

CMP: ₹ 68

Target: ₹ 75 (11%)

Target Period: 12 months

October 31, 2022

HOLD

## Losses narrow owing to one-time LPG grant...

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

- IOC operates 34559 retail outlets as of end of FY22
- Petrol and diesel together historically constitute ~52% of marketing sales

**Q2FY23 Results:** IOC's results were better than estimates on the profitability front.

- Revenue increased 34.5% YoY (down 9.4% QoQ) to ₹ 228359.4 crore (our estimate: ₹ 205545 crore). Marketing sales increased 13.9% YoY (down 6.1% QoQ) to 21.6 MMT
- IOC received one-time grant of ₹ 10,801 crore from Government of India for under recoveries on sale of domestic LPG. Average GRM was US\$18.5/bbl. Marketing loss was higher than estimates as per our understanding. EBITDA was at ₹ 1960 crore, down 81.6% YoY (up 44.2% QoQ)
- IOC reported a net loss of ₹ 272.4 crore (estimated net loss: ₹ 11645.1 crore)

**What should investors do?** IOC's GRM declined in Q2FY23. Although product cracks have declined from elevated levels of Q1FY23, the company has not passed on higher crude oil costs to customers while weaker marketing profitability is likely to impact earnings in the near term.

- We maintain our **HOLD** rating on the stock

**Target Price and Valuation:** We value IOC at ₹ 75 i.e. average of P/E multiple: ₹ 79/share and P/BV multiple: ₹ 71/share.

**Key triggers for future price performance:**

- Global product cracks sustaining at relatively higher levels
- Passing on higher retail prices of petrol & diesel to customers (due to higher crude oil costs)
- Pipeline segment profitability has been consistent over last few years
- Consistent dividend payout

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

- Gail is a beneficiary of increasing gas consumption. Stable volume growth along with higher profitability from gas trading, petchem and LPG segment due to higher oil prices will add value
- BUY with target price of ₹ 100



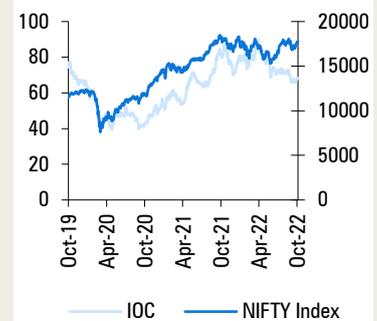
### Particulars

Particular	Amount
Market Capitalization (₹Crore)	96,306.9
Total Debt (FY22) (₹ Crore)	1,19,431.5
Cash and Investments(FY22)	10,882.7
EV (₹ Crore)	2,04,855.7
52 week H/L	95 / 65
Equity capital (₹ Crore)	14,121.2
Face value (₹)	10.0

### Shareholding pattern

(in %)	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	51.5	51.5	51.5	51.5
FII	7.9	8.4	8.2	7.2
DII	12.5	11.3	11.5	11.2
Others	28.1	28.8	28.8	30.0

### Price Chart



### Recent event & key risks

- **Key Risk:** (i) Weaker than expected GRMs, (ii) Passing on higher fuel costs to customers

### Research Analyst

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## Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	5 year CAGR (FY17-22P)	FY23E	FY24E	2 year CAGR (FY22E-24E)
Revenues (₹ crore)	6,05,923.8	5,66,949.7	5,14,894.9	7,28,459.9	10.3	8,68,033.3	7,50,631.5	1.5
EBITDA (₹ crore)	33,826.2	18,784.7	38,068.0	43,243.8	6.3	19,686.2	41,505.3	(2.0)
Net Profit (₹ crore)	16,894.1	1,313.2	21,836.0	24,184.1	4.8	4,824.2	19,824.0	(9.5)
EPS (₹)	12.0	0.9	15.5	17.1		3.4	14.0	
P/E (x)	5.7	73.1	4.4	4.0		19.9	4.8	
Price / Book (x)	0.9	1.0	0.9	0.7		0.8	0.7	
EV/EBITDA (x)	2.8	5.1	2.5	2.2		4.9	2.3	
RoCE (%)	13.5	4.8	13.3	12.9		2.9	10.1	
RoE (%)	15.5	1.4	19.8	18.4		3.8	14.8	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter

### Q2FY23 Results: Marketing losses higher than estimates

- IOC's GRM was at US\$18.5/bbl vs. US\$31.8/bbl in Q1FY23
- Going ahead, we expect GRM at US\$16.9/bbl and US\$8/bbl in FY23E and FY24E, respectively
- Crude throughput was up 5.3% YoY (down 15% QoQ) to 16.1 MMT (vs. our estimate: 16.8 MMT). We estimate crude throughput at 71 MMT and 72.4 MMT in FY23E and FY24E, respectively
- The company received a one-time grant of ₹ 10,801 crore for losses incurred on the sale of domestic LPG
- Overall marketing loss was higher than estimates as per our understanding as the company did not pass on increased crude oil costs to customers in Q2FY23
- We expect sales at 89.5 MMT and 93.1 MMT in FY23E and FY24E, respectively

## Peer comparison

### Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
BPCL (BHAPET)	339	350	Hold	68,840	41.3	-19.3	82.3	8.2	-17.5	4.1	6.4	173.4	3.4	15.1	-2.8	24.4	17.5	-9.0	29.8
HPCL (HINPET)	248	260	Hold	35,190	44.9	-67.4	42.5	5.5	-3.7	5.8	8.0	-11.4	7.7	7.3	-14.4	7.8	16.5	-32.8	18.6
Indian Oil Corp (INDOIL)	68	75	Hold	96,024	17.1	3.4	14.0	4.0	19.9	4.8	2.2	4.9	2.3	12.9	2.9	10.1	18.4	3.8	14.8

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Total Revenues	228,359.4	205,545	169,770.8	34.5	251,932.9	-9.4	Higher than estimates on account of one-time grant provision
Raw materials costs	189,069.2	176,395	112,461.2	68.1	206,599.1	-8.5	
Employees Cost	2,191.5	2,896.4	2,681.9	-18.3	2,426.4	-9.7	
Other Expenses	35,138.7	38,402.4	43,999.6	-20.1	41,548.5	-15.4	
Total Expenditure	226,399.3	217,694	159,142.7	42.3	250,574.0	-9.6	
EBITDA	1,960.0	-12,148.3	10,628.1	-81.6	1,358.9	44.2	
EBITDA margins (%)	0.9	-5.9	6.3	-540 bps	0.5	32 bps	
Depreciation	2,961.7	3,256.4	2,705.7	9.5	2,847.1	4.0	
EBIT	-1,001.6	-15,404.7	7,922.4	-112.6	-1,488.2	-32.7	
Interest	1,441.0	1,256.8	985.7	46.2	1,724.7	-16.4	
Other Income	2,198.4	1,093.2	1,433.7	53.3	683.7	221.6	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	-244.2	-15,568.3	8,370.4	-102.9	-2,529.2	-90.3	
Total Tax	28.1	-3,923.2	2,010.3	-98.6	-536.7	-105.2	
PAT	-272.4	-11,645.1	6,360.1	-104.3	-1,992.5	-86.3	

Key Metrics

Exchange rate (₹/\$)	79.8	79.8	74.1	7.7	77.3	3.3	
Throughput (mmt)	16.1	16.8	15.3	5.3	18.9	-15.0	Lower than estimates
Sales (mmt)	21.6	21.0	18.9	13.9	23.0	-6.1	In line with estimates
GRM (\$/barrel)	16.1	5.1	6.6	145.5	31.8	-49.4	Higher than estimates

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(\$ Crore)	FY23E			FY24E			Comments
	Old	New	Change	Old	New	Change	
Revenue	855,529.7	868,033.3	1.5	745,847.9	750,631.5	0.6	
EBITDA	18,571.8	19,686.2	6.0	41,018.0	41,505.3	1.2	Realign segmental estimates post Q2FY23 performance
EBITDA Margin (%)	2.2	2.3	10 bps	5.5	5.5	3 bps	
PAT	3,171.0	4,824.2	52.1	19,459.4	19,824.0	1.9	
EPS (₹)	2.2	3.4	52.1	13.8	14.0	1.9	

Source: ICICI Direct Research

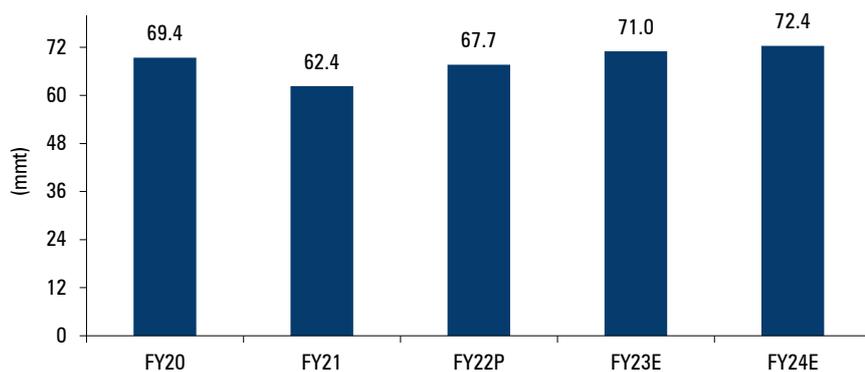
Exhibit 4: Assumptions

	Current				Earlier	
	FY21	FY22	FY23E	FY24E	FY23E	FY24E
Exchange rate (₹/\$)	74.0	74.6	79.1	80.0	78.7	79.0
Throughput (mmt)	62.4	67.7	71.0	72.4	71.7	72.4
Sales (mmt)	75.6	80.5	89.5	93.1	89.0	92.5
GRM (\$/barrel)	5.6	11.3	16.9	8.0	14.6	8.0

Source: ICICI Direct Research

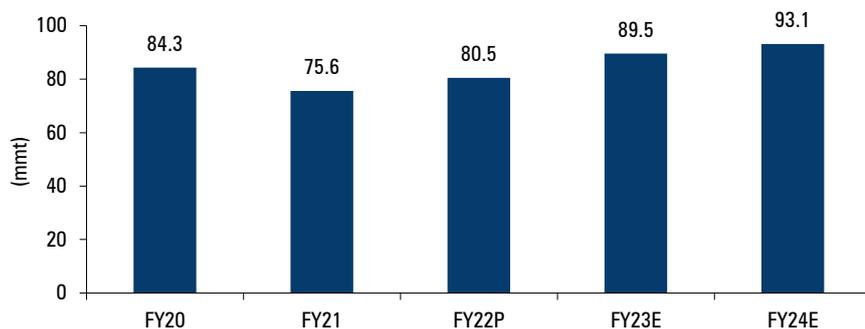
## Story in charts

Exhibit 5: Oil throughput trend



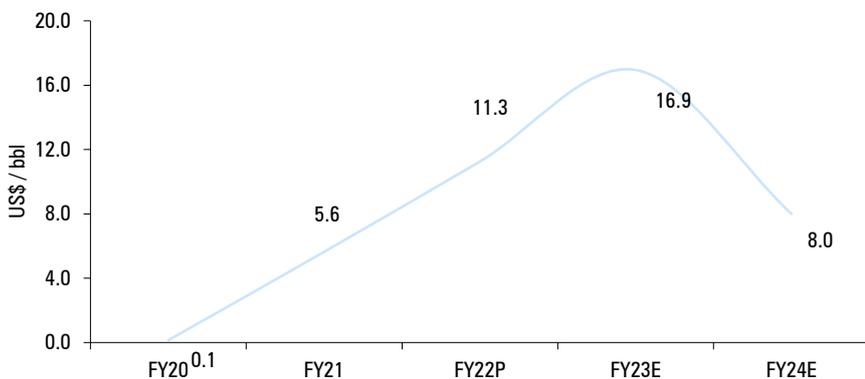
Source: Company, ICICI Direct Research

Exhibit 6: Marketing sales trend



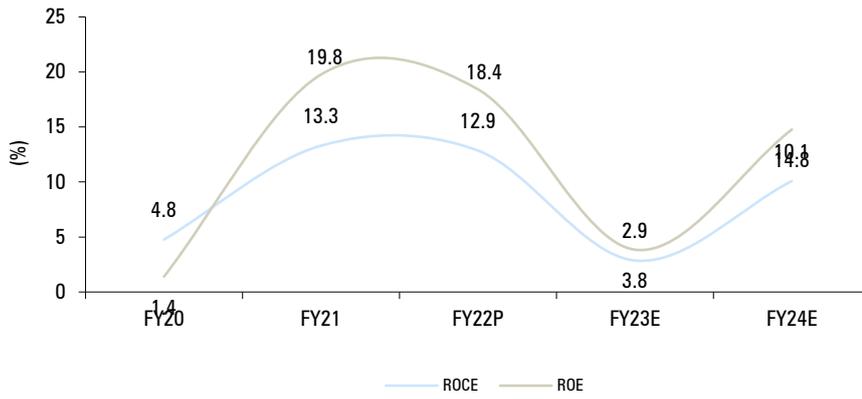
Source: Company, ICICI Direct Research

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			
	FY21	FY22	FY23E	FY24E
<b>Revenue</b>	<b>514894.9</b>	<b>728459.9</b>	<b>868033.3</b>	<b>750631.5</b>
Growth (%)	-9.2	41.5	19.2	-13.5
(Inc.)/(Dec.) in stock in trade	-5547.6	-12197.0	-7792.3	0.0
Raw material Costs	156648.0	294501.5	386078.5	296309.5
Purchase of Products	143662.1	221078.1	305598.5	244809.6
Employee Costs	10712.0	10991.7	10970.5	11628.7
Other Expenditure	171352.4	170841.9	153492.0	156378.4
Op. Expenditure	476826.9	685216.1	848347.2	709126.2
<b>EBITDA</b>	<b>38068.0</b>	<b>43243.8</b>	<b>19686.2</b>	<b>41505.3</b>
Growth (%)	102.7	13.6	-54.5	110.8
Depreciation	9804.3	11005.9	12321.6	14208.6
EBIT	28263.7	32237.9	7364.6	27296.8
Interest	3093.9	4829.1	5679.4	5367.3
Other Income	4545.9	4324.3	5018.8	4573.1
PBT	29715.7	31733.1	6704.0	26502.6
Growth (%)	-904.4	6.8	-78.9	295.3
Tax	7879.6	7549.0	1879.7	6678.7
<b>Reported PAT</b>	<b>21836.0</b>	<b>24184.1</b>	<b>4824.2</b>	<b>19824.0</b>
Growth (%)	1562.8	10.8	-80.1	310.9
<b>EPS</b>	<b>15.5</b>	<b>17.1</b>	<b>3.4</b>	<b>14.0</b>

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	21,836.0	24,184.1	4,824.2	19,824.0
Add: Depreciation	9,804.3	11,005.9	12,321.6	14,208.6
Add: Others	0.0	0.0	0.0	0.0
Cash Profit	23,551.5	22,317.9	7,042.3	24,029.0
Increase/(Decrease) in CL	19,168.3	15,430.7	17,787.8	-13,919.1
(Increase)/Decrease in CA	10,269.5	-17,485.5	3,125.7	27,572.6
<b>CF from Operating Activi</b>	<b>43,348.7</b>	<b>6,728.4</b>	<b>16,952.2</b>	<b>26,678.9</b>
Purchase of Fixed Assets	22,836.8	25,857.7	27,295.9	29,000.0
(Inc)/Dec in Investments	-9,480.8	-9,167.2	-1,000.0	-750.0
Others	0.0	0.0	0.0	0.0
<b>CF from Investing Activi</b>	<b>-32,317.7</b>	<b>-35,024.9</b>	<b>-28,295.9</b>	<b>-29,750.0</b>
Inc/(Dec) in Loan Funds	-14,487.5	17,374.0	12,500.0	4,500.0
Dividend Paid	9,640.5	13,534.7	11,003.6	11,003.6
Inc/(Dec) in Sh. Cap. & Res.	4,535.6	10,137.0	348.7	0.0
Others	0.0	0.0	0.0	0.0
<b>CF from financing activi</b>	<b>-19,592.4</b>	<b>13,976.2</b>	<b>1,845.2</b>	<b>-6,503.6</b>
Change in cash Eq.	1,079.1	-785.6	1,505.0	1,428.9
Op. Cash and cash Eq.	589.1	1,668.2	882.7	2,387.7
<b>Cl. Cash and cash Eq.</b>	<b>1,668.2</b>	<b>882.7</b>	<b>2,387.7</b>	<b>3,816.6</b>

Source: Company, ICICI Direct Research

Exhibit 11: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Source of Funds</b>				
Equity Capital	9,181.0	9,181.0	14,121.2	14,121.2
Preference capital	0.0	0.0	0.0	0.0
Reserves & Surplus	1,01,319.0	1,22,105.3	1,11,334.5	1,20,155.0
Shareholder's Fund	1,10,500.0	1,31,286.4	1,25,455.8	1,34,276.2
Loan Funds	1,02,057.5	1,19,431.5	1,31,931.5	1,36,431.5
Deferred Tax Liability	12,964.7	13,627.4	14,527.4	15,527.4
Minority Interest	0.0	0.0	0.0	0.0
<b>Source of Funds</b>	<b>225522.2</b>	<b>264345.2</b>	<b>271914.6</b>	<b>286235.0</b>
<b>Application of Funds</b>				
Gross Block	1,87,693.8	2,03,435.5	2,27,435.5	2,51,935.5
Less: Acc. Depreciation	42,842.3	54,896.3	67,921.9	82,130.5
Net Block	1,44,851.5	1,48,539.3	1,59,513.6	1,69,805.1
Capital WIP	31,600.6	42,764.6	46,764.6	51,264.6
Total Fixed Assets	1,76,452.1	1,91,303.9	2,06,278.2	2,21,069.7
Investments	48,619.4	57,786.6	58,786.6	59,536.6
Inventories	78,188.0	1,03,206.9	1,07,017.8	92,543.6
Debtor	13,397.7	18,136.6	21,403.6	18,508.7
Cash	1,668.2	882.7	2,387.7	3,816.6
Loan & Advance, Other CA	15728.6	16991.1	17791.1	18591.1
Total Current assets	108982.6	139217.3	148600.1	133460.0
Current Liabilities	98334.3	113660.5	130799.5	117221.9
Provisions	10197.5	10302.1	10950.8	10609.3
Total CL and Provisions	108531.8	123962.6	141750.3	127831.2
Net Working Capital	450.8	15254.7	6849.8	5628.8
Miscellaneous expense	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>225522.2</b>	<b>264345.2</b>	<b>271914.6</b>	<b>286235.0</b>

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>				
Book Value	78.3	93.0	88.8	95.1
Cash per share	1.2	0.6	1.7	2.7
EPS	15.5	17.1	3.4	14.0
Cash EPS	22.4	24.9	12.1	24.1
DPS	8.0	8.4	6.7	6.7
<b>Profitability &amp; Operating Ratios</b>				
EBITDA Margin (%)	7.4	5.9	2.3	5.5
PAT Margin (%)	4.2	3.3	0.6	2.6
Fixed Asset Turnover (x)	2.9	3.8	4.2	3.4
Inventory Turnover (Days)	55.4	51.7	45.0	45.0
Debtor (Days)	9.5	9.1	9.0	9.0
Current Liabilities (Days)	69.7	60.0	55.0	57.0
<b>Return Ratios (%)</b>				
RoE	19.8	18.4	3.8	14.8
RoCE	13.3	12.9	2.9	10.1
RoIC	14.1	13.4	3.0	10.6
<b>Valuation Ratios (x)</b>				
PE	4.4	4.0	19.9	4.8
Price to Book Value	0.9	0.7	0.8	0.7
EV/EBITDA	2.5	2.2	4.9	2.3
EV/Sales	0.4	0.3	0.3	0.3
<b>Leverage &amp; Solvency Ratios</b>				
Debt to equity (x)	0.9	0.9	1.1	1.0
Interest Coverage (x)	9.1	6.7	1.3	5.1
Debt to EBITDA (x)	2.7	2.8	6.7	3.3
Current Ratio	1.0	1.1	1.0	1.0
Quick ratio	0.3	0.3	0.3	0.3

Source: Company, ICICI Direct Research

Exhibit 13: ICICI Direct coverage universe (Oil & Gas)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
BPCL (BHAPET)	339	350	Hold	68,840	41.3	-19.3	82.3	8.2	-17.5	4.1	6.4	173.4	3.4	15.1	-2.8	24.4	17.5	-9.0	29.8
GAIL (India) (GAIL)	84	100	Buy	55,231	23.3	13.7	8.9	3.6	6.1	9.4	3.0	4.7	7.2	18.8	15.1	8.4	18.6	14.7	9.1
Gujarat Gas (GUJGA)	500	480	Hold	34,420	18.9	23.4	20.9	26.4	21.4	23.9	16.4	13.5	14.6	27.0	28.2	21.8	23.1	23.2	17.9
HPCL (HINPET)	248	260	Hold	35,190	44.9	-67.4	42.5	5.5	-3.7	5.8	8.0	-11.4	7.7	7.3	-14.4	7.8	16.5	-32.8	18.6
Indian Oil Corp (INDOIL)	68	75	Hold	96,024	17.1	3.4	14.0	4.0	19.9	4.8	2.2	4.9	2.3	12.9	2.9	10.1	18.4	3.8	14.8
Indraprastha Gas (INDGAS)	422	420	Hold	29,540	18.8	19.0	20.2	22.5	22.2	20.9	15.0	13.7	12.5	22.3	21.1	20.0	19.0	16.9	15.9
Mahanagar Gas (MAHGAS)	845	820	Hold	8,347	60.4	58.9	84.8	14.0	14.3	10.0	8.6	8.6	6.0	19.8	17.7	23.1	16.6	15.0	19.0
ONGC (ONGC)	124	135	Hold	1,59,133	8.9	32.0	37.1	13.9	3.9	3.3	5.4	2.8	2.0	4.5	14.8	20.9	5.5	17.0	17.3
Petronet LNG (PETLNG)	200	210	Hold	30,000	22.3	17.7	19.2	8.9	11.3	10.4	5.5	6.6	5.8	27.0	20.0	20.8	25.0	19.0	19.5
Reliance Industries (RELIND)	2,472	2,700	Hold	16,72,274	89.7	94.5	118.0	27.5	26.2	20.9	18.0	13.6	11.2	7.1	8.7	10.3	7.8	7.6	8.7

Source: Bloomberg, ICICI Direct Research

## RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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## ANALYST CERTIFICATION

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