

January 31, 2023

Q3FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	125		130	
Sales (Rs. m)	73,18,417	69,91,949	72,92,588	69,65,346
% Chng.	0.4	0.4		
EBITDA (Rs. m)	4,16,885	4,17,713	4,21,823	4,22,899
% Chng.	(1.2)	(1.2)		
EPS (Rs.)	13.9	13.3	13.5	12.9
% Chng.	2.7	3.1		

Key Financials - Standalone

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. bn)	5,893	8,212	7,318	6,992
EBITDA (Rs. bn)	477	166	417	418
Margin (%)	8.1	2.0	5.7	6.0
PAT (Rs. bn)	233	18	191	183
EPS (Rs.)	25.3	1.3	13.9	13.3
Gr. (%)	20.1	(94.9)	970.3	(4.5)
DPS (Rs.)	12.6	0.2	6.7	6.4
Yield (%)	15.4	0.3	8.1	7.8
RoE (%)	19.0	1.3	13.6	12.0
RoCE (%)	14.3	1.8	10.3	9.2
EV/Sales (x)	0.3	0.3	0.3	0.3
EV/EBITDA (x)	4.1	14.4	5.6	5.6
PE (x)	3.2	63.0	5.9	6.2
P/BV (x)	0.6	0.8	0.8	0.7

Key Data

IOC.BO | IOCL IN

52-W High / Low	Rs.91 / Rs.65
Sensex / Nifty	59,550 / 17,662
Market Cap	Rs.1,154bn / \$ 14,091m
Shares Outstanding	14,121m
3M Avg. Daily Value	Rs.1132.6m

Shareholding Pattern (%)

Promoter's	51.50
Foreign	7.22
Domestic Institution	11.68
Public & Others	29.60
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	6.9	12.1	(2.1)
Relative	9.2	8.3	(4.6)

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Sector outlook improves as crude prices correct

Quick Pointers:

- Global low product inventory and lower exports from Russia to support GRMs.
- Rising recessionary pressure to keep crude prices in check; blended marketing margins at Rs1.5/ltr vs loss of Rs3/ltr in Q3.

We lower our FY23/24/25E earnings estimate by 82.5%/+2.7%/+3.1% to factor in weak petchem performance (9MFY23 EBIT loss Rs4.7bn), lower Chennai petro results and higher cost. Indian Oil Corporation (IOCL) reported better than expected Q3 results with standalone EBITDA of Rs35.9bn (+83%QoQ; PLe Rs27.5bn) and PAT of Rs4.5bn (PLe -Rs7.5bn), due to lower marketing losses. Sharp correction in international diesel prices ~\$115 from recent peak of USD170/bbl improved marketing segment's profitability. Also, ban on import of Russian oil product from Feb-23 will support refining product spreads. Further, global recessionary pressure along with high interest rates will keep oil prices range bound, despite increased demand from China. We believe OMCs are well placed to benefit from improving marketing and healthy refining profitability. Maintain 'BUY' at PT of Rs125 (Rs130) based on 7x EV/E FY24E.

- Marketing EBIDTA loss falls to Rs69.5bn:** IOCL reported standalone EBIDTA/PAT of Rs35.9bn (+83% QoQ) and Rs4.5bn, due to lower marketing losses. We calculate Q3 marketing EBIDTA loss of Rs69.5bn vs Q2 levels of Rs122.5bn, due to reduced diesel losses (company stopped sharing the segment's EBIDTA). Q3 GRMs were strong at \$12.9/bbl (Q2: \$18.5/bbl), due to healthy product spreads.
- Q3 petrol/diesel volume grow at 10.2%/16.0%YoY:** IOCL's marketing volumes were impressive on YoY basis with MS sales at 3.58MTPA (+10.2% YoY) and HSD sales at 10.1MTPA (+16% YoY). For Q3, petrol and diesel industry volumes were at 8.8MTPA (+8%YoY) and 22.5MTPA (+10%YoY).
- Improving fuel marketing environment is a positive:** Fuel marketing environment continues to improve as petrol margins improved to ~Rs9/litre in Q4; diesel margins are close to breakeven. Blended marketing margins for Q4FY23E stand at ~Rs1.5/litre vs loss of Rs3/ltr in Q3 and Rs11/ltr in H1FY23. We maintain our FY24/25 marketing margins at Rs3.5/4.0/ltr.
- Ban on Russian oil products to support GRMs:** IOCL's Q3 refining margins were at USD12.9/bbl (Q2 at USD18.5/bb; PLe USD21.0/bbl), before export cess. Refining throughput was higher at 18.2 MTPA (16.1 in Q2), post maintenance shutdown. Refining margins are likely to remain healthy, as diesel demand along with ATF remains strong, due to ban on Russian oil products imports to EU. Russia exported 1.5mbpd oil products to EU before the conflict.
- Petrochemicals and pipeline profitability was mixed:** We calculate pipeline segment's EBIDTA at Rs18.0bn in Q3 v/s Rs17.8bn in Q2 due to increase in thrupt of 23.8MTPA vs 23.6MTPA in Q2. Petchem EBIDTA loss was at Rs4.1bn vs gain of Rs841mn in Q2, given sharp contraction in margins and spreads were at -USD130/ton vs USD20/ton in Q2.

Exhibit 1: Q3FY23 Result Overview (Rs mn) – Standalone; Lower marketing loss drive Q3 results

Y/e March	Q3FY23	Q3FY22	YoY gr. (%)	Q2FY23	9MFY23	9MFY22	YoY gr. (%)
Net sales	22,81,683	19,71,720	15.7	22,83,594	70,84,606	52,19,991	35.7
Inc/dec in stock	17,976	7,205	149.5	(10,016)	(59,947)	(60,426)	(0.8)
Purchases	7,63,253	6,56,199	16.3	8,27,930	25,11,351	15,49,335	62.1
Raw material cons	10,88,514	7,76,298	40.2	10,72,777	33,75,021	20,41,000	65.4
Duties	2,34,281	3,03,839	(22.9)	2,08,741	7,19,825	10,11,226	(28.8)
Staff cost	18,805	26,883	(30.0)	21,915	64,984	77,980	(16.7)
Other expenditure	1,22,921	1,07,386	14.5	1,42,646	4,04,249	2,89,424	39.7
Exp	(22,45,750)	(18,77,809)	NA	(22,63,993)	(70,15,483)	(49,08,538)	NA
Operating profit	35,934	93,911	(61.7)	19,600	69,124	3,11,453	(77.8)
Interest	(19,528)	(9,791)	NA	(14,410)	(51,185)	(32,219)	NA
Depreciation	(30,990)	(23,077)	NA	(29,617)	(89,078)	(76,476)	NA
Other income	17,151	13,753	24.7	21,984	45,971	33,726	36.3
Profit before tax	2,567	74,796	(96.6)	(2,442)	(25,168)	2,36,484	NA
Current tax	-	(13,769)	NA	-	-	(46,898)	NA
Profit after current tax	2,567	61,026	(95.8)	(2,442)	(25,168)	1,89,586	(113.3)
Deferred tax	1,914	(2,419)	NA	(281)	7,000	(7,964)	NA
Net profit	4,480	58,608	(92.4)	(2,724)	(18,169)	1,81,622	(110.0)

Source: Company, PL

Exhibit 2: EBITDA Breakup (Rs mn) incl other income; Marketing loss comes off with falling crude prices

	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22*	Q1FY23*	Q2FY23*	Q3FY22*
Refining	(3,260)	63,780	24,920	20,280	75,930	156,040	3,08,312	1,45,447	1,08,639
Marketing	71,300	34,430	54,250	53,770	(3,990)	(54,772)	(3,11,360)	(1,22,582)	(69,529)
Pipeline	16,990	16,080	15,740	14,500	16,490	16,687	18,646	17,878	18,003
Petrochem	19,540	22,480	19,890	18,120	9,820	7,837	4,828	841	(4,029)
Others	4,350	9,270	2,110	13,950	14,130				
Total	108,920	146,040	116,910	120,620	112,380	125,792	20,426	41,584	53,084

Source: Company, PL

* PL Estimates

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	58,93,357	82,12,216	73,18,417	69,91,949
YoY gr. (%)	61.9	39.3	(10.9)	(4.5)
Cost of Goods Sold	50,06,639	74,35,120	62,68,043	59,20,194
Gross Profit	8,86,719	7,77,097	10,50,373	10,71,756
Margin (%)	15.0	9.5	14.4	15.3
Employee Cost	-	-	-	-
Other Expenses	4,09,302	6,11,573	6,33,489	6,54,042
EBITDA	4,77,417	1,65,524	4,16,885	4,17,713
YoY gr. (%)	17.6	(65.3)	151.9	0.2
Margin (%)	8.1	2.0	5.7	6.0
Depreciation and Amortization	1,23,476	1,16,624	1,30,234	1,44,254
EBIT	3,53,941	48,900	2,86,651	2,73,459
Margin (%)	6.0	0.6	3.9	3.9
Net Interest	54,233	61,789	72,360	75,860
Other Income	30,822	54,064	59,579	64,232
Profit Before Tax	3,30,530	41,175	2,73,871	2,61,831
Margin (%)	5.6	0.5	3.7	3.7
Total Tax	85,620	11,240	74,117	70,869
Effective tax rate (%)	25.9	27.3	27.1	27.1
Profit after tax	2,44,910	29,935	1,99,753	1,90,963
Minority interest	12,356	12,054	8,370	8,226
Share Profit from Associate	-	-	-	-
Adjusted PAT	2,32,555	17,881	1,91,383	1,82,736
YoY gr. (%)	20.1	(92.3)	970.3	(4.5)
Margin (%)	3.9	0.2	2.6	2.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,32,555	17,881	1,91,383	1,82,736
YoY gr. (%)	20.1	(92.3)	970.3	(4.5)
Margin (%)	3.9	0.2	2.6	2.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,32,555	17,881	1,91,383	1,82,736
Equity Shares O/s (m)	9,181	13,772	13,772	13,772
EPS (Rs)	25.3	1.3	13.9	13.3

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	21,53,449	24,25,070	27,39,595	30,44,120
Tangibles	21,53,449	24,25,070	27,39,595	30,44,120
Intangibles	-	-	-	-
Acc: Dep / Amortization	5,81,499	6,64,792	7,95,026	9,39,280
Tangibles	5,81,499	6,64,792	7,95,026	9,39,280
Intangibles	-	-	-	-
Net fixed assets	15,71,950	17,60,278	19,44,569	21,04,840
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)	(1,42,901)	(1,68,153)	(1,92,240)
Other Non-Current Assets	65,095	72,175	79,392	87,331
Current Assets				
Investments	80,132	77,648	77,648	77,648
Inventories	11,17,365	12,33,874	10,88,506	10,77,077
Trade receivables	1,87,004	2,90,490	2,53,682	2,50,289
Cash & Bank Balance	18,201	20,178	1,54,412	2,19,909
Other Current Assets	38,420	39,380	41,349	43,417
Total Assets	41,06,249	44,97,388	46,82,507	49,47,567
Equity				
Equity Share Capital	91,810	1,37,716	1,37,716	1,37,716
Other Equity	12,43,541	12,02,892	13,27,254	14,46,052
Total Networkth	13,35,352	13,40,608	14,64,970	15,83,767
Non-Current Liabilities				
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
Current Liabilities				
ST Debt / Current of LT Debt	6,97,114	7,11,570	7,31,570	7,51,570
Trade payables	4,90,459	7,57,293	6,65,724	6,58,071
Other current liabilities	7,33,974	8,16,796	8,62,997	9,12,044
Total Equity & Liabilities	41,06,249	44,97,388	46,82,507	49,47,567

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	3,30,530	41,175	2,73,871	2,61,831
Add. Depreciation	1,23,476	1,16,624	1,30,234	1,44,254
Add. Interest	54,233	61,789	72,360	75,860
Less Financial Other Income	30,822	54,064	59,579	64,232
Add. Other	-	-	-	-
Op. profit before WC changes	5,08,239	2,19,588	4,76,464	4,81,945
Net Changes-WC	(1,48,249)	1,05,799	1,47,769	64,724
Direct tax	(72,347)	(10,243)	(48,865)	(46,782)
Net cash from Op. activities	2,87,643	3,15,143	5,75,368	4,99,887
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)
Net Cash from Inv. activities	(3,58,604)	(2,77,394)	(3,47,991)	(3,41,994)
Issue of share cap. / premium	80,624	(7,652)	938	940
Debt changes	1,53,705	36,659	70,000	70,000
Dividend paid	(1,15,681)	(2,991)	(91,722)	(87,476)
Interest paid	(54,233)	(61,789)	(72,360)	(75,860)
Others	-	-	-	-
Net cash from Fin. activities	64,415	(35,773)	(93,144)	(92,396)
Net change in cash	(6,545)	1,977	1,34,233	65,497
Free Cash Flow	4,836	69,696	2,58,576	1,92,212

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Net Revenue	17,72,873	22,42,526	20,74,853	20,47,402
YoY gr. (%)	43.3	89.0	53.2	22.8
Raw Material Expenses	15,03,918	20,65,991	18,90,692	18,69,742
Gross Profit	2,68,956	1,76,535	1,84,161	1,77,660
Margin (%)	15.2	7.9	8.9	8.7
EBITDA	1,16,275	13,589	19,600	35,934
YoY gr. (%)	(20.9)	(87.8)	(81.6)	(61.7)
Margin (%)	6.6	0.6	0.9	1.8
Depreciation / Depletion	28,873	28,471	29,617	30,990
EBIT	87,402	(14,882)	(10,016)	4,944
Margin (%)	4.9	(0.7)	(0.5)	0.2
Net Interest	16,072	17,247	14,410	19,528
Other Income	9,517	6,837	21,984	17,151
Profit before Tax	80,847	(25,292)	(2,442)	2,567
Margin (%)	4.6	(1.1)	(0.1)	0.1
Total Tax	20,628	(5,367)	281	(1,914)
Effective tax rate (%)	25.5	21.2	(11.5)	(74.6)
Profit after Tax	60,219	(19,925)	(2,724)	4,480
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	60,219	(19,925)	(2,724)	4,480
YoY gr. (%)	(31.4)	(133.5)	(104.3)	(92.4)
Margin (%)	3.4	(0.9)	(0.1)	0.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	60,219	(19,925)	(2,724)	4,480
YoY gr. (%)	(31.4)	(133.5)	(104.3)	(92.4)
Margin (%)	3.4	(0.9)	(0.1)	0.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	60,219	(19,925)	(2,724)	4,480
Avg. Shares O/s (m)	13,772	13,772	13,772	13,772
EPS (Rs)	4.4	(1.4)	(0.2)	0.3

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	25.3	1.3	13.9	13.3
CEPS	38.8	9.8	23.4	23.7
BVPS	145.4	97.3	106.4	115.0
FCF	0.5	5.1	18.8	14.0
DPS	12.6	0.2	6.7	6.4
Return Ratio(%)				
RoCE	14.3	1.8	10.3	9.2
ROIC	8.8	1.1	6.4	5.9
RoE	19.0	1.3	13.6	12.0
Balance Sheet				
Net Debt : Equity (x)	0.9	0.9	0.8	0.8
Net Working Capital (Days)	50	34	34	35
Valuation(x)				
PER	3.2	63.0	5.9	6.2
P/B	0.6	0.8	0.8	0.7
P/CEPS	38.8	9.8	23.4	23.7
EV/EBITDA	4.1	14.4	5.6	5.6
EV/Sales	0.3	0.3	0.3	0.3
Dividend Yield (%)	15.4	0.3	8.1	7.8

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
Net subsidy burden (Rs m)				

Source: Company Data, PL Research



Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	03-Jan-23	BUY	130	78
2	09-Dec-22	BUY	130	77
3	31-Oct-22	Reduce	50	68
4	01-Oct-22	Reduce	50	67
5	01-Aug-22	Hold	81	73
6	05-Jul-22	Hold	87	74
7	23-May-22	Hold	131	117
8	17-May-22	Hold	131	124
9	04-Apr-22	BUY	150	122
10	02-Feb-22	BUY	205	124

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bharat Petroleum Corporation	BUY	420	335
2	Bharti Airtel	BUY	1,039	818
3	GAIL (India)	BUY	123	95
4	Gujarat Gas	Hold	530	490
5	Hindustan Petroleum Corporation	BUY	350	237
6	Indian Oil Corporation	BUY	130	78
7	Indraprastha Gas	BUY	564	413
8	Mahanagar Gas	BUY	1,103	845
9	Oil & Natural Gas Corporation	BUY	180	150
10	Oil India	BUY	300	215
11	Petronet LNG	BUY	326	223
12	Reliance Industries	BUY	2,878	2,443

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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