

CMP: ₹ 81

Target: ₹ 90 (11%)

Target Period: 12 months

HOLD

February 1, 2023

Marketing performance likely to improve...

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

Q3FY23 Results: IOC's results were lower than estimates on the profitability front.

- Revenue increased 15.7% YoY, flat QoQ to ₹ 228168.3 crore (I-direct estimate: ₹ 214457 crore). Marketing sales increased 10% YoY, 7.5% QoQ to 23.2 MMT
- Average GRM for the quarter was US\$12.9/bbl marginally higher than I-direct estimate of US\$12/bbl. Marketing losses were higher than estimates, as per our understanding, EBITDA was at ₹ 3593.4 crore, down 64% YoY (up 83% QoQ)
- IOC reported PAT of ₹ 448 crore vs. a net loss of ₹ 272 crore (I-direct estimate: ₹ 1576 crore)

What should investors do? GRMs are likely to remain strong amid increase in petrol cracks. The company has not passed on higher crude oil costs to customers but marketing losses are likely to narrow down in the near term.

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

Target Price and Valuation: We value IOC at ₹ 90 i.e. average of P/E multiple: ₹ 85/share and P/BV multiple: ₹ 95/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 Reliance Industries (RIL)

- RIL is one of India's biggest conglomerates with a presence in oil refining & marketing and petrochemicals, oil & gas exploration, retail, digital services, media, etc, making it a well-diversified business entity
- BUY with target price of ₹ 3050



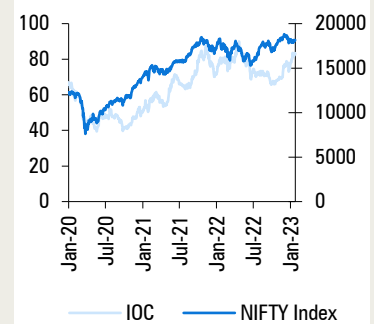
Particulars

Particular	Amount
Market Capitalization (₹Crore)	1,14,382.0
Total Debt (FY22) (₹ Crore)	1,19,431.5
Cash and Investments(FY22)	10,882.7
EV (₹ Crore)	2,22,930.8
52 week H/L	91 / 65
Equity capital (₹ Crore)	14,121.2
Face value (₹)	10.0

Shareholding pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	51.5	51.5	51.5	51.5
FII	8.4	8.2	7.2	7.0
DII	11.3	11.5	11.2	11.7
Others	28.8	28.8	30.0	29.8

Price Chart



Recent event & key risks

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

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Key Financial Summary

Key Financials	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	FY25E	3 year CAGR (FY22E-25E)
Revenues (₹ crore)	5,66,949.7	5,14,894.9	7,28,459.9	10.3	9,19,917.3	8,12,267.4	7,74,573.2	2.1
EBITDA (₹ crore)	18,784.7	38,068.0	43,243.8	6.3	22,686.0	51,282.7	42,986.0	(0.2)
Net Profit (₹ crore)	1,313.2	21,836.0	24,184.1	4.8	7,386.5	27,227.2	21,021.2	(4.6)
EPS (₹)	0.9	15.5	17.1		5.2	19.3	14.9	
P/E (x)	87.1	5.2	4.7		15.5	4.2	5.4	
Price / Book (x)	1.2	1.0	0.9		0.9	0.8	0.7	
EV/EBITDA (x)	6.1	3.0	2.6		5.0	2.2	2.7	
RoCE (%)	4.8	13.3	12.9		4.0	13.5	9.8	
RoE (%)	1.4	19.8	18.4		5.8	18.9	13.6	

Key takeaways of recent quarter

Q3FY23 Results: Largely in line refining profitability

- IOC's GRM was at US\$12.9/bbl vs. US\$18.5/bbl in Q2FY23
- Going ahead, we expect GRM at US\$19.5/bbl, US\$10/bbl and US\$8/bbl in FY23E, FY24E and FY25E, respectively
- Crude throughput was up 4.6% YoY, up 13% QoQ to 18.2 MMT (vs. I-direct estimate: 18 MMT). We estimate crude throughput at 71.2 MMT, 72.4MMT and 72.4 MMT in FY23E, FY24E and FY25E, respectively
- 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 Q3FY23
- We expect sales at 91.1 MMT, 94.5 MMT and 98 MMT in FY23E, FY24E and FY25E, respectively

IOCL- ESG Disclosure Score

Score	FY20	FY21	FY22
Environmental	54.9	68.4	NA
Social	35.6	43.3	NA
Governance	81.1	87.4	NA
Overall ESG	57.2	66.4	NA

Source: Bloomberg, ICICI Direct Research

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)	343	380	Hold	73,040	91.0	43.7	5.2	3.8	7.9	65.8	5.8	6.3	13.0	14.8	13.9	2.7	34.9	18.5	2.2
HPCL (HINPET)	232	250	Hold	32,919	44.9	-39.6	47.8	5.2	-5.9	4.9	7.8	-18.2	6.6	7.3	-9.9	8.3	16.5	-17.0	18.3
Indian Oil Corp (INDOIL)	81	90	Hold	1,14,382	15.5	17.1	5.2	5.2	4.7	15.5	3.0	2.6	5.0	13.3	12.9	4.0	19.8	18.4	5.8

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Total Revenues	2,28,168.3	2,14,457.0	1,97,172.0	15.7	2,28,359.4	-0.1	Higher than expected
Raw materials costs	1,86,974.2	1,67,624.2	1,43,970.1	29.9	1,89,069.2	-1.1	
Employees Cost	1,880.5	2,903.4	2,688.3	-30.0	2,191.5	-14.2	
Other Expenses	35,720.2	38,402.4	40,651.5	-12.1	35,138.7	1.7	
Total Expenditure	2,24,575.0	2,08,930.0	1,87,309.9	19.9	2,26,399.3	-0.8	
EBITDA	3,593.4	5,527.0	9,862.1	-63.6	1,960.0	83.3	Lower than expected due to higher than expected marketing losses, as per our understanding
EBITDA margins (%)	1.6	2.6	5.0	-343 bps	0.9	72 bps	
Depreciation	3,099.0	3,256.4	2,778.7	11.5	2,961.7	4.6	
EBIT	494.3	2,270.6	7,083.4	-93.0	-1,001.6	-149.4	
Interest	1,952.8	1,256.8	979.1	99.4	1,441.0	35.5	
Other Income	1,715.1	1,093.2	1,375.3	24.7	2,198.4	-22.0	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	256.6	2,107.0	7,479.6	-96.6	-244.2	-205.1	
Total Tax	-191.4	531.0	1,618.8	-111.8	28.1	-780.5	
PAT	448.0	1,576.0	5,860.8	-92.4	-272.4	-264.5	Lower than expected due to higher than expected marketing losses

Key Metrics

Exchange rate (₹/\$)	82.2	82.2	75.0	9.7	79.8	3.0	
Throughput (mmt)	18.2	18.0	17.4	4.6	16.1	13.1	In line with estimates
Sales (mmt)	23.2	22.2	21.0	10.2	21.6	7.5	Marginally higher than estimates
GRM (\$/barrel)	12.9	12.0	12.0	7.5	18.5	-30.1	Marginally higher than estimates

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			FY25E			Comments
	Old	New	Change	Old	New	Change	Old	New	Change	
Revenue	9,02,291.3	9,19,917.3	2.0	7,96,890.0	8,12,267.4	1.9	7,98,803.0	7,74,573.2	-3.0	
EBITDA	22,668.5	22,686.0	0.1	42,417.3	51,282.7	20.9	42,802.4	42,986.0	0.4	Realign segmental estimates post Q3FY23 performance
EBITDA Margin (%)	2.5	2.5	-5 bps	5.3	6.3	99 bps	5.4	5.5	19 bps	
PAT	7,055.0	7,386.5	4.7	20,506.1	27,227.2	32.8	20,794.1	21,021.2	1.1	
EPS (₹)	5.0	5.2	4.7	14.5	19.3	32.8	14.7	14.9	1.1	

Source: ICICI Direct Research

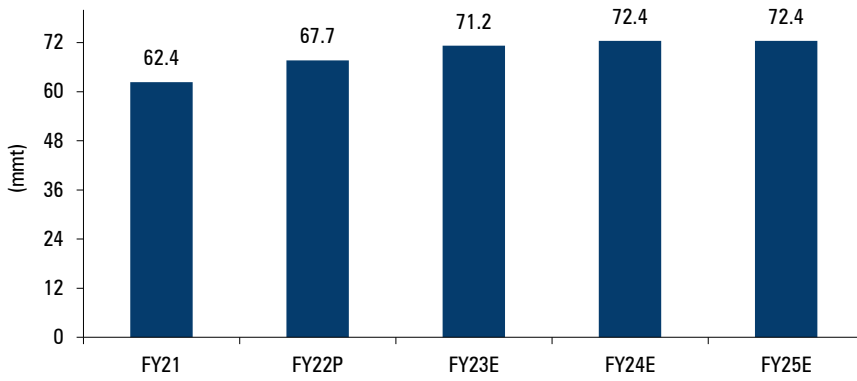
Exhibit 4: Assumptions

	Current					Earlier			Comments
	FY21	FY22	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	
Exchange rate (₹/\$)	74.0	74.6	80.2	82.2	82.2	80.2	82.2	82.2	
Throughput (mmt)	62.4	67.7	71.2	72.4	72.4	71.0	72.4	72.4	
Sales (mmt)	75.6	80.5	91.1	94.6	98.1	89.6	93.0	96.4	Increased sales estimates post Q3FY23 performance
GRM (\$/barrel)	5.6	11.3	19.5	10.0	8.0	18.0	8.0	8.0	Revised GRMs as per current product cracks trend

Source: ICICI Direct Research

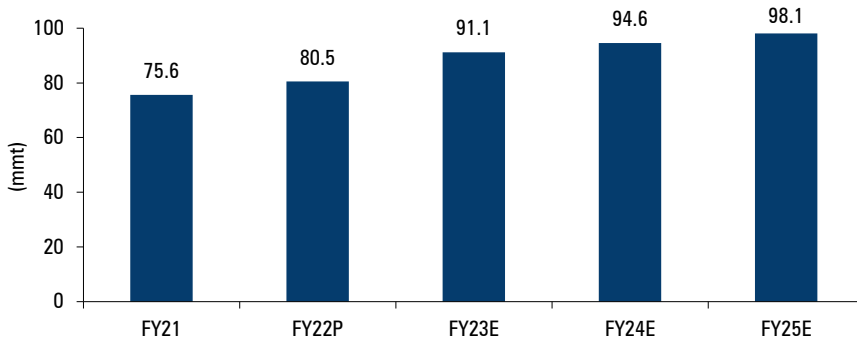
Story in charts

Exhibit 5: Oil throughput trend



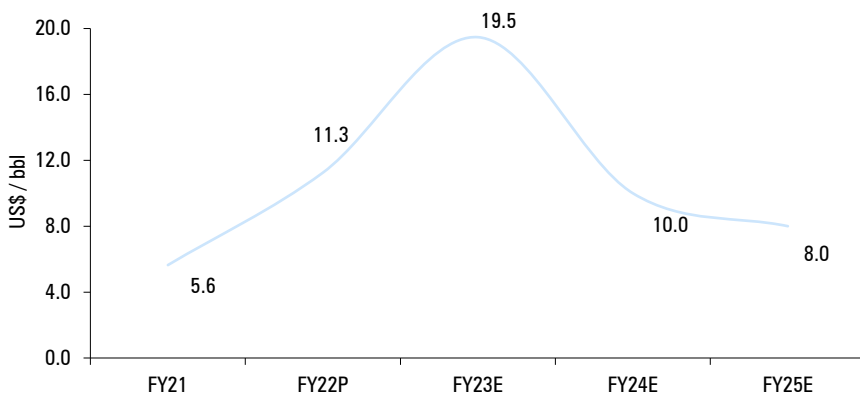
Source: Company, ICICI Direct Research

Exhibit 6: Marketing sales trend



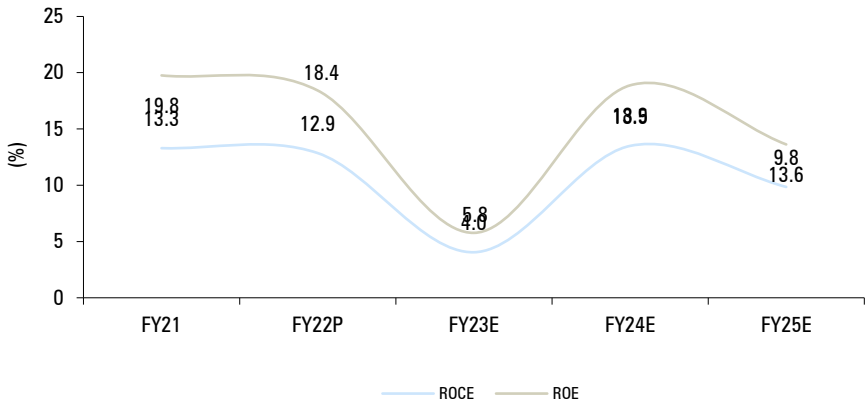
Source: Company, ICICI Direct Research

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			
	FY22	FY23E	FY24E	FY25E
Revenue	728459.9	919917.3	812267.4	774573.2
Growth (%)	41.5	26.3	-11.7	-4.6
(Inc.)/(Dec.) in stock in trade	-12197.0	-5994.7	0.0	0.0
Raw material Costs	294501.5	422182.6	327831.0	310800.8
Purchase of Products	221078.1	320285.9	266230.8	252400.7
Employee Costs	10991.7	9947.6	10544.5	11177.1
Other Expenditure	170841.9	150809.8	156378.4	157208.6
Op. Expenditure	685216.1	897231.2	760984.7	731587.3
EBITDA	43243.8	22686.0	51282.7	42986.0
Growth (%)	13.6	-47.5	126.1	-16.2
Depreciation	11005.9	12164.2	14208.6	14208.6
EBIT	32237.9	10521.8	37074.2	28777.4
Interest	4829.1	6375.3	5247.3	5247.3
Other Income	4324.3	5640.6	4573.1	4573.1
PBT	31733.1	9787.1	36400.0	28103.2
Growth (%)	6.8	-69.2	271.9	-22.8
Tax	7549.0	2400.6	9172.8	7082.0
Reported PAT	24184.1	7386.5	27227.2	21021.2
Growth (%)	10.8	-69.5	268.6	-22.8
EPS	17.1	5.2	19.3	14.9

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit after Tax	24,184.1	7,386.5	27,227.2	21,021.2
Add: Depreciation	11,005.9	12,164.2	14,208.6	14,208.6
Add: Others	0.0	0.0	0.0	0.0
Cash Profit	22,317.9	9,447.1	31,432.2	25,226.2
Increase/(Decrease) in CL	15,430.7	26,048.7	-11,058.2	-7,141.0
(Increase)/Decrease in CA	-17,485.5	-4,550.3	26,129.8	15,780.2
CF from Operating Activi	6,728.4	19,942.0	35,500.3	22,861.9
Purchase of Fixed Assets	25,857.7	27,138.5	29,000.0	27,805.1
(Inc)/Dec in Investments	-9,167.2	-1,000.0	-1,000.0	-1,000.0
Others	0.0	0.0	0.0	0.0
CF from Investing Activi	-35,024.9	-28,138.5	-30,000.0	-28,805.1
Inc/(Dec) in Loan Funds	17,374.0	12,500.0	-1,500.0	7,500.0
Dividend Paid	13,534.7	11,003.6	11,003.6	11,003.6
Inc/(Dec) in Sh. Cap. & Res.	10,137.0	348.7	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activi	13,976.2	1,845.2	-12,503.6	-3,503.6
Change in cash Eq.	-785.6	4,652.1	4,000.3	1,556.8
Op. Cash and cash Eq.	1,668.2	882.7	5,534.8	9,535.2
Cl. Cash and cash Eq.	882.7	5,534.8	9,535.2	11,092.0

Source: Company, ICICI Direct Research

Exhibit 11: Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Source of Funds				
Equity Capital	9,181.0	14,121.2	14,121.2	14,121.2
Preference capital	0.0	0.0	0.0	0.0
Reserves & Surplus	1,22,105.3	1,13,896.8	1,30,120.4	1,40,138.1
Shareholder's Fund	1,31,286.4	1,28,018.0	1,44,241.7	1,54,259.3
Loan Funds	1,19,431.5	1,31,931.5	1,30,431.5	1,37,931.5
Deferred Tax Liability	13,627.4	14,527.4	15,527.4	16,527.4
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	264345.2	274476.9	290200.5	308718.2
Application of Funds				
Gross Block	2,03,435.5	2,27,435.5	2,51,935.5	2,76,435.5
Less: Acc. Depreciation	54,896.3	67,921.9	82,130.5	97,533.9
Net Block	1,48,539.3	1,59,513.6	1,69,805.1	1,78,901.6
Capital WIP	42,764.6	46,764.6	51,264.6	55,764.6
Total Fixed Assets	1,91,303.9	2,06,278.2	2,21,069.7	2,34,666.2
Investments	57,786.6	58,786.6	59,786.6	60,786.6
Inventories	1,03,206.9	1,13,414.5	1,00,142.6	95,495.3
Debtor	18,136.6	22,682.9	20,028.5	19,099.1
Cash	882.7	5,534.8	9,535.2	11,092.0
Loan & Advance, Other CA	16991.1	17791.1	18591.1	19391.1
Total Current assets	139217.3	159423.2	148297.3	145077.4
Current Liabilities	113660.5	138617.7	126847.2	120960.8
Provisions	10302.1	11393.6	12105.8	10851.3
Total CL and Provisions	123962.6	150011.2	138953.1	131812.1
Net Working Capital	15254.7	9412.0	9344.2	13265.3
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	264345.2	274476.9	290200.5	308718.2

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
Per share data (₹)				
Book Value	93.0	90.7	102.1	109.2
Cash per share	0.6	3.9	6.8	7.9
EPS	17.1	5.2	19.3	14.9
Cash EPS	24.9	13.8	29.3	24.9
DPS	8.4	6.7	6.7	6.7
Profitability & Operating Ratios				
EBITDA Margin (%)	5.9	2.5	6.3	5.5
PAT Margin (%)	3.3	0.8	3.4	2.7
Fixed Asset Turnover (x)	3.8	4.5	3.7	3.3
Inventory Turnover (Days)	51.7	45.0	45.0	45.0
Debtor (Days)	9.1	9.0	9.0	9.0
Current Liabilities (Days)	60.0	55.0	57.0	57.0
Return Ratios (%)				
RoE	18.4	5.8	18.9	13.6
RoCE	12.9	4.0	13.5	9.8
RoIC	13.4	4.3	14.5	10.6
Valuation Ratios (x)				
PE	4.7	15.5	4.2	5.4
Price to Book Value	0.9	0.9	0.8	0.7
EV/EBITDA	2.6	5.0	2.2	2.7
EV/Sales	0.3	0.3	0.3	0.3
Leverage & Solvency Ratios				
Debt to equity (x)	0.9	1.0	0.9	0.9
Interest Coverage (x)	6.7	1.7	7.1	5.5
Debt to EBITDA (x)	2.8	5.8	2.5	3.2
Current Ratio	1.1	1.1	1.1	1.1
Quick ratio	0.3	0.3	0.3	0.4

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)	343	380	Hold	73,040	91.0	43.7	5.2	3.8	7.9	65.8	5.8	6.3	13.0	14.8	13.9	2.7	34.9	18.5	2.2
GAIL (India) (GAIL)	96	115	Buy	63,121	11.0	23.3	9.4	8.7	4.1	10.2	7.3	3.4	8.4	8.7	18.8	9.0	10.5	18.6	10.5
Gujarat Gas (GUJGA)	515	550	Hold	35,453	18.9	18.9	26.6	27.2	27.3	19.4	17.3	16.9	12.1	27.3	22.0	26.4	23.3	19.6	22.5
HPCL (HINPET)	232	250	Hold	32,919	44.9	-39.6	47.8	5.2	-5.9	4.9	7.8	-18.2	6.6	7.3	-9.9	8.3	16.5	-17.0	18.3
Indian Oil Corp (INDOIL)	81	90	Hold	1,14,382	15.5	17.1	5.2	5.2	4.7	15.5	3.0	2.6	5.0	13.3	12.9	4.0	19.8	18.4	5.8
Indraprastha Gas (INDGAS)	418	490	Buy	29,260	14.4	18.8	20.1	29.1	22.3	20.8	19.0	14.9	13.7	20.0	22.3	20.8	17.1	19.0	17.7
Mahanagar Gas (MAHGAS)	897	1,000	Hold	8,860	60.4	50.4	79.6	14.8	17.8	11.3	9.2	10.6	6.9	19.8	15.1	22.2	16.6	13.1	18.4
ONGC (ONGC)	149	155	Hold	1,91,217	10.4	8.9	32.0	14.3	16.7	4.7	4.2	6.4	3.3	10.2	4.5	14.8	6.7	5.5	17.0
Petronet LNG (PETLNG)	225	230	Hold	33,750	19.7	22.3	22.0	11.4	10.1	10.2	7.0	6.2	6.2	26.0	27.0	23.7	25.3	25.0	22.6
Reliance Industries (RELIND)	2,443	3,050	Buy	16,52,690	89.7	89.7	100.6	32.0	27.2	24.3	22.9	17.9	13.1	5.5	7.1	9.2	7.0	7.8	8.1

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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