

BUY

TP: Rs 205 | ▲ 50%

INDIAN OIL CORP

Oil & Gas

01 August 2019

GRMs disappoint

IOCL's Q1FY20 EBITDA at Rs 76.6bn (ex-inventory gains) was marginally below estimates. Key Q1 highlights: (a) adj. GRM at US\$ 3.6/bbl came in lower than estimates; (b) adj. marketing business EBITDA surprised positively at Rs 42bn (Rs 1,946/mt); (c) pipeline/petrochemicals EBITDA disappointed at Rs 16.2bn/Rs 6.9bn. Among OMCs, we find IOCL's refining segment best placed to take advantage of IMO regulations considering its high middle-distillate yields. Maintain TP at Rs 205 (after rollover to Sep'21 valuations).

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GRMs remain a drag; all hopes of recovery pinned on IMO: IOCL's management indicated a normalised GRM level of US\$ 2.27/bbl for Q1FY20, which underperformed the benchmark Singapore GRM (US\$ 3.5/bbl). The recent increase in Singapore GRM may augur well for Q2FY20 earnings.

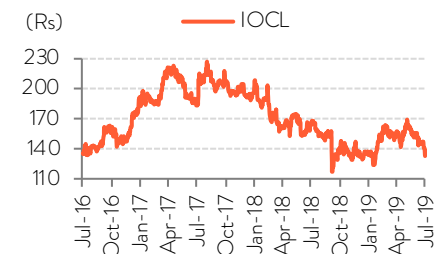
A relatively high diesel slate in IOCL's refining portfolio puts it in an advantageous position in the runup to IMO regulations (from Jan'20) that are expected to push diesel spreads above US\$ 20/bbl (from ~US\$ 14 currently). Paradip refinery utilisation has normalised to ~100% now, and commissioning of the 680ktpa polypropylene (PP) facility (from Jul'19) could enhance GRMs at the refinery.

Marketing earnings improve while others weaken: Management indicated that Q1FY20 marketing business EBITDA of Rs 42bn looks sustainable as IOCL gains traction in ATF and industrial product sales (while ceding bulk diesel market share to other players). Pipeline business EBITDA was below estimates at Rs 16bn (flat YoY) due to lower volumes (21.9mmt, -4% YoY). Petchem was affected by both lower margins (-30% YoY) and volumes (-18% YoY). Petchem volumes are expected to normalise from Q2FY20 when the new PP plant in Paradip comes into play.

Ticker/Price	IOCL IN/Rs 137
Market cap	US\$ 19.3bn
Shares o/s	9,712mn
3M ADV	US\$ 29.1mn
52wk high/low	Rs 172/Rs 105
Promoter/FPI/DII	52%/8%/40%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Adj. net profit (Rs mn)	221,911	173,837	169,594	186,135	204,676
Adj. EPS (Rs)	23.4	18.9	18.5	20.3	22.3
Adj. EPS growth (%)	11.7	(19.1)	(2.4)	9.8	10.0
Adj. ROAE (%)	20.6	15.4	15.0	15.9	16.5
Adj. P/E (x)	5.8	7.2	7.4	6.8	6.1
EV/EBITDA (x)	4.7	5.5	6.0	5.0	4.9

Source: Company, BOBCAPS Research

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FIG 1 – IOCL SALES VOLUME GROWTH VS. INDUSTRY

Petroleum products (mmt)	Q1FY20			
	IOCL QoQ growth (%)	Industry QoQ growth (%)	IOCL YoY growth (%)	Industry YoY growth (%)
LPG	(13.9)	(15.3)	(1.0)	(1.5)
MS	9.9	8.6	8.9	10.0
HSD	6.2	6.0	0.8	2.1
SKO	(5.7)	(5.6)	(12.6)	(13.4)
ATF	(4.3)	(5.4)	(0.3)	(2.5)
FO/LSHS	(1.7)	(8.9)	(2.7)	(6.2)
Others	(13.0)	9.8	(6.0)	20.8
Total	0.0	(0.6)	0.3	(0.2)

Source: BOBCAPS Research, Company

FIG 2 – QUARTERLY PERFORMANCE

(Rs mn)	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)
Net sales	13,15,125	12,94,750	1.6	12,62,141	4.2
EBITDA	83,500	1,25,758	(33.6)	1,08,759	(23.2)
EBITDA margin (%)	6.35	9.71	-	8.62	-
Adjusted EBITDA	76,570	70,990	7.9	84,570	(9.5)
Depreciation and Amortisation	20,929	17,879	17.1	20,567	1.8
Interest	15,091	10,311	46.4	12,442	21.3
Other income	6,314	5,853	7.9	10,595	(40.4)
PBT	53,794	1,03,422	(48.0)	86,344	(37.7)
Provision for tax	17,833	35,110	(49.2)	25,351	(29.7)
Effective Tax Rate (%)	33.15	33.95	-	29.36	-
PAT Adjusted	35,961	68,311	(47.4)	60,993	(41.0)
Other comprehensive income	6,272	(20,447)	-	9,834	(36.2)
Total income	42,233	47,864	(11.8)	70,827	(30.8)
NPM (%)	2.73	5.28	-	4.83	(40.4)
EPS (Rs)	3.8	7.2	(47.0)	6.5	(41.0)

Source: Company, BOBCAPS Research

FIG 3 – SEGMENT-WISE PERFORMANCE

	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)
Refining					
Refining throughput (mmt)	17.30	17.67	(2.1)	17.35	(0.3)
GRM (US\$/bbl)	4.69	10.21	(54.1)	4.09	14.6
Normalised GRM (US\$/bbl)	3.60	4.47	(19.5)	1.11	223.4
Refining EBITDA (Rs mn)	16,590	58,170	(71.5)	12,080	37.3
Refining EBITDA (US\$/bbl)	1.9	6.7	(72.0)	1.4	39.1
Inventory gains/(loss) (Rs mn)	9,770	59,180	(83.5)	23,900	(59.1)
Inventory gains/(loss) (US\$/bbl)	1.1	6.8	(83.8)	2.7	(58.6)
Exchange fluctuation gain/(loss) (Rs mn)	(120)	(9,340)	98.7	2,740	104.4
Adj. EBITDA	6,940	8,330	(16.7)	(14,560)	(147.7)
Adj. EBITDA (US\$/bbl)	0.8	1.0	(18.1)	(1.6)	(148.3)
Operating costs (US\$/bbl)	2.8	2.4	15.0	3.0	(8.2)
Marketing					
Total Marketing sales (mmt)	21.60	21.68	(0.4)	22.63	(4.5)
Domestic	20.52	20.45	0.3	20.52	0.0
Exports	1.08	1.23	(12.0)	0.96	13.2
Marketing EBITDA (Rs mn)	45,650	43,690	4.5	68,480	(33.3)
Marketing EBITDA (Rs/mt)	2,113	2,015	4.9	3,026	(30.2)
Inventory gains/(loss) (Rs mn)	2,560	19,480	(86.9)	2,520	1.6
Inventory gains/(loss) (Rs/mt)	118	898	(86.8)	111	6.4
Exchange fluctuation gain/(loss) (Rs mn)	1,040	(8,710)	111.9	5,630	81.5
Adj. EBITDA	42,050	32,920	27.7	60,330	(30.3)
Adj. EBITDA (Rs/mt)	1,946	1,518	28.2	2,666	(27.0)
Pipeline					
Pipeline throughput (mmt)	21.90	22.85	(4.2)	21.22	3.2
Pipeline EBITDA (Rs mn)	16,230	16,270	(0.2)	15,890	2.1
Pipeline EBITDA (Rs/mt)	741	712	4.1	749	(1.0)
Petrochemicals					
Volumes (mmt)	0.53	0.64	(17.6)	0.67	(21.4)
Petrochemicals EBITDA (Rs mn)	6,860	16,300	(57.9)	10,050	(31.7)
Petrochemicals EBITDA (US\$/mt)	187	381	(50.8)	214	(12.3)
Others (Rs mn)	4,490	(2,830)	(258.7)	12,860	65.1
Total Adjusted EBITDA (Rs mn)	76,570	70,990	7.9	84,570	(9.5)

Source: Company, BOBCAPS Research

Valuation methodology

Diversified earnings give IOCL a big advantage over peers. At 7.5x/6.9x FY20E/ FY21E EPS, valuations look attractive given improving ROE over FY20-FY22E. We introduce FY22 estimates, with EPS forecast at Rs 22.5 (+10.7% YoY). Lower exposure to the marketing business makes IOCL's earnings more resilient than peers. Maintain BUY.

Rolling valuations forward, we have an unchanged Sep'20 SOTP-based target price of Rs 205, based on the following:

- Refining business valued at 6.5x Sep'21E EBITDA,
- Nil value for the marketing business considering concerns over government regulation (akin to our treatment of HPCL and BPCL),
- Petrochemicals business valued at 7.5x Sep'21E EBITDA, and
- Pipeline business valued at 5x Sep'21E EBITDA.

FIG 4 – SOTP VALUATION SUMMARY

	EV (Rs bn)	Value (Rs/sh)	Comments
Refining	1,189	129	6.5x Sep'21E EBITDA
Marketing	-	-	Nil valuation on uncertainty over price regulation in retail petrol/diesel
Petrochemicals	577	63	7.5x Sep'21E EBITDA
Pipeline	459	50	5x Sep'21E EBITDA
Total core business EV	2,225	242	-
Less: Net Debt	514	56	-
Equity value of operational segments	1,712	186	-
Add: Total investments	177	21	Listed holdings at 20% discount to CMP and others at investment value
IOCL Equity value	1,863	205	~10x FY21E EPS, 1.6x FY21E BV

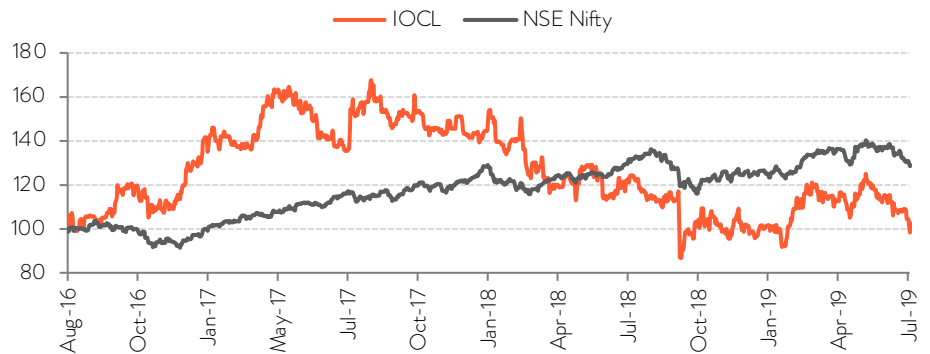
Source: BOBCAPS Research

FIG 5 – KEY ASSUMPTIONS

	FY20E	FY21E	FY22E
Average petchem product spreads (US\$/mt)	700	770	770
Oil (US\$/bbl)	75.0	80.0	80.0
GRMs (US\$/bbl)	6.5	7.0	7.0
Singapore GRMs (US\$/bbl)	5.0	5.5	5.5
Refinery throughput (mmt)	76.8	81.8	86.8
Pipeline throughput (mmt)	100.1	107.3	114.5
Market sales (mmt)	86.9	90.7	94.8
USDINR	72.0	74.0	74.0

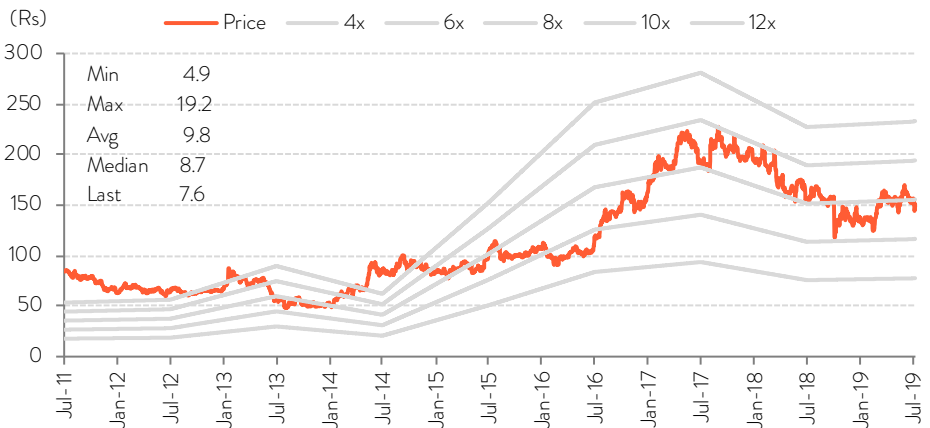
Source: BOBCAPS Research

FIG 6 – RELATIVE STOCK PERFORMANCE



Source: NSE

FIG 7 – ONE-YEAR FORWARD ROLLING P/E BANDS



Source: BOBCAPS Research

Key risks

- IOCL’s earnings are sensitive to GRMs and marketing margins on product sales. These tend to be more volatile for the company considering its high inventory days.
- Further market share losses on fuel product sales could result in below-expected volumes and affect marketing business earnings.
- Adverse pipeline tariff orders or regulations by PNGRB mandating third-party use of IOCL’s pipelines could hurt pipeline business earnings.
- Below-expected petrochemical spreads would hit profitability of the business.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	4,214,918	5,281,489	6,413,330	7,552,485	8,254,512
EBITDA	416,275	352,227	375,443	424,061	465,420
EBIT	339,640	267,162	289,705	329,693	362,998
Net interest income/(expenses)	(38,448)	(48,880)	(66,003)	(82,082)	(90,590)
Other income/(expenses)	34,199	27,143	39,207	40,572	44,139
EBT	335,391	245,425	262,909	288,182	316,547
Income taxes	(118,239)	(86,531)	(91,774)	(100,641)	(110,588)
Min. int./Inc. from associates	4,759	14,942	(1,541)	(1,407)	(1,283)
Reported net profit	221,911	173,837	169,594	186,135	204,676
Adjusted net profit	221,911	173,837	169,594	186,135	204,676

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	365,817	411,941	520,471	616,341	673,858
Other current liabilities	513,541	573,909	691,611	817,451	895,245
Provisions	166,721	123,860	200,108	219,689	241,631
Debt funds	626,750	933,278	835,785	985,906	1,025,451
Other liabilities	123,679	165,097	158,231	158,231	158,231
Equity capital	94,787	91,810	91,810	91,810	91,810
Reserves & surplus	1,043,951	1,032,882	1,047,885	1,112,129	1,183,106
Shareholders' fund	1,138,738	1,124,692	1,139,696	1,203,940	1,274,916
Total liabilities and equities	2,956,757	3,351,551	3,599,026	4,033,395	4,303,864
Cash and cash eq.	4,963	10,647	26,677	24,178	25,324
Accounts receivables	106,965	157,977	196,564	231,200	252,357
Inventories	705,679	771,265	896,363	1,063,881	1,167,992
Other current assets	259,256	364,641	419,978	495,412	542,826
Investments	448,061	439,277	497,616	577,616	577,616
Net fixed assets	1,280,970	1,373,725	1,334,022	1,377,247	1,437,830
CWIP	150,853	234,010	227,796	263,851	299,908
Intangible assets	10	10	10	10	10
Total assets	2,956,757	3,351,551	3,599,026	4,033,394	4,303,864

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	298,546	258,901	255,333	280,503	307,097
Changes in working capital	(53,147)	(158,351)	83,457	(36,296)	(15,430)
Other operating cash flows	20,593	14,276	(46,074)	(40,572)	(44,139)
Cash flow from operations	265,992	114,826	292,717	203,635	247,528
Capital expenditures	(104,472)	(175,911)	45,917	(79,281)	(96,640)
Change in investments	(11,188)	8,784	(58,339)	(80,000)	0
Other investing cash flows	34,199	27,143	39,207	40,572	44,139
Cash flow from investing	(81,461)	(139,985)	26,785	(118,709)	(52,501)
Equities issued/Others	47,394	(2,977)	0	0	0
Debt raised/repaid	(5,957)	306,528	(97,492)	150,120	39,546
Dividends paid	(136,949)	(127,679)	(128,976)	(141,556)	(155,656)
Other financing cash flows	(88,154)	(145,030)	(77,003)	(95,990)	(77,600)
Cash flow from financing	(183,666)	30,842	(303,472)	(87,426)	(193,710)
Changes in cash and cash eq.	865	5,683	16,030	(2,499)	1,317
Closing cash and cash eq.	4,963	10,647	26,677	24,178	25,495

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	23.4	18.9	18.5	20.3	22.3
Adjusted EPS	23.4	18.9	18.5	20.3	22.3
Dividend per share	12.0	11.5	12.0	13.2	14.5
Book value per share	120.1	122.5	124.1	131.1	138.9

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	0.5	0.4	0.4	0.3	0.3
EV/EBITDA	4.7	5.5	6.0	5.0	4.9
Adjusted P/E	5.8	7.2	7.4	6.8	6.1
P/BV	1.1	1.1	1.1	1.0	1.0

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	66.2	70.8	64.5	64.6	64.7
Interest burden (PBT/EBIT)	98.7	91.9	90.8	87.4	87.2
EBIT margin (EBIT/Revenue)	8.1	5.1	4.5	4.4	4.4
Asset turnover (Revenue/Avg TA)	148.1	167.4	184.5	197.9	198.0
Leverage (Avg TA/Avg Equity)	2.6	2.8	3.1	3.3	3.4
Adjusted ROAE	20.6	15.4	15.0	15.9	16.5

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Revenue	18.6	25.3	21.4	17.8	9.3
EBITDA	22.5	(15.4)	6.6	12.9	9.8
Adjusted EPS	11.7	(19.1)	(2.4)	9.8	10.0
Profitability & Return ratios (%)					
EBITDA margin	9.9	6.7	5.9	5.6	5.6
EBIT margin	8.1	5.1	4.5	4.4	4.4
Adjusted profit margin	5.3	3.3	2.6	2.5	2.5
Adjusted ROAE	20.6	15.4	15.0	15.9	16.5
ROCE	12.7	9.0	9.2	10.1	10.4
Working capital days (days)					
Receivables	8	9	10	10	11
Inventory	74	61	54	53	55
Payables	33	29	28	29	30
Ratios (x)					
Gross asset turnover	2.5	3.4	3.7	4.0	4.0
Current ratio	0.7	0.8	0.8	0.8	0.9
Net interest coverage ratio	8.8	5.5	4.4	4.0	4.0
Adjusted debt/equity	0.5	0.8	0.7	0.8	0.8

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

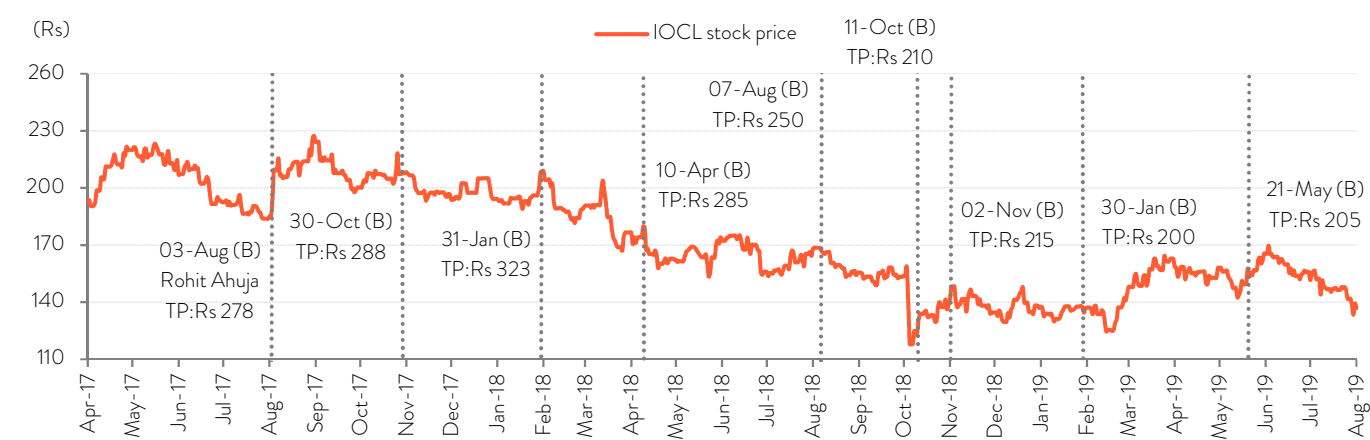
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

HISTORICAL RATINGS AND TARGET PRICE: INDIAN OIL CORP (IOCL IN)



B – Buy, A – Add, R – Reduce, S – Sell

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