

October 31, 2022

## Q2FY23 Result Update

■ Change in Estimates | ■ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
<b>Rating</b>	REDUCE		REDUCE	
<b>Target Price</b>	50		50	
Sales (Rs. m)	79,34,053	82,93,084	79,34,053	82,93,084
% Chng.	-	-	-	-
EBITDA (Rs. m)	3,32,607	2,88,167	3,32,607	2,88,167
% Chng.	-	-	-	-
EPS (Rs.)	8.8	5.7	8.8	5.7
% Chng.	-	-	-	-

### Key Financials - Standalone

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. bn)	5,893	8,299	7,934	8,293
EBITDA (Rs. bn)	477	313	333	288
Margin (%)	8.1	3.8	4.2	3.5
PAT (Rs. bn)	233	102	121	79
EPS (Rs.)	25.3	7.4	8.8	5.7
Gr. (%)	20.1	(70.7)	18.7	(34.9)
DPS (Rs.)	12.6	2.8	4.1	2.6
Yield (%)	18.4	4.2	6.0	3.7
RoE (%)	19.0	7.5	8.4	5.2
RoCE (%)	14.3	7.3	7.2	4.9
EV/Sales (x)	0.3	0.3	0.3	0.3
EV/EBITDA (x)	3.9	6.8	6.5	7.9
PE (x)	2.7	9.2	7.8	11.9
P/BV (x)	0.5	0.7	0.6	0.6

### Key Data

IOC.BO | IOCL IN

52-W High / Low	Rs.95 / Rs.65
Sensex / Nifty	59,960 / 17,787
Market Cap	Rs.967bn / \$ 11,720m
Shares Outstanding	14,121m
3M Avg. Daily Value	Rs.1220.55m

### Shareholding Pattern (%)

Promoter's	51.50
Foreign	7.22
Domestic Institution	11.38
Public & Others	29.90
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	4.1	(21.0)	(20.2)
Relative	(1.7)	(24.2)	(20.2)

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## LPG grants support earnings beat

### Quick Pointers:

- Global low product inventory and lower exports from Russia to support GRMs.
- One time grant of Rs108bn towards LPG losses in H1FY23 cushion earnings.

**We maintain our FY23/24E IOCL's earnings estimate. IOCL reported better than expected Q2 results with standalone EBITDA of Rs19.6bn (+44%QoQ; PLe -Rs 158bn) and PAT of -Rs2.7bn (PLe -Rs198bn), due to receipt of one time grant of Rs108bn towards LPG under recovery for H1FY23. Also lower than expected inventory loss cushioned Q2 performance vs our expectation of Rs160bn loss. We believe OMCs earnings will be hit by sharp jump in diesel marketing losses (current diesel loss at Rs10/litre) given low inventory, gas to oil switch (led by high spot LNG prices) and drop in Russian exports, despite improvement in refining profitability. We maintain "REDUCE" rating given high crude price volatility with PT of Rs50 (unchanged). Any sharp correction in crude prices will be an upside risk to our estimates.**

- LPG grant and healthy refining drive earnings:** IOCL reported standalone EBITDA/PAT of Rs19.6bn (+44% QoQ) and -Rs2.7bn (-86%QoQ), as one time LPG grant of Rs108bn for H1FY23 loss cushioned earnings. We calculate Q2 marketing EBITDA loss of Rs122.5bn vs Q1 levels of Rs311bn, due to reduced diesel losses (company stopped sharing the segment's EBITDA). Q2 GRMs were strong at \$18.5/bbl, due to healthy product spreads.
- High marketing volume added to loss:** IOCL's marketing volumes were down QoQ - MS demand was at 3.59MTPA (-2% QoQ) and HSD demand was at 9.05MTPA (-13% QoQ). Fuel marketing environment remains fluid, while petrol margins improved to ~Rs7/litre in Q3, diesel margins continue to remain at loss- 10/litre. Diesel margins are likely to remain under pressure, due to low product inventory along with strong demand due to gas to oil switch.
- Record refining was a saving grace:** IOC's Q2 refining margins was at USD18.5/bbl (Q1 at USD31.8/bb; PLe USD15.0/bbl). Core GRM adjusted for inventory gain was at USD18.5/bbl. Refining throughput was lower at 16.1MTPA (18.9 in Q1), due to maintenance shutdown. Refining margins will likely remain healthy, as diesel demand along with ATF remains strong.
- Petrochemicals and pipeline profitability came down QoQ:** We calculate pipeline segment's EBITDA at Rs17.8bn in Q2 v/s Rs18.6bn in Q1 due to lower thruput of 23.6MTPA vs 24.7MTPA in Q1. Petchem EBITDA declined to Rs841mn, given sharp contraction in margins and spreads were at USD20/ton vs USD98/ton in Q1.
- Maintain REDUCE:** We maintain 'Reduce' on IOCL with a PT of Rs50 (unchanged).



## Exhibit 1: Q2FY23 Result Overview (Rs mn) - Standalone

Y/e March	Q2FY23	Q2FY22	YoY gr. (%)	Q1FY23	H1FY23	H1FY22	YoY gr. (%)
<b>Net sales</b>	<b>22,83,594</b>	<b>16,97,708</b>	<b>34.5</b>	<b>25,19,329</b>	<b>48,02,923</b>	<b>32,48,270</b>	<b>47.9</b>
Inc/dec in stock	(10,016)	(16,403)	NA	(67,907)	(77,923)	(67,631)	NA
Purchases	8,27,930	4,99,915	65.6	9,20,168	17,48,098	8,93,136	95.7
Raw material cons	10,72,777	6,41,099	67.3	12,13,731	22,86,508	12,64,702	80.8
Duties	2,08,741	3,43,530	(39.2)	2,76,803	4,85,543	7,07,388	(31.4)
Staff cost	21,915	26,819	(18.3)	24,264	46,178	51,096	(9.6)
Other expenditure	1,42,646	96,466	47.9	1,38,682	2,81,328	1,82,038	54.5
Exp	(22,63,993)	(15,91,427)	NA	(25,05,740)	(47,69,733)	(30,30,729)	NA
<b>Operating profit</b>	<b>19,600</b>	<b>1,06,281</b>	<b>(81.6)</b>	<b>13,589</b>	<b>33,190</b>	<b>2,17,542</b>	<b>(84.7)</b>
Interest	(14,410)	(9,857)	NA	(17,247)	(31,657)	(22,427)	NA
Depreciation	(29,617)	(27,058)	NA	(28,471)	(58,088)	(53,399)	NA
Other income	21,984	14,337	53.3	6,837	28,821	19,973	44.3
<b>Profit before tax</b>	<b>(2,442)</b>	<b>83,703</b>	<b>NA</b>	<b>(25,292)</b>	<b>(27,735)</b>	<b>1,61,688</b>	<b>NA</b>
Current tax	-	(19,913)	NA	-	-	(33,129)	NA
<b>Profit after current tax</b>	<b>(2,442)</b>	<b>63,790</b>	<b>NA</b>	<b>(25,292)</b>	<b>(27,735)</b>	<b>1,28,559</b>	<b>NA</b>
Deferred tax	(281)	(190)	NA	5,367	5,086	(5,545)	NA
<b>Net profit</b>	<b>(2,724)</b>	<b>63,600</b>	<b>NA</b>	<b>(19,925)</b>	<b>(22,649)</b>	<b>1,23,014</b>	<b>NA</b>

Source: Company, PL

## Exhibit 2: EBITDA Breakup (Rs mn) incl other income

	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22*	Q1FY23*	Q2FY23*
Refining	40,770	(3,260)	63,780	24,920	20,280	75,930	156,040	3,08,312	1,45,447
Marketing	36,060	71,300	34,430	54,250	53,770	(3,990)	(54,772)	(3,11,360)	(1,22,582)
Pipeline	12,920	16,990	16,080	15,740	14,500	16,490	16,687	18,646	17,878
Petrochem	12,110	19,540	22,480	19,890	18,120	9,820	7,837	4,828	841
Others	7,790	4,350	9,270	2,110	13,950	14,130			
<b>Total</b>	<b>109,650</b>	<b>108,920</b>	<b>146,040</b>	<b>116,910</b>	<b>120,620</b>	<b>112,380</b>	<b>125,792</b>	<b>20,426</b>	<b>41,584</b>

Source: Company, PL

\* PL Estimates

## Financials

### Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Net Revenues</b>	<b>58,93,357</b>	<b>82,99,349</b>	<b>79,34,053</b>	<b>82,93,084</b>
YoY gr. (%)	61.9	40.8	(4.4)	4.5
Cost of Goods Sold	50,06,639	74,04,070	69,98,725	73,77,124
Gross Profit	8,86,719	8,95,279	9,35,328	9,15,960
Margin (%)	15.0	10.8	11.8	11.0
Employee Cost	-	-	-	-
Other Expenses	4,09,302	5,81,794	6,02,721	6,27,793
<b>EBITDA</b>	<b>4,77,417</b>	<b>3,13,486</b>	<b>3,32,607</b>	<b>2,88,167</b>
YoY gr. (%)	17.6	(34.3)	6.1	(13.4)
Margin (%)	8.1	3.8	4.2	3.5
Depreciation and Amortization	1,23,476	1,16,624	1,30,234	1,44,254
<b>EBIT</b>	<b>3,53,941</b>	<b>1,96,862</b>	<b>2,02,373</b>	<b>1,43,913</b>
Margin (%)	6.0	2.4	2.6	1.7
Net Interest	54,233	68,860	72,360	75,860
Other Income	30,822	43,528	48,257	52,166
<b>Profit Before Tax</b>	<b>3,30,530</b>	<b>1,71,530</b>	<b>1,78,270</b>	<b>1,20,219</b>
Margin (%)	5.6	2.1	2.2	1.4
Total Tax	85,620	46,285	48,300	32,628
Effective tax rate (%)	25.9	27.0	27.1	27.1
<b>Profit after tax</b>	<b>2,44,910</b>	<b>1,25,245</b>	<b>1,29,970</b>	<b>87,592</b>
Minority interest	12,356	23,159	8,789	8,661
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>2,32,555</b>	<b>1,02,086</b>	<b>1,21,181</b>	<b>78,931</b>
YoY gr. (%)	20.1	(56.1)	18.7	(34.9)
Margin (%)	3.9	1.2	1.5	1.0
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>2,32,555</b>	<b>1,02,086</b>	<b>1,21,181</b>	<b>78,931</b>
YoY gr. (%)	20.1	(56.1)	18.7	(34.9)
Margin (%)	3.9	1.2	1.5	1.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,32,555	1,02,086	1,21,181	78,931
<b>Equity Shares O/s (m)</b>	<b>9,181</b>	<b>13,772</b>	<b>13,772</b>	<b>13,772</b>
<b>EPS (Rs)</b>	<b>25.3</b>	<b>7.4</b>	<b>8.8</b>	<b>5.7</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>21,53,449</b>	<b>24,25,070</b>	<b>27,39,595</b>	<b>30,44,120</b>
Tangibles	21,53,449	24,25,070	27,39,595	30,44,120
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>5,81,499</b>	<b>6,64,792</b>	<b>7,95,026</b>	<b>9,39,280</b>
Tangibles	5,81,499	6,64,792	7,95,026	9,39,280
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>15,71,950</b>	<b>17,60,278</b>	<b>19,44,569</b>	<b>21,04,840</b>
Tangibles	15,71,950	17,60,278	19,44,569	21,04,840
Intangibles	-	-	-	-
Capital Work In Progress	5,07,876	3,64,721	3,64,156	3,64,190
Goodwill	10	28,328	31,161	34,277
Non-Current Investments	4,92,710	5,68,544	6,03,530	6,42,015
Net Deferred tax assets	(1,53,544)	(1,52,963)	(1,68,544)	(1,78,353)
Other Non-Current Assets	65,095	72,175	79,392	87,331
<b>Current Assets</b>				
Investments	80,132	77,648	77,648	77,648
Inventories	11,17,365	12,42,945	11,52,600	12,12,537
Trade receivables	1,87,004	2,92,754	2,69,680	2,84,100
Cash & Bank Balance	18,201	93,666	1,39,815	81,057
Other Current Assets	38,420	39,380	41,349	43,417
<b>Total Assets</b>	<b>41,06,249</b>	<b>45,82,211</b>	<b>47,48,002</b>	<b>49,77,986</b>
<b>Equity</b>				
Equity Share Capital	91,810	1,37,716	1,37,716	1,37,716
Other Equity	12,43,541	12,60,864	13,40,672	13,93,516
<b>Total Network</b>	<b>13,35,352</b>	<b>13,98,580</b>	<b>14,78,387</b>	<b>15,31,232</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	6,23,082	6,45,285	6,95,285	7,45,285
Provisions	15,866	10,702	11,238	11,799
Other non current liabilities	31,806	31,690	31,690	31,690
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	6,97,114	7,11,570	7,31,570	7,51,570
Trade payables	4,90,459	7,62,977	7,05,887	7,42,955
Other current liabilities	7,33,974	8,16,796	8,62,997	9,12,044
<b>Total Equity &amp; Liabilities</b>	<b>41,06,249</b>	<b>45,82,211</b>	<b>47,48,002</b>	<b>49,77,986</b>

Source: Company Data, PL Research



## Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	3,30,530	1,71,530	1,78,270	1,20,219
Add. Depreciation	1,23,476	1,16,624	1,30,234	1,44,254
Add. Interest	54,233	68,860	72,360	75,860
Less Financial Other Income	30,822	43,528	48,257	52,166
Add. Other	-	-	-	-
Op. profit before WC changes	5,08,239	3,57,014	3,80,863	3,40,333
Net Changes-WC	(1,48,249)	1,10,210	1,03,820	5,988
Direct tax	(72,347)	(35,226)	(32,719)	(22,818)
<b>Net cash from Op. activities</b>	<b>2,87,643</b>	<b>4,31,998</b>	<b>4,51,964</b>	<b>3,23,502</b>
Capital expenditures	(2,82,808)	(2,45,447)	(3,16,792)	(3,07,676)
Interest / Dividend Income	-	-	-	-
Others	(75,797)	(31,947)	(31,198)	(34,318)
<b>Net Cash from Inv. activities</b>	<b>(3,58,604)</b>	<b>(2,77,394)</b>	<b>(3,47,991)</b>	<b>(3,41,994)</b>
Issue of share cap. / premium	80,624	(7,815)	932	933
Debt changes	1,53,705	36,659	70,000	70,000
Dividend paid	(1,15,681)	(39,124)	(56,396)	(35,340)
Interest paid	(54,233)	(68,860)	(72,360)	(75,860)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>64,415</b>	<b>(79,139)</b>	<b>(57,824)</b>	<b>(40,266)</b>
<b>Net change in cash</b>	<b>(6,545)</b>	<b>75,465</b>	<b>46,149</b>	<b>(58,758)</b>
Free Cash Flow	4,836	1,86,551	1,35,172	15,827

Source: Company Data, PL Research

## Quarterly Financials (Rs m)

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
<b>Net Revenue</b>	<b>16,67,882</b>	<b>17,72,873</b>	<b>22,42,526</b>	<b>20,74,853</b>
YoY gr. (%)	56.8	43.3	89.0	53.2
Raw Material Expenses	14,39,701	15,03,918	20,65,991	18,90,692
Gross Profit	2,28,180	2,68,956	1,76,535	1,84,161
Margin (%)	13.7	15.2	7.9	8.9
<b>EBITDA</b>	<b>93,911</b>	<b>1,16,275</b>	<b>13,589</b>	<b>19,600</b>
YoY gr. (%)	(2.4)	(20.9)	(87.8)	(81.6)
Margin (%)	5.6	6.6	0.6	0.9
Depreciation / Depletion	23,077	28,873	28,471	29,617
<b>EBIT</b>	<b>70,834</b>	<b>87,402</b>	<b>(14,882)</b>	<b>(10,016)</b>
Margin (%)	4.2	4.9	(0.7)	(0.5)
Net Interest	9,791	16,072	17,247	14,410
Other Income	13,753	9,517	6,837	21,984
<b>Profit before Tax</b>	<b>74,796</b>	<b>80,847</b>	<b>(25,292)</b>	<b>(2,442)</b>
Margin (%)	4.5	4.6	(1.1)	(0.1)
Total Tax	16,188	20,628	(5,367)	281
Effective tax rate (%)	21.6	25.5	21.2	(11.5)
<b>Profit after Tax</b>	<b>58,608</b>	<b>60,219</b>	<b>(19,925)</b>	<b>(2,724)</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>58,608</b>	<b>60,219</b>	<b>(19,925)</b>	<b>(2,724)</b>
YoY gr. (%)	19.2	(31.4)	(133.5)	(104.3)
Margin (%)	3.5	3.4	(0.9)	(0.1)
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>58,608</b>	<b>60,219</b>	<b>(19,925)</b>	<b>(2,724)</b>
YoY gr. (%)	19.2	(31.4)	(133.5)	(104.3)
Margin (%)	3.5	3.4	(0.9)	(0.1)
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>58,608</b>	<b>60,219</b>	<b>(19,925)</b>	<b>(2,724)</b>
Avg. Shares O/s (m)	13,772	13,772	13,772	13,772
<b>EPS (Rs)</b>	<b>4.3</b>	<b>4.4</b>	<b>(1.4)</b>	<b>(0.2)</b>

Source: Company Data, PL Research

## Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Per Share(Rs)</b>				
EPS	25.3	7.4	8.8	5.7
CEPS	38.8	15.9	18.3	16.2
BVPS	145.4	101.6	107.4	111.2
FCF	0.5	13.5	9.8	1.1
DPS	12.6	2.8	4.1	2.6
<b>Return Ratio(%)</b>				
RoCE	14.3	7.3	7.2	4.9
ROIC	8.8	4.5	4.5	3.0
RoE	19.0	7.5	8.4	5.2
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.9	0.8	0.8	0.9
Net Working Capital (Days)	50	34	33	33
<b>Valuation(x)</b>				
PER	2.7	9.2	7.8	11.9
P/B	0.5	0.7	0.6	0.6
P/CEPS	38.8	15.9	18.3	16.2
EV/EBITDA	3.9	6.8	6.5	7.9
EV/Sales	0.3	0.3	0.3	0.3
Dividend Yield (%)	18.4	4.2	6.0	3.7

Source: Company Data, PL Research

## Key Operating Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Crude /bbl	65	100	90	90
US\$/Rs	77	80	82	85
GRM (US\$/bbl)	11	14	7	6
Refining volume (MTPA)	68	70	71	74

Source: Company Data, PL Research



## Price Chart

## Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	01-Oct-22	Reduce	50	67
2	01-Aug-22	Hold	81	73
3	05-Jul-22	Hold	87	74
4	23-May-22	Hold	131	117
5	17-May-22	Hold	131	124
6	04-Apr-22	BUY	150	122
7	02-Feb-22	BUY	205	124
8	06-Jan-22	BUY	205	117
9	01-Nov-21	BUY	205	132

## Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bharat Petroleum Corporation	Reduce	240	305
2	Bharti Airtel	BUY	1,032	809
3	GAIL (India)	BUY	120	87
4	Gujarat Gas	Hold	530	503
5	Hindustan Petroleum Corporation	Hold	195	217
6	Indian Oil Corporation	Reduce	50	67
7	Indraprastha Gas	BUY	596	397
8	Mahanagar Gas	BUY	1,103	832
9	Oil & Natural Gas Corporation	BUY	160	127
10	Oil India	BUY	300	175
11	Petronet LNG	BUY	307	200
12	Reliance Industries	BUY	2,892	2,480

## 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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