

Indian Oil Corporation (IOCL IN)

Rating: BUY | CMP: Rs78 | TP: Rs118

November 2, 2020

Q2FY21 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	118		114	
Sales (Rs. m)	51,05,698	56,34,697	51,05,698	56,34,697
% Chng.	-	-	-	-
EBITDA (Rs. m)	3,54,335	3,64,244	3,54,335	3,64,244
% Chng.	-	-	-	-
EPS (Rs.)	15.5	15.6	16.6	16.6
% Chng.	(6.1)	(6.2)	-	-

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. bn)	4,844	4,105	5,106	5,635
EBITDA (Rs. bn)	164	282	354	364
Margin (%)	3.4	6.9	6.9	6.5
PAT (Rs. bn)	67	114	143	143
EPS (Rs.)	7.3	12.4	15.5	15.6
Gr. (%)	(53.8)	70.2	25.2	0.4
DPS (Rs.)	4.3	5.0	6.3	6.3
Yield (%)	5.4	6.4	8.0	8.1
RoE (%)	6.4	11.4	13.0	11.9
RoCE (%)	3.1	8.3	10.5	9.9
EV/Sales (x)	0.4	0.4	0.3	0.3
EV/EBITDA (x)	11.4	5.8	5.0	5.0
PE (x)	10.7	6.3	5.0	5.0
P/BV (x)	0.8	0.7	0.6	0.6

Key Data

IOC.BO | IOCL IN

52-W High / Low	Rs.143 / Rs.71
Sensex / Nifty	39,758 / 11,669
Market Cap	Rs.735bn/ \$ 9,878m
Shares Outstanding	9,414m
3M Avg. Daily Value	Rs.3470.09m

Shareholding Pattern (%)

Promoter's	51.50
Foreign	6.07
Domestic Institution	13.37
Public & Others	29.06
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	5.4	(7.2)	(45.3)
Relative	2.6	(21.3)	(44.7)

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High inventory gains drive earnings

Quick Pointers:

- High inventory gains mask weak refinery and marketing profitability.
- Benign crude oil prices likely to support marketing margins and earnings.

We change our FY22-23 earnings estimates by ~6% to factor in lower finance charges. During Q2FY21, core standalone EBIDTA adjusted for inventory and forex gains was weak at Rs13.6bn (-77%YoY) due to lower normalized refining margins (-\$0.97/bbl vs \$4.3/bbl in Q1FY21). Weak global demand and high inventory levels to likely keep crude oil prices range bound, which will support marketing margins in medium term. GRMs will recover with pickup in economic activity and lower operating cost (due to soft spot LNG prices) will support refining earnings. Maintain BUY with a TP of Rs118 (Rs114).

- High inventory gains support earnings:** IOCL reported higher than expected Q2 results with standalone EBITDA of Rs94.3bn (+164%YoY; PLe 57.5 bn) and PAT of Rs62.2bn (PLe Rs19.6bn). Higher operating profit was due to high inventory gains of Rs74bn. Q2 EBITDA adjusted for inventory and forex gains was at Rs13.6bn. For Q1 IOC followed accounting norms to value crude at cost or net realizable value whichever is lower- crude valued at Q2 end was at USD43.8/bbl vs Q1 end rate of USD32.6/bbl.
- Refining margins surprised positively:** IOCL's refining margins for Q2 came in at US\$8.62/bbl (Q1FY21 at -US\$1.9/bbl) and included inventory gains of US\$9.6/bbl. Adjusted for inventory and time lag, management expects normalized GRMs at -US\$0.97/bbl (Q1 USD4.3/bbl). For Q2, refining throughput was lower at 13.9MTPA (12.9 in Q1) post recovery from due to pandemic related lockdown. GRMs are likely to remain under pressure due to **1) weak demand in a Covid pandemic scenario 2) new capacity addition.**
- Adjusted marketing profitability was weak:** IOCL's core Q2 marketing EBITDA was at Rs35.3bn against Rs63.1bn in Q1FY21. Profitability was hit by lower margins while volumes improved from Q1 lows. IOCL's marketing volumes vis-à-vis the industry run rate was weak with HSD (-19.3% YoY vs -15.7% for industry), and MS (-6.1% YoY against industry rate of -5.1%YoY) respectively.
- Petrochemicals and pipeline performance improved QoQ:** For Q2FY21, petrochemicals EBITDA improved to Rs12.1bn against Rs7.3bn in Q1 due to higher volumes, while pipeline EBITDA came in at Rs12.9bn (+12% QoQ).
- Reiterate BUY:** We maintain BUY on IOCL with a PT of Rs118 (Rs114) as we value based on PER of 9x core FY21E EPS and add the value of investments and E&P.

Exhibit 1: Q2FY21 Result Overview (Rs mn) - Standalone

Y/e March	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	H1FY21	H1FY20	YoY gr. (%)
Net sales	11,57,494	13,23,757	(12.6)	8,89,365	28,25,109	20,46,860	(27.5)
Inc/dec in stock	16,369	(60,655)	(127.0)	6,932	(38,195)	23,301	NA
Purchases	3,14,583	4,07,118	(22.7)	2,28,052	8,66,784	5,42,634	(37.4)
Raw material cons	3,22,283	6,15,157	(47.6)	2,41,352	12,58,290	5,63,634	(55.2)
Duties	3,01,389	2,06,860	45.7	2,65,399	3,93,088	5,66,789	44.2
Staff cost	24,904	22,335	11.5	22,040	46,217	46,944	1.6
Other expenditure	83,696	97,220	(13.9)	70,468	1,79,705	1,54,163	(14.2)
Exp	(10,63,223)	(12,88,035)	NA	(8,34,243)	(27,05,887)	(18,97,465)	NA
Operating profit	94,272	35,722	163.9	55,123	1,19,222	1,49,394	25.3
Interest	(2,211)	(13,083)	NA	(11,713)	(28,173)	(13,924)	NA
Depreciation	(24,036)	(20,975)	NA	(23,545)	(41,904)	(47,582)	NA
Other income	15,374	6,481	137.2	6,422	12,794	21,796	70.4
Profit before tax	83,398	8,145	923.9	26,286	61,939	1,09,684	77.1
Current tax	(8,115)	1,164	(796.9)	-	(8,847)	(8,115)	(8.3)
Profit after current tax	75,284	9,309	708.7	26,286	53,092	1,01,570	91.3
Deferred tax	(13,011)	(3,675)	NA	(7,177)	(11,497)	(20,188)	NA
Net profit	62,273	5,634	1,005.3	19,108	41,595	81,382	95.7

Source: Company, PL

Exhibit 2: Core EBIDTA down 77%YoY

	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
EBIDTA	83,500	35,722	66,503	2,122	55,123	94,272
Less Forex adj	920	(11,351)	(1,820)	(27,200)	810	6,720
Less Inventory gains/loss	12,330	(11,780)	18,040	(71,704)	(31,960)	74,000
Less others	6,310					
Core EBIDTA	63,940	58,854	50,283	1,01,026	86,273	13,552

Source: Company, PL

Conference Call Highlights

- FY20 capex at Rs260bn with standalone at Rs210bn. Of that, refining capex will be Rs40bn, marketing Rs50bn, Pipelines at Rs45bn and petrochemicals at Rs22bn.
- IOC refinery utilization for July/Aug/Sept was at 90%/67%/81% due to weak domestic demand.
- Debt at Q2 end was at Rs910bn vs Q1 end levels of Rs986bn. The debt also includes lease obligation of Rs79bn.
- The Company plans to set up 2,400 retail outlets for FY21 to add to its current tally of 30,000 outlets.
- IOCL had 9MTPA of crude inventory and 8MTPA of product inventory as on Q2 end.

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	48,43,623	41,04,520	51,05,698	56,34,697
YoY gr. (%)	(8.3)	(15.3)	24.4	10.4
Cost of Goods Sold	42,05,439	33,05,632	42,11,000	47,06,730
Gross Profit	6,38,184	7,98,887	8,94,698	9,27,966
Margin (%)	13.2	19.5	17.5	16.5
Employee Cost	-	-	-	-
Other Expenses	4,74,135	5,16,853	5,40,362	5,63,723
EBITDA	1,64,049	2,82,034	3,54,335	3,64,244
YoY gr. (%)	(53.4)	71.9	25.6	2.8
Margin (%)	3.4	6.9	6.9	6.5
Depreciation and Amortization	98,549	93,464	99,906	1,05,758
EBIT	65,500	1,88,571	2,54,430	2,58,485
Margin (%)	1.4	4.6	5.0	4.6
Net Interest	65,787	40,325	68,322	73,072
Other Income	27,903	8,666	9,673	10,728
Profit Before Tax	27,615	1,56,911	1,95,781	1,96,141
Margin (%)	0.6	3.8	3.8	3.5
Total Tax	(53,007)	42,648	53,287	53,796
Effective tax rate (%)	(191.9)	27.2	27.2	27.4
Profit after tax	80,622	1,14,263	1,42,493	1,42,345
Minority interest	13,661	277	(251)	(984)
Share Profit from Associate	-	-	-	-
Adjusted PAT	66,961	1,13,986	1,42,744	1,43,329
YoY gr. (%)	(53.8)	70.2	25.2	0.4
Margin (%)	1.4	2.8	2.8	2.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	66,961	1,13,986	1,42,744	1,43,329
YoY gr. (%)	(53.8)	70.2	25.2	0.4
Margin (%)	1.4	2.8	2.8	2.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	66,961	1,13,986	1,42,744	1,43,329
Equity Shares O/s (m)	9,181	9,181	9,181	9,181
EPS (Rs)	7.3	12.4	15.5	15.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	18,17,717	19,93,254	22,42,777	24,32,305
Tangibles	18,17,717	19,93,254	22,42,777	24,32,305
Intangibles	-	-	-	-
Acc: Dep / Amortization	3,76,954	4,49,252	5,49,158	6,54,916
Tangibles	3,76,954	4,49,252	5,49,158	6,54,916
Intangibles	-	-	-	-
Net fixed assets	14,40,763	15,44,001	16,93,619	17,77,388
Tangibles	14,40,763	15,44,001	16,93,619	17,77,388
Intangibles	-	-	-	-
Capital Work In Progress	3,57,896	2,09,222	2,39,081	2,68,712
Goodwill	10	21,450	23,572	25,906
Non-Current Investments	3,21,214	3,64,410	3,83,273	4,04,022
Net Deferred tax assets	(1,14,393)	(1,31,073)	(1,50,809)	(1,70,733)
Other Non-Current Assets	71,240	78,098	85,908	94,499
Current Assets				
Investments	82,912	80,864	80,864	80,864
Inventories	6,70,108	5,02,391	6,29,321	6,87,868
Trade receivables	1,32,595	1,10,742	1,40,231	1,56,369
Cash & Bank Balance	22,960	2,79,711	2,47,876	2,86,340
Other Current Assets	42,542	44,621	46,852	49,195
Total Assets	32,97,368	34,13,885	37,58,477	40,29,085
Equity				
Equity Share Capital	91,810	91,810	91,810	91,810
Other Equity	8,62,169	9,53,696	10,58,117	11,62,764
Total Network	9,53,979	10,45,507	11,49,928	12,54,574
Non-Current Liabilities				
Long Term borrowings	5,60,706	5,56,942	6,56,942	7,06,942
Provisions	15,972	12,458	13,081	13,735
Other non current liabilities	20,481	20,425	20,425	20,425
Current Liabilities				
ST Debt / Current of LT Debt	6,98,974	7,08,601	7,28,601	7,48,601
Trade payables	2,76,035	2,23,759	2,81,915	3,13,829
Other current liabilities	6,40,169	6,94,813	7,34,816	7,77,345
Total Equity & Liabilities	32,97,369	34,13,885	37,58,477	40,29,085

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	27,615	1,56,911	1,95,781	1,96,141
Add. Depreciation	98,549	93,464	99,906	1,05,758
Add. Interest	65,787	40,325	68,322	73,072
Less Financial Other Income	27,903	8,666	9,673	10,728
Add. Other	-	-	-	-
Op. profit before WC changes	1,91,952	2,90,700	3,64,009	3,74,972
Net Changes-WC	(30,911)	1,83,452	(61,061)	(4,633)
Direct tax	(2,212)	(26,925)	(33,551)	(33,871)
Net cash from Op. activities	1,58,828	4,47,227	2,69,396	3,36,467
Capital expenditures	(3,06,262)	(1,09,670)	(2,81,519)	(2,21,508)
Interest / Dividend Income	-	-	-	-
Others	99,099	(11,139)	(14,821)	(16,303)
Net Cash from Invst. activities	(2,07,163)	(1,20,809)	(2,96,340)	(2,37,812)
Issue of share cap. / premium	(1,67,108)	10,695	1,060	1,061
Debt changes	3,32,563	5,862	1,20,000	70,000
Dividend paid	(39,019)	(45,899)	(57,629)	(58,179)
Interest paid	(65,787)	(40,325)	(68,322)	(73,072)
Others	-	-	-	-
Net cash from Fin. activities	60,648	(69,667)	(4,892)	(60,191)
Net change in cash	12,313	2,56,751	(31,836)	38,465
Free Cash Flow	(1,47,434)	3,37,557	(12,122)	1,14,959

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	12,46,152	11,84,391	6,23,966	8,56,105
YoY gr. (%)	(11.0)	(6.2)	(52.6)	(23.3)
Raw Material Expenses	10,68,915	10,36,227	4,76,335	6,53,234
Gross Profit	1,77,237	1,48,164	1,47,631	2,02,871
Margin (%)	14.2	12.5	23.7	23.7
EBITDA	66,503	2,122	55,123	94,272
YoY gr. (%)	84.2	(98.0)	(34.0)	163.9
Margin (%)	5.3	0.2	8.8	11.0
Depreciation / Depletion	21,862	23,895	23,545	24,036
EBIT	44,641	(21,774)	31,577	70,235
Margin (%)	3.6	(1.8)	5.1	8.2
Net Interest	13,117	18,504	11,713	2,211
Other Income	5,697	17,223	6,422	15,374
Profit before Tax	37,222	(23,055)	26,286	83,398
Margin (%)	3.0	(1.9)	4.2	9.7
Total Tax	13,832	(84,248)	7,177	21,125
Effective tax rate (%)	37.2	365.4	27.3	25.3
Profit after Tax	23,390	61,193	19,108	62,273
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	23,390	(51,853)	19,108	62,273
YoY gr. (%)	226.3	(185.0)	(46.9)	1,005.3
Margin (%)	1.9	(4.4)	3.1	7.3
Extra Ord. Income / (Exp)	-	1,13,046	-	-
Reported PAT	23,390	61,193	19,108	62,273
YoY gr. (%)	226.3	0.3	(46.9)	1,005.3
Margin (%)	1.9	5.2	3.1	7.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	23,390	61,193	19,108	62,273
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	-	-	-	-

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	7.3	12.4	15.5	15.6
CEPS	18.0	22.6	26.4	27.1
BVPS	103.9	113.9	125.3	136.6
FCF	(16.1)	36.8	(1.3)	12.5
DPS	4.3	5.0	6.3	6.3
Return Ratio(%)				
RoCE	3.1	8.3	10.5	9.9
ROIC	2.1	6.2	7.4	7.1
RoE	6.4	11.4	13.0	11.9
Balance Sheet				
Net Debt : Equity (x)	1.2	0.9	0.9	0.9
Net Working Capital (Days)	40	35	35	34
Valuation(x)				
PER	10.7	6.3	5.0	5.0
P/B	0.8	0.7	0.6	0.6
P/CEPS	18.0	22.6	26.4	27.1
EV/EBITDA	11.4	5.8	5.0	5.0
EV/Sales	0.4	0.4	0.3	0.3
Dividend Yield (%)	5.4	6.4	8.0	8.1

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Crude /bbl	61	45	55	60
US\$/Rs	71	74	77	79
GRM (US\$/bbl)	4	3	4	6
Refining volume (MTPA)	68	67	72	73

Source: Company Data, PL Research



Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Oct-20	BUY	114	75
2	04-Aug-20	BUY	114	87
3	07-Jul-20	BUY	114	86
4	25-Jun-20	BUY	114	85
5	08-Apr-20	BUY	133	82
6	31-Jan-20	BUY	145	113
7	03-Jan-20	BUY	190	127

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Accumulate	1,024	1,007
2	Bharat Petroleum Corporation	BUY	479	342
3	GAIL (India)	Accumulate	108	87
4	Gujarat Gas	BUY	388	304
5	Hindustan Petroleum Corporation	BUY	280	171
6	Indian Oil Corporation	BUY	114	75
7	Indraprastha Gas	BUY	590	384
8	Mahanagar Gas	BUY	1,226	829
9	NOCIL	BUY	153	154
10	Oil & Natural Gas Corporation	BUY	96	71
11	Oil India	Accumulate	117	92
12	Petronet LNG	BUY	384	219
13	Reliance Industries	BUY	2,232	2,055

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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