

May 17, 2022

Q4FY22 Result Update

☒ Change in Estimates | ☒ Target | ☒ Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	HOLD		BUY	
Target Price	131		150	
Sales (Rs. m)	59,25,627	62,68,048	60,07,524	63,00,425
% Chng.	(1.4)	(0.5)		
EBITDA (Rs. m)	3,29,849	4,15,328	4,38,557	4,75,266
% Chng.	(24.8)	(12.6)		
EPS (Rs.)	15.2	20.9	23.8	25.7
% Chng.	(36.3)	(18.6)		

Key Financials - Standalone

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. bn)	3,639	5,893	5,926	6,268
EBITDA (Rs. bn)	406	477	330	415
Margin (%)	11.2	8.1	5.6	6.6
PAT (Rs. bn)	194	233	139	192
EPS (Rs.)	21.1	25.3	15.2	20.9
Gr. (%)	189.3	20.1	(40.2)	37.9
DPS (Rs.)	12.0	12.6	7.5	10.4
Yield (%)	9.6	10.1	6.0	8.4
RoE (%)	18.7	19.8	10.9	13.9
RoCE (%)	13.4	15.4	8.6	10.7
EV/Sales (x)	0.6	0.3	0.3	0.3
EV/EBITDA (x)	5.2	4.0	6.0	4.8
PE (x)	5.9	4.9	8.2	6.0
P/BV (x)	1.0	0.9	0.9	0.8

Key Data

IOC.BO | IOCL IN

52-W High / Low	Rs.142 / Rs.100
Sensex / Nifty	54,318 / 16,259
Market Cap	Rs.1,171bn / \$ 15,098m
Shares Outstanding	9,414m
3M Avg. Daily Value	Rs.1832.7m

Shareholding Pattern (%)

Promoter's	51.50
Foreign	8.36
Domestic Institution	11.32
Public & Others	28.82
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(2.7)	(3.2)	22.0
Relative	4.5	7.0	11.3

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Indian Oil Corporation (IOCL IN)

Rating: HOLD | CMP: Rs124 | TP: Rs131

Volatile times ahead given high marketing losses

Quick Pointers:

- Recovery in refining profits drive Q4 earnings; Refining profitability to improve in Q1 as fuel prices soar- Singapore GRMs at ~USD20/bbl v/s USD8 bbl in Q4.
- High marketing losses of over ~Rs12/litre in diesel creates earnings overhang despite sharp improvement in GRMs.

We cut our FY23E IOCL's earnings estimate by 45% as we cut our marketing assumptions (diesel and petrol margins of -Rs3/0/litre vs +Rs3.5/3/litre earlier), even as we increase our GRM estimates to USD14/bbl vs USD7.4bbl earlier. We also lower our FY24E estimates by 19%. IOCL reported lower than expected Q4 results with standalone EBITDA of Rs116.3bn (+24%QoQ; PLe Rs 1860bn) and PAT of Rs60.2bn (+3%QoQ; PLe Rs120bn), due to lower than expected marketing earnings as calculated marketing EBITDA loss increased to Rs54.8bn in Q4 vis-à-vis loss of Rs3.9bn in Q3. For FY22, consolidated EBITDA/PAT was at Rs477bn (+18%YoY) and Rs257bn (+18%YoY). We believe OMCs earnings will be hit by sharp jump in marketing losses, despite improvement in refining profitability. We downgrade to "HOLD from 'BUY' given high crude price volatility with PT of Rs131 (Rs150 earlier). Any sharp correction in crude prices is an upside risk to our estimates.

- Refining margins drive earnings:** IOCL reported EBITDA/PAT of Rs116.3bn (+24%QoQ) and Rs60.2bn (+3%QoQ), led by strong refining performance. Q4 refining margins were at USD18.5/bbl (Q3FY22 at USD12.0/bbl; PLe USD13.0/bbl). Refining throughput improved to 18.3MTPA (17.4 in Q3) as product demand recovered. For FY22, GRMs were at USD11.2/bbl vs USD5.6/bbl last year.
- For Q4, benchmark HSD and MS margins were higher at USD18.4/bbl (Q3: 11.9) and USD16.3/bbl (flat QoQ) respectively. We expect GRMs to improve as higher global economic activity, low product inventory and gas to oil switch (given high spot LNG prices) drive product spreads. Accordingly, we increase our FY23E GRM estimate to USD14/bbl from USD7.4/bbl. FY24E GRMs are maintained at USD7.8/bbl.
- Marketing profitability comes under pressure:** IOCL's marketing volumes came in higher vis-à-vis the industry. MS demand was at 3.17MTPA (-2.4% QoQ vs industry rate of -3.4%) and HSD demand was at 8.84MTPA (+1.6% QoQ vis-a-vis industry rate of 0.7%). However, we calculate marketing EBITDA loss of Rs54.7bn vs Q3 loss levels of Rs3.9bn, due to lower retail price revision (The Company stopped sharing the segment's EBITDA). We lower our diesel and petrol margins of -Rs3/0/litre vs +Rs3.5/3/litre earlier, given high losses due to unchanged retail prices in a crude inflationary environment.
- Petrochemicals profitability come down QoQ but pipeline profits grow:** We calculate pipeline segment's EBITDA to increase to Rs16.7bn in Q4 v/s Rs16.5bn in Q3. However, petchem EBITDA is to decline to Rs7.8bn, given sharp contraction in margins due to high RM prices.

- **Downgrade to HOLD** We downgrade to "HOLD from 'BUY' on IOCL with a PT of Rs131 (Rs150 earlier), as we value based on 6.5x PER core EPS FY24E and add the value of investments at Rs9/sh.

Exhibit 1: Q4FY22 Result Overview (Rs mn) - Standalone

Y/e March	Q4FY22	Q4FY21	YoY gr. (%)	Q3FY22	FY22	FY21	YoY gr. (%)
Net sales	20,64,609	16,36,057	26.2	19,71,720	72,84,600	51,48,905	41.5
Inc/dec in stock	(61,544)	(86,223)	(28.6)	7,205	(1,21,970)	(55,476)	119.9
Purchases	6,61,446	4,99,581	32.4	6,56,199	22,10,781	14,36,621	53.9
Raw material cons	9,04,015	5,50,991	64.1	7,76,298	29,45,015	15,66,480	88.0
Duties	2,91,736	3,98,916	(26.9)	3,03,839	13,02,962	13,68,329	(4.8)
Staff cost	31,938	31,353	1.9	26,883	1,09,917	1,07,121	2.6
Other expenditure	1,20,743	94,465	27.8	1,07,386	4,10,167	3,33,245	23.1
Exp	(19,48,334)	(14,89,084)	30.8	(18,77,809)	(68,56,871)	(47,56,319)	44.2
Operating profit	1,16,275	1,46,972	(20.9)	93,911	4,27,728	3,92,586	9.0
Interest	(16,072)	(10,729)	49.8	(9,791)	(48,291)	(30,939)	56.1
Depreciation	(28,873)	(37,750)	(23.5)	(23,077)	(1,05,349)	(1,09,998)	(4.2)
Other income	9,517	11,017	(13.6)	13,753	43,243	45,507	(5.0)
Profit before tax	80,847	1,09,511	(26.2)	74,796	3,17,331	2,97,156	6.8
Current tax	(22,232)	(22,329)	(0.4)	(13,769)	(69,130)	(67,610)	2.2
Profit after current tax	58,615	87,181	(32.8)	61,026	2,48,200	2,29,546	8.1
Deferred tax	1,604	631	154.0	(2,419)	(6,360)	(11,186)	(43.1)
Net profit	60,219	87,813	(31.4)	58,608	2,41,841	2,18,360	10.8

Source: Company, PL

Exhibit 2: EBITDA Breakup (Rs mn)

	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22*
Refining	(124,510)	(35,230)	40,770	(3,260)	63,780	24,920	20,280	75,930	156,040
Marketing	23,320	77,010	36,060	71,300	34,430	54,250	53,770	(3,990)	(54,772)
Pipeline	15,400	11,500	12,920	16,990	16,080	15,740	14,500	16,490	16,687
Petrochem	4,750	7,280	12,110	19,540	22,480	19,890	18,120	9,820	7,837
Others	(12,660)	990	7,790	4,350	9,270	2,110	13,950	14,130	
Total	(93,700)	61,550	109,650	108,920	146,040	116,910	120,620	112,380	125,792

Source: Company, PL

* PL Estimates

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	36,39,497	58,93,357	59,25,627	62,68,048
YoY gr. (%)	(24.9)	61.9	0.5	5.8
Cost of Goods Sold	28,16,405	50,06,639	50,24,888	52,59,351
Gross Profit	8,23,092	8,86,719	9,00,739	10,08,698
Margin (%)	22.6	15.0	15.2	16.1
Employee Cost	-	-	-	-
Other Expenses	4,17,242	4,09,302	5,70,890	5,93,369
EBITDA	4,05,850	4,77,417	3,29,849	4,15,328
YoY gr. (%)	147.4	17.6	(30.9)	25.9
Margin (%)	11.2	8.1	5.6	6.6
Depreciation and Amortization	1,09,415	1,23,476	1,16,725	1,30,035
EBIT	2,96,436	3,53,941	2,13,124	2,85,293
Margin (%)	8.1	6.0	3.6	4.6
Net Interest	35,891	54,233	62,975	66,475
Other Income	34,995	30,822	43,644	46,873
Profit Before Tax	2,95,540	3,30,530	1,93,792	2,65,691
Margin (%)	8.1	5.6	3.3	4.2
Total Tax	89,885	85,620	52,582	71,998
Effective tax rate (%)	30.4	25.9	27.1	27.1
Profit after tax	2,05,655	2,44,910	1,41,210	1,93,693
Minority interest	11,967	12,356	2,047	1,775
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,93,688	2,32,555	1,39,163	1,91,918
YoY gr. (%)	189.3	20.1	(40.2)	37.9
Margin (%)	5.3	3.9	2.3	3.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,93,688	2,32,555	1,39,163	1,91,918
YoY gr. (%)	189.3	20.1	(40.2)	37.9
Margin (%)	5.3	3.9	2.3	3.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,93,688	2,32,555	1,39,163	1,91,918
Equity Shares O/s (m)	9,181	9,181	9,181	9,181
EPS (Rs)	21.1	25.3	15.2	20.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	20,05,019	22,30,170	25,34,695	28,39,220
Tangibles	20,05,019	22,30,170	25,34,695	28,39,220
Intangibles	-	-	-	-
Acc: Dep / Amortization	4,68,035	5,61,374	6,78,099	8,08,134
Tangibles	4,68,035	5,61,374	6,78,099	8,08,134
Intangibles	-	-	-	-
Net fixed assets	15,36,984	16,68,796	18,56,596	20,31,086
Tangibles	15,36,984	16,68,796	18,56,596	20,31,086
Intangibles	-	-	-	-
Capital Work In Progress	3,96,759	2,37,266	2,36,714	2,36,348
Goodwill	10	27,322	30,054	33,059
Non-Current Investments	4,00,020	4,48,600	4,74,270	5,02,505
Net Deferred tax assets	(1,39,645)	(1,37,073)	(1,56,010)	(1,82,210)
Other Non-Current Assets	53,300	58,382	64,220	70,642
Current Assets				
Investments	92,826	88,673	88,673	88,673
Inventories	8,34,275	8,03,525	7,85,272	8,30,905
Trade receivables	1,38,003	1,97,981	1,98,640	2,10,117
Cash & Bank Balance	24,747	3,05,668	3,26,110	3,52,076
Other Current Assets	37,861	38,914	40,859	42,902
Total Assets	35,49,159	39,22,332	41,51,508	44,51,506
Equity				
Equity Share Capital	91,810	91,810	91,810	91,810
Other Equity	10,26,570	11,40,978	12,29,608	13,51,736
Total Network	11,18,381	12,32,788	13,21,418	14,43,547
Non-Current Liabilities				
Long Term borrowings	6,09,349	6,84,259	7,34,259	7,84,259
Provisions	15,968	11,061	11,614	12,194
Other non current liabilities	25,834	25,761	25,761	25,761
Current Liabilities				
ST Debt / Current of LT Debt	4,75,800	4,88,236	5,08,236	5,28,236
Trade payables	3,72,479	4,98,662	5,00,122	5,29,075
Other current liabilities	7,73,469	8,10,502	8,56,116	9,04,520
Total Equity & Liabilities	35,49,158	39,22,332	41,51,508	44,51,506

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	2,95,540	3,30,530	1,93,792	2,65,691
Add. Depreciation	1,09,415	1,23,476	1,16,725	1,30,035
Add. Interest	35,891	54,233	62,975	66,475
Less Financial Other Income	34,995	30,822	43,644	46,873
Add. Other	-	-	-	-
Op. profit before WC changes	4,40,846	5,08,239	3,73,492	4,62,202
Net Changes-WC	2,27,549	1,27,205	70,873	32,582
Direct tax	(68,685)	(72,347)	(33,645)	(45,798)
Net cash from Op. activities	5,99,710	5,63,098	4,10,721	4,48,985
Capital expenditures	(2,58,877)	(1,64,915)	(3,06,706)	(3,07,164)
Interest / Dividend Income	-	-	-	-
Others	(67,166)	(21,931)	(22,617)	(24,879)
Net Cash from Invst. activities	(3,26,043)	(1,86,846)	(3,29,323)	(3,32,043)
Issue of share cap. / premium	48,715	(12,761)	1,031	1,035
Debt changes	(1,74,531)	87,345	70,000	70,000
Dividend paid	(1,10,172)	(1,15,681)	(69,011)	(95,535)
Interest paid	(35,891)	(54,233)	(62,975)	(66,475)
Others	-	-	-	-
Net cash from Fin. activities	(2,71,880)	(95,330)	(60,956)	(90,976)
Net change in cash	1,787	2,80,922	20,442	25,966
Free Cash Flow	3,40,833	3,98,183	1,04,015	1,41,821

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Net Revenue	11,86,705	13,54,178	16,67,882	17,72,873
YoY gr. (%)	90.2	58.2	56.8	43.3
Raw Material Expenses	9,65,595	11,24,612	14,39,701	15,03,918
Gross Profit	2,21,110	2,29,566	2,28,180	2,68,956
Margin (%)	18.6	17.0	13.7	15.2
EBITDA	1,11,261	1,06,281	93,911	1,16,275
YoY gr. (%)	101.8	12.7	(2.4)	(20.9)
Margin (%)	9.4	7.8	5.6	6.6
Depreciation / Depletion	26,342	27,058	23,077	28,873
EBIT	84,919	79,224	70,834	87,402
Margin (%)	7.2	5.9	4.2	4.9
Net Interest	12,570	9,857	9,791	16,072
Other Income	5,636	14,337	13,753	9,517
Profit before Tax	77,985	83,703	74,796	80,847
Margin (%)	6.6	6.2	4.5	4.6
Total Tax	18,571	20,103	16,188	20,628
Effective tax rate (%)	23.8	24.0	21.6	25.5
Profit after Tax	59,414	63,600	58,608	60,219
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	59,414	63,600	58,608	60,219
YoY gr. (%)	210.9	2.1	19.2	(31.4)
Margin (%)	5.0	4.7	3.5	3.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	59,414	63,600	58,608	60,219
YoY gr. (%)	210.9	2.1	19.2	(31.4)
Margin (%)	5.0	4.7	3.5	3.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	59,414	63,600	58,608	60,219
Avg. Shares O/s (m)	9,181	9,181	9,181	9,181
EPS (Rs)	6.5	6.9	6.4	6.6

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	21.1	25.3	15.2	20.9
CEPS	33.0	38.8	27.9	35.1
BVPS	121.8	134.3	143.9	157.2
FCF	37.1	43.4	11.3	15.4
DPS	12.0	12.6	7.5	10.4
Return Ratio(%)				
RoCE	13.4	15.4	8.6	10.7
ROIC	8.6	10.0	5.7	7.1
RoE	18.7	19.8	10.9	13.9
Balance Sheet				
Net Debt : Equity (x)	0.9	0.6	0.6	0.6
Net Working Capital (Days)	60	31	30	30
Valuation(x)				
PER	5.9	4.9	8.2	6.0
P/B	1.0	0.9	0.9	0.8
P/CEPS	33.0	38.8	27.9	35.1
EV/EBITDA	5.2	4.0	6.0	4.8
EV/Sales	0.6	0.3	0.3	0.3
Dividend Yield (%)	9.6	10.1	6.0	8.4

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
Crude /bbl	45	65	70	70
US\$/Rs	74	77	79	81
GRM (US\$/bbl)	6	11	14	8
Refining volume (MTPA)	62	68	69	71

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	04-Apr-22	BUY	150	122
2	02-Feb-22	BUY	205	124
3	06-Jan-22	BUY	205	117
4	01-Nov-21	BUY	205	132
5	05-Oct-21	UR	-	126
6	02-Aug-21	BUY	135	106
7	02-Jul-21	BUY	135	108
8	20-May-21	BUY	135	105

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bharat Petroleum Corporation	BUY	416	380
2	GAIL (India)	BUY	205	162
3	Gujarat Gas	BUY	650	507
4	Hindustan Petroleum Corporation	BUY	349	280
5	Indian Oil Corporation	BUY	150	122
6	Indraprastha Gas	BUY	660	392
7	Mahanagar Gas	BUY	1,103	765
8	Oil & Natural Gas Corporation	BUY	240	168
9	Oil India	BUY	360	237
10	Petronet LNG	BUY	315	209
11	Reliance Industries	BUY	3,000	2,621

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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