

## Inventory gains improve profitability...

Indian Oil Corporation (IOC) reported Q2FY21 profits better our estimates on the profitability front due to inventory gains. Revenues increased 30.1% QoQ to ₹ 115749.4 crore, (our estimate: ₹ 100044.5 crore) as retail demand increased post lockdown. The quarter witnessed inventory gains of US\$9.6/bbl leading to reported GRMs at US\$8.6/bbl (our estimate: US\$4/bbl) while core GRMs were at -US\$1/bbl. Higher than anticipated refining inventory gains led to EBITDA at ₹ 9427.2 crore (up 71% QoQ) vs. our estimate of ₹ 7123.3 crore. The company benefited from forex gain as interest cost was lower than expected. Subsequently, reported PAT was at ₹ 6227.3 crore, up 225.9% QoQ (our estimate: ₹ 2404.2 crore).

## Healthy marketing segment performance

Global crude oil prices remained range bound in Q2FY21E as Brent oil prices were in the range of US\$40-45/bbl. Average crude oil prices increased by US\$11.4/bbl to US\$42.8/bbl while Brent crude oil prices on a closing basis were flattish QoQ. IOC reported marketing inventory gain of ₹ 76 crore. Core marketing margins were stable during the quarter. IOC's marketing sales de-grew 12.3% YoY to 17.7 MMT in line with estimate as localised lockdowns affected demand (mainly diesel). Going ahead, we expect marketing sales at 76.8 MMT and 92 MMT for FY21E and FY22E, respectively. Crude throughput in Q2FY21 was down 20.3% YoY at 14 MMT, in line with estimate. Crude throughput was reduced in August due to subdued demand and planned shutdowns at certain plants. Going ahead, we estimate throughput at 59.6 MMT and 70 MMT for FY21E and FY22E, respectively.

## Core GRMs weak

Reported GRMs during the quarter were at US\$8.6/bbl, above our estimate of US\$4/bbl. Core GRMs were at -US\$1/bbl while inventory gain was at US\$9.6/bbl. The management said lower throughput and weak product cracks affected refining performance. Benchmark Singapore GRMs, while improved from Q1 low, are currently still low due to subdued global product cracks. Improvement in petrol & diesel cracks 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 in the current quarter (Q3FY21E-TD). Petrol demand has registered 4% YoY growth while Diesel demand was higher by 2% YoY as per the management. With near normalcy situation, demand growth should be maintained. Sustained growth in demand and steady marketing margins will be necessary for marketing segment going ahead. IOC's crude throughput has also increased QoQ and was at 95% in October. However, we are neutral on IOC at the current juncture given the volatility in refining margins. We maintain **HOLD** on the stock with a target price of ₹ 85 (based on average of P/BV multiple: ₹ 99/share, P/E multiple: ₹ 71/share).

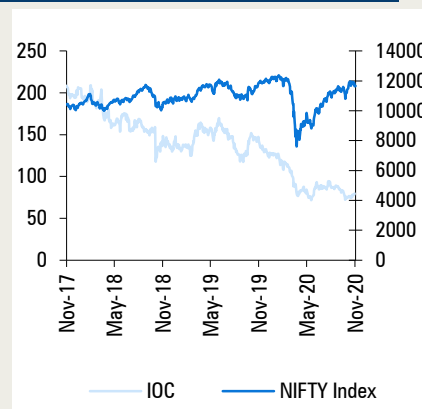
### Particulars

Particular	Amount
Market Capitalization (₹ Crore)	71,612.1
Total Debt (FY 20) (₹ Crore)	116,545.0
Cash and Investments (FY 20)	10,589.1
EV (₹ Crore)	177,568.0
52 week H/L	144 / 71
Equity capital (₹ Crore)	9,181.0
Face value (₹)	10.0

### Key Highlights

- Performance above our estimates on profitability front
- Marketing margins to remain steady
- Maintain HOLD rating on stock with target price of ₹ 85 /share

### Price Chart



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### Key Financial Summary

(Year-end March)	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY19-22E)
Revenues (₹ crore)	506,425.3	605,923.8	566,949.7	418,982.4	518,141.7	(5.1)
EBITDA (₹ crore)	39,662.8	33,826.2	18,784.7	26,183.4	26,896.4	(7.4)
Net Profit (₹ crore)	21,346.1	16,894.1	1,313.2	10,907.5	8,374.0	(20.9)
EPS (₹)	22.5	18.4	1.4	11.9	9.1	
P/E (x)	3.5	4.2	54.5	6.6	8.6	
Price / Book (x)	0.7	0.7	0.8	0.7	0.7	
EV/EBITDA (x)	1.9	2.1	3.8	2.7	2.7	
RoCE (%)	19.4	13.5	4.8	7.6	7.1	
RoE (%)	19.4	15.5	1.4	11.1	8.4	
Source: Company, ICICI Direct Research	21.4	22.8	22.7	27.5	22.0	

Exhibit 1: Variance Analysis

	Q2FY21	Q2FY21E	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
Total Revenues	115,749.4	100,044	132,375.7	-12.6	88,936.5	30.1	
Raw materials costs	65,323.4	64,535.3	96,161.9	-32.1	47,633.5	37.1	
Employees Cost	2,490.4	2,345.2	2,233.5	11.5	2,204.0	13.0	
Other Expenses	38,508.5	26,040.7	30,408.1	26.6	33,586.7	14.7	
Total Expenditure	106,322.3	92,921	128,803.5	-17.5	83,424.3	27.4	
EBITDA	9,427.2	7,123.3	3,572.2	163.9	5,512.3	71.0	Better than estimates due to higher refining inventory gain
EBITDA margins (%)	8.1	7.1	2.7	545 bps	6.2	195 bps	
Depreciation	2,403.6	2,994.2	2,097.5	14.6	2,354.5	2.1	
EBIT	7,023.5	4,129.1	1,474.7	376.3	3,157.7	122.4	
Interest	221.1	1,658.2	1,308.3	-83.1	1,171.3	-81.1	Higher than expactations due to forex gain
Other Income	1,537.4	743.2	648.1	137.2	642.2	139.4	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	8,339.8	3,214.1	814.5	923.9	2,628.6	217.3	
Total Tax	2,112.5	810.0	251.1	741.4	717.7	194.3	
PAT	6,227.3	2,404.2	563.4	1,005.2	1,910.8	225.9	Better than estimated EBITDA and other income led to higher PAT
<b>Key Metrics</b>							
Exchange rate (₹\$)	74.4	74.4	70.3	5.8	75.9	-2.0	
Throughput (mmt)	14.0	14.0	17.5	-20.3	12.9	8.0	
Sales (mmt)	17.7	17.8	20.2	-12.3	15.2	16.1	Product sales were largely in line with expectatins
GRM (\$/barrel)	8.6	4.0	1.3	573.4	-2.0	-535.4	IOC reported inventory gain of US\$ 9.6/bbl. Core GRMs were at US\$ -1/bbl

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			Comments
	Old	New	Change	Old	New	Change	
Revenue	401,092.2	418,982.4	4.5	512,296.8	518,141.7	1.1	
EBITDA	25,478.2	26,183.4	2.8	26,896.4	26,896.4	0.0	Largely maintained estimates
EBITDA Margin (%)	6.4	6.2	-10 bps	5.3	5.2	-6 bps	
PAT	8,073.4	10,907.5	35.1	8,000.8	8,374.0	4.7	Lowered interest costs
EPS (₹)	8.8	11.9	35.1	8.7	9.1	4.7	

Source: Company, ICICI Direct Research

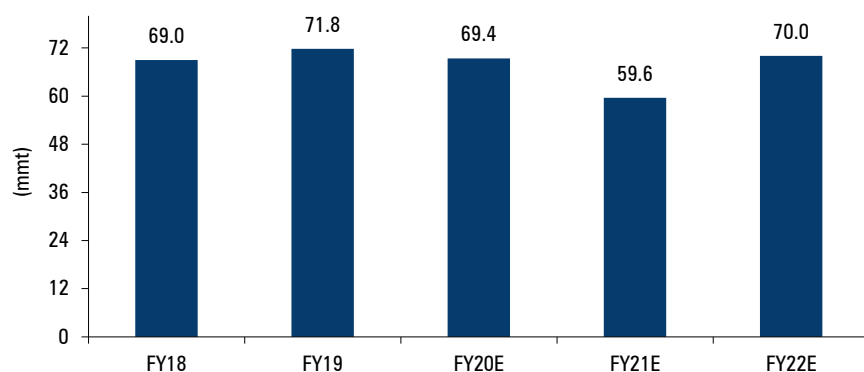
Exhibit 3: Assumptions

	Current				Earlier		Comments
	FY19	FY20	FY21E	FY22E	FY21E	FY22E	
Exchange rate (₹\$)	69.9	70.9	75.0	75.0	75.0	75.0	
Throughput (mmt)	71.8	69.4	59.6	70.0	58.9	70.0	
Sales (mmt)	84.7	84.3	76.8	92.0	75.8	92.0	Expect improvement in sales from Q4FY 21E onwards
GRM (\$/barrel)	5.5	0.1	3.2	4.0	2.7	4.0	Realigned estimates for FY 21E after Q2FY 21 performance

Source: Company, ICICI Direct Research

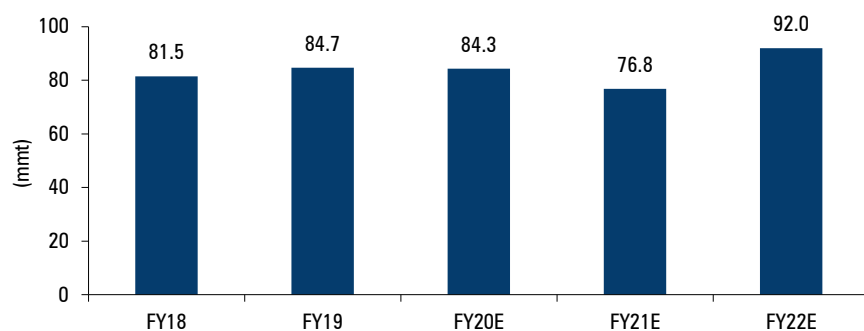
## Story in charts

Exhibit 4: Oil throughput trend



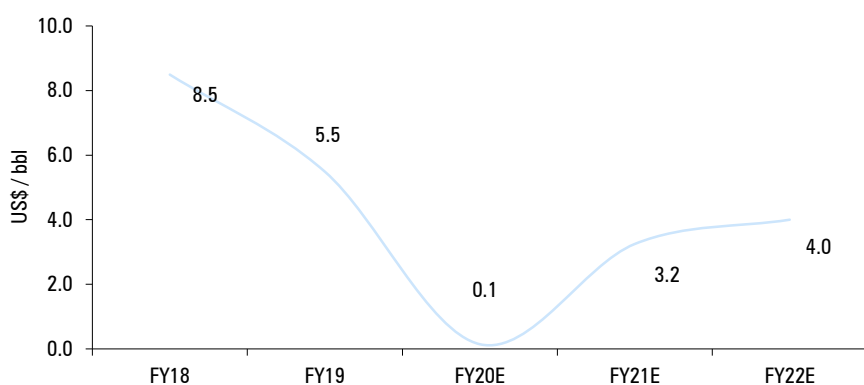
Source: Company, ICICI Direct Research

Exhibit 5: Marketing sales trend



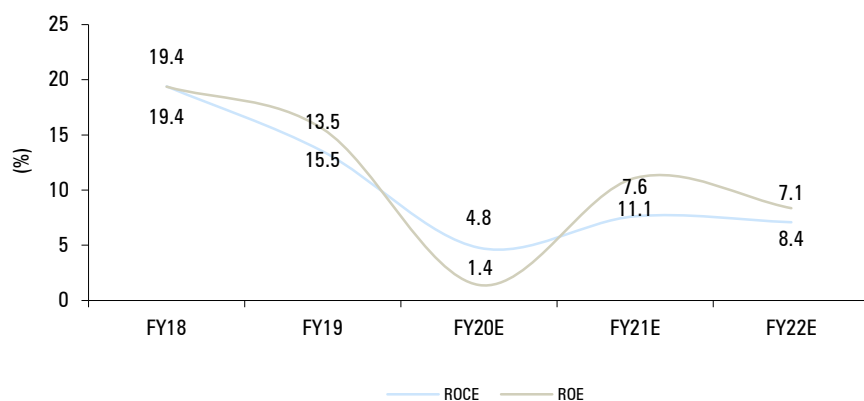
Source: Company, ICICI Direct Research

Exhibit 6: Refining margin trend



Source: Company, ICICI Direct Research

**Exhibit 7: Return ratios trend**



Source: Bloomberg, ICICI Direct Research

**Exhibit 8: Shareholding Pattern**

(in %)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Promoter	51.5	51.5	51.5	51.5	51.5
FII	7.2	7.6	7.2	6.3	6.1
DII	14.3	13.8	13.4	13.9	13.4
Others	27.0	27.1	27.9	28.3	29.1

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 9: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
<b>Revenue</b>	<b>605923.8</b>	<b>566949.7</b>	<b>418982.4</b>	<b>518141.7</b>
Growth (%)	19.6	-6.4	-26.1	23.7
(Inc.)/(Dec.) in stock in tra	-3011.1	-6410.4	2330.1	0.0
Raw material Costs	269679.6	247077.0	136357.3	201206.3
Purchase of Products	179055.5	178535.5	117312.4	167697.4
Employee Costs	11102.2	8792.7	8622.6	9484.9
Other Expenditure	115271.4	120170.2	128176.7	112856.8
Op. Expenditure	572097.6	548165.0	392799.0	491245.3
<b>EBITDA</b>	<b>33826.2</b>	<b>18784.7</b>	<b>26183.4</b>	<b>26896.4</b>
Growth (%)	-14.7	-44.5	39.4	2.7
Depreciation	7516.7	8766.1	10746.5	13086.6
EBIT	26309.4	10018.6	15436.9	13809.8
Interest	4311.0	5979.5	4432.4	5987.7
Other Income	3128.5	-7733.3	3666.3	3373.1
PBT	25126.9	-3694.1	14670.7	11195.2
Growth (%)	-22.8	-114.7	-497.1	-23.7
Tax	8232.8	-5007.3	3763.2	2821.2
<b>Reported PAT</b>	<b>16894.1</b>	<b>1313.2</b>	<b>10907.5</b>	<b>8374.0</b>
Growth (%)	-20.9	-92.2	730.6	-23.2
<b>EPS</b>	<b>18.4</b>	<b>1.4</b>	<b>11.9</b>	<b>9.1</b>

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	10,907.5	8,374.0
Add: Depreciation	7,516.7	8,766.1	10,746.5	13,086.6
Add: Others	0.0	0.0	0.0	0.0
Cash Profit	16,557.6	-136.9	18,208.9	18,015.5
Increase/(Decrease) in CL	4,349.0	-15,504.9	-10,281.4	15,358.1
<b>(Increase)/Decrease in CA</b>	<b>-7044.1</b>	<b>21417.2</b>	<b>29424.1</b>	<b>-2910.0</b>
CF from Operating Activities	2,205.7	-30.8	30,906.4	24,018.5
Purchase of Fixed Assets	21,506.3	29,878.9	16,311.6	17,535.0
(Inc)/Dec in Investments	-2,267.4	10,616.8	2,500.0	2,500.0
Others	4.0	4.0	4.0	4.0
<b>CF from Investing Activities</b>	<b>-23,773.7</b>	<b>-19,262.0</b>	<b>-13,811.6</b>	<b>-15,035.0</b>
Inc/(Dec) in Loan Funds	28,328.8	30,186.3	-12,000.0	-9,500.0
Dividend Paid	11,656.8	5,806.3	6,445.1	6,445.1
Inc/(Dec) in Sh. Cap. & Res.	-6,750.9	-10,395.6	0.0	0.0
Others	0.0	0.0	0.0	0.0
<b>CF from financing activities</b>	<b>9,921.2</b>	<b>13,984.4</b>	<b>-18,445.1</b>	<b>-15,945.1</b>
Change in cash Eq.	10.0	497.8	5,094.8	-516.5
Op. Cash and cash Eq.	81.3	91.3	589.1	5,684.0
<b>Cl. Cash and cash Eq.</b>	<b>91.3</b>	<b>589.1</b>	<b>5,684.0</b>	<b>5,167.5</b>

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
<b>Source of Funds</b>				
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	84,587.8	89,050.2	90,979.1
Shareholder's Fund	108,657.5	93,768.8	98,231.2	100,160.2
Loan Funds	86,358.7	116,545.0	104,545.0	95,045.0
Deferred Tax Liability	15,823.1	11,413.1	14,413.1	17,413.1
Minority Interest	0.0	0.0	0.0	0.0
<b>Source of Funds</b>	<b>210839.3</b>	<b>221727.0</b>	<b>217189.4</b>	<b>212618.3</b>
<b>Application of Funds</b>				
Gross Block	145,317.3	168,951.3	188,993.1	209,028.1
Less: Acc. Depreciation	25,171.0	33,665.9	45,642.6	58,729.1
Net Block	120,146.3	135,285.5	143,350.5	150,299.0
Capital WIP	22,160.5	28,134.1	25,634.1	23,134.1
Total Fixed Assets	142,306.8	163,419.6	168,984.6	173,433.1
Investments	49,755.4	39,138.6	36,638.6	34,138.6
Inventories	71,470.4	63,677.6	49,359.6	61,041.4
Debtor	15,448.0	12,844.1	9,183.2	11,356.5
Cash	91.3	589.1	5,684.0	5,167.5
Loan & Advance, Other C	36635.8	31421.6	26421.6	21921.6
Total Current assets	123645.5	108532.4	90648.3	99486.9
Current Liabilities	93846.9	78877.1	68873.8	85174.0
Provisions	11021.6	10486.5	10208.3	9266.3
Total CL and Provisions	104868.4	89363.6	79082.1	94440.3
Net Working Capital	18777.1	19168.9	11566.2	5046.7
Miscellaneous expense	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>210839.3</b>	<b>221727.0</b>	<b>217189.4</b>	<b>212618.3</b>

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
<b>Per share data (₹)</b>				
Book Value	118.3	102.1	107.0	109.1
Cash per share	0.1	0.6	6.2	5.6
EPS	18.4	1.4	11.9	9.1
Cash EPS	26.6	11.0	23.6	23.4
DPS	9.3	6.0	6.0	6.0
<b>Profitability &amp; Operating Ratios</b>				
EBITDA Margin (%)	5.6	3.3	6.2	5.2
PAT Margin (%)	2.8	0.2	2.6	1.6
Fixed Asset Turnover (x)	4.3	3.5	2.5	3.0
Inventory Turnover (Days)	43.1	41.0	43.0	43.0
Debtor (Days)	9.3	8.3	8.0	8.0
Current Liabilities (Days)	56.5	50.8	60.0	60.0
<b>Return Ratios (%)</b>				
RoE	15.5	1.4	11.1	8.4
RoCE	13.5	4.8	7.6	7.1
RoIC	14.2	5.0	8.3	7.7
<b>Valuation Ratios (x)</b>				
PE	4.2	54.5	6.6	8.6
Price to Book Value	0.7	0.8	0.7	0.7
EV/EBITDA	2.1	3.8	2.7	2.7
EV/Sales	0.3	0.3	0.4	0.3
<b>Leverage &amp; Solvency Ratios</b>				
Debt to equity (x)	0.8	1.2	1.1	0.9
Interest Coverage (x)	6.1	1.7	3.5	2.3
Debt to EBITDA (x)	2.6	6.2	4.0	3.5
Current Ratio	1.2	1.2	1.1	1.1
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
GAIL (India) (GAIL)	84	90	Reduce	37,885	14.7	6.7	9.3	5.7	12.6	9.0	4.9	10.1	7.6	13.7	5.5	7.7	15.1	6.8	9.2
Gujarat Gas (GUJGA)	297	350	Buy	20,445	17.3	12.7	18.2	17.1	23.4	16.3	13.3	13.2	9.6	25.2	23.1	29.3	36.3	21.4	24.2
HPCL (HINPET)	187	220	Hold	28,528	17.3	41.1	24.1	10.8	4.5	7.8	13.9	6.1	7.2	2.5	9.5	5.9	9.1	19.0	10.9
Indian Oil Corp (INDOIL)	78	85	Hold	71,612	1.4	11.9	9.1	54.5	6.6	8.6	3.8	2.7	2.7	4.8	7.6	7.1	1.4	11.1	8.4
Indraprastha Gas (INDGAS)	404	410	Hold	28,280	16.2	11.4	18.0	24.9	35.4	22.4	17.2	22.6	14.8	25.0	16.2	22.7	22.5	14.3	19.5
Mahanagar Gas (MAHGAS)	816	1145	Hold	8,060	80.3	53.4	87.0	10.2	15.3	9.4	7.5	10.3	6.1	29.7	18.8	27.3	26.9	16.3	22.7
ONGC (ONGC)	67	80	Hold	85,983	10.5	5.8	11.5	6.4	11.5	5.8	2.1	3.9	3.0	10.2	2.7	6.2	6.8	3.7	7.0
Petronet LNG (PETLNG)	228	300	Buy	34,200	18.0	17.6	20.0	12.7	13.0	11.4	8.3	7.4	6.6	22.3	24.9	28.9	24.6	23.7	26.0

Source: Company, ICICI Direct Research

## RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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