

February 2, 2021

## Q3FY21 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
<b>Rating</b>	BUY		BUY	
<b>Target Price</b>	124		114	
Sales (Rs. m)	50,84,653	56,18,392	51,05,698	56,34,697
% Chng.	(0.4)	(0.3)		
EBITDA (Rs. m)	3,44,295	3,59,273	3,54,335	3,64,244
% Chng.	(2.8)	(1.4)		
EPS (Rs.)	16.8	17.3	17.6	17.7
% Chng.	(4.6)	(2.2)		

### Key Financials - Standalone

Ye Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. bn)	4,844	4,011	5,085	5,618
EBITDA (Rs. bn)	164	309	344	359
Margin (%)	3.4	7.7	6.8	6.4
PAT (Rs. bn)	67	151	154	159
EPS (Rs.)	7.3	16.4	16.8	17.3
Gr. (%)	(53.8)	125.5	1.8	3.4
DPS (Rs.)	4.3	6.6	6.8	7.0
Yield (%)	4.4	6.9	7.1	7.3
RoE (%)	6.4	14.9	13.6	12.8
RoCE (%)	3.1	9.5	10.0	9.5
EV/Sales (x)	0.4	0.4	0.4	0.3
EV/EBITDA (x)	12.4	5.6	5.5	5.3
PE (x)	13.1	5.8	5.7	5.5
P/BV (x)	0.9	0.8	0.7	0.7

### Key Data

### IOC.BO | IOCL IN

52-W High / Low	Rs.118 / Rs.71
Sensex / Nifty	48,601 / 14,281
Market Cap	Rs.902bn / \$ 12,350m
Shares Outstanding	9,414m
3M Av g. Daily Value	Rs.4509.94m

### Shareholding Pattern (%)

Promoter's	51.50
Foreign	5.83
Domestic Institution	13.54
Public & Others	29.13
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	4.7	8.3	(12.0)
Relative	3.1	(16.2)	(28.1)

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## Strong core performance

### Quick Pointers:

- Smart recoveries in marketing, petrochemicals and pipeline drive Q3 results.
- Oil and gas pipeline monetization plans are at a nascent stage and company will evaluate all options to maximize value.

**We increase our FY21E by 14% to factor in inventory gains while FY22/23E are moderated due to lower marketing volumes. During Q3FY21, core standalone EBITDA adjusted for inventory and forex gains improved to Rs66.2bn (+32%YoY) due to strong marketing, petrochemicals and pipeline profits. Weak global demand and high inventory levels will likely keep crude oil prices range bound to support marketing margins in medium term, in our view. Also, 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 PT of Rs124 (Rs114) on rollover.**

- Strong marketing, petrochemicals performance drive earnings:** IOCL reported higher than expected Q3 results with standalone EBITDA of Rs96.2bn (+45%YoY; PLe 76.9bn) and PAT of Rs49.2bn (+110%YoY; PLe Rs40.5bn). Higher operating profits were due to strong growth in marketing, petrochemicals and pipeline profitability. 9M EBITDA adjusted for inventory and forex gains was at Rs66.2bn; 9MFY21 core EBITDA was Rs166bn vs Rs245bn reported. For Q3 end IOC has valued crude at USD44.6/bbl vs Q2 end rate of USD43.8/bbl.
- Refining margins were muted:** IOCL's refining margins for Q3 came in at US\$2.2/bbl (Q2FY21 at US\$8.6/bbl) and included inventory gains of US\$0.9/bbl. Adjusted for inventory and time lag, management expects normalized GRMs at US\$1.24/bbl (Q2 -US\$0.97/bbl). For Q3, refining throughput improved to 17.9MTPA (13.9 in Q2) post recovery 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 improved:** IOCL's core Q3 marketing EBITDA was at Rs54.2bn against Rs35.3bn in Q2FY21. Profitability was supported by higher volumes and healthy margins. IOCL's marketing volumes vis-à-vis the industry run rate was weak with HSD (-3.6% YoY vs -1.1% for industry), and MS (5.2% YoY against industry rate of 6.3%YoY) respectively.
- Petrochemicals and pipeline performance improved QoQ:** For Q3FY21, petrochemicals EBITDA improved to Rs19.5bn against Rs12.1bn in Q2 due to higher spreads, while pipeline EBITDA came in at Rs16.9bn (+32% QoQ).
- Reiterate BUY:** We maintain BUY on IOCL with a PT of Rs124 as we value based on 8x PER core EPS FY22E (8x FY21E earlier) and add the value of investments and E&P.

**Exhibit 1: Q3FY21 Result Overview (Rs mn) - Standalone**

Y/e March	Q3FY21	Q3FY20	YoY gr. (%)	Q2FY21	9MFY20	9MFY21	YoY gr. (%)
<b>Net sales</b>	<b>14,65,988</b>	<b>14,48,199</b>	<b>1.2</b>	<b>11,57,494</b>	<b>42,73,308</b>	<b>35,12,848</b>	<b>(17.8)</b>
Inc/dec in stock	7,446	30,768	(75.8)	16,369	(7,428)	30,747	(514.0)
Purchases	3,94,406	4,33,380	(9.0)	3,14,583	13,00,164	9,37,040	(27.9)
Raw material cons	4,51,854	6,04,768	(25.3)	3,22,283	18,63,057	10,15,488	(45.5)
Duties	4,02,624	2,02,047	99.3	3,01,389	5,95,134	9,69,412	62.9
Staff cost	28,823	20,570	40.1	24,904	66,787	75,767	13.4
Other expenditure	84,616	90,164	(6.2)	83,696	2,69,868	2,38,780	(11.5)
Exp	(13,69,769)	(13,81,696)	(0.9)	(10,63,223)	(40,87,583)	(32,67,235)	(20.1)
<b>Operating profit</b>	<b>96,219</b>	<b>66,503</b>	<b>44.7</b>	<b>94,272</b>	<b>1,85,725</b>	<b>2,45,613</b>	<b>32.2</b>
Interest	(6,286)	(13,117)	(52.1)	(2,211)	(41,290)	(20,210)	(51.1)
Depreciation	(24,667)	(21,862)	12.8	(24,036)	(63,766)	(72,249)	13.3
Other income	12,695	5,697	122.8	15,374	18,491	34,491	86.5
<b>Profit before tax</b>	<b>77,962</b>	<b>37,222</b>	<b>109.5</b>	<b>83,398</b>	<b>99,160</b>	<b>1,87,646</b>	<b>89.2</b>
Current tax	(37,166)	(4,895)	659.3	(8,115)	(13,742)	(45,281)	229.5
<b>Profit after current tax</b>	<b>40,795</b>	<b>32,326</b>	<b>26.2</b>	<b>75,284</b>	<b>85,419</b>	<b>1,42,365</b>	<b>66.7</b>
Deferred tax	8,371	(8,936)	(193.7)	(13,011)	(20,433)	(11,817)	(42.2)
<b>Net profit</b>	<b>49,166</b>	<b>23,390</b>	<b>110.2</b>	<b>62,273</b>	<b>64,985</b>	<b>1,30,547</b>	<b>100.9</b>

Source: Company, PL

**Exhibit 2: Core EBIDTA down 77%YoY**

	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
EBIDTA	83,500	35,722	66,503	2,122	55,123	94,272	96,219
Less Forex adj	920	(11,351)	(1,820)	(27,200)	810	6,720	3,699
Less Inventory gains/loss	12,330	(11,780)	18,040	(71,704)	(31,960)	74,000	26,300
Less others	6,310						
Core EBIDTA	63,940	58,854	50,283	1,01,026	86,273	13,552	66,220

Source: Company, PL

**Conference call highlights**

- FY20 capex at Rs260bn while FY22 capex likely at Rs250-300bn.
- IOC refinery utilization improved due to pick up in domestic demand.
- Debt at Q3 end was at Rs725bn vs Q1 end level of Rs910bn.
- IOCL had 7MTPA of crude inventory and 5MTPA of product inventory as on Q3 end.
- IOCL has not decided on oil and gas pipeline monetization plans yet. Also, they don't expect any competition on its network as most pipelines are dedicated for internal operations.
- Company plans to set up 9MTPA refinery with 5.5% petrochemicals configuration. D/E will be 70:30 and equity will be contributed in 25:25:50 between IOCL: CPCL and strategic partner.

## Financials

### Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Net Revenues</b>	<b>48,43,623</b>	<b>40,11,173</b>	<b>50,84,653</b>	<b>56,18,392</b>
YoY gr. (%)	(8.3)	(17.2)	26.8	10.5
Cost of Goods Sold	42,05,439	31,96,227	42,11,000	47,06,730
Gross Profit	6,38,184	8,14,946	8,73,653	9,11,662
Margin (%)	13.2	20.3	17.2	16.2
Employee Cost	-	-	-	-
Other Expenses	4,74,135	5,06,169	5,29,358	5,52,389
<b>EBITDA</b>	<b>1,64,049</b>	<b>3,08,776</b>	<b>3,44,295</b>	<b>3,59,273</b>
YoY gr. (%)	(53.4)	88.2	11.5	4.4
Margin (%)	3.4	7.7	6.8	6.4
Depreciation and Amortization	98,549	93,464	99,906	1,05,758
<b>EBIT</b>	<b>65,500</b>	<b>2,15,313</b>	<b>2,44,389</b>	<b>2,53,515</b>
Margin (%)	1.4	5.4	4.8	4.5
Net Interest	65,787	40,325	68,322	73,072
Other Income	27,903	32,658	34,857	37,156
<b>Profit Before Tax</b>	<b>27,615</b>	<b>2,07,646</b>	<b>2,10,924</b>	<b>2,17,599</b>
Margin (%)	0.6	5.2	4.1	3.9
Total Tax	(53,007)	56,346	57,376	59,589
Effective tax rate (%)	(191.9)	27.1	27.2	27.4
<b>Profit after tax</b>	<b>80,622</b>	<b>1,51,299</b>	<b>1,53,548</b>	<b>1,58,009</b>
Minority interest	13,661	277	(251)	(984)
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>66,961</b>	<b>1,51,023</b>	<b>1,53,798</b>	<b>1,58,993</b>
YoY gr. (%)	(53.8)	125.5	1.8	3.4
Margin (%)	1.4	3.8	3.0	2.8
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>66,961</b>	<b>1,51,023</b>	<b>1,53,798</b>	<b>1,58,993</b>
YoY gr. (%)	(53.8)	125.5	1.8	3.4
Margin (%)	1.4	3.8	3.0	2.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	66,961	1,51,023	1,53,798	1,58,993
<b>Equity Shares O/s (m)</b>	<b>9,181</b>	<b>9,181</b>	<b>9,181</b>	<b>9,181</b>
<b>EPS (Rs)</b>	<b>7.3</b>	<b>16.4</b>	<b>16.8</b>	<b>17.3</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>18,17,717</b>	<b>19,93,254</b>	<b>22,42,777</b>	<b>24,32,305</b>
Tangibles	18,17,717	19,93,254	22,42,777	24,32,305
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>3,76,954</b>	<b>4,49,252</b>	<b>5,49,158</b>	<b>6,54,916</b>
Tangibles	3,76,954	4,49,252	5,49,158	6,54,916
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>14,40,763</b>	<b>15,44,001</b>	<b>16,93,619</b>	<b>17,77,388</b>
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)	(1,36,146)	(1,57,397)	(1,79,467)
Other Non-Current Assets	71,240	78,098	85,908	94,499
<b>Current Assets</b>				
Investments	82,912	80,864	80,864	80,864
Inventories	6,70,108	4,88,919	6,27,072	6,86,171
Trade receivables	1,32,595	1,07,957	1,39,754	1,56,000
Cash & Bank Balance	22,960	3,22,862	2,91,694	3,43,401
Other Current Assets	42,542	44,621	46,852	49,195
<b>Total Assets</b>	<b>32,97,368</b>	<b>34,40,779</b>	<b>37,99,570</b>	<b>40,84,078</b>
<b>Equity</b>				
Equity Share Capital	91,810	91,810	91,810	91,810
Other Equity	8,62,169	9,80,991	10,93,560	12,09,750
<b>Total Network</b>	<b>9,53,979</b>	<b>10,72,801</b>	<b>11,85,370</b>	<b>13,01,560</b>
<b>Non-Current Liabilities</b>				
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
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	6,98,974	7,08,601	7,28,601	7,48,601
Trade payables	2,76,035	2,18,283	2,80,978	3,13,102
Other current liabilities	6,40,169	6,94,813	7,34,816	7,77,345
<b>Total Equity &amp; Liabilities</b>	<b>32,97,369</b>	<b>34,40,779</b>	<b>37,99,570</b>	<b>40,84,078</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	27,615	2,07,646	2,10,924	2,17,599
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	32,658	34,857	37,156
Add. Other	-	-	-	-
Op. profit before WC changes	1,91,952	3,41,435	3,79,152	3,96,429
Net Changes-WC	(30,911)	1,99,307	(68,540)	(2,935)
Direct tax	(2,212)	(35,550)	(36,126)	(37,519)
<b>Net cash from Op. activities</b>	<b>1,58,828</b>	<b>5,05,192</b>	<b>2,74,486</b>	<b>3,55,975</b>
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)
<b>Net Cash from Inv. activities</b>	<b>(2,07,163)</b>	<b>(1,20,809)</b>	<b>(2,96,340)</b>	<b>(2,37,812)</b>
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)	(60,713)	(62,051)	(64,445)
Interest paid	(65,787)	(40,325)	(68,322)	(73,072)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>60,648</b>	<b>(84,481)</b>	<b>(9,314)</b>	<b>(66,457)</b>
<b>Net change in cash</b>	<b>12,313</b>	<b>2,99,902</b>	<b>(31,168)</b>	<b>51,707</b>
Free Cash Flow	(1,47,434)	3,95,522	(7,033)	1,34,467

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q4FY20	Q1FY21	Q2FY21	Q3FY21
<b>Net Revenue</b>	<b>11,84,391</b>	<b>6,23,966</b>	<b>8,56,105</b>	<b>10,63,365</b>
YoY gr. (%)	(6.2)	(52.6)	(23.3)	(14.7)
Raw Material Expenses	10,36,227	4,76,335	6,53,234	8,53,706
Gross Profit	1,48,164	1,47,631	2,02,871	2,09,658
Margin (%)	12.5	23.7	23.7	19.7
<b>EBITDA</b>	<b>2,122</b>	<b>55,123</b>	<b>94,272</b>	<b>96,219</b>
YoY gr. (%)	(98.0)	(34.0)	163.9	44.7
Margin (%)	0.2	8.8	11.0	9.0
Depreciation / Depletion	23,895	23,545	24,036	24,667
<b>EBIT</b>	<b>(21,774)</b>	<b>31,577</b>	<b>70,235</b>	<b>71,552</b>
Margin (%)	(1.8)	5.1	8.2	6.7
Net Interest	18,504	11,713	2,211	6,286
Other Income	17,223	6,422	15,374	12,695
<b>Profit before Tax</b>	<b>(23,055)</b>	<b>26,286</b>	<b>83,398</b>	<b>77,962</b>
Margin (%)	(1.9)	4.2	9.7	7.3
Total Tax	(84,248)	7,177	21,125	28,796
Effective tax rate (%)	365.4	27.3	25.3	36.9
<b>Profit after Tax</b>	<b>61,193</b>	<b>19,108</b>	<b>62,273</b>	<b>49,166</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>(51,853)</b>	<b>19,108</b>	<b>62,273</b>	<b>49,166</b>
YoY gr. (%)	(185.0)	(46.9)	1,005.3	110.2
Margin (%)	(4.4)	3.1	7.3	4.6
Extra Ord. Income / (Exp)	1,13,046	-	-	-
<b>Reported PAT</b>	<b>61,193</b>	<b>19,108</b>	<b>62,273</b>	<b>49,166</b>
YoY gr. (%)	0.3	(46.9)	1,005.3	110.2
Margin (%)	5.2	3.1	7.3	4.6
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>61,193</b>	<b>19,108</b>	<b>62,273</b>	<b>49,166</b>
Av g. Shares O/s (m)	-	-	-	-
<b>EPS (Rs)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Per Share(Rs)</b>				
EPS	7.3	16.4	16.8	17.3
CEPS	18.0	26.6	27.6	28.8
BVPS	103.9	116.8	129.1	141.8
FCF	(16.1)	43.1	(0.8)	14.6
DPS	4.3	6.6	6.8	7.0
<b>Return Ratio(%)</b>				
RoCE	3.1	9.5	10.0	9.5
ROIC	2.1	7.1	7.1	6.9
RoE	6.4	14.9	13.6	12.8
<b>Balance Sheet</b>				
Net Debt : Equity (x)	1.2	0.8	0.9	0.8
Net Working Capital (Days)	40	34	35	34
<b>Valuation(x)</b>				
PER	13.1	5.8	5.7	5.5
P/B	0.9	0.8	0.7	0.7
P/CEPS	18.0	26.6	27.6	28.8
EV/EBITDA	12.4	5.6	5.5	5.3
EV/Sales	0.4	0.4	0.4	0.3
Dividend Yield (%)	4.4	6.9	7.1	7.3

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	63	72	73

Source: Company Data, PL Research



## Price Chart

## Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jan-21	BUY	114	95
2	02-Nov-20	BUY	118	78
3	07-Oct-20	BUY	114	75
4	04-Aug-20	BUY	114	87
5	07-Jul-20	BUY	114	86
6	25-Jun-20	BUY	114	85
7	08-Apr-20	BUY	133	82

## Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	BUY	1,314	1,159
2	Bharat Petroleum Corporation	BUY	479	392
3	GAIL (India)	UR	-	133
4	Gujarat Gas	BUY	403	387
5	Hindustan Petroleum Corporation	BUY	280	223
6	Indian Oil Corporation	BUY	114	95
7	Indraprastha Gas	BUY	603	540
8	Mahanagar Gas	BUY	1,275	1,117
9	NOCIL	BUY	169	253
10	Oil & Natural Gas Corporation	BUY	114	98
11	Oil India	Accumulate	117	113
12	Petronet LNG	BUY	399	260
13	Reliance Industries	BUY	2,232	2,050

## PL's Recommendation Nomenclature (Absolute Performance)

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



## **ANALYST CERTIFICATION**

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We/I, Mr. Avishek Datta- MBA Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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