

February 01, 2022

RESULT REPORT Q3 FY23 | Sector: Energy

Indian Oil Corp. Ltd

Earnings miss estimates on weaker margins

Our View

IOCL's 3QFY23 reported Ebitda at Rs 35.9bn (-62% YoY; +83% QoQ), missed our and street estimates, primarily on weaker than estimated reported GRM at USD 12.9/bbl. The adjusted (for inventory loss) core GRM as per our estimates stood at ~USD 17.4/bbl. Correction in crude oil and product prices during the quarter, resulted in plausible inventory losses, weighing on reported GRMs. Retail marketing margins on Petrol and Diesel, however improved QoQ to Rs 10/ltr (2Q: Rs (0.04)/liter) and Rs (5)-(6)/ltr, (2Q: Rs (12)/ltr), which in our assessment was offset partially by marketing inventory losses. IOCL 9M operating profit nevertheless remains in black, despite the challenging operating environment As we write, while Petrol margins have moderated to Rs 5.5/ltr, the loss on retailing of Diesel has also narrowed to Rs (3-4)/ltr. We expect retail marketing to normalize over FY24-25e and maintain BUY with a TP of Rs 120/sh.

Result Highlights

- **Profitability:** The Ebitda and PAT for the quarter stood at Rs 35.9bn (-62% YoY; +83% QoQ) and Rs 4.5bn (-91% YoY; -264% QoQ). The 9MFY23 Ebitda stood at Rs 73.1bn (-76% YoY) and at after tax level IOCL incurred a loss of Rs (15)bn.
- **Refinery Utilization:** The refining throughput stood YoY & QoQ higher at 18.2mmt (+5% YoY; +13% QoQ), implying a utilization of 103%. For the 9M period the throughput stood 7% YoY higher at 53.2mmt.
- **Gross Refinery Margin:** GRM for the quarter stood at USD 12.93/bbl and adjusted for inventory loss the adjusted GRM for the quarter stood at USD 17.4/bbl. For the 9MFY234 period the reported & core GRMs stood at USD 21.08/bbl & USD 20.55/bbl, respectively.
- **Marketing sales:** Total Domestic products sales stood at 21.6mmt (+13% YoY; +9% QoQ), vs industry at 56.8mmt (+7% YoY; +8% QoQ), during the quarter. MS sales stood at 3.6mmt (+10% YoY and Flat QoQ) vs industry sales at 8.8mmt(+7.6% YoY & +2.3% QoQ) and HSD sales stood at 10.1mmt (+16% YoY & +12% QoQ) vs industry sales at 22.5mmt (+10.2 % YoY & +17.1% QoQ), respectively.
- **Marketing margins:** As per our assessment, the retail marketing margin during the quarter stood at Rs 1614/t (2Q: Rs (780)/t) as retailing losses for HSD moderate QoQ and margins for MS turn positive. Our assessment also indicates possibility of marketing inventory losses to the tune of Rs 25-28bn during the quarter, however IOCL doesn't report the same.

Valuation

We maintain our BUY rating on IOCL with a TP of 120/sh, as we find the stock deeply discounted trading at P/BV of just ~0.7x FY25. We value IOCL on SOTP basis, with standalone (SA) business valued at Rs 95/sh and investment in listed (valued at 30% hold-co discount to market price) and unlisted entities at ~ Rs 27/sh

Exhibit 1: Actual vs estimate

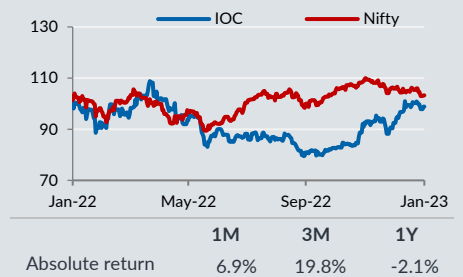
Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	2047402	2137040	1930000	(4.2)	6.1	Below estimates on weaker Refining & Petrochemical margins and perhaps high marketing inventory loss
EBITDA	35934	99873	48169	(64.0)	(25.4)	
EBITDA Margin (%)	1.8	4.7	2.5	-292 bps	-74 bps	
Adjusted PAT	4480	43186	23999	(90)	(81)	

Reco	: BUY
CMP	: Rs 82
Target Price	: Rs 120
Potential Return	: 46%

Stock data (as on Jan 31, 2022)

Nifty	17,662
52 Week h/l (Rs)	91/65
Market cap (Rs/USD mn)	1154411/14114
Outstanding Shares (mn)	14,121
6m Avg t/o (Rs mn):	1,039
Div yield (%):	9.9
Bloomberg code:	IOCL IN
NSE code:	IOCL

Stock performance



Shareholding pattern (As of Dec'22 end)

Promoter	51.5%
FII+DII	38.2%
Others	10.3%

Financial Summary

(Rs bn)	FY23E	FY24E	FY25E
Revenue	8,452	7,501	6,505
YoY Growth	41.3	(11.2)	(13.3)
EBIDTA	183	400	539
OPM %	(57.6)	118.2	34.8
PAT	37.6	195.4	299.5
YoY Growth	(84.44)	419.25	53.26
ROE	2.8	13.8	19.6
EPS	2.7	13.8	21.2
P/E	30.8	5.9	3.9
BV	97.6	103.6	112.7
EV/EBITDA	12.9	5.7	4.0

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Exhibit 2: Earnings snapshot

(Rsmn)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	y/y(%)	q/q(%)	9M FY22	9M FY23	%ChgYoY
Revenue	1,667,882	1,772,873	2,242,526	2,074,853	2,047,402	22.8	(1.3)	4,208,764	6,364,781	51.2
Expenditure	1,573,931	1,654,858	2,224,976	2,055,253	2,011,468	27.8	(2.1)	3,897,272	6,291,697	61.4
Operating profit	93,950	118,016	17,550	19,600	35,934	(61.8)	83.3	311,492	73,085	(76.5)
EBITDA mrgn(%)	5.6	6.7	0.8	0.9	1.8	-388bps	81bps	7.4	1.1	-625bps
Other income	13,753	9,517	6,837	21,984	17,151	24.7	(22.0)	33,726	45,971	36.3
Interest	9,791	16,072	17,247	14,410	19,528	99.4	35.5	32,219	51,185	58.9
Depreciation	27,787	28,873	28,471	29,617	30,990	11.5	4.6	81,186	89,078	9.7
Exp.item	(4,671)	(1,740)	(3,961)	-	-	n.a.	n.a.	(4,671)	(3,961)	n.a.
PBT	65,454	80,847	(25,292)	(2,442)	2,567	(96.1)	n.a.	227,142	(25,168)	n.a.
Tax	16,188	20,628	(5,367)	281	(1,914)	n.a.	n.a.	54,862	(7,000)	n.a.
Reported PAT	49,266	60,219	(19,925)	(2,724)	4,480	(90.9)	n.a.	172,281	(18,169)	n.a.
Adjusted PAT	52,782	61,515	(16,805)	(2,724)	4,480	(91.5)	n.a.	175,796	(15,048)	n.a.
FDEPS(Rs)	3.5	4.3	(1.4)	(0.2)	0.3	(90.9)	n.a.	12.2	(1.3)	n.a.

Exhibit 3: Operating highlights

	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	y/y(%)	q/q(%)	9M FY22	9M FY23	%ChgYoY
Refining Throughput (MMT)	17.4	18.3	18.9	16.1	18.2	4.6	13.0	49.4	53.2	7.7
Utilization (%)	99%	106%	108%	91%	103%	4.0	13.0	94%	101%	7.2
GRMs (USD/bbl)	12.0	18.5	31.8	18.5	12.9	7.5	(30.1)	8.5	21.3	151.1
P/L Throughput-Crude (MMT)	12.7	12.8	13.6	13.2	12.8	0.8	(3.0)	35.8	39.6	10.6
P/L Throughput-Product (MMT)	9.1	9.3	10.4	9.9	10.5	15.4	6.1	25.4	30.8	21.3
Domestic Sales (MMT)	19.2	20.1	21.3	19.9	21.6	12.6	8.6	53.6	62.8	17.1
Export Sales (MMT)	1.6	1.5	1.7	0.9	1.1	(27.2)	31.8	4.36	3.66	(16.1)
Total Sales	22.6	23.3	24.6	22.4	24.3	7.6	8.4	63.1	71.4	13.1
Marketing margin*	4,522.5	671.2	(8,257.6)	(777.7)	1,613.8	(64.3)	n.a.	5,150.2	(2,473.8)	n.a.
Inventory gain/(loss) (Rs Bn)*	(30.0)	20.5	(8.3)	(7.7)	(28.1)	n.a.	n.a.	(2.8)	(44.0)	n.a.
Petchem Sales (MMT)	0.7	0.8	0.6	0.5	0.4	(47.5)	(30.2)	2.1	1.6	(27.4)
Petchem EBIT (Rs Bn)	7.7	5.7	2.7	(1.3)	(6.2)	n.a.	n.a.	41.2	(4.8)	n.a.
Forex gain/(loss) (Rs Bn)	(0.2)	(10.0)	(29.4)	(30.5)	(17.0)	n.a.	n.a.	(4.4)	(76.9)	n.a.
Debt level (Rs Bn)	883.2	1,108.0	1,089.0	1,403.2	1,440.7	63.1	2.7	860.2	1,311.0	52.4

*YES Sec estimates

VIEW & VALUATION

Maintain BUY with a TP of Rs 120/sh.

We maintain our BUY rating on IOCL with a TP of 120/sh, as we find the stock deeply discounted trading at P/BV of just ~0.7x FY25. We value IOCL on SOTP basis, with standalone (SA) business valued at Rs 95/sh and investment in listed (valued at 30% hold-co discount to market price) and unlisted entities at ~ Rs 27/sh.

Exhibit 4: Valuation table

	EV	EBITDA	Multiple	Rs/sh
Refining	1,008,983	201,797	5.0	71.5
Petrochemical	167,393	33,479	5.0	11.9
Pipeline	353,520	70,704	5.0	25.0
Marketing	861,602	215,401	4.0	61.0
Others	70,837	17,709	4.0	5.0
Total SA EV	2,462,336	539,089	4.6	174.4

Listed Inv (@ 30% Hold Co discount)	Value	Shr Held	Mkt Price	Rs/Sh
ONGC	92,571	987	134	6.6
Chennai Petroleum	14,880	77	275	1.1
GAIL	7,633	123	89	0.5
Petronet LNG	27,563	188	210	2.0
Oil India	4,744	36	190	0.3
Lanka IOCL	1,960	400	7	0.1
IOCL treasury	17,134	350	70	1.2
Total Listed Investment	166,485			11.8
Other investment	213,982			15.2
Borrowing	1,189,627			84.2
Cash SA &Eq	65,128			4.6
Equity	1,718,304			122

Exhibit 5: Key Assumptions

	Unit	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23e	FY24e	FY25e
Brent	(USD/bbl)	85.5	47.0	49.9	57.9	70.0	62.0	45.7	79.9	90.0	80.0	70.0
Refining												
Throughput	(MT)	53.6	56.7	65.2	69.0	71.9	69.4	62.4	67.5	71.1	73.5	75.7
GRM	(USD/bbl)	(0.6)	5.1	7.8	8.5	5.4	0.1	5.6	11.2	16.1	7.5	7.5
Marketing												
Sales Volume	(MT)	76.5	80.7	80.9	86.4	87.3	87.4	78.3	83.5	97.5	97.4	96.5
Gross Marketing Margin	(Rs/ton)	5082	3951	4203	3972	5234	6091	6416	5050	-1435	3794	5298
HSD sales	(MT)	35	36	35	37	37	36	31	33	38	38	38
HSD sales growth	(%)		4%	-1%	3%	2%	-2%	-14%	6%	17%	0%	-1%
HSD -Retail margin	(Rs/liter)			2.48	2.50	2.50	3.65	4.50	4.85	-10.00	1.00	3.50
Exchange rate	(Rs/USD)	61	66	67	65	70	70	74	74	80	80	80

FINANCIALS

Exhibit 6: Balance sheet

Y/e 31 Mar (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity capital	47,393	94,787	91,810	91,810	91,810	91,810	141,210	141,210	141,210
Reserves	949,894	1,006,923	994,765	845,878	1,013,190	1,221,053	1,237,288	1,321,584	1,450,775
Net worth	997,287	1,101,710	1,086,575	937,689	1,105,000	1,312,864	1,378,498	1,462,794	1,591,985
Debt	503,848	555,252	832,599	1,127,367	965,808	1,194,627	1,289,627	1,189,627	1,089,627
Deferred tax liab (net)	67,592	120,196	158,231	114,131	129,647	136,274	138,387	149,361	166,180
Capital Employed	1,568,728	1,777,158	2,077,405	2,179,187	2,200,456	2,643,764	2,806,512	2,801,783	2,847,793
Fixed assets	1,186,173	1,282,758	1,423,068	1,634,196	1,764,521	1,913,349	2,040,472	2,160,445	2,273,268
Investments	473,046	474,883	497,554	391,386	486,194	577,866	577,866	577,866	577,866
Net working capital	(90,492)	19,517	156,783	153,605	(50,259)	152,550	188,173	63,472	(3,342)
Inventories	624,011	653,132	714,704	636,775	781,880	1,032,069	1,260,152	1,079,306	891,519
Sundry debtors	85,024	101,165	154,480	128,441	133,977	181,366	277,868	246,616	213,861
Cash & Bank Balance	865	814	914	5,891	16,683	8,830	11,221	(12,520)	26,082
Other current assets	223,014	294,648	366,358	314,216	157,286	169,911	181,992	181,992	181,992
Sundry creditors	301,075	331,061	386,790	252,516	338,746	424,693	735,088	629,595	520,053
Other liabilities	722,330	699,181	692,882	679,203	801,339	814,932	807,970	802,327	796,743
Application of Funds	1,568,728	1,777,158	2,077,405	2,179,186	2,200,456	2,643,765	2,806,512	2,801,783	2,847,793

Exhibit 7: Income statement

Y/e 31 Mar (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Revenue	3,598,732	4,240,387	5,276,927	4,862,565	3,780,576	5,981,638	8,451,814	7,501,249	6,504,931
Total Expense	3,211,167	3,871,816	4,926,035	4,674,718	3,399,945	5,549,199	8,268,576	7,101,475	5,965,842
Operating Profit	387,565	368,571	350,892	187,847	380,632	432,438	183,237	399,774	539,089
Other Income	42,086	34,146	31,285	35,714	45,507	43,243	48,279	49,727	51,219
Depreciation	62,230	70,670	75,143	87,661	98,043	110,059	112,877	120,027	127,177
EBIT	367,421	332,047	307,035	135,900	328,096	365,622	118,639	329,474	463,131
Interest	34,454	34,484	43,110	59,795	30,939	48,291	68,317	68,179	62,679
Extraordinary Item	(69,754)	28,080	(12,655)	(113,046)	-	-	-	-	-
PBT	263,212	325,643	251,269	(36,941)	297,157	317,331	50,322	261,294	400,451
Tax	72,148	112,182	82,328	(50,073)	78,796	75,490	12,681	65,846	100,914
PAT	191,064	213,461	168,942	13,132	218,360	241,841	37,641	195,448	299,538
Adj. PAT	260,818	185,381	181,597	126,179	218,360	241,841	37,641	195,448	299,538
Eps	18.5	13.1	12.9	8.9	15.5	17.1	2.7	13.8	21.2

Exhibit 9: Cash flow statement

Y/e 31 Mar (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
PBT	332,966	297,563	263,924	76,105	297,157	317,331	50,322	261,294	400,451
Depreciation & amortization	62,230	70,670	75,143	87,661	98,043	110,059	112,877	120,027	127,177
Interest expense	34,454	34,484	43,110	59,795	30,939	48,291	68,317	68,179	62,679
(Inc)/Dec in working capital	(39,614)	(96,632)	(136,601)	36,545	189,098	(205,605)	(27,119)	100,961	105,416
Tax paid	(68,073)	(73,007)	(44,858)	(22,415)	(37,723)	(73,920)	(16,681)	(54,872)	(84,095)
Less: Interest/Dividend Income Received	(28,663)	-	-	-	-	-	-	-	-
Other operating Cash Flow	(69,754)	28,080	(12,655)	(113,046)	-	-	-	-	-
Cash flow from operating activities	223,547	261,159	188,064	124,644	577,514	196,156	187,716	495,590	611,629
Capital expenditure	(124,683)	(167,255)	(215,453)	(298,789)	(228,368)	(258,888)	(240,000)	(240,000)	(240,000)
Inc/(Dec) in investments	(101,232)	(1,837)	(22,671)	106,168	(94,809)	(91,672)	-	-	-
Add: Interest/Dividend Income Received	28,663	-	-	-	-	-	-	-	-
Cash flow from investing activities	(197,252)	(169,091)	(238,125)	(192,620)	(323,177)	(350,560)	(240,000)	(240,000)	(240,000)
Inc/(Dec) in share capital	23,697	47,394	(2,977)	-	-	-	49,400	-	-
Inc/(Dec) in debt	79,014	51,404	277,348	294,768	(161,559)	228,819	95,000	(100,000)	(100,000)
Dividend Paid	(105,450)	(94,790)	(89,836)	(39,019)	(108,263)	(118,619)	(17,691)	(91,861)	(140,783)
Others	(27,821)	(96,126)	(134,374)	(182,794)	26,275	36,350	(72,032)	(87,470)	(92,244)
Cash flow from financing activities	(30,560)	(92,119)	50,161	72,955	(243,547)	146,550	54,676	(279,331)	(333,027)
Net cash flow	(4,265)	(51)	100	4,979	10,790	(7,854)	2,392	(23,741)	38,602

Exhibit 10: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Tax burden (x)	0.7	0.7	0.7	(0.4)	0.7	0.8	0.7	0.7	0.7
Interest burden (x)	0.7	1.0	0.8	(0.3)	0.91	0.9	0.4	0.8	0.9
EBIT margin (x)	0.10	0.08	0.06	0.03	0.09	0.06	0.01	0.04	0.07
Asset turnover (x)	1.5	1.6	1.8	1.6	1.17	1.7	2.1	1.7	1.5
Financial leverage (x)	2.6	2.6	2.7	3.1	3.16	3.0	3.1	3.0	2.7
RoE (%)	20.3	20.3	15.4	1.3	21.4	20.0	2.8	13.8	19.6

Exhibit 11: Ratio analysis

Y/e 31 Mar	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Growth matrix (%)									
Revenue growth	3.7	17.8	24.4	(7.9)	(22.3)	58.2	41.3	(11.2)	(13.3)
Op profit growth	84.1	(4.9)	(4.8)	(46.5)	102.6	13.6	(57.6)	118.2	34.8
EBIT growth	141.3	(11.9)	(16.1)	(92.6)	1,532.2	1.1	(106.7)	(1,173.2)	74.9
Net profit growth	70.0	11.7	(20.9)	(92.2)	1,562.8	10.8	(84.4)	419.2	53.3
Profitability ratios (%)									
OPM	10.8	8.7	6.6	3.9	10.1	7.2	2.2	5.3	8.3
EBIT margin	10.2	7.8	5.8	2.8	8.7	6.1	1.4	4.4	7.1
Net profit margin	5.3	5.0	3.2	0.3	5.8	4.0	0.4	2.6	4.6
RoCE	25.2	22.5	20.0	8.5	19.2	18.7	5.5	14.8	20.6
RoE	20.3	20.3	15.4	1.3	21.4	20.0	2.8	13.8	19.6
RoA	8.0	7.9	5.7	0.4	6.8	6.7	0.9	4.6	7.1
Per share ratios									
EPS	18.5	13.1	12.9	8.9	15.5	17.1	2.7	13.8	21.2
Dividend per share	7.5	6.7	6.4	2.8	7.7	8.4	1.3	6.5	10.0
Cash EPS	17.9	20.1	17.3	7.1	22.4	24.9	10.7	22.3	30.2
Book value per share	70.6	78.0	76.9	66.4	78.3	93.0	97.6	103.6	112.7
Valuation ratios									
P/E	4.1	5.8	5.9	8.5	4.9	4.4	28.5	5.5	3.6
P/CEPS	4.2	3.8	4.4	10.6	3.4	3.0	7.1	3.4	2.5
P/B	1.1	1.0	1.0	1.1	1.0	0.8	0.8	0.7	0.7
EV/EBIDTA	3.9	4.2	5.2	11.3	5.1	5.0	12.4	5.5	3.8
Payout (%)									
Dividend payout	55.2	44.4	53.2	297.1	49.6	49.0	47.0	47.0	47.0
Tax payout	23.8	45.3	33.0	(115.7)	23.1	25.2	25.2	25.2	25.2
Liquidity ratios									
Debtor days	8.6	8.7	10.7	9.6	12.9	11.1	12.0	12.0	12.0
Inventory days	80.3	69.5	58.5	55.4	96.8	74.8	60.0	60.0	60.0
Creditor days	38.8	35.2	31.7	22.0	41.9	30.8	35.0	35.0	35.0

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