Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Indian Oil Corporation Ltd

Stellar Q4; valuation attractive & high dividend yield

Oil & Gas		Sharekhan code: IOC		
Reco/View: Buy	↔	CMP: Rs. 87	Price Target: Rs. 100	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)		✓	
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

ESG Disclosure Score NEW

ESG RISK RATING	35.50
Updated Mar 08, 2023	
High Risk	

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

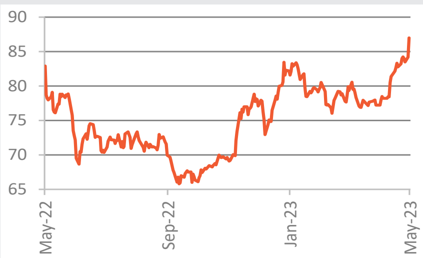
Company details

Market cap:	Rs. 1,22,855 cr
52-week high/low:	Rs. 88/65
NSE volume: (No of shares)	111 lakh
BSE code:	530965
NSE code:	IOC
Free float: (No of shares)	684.9 cr

Shareholding (%)

Promoters	51.5
FII	6.9
DII	11.9
Others	29.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	12.7	8.0	25.9	4.9
Relative to Sensex	9.3	6.5	25.6	(9.1)

Sharekhan Research, Bloomberg

Summary

- Q4FY23 PAT of Rs. 10,059 crore (versus just Rs. 448 crore in Q3FY23) was significantly above our estimate due to a sharp beat in GRMs. Turnaround in the petchem segment, a forex gain of Rs. 989 crore and positive auto fuel marketing margin also contributed to strong earnings.
- GRM at $15.3/bbl was better than that of HPCL at $14/bbl and above our estimate of $11.5/bbl. Refining throughput/pipeline throughput/petchem sales volume at 19 mmt/25mmt/0.7mmt was up by 5%/6%/81% q-o-q.
- We expect earnings to normalise over FY24-25 led by normalisation of crude oil prices. However, a spike in crude oil prices (from $74-75/bbl currently) is a key risk to earnings recovery especially given OMCs inability to hike petrol/diesel price given general election expected to be scheduled in May 2024.
- We maintain a Buy on IOCL with a revised PT of Rs. 100 on inexpensive valuation of 4.8x/0.8x FY25E EPS/BV and FY24E dividend yield of ~10%.

Indian Oil Corporation Limited's (IOCL) Q4FY23 standalone operating profit came in at Rs. 15,340 crore (up 4.3x q-o-q) was 8% above our estimate of Rs. 14,217 crore led by higher-than-expected derived GRM of $15.2/bbl (up 18.2% q-o-q and versus our estimate of $11.5/bbl). We believe that the strong earnings recovery was led by positive auto fuel marketing margin, continued strength in refining margin, turnaround of the petchem business (positive EBIT of Rs. 295 crore versus EBIT loss of Rs. 616 crore in Q3FY23) and forex gain of Rs. 989 crore (versus forex loss of Rs. 1700 crore in Q3FY23). Volume performance was strong with 5%/6%/81% q-o-q rise in refining throughput/pipeline throughput/petchem sales volume at 19mmt/25mmt/0.7mmt, beating our estimate by 2%/8%/50% while marketing sales volume of 22.5 mmt (down 1% q-o-q) was 3% below our estimate. Standalone PAT of Rs. 10,059 crore (versus only Rs. 448 crore) was 36% above estimate led by strong refining & marketing margin, sharp recovery in petchem EBIT, higher-than-expected other income (up 72% y-o-y), lower depreciation/interest cost as well as lower tax rate of 17.7% (versus assumption of 25%).

Key positives

- Higher-than-expected GRM at $15.3/bbl (up 18% q-o-q) versus estimate of $11.5/bbl.
- Turnaround in petchem segment with positive EBIT of Rs. 295 crore versus EBIT loss of Rs. 616 crore in Q3FY23.
- IOCL is the only OMC to declare dividend in FY23 (DPS of Rs3/share).

Key negatives

- Decline in market share of petrol/diesel market sales by 41/135 bps q-o-q to 40.1%/43.4%.

Revision in estimates – We have lowered our FY24-25 earnings estimate by 6-7% to factor FY23 P&L and balance sheet numbers and slightly lower GRM assumption.

Our Call

Valuation – Maintain Buy on IOCL with a revised PT of Rs. 100: Normalisation of crude oil prices (recently fell to $74-75/bbl) and a potential recovery in GRMs would drive earnings revival for IOCL over FY24-25 to normalise PAT of Rs. 23,000-25,000 crore as seen in FY22. IOCL's valuation of 0.8x its FY2025E P/BV and 4.8x its FY2025E EPS is attractive, and the stock offers a high dividend yield (~10% on FY24E DPS). Potential monetisation of non-core assets (hydrogen plant) could unlock value. Hence, we maintain a Buy on IOCL with a revised PT of Rs. 100 (an increase in PT reflects rollover of PE multiple to FY25E EPS).

Key Risks

Sustained weak auto fuel marketing margins in case of the continued inability to raise petrol/diesel prices and lower-than-expected refining margins remain a key risk to earnings and valuation.

Valuation (Standalone) Rs cr

Particulars	FY22	FY23	FY24E	FY25E
Revenue	5,98,164	8,39,472	7,84,473	8,17,109
OPM (%)	7.2%	2.7%	5.9%	6.2%
Adjusted PAT	24,184	8,242	23,107	25,388
(%) YoY Growth	*38.8*	*-65.9*	*180.4*	*9.9*
Adjusted EPS (Rs.)	17.1	5.8	16.4	18.0
P/E (x)	5.1	14.9	5.3	4.8
P/B (x)	0.9	0.9	0.9	0.8
EV/EBITDA (x)	5.4	11.4	5.7	5.4
RoNW (%)	20.0	6.2	16.6	17.1
ROCE (%)	15.1	6.0	12.9	13.4

Source: Company; Sharekhan estimates

Robust Q4; Sharp PAT beat of 36% led by higher GRM, rise in other income & lower tax rate

Q4FY23 standalone operating profit came in at Rs. 15,340 crore (up 4.3x q-o-q) was 8% above our estimate of Rs. 14,217 crore led by higher-than-expected derived GRM of $15.2/bbl (up 18.2% q-o-q and versus our estimate of $11.5/bbl). We believe that the strong earnings recovery was led by positive auto fuel marketing margin, continued strength in refining margin, turnaround of the petchem business (positive EBIT of Rs. 295 crore versus EBIT loss of Rs. 616 crore in Q3FY23) and forex gain of Rs. 989 crore (versus forex loss of Rs. 1700 crore in Q3FY23). Volume performance was strong with 5%/6%/81% q-o-q rise in refining throughput/ pipeline throughput/petchem sales volume at 19mmt/25mmt/0.7mmt, beating our estimate by 2%/8%/50% while marketing sales volume of 22.5 mmt (down 1% q-o-q) was 3% below our estimate. Standalone PAT of Rs. 10,059 crore (versus only Rs. 448 crore) was 36% above estimate led by strong refining & marketing margin, sharp recovery in petchem EBIT, higher-than-expected other income (up 72% y-o-y), lower depreciation/ interest cost as well as lower tax rate of 17.7% (versus assumption of 25%).

Results (Standalone) Rs cr

Particulars	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)
Revenue	**2,02,994**	**1,77,287**	**14.5**	**2,04,740**	**-0.9**
Total Expenditure	1,87,654	1,65,660	13.3	2,01,147	-6.7
Operating profit	**15,340**	**11,628**	**31.9**	**3,593**	**326.9**
Other Income	1638	952	72.1	1715	-4.5
Interest	1,812	1,607	12.7	1,953	-7.2
Depreciation	2,952	2,887	2.2	3,099	-4.8
PBT	**12,215**	**8,085**	**51.1**	**257**	**4,659.4**
Tax	2,156	2,063	4.5	-191	NA
Reported PAT	**10,059**	**6,022**	**67.0**	**448**	**2,145.2**
Equity Cap (cr)	941	941		941	
Reported EPS (Rs.)	10.7	6.4	67.0	0.5	2,145.2
Margins (%)			**BPS**		**BPS**
OPM	7.6	6.6	99.8	1.8	580.2
NPM	5.0	3.4	155.8	0.2	473.6
Tax rate	17.7	25.5	-786.2	-74.6	9,221.3

Source: Company, Sharekhan Research

Key operating performance

Operating performance	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)
Reported GRM ($/bbl)	15.3	18.5	-17.6	12.9	18.2
Refining throughput (mmt)	19.2	18.3	5.0	18.2	5.4
Petroleum products market sales including exports (mmt)	22.5	21.7	4.0	22.8	-1.1
Petchem sales (mmt)	0.7	0.8	-13.1	0.4	80.7
Pipeline throughput (mmt)	25.3	22.1	14.7	23.8	6.3

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – Improving outlook but inability to hike petrol and diesel prices a concern for OMCs

OMCs' earnings remained stressed in 9MFY23 on two counts – first, sustained high crude oil prices and an inability to hike retail petrol/diesel prices that would mean large marketing losses on auto fuels and second, refining margins have declined sharply due to lower transportation fuel crack spreads. Moreover, a weakening Indian Rupee would add to trouble given a rise in forex losses. OMCs' inability to hike petrol and diesel prices also remains a concern. However, we believe that the recent decline in the Brent crude price, a likely recovery in refining to mid-cycle level and normalization of marketing margins would drive recovery in earnings of OMCs over FY24-FY25.

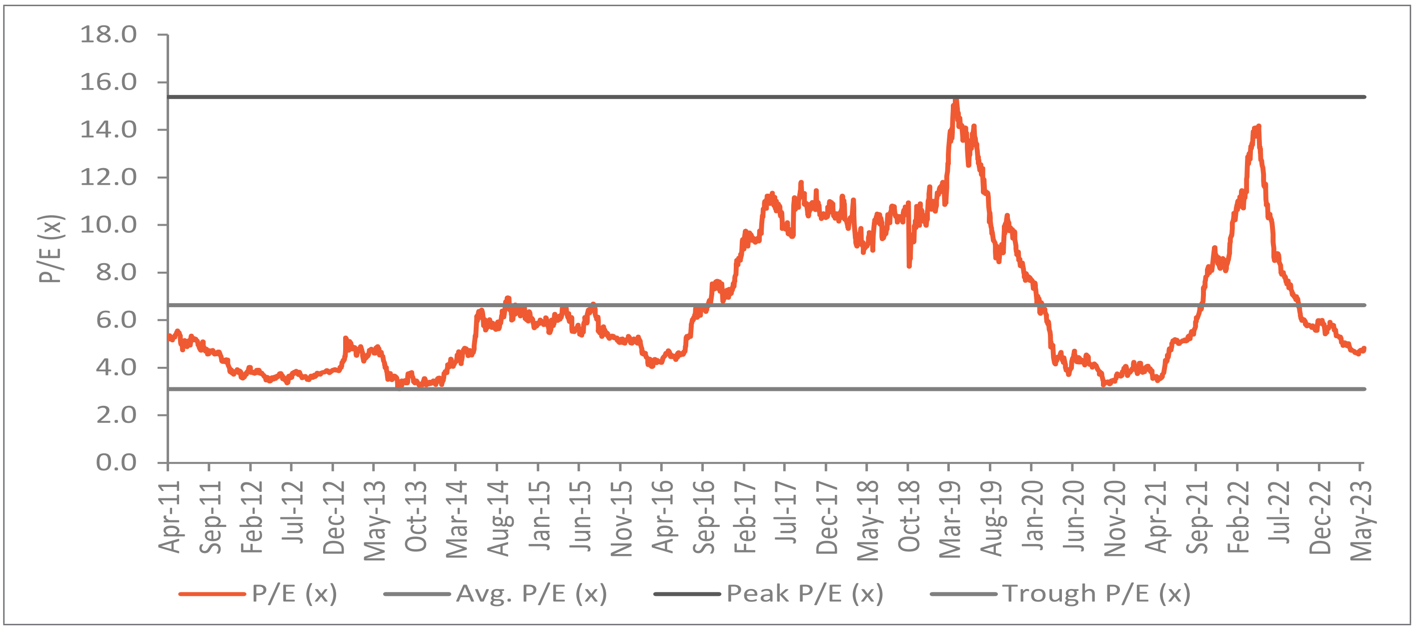
■ Company Outlook – Expect gradual earnings recovery

After a weak performance for 9MFY23, IOCL's Q4FY23 earnings performance provides signs of a gradual earnings recovery if crude oil prices remain in a stable-to-declining trend. We believe that core earnings of IOCL to largely normalise from over FY24-25 supported by recovery in refining margin and marketing margins (declining auto fuel under-recoveries and expectations of positive auto fuel marketing margin) and turnaround of the petchem segment. Likely normalisation of international crude oil prices and stable-to-recovering GRMs hold the key for an earnings revival for OMCs.

■ Valuation – Maintain Buy on IOCL with a revised PT of Rs. 100

Normalisation of crude oil prices (recently fell to $74-75/bbl) and a potential recovery in GRMs would drive earnings revival for IOCL over FY24-25 to normalise PAT of Rs. 23,000-25,000 crore as seen in FY22. IOCL's valuation of 0.8x its FY2025E P/BV and 4.8x its FY2025E EPS is attractive, and the stock offers a high dividend yield (~10% on FY24E DPS). Potential monetisation of non-core assets (hydrogen plant) could unlock value. Hence, we maintain a Buy on IOCL with a revised PT of Rs. 100 (an increase in PT reflects rollover of PE multiple to FY25E EPS).

One-year forward P/E (x) band



Source: Sharekhan Research

About the company

IOCL is a leader in the domestic downstream oil sector with non-replicable infrastructure – total refining capacity of 81 mmt (32% market share; owns 11 of 22 refineries in India), retail outlets of 34,559, and pipeline capacity of 93.1 mmt. The company is also a market leader in domestic petroleum sales with volume of 89 mmt, besides owning a petrochemicals plant at Panipat (with naphtha cracker capacity of 1.46 mmt, LAB capacity of 0.12 mmt, and PX/PTA capacity of 0.5 mmt).

Investment theme

IOCL has diversified earnings with exposure to pipeline and petrochemicals, which insulated it from volatility in refining and marketing margins. Monetisation of hydrogen plant could unlock value for IOCL. Moreover, IOCL's valuation is attractive, and the stock offers a high dividend yield.

Key Risks

- Lower-than-expected refining and marketing margins could affect earnings outlook.
- Lower-than-expected volume in case of economic slowdown.
- Volatility in quarterly earnings in case of fluctuations in oil prices and INR-USD rate.

Additional Data

Key management personnel

Shrikant Madhav Vaidya	Chairman
Sanjay Kaushal	Director – Finance
V Satish Kumar	Director – Marketing

Source: Bloomberg

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Oil & Natural Gas Corp Ltd	14.2
2	Life Insurance Corp of India	8.4
3	Oil India Ltd	5.2
4	IOC SHARES TRUST	2.5
5	Vanguard Group Inc/The	1.1
6	SBI Funds Management Ltd	1.0
7	BlackRock Inc	0.8
8	ICICI Prudential Asset Management	0.5
9	Norges Bank	0.3
10	Charles Schwab Corp/The	0.2

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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