash	91.3	1,802.6	1,069.5	2,110.7
Loan & Advance, Other C	36635.8	31135.8	26135.8	21635.8
Total Current assets	123645.5	110602.8	82844.3	95696.5
Current Liabilities	93846.9	89314.0	65457.7	84647.1
Provisions	11021.6	1437.8	9572.1	14350.7
Total CL and Provisions	104868.4	90751.7	75029.9	98997.8
Net Working Capital	18777.1	19851.0	7814.5	-3301.3
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	210839.3	223707.4	217324.6	210794.8

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	115.6	115.6
Cash per share	0.1	2.0	1.2	2.3
EPS	18.4	1.4	9.9	11.7
Cash EPS	26.6	11.0	20.1	23.0
DPS	9.3	6.0	6.0	10.0
Profitability & Operating Ratios				
EBITDA Margin (%)	5.6	3.3	6.1	5.2
PAT Margin (%)	2.8	0.2	2.3	2.1
Fixed Asset Turnover (x)	4.3	3.6	2.4	3.0
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	8.5	10.1
RoCE	13.5	4.9	7.6	8.8
RoIC	14.2	5.2	8.0	9.5
Valuation Ratios (x)				
PE	4.7	60.8	8.8	7.5
Price to Book Value	0.7	0.8	0.8	0.8
EV/EBITDA	2.4	4.3	3.3	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	0.8
Interest Coverage (x)	6.1	1.7	2.7	3.0
Debt to EBITDA (x)	2.6	5.4	3.7	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)	408	350	Hold	67,267	13.6	30.3	29.9	29.9	13.5	13.6	16.8	10.8	10.1	4.2	8.8	8.7	7.5	15.5	14.6
GAIL (India) (GAIL)	93	100	Hold	41,944	14.7	8.9	9.4	6.3	10.4	9.9	5.3	7.8	7.5	12.6	7.2	7.4	14.0	8.2	8.4
Gujarat Gas (GUJGA)	309	290	Hold	21,272	17.3	11.0	16.0	17.8	28.0	19.3	13.6	15.4	11.3	26.7	21.4	28.1	36.4	19.2	22.5
HPCL (HINPET)	215	215	Hold	32,799	17.3	33.9	25.9	12.4	6.3	8.3	13.3	7.0	7.2	2.8	8.8	6.8	9.1	16.2	12.0
Indian Oil Corp (INDOIL)	87	90	Hold	79,875	1.4	9.9	11.7	60.8	8.8	7.5	4.3	3.3	3.0	4.9	7.6	8.8	1.3	8.5	10.1
Indraprastha Gas (INDGAS)	388	440	Hold	27,160	16.2	14.4	18.9	23.9	26.9	20.6	17.6	18.4	13.8	25.2	20.1	23.0	22.6	17.5	19.7
Mahanagar Gas (MAHGAS)	970	1145	Hold	9,581	80.3	60.1	88.4	12.1	16.1	11.0	8.5	10.3	6.7	32.0	22.7	29.0	28.5	19.1	23.8
ONGC (ONGC)	77	80	Hold	98,817	10.5	4.4	10.9	7.3	17.5	7.1	2.5	4.5	3.4	9.2	1.3	5.7	6.3	2.6	6.3
Petronet LNG (PETLNG)	246	295	Buy	36,900	18.0	15.9	19.6	13.7	15.5	12.5	9.2	8.7	7.2	22.2	23.0	29.0	25.5	22.6	27.1

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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