

Rating: BUY | CMP: Rs87 | TP: Rs125

May 17, 2023

Q4FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	125		125	
Sales (Rs. m)	74,75,110	70,77,889	73,18,417	69,91,949
% Chng.	2.1	1.2		
EBITDA (Rs. m)	4,79,555	4,80,868	4,16,885	4,17,713
% Chng.	15.0	15.1		
EPS (Rs.)	16.8	16.8	13.9	13.3
% Chng.	20.6	26.4		

Key Financials - Standalone

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. bn)	5,893	8,418	7,475	7,078
EBITDA (Rs. bn)	477	307	480	481
Margin (%)	8.1	3.6	6.4	6.8
PAT (Rs. bn)	233	100	231	231
EPS (Rs.)	25.3	7.2	16.8	16.8
Gr. (%)	20.1	(71.4)	131.2	0.1
DPS (Rs.)	12.6	3.0	6.5	6.5
Yield (%)	14.5	3.4	7.4	7.5
RoE (%)	19.0	7.3	16.0	14.6
RoCE (%)	14.3	6.3	12.2	11.8
EV/Sales (x)	0.3	0.3	0.3	0.3
EV/EBITDA (x)	4.2	8.3	4.8	4.6
PE (x)	3.4	12.0	5.2	5.2
P/BV (x)	0.6	0.9	0.8	0.7

Key Data

IOC.BO | IOCL IN

52-W High / Low	Rs.88 / Rs.65
Sensex / Nifty	61,932 / 18,287
Market Cap	Rs.1,229bn/ \$ 14,943m
Shares Outstanding	14,121m
3M Avg. Daily Value	Rs.716.21m

Shareholding Pattern (%)

Promoter's	51.50
Foreign	6.91
Domestic Institution	12.06
Public & Others	29.53
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	12.7	25.5	6.9
Relative	10.0	25.6	(8.6)

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Marketing environment improves outlook

Quick Pointers:

- Blended marketing margins turn positive at Rs7/ltr for Q1FY24E (Rs3/ltr in Q4)
- Geopolitical uncertainty to keep refining product spreads healthy

We change our FY24/25E earnings by 20%/26% to factor in actual FY23 numbers. IOCL reported better than expected Q4 results with standalone EBITDA of Rs153.4bn (+327%QoQ; PLe Rs 92.5bn) and PAT of Rs100.6bn (PLe Rs41.8bn), due to higher than expected GRMs at USD15.2/bbl (Q3: USD12.9; PLe USD9.6). Earnings surprise came despite Q4 refining inventory loss of Rs43.8bn.

We believe OMCs are well placed to benefit from improving marketing margins and healthy refining profitability. We maintain "BUY" with a PT of Rs125 based on EV/EBITDA of 5.5x FY24E (7x earlier) as earnings environment stabilizes. Retain Buy

- High refining, improving marketing drives earnings:** IOCL reported standalone EBITDA/PAT of Rs153.4bn (Q3: Rs36bn) and Rs100.6bn (Q3: Rs4.5bn) led by strong refining margins of USD15.2/bbl (PLe USD9.6). For FY23, EBITDA/PAT was at Rs222.5bn (-48%YoY) and Rs82.4bn (-66%YoY) while consolidated EBITDA/PAT was at Rs307/117bn respectively.
- Refining spreads come off FY23 highs, but remain at elevated levels:** IOCL's Q4 refining margins were at USD15.2/bbl (Q3 at USD12.9/bbl; PLe USD9.6/bbl), before export cess. Refining throughput was at 19.2 MTPA (18.2MT in Q3). For FY23 GRMs were at USD19.5/bbl (USD11.3 in FY22). Refining margins are likely to remain healthy, as diesel demand along with ATF remains strong, due to continued geopolitical uncertainty. We have factored in GRMs of USD7.3/6.1/bbl for FY24/25E, given increased recessionary concerns.
- Marketing profitability improves:** We calculate Q4 marketing EBITDA at Rs5.8bn vs Q3 loss levels of Rs69.5bn, due to improvement in marketing environment (company stopped sharing the segment's EBITDA).
- Q4 petrol/diesel volume growth at 8.3%/8.0%YoY:** IOCL's Q4 marketing volumes were impressive on YoY basis with MS sales at 3.5MTPA (+8.3% YoY) and HSD sales at 9.5MTPA (+8% YoY). This is against industry volume growth rate of 10% and 7% for petrol and diesel respectively. For FY23, IOCL's overall market sales was at 89MTPA included exports of 5.0MTPA.
- Improving fuel marketing environment is a positive:** Fuel marketing environment continues to improve as blended marketing margins have improved to ~Rs7/litre in Q1. For FY24/25E we have assumed marketing margins at Rs3.0/3.5/ltr.for petrol and diesel.

- Petrochemicals profitability improves QoQ but pipeline profits comes down:** We calculate pipeline segment's EBIDTA at Rs17.4bn in Q4 v/s Rs18.0bn in Q3 due to higher thrupt of 24.7MTPA vs 22.1MTPA in Q4. Petchem EBIDTA improved to Rs5.0bn, given improvement in margins and spreads were at USD92/ton vs loss of USD131/ton in Q3.
- Maintain BUY:** We maintain "BUY on IOCL with a PT of Rs'125 as we value based on 5.5x PER core EPS FY24E and add the value of investments at Rs9/sh.

Exhibit 1: Q4FY23 Result Overview (Rs mn) – Standalone; Strong refining drives Q4 results

Y/e March	Q4FY23	Q4FY22	YoY gr. (%)	Q3FY23	FY23	FY22	YoY gr. (%)
Net sales	22,64,921	20,64,609	9.7	22,81,683	93,49,527	72,84,600	28.3
Inc/dec in stock	(10,699)	(61,544)	NA	17,976	(70,646)	(1,21,970)	NA
Purchases	7,32,440	6,61,446	10.7	7,63,253	32,43,791	22,10,781	46.7
Raw material cons	10,31,910	9,04,015	14.1	10,88,514	44,06,931	29,45,015	49.6
Duties	2,34,980	2,91,736	(19.5)	2,34,281	9,54,805	13,02,962	(26.7)
Staff cost	22,715	31,938	(28.9)	18,805	87,699	1,09,917	(20.2)
Other expenditure	1,00,173	1,20,743	(17.0)	1,22,921	5,04,422	4,10,167	23.0
Exp	(21,11,518)	(19,48,334)	NA	(22,45,750)	(91,27,000)	(68,56,871)	NA
Operating profit	1,53,403	1,16,275	31.9	35,934	2,22,526	4,27,728	(48.0)
Interest	(18,118)	(16,072)	NA	(19,528)	(69,303)	(48,291)	NA
Depreciation	(29,517)	(28,873)	NA	(30,990)	(1,18,594)	(1,05,349)	NA
Other income	16,381	9,517	72.1	17,151	62,352	43,243	44.2
Profit before tax	1,22,150	80,847	51.1	2,567	96,981	3,17,331	(69.4)
Current tax	(4,428)	(22,232)	NA	-	(4,428)	(69,130)	NA
Profit after current tax	1,17,722	58,615	100.8	2,567	92,553	2,48,200	(62.7)
Deferred tax	(17,135)	1,604	NA	1,914	(10,135)	(6,360)	NA
Net profit	1,00,587	60,219	67.0	4,480	82,418	2,41,841	(65.9)

Source: Company, PL

Exhibit 2: EBITDA Breakup (Rs mn) incl other income; Profitability improves led by marketing and refining

	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23*
Refining	63,780	24,920	20,280	75,930	1,56,040	3,08,312	1,45,447	1,08,639	1,41,469
Marketing	34,430	54,250	53,770	(3,990)	(54,772)	(3,11,360)	(1,22,582)	(69,529)	5,868
Pipeline	16,080	15,740	14,500	16,490	16,687	18,646	17,878	18,003	17,360
Petrochem	22,480	19,890	18,120	9,820	7,837	4,828	841	(4,029)	5,086
Others	9,270	2,110	13,950	14,130					
Total	1,46,040	1,16,910	1,20,620	1,12,380	1,25,792	20,426	41,584	53,084	1,69,784

Source: Company, PL

* PL Estimates

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	58,93,357	84,17,559	74,75,110	70,77,889
YoY gr. (%)	61.9	42.8	(11.2)	(5.3)
Cost of Goods Sold	50,06,639	74,76,350	63,87,230	59,40,762
Gross Profit	8,86,719	9,41,209	10,87,880	11,37,127
Margin (%)	15.0	11.2	14.6	16.1
Employee Cost	-	-	-	-
Other Expenses	4,09,302	6,34,220	6,08,325	6,56,259
EBITDA	4,77,417	3,06,989	4,79,555	4,80,868
YoY gr. (%)	17.6	(35.7)	56.2	0.3
Margin (%)	8.1	3.6	6.4	6.8
Depreciation and Amortization	1,23,476	1,31,811	1,30,234	1,44,254
EBIT	3,53,941	1,75,179	3,49,321	3,36,614
Margin (%)	6.0	2.1	4.7	4.8
Net Interest	54,233	75,414	81,106	72,856
Other Income	30,822	41,989	59,579	64,232
Profit Before Tax	3,30,530	1,41,754	3,27,795	3,27,990
Margin (%)	5.6	1.7	4.4	4.6
Total Tax	85,620	33,334	88,677	88,732
Effective tax rate (%)	25.9	23.5	27.1	27.1
Profit after tax	2,44,910	1,08,420	2,39,118	2,39,258
Minority interest	12,356	8,622	8,370	8,226
Share Profit from Associate	-	-	-	-
Adjusted PAT	2,32,555	99,798	2,30,747	2,31,032
YoY gr. (%)	20.1	(57.1)	131.2	0.1
Margin (%)	3.9	1.2	3.1	3.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,32,555	99,798	2,30,747	2,31,032
YoY gr. (%)	20.1	(57.1)	131.2	0.1
Margin (%)	3.9	1.2	3.1	3.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,32,555	99,798	2,30,747	2,31,032
Equity Shares O/s (m)	9,181	13,772	13,772	13,772
EPS (Rs)	25.3	7.2	16.8	16.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	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	6,72,756	8,02,990	9,47,244
Tangibles	5,81,499	6,72,756	8,02,990	9,47,244
Intangibles	-	-	-	-
Net fixed assets	15,71,950	17,52,314	19,36,605	20,96,876
Tangibles	15,71,950	17,52,314	19,36,605	20,96,876
Intangibles	-	-	-	-
Capital Work In Progress	5,07,876	5,46,480	3,63,495	3,63,464
Goodwill	10	10	31,226	34,349
Non-Current Investments	4,92,710	4,57,874	5,29,203	5,58,710
Net Deferred tax assets	(1,53,544)	(1,68,004)	(1,82,583)	(2,13,285)
Other Non-Current Assets	65,095	59,282	66,677	73,345
Current Assets				
Investments	80,132	1,04,365	1,01,617	1,01,617
Inventories	11,17,365	12,11,076	10,23,479	9,80,633
Trade receivables	1,87,004	1,62,712	1,32,420	1,26,252
Cash & Bank Balance	18,201	20,966	1,41,987	76,745
Other Current Assets	38,420	49,296	48,089	50,494
Total Assets	41,06,249	44,04,615	44,30,389	45,21,055
Equity				
Equity Share Capital	91,810	1,37,716	1,37,716	1,37,716
Other Equity	12,43,541	12,59,487	13,54,123	15,26,009
Total Network	13,35,352	13,97,202	14,91,838	16,63,725
Non-Current Liabilities				
Long Term borrowings	6,23,082	6,97,899	6,22,166	5,72,166
Provisions	15,866	13,964	10,788	11,328
Other non current liabilities	31,806	37,079	36,947	36,947
Current Liabilities				
ST Debt / Current of LT Debt	6,97,114	7,91,872	7,35,561	6,35,561
Trade payables	4,90,459	5,47,341	4,41,881	4,23,372
Other current liabilities	7,33,974	7,27,370	8,14,384	8,60,613
Total Equity & Liabilities	41,06,249	44,17,621	43,84,484	44,75,150

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	3,30,530	1,41,754	3,27,795	3,27,990
Add. Depreciation	1,23,476	1,31,811	1,30,234	1,44,254
Add. Interest	54,233	75,414	81,106	72,856
Less Financial Other Income	30,822	41,989	59,579	64,232
Add. Other	-	-	-	-
Op. profit before WC changes	5,08,239	3,48,978	5,39,134	5,45,100
Net Changes-WC	(1,48,249)	(41,561)	2,03,194	93,110
Direct tax	(72,347)	(19,225)	(58,032)	(58,029)
Net cash from Op. activities	2,87,643	2,88,193	6,84,296	5,80,181
Capital expenditures	(2,82,808)	(3,80,818)	(2,03,500)	(3,07,616)
Interest / Dividend Income	-	-	-	-
Others	(75,797)	42,882	(28,754)	(26,591)
Net Cash from Inv. activities	(3,58,604)	(3,37,936)	(2,32,254)	(3,34,207)
Issue of share cap. / premium	80,624	(338)	(74,654)	940
Debt changes	1,53,705	1,69,575	(1,32,043)	(1,50,000)
Dividend paid	(1,15,681)	(41,315)	(89,124)	(89,299)
Interest paid	(54,233)	(75,414)	(81,106)	(72,856)
Others	-	-	-	-
Net cash from Fin. activities	64,415	52,509	(3,76,927)	(3,11,215)
Net change in cash	(6,545)	2,765	75,115	(65,242)
Free Cash Flow	4,836	(92,625)	4,80,796	2,72,565

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Net Revenue	22,42,526	20,74,853	20,47,402	20,29,941
YoY gr. (%)	89.0	53.2	22.8	14.5
Raw Material Expenses	20,65,991	18,90,692	18,69,742	17,53,651
Gross Profit	1,76,535	1,84,161	1,77,660	2,76,290
Margin (%)	7.9	8.9	8.7	13.6
EBITDA	13,589	19,600	35,934	1,53,403
YoY gr. (%)	(87.8)	(81.6)	(61.7)	31.9
Margin (%)	0.6	0.9	1.8	7.6
Depreciation / Depletion	28,471	29,617	30,990	29,517
EBIT	(14,882)	(10,016)	4,944	1,23,886
Margin (%)	(0.7)	(0.5)	0.2	6.1
Net Interest	17,247	14,410	19,528	18,118
Other Income	6,837	21,984	17,151	16,381
Profit before Tax	(25,292)	(2,442)	2,567	1,22,150
Margin (%)	(1.1)	(0.1)	0.1	6.0
Total Tax	(5,367)	281	(1,914)	21,563
Effective tax rate (%)	21.2	(11.5)	(74.6)	17.7
Profit after Tax	(19,925)	(2,724)	4,480	1,00,587
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	(19,925)	(2,724)	4,480	1,00,587
YoY gr. (%)	(133.5)	(104.3)	(92.4)	67.0
Margin (%)	(0.9)	(0.1)	0.2	5.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	(19,925)	(2,724)	4,480	1,00,587
YoY gr. (%)	(133.5)	(104.3)	(92.4)	67.0
Margin (%)	(0.9)	(0.1)	0.2	5.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	(19,925)	(2,724)	4,480	1,00,587
Avg. Shares O/s (m)	13,772	13,772	13,772	13,772
EPS (Rs)	(1.4)	(0.2)	0.3	7.3

Source: Company Data, PL Research

Key Financial Metrics

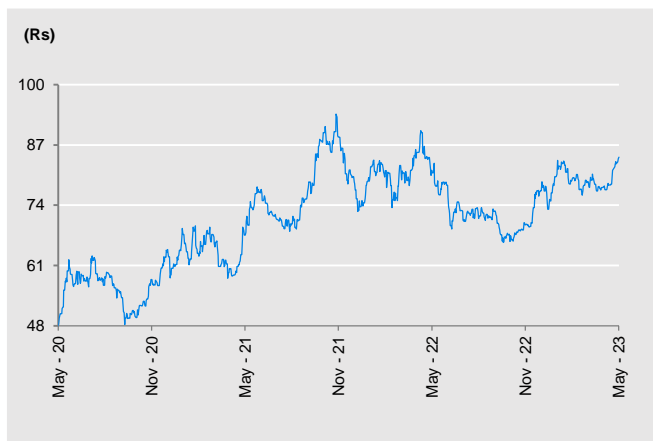
Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	25.3	7.2	16.8	16.8
CEPS	38.8	16.8	26.2	27.3
BVPS	145.4	101.5	108.3	120.8
FCF	0.5	(6.7)	34.9	19.8
DPS	12.6	3.0	6.5	6.5
Return Ratio(%)				
RoCE	14.3	6.3	12.2	11.8
ROIC	8.8	4.1	8.3	7.8
RoE	19.0	7.3	16.0	14.6
Balance Sheet				
Net Debt : Equity (x)	0.9	1.0	0.7	0.6
Net Working Capital (Days)	50	36	35	35
Valuation(x)				
PER	3.4	12.0	5.2	5.2
P/B	0.6	0.9	0.8	0.7
P/CEPS	38.8	16.8	26.2	27.3
EV/EBITDA	4.2	8.3	4.8	4.6
EV/Sales	0.3	0.3	0.3	0.3
Dividend Yield (%)	14.5	3.4	7.4	7.5

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Crude /bbl	65	100	90	90
US\$/Rs	77	80	83	85
GRM (US\$/bbl)	11	20	7	6
Refining volume (MTPA)	68	72	73	74
Net subsidy burden (Rs m)				

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Apr-23	BUY	125	77
2	31-Jan-23	BUY	125	82
3	03-Jan-23	BUY	130	78
4	09-Dec-22	BUY	130	77
5	31-Oct-22	Reduce	50	68
6	01-Oct-22	Reduce	50	67
7	01-Aug-22	Hold	81	73
8	05-Jul-22	Hold	87	74
9	23-May-22	Hold	131	117

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bharat Petroleum Corporation	BUY	420	328
2	Bharti Airtel	BUY	977	763
3	GAIL (India)	BUY	118	105
4	Gujarat Gas	Hold	450	463
5	Hindustan Petroleum Corporation	BUY	340	261
6	Indian Oil Corporation	BUY	125	77
7	Indraprastha Gas	BUY	582	493
8	Mahanagar Gas	BUY	1,260	1,074
9	Oil & Natural Gas Corporation	BUY	210	153
10	Oil India	BUY	325	262
11	Petronet LNG	BUY	326	237
12	Reliance Industries	BUY	2,822	2,349

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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