

## Marketing segment lifts profitability...

**About the stock:** Indian Oil Corporation (IOC) is India's largest refining & marketing company with an installed refining capacity of ~70 MMT.

- IOC's marketing sales share among public sector OMCs is ~49%
- Petrol and diesel together constitute ~52% of total marketing sales for IOC

**Q1FY22 Results:** IOC's results were better than estimates on profitability front

- Revenue fell 5.2% QoQ to ₹ 155056.3 crore as marketing sales declined 11.6% QoQ to 18.7 MMT
- Marketing segment's performance improved QoQ as higher costs were passed on to customers. Reported GRMs were US\$6.6/bbl vs. US\$10.6/bbl QoQ as higher inventory gains were reported in Q4FY21. EBITDA was at ₹ 11126.1 crore, down 17.6% QoQ
- Subsequently, PAT was at ₹ 5941.4 crore, down 32.3% QoQ

**What should investors do?** IOC's refining margins are expected to improve gradually with an improvement in product cracks. Steady marketing margins and better sales with relaxations in lockdown are expected to lead to better profitability.

- We upgrade our rating from HOLD to BUY on the stock.

**Target Price and Valuation:** We value IOC at ₹ 120 i.e. average of P/E multiple: ₹ 115 /share and P/BV multiple: ₹ 125/share

### Key triggers for future price performance:

- Recovery in global refining product cracks (mainly diesel)
- Pick-up in transport fuels demand with relaxations in lockdown and steady marketing margins
- Petrochemical prices at higher level; to support overall profitability
- Consistent dividend payout

**Alternate Stock Idea:** Apart from IOC, in our oil & gas coverage we also like MGL.

- MGL is a beneficiary of India's increasing gas demand and will continue to grow on account of steady volume growth, better pricing power and favourable regulatory scenario.
- BUY with target price of ₹ 1,340



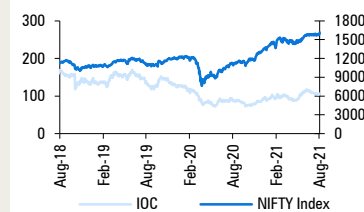
### Particulars

Particular	Amount
Market Capitalization (₹Crore)	95,482.8
Total Debt (FY21) (₹ Crore)	1,02,057.5
Cash and Investments(FY21) (₹)	11,668.2
EV (₹ Crore)	1,85,872.1
52 week H/L	118 / 71
Equity capital (₹ Crore)	9,181.0
Face value (₹)	10.0

### Shareholding pattern

(in %)	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	51.5	51.5	51.5	51.5	51.5
FII	6.3	6.1	5.8	5.8	6.7
DII	13.9	13.4	13.5	13.0	12.4
Others	28.3	29.1	29.1	29.7	29.4

### Price Chart



### Recent event & key risks

- Planned capital expenditure of ₹ 28,500 crore in FY22E.
- **Key Risk:** (i) Weaker than expected GRMs, (ii) Inability to pass on higher fuel costs to customers

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### Key Financial Summary

(Year-end March)	FY19	FY20	FY21E	5 year CAGR (FY16-21E)	FY22E	FY23E	2 year CAGR (FY21-23E)
Revenues (₹ crore)	6,05,923.8	5,66,949.7	5,14,890.5	8.0	6,29,675.9	6,62,039.4	13.4
EBITDA (₹ crore)	33,826.2	18,784.7	38,063.2	13.6	32,933.4	33,300.9	(6.5)
Net Profit (₹ crore)	16,894.1	1,313.2	21,836.0	16.0	14,480.1	14,347.4	(18.9)
EPS (₹)	18.4	1.4	23.8		15.8	15.6	
P/E (x)	5.7	72.7	4.4		6.6	6.7	
Price / Book (x)	0.9	1.0	0.9		0.8	0.8	
EV/EBITDA (x)	2.8	5.1	2.5		2.9	2.9	
RoCE (%)	13.5	4.8	13.3		10.0	9.5	
RoE (%)	15.5	1.4	19.8		12.2	11.5	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlights

### Q1FY22 Results: Marketing and petchem performance drives profits

- Marketing margins saw some improvement QoQ as the company had taken price hikes to pass on increased oil costs
- Crude throughput was down 5% QoQ to 16.7 MMT (vs. our estimate: 17.1 MMT) on account of shutdown and reduced demand
- Benchmark GRMs continued recovery and were at US\$2.1/bbl in Q1FY22. Core GRMs for IOC remained subdued at US\$2.2/bbl. Improvement in product cracks (mainly diesel) will be important for further recovery in GRMs

### Q1FY22 Earnings Conference Call highlights

- Planned capital expenditure for FY22E is ₹ 28500 crore. Capex breakup is as following- refining: ₹ 5000 crore, marketing: ₹ 6600 crore, petchem: ₹ 2000 crore, pipelines: ₹ 5000 crore and CGD infrastructure: ₹ 1100 crore
- The management said that refining capacity utilisation was 90% in July
- For OMCs, while petrol and LPG demand improved compared to pre-Covid level (July 2019) by 3.5% and 7.5%, diesel sales remained weaker. Diesel sales were down 11% due to lower public mobility
- The company is extending its JV with Petronas to include retailing of petrol, diesel and LNG

## Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (?)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
BPCL (BHAPET)	446	495	Hold	87,723	13.6	91.0	35.2	32.7	4.9	12.7	20.4	7.1	9.0	3.5	14.7	11.3	8.1	35.6	16.6
Indian Oil Corp (INDOIL)	104	120	Buy	95,483	23.8	15.8	15.6	4.4	6.6	6.7	2.5	2.9	2.9	13.3	10.0	9.5	19.8	12.2	11.5

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
Total Revenues	155,056.3	168,254	88,936.5	74.3	163,605.7	-5.2	
Raw materials costs	96,559.5	112,169	47,633.5	102.7	96,434.9	0.1	
Employees Cost	2,427.8	2,424.4	2,204.0	10.2	3,135.3	-22.6	
Other Expenses	44,942.9	43,214.2	33,586.7	33.8	50,533.6	-11.1	
Total Expenditure	143,930.2	157,808	83,424.3	72.5	150,103.9	-4.1	
EBITDA	11,126.1	10,446.1	5,512.3	101.8	13,501.8	-17.6	Better than estimates due to higher profitability in marketing and petchem segments
EBITDA margins (%)	7.2	6.2	6.2	98 bps	8.3	-108 bps	
Depreciation	2,634.2	2,717.9	2,354.5	11.9	2,579.5	2.1	
EBIT	8,491.9	7,728.1	3,157.7	168.9	10,922.3	-22.3	
Interest	1,257.0	1,344.7	1,171.3	7.3	1,072.9	17.2	
Other Income	563.6	943.2	642.2	-12.2	1,101.7	-48.8	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	7,798.5	7,326.7	2,628.6	196.7	10,951.1	-28.8	
Total Tax	1,857.1	1,846.3	717.7	158.7	2,169.8	-14.4	
PAT	5,941.4	5,480.3	1,910.8	210.9	8,781.3	-32.3	
<b>Key Metrics</b>							
Exchange rate (₹/\$)	73.9	73.9	75.9	-2.7	72.9	1.3	
Throughput (mmt)	16.7	17.1	12.9	29.3	17.6	-5.0	Crude throughput lower than expectations
Sales (mmt)	18.7	19.0	15.2	22.9	21.2	-11.6	
GRM (\$/barrel)	6.6	7.1	-2.0	-432.3	10.6	-37.9	IOC reported inventory gain of US\$4.3/bbl. Core GRMs were at US\$2.2/bbl

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ Crore	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	649,332.1	629,675.9	-3.0	665,277.3	662,039.4	-0.5	
EBITDA	31,890.3	32,933.4	3.3	31,665.2	33,300.9	5.2	Revised our marketing and petchem segment estimates post Q1FY22 performance
EBITDA Margin (%)	4.9	5.2	32 bps	4.8	5.0	27 bps	
PAT	13,847.8	14,480.1	4.6	13,257.6	14,347.4	8.2	
EPS (₹)	15.1	15.8	4.6	14.4	15.6	8.2	

Source: ICICI Direct Research

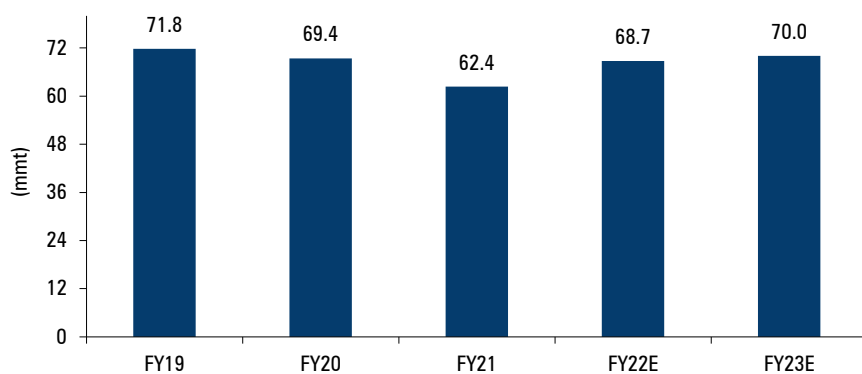
Exhibit 4: Assumptions

	Current				Earlier		Comments
	FY20	FY21E	FY22E	FY23E	FY22E	FY23E	
Exchange rate (₹/\$)	70.9	74.0	74.3	74.5	73.6	73.5	
Throughput (mmt)	69.4	62.4	68.7	70.0	69.1	70.0	
Sales (mmt)	84.3	75.6	86.0	93.9	86.3	93.4	Q1FY22 performance led to change in estimates for FY22E. FY23E estimates revised marginally
GRM (\$/barrel)	0.1	5.6	4.3	4.3	4.4	4.3	

Source: ICICI Direct Research

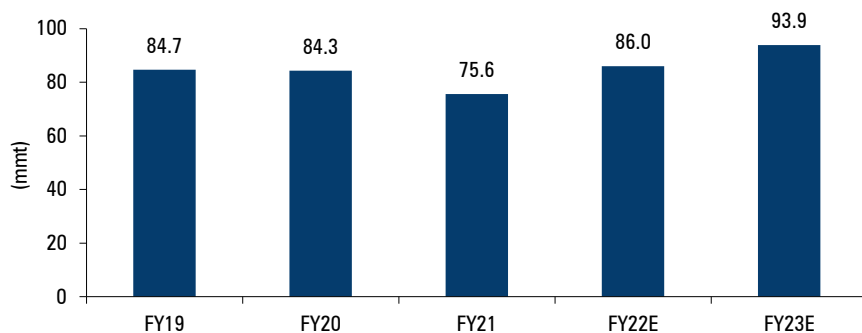
## Story in charts

Exhibit 5: Oil throughput trend



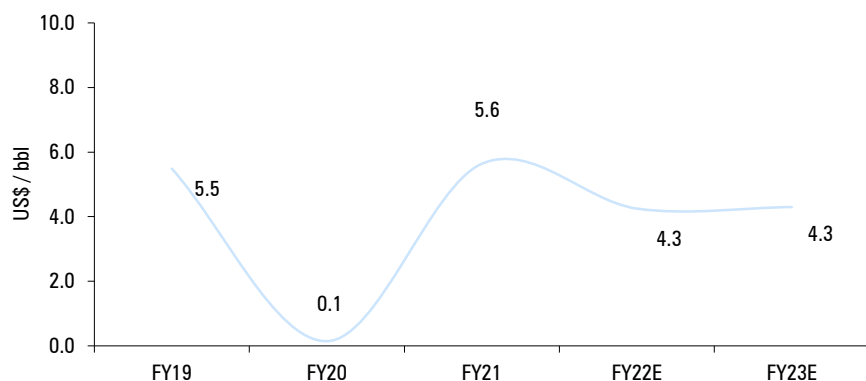
Source: Company, ICICI Direct Research

Exhibit 6: Marketing sales trend



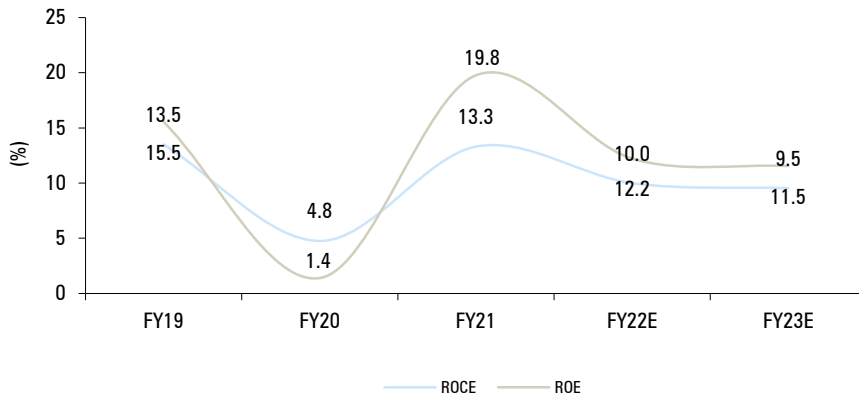
Source: Company, ICICI Direct Research

Exhibit 7: Refining margin trend



Source: Company, ICICI Direct Research

**Exhibit 8: Return ratios trend**



Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 9: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Revenue</b>	<b>566949.7</b>	<b>514890.5</b>	<b>629675.9</b>	<b>662039.4</b>
Growth (%)	-6.4	-9.2	22.3	5.1
(Inc./)(Dec.) in stock in trade	-6410.4	-5547.6	-5122.8	0.0
Raw material Costs	247077.0	156648.0	254382.8	258491.9
Purchase of Products	178535.5	143662.1	161110.6	163671.8
Employee Costs	8792.7	10712.0	11786.6	12965.2
Other Expenditure	120170.2	171352.8	174585.5	193609.6
Op. Expenditure	548165.0	476827.3	596742.6	628738.5
<b>EBITDA</b>	<b>18784.7</b>	<b>38063.2</b>	<b>32933.4</b>	<b>33300.9</b>
Growth (%)	-44.5	102.6	-13.5	1.1
Depreciation	8766.1	9804.3	11842.0	13436.1
EBIT	10018.6	28258.9	21091.3	19864.9
Interest	5979.5	3093.9	5270.9	4856.9
Other Income	-7733.3	4550.7	3393.5	4173.1
PBT	-3694.1	29715.7	19213.9	19181.0
Growth (%)	-114.7	-904.4	-35.3	-0.2
Tax	-5007.3	7879.6	4733.8	4833.6
<b>Reported PAT</b>	<b>1313.2</b>	<b>21836.0</b>	<b>14480.1</b>	<b>14347.4</b>
Growth (%)	-92.2	1562.8	-33.7	-0.9
<b>EPS</b>	<b>1.4</b>	<b>23.8</b>	<b>15.8</b>	<b>15.6</b>

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	1,313.2	21,836.0	14,480.1	14,347.4
Add: Depreciation	8,766.1	9,804.3	11,842.0	13,436.1
Add: Others	0.0	0.0	0.0	0.0
Cash Profit	-136.9	23,551.5	22,877.0	22,190.0
Increase/(Decrease) in CL	-15,504.9	19,168.3	6,155.4	7,568.2
(Increase)/Decrease in CA	21,417.2	10,269.5	9,373.2	8,305.4
<b>CF from Operating Activities</b>	<b>-30.8</b>	<b>43,348.7</b>	<b>31,960.6</b>	<b>29,470.2</b>
Purchase of Fixed Assets	29,878.9	22,836.8	24,606.7	25,000.0
(Inc)/Dec in Investments	10,616.8	-9,480.8	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>-32,317.7</b>	<b>-22,106.7</b>	<b>-22,500.0</b>
Inc/(Dec) in Loan Funds	30,186.3	-14,487.5	-9,500.0	-8,500.0
Dividend Paid	5,806.3	9,640.5	6,445.1	8,593.5
Inc/(Dec) in Sh. Cap. & Res.	-10,395.6	4,535.6	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>-19,592.4</b>	<b>-15,945.1</b>	<b>-17,093.5</b>
Change in cash Eq.	497.8	1,079.1	354.0	-1,529.8
Op. Cash and cash Eq.	91.3	589.1	1,668.2	2,022.2
<b>Cl. Cash and cash Eq.</b>	<b>589.1</b>	<b>1,668.2</b>	<b>2,022.2</b>	<b>492.4</b>

Source: Company, ICICI Direct Research

Exhibit 11: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21	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	1,01,319.0	1,09,354.0	1,15,107.9
Shareholder's Fund	93,768.8	1,10,500.0	1,18,535.0	1,24,289.0
Loan Funds	1,16,545.0	1,02,057.5	92,557.5	84,057.5
Deferred Tax Liability	11,413.1	12,964.7	15,964.7	18,964.7
Minority Interest	0.0	0.0	0.0	0.0
<b>Source of Funds</b>	<b>221727.0</b>	<b>225522.2</b>	<b>227057.2</b>	<b>227311.2</b>
<b>Application of Funds</b>				
Gross Block	1,68,951.3	1,87,693.8	2,12,735.5	2,35,235.5
Less: Acc. Depreciation	33,665.9	42,842.3	55,119.5	68,555.5
Net Block	1,35,285.5	1,44,851.5	1,57,616.1	1,66,680.0
Capital WIP	28,134.1	31,600.6	31,600.6	34,100.6
Total Fixed Assets	1,63,419.6	1,76,452.1	1,89,216.7	2,00,780.6
Investments	39,138.6	48,619.4	46,119.4	43,619.4
Inventories	63,677.6	78,188.0	77,631.3	81,621.3
Debtor	12,844.1	13,397.7	15,526.3	16,324.3
Cash	589.1	1,668.2	2,022.2	492.4
Loan & Advance, Other CA	31421.6	15728.6	11228.6	6728.6
Total Current assets	108532.4	108982.6	106408.4	105166.6
Current Liabilities	78877.1	98334.3	103508.4	108828.4
Provisions	10486.5	10197.5	11178.9	13427.1
Total CL and Provisions	89363.6	108531.8	114687.2	122255.5
Net Working Capital	19168.9	450.8	-8278.9	-17088.8
Miscellaneous expense	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>221727.0</b>	<b>225522.2</b>	<b>227057.2</b>	<b>227311.2</b>

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Per share data (₹)</b>				
Book Value	102.1	120.4	129.1	135.4
Cash per share	0.6	1.8	2.2	0.5
EPS	1.4	23.8	15.8	15.6
Cash EPS	11.0	34.5	28.7	30.3
DPS	6.0	12.0	6.0	8.0
<b>Profitability &amp; Operating Ratios</b>				
EBITDA Margin (%)	3.3	7.4	5.2	5.0
PAT Margin (%)	0.2	4.2	2.3	2.2
Fixed Asset Turnover (x)	3.5	2.9	3.3	3.3
Inventory Turnover (Days)	41.0	55.4	45.0	45.0
Debtor (Days)	8.3	9.5	9.0	9.0
Current Liabilities (Days)	50.8	69.7	60.0	60.0
<b>Return Ratios (%)</b>				
RoE	1.4	19.8	12.2	11.5
RoCE	4.8	13.3	10.0	9.5
RoIC	5.0	14.1	10.6	10.0
<b>Valuation Ratios (x)</b>				
PE	72.7	4.4	6.6	6.7
Price to Book Value	1.0	0.9	0.8	0.8
EV/EBITDA	5.1	2.5	2.9	2.9
EV/Sales	0.4	0.4	0.3	0.3
<b>Leverage &amp; Solvency Ratios</b>				
Debt to equity (x)	1.2	0.9	0.8	0.7
Interest Coverage (x)	1.7	9.1	4.0	4.1
Debt to EBITDA (x)	6.2	2.7	2.8	2.5
Current Ratio	1.2	1.0	0.9	0.9
Quick ratio	0.5	0.3	0.3	0.2

Source: Company, ICICI Direct Research

**Exhibit 13: ICICI Direct coverage universe**

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (?)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
BPCL (BHAPET)	446	495	Hold	87,723	13.6	91.0	35.2	32.7	4.9	12.7	20.4	7.1	9.0	3.5	14.7	11.3	8.1	35.6	16.6
GAIL (India) (GAIL)	139	180	Hold	61,721	11.0	16.4	17.7	12.6	8.5	7.9	10.3	6.4	6.3	8.7	14.4	13.6	10.6	14.4	14.1
Gujarat Gas (GUJGA)	715	655	Buy	49,221	18.5	22.1	25.2	38.6	32.3	28.4	23.8	20.7	18.0	33.0	33.2	32.6	29.0	27.2	25.3
Indian Oil Corp (INDOIL)	104	120	Buy	95,483	23.8	15.8	15.6	4.4	6.6	6.7	2.5	2.9	2.9	13.3	10.0	9.5	19.8	12.2	11.5
Indraprastha Gas (INDGAS)	558	595	Hold	39,060	14.4	18.8	21.0	38.8	29.7	26.6	25.6	20.0	17.6	20.7	23.7	22.7	17.4	19.6	18.8
Mahanagar Gas (MAHGAS)	1167	1340	Buy	11,527	62.7	95.6	107.2	18.6	12.2	10.9	11.9	7.9	6.6	22.6	29.7	28.1	18.7	23.9	22.5
Petronet LNG (PETLNG)	218	250	Hold	32,700	19.7	18.8	21.7	11.1	11.6	10.1	6.7	6.7	5.9	25.3	22.9	24.6	24.4	22.0	23.3

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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