Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Indian Oil Corporation Ltd

Mixed bag Q4; high crude oil near-term worry

Oil & Gas	Sharekhan code: IOC
Reco/View: Buy ↔	CMP: **Rs. 118**
	Price Target: **Rs. 150** ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- Q4FY22 PAT at Rs. 6,022 crore (up 2.7% q-o-q), missed consensus estimates primarily due to weak marketing margin and sharp decline of 26% q-o-q in petchem EBIT which offset robust refining performance.
- Reported/core GRM of $18.5/$13.6 per bbl was significantly above our/consensus estimate led by a sharp rise in product cracks as well as benefit of inventory gain of $5/bbl. Refining/marketing/pipeline volumes beat estimates at 18.3 mt/21.7 mt/22.1 mt, up 4.9%/4.3%/1.3% q-o-q.
- Record Singapore GRM of >$20/bbl in Q1FY23 QTD would help cushion against negative motor-spirit/high-speed diesel's marketing margin of Rs. 9/litre to some extent. Thus, a fall in crude oil prices or likely steep HSD/MS retail price hike and MS/HSD excise duty cut remain key for improvement in marketing margins.
- We maintain a Buy on IOCL with an unchanged PT of Rs. 150, given attractive valuation of 4.4x/0.7x its FY24E EPS/BV, strong RoE of 18% and a high dividend yield of ~10%.

Indian Oil Corporation Limited (IOCL) Q4FY22 standalone operating profit of Rs. 11,628 crore (down 13.9% y-o-y; up 17.9% q-o-q) was 15% below consensus estimate of Rs. 13,616 crore but was 34% above our estimate of Rs. 8,669 crore. A sharp miss in operating profit versus consensus estimate was largely attributable to lower marketing margin and weak petchem performance (EBIT plunged by 72%/26% y-o-y/q-o-q to Rs. 570 crore). Refining segment outperformed with reported GRM of $18.5/bbl (up 54% q-o-q), which was significantly above our and street's estimates of $12-13/bbl. Volume performance was above our estimate with 5%/4% q-o-q increase in refinery throughput/marketing volume to 18.3mmt/21.7mmt. PAT at Rs. 6,022 crore (down 34% y-o-y; up 2.7% q-o-q) was 25% below street estimate of Rs. 8,083 crore primarily on weak performance of marketing and petchem business.

Key positives

- Better-than-expected refinery performance with a beat in GRM and refinery throughput at $18.5/bbl and 18.3 mmt.
- Declared issue of bonus shares in the ratio of 1:2 (one bonus share for every two shares held)

Key negatives

- Management discontinued segmental EBITDA reporting.
- Lower-than-expected petchem EBIT of Rs570 crore, down 72%/26% y-o-y/q-o-q.

Revision in estimates – We have lower our FY23 earnings estimate to factor in negative marketing margin amid elevated crude/products prices partially offset by higher GRM assumption. We largely maintain our FY24 earnings estimates.

Our Call

Valuation – Maintain Buy on IOCL with an unchanged PT of Rs. 150: IOCL is the most attractively valued stock among oil marketing companies (OMCs) with valuation of 0.7x its FY2024E P/BV and 4.4x its FY2024E EPS and has a balanced earnings profile with steady contribution from the pipeline and petrochemical segments, besides refining & marketing. We expect IOCL's steep valuation discount of 64% to that of BPCL on FY2024E EPS to narrow down, given recovery in core earnings, strong RoE of 18%, and a high dividend yield of ~10%. Potential monetisation of non-core assets (crude pipeline and hydrogen plant) could unlock value and further support dividend payout. Hence, we maintain a Buy rating on IOCL with an unchanged PT of Rs. 150.

Key Risks

Sustained weak auto fuel marketing margin and a steep fall in refining margins remains key risk to earnings and valuation.

Valuation (Standalone) Rs cr

Particulars	FY21	FY22	FY23E	FY24E
Revenue	3,78,058	5,98,164	5,71,174	5,89,634
OPM (%)	10.1%	7.2%	6.6%	7.8%
Adjusted PAT	17,426	24,184	19,319	25,382
(%) YoY Growth	*74.5*	*38.8*	*-20.1*	*31.4*
Adjusted EPS (Rs)	18.5	25.7	20.5	27.0
P/E (x)	6.4	4.6	5.8	4.4
P/B (x)	1.0	0.8	0.8	0.7
EV/EBITDA (x)	5.4	5.1	6.1	5.2
RoNW (%)	17.1	20.0	14.3	17.6
ROCE (%)	14.7	15.8	12.6	15.1

Source: Company; Sharekhan estimates

3R MATRIX

	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

ESG Disclosure Score NEW

ESG RISK RATING 35.5

Updated Apr 08, 2022

High Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

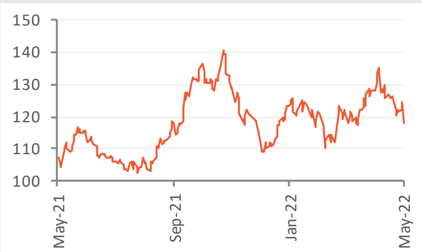
Company details

Market cap:	Rs. 1,11,134 cr
52-week high/low:	Rs. 142/102
NSE volume: (No of shares)	122 lakh
BSE code:	530965
NSE code:	IOC
Free float: (No of shares)	456.6 cr

Shareholding (%)

Promoters	51.5
FII	8.4
DII	11.3
Others	28.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-9.44	-2.56	-8.77	10.12
Relative to Sensex	-5.44	3.71	0.33	1.49

Sharekhan Research, Bloomberg

PAT missed consensus estimate as weak marketing/petchem margin offsets robust GRM

Q4FY22 standalone operating profit of Rs. 11,628 crore (down 13.9% y-o-y; up 17.9% q-o-q) was 15% below consensus estimate of Rs. 13,616 crore but was 34% above our estimate of Rs. 8,669 crore. Sharp miss in operating profit versus consensus estimate was largely attributable to lower marketing margins and weak petchem performance (EBIT declined sharply by 72%/26% y-o-y/q-o-q to Rs. 570 crore). Refining segment outperformed with reported GRM of $18.5/bbl (up 54% q-o-q), which was significantly above our and street estimate of $12-13/bbl. Volume performance was above our estimate with 5%/4% q-o-q increase in refinery throughput/marketing volume to 18.3 mmt/21.7 mmt. PAT at Rs. 6,022 crore (down 34% y-o-y; up 2.7% q-o-q) was 25% below street estimate of Rs. 8,083 crore primarily on weak performance of marketing and petchem business.

Results (Standalone) Rs cr

Particulars	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)
Revenue	**1,77,287**	**1,23,714**	**43.3**	**1,66,788**	**6.3**
Total Expenditure	1,65,660	1,10,212	50.3	1,56,926	5.6
Operating profit	**11,628**	**13,502**	**-13.9**	**9,862**	**17.9**
Interest	1,607	1,073	49.8	979	64.1
Depreciation	2,887	2,579	11.9	2,779	3.9
PBT	**8,085**	**10,951**	**-26.2**	**7,480**	**8.1**
Tax	2,063	2,170	-4.9	1,619	27.4
Reported PAT	6,022	8,781	-31.4	5,861	2.7
Equity Cap (cr)	941	941		941	
Reported EPS (Rs)	6.4	9.3	-31.4	6.2	2.7
Margins (%)			**BPS**		**BPS**
OPM	6.6	10.9	-435.5	5.9	64.6
NPM	3.4	8.4	-498.5	3.5	-11.7
Tax rate	25.5	19.8	570.1	21.6	387.2

Source: Company; Sharekhan Research

Key operating performance

Operating performance	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)
Reported GRM ($/bbl)	18.5	10.6	75.1	12.0	54.1
Refining inventory gain/(loss) ($/bbl)	4.9	8.1	-38.9	3.1	60.3
Core GRM ($/bbl)	13.6	2.5	442.9	8.9	52.0
Refining throughput (mmt)	18.3	17.6	3.8	17.4	4.9
Petroleum products market sales including exports (mmt)	21.7	20.8	4.0	20.8	4.3
Petchem sales (mmt)	0.8	0.8	3.6	0.7	9.3
Pipeline throughput (mmt)	22.1	21.8	1.0	21.8	1.3

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – High GRM bodes for OMCs; elevated crude a concern

India's consumption of petrol and diesel is expected to grow at a decent rate annually in the medium term, as penetration for two-wheelers and passenger cars improves and GDP growth normalises. Geopolitical concerns and improvement in petroleum product demand bodes well for refining margin and expect the same to remain elevated in the near term before normalization to $5-6/bbl in latter part of CY2022E. Although high crude oil prices are a near-term concern for HSD/MS marketing margin but we believe the same would normalise to historical levels of Rs. 2.5-3/litre with either steep rise in retail price and rationalisation of excise duty.

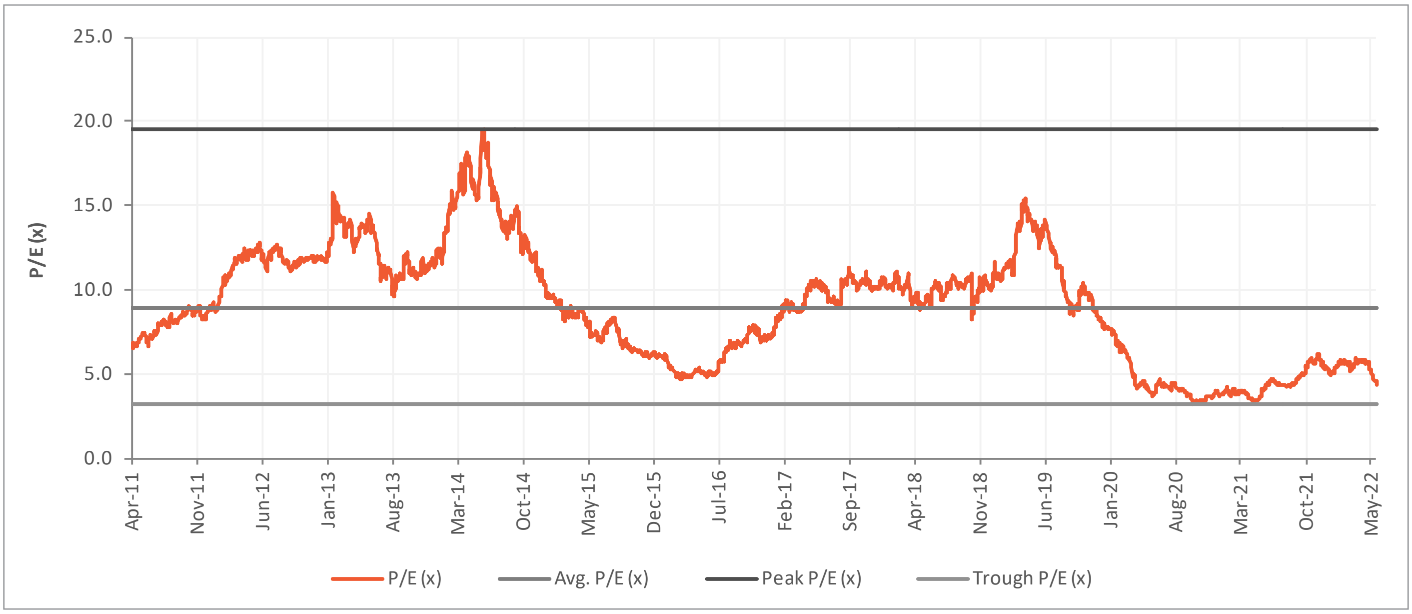
■ Company Outlook – Near-term earnings headwinds on weak marketing margin

We expect IOCL's earnings to remain muted in H1FY23 due to negative marketing margin on MS/HSD given inadequate price revision amid elevated crude oil price and high products cracks. Weak marketing performance would get somewhat offset by record level of refining margin (supported by MS, HSD and jet kero crack spreads). Overall, we expect IOCL's standalone PAT to declined sharply by 20% y-o-y in FY23 and witness strong recovery of 31% y-o-y in FY24 a marketing segment's profitability would normalize gradually. A likely normalization of international oil price, steep MS/HSD retail price hikes or rationalization of petrol/diesel excise duty remain key for earnings revival for OMCs.

■ Valuation – Maintain Buy on IOCL with an unchanged PT of Rs. 150

IOCL is the most attractively valued stock among oil marketing companies (OMCs) with valuation of 0.7x its FY2024E P/BV and 4.4x its FY2024E EPS and has a balanced earnings profile with steady contribution from the pipeline and petrochemical segments, besides refining & marketing. We expect IOCL's steep valuation discount of 64% to that of BPCL on FY2024E EPS to narrow down, given recovery in core earnings, strong RoE of 18%, and a high dividend yield of ~10%. Potential monetisation of non-core assets (crude pipeline and hydrogen plant) could unlock value and further support dividend payout. Hence, we maintain a Buy rating on IOCL with an unchanged PT of Rs. 150.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

IOCL is a leader in the domestic downstream oil sector with non-replicable infrastructure – total refining capacity of 81 mmt (33% market share; owns 11 of 22 refineries in India), retail outlets of 32,303 (~42% market share), and pipeline capacity of 80.6 mmt. The company is also a market leader in domestic petroleum sales with volume of 83.9 mmt, besides owning a petrochemicals plant at Panipat (with naphtha cracker capacity of 1.46 mmt, LAB capacity of 0.12 mmt, and PX/PTA capacity of 0.5 mmt).

Investment theme

IOCL has diversified earnings with exposure to pipeline and petrochemicals, which insulated it from volatility in refining and marketing margins. Recent sharp surge in refining margin to provide cushion against negative auto fuel marketing margins. Monetisation of pipeline assets and hydrogen plant could unlock value for IOCL. Moreover, IOCL's valuation is attractive with a steep discount to that of BPCL and the stock offers high dividend yield.

Key Risks

- Lower-than-expected refining and marketing margins could affect earnings outlook.
- Lower-than-expected volume in case of prolonged economic slowdown amid COVID-19.
- Volatility in quarterly earnings in case of fluctuations in oil prices and INR-USD rate.

Additional Data

Key management personnel

Shrikant Madhav Vaidya	Chairman
Sandeep Kumar Gupta	Director – Finance
Gurmeet Singh	Director – Marketing

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	ONGC Ltd	14.20
2	LIC	7.96
3	Oil India	5.16
4	IOC Shares Trust	2.48
5	SBI Funds Management	1.26
6	Vanguard Group Inc	0.96
7	Blackrock Inc	0.74
8	ICICI Prudential Asset Management Co Ltd	0.50
9	Kotak Mahindra Asset Management Co Ltd	0.24
10	Nippon Life India Asset Management Co Ltd	0.22

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst further certifies that neither he or its associates or his relatives has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;