

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR93 TP: INR142 (+52%) Buy

Better marketing, petchem margins drive beat

- Better marketing and petchem margins, along with lower refining opex of USD2.5/bbl (v/s USD3.3–3.5 in 3QFY20–2QFY21), resulted in a beat on EBITDA.
- Adjusted. (for inventory gains) EBITDA stood at INR70b (v/s our est. of INR60b). Notably, inventory gains were ~INR6.6b higher than estimates.
- IOCL declared an interim dividend of ~INR7.5/share (resulting in dividend yield of ~8% on CMP).
- Among the OMCs, we reiterate IOCL as our top pick, on the back of a diversified EBITDA mix (Marketing: 43%, Refining: 23%, others: 34% in FY19) – with the best free cash flow generation profile going forward.
- The stock is trading at 6.5x FY23 EV/EBITDA and 0.8x FY23 PBV. Valuing it on 1.2x Sep'22, we recommend Buy, with Target Price of INR142.

Beat on EBITDA led by inventory gains...

- EBITDA at INR96.2b reported a beat (+21% est.; +41% YoY). Forex gains came in higher than est. at INR3.7b (our est.: -INR0.3b). Interest cost was lower at INR6.3b, weighed by adjustment for forex gains (~INR2b in 3Q). Thus, PBT stood ~54% higher than est. at INR78b. Tax rate was 36.9% as the company made additional provisions of INR15.9b under the 'Vivad se Vishwas' scheme. Reported PAT stood at INR49.2b (+110% YoY).
- For 9MFY21, reported EBITDA stood at INR246b (v/s INR143b in 9MFY20), with PBT gains of INR188b (v/s loss of INR91b in 9MFY20).

...and good operating metrics

- **Refining:** Reported GRM came in below est. at USD2.2/bbl (v/s our est. of USD4). Refining inventory gains of INR9.2b translate to USD1; thus, core GRM came in at USD1.3/bbl (v/s our est. of USD2.0).
- Refining throughput was in line with our est. at 17.9mmt (+2% YoY, +28% QoQ), with utilization rate at 101.7%.
- Refining EBITDA reported loss of INR3.3b (v/s gains of INR5.5b in 3QFY20).
- **Marketing:** Sales volumes were in line with our est. at 19.7mmt (-4% YoY). On the other hand, marketing margins were higher than est. at INR6.5/lit (v/s est. of INR5.3; +36% YoY, +11% QoQ). Marketing EBITDA came in at INR71.3b (+82% YoY). Marketing inventory gains stood at INR17.1b.
- **Petchem:** EBITDA came in at INR19.5b (+163% YoY), with sales at 0.77mmt (+22% YoY, +7% QoQ) and implied EBITDA/mt at USD344 (v/s our est. of USD280; +109% YoY). Naphtha cracks declined QoQ, while PE-PP Delta improved QoQ on account of improved product prices, led by strong demand from downstream manufacturers.
- **Pipeline:** EBITDA was up 10% YoY to INR17b, with total pipeline capacity utilization at 103.1%; demand normalization was seen post COVID.

Bloomberg	IOCL IN
Equity Shares (m)	9,181
M.Cap.(INRb)/(USDb)	878.3 / 12
52-Week Range (INR)	120 / 71
1, 6, 12 Rel. Per (%)	5/-21/-33
12M Avg Val (INR M)	1920

Financials & Valuations (INR b)

Y/E March	2021E	2022E	2023E
Sales	3,569	4,517	4,971
EBITDA	273.2	289.7	335.2
Adj. PAT	144.8	143.4	174.7
Adj. EPS (INR)	15.8	15.6	19.0
EPS Gr. (%)	53.6	(1.0)	21.8
BV/Sh.(INR)	109.9	115.8	123.4

Ratios

Net D:E	0.9	0.9	0.8
RoE (%)	14.8	13.8	15.9
RoCE (%)	7.4	7.6	8.7
Payout (%)	62.2	62.2	60.0

Valuations

P/E (x)	5.9	6.0	4.9
P/BV (x)	0.8	0.8	0.8
EV/EBITDA (x)	7.9	7.5	6.5
Div. Yield (%)	10.5	10.4	12.2
FCF Yield (%)	6.5	15.5	18.5

Shareholding pattern (%)

As On	Dec-20	Sep-20	Dec-19
Promoter	51.5	51.5	51.5
DII	13.7	13.5	13.9
FII	5.8	6.1	7.6
Others	29.0	29.0	27.0

FII Includes depository receipts

Valuation and view – preferred pick among OMCs

- Currently, retail auto fuel prices in India have reached all-time highs, although gross marketing margins are at INR3.3–4.3/lit (v/s INR4.5–5/lit in 3QFY21). Also, gross marketing margins in FY21'TD average INR6.5–7/lit (well above the long-term average of ~INR3/lit).
- Also, petroleum product demand in India clocked growth, exceeding pre-COVID levels in Dec'20. We reiterate our belief in the sustainability of marketing margins around the long-term average (if not higher) – while aiding poor refining margins in the short term.
- IOCL is likely to benefit from the petchem spread, currently at multi-year highs; although, we expect the spreads to normalize as capacity additions from China continue to create a glut in the global market.
- Now that the company is out of its capex cycle, it is expected to report positive FCF yield of 15–18% over FY22–23 (despite heavy capex of INR260b in FY21). IOCL's debt stands at INR724.5b (unchanged QoQ).
- Return ratios are set to improve and the discount gap to peers should shrink as refining margins move up the trough.

Quarterly Perf. Y/E March	(INR m)											
	FY20				FY21				FY20	FY21E	FY21	Var. vs
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		3QE	est.	
Net Sales	1,315.1	1,116.9	1,246.2	1,184.4	624.0	856.1	1,063.4	1,044.5	4,862.6	3,588.0	1,028.8	3%
YoY Change (%)	1.6	-15.4	-11.0	-6.2	-52.6	-23.3	-14.7	-11.8	-7.9	-26.2	-17.4	
EBITDA	83.5	47.1	68.3	27.5	55.1	94.3	96.2	87.1	226.4	332.7	79.5	21%
Margins (%)	6.3	4.2	5.5	2.3	8.8	11.0	9.0	8.3	4.7	9.3	7.7	
EBITDA adj. for inv and one-offs	64.9	58.9	50.3	212.2	87.1	20.3	69.9	87.1	386.3	264.4	59.8	17%
Depreciation	20.9	21.0	21.9	23.9	23.5	24.0	24.7	25.2	87.7	97.5	24.4	1%
Forex loss	-0.9	11.4	1.8	25.4	0.0	-7.5	-3.7	0.0	37.6	-11.2	-0.3	
Interest	15.1	13.1	13.1	18.5	11.7	2.2	6.3	8.0	59.8	28.2	13.8	-54%
Other Income	5.4	6.5	5.7	17.2	6.4	7.8	9.0	12.6	34.8	35.8	9.0	0%
PBT before EO expense	53.8	8.1	37.2	-23.1	26.3	83.4	78.0	66.5	76.1	254.2	50.6	54%
PBT	53.8	8.1	37.2	-136.1	26.3	83.4	78.0	66.5	-36.9	254.2	50.6	54%
Rate (%)	33.2	30.8	37.2	61.9	27.3	25.3	36.9	25.2	135.5	29.1	25.2	
Reported PAT	36.0	5.6	23.4	-51.9	19.1	62.3	49.2	49.8	13.1	180.3	37.8	30%
Adj PAT	36.0	5.6	23.4	61.2	19.1	62.3	49.2	49.8	126.2	180.3	37.8	30%
YoY Change (%)	-47.4	-82.6	226.3	0.3	-46.9	1,005.3	110.2	-18.7	-25.3	42.9	61.8	
Margins (%)	2.7	0.5	1.9	5.2	3.1	7.3	4.6	4.8	2.6	5.0	3.7	
Key Assumptions												
Refining throughput (mmt)	17.3	17.5	17.5	17.1	12.9	14.0	17.9	18.0	69.4	62.8	18.0	-1%
Core GRM (USD/bbl)	3.6	3.0	2.0	8.2	4.4	-1.0	1.3	4.0	4.2	2.2	2.0	
Domestic sale of products (mmt)	20.5	19.0	20.4	19.2	14.2	16.0	19.7	19.9	79.0	69.8	20.0	-2%
Marketing GM incld inv (INR/liter)	5.1	5.3	4.8	9.4	8.6	5.9	6.5	4.7	6.2	6.4	5.3	24%

E: MOFSL Estimates

GRMs forecast – refining margins to improve from trough

- Refiners are facing the longest stretch of poor refining margins, and simple refiners are likely to bear the brunt of this.
- As per IEA, refining capacity of ~1.7mnbopd is expected to be closed down permanently (combined) over 2020–21, with the maximum closures expected in the US (~1mnbopd – permanent closures or conversions to bio-refining).
- As per Wood Mackenzie, ~1.2mnbopd of teapot refinery capacity is expected to close down over the next 1–2 years.
- Factoring in the aforementioned closures of refining capacities, along with improved product demand from current levels, we believe refining margins

should improve going forward. Hence, we build-in a normalized margin scenario of USD5–6/bbl for FY22/FY23E.

Exhibit 1: Key assumptions

Y End: March 31	2016	2017	2018	2019	2020	2021E	2022E	2023E
Exchange Rate (INR/USD)	65.5	67.1	64.5	70.0	70.9	74.4	73.5	74.5
Brent Crude (USD/bbl)	48	49	58	70	61	40	50	50
Domestic direct sales refined pdts (MMT)	73	74	77	80	79	70	79	82
YoY (%)	6%	2%	4%	4%	-1%	-12%	13%	4%
Reported GRM (USD/bbl)	5.1	7.8	8.5	5.4	0.1	3.3	5.0	6.0
Singapore GRM (USD/bbl)	7.5	5.8	7.3	4.9	3.2	1.0	5.0	6.0
Prem/(disc) (USD/bbl)	(2)	2	1	1	(3)	2	0	0
Refining capacity utilization (%)	98%	94%	100%	104%	100%	91%	104%	104%
Total Refinery throughput (MMT)	56.7	65.2	69.0	71.8	69.4	62.8	72.0	72.0
YoY (%)	6%	15%	6%	4%	-3%	-10%	15%	0%
Marketing Margin (INR/ltr)								
Blended gross marketing margin incl inventory	3.7	4.2	4.4	5.3	6.2	6.4	4.3	4.3
Cons EPS	11.6	22.2	24.6	18.8	10.3	15.8	15.6	19.0

Source: Company, MOFSL

Exhibit 2: Domestic sales down 3.6% YoY, up 22.5% QoQ (to 19.7 mmt)

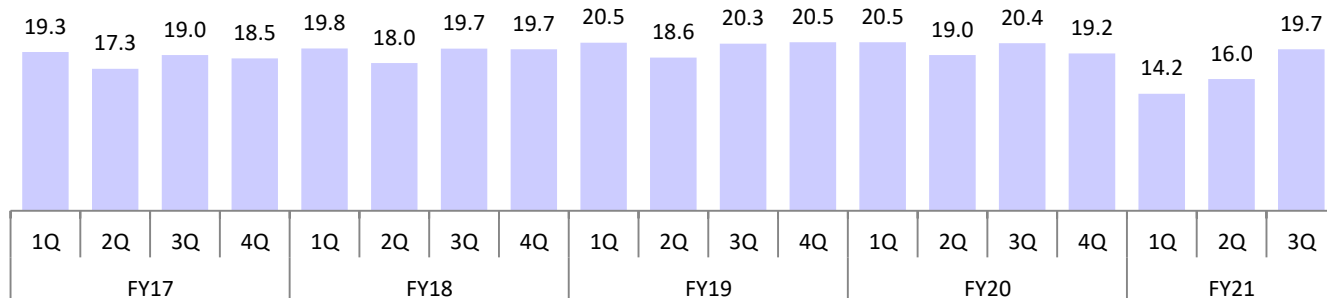


Exhibit 3: Reported GRM of USD2.2/bbl, inclusive of inventory gains of USD1.0/bbl

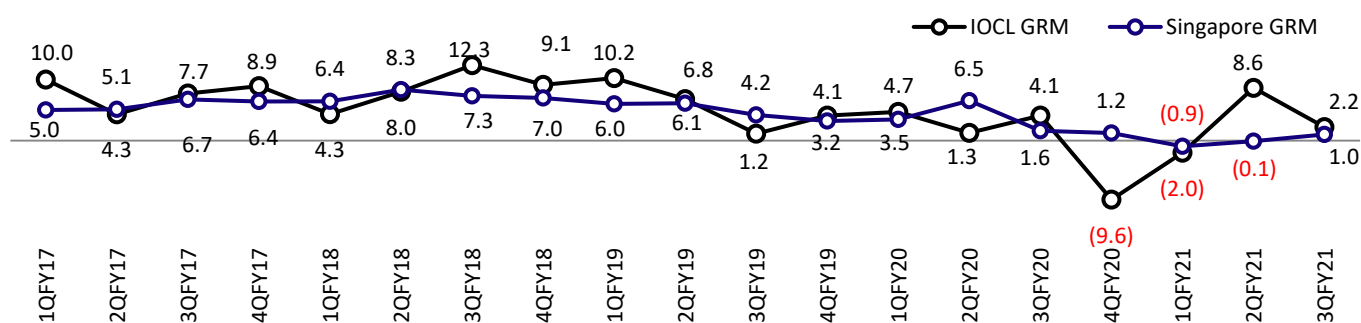
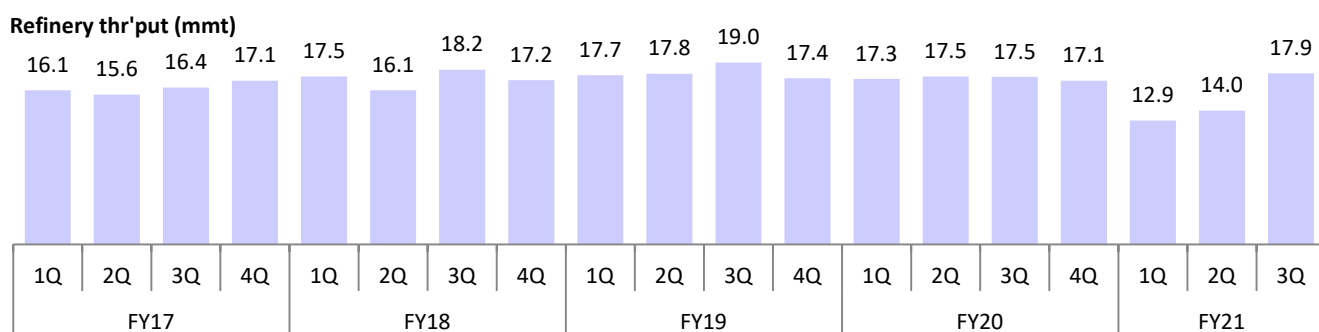


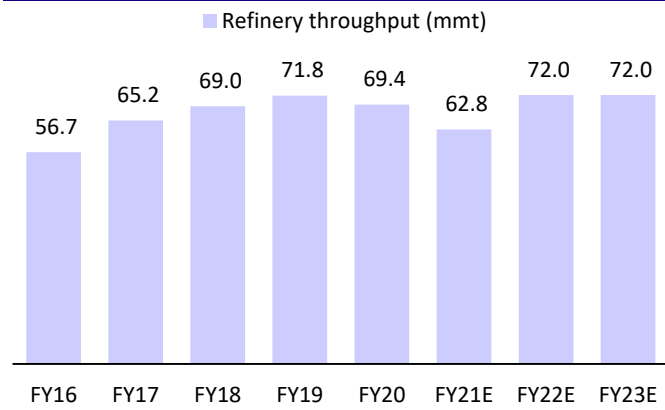
Exhibit 4: Refinery utilization at ~101.7% (to 17.9 mmt) – up 2.1% YoY, 27.9% QoQ



Source: Company, MOFSL

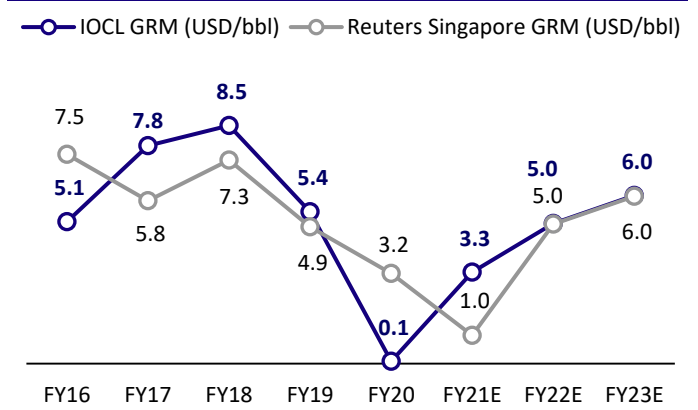
Story in charts

Exhibit 5: Refining throughput of IOCL



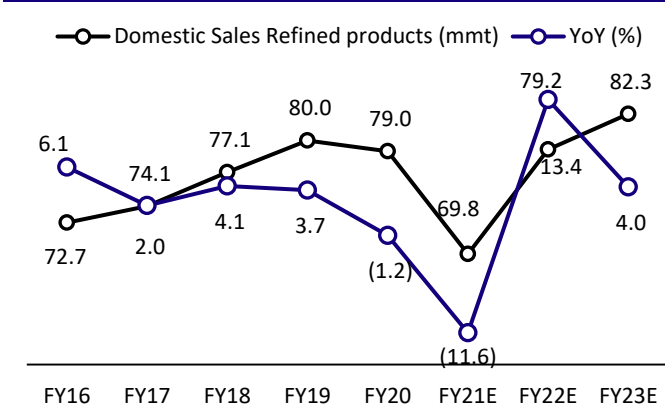
Source: Company, MOFSL

Exhibit 6: GRM trend of IOCL



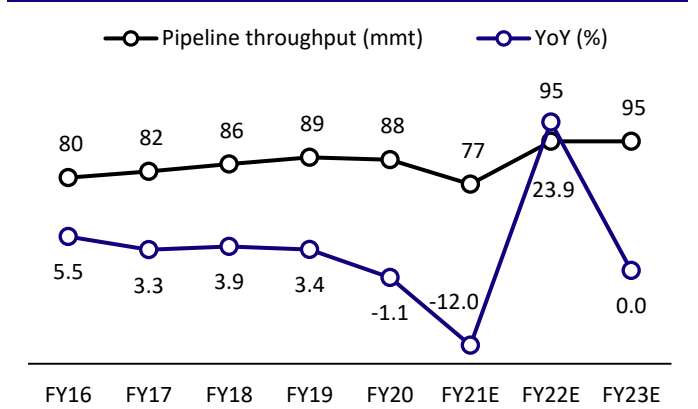
Source: Company, MOFSL

Exhibit 7: Marketing sales volumes



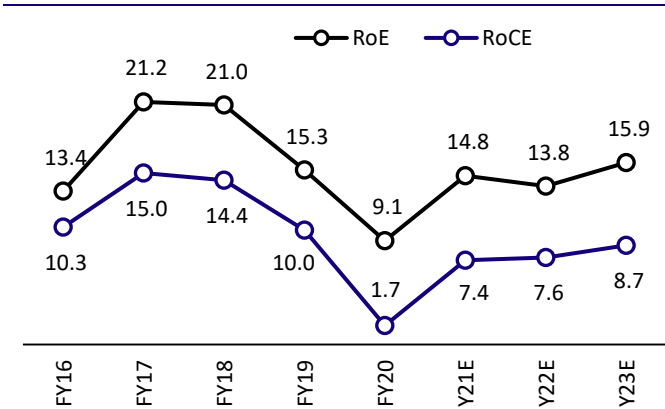
Source: Company, MOFSL

Exhibit 8: Pipeline throughput



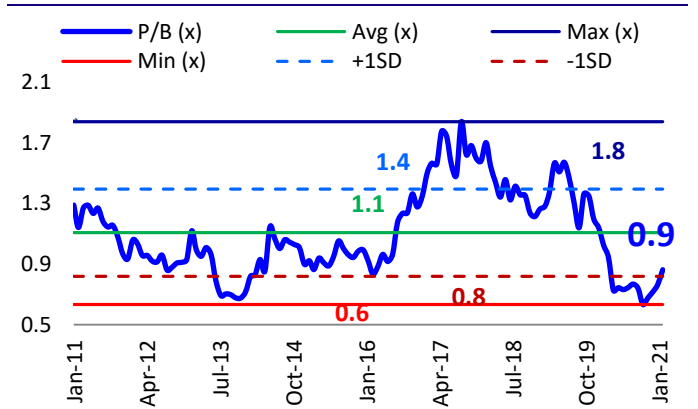
Source: Company, MOFSL

Exhibit 9: IOCL's return ratios to improve



Source: Company, MOFSL

Exhibit 10: IOCL trades at ~19% discount to LT PBV average



Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement								(INR m)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Total Income from Operations	34,60,447	35,53,101	42,14,918	52,81,575	48,43,623	35,69,034	45,17,363	49,70,855
EBITDA	2,34,429	3,40,132	4,16,318	3,52,236	1,68,245	2,73,189	2,89,700	3,35,248
Margin (%)	6.8	9.6	9.9	6.7	3.5	7.7	6.4	6.7
Depreciation	56,984	68,486	76,679	85,074	1,02,745	1,12,738	1,17,402	1,22,061
EBIT	1,77,445	2,71,646	3,39,640	2,67,162	65,500	1,60,451	1,72,298	2,13,188
Int. and Finance Charges	34,690	37,213	38,448	48,880	65,787	34,228	51,164	51,177
Other Income (incld forex)	21,865	38,724	34,199	27,143	27,903	78,697	67,468	67,468
PBT bef. EO Exp.	1,64,620	2,73,157	3,35,391	2,45,425	27,615	2,04,920	1,88,602	2,29,479
EO Items	13,643	0	0	0	-1,13,046	0	0	0
PBT after EO Exp.	1,78,263	2,73,157	3,35,391	2,45,425	-85,431	2,04,920	1,88,602	2,29,479
Total Tax	56,584	75,704	1,18,239	86,531	-53,007	61,446	47,471	57,760
Tax Rate (%)	31.7	27.7	35.3	35.3	62.0	30.0	25.2	25.2
Reported PAT	1,20,225	2,03,854	2,26,264	1,72,739	-18,763	1,44,844	1,43,423	1,74,723
Adjusted PAT	1,06,582	2,03,854	2,26,264	1,72,739	94,283	1,44,844	1,43,423	1,74,723
Change (%)	228.6	91.3	11.0	-23.7	-45.4	53.6	-1.0	21.8
Margin (%)	3.1	5.7	5.4	3.3	1.9	4.1	3.2	3.5

Consolidated - Balance Sheet								(INR m)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Equity Share Capital	23,697	47,393	94,787	91,810	91,810	91,810	91,810	91,810
Total Reserves	8,76,099	9,73,568	10,43,951	10,32,882	8,62,169	9,16,856	9,71,023	10,40,917
Net Worth	8,99,796	10,20,961	11,38,738	11,24,692	9,53,979	10,08,666	10,62,833	11,32,728
Minority Interest	14,260	19,046	21,512	18,774	8,763	8,763	8,763	8,763
Total Loans	4,81,492	5,88,300	6,21,410	9,27,117	12,59,681	13,22,665	13,22,665	13,22,665
Deferred Tax Liabilities	69,707	68,887	1,23,679	1,65,097	1,14,393	1,14,393	1,14,393	1,14,393
Capital Employed	14,65,256	16,97,194	19,05,339	22,35,681	23,36,815	24,54,487	25,08,654	25,78,548
Gross Block	10,48,008	12,71,518	14,29,148	15,98,630	18,46,659	22,14,685	24,59,390	26,68,331
Less: Accum. Deprn.	47,685	1,11,950	1,88,629	2,73,703	3,76,448	4,89,186	6,06,588	7,28,649
Net Fixed Assets	10,00,323	11,59,568	12,40,520	13,24,927	14,70,211	17,25,499	18,52,802	19,39,682
Capital WIP	2,62,190	1,67,784	1,91,304	2,49,872	3,11,908	1,80,882	1,36,176	1,27,235
Total Investments	3,11,848	4,36,872	4,48,061	4,41,123	3,55,709	3,55,709	3,55,709	3,55,709
Curr. Assets, Loans&Adv.	7,41,183	9,71,376	10,76,829	13,35,636	11,59,530	9,53,173	11,08,153	11,80,404
Inventory	4,22,567	6,58,843	7,05,679	7,71,265	6,70,108	5,08,038	6,51,673	7,14,556
Account Receivables	76,845	88,992	1,06,965	1,58,075	1,32,595	1,07,090	1,35,545	1,49,153
Cash and Bank Balance	10,504	4,098	4,943	10,610	22,960	17,330	9,427	11,633
Loans and Advances	2,31,267	2,19,443	2,59,242	3,95,686	3,33,868	3,20,715	3,11,508	3,05,063
Curr. Liability & Prov.	8,50,299	10,38,417	10,51,384	11,15,888	9,60,553	7,60,787	9,44,197	10,24,493
Account Payables	7,25,383	8,15,492	8,84,664	9,92,027	8,48,491	6,48,724	8,32,135	9,12,431
Provisions	1,24,916	2,22,925	1,66,721	1,23,860	1,12,062	1,12,062	1,12,062	1,12,062
Net Current Assets	-1,09,116	-67,041	25,444	2,19,748	1,98,977	1,92,387	1,63,956	1,55,911
Appl. of Funds	14,65,256	16,97,194	19,05,339	22,35,681	23,36,815	24,54,487	25,08,654	25,78,548

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Basic (INR)								
EPS	11.6	22.2	24.6	18.8	10.3	15.8	15.6	19.0
Cash EPS	17.8	29.7	33.0	28.1	21.5	28.1	28.4	32.3
BV/Share	98.0	111.2	124.0	122.5	103.9	109.9	115.8	123.4
DPS	3.1	11.5	11.5	9.3	4.3	9.8	9.7	11.4
Payout (%)	28.7	62.4	54.6	57.5	-243.3	62.2	62.2	60.0
Valuation (x)								
P/E	8.0	4.2	3.8	5.0	9.1	5.9	6.0	4.9
Cash P/E	5.2	3.1	2.8	3.3	4.3	3.3	3.3	2.9
P/BV	1.0	0.8	0.8	0.8	0.9	0.8	0.8	0.8
EV/Sales	0.4	0.4	0.3	0.3	0.4	0.6	0.5	0.4
EV/EBITDA	5.7	4.2	3.5	5.0	12.4	7.9	7.5	6.5
Dividend Yield (%)	3.3	12.3	12.3	9.9	4.6	10.5	10.4	12.2
FCF per share	22.5	25.8	25.1	2.6	-3.2	6.1	14.4	17.2
Return Ratios (%)								
RoE	13.4	21.2	21.0	15.3	9.1	14.8	13.8	15.9
RoCE	10.3	15.0	14.4	10.0	1.7	7.4	7.6	8.7
RoIC	14.7	19.9	18.7	12.4	1.6	6.3	6.6	7.8
Working Capital Ratios								
Fixed Asset Turnover (x)	3.3	2.8	2.9	3.3	2.6	1.6	1.8	1.9
Asset Turnover (x)	2.4	2.1	2.2	2.4	2.1	1.5	1.8	1.9
Inventory (Days)	45	68	61	53	50	52	53	52
Debtor (Days)	8	9	9	11	10	11	11	11
Creditor (Days)	77	84	77	69	64	66	67	67
Leverage Ratio (x)								
Current Ratio	0.9	0.9	1.0	1.2	1.2	1.3	1.2	1.2
Interest Cover Ratio	5.1	7.3	8.8	5.5	1.0	4.7	3.4	4.2
Net Debt/Equity	0.2	0.1	0.1	0.4	0.9	0.9	0.9	0.8

Consolidated - Cash Flow Statement

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
OP/(Loss) before Tax	1,80,718	2,79,558	3,44,502	2,59,269	-71,770	2,04,920	1,88,602	2,29,479
Depreciation	56,984	68,677	76,679	85,074	1,02,745	1,12,738	1,17,402	1,22,061
Direct Taxes Paid	-30,914	-70,334	-73,045	-55,710	-21,505	-61,446	-47,471	-57,760
(Inc)/Dec in WC	33,856	-75,900	-29,270	-1,65,004	49,378	960	20,528	10,251
CF from Operations	2,56,242	2,82,162	2,91,153	1,27,465	86,533	2,92,770	3,32,517	3,58,212
(Inc)/Dec in FA	-49,646	-44,843	-61,114	-1,03,339	-1,15,867	-2,37,000	-2,00,000	-2,00,000
Free Cash Flow	2,06,596	2,37,319	2,30,040	24,127	-29,335	55,770	1,32,517	1,58,212
(Pur)/Sale of Investments	-3,478	-92,669	-24,346	-1,821	-5,351	0	0	0
CF from Investments	-1,36,105	-1,76,844	-1,71,187	-2,25,686	-2,90,969	-2,37,000	-2,00,000	-2,00,000
Dividend Paid	-34,703	-1,27,736	-1,14,672	-1,16,790	-58,029	-90,156	-89,256	-1,04,829
CF from Fin. Activity	-1,21,844	-1,11,724	-1,19,121	1,03,889	2,16,787	-61,400	-1,40,420	-1,56,005
Inc/Dec of Cash	-1,707	-6,406	846	5,667	12,351	-5,630	-7,903	2,206
Opening Balance	12,211	10,504	4,098	4,943	10,610	22,960	17,330	9,427
Closing Balance	10,504	4,097	4,943	10,610	22,960	17,330	9,427	11,633

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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