

## Marketing segment lifts earnings...

Indian Oil Corporation (IOC) reported Q3FY21 profits better than our estimates due to marketing segment. Revenues rose 26.7% QoQ to ₹ 146598.8 crore (our estimate: ₹ 122288 crore) as retail demand saw a sharp pick-up in the unlock phase. The quarter saw inventory gains of US\$1/bbl leading to reported GRMs at US\$2.2/bbl (our estimate: US\$4/bbl). EBITDA was at ₹ 9621.9 crore, above our estimate of ₹ 9117.9 crore mainly due to inventory gains. The company benefited from forex gain as interest cost was lower than expected while other income was higher. Subsequently, reported PAT was at ₹ 4916.6 crore, down 21% QoQ (our estimate: ₹ 4523.1 crore).

## Marketing sales reach near normal; diesel pick-up important

Global crude oil prices were on an upward trend from November onwards in Q3FY21. Average crude oil prices increased by US\$1.8/bbl to US\$ 44.6/bbl while Brent crude oil prices on a closing basis jumped US\$10.2/bbl QoQ. IOC reported marketing inventory gain of ₹ 1711 crore. Core marketing margins were stable during the quarter. Marketing segment reported stable performance. We expect this to continue, going forward. Marketing sales de-grew 2% YoY to 21.4 MMT largely in line with estimate as demand reached near normal. We expect marketing sales at 76 MMT in FY21E. Going ahead, we expect it at 90.2 MMT, 93.4 MMT for FY22E, FY23E, respectively. Crude throughput in Q3FY21 was up 2.1% YoY at 17.9 MMT, in line with estimate. For FY21E, we expect it at 62.1 MMT. Going ahead, we estimate throughput at 69.8 MMT and 70 MMT for FY22E and FY23E, respectively.

## Core GRMs remain weak

Reported GRMs during the quarter were at US\$2.2/bbl, below our estimate of US\$4/bbl. Core GRMs were at US\$1.2/bbl while inventory gain was US\$1/bbl. Benchmark Singapore GRMs, while recovering from Q2 levels of US\$0.1/bbl, still remained low at US\$1.2/bbl in Q3FY21. Improvement in petrol & diesel cracks will be important for stable GRMs. Taking into account some improvement in demand for petroleum products, we expect GRMs at US\$3.4/bbl for FY22E and US\$3.8/bbl for FY23E.

## Valuation & Outlook

Marketing sales saw sharp pickup QoQ and increased 21.1% during the quarter. While petrol demand has improved YoY, diesel demand still remains lower. Growth in demand (mainly diesel) and steady marketing margins will be important for marketing segment, going ahead. Due to lower product cracks, core GRMs are still weak and affecting the refining performance. Under asset monetisation programme, IOC's pipeline assets will be monetised. This is a positive and will unlock value of the business. However, we are neutral on IOC at the current juncture given the volatility in refining margins. We rollover valuations to FY23E and maintain **HOLD** on the stock with a revised target price of ₹ 105 (earlier: ₹ 85). We value the stock based on average of P/BV multiple: ₹ 111/share, P/E multiple: ₹ 99/share.

Particulars	
Particular	Amount
Market Capitalization (₹ Crore)	90,892.3
Total Debt (FY 20) (₹ Crore)	116,545.0
Cash and Investments (FY 20)	10,589.1
EV (₹ Crore)	196,848.2
52 week H/L	118 / 71
Equity capital (₹ Crore)	9,181.0
Face value (₹)	10.0

- ### Key Highlights
- Performance above our estimates on account of marketing segment
  - Marketing margins to remain steady
  - Maintain HOLD rating on stock with target price of ₹ 105/share

- ### Key risks to our call
- Increase in GRMs will lead to better than expected earnings
  - Decline in marketing margins will result in lower profitability

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### Key Financial Summary

(Year-end March)	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Revenues (₹ crore)	605,923.8	566,949.7	506,432.0	667,792.7	691,657.8	6.9
EBITDA (₹ crore)	33,826.2	18,784.7	31,275.0	28,296.2	29,695.3	16.5
Net Profit (₹ crore)	16,894.1	1,313.2	15,374.3	10,340.8	11,275.7	104.8
EPS (₹)	18.4	1.4	16.7	11.3	12.3	
P/E (x)	5.4	69.2	5.9	8.8	8.1	
Price / Book (x)	0.8	1.0	0.9	0.9	0.8	
EV/EBITDA (x)	2.7	4.8	2.9	3.2	3.1	
RoCE (%)	13.5	4.8	10.7	8.1	8.5	
RoE (%)	15.5	1.4	15.0	9.7	10.1	
Source: Company, ICICI Direct Research	21.4	22.8	22.7	27.5	22.0	
RoE (%)						

Exhibit 1: Variance Analysis

	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
Total Revenues	146,598.8	122,288	144,819.9	1.2	115,749.4	26.7	
Raw materials costs	85,370.6	82,866.9	106,891.5	-20.1	65,323.4	30.7	
Employees Cost	2,882.3	2,262.7	2,057.0	40.1	2,490.4	15.7	
Other Expenses	48,724.0	28,040.7	29,221.0	66.7	38,508.5	26.5	
Total Expenditure	136,976.9	113,170	138,169.6	-0.9	106,322.3	28.8	
EBITDA	9,621.9	9,117.9	6,650.3	44.7	9,427.2	2.1	Better than estimates mainly due to inventory gains
EBITDA margins (%)	6.6	7.5	4.6	197 bps	8.1	-158 bps	
Depreciation	2,466.7	2,794.2	2,186.2	12.8	2,403.6	2.6	
EBIT	7,155.2	6,323.8	4,464.1	60.3	7,023.5	1.9	
Interest	628.6	1,020.0	1,311.7	-52.1	221.1	184.3	
Other Income	1,269.5	743.2	569.7	122.8	1,537.4	-17.4	Higher than estimates
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	7,796.2	6,047.0	3,722.2	109.5	8,339.8	-6.5	
Total Tax	2,879.6	1,523.8	1,383.2	108.2	2,112.5	36.3	
PAT	4,916.6	4,523.1	2,339.0	110.2	6,227.3	-21.0	

Key Metrics

Exchange rate (₹\$)	73.8	73.8	71.2	3.6	74.4	-0.8	
Throughput (mmt)	17.9	17.9	17.5	2.1	14.0	27.9	
Sales (mmt)	21.4	21.5	21.9	-2.0	17.7	21.1	Product sales largely in line with expectations
GRM (\$/barrel)	2.2	4.0	4.1	-46.5	8.6	-74.6	IOC reported inventory gain of US\$ 1/bbl. Core GRMs were at US\$ 1.2/bbl

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			Comments
	Old	New	Change	Old	New	Change	
Revenue	443,564.4	506,432.0	14.2	529,976.5	667,792.7	26.0	
EBITDA	30,624.7	31,275.0	2.1	26,896.4	28,296.2	5.2	Revised estimates upwards due to better profitability in marketing segment
EBITDA Margin (%)	6.9	6.2	-73 bps	5.1	4.2	-84 bps	
PAT	14,753.2	15,374.3	4.2	8,374.0	10,340.8	23.5	Lower depreciation and interest costs led to change in estimates
EPS (₹)	16.1	16.7	4.2	9.1	11.3	23.5	

Source: Company, ICICI Direct Research

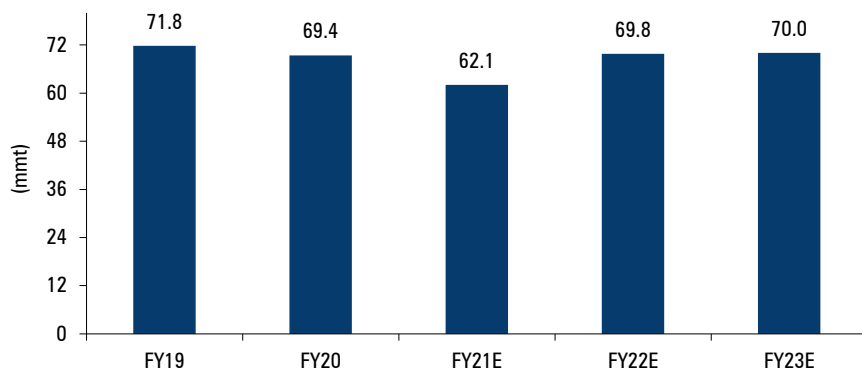
Exhibit 3: Assumptions

	Current				Earlier		Comments
	FY20	FY21E	FY22E	FY23E	FY21E	FY22E	
Exchange rate (₹\$)	70.9	74.3	74.0	74.0	74.7	75.0	
Throughput (mmt)	69.4	62.1	69.8	70.0	61.5	70.0	
Sales (mmt)	84.3	76.0	90.2	93.4	76.5	92.0	
GRM (\$/barrel)	0.1	3.0	3.4	3.8	3.8	4.0	Realigned estimates after Q3FY 21 performance

Source: Company, ICICI Direct Research

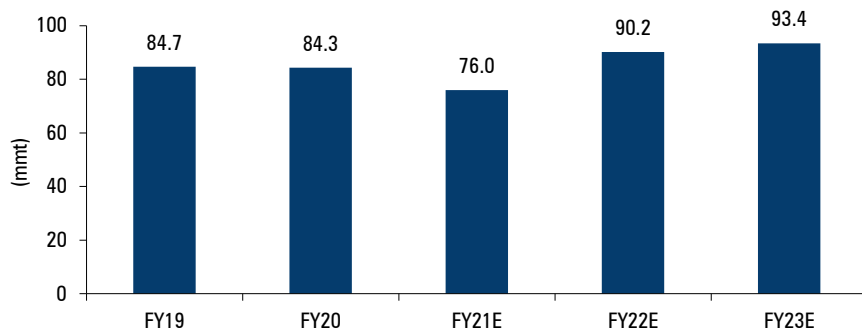
## Story in charts

Exhibit 4: Oil throughput trend



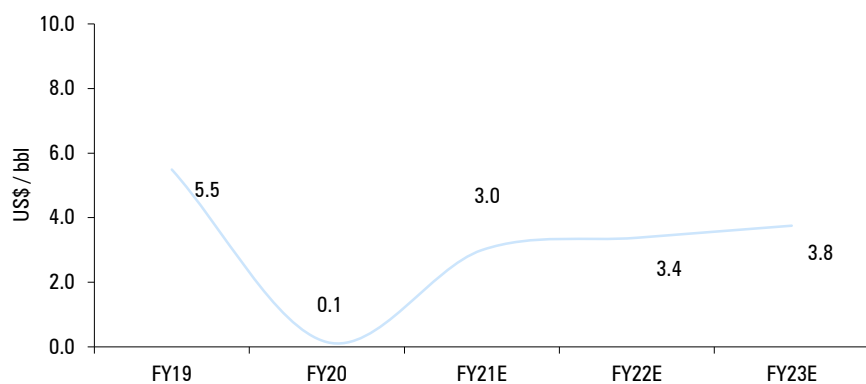
Source: Company, ICICI Direct Research

Exhibit 5: Marketing sales trend



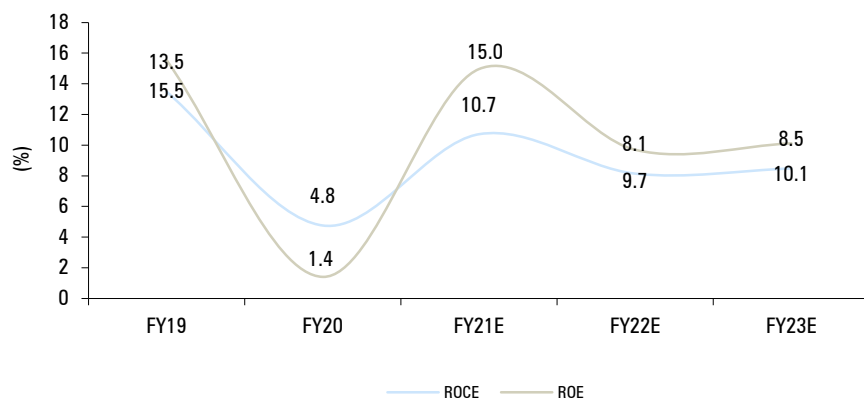
Source: Company, ICICI Direct Research

Exhibit 6: Refining margin trend



Source: Company, ICICI Direct Research

Exhibit 7: Return ratios trend



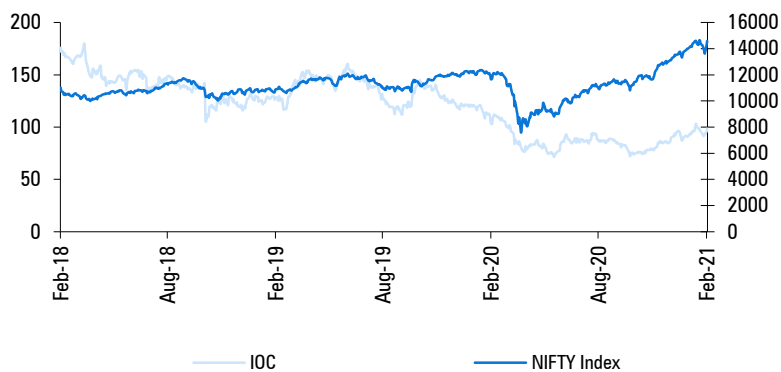
Source: Bloomberg, ICICI Direct Research

Exhibit 8: Shareholding Pattern

(in %)	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Promoter	51.5	51.5	51.5	51.5	51.5
FII	7.6	7.2	6.3	6.1	5.8
DII	13.8	13.4	13.9	13.4	13.5
Others	27.1	27.9	28.3	29.1	29.1

Source: Company, ICICI Direct Research

Exhibit 9: Price Performance



Source: Company, ICICI Direct Research

## Financial summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>566949.7</b>	<b>506432.0</b>	<b>667792.7</b>	<b>691657.8</b>
Growth (%)	-6.4	-10.7	31.9	3.6
(Inc.)/(Dec.) in stock in tra	-6410.4	3074.7	0.0	0.0
Raw material Costs	247077.0	153065.7	217751.9	218375.9
Purchase of Products	178535.5	140254.6	237995.5	237995.5
Employee Costs	8792.7	9902.1	10892.3	11981.5
Other Expenditure	120170.2	168859.9	172856.8	193609.6
Op. Expenditure	548165.0	475157.0	639496.5	661962.5
<b>EBITDA</b>	<b>18784.7</b>	<b>31275.0</b>	<b>28296.2</b>	<b>29695.3</b>
Growth (%)	-44.5	66.5	-9.5	4.9
Depreciation	8766.1	10129.7	12681.5	13748.2
EBIT	10018.6	21145.3	15614.7	15947.1
Interest	5979.5	3472.3	5163.2	4645.7
Other Income	-7733.3	4192.6	3373.1	3773.1
PBT	-3694.1	21865.6	13824.6	15074.5
Growth (%)	-114.7	-691.9	-36.8	9.0
Tax	-5007.3	6491.3	3483.8	3798.8
<b>Reported PAT</b>	<b>1313.2</b>	<b>15374.3</b>	<b>10340.8</b>	<b>11275.7</b>
Growth (%)	-92.2	1070.7	-32.7	9.0
<b>EPS</b>	<b>1.4</b>	<b>16.7</b>	<b>11.3</b>	<b>12.3</b>

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	1,313.2	15,374.3	10,340.8	11,275.7
Add: Depreciation	8,766.1	10,129.7	12,681.5	13,748.2
Add: Others	0.0	0.0	0.0	0.0
Cash Profit	-136.9	22,059.0	19,577.2	21,578.8
Increase/(Decrease) in CL	-15,504.9	6,821.9	23,517.6	4,238.0
<b>(Increase)/Decrease in CA</b>	<b>21417.2</b>	<b>17205.1</b>	<b>-11601.2</b>	<b>7610.5</b>
CF from Operating Activities	-30.8	39,640.8	25,048.5	26,982.2
Purchase of Fixed Assets	29,878.9	16,052.0	17,535.0	17,535.0
(Inc)/Dec in Investments	10,616.8	2,500.0	2,500.0	2,500.0
Others	4.0	4.0	4.0	4.0
<b>CF from Investing Activities</b>	<b>-19,262.0</b>	<b>-13,552.0</b>	<b>-15,035.0</b>	<b>-15,035.0</b>
Inc/(Dec) in Loan Funds	30,186.3	-22,000.0	-9,500.0	-8,500.0
Dividend Paid	5,806.3	6,445.1	6,445.1	6,445.1
Inc/(Dec) in Sh. Cap. & Res.	-10,395.6	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
<b>CF from financing activities</b>	<b>13,984.4</b>	<b>-28,445.1</b>	<b>-15,945.1</b>	<b>-14,945.1</b>
Change in cash Eq.	497.8	4,088.8	513.5	3,447.2
Op. Cash and cash Eq.	91.3	589.1	4,677.9	5,191.4
<b>Cl. Cash and cash Eq.</b>	<b>589.1</b>	<b>4,677.9</b>	<b>5,191.4</b>	<b>8,638.7</b>

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<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	84,587.8	93,517.0	97,412.7	102,243.4
Shareholder's Fund	93,768.8	102,698.1	106,593.8	111,424.4
Loan Funds	116,545.0	94,545.0	85,045.0	76,545.0
Deferred Tax Liability	11,413.1	14,413.1	17,413.1	20,413.1
Minority Interest	0.0	0.0	0.0	0.0
<b>Source of Funds</b>	<b>221727.0</b>	<b>211656.2</b>	<b>209051.9</b>	<b>208382.5</b>
<b>Application of Funds</b>				
Gross Block	168,951.3	188,993.1	209,028.1	229,063.1
Less: Acc. Depreciation	33,665.9	45,285.3	57,966.9	71,715.0
Net Block	135,285.5	143,707.8	151,061.2	157,348.1
Capital WIP	28,134.1	25,634.1	23,134.1	20,634.1
Total Fixed Assets	163,419.6	169,341.9	174,195.3	177,982.2
Investments	39,138.6	36,638.6	34,138.6	31,638.6
Inventories	63,677.6	59,661.9	78,671.5	81,483.0
Debtor	12,844.1	11,099.9	14,636.6	15,159.6
Cash	589.1	4,677.9	5,191.4	8,638.7
Loan & Advance, Other CA	31421.6	26421.6	21921.6	17421.6
Total Current assets	108532.4	101861.3	120421.0	122702.8
Current Liabilities	78877.1	83249.1	109774.1	113697.2
Provisions	10486.5	12936.4	9928.9	10243.9
Total CL and Provisions	89363.6	96185.5	119703.0	123941.0
Net Working Capital	19168.9	5675.8	718.0	-1238.2
Miscellaneous expense	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>221727.0</b>	<b>211656.2</b>	<b>209051.9</b>	<b>208382.5</b>

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Per share data (₹)</b>				
Book Value	102.1	111.9	116.1	121.4
Cash per share	0.6	5.1	5.7	9.4
EPS	1.4	16.7	11.3	12.3
Cash EPS	11.0	27.8	25.1	27.3
DPS	6.0	6.0	6.0	6.0
<b>Profitability &amp; Operating Ratios</b>				
EBITDA Margin (%)	3.3	6.2	4.2	4.3
PAT Margin (%)	0.2	3.0	1.5	1.6
Fixed Asset Turnover (x)	3.5	3.0	3.8	3.9
Inventory Turnover (Days)	41.0	43.0	43.0	43.0
Debtor (Days)	8.3	8.0	8.0	8.0
Current Liabilities (Days)	50.8	60.0	60.0	60.0
<b>Return Ratios (%)</b>				
RoE	1.4	15.0	9.7	10.1
RoCE	4.8	10.7	8.1	8.5
RoIC	5.0	11.6	8.8	9.4
<b>Valuation Ratios (x)</b>				
PE	69.2	5.9	8.8	8.1
Price to Book Value	1.0	0.9	0.9	0.8
EV/EBITDA	4.8	2.9	3.2	3.1
EV/Sales	0.4	0.4	0.3	0.2
<b>Leverage &amp; Solvency Ratios</b>				
Debt to equity (x)	1.2	0.9	0.8	0.7
Interest Coverage (x)	1.7	6.1	3.0	3.4
Debt to EBITDA (x)	6.2	3.0	3.0	2.6
Current Ratio	1.2	1.1	1.0	1.0
Quick ratio	0.5	0.4	0.3	0.3

Source: Company, ICICI Direct Research

**Exhibit 14: ICICI Direct Coverage Universe (Oil & Gas)**

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
GAIL (India) (GAIL)	130	105	Hold	58,632	14.7	8.8	10.9	8.9	14.8	11.9	7.4	11.9	9.2	13.7	6.8	8.8	15.1	8.8	10.4
Gujarat Gas (GUJGA)	367	400	Buy	25,264	17.3	16.6	19.0	21.2	22.1	19.4	16.2	13.3	11.7	25.2	30.2	29.2	36.3	26.3	23.7
Indian Oil Corp (INDOIL)	99	105	Hold	90,892	1.4	16.7	11.3	69.2	5.9	8.8	4.8	2.9	3.2	4.8	10.7	8.1	1.4	15.0	9.7
Indraprastha Gas (INDGAS)	554	490	Hold	38,780	16.2	13.7	18.2	34.1	40.3	30.5	24.1	27.2	20.4	25.0	18.9	22.3	22.5	16.8	19.2
Mahanagar Gas (MAHGAS)	1080	1150	Hold	10,668	80.3	63.0	95.7	13.4	17.1	11.3	10.0	11.5	7.4	29.7	22.2	29.0	26.9	18.7	23.8
Petronet LNG (PETLNG)	246	275	Hold	36,900	18.0	20.3	21.9	13.7	12.1	11.3	9.0	7.3	6.7	22.3	26.8	29.3	24.6	26.3	26.8

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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