

August 1, 2022

Q1FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	HOLD		HOLD	
Target Price	81		87	
Sales (Rs. m)	61,09,904	65,02,538	59,25,627	62,68,048
% Chng.	3.1	3.7		
EBITDA (Rs. m)	3,05,912	4,34,396	3,29,849	4,15,328
% Chng.	(7.3)	4.6		
EPS (Rs.)	7.3	14.5	15.2	20.9
% Chng.	(51.8)	(30.7)		

Key Financials - Standalone

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. bn)	3,639	5,893	6,110	6,503
EBITDA (Rs. bn)	406	477	306	434
Margin (%)	11.2	8.1	5.0	6.7
PAT (Rs. bn)	194	233	101	199
EPS (Rs.)	21.1	25.3	7.3	14.5
Gr. (%)	189.3	20.1	(71.2)	98.4
DPS (Rs.)	12.0	12.6	2.8	6.9
Yield (%)	16.4	17.3	3.8	9.5
RoE (%)	18.7	19.7	7.9	14.5
RoCE (%)	13.4	15.3	7.6	11.4
EV/Sales (x)	0.4	0.3	0.3	0.3
EV/EBITDA (x)	4.0	3.1	6.1	4.4
PE (x)	3.5	2.9	10.0	5.0
P/BV (x)	0.6	0.5	0.8	0.7

Key Data

IOC.BO | IOCL IN

52-W High / Low	Rs.95 / Rs.68
Sensex / Nifty	57,570 / 17,158
Market Cap	Rs.1,030bn/ \$ 12,997m
Shares Outstanding	14,121m
3M Avg. Daily Value	Rs.1357.86m

Shareholding Pattern (%)

Promoter's	51.50
Foreign	8.17
Domestic Institution	11.51
Public & Others	28.82
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(0.3)	(11.8)	5.3
Relative	(8.2)	(12.4)	(3.7)

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Marketing environment remains a challenge

Quick Pointers:

- Global low product inventory, lower exports from Russia and China to support GRMs.
- Inventory loss of Rs26.9bn, forex loss of Rs29bn impacted operating profits.

We cut our FY23E IOCL's earnings estimate by 28% to factor in higher marketing losses in diesel while we increase margins for petrol marketing (diesel and petrol margins of -Rs6.0/+1.5/litre vs -Rs3.0/0.0/litre earlier), and we maintain our GRM estimates at USD14/bbl. However, we increase our FY24E estimates by 4%. IOCL reported lower than expected Q1 results with standalone EBITDA of Rs13.6bn (-88%QoQ; PLe Rs 30.2bn) and PAT of -Rs19.9bn (PLe -Rs5.8bn), due to lower than expected marketing earnings as calculated marketing EBIDTA loss increased to Rs311bn in Q1 vis-à-vis loss of Rs54.7bn in Q4. Inventory loss of Rs26.9bn and forex loss from currency depreciation of Rs29bn added to weak performance.

We believe OMCs earnings will be hit by sharp jump in diesel marketing losses (low inventory, gas to oil switch given high spot LNG prices and drop in Russian and Chinese exports), despite improvement in refining profitability. We downgrade to "HOLD from 'BUY' given high crude price volatility with PT of Rs81 (Rs87 earlier). Any sharp correction in crude prices is an upside risk to our estimates.

- Marketing loss drags profitability, while refining shines:** IOCL reported standalone EBIDTA/PAT of Rs13.6bn (-88% QoQ) and -Rs19.9bn (Q4 PAT: Rs60.2bn), as high marketing loss negated strong refining performance. We calculate Q1 marketing EBIDTA loss of Rs311.4bn vs Q4 levels of Rs54.7bn, due to lower retail price revision (The Company stopped sharing the segment's EBIDTA). Profitability was also hit by inventory loss of Rs26.9bn due to excise duty cuts in May 22 for petrol and diesel by Rs8/6/litre respectively.
- High marketing volume added to loss:** IOCL's marketing volumes came in higher vis-à-vis the industry. MS demand was at 3.66MTPA (15.6% QoQ vs industry rate of 10.7%) and HSD demand was at 10.37MTPA (+17.3% QoQ vis-a-vis industry rate of 7.7%). Strong volume growth in the quarter was due to lower sales by private players given high marketing losses of Rs11/15/litre for petrol and diesel respectively. We lower our FY23E diesel marketing loss to -Rs6.0/litre vs -Rs3.0/litre earlier, given high losses due to unchanged retail prices in a crude inflationary environment. However, we increase petrol marketing margins to Rs1.5/litre vs
- Record refining was saving grace:** IOC's Q1 refining margins was at record USD31.8/bbl (Q4FY22 at USD18.5/bb; PLe USD25.0/bbl). Core GRM adjusted for inventory gain was at USD25.3/bbl. Refining throughput improved to 18.9MTPA (18.3 in Q4) as company maximized thrupt given high margins.

- For Q1, benchmark HSD and MS margins were higher at USD42.3/bbl (Q4: 18.4) and USD33.9/bbl (Q4: USD16.3) respectively. We expect GRMs to improve as higher global economic activity, low product inventory and gas to oil switch (given high spot LNG prices) drive product spreads. We maintain our GRMs at USD14.0/7.8/bbl for FY23/24E.
- Petrochemicals profitability come down QoQ but pipeline profits grow:** We calculate pipeline segment's EBIDTA at Rs18.6bn in Q1 v/s Rs16.7bn in Q4 due to higher thruput of 24.7MTPA vs 22.1MTPA in Q4. However, petchem EBIDTA declined to Rs4.8bn, given sharp contraction in margins and spreads were at USD98/ton vs USD137/ton in Q4.
- Maintain HOLD** We maintain "HOLD on IOCL with a PT of Rs81 (Rs87 earlier), as we value based on 5.5x PER core EPS FY24E (6.5 earlier) and add the value of investments at Rs9/sh.

Exhibit 1: Q4FY22 Result Overview (Rs mn) - Standalone

Y/e March	Q4FY22	Q4FY21	YoY gr. (%)	Q3FY22	FY22	FY21	YoY gr. (%)
Net sales	25,19,329	15,50,563	62.5	20,64,609	72,84,600	51,48,905	41.5
Inc/dec in stock	(67,907)	(51,228)	32.6	(61,544)	(1,21,970)	(55,476)	119.9
Purchases	9,20,168	3,93,221	134.0	6,61,446	22,10,781	14,36,621	53.9
Raw material cons	12,13,731	6,23,603	94.6	9,04,015	29,45,015	15,66,480	88.0
Duties	2,76,803	3,63,858	(23.9)	2,91,736	13,02,962	13,68,329	(4.8)
Staff cost	24,264	24,278	(0.1)	31,938	1,09,917	1,07,121	2.6
Other expenditure	1,38,682	85,572	62.1	1,20,743	4,10,167	3,33,245	23.1
Exp	(25,05,740)	(14,39,302)	74.1	(19,48,334)	(68,56,871)	(47,56,319)	44.2
Operating profit	13,589	1,11,261	(87.8)	1,16,275	4,27,728	3,92,586	9.0
Interest	(17,247)	(12,570)	37.2	(16,072)	(48,291)	(30,939)	56.1
Depreciation	(28,471)	(26,342)	8.1	(28,873)	(1,05,349)	(1,09,998)	(4.2)
Other income	6,837	5,636	21.3	9,517	43,243	45,507	(5.0)
Profit before tax	(25,292)	77,985	(132.4)	80,847	3,17,331	2,97,156	6.8
Current tax	-	(13,216)	(100.0)	(22,232)	(69,130)	(67,610)	2.2
Profit after current tax	(25,292)	64,769	(139.1)	58,615	2,48,200	2,29,546	8.1
Deferred tax	5,367	(5,355)	(200.2)	1,604	(6,360)	(11,186)	(43.1)
Net profit	(19,925)	59,414	(133.5)	60,219	2,41,841	2,18,360	10.8

Source: Company, PL

Exhibit 2: EBITDA Breakup (Rs mn)

	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22*	Q1FY23*
Refining	(35,230)	40,770	(3,260)	63,780	24,920	20,280	75,930	156,040	3,08,312
Marketing	77,010	36,060	71,300	34,430	54,250	53,770	(3,990)	(54,772)	(3,11,360)
Pipeline	11,500	12,920	16,990	16,080	15,740	14,500	16,490	16,687	18,646
Petrochem	7,280	12,110	19,540	22,480	19,890	18,120	9,820	7,837	4,828
Others	990	7,790	4,350	9,270	2,110	13,950	14,130		
Total	61,550	109,650	108,920	146,040	116,910	120,620	112,380	125,792	20,426

Source: Company, PL

* PL Estimates

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	36,39,497	58,93,357	61,09,904	65,02,538
YoY gr. (%)	(24.9)	61.9	3.7	6.4
Cost of Goods Sold	28,16,405	50,06,639	52,30,641	54,72,065
Gross Profit	8,23,092	8,86,719	8,79,263	10,30,472
Margin (%)	22.6	15.0	14.4	15.8
Employee Cost	-	-	-	-
Other Expenses	4,17,242	4,09,302	5,73,351	5,96,076
EBITDA	4,05,850	4,77,417	3,05,912	4,34,396
YoY gr. (%)	147.4	17.6	(35.9)	42.0
Margin (%)	11.2	8.1	5.0	6.7
Depreciation and Amortization	1,09,415	1,23,476	1,16,624	1,30,234
EBIT	2,96,436	3,53,941	1,89,288	3,04,162
Margin (%)	8.1	6.0	3.1	4.7
Net Interest	35,891	54,233	63,419	66,919
Other Income	34,995	30,822	43,528	48,257
Profit Before Tax	2,95,540	3,30,530	1,69,397	2,85,500
Margin (%)	8.1	5.6	2.8	4.4
Total Tax	89,885	85,620	45,709	77,252
Effective tax rate (%)	30.4	25.9	27.0	27.1
Profit after tax	2,05,655	2,44,910	1,23,688	2,08,248
Minority interest	11,967	12,356	23,159	8,789
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,93,688	2,32,555	1,00,529	1,99,459
YoY gr. (%)	189.3	20.1	(56.8)	98.4
Margin (%)	5.3	3.9	1.6	3.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,93,688	2,32,555	1,00,529	1,99,459
YoY gr. (%)	189.3	20.1	(56.8)	98.4
Margin (%)	5.3	3.9	1.6	3.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,93,688	2,32,555	1,00,529	1,99,459
Equity Shares O/s (m)	9,181	9,181	13,772	13,772
EPS (Rs)	21.1	25.3	7.3	14.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	20,05,019	22,28,481	25,33,006	28,47,531
Tangibles	20,05,019	22,28,481	25,33,006	28,47,531
Intangibles	-	-	-	-
Acc: Dep / Amortization	4,68,035	5,60,614	6,77,238	8,07,472
Tangibles	4,68,035	5,60,614	6,77,238	8,07,472
Intangibles	-	-	-	-
Net fixed assets	15,36,984	16,67,867	18,55,768	20,40,059
Tangibles	15,36,984	16,67,867	18,55,768	20,40,059
Intangibles	-	-	-	-
Capital Work In Progress	3,96,759	2,41,700	2,33,788	2,33,130
Goodwill	10	27,322	30,054	33,059
Non-Current Investments	4,00,020	4,50,764	4,76,649	5,05,123
Net Deferred tax assets	(1,39,645)	(1,41,638)	(1,52,484)	(1,78,787)
Other Non-Current Assets	53,300	59,362	65,298	71,828
Current Assets				
Investments	92,826	88,673	88,673	88,673
Inventories	8,34,275	8,53,680	8,36,116	8,85,460
Trade receivables	1,38,003	1,92,072	1,91,467	2,03,274
Cash & Bank Balance	24,747	2,75,298	3,05,746	3,34,148
Other Current Assets	37,861	39,619	41,600	43,680
Total Assets	35,49,159	39,50,488	41,75,259	44,91,626
Equity				
Equity Share Capital	91,810	91,810	1,37,716	1,37,716
Other Equity	10,26,570	11,50,484	11,76,840	13,06,509
Total Network	11,18,381	12,42,294	13,14,555	14,44,225
Non-Current Liabilities				
Long Term borrowings	6,09,349	6,77,995	7,27,995	7,77,995
Provisions	15,968	11,026	11,577	12,156
Other non current liabilities	25,834	25,951	25,761	25,761
Current Liabilities				
ST Debt / Current of LT Debt	4,75,800	5,00,040	5,20,040	5,40,040
Trade payables	3,72,479	5,11,654	5,12,045	5,42,737
Other current liabilities	7,73,469	8,06,144	8,51,717	9,00,095
Total Equity & Liabilities	35,49,158	39,50,912	41,75,259	44,91,626

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	2,95,540	3,30,530	1,69,397	2,85,500
Add. Depreciation	1,09,415	1,23,476	1,16,624	1,30,234
Add. Interest	35,891	54,233	63,419	66,919
Less Financial Other Income	34,995	30,822	43,528	48,257
Add. Other	-	-	-	-
Op. profit before WC changes	4,40,846	5,08,239	3,49,440	4,82,652
Net Changes-WC	2,27,549	87,803	68,662	30,201
Direct tax	(68,685)	(72,347)	(34,863)	(50,949)
Net cash from Op. activities	5,99,710	5,23,696	3,83,238	4,61,905
Capital expenditures	(2,58,877)	(1,68,421)	(2,99,345)	(3,16,872)
Interest / Dividend Income	-	-	-	-
Others	(67,166)	(24,017)	(22,826)	(25,108)
Net Cash from Inv. activities	(3,26,043)	(1,92,437)	(3,22,171)	(3,41,980)
Issue of share cap. / premium	48,715	(3,255)	721	932
Debt changes	(1,74,531)	92,886	70,000	70,000
Dividend paid	(1,10,172)	(1,15,681)	(38,345)	(95,535)
Interest paid	(35,891)	(54,233)	(63,419)	(66,919)
Others	-	-	-	-
Net cash from Fin. activities	(2,71,880)	(80,283)	(31,044)	(91,522)
Net change in cash	1,787	2,50,976	30,023	28,402
Free Cash Flow	3,40,833	3,55,275	83,893	1,45,033

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Net Revenue	13,54,178	16,67,882	17,72,873	24,00,412
YoY gr. (%)	58.2	56.8	43.3	102.3
Raw Material Expenses	11,24,612	14,39,701	15,03,918	22,22,182
Gross Profit	2,29,566	2,28,180	2,68,956	1,78,229
Margin (%)	17.0	13.7	15.2	7.4
EBITDA	1,06,281	93,911	1,16,275	30,229
YoY gr. (%)	12.7	(2.4)	(20.9)	(72.8)
Margin (%)	7.8	5.6	6.6	1.3
Depreciation / Depletion	27,058	23,077	28,873	29,000
EBIT	79,224	70,834	87,402	1,229
Margin (%)	5.9	4.2	4.9	0.1
Net Interest	9,857	9,791	16,072	15,000
Other Income	14,337	13,753	9,517	8,000
Profit before Tax	83,703	74,796	80,847	(5,771)
Margin (%)	6.2	4.5	4.6	(0.2)
Total Tax	20,103	16,188	20,628	-
Effective tax rate (%)	24.0	21.6	25.5	-
Profit after Tax	63,600	58,608	60,219	(5,771)
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	63,600	58,608	60,219	(5,771)
YoY gr. (%)	2.1	19.2	(31.4)	(109.7)
Margin (%)	4.7	3.5	3.4	(0.2)
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	63,600	58,608	60,219	(5,771)
YoY gr. (%)	2.1	19.2	(31.4)	(109.7)
Margin (%)	4.7	3.5	3.4	(0.2)
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	63,600	58,608	60,219	(5,771)
Avg. Shares O/s (m)	13,772	13,772	13,772	13,772
EPS (Rs)	4.6	4.3	4.4	(0.4)

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	21.1	25.3	7.3	14.5
CEPS	33.0	38.8	15.8	23.9
BVPS	121.8	135.3	95.5	104.9
FCF	37.1	38.7	6.1	10.5
DPS	12.0	12.6	2.8	6.9
Return Ratio(%)				
RoCE	13.4	15.3	7.6	11.4
ROIC	8.6	9.9	5.0	7.5
RoE	18.7	19.7	7.9	14.5
Balance Sheet				
Net Debt : Equity (x)	0.9	0.7	0.6	0.6
Net Working Capital (Days)	60	33	31	31
Valuation(x)				
PER	3.5	2.9	10.0	5.0
P/B	0.6	0.5	0.8	0.7
P/CEPS	33.4	39.3	16.0	24.3
EV/EBITDA	4.0	3.1	6.1	4.4
EV/Sales	0.4	0.3	0.3	0.3
Dividend Yield (%)	16.4	17.3	3.8	9.5

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
Crude /bbl	45	65	70	70
US\$/Rs	74	77	79	81
GRM (US\$/bbl)	6	11	14	8
Refining volume (MTPA)	62	68	70	71

Source: Company Data, PL Research



Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Jul-22	Hold	87	74
2	23-May-22	Hold	131	117
3	17-May-22	Hold	131	124
4	04-Apr-22	BUY	150	122
5	02-Feb-22	BUY	205	124
6	06-Jan-22	BUY	205	117
7	01-Nov-21	BUY	205	132
8	05-Oct-21	UR	-	126
9	02-Aug-21	BUY	135	106

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bharat Petroleum Corporation	BUY	416	313
2	GAIL (India)	BUY	170	134
3	Gujarat Gas	BUY	553	432
4	Hindustan Petroleum Corporation	BUY	368	226
5	Indian Oil Corporation	Hold	87	74
6	Indraprastha Gas	BUY	589	361
7	Mahanagar Gas	BUY	1,103	767
8	Oil & Natural Gas Corporation	BUY	160	127
9	Oil India	BUY	300	191
10	Petronet LNG	BUY	315	217
11	Reliance Industries	BUY	3,165	2,503

PL's Recommendation Nomenclature (Absolute Performance)

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



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