

BUY

TP: Rs 200 | ▲ 76%

INDIAN OIL CORP

Oil & Gas

31 January 2020

Uncertainties abound but look priced in

IOCL's Q3FY20 EBITDA at Rs 66bn (+84% YoY) was well above estimates. Key highlights: (a) adj. GRM outperformed at US\$ 2.2/bbl, (b) adj. marketing business EBITDA also beat estimates at Rs 40.4bn (Rs 1,670/mt), (c) pipeline/petrochemicals EBITDA trends were mixed at Rs 15.5bn/Rs 7.4bn. We lower FY20/FY21/FY22 earnings by 23%/13%/13% as we cut GRM estimates by US\$ 1/bbl given that the anticipated gains from IMO remain elusive. Rolling valuations forward, we have a Mar'21 TP of Rs 200 (from Rs 240).

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GRMs outperform but trend remains weak: IOCL's GRMs (at US\$ 2.2/bbl) outperformed the Singapore benchmark (US\$ 1.7/bbl) in Q3FY20. A relatively high diesel slate in the refining portfolio puts the company in an advantageous position, given that the new IMO regulations (effective Jan'20) that are expected to push diesel spreads above US\$ 20/bbl (from ~US\$ 13 currently). Paradip refinery GRMs remain a key factor behind IOCL's outperformance.

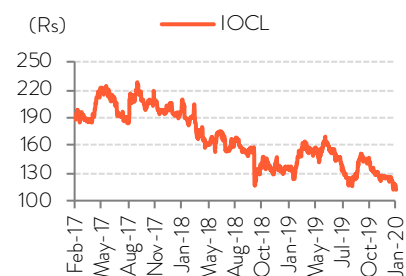
Marketing earnings improve: Marketing business EBITDA at Rs 40bn was in line with estimates as IOCL gained market share in ATF and industrial product sales (while ceding share in bulk diesel and petrol). Pipeline business EBITDA underperformed at Rs 15.5bn (-4% YoY) on lower volumes (21mmt, -9% YoY). Petchem margins beat estimates at US\$ 165/MT (-18% YoY), leading to above-expected EBITDA at Rs 7.4bn (-24% YoY). Petchem volumes recovered to 0.63mmt (+20% QoQ) and could improve further on commissioning of the new PP plant in Paradip.

Valuations building in the worst case: At 4.7x FY22E EBITDA, valuations seem to be pricing in the worst case (i.e. possibility of a BPCL acquisition or GRMs sustaining at <US\$ 3/bbl). Reiterate BUY.

Ticker/Price	IOCL IN/Rs 113
Market cap	US\$ 15.4bn
Shares o/s	9,712mn
3M ADV	US\$ 25.0mn
52wk high/low	Rs 171/Rs 112
Promoter/FPI/DII	52%/8%/41%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	4,214,918	5,281,489	5,578,406	6,675,351	7,287,866
EBITDA (Rs mn)	416,275	352,227	298,235	391,763	425,787
Adj. net profit (Rs mn)	221,911	173,837	144,655	189,288	205,184
Adj. EPS (Rs)	23.4	18.9	15.8	20.6	22.3
Adj. EPS growth (%)	11.7	(19.1)	(16.8)	30.9	8.4
Adj. ROAE (%)	20.6	15.4	12.8	16.3	16.7
Adj. P/E (x)	4.8	6.0	7.2	5.5	5.1
EV/EBITDA (x)	4.1	4.9	6.3	5.1	4.7

Source: Company, BOBCAPS Research

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FIG 1 – IOCL Q3FY20 SALES VOLUME GROWTH VS. INDUSTRY

Petroleum products (mmt)	IOCL QoQ growth (%)	Industry QoQ growth (%)	IOCL YoY growth (%)	Industry YoY growth (%)	IOCL 9MFY20 YoY growth (%)	Industry 9MFY19 YoY growth (%)
LPG	2.7	2.94	15.6	15.19	8.8	7.92
MS	0.8	1.05	6.0	7.05	7.1	8.35
HSD	13.8	13.98	(0.9)	0.51	(0.7)	0.93
SKO	(14.7)	(15.20)	(38.9)	(39.56)	(27.0)	(27.89)
ATF	4.6	6.60	6.3	2.69	3.7	0.60
FO/LSHS	(3.0)	(4.62)	(9.4)	(8.74)	(6.4)	(5.96)
Others	10.5	2.75	(9.9)	19.23	(3.5)	22.88
Total	7.6	8.5	0.2	1.8	0.7	0.9

Source: Company, Industry, BOBCAPS Research

FIG 2 – QUARTERLY PERFORMANCE

Y/E March (Rs mn)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
Net sales	1,246,152	1,399,689	(11.0)	1,116,897	11.6	3,678,174	4,014,786	(8.4)
EBITDA	66,503	36,101	84.2	35,722	86.2	185,725	229,479	(19.1)
EBITDA margin (%)	5.34	2.58	-	3.20	-	5.05	5.72	-
Adjusted EBITDA (ex inv and exchg changes)	55,980	127,130	(56.0)	65,330	(14.3)	197,880	258,270	(23.4)
Depreciation and Amortisation	21,862	18,606	17.5	20,975	4.2	63,766	54,576	16.8
Interest	13,117	8,479	54.7	13,083	0.3	41,290	30,668	34.6
Other income	5,697	4,431	28.6	6,481	(12.1)	18,491	20,691	(10.6)
PBT	37,222	13,446	176.8	8,145	357.0	99,161	164,925	(39.9)
Provision for tax	13,832	6,278	120.3	2,511	450.9	34,175	56,977	(40.0)
Effective Tax Rate (%)	37.16	46.69	-	30.82	-	34.46	34.55	-
PAT Adjusted	23,390	7,168	226.3	5,634	315.1	64,986	107,949	(39.8)
Other comprehensive income	-	(30,480)	(100.0)	(39,617)	100.0	-	(33,078)	100.0
Total income	23,390	(23,312)	(200.3)	(33,983)	(168.8)	64,986	74,871	(13.2)
NPM (%)	1.88	0.51	-	0.50	-	1.77	2.69	-
EPS (Rs)	2.5	0.8	228.5	0.6	315.1	6.9	11.4	(39.4)

Source: Company, BOBCAPS Research

FIG 3 – SEGMENT PERFORMANCE

Particulars	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
Refining								
Refining throughput (mmt)	17.50	18.98	(7.8)	17.54	(0.2)	52.33	54.47	(3.9)
GRMs (US\$/bbl)	4.10	1.15	256.2	1.28	220.0	3.34	5.83	(42.7)
Normalised GRM (US\$/bbl)	2.18	8.41	(74.1)	3.55	(38.6)	3.10	6.11	(49.3)
Refining EBITDA (Rs mn)	5,460	(8,680)	-	(20,270)	-	1,780	70,290	(97.5)
Refining EBITDA (US\$/bbl)	0.6	(0.9)	-	(2.2)	-	0.1	2.5	(97.4)
Inventory gains/(loss) (Rs mn)	19,150	(80,820)	-	(15,340)	-	13,580	8,520	(59.4)
Inventory gains/(loss) (US\$/bbl)	2.1	(8.1)	-	(1.7)	-	0.5	0.3	(65.0)
Exchange fluctuation gain/(loss) (Rs mn)	(1,660)	8,130	-	(5,200)	-	(6,980)	(16,250)	-
Adj. EBITDA	(12,030)	64,010	-	270	-	(4,820)	78,020	-
Adj. EBITDA (US\$/bbl)	(1.3)	6.4	-	0.0	-	(0.2)	2.8	-
Operating costs (US\$/bbl)	3.3	2.8	17.3	2.9	12.6	3.0	2.7	9.9
Marketing								
Total Marketing sales (mmt)	23.41	21.57	8.5	21.42	9.3	66.44	63.65	4.4
Domestic	21.86	20.35	7.5	18.95	15.4	59.86	59.45	0.7
Exports	1.55	1.23	26.0	1.23	25.8	3.85	4.20	(8.5)
Marketing EBITDA (Rs mn)	39,140	(3,950)	-	38,130	2.6	122,920	81,840	50.2
Marketing EBITDA (Rs/mt)	1,672	(183)	-	1,780	(6.1)	3,619	1,286	181.5
Inventory gains/(loss) (Rs mn)	(1,110)	(26,620)	-	3,560	-	5,010	6,780	(26.1)
Inventory gains/(loss) (Rs/mt)	(47)	(1,234)	-	166	-	75	107	29.2
Exchange fluctuation gain/(loss) (Rs mn)	(160)	12,710	-	(6,150)	-	(5,270)	(7,160.0)	(26.4)
Adj. EBITDA	40,410	9,960	305.7	40,720	(0.8)	123,180	82,220	49.8
Adj. EBITDA (Rs/mt)	1,726	462	273.9	1,901	(9.2)	1,854	1,292	43.5
Pipeline								
Pipeline throughput (mmt)	20.96	23.08	(9.2)	21.75	(3.6)	64.61	67.30	(4.0)
Pipeline EBITDA (Rs mn)	15,450	16,130	(4.2)	15,870	(2.6)	47,550	48,500	(2.0)
Pipeline EBITDA (Rs/mt)	737	699	5.5	730	1.0	736	721	2.1
Petrochemicals								
Volumes (mmt)	0.63	0.67	(5.5)	0.53	20.2	1.68	1.97	(14.3)
Petrochemicals EBITDA (Rs mn)	7,420	9,670	(23.3)	7,740	(4.1)	22,020	41,590	(47.1)
Petrochemicals EBITDA (US\$/mt)	165	201	(17.9)	209	(21.1)	185	301	(38.5)
Others (Rs mn)	4,730	27,360	(82.7)	730	(547.9)	9,950	7,940	25.3
Total Adjusted EBITDA (Rs mn)	55,980	127,130	(56.0)	65,330	(14.3)	197,880	258,270	(23.4)

Source: Company, BOBCAPS Research

Valuation methodology

We lower FY20/FY21/FY22 earnings estimates by 23%/13%/13% as we reduce GRM assumptions by ~US\$ 1/bbl given that the anticipated gains from IMO remain elusive. Rolling valuations forward, we have a revised Mar'21 target price of Rs 200 (from Rs 240). At 4.7x FY22E EBITDA, valuations seem to be pricing in the worst case (i.e. possibility of a BPCL acquisition or GRMs sustaining at <US\$ 3/bbl). Reiterate BUY.

Our SOTP-based target price of Rs 200 is based on the following:

- refining business valued at 6x FY22E EBITDA (lowered from 6.5x earlier),
- marketing business valued at 5x FY22E EBITDA,
- petrochemicals business valued at 6x FY22E EBITDA (lowered from 7.5x earlier), and
- pipeline business valued at 5x FY22E EBITDA.

FIG 4 – SOTP VALUATION SUMMARY

	EV (Rs bn)	Value (Rs/sh)	Comments
Refining	565	62	6x FY22E EBITDA
Marketing	901	98	5x FY22E EBITDA
Petrochemicals	379	41	6x FY22E EBITDA
Pipeline	373	41	5x FY22E EBITDA
Total core business EV	2,218	242	
Less: Net Debt	500	54	
Equity value of operational segments	1,718	187	-
Add: Total investments	130	16	Listed holdings at 20% discount to CMP and others at investment value
IOCL Equity value	1,848	200	9x FY22E EPS

Source: BOBCAPS Research

FIG 5 – REVISED ESTIMATES

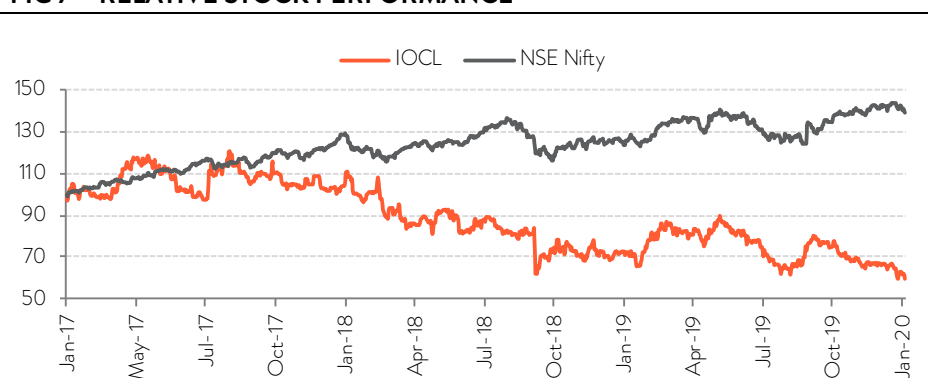
(Rs mn)	FY20E			FY21E			FY22E		
	Old	New	Var (%)	Old	New	Var (%)	Old	New	Var (%)
Revenue	5,650,641	5,578,406	(1.3)	6,717,679	6,675,351	(0.6)	7,332,399	7,287,866	(0.6)
EBITDA	365,139	298,235	(18.3)	448,514	428,493	(4.5)	489,873	464,442	(5.2)
EBITDA margin (%)	6.5	5.3	-	6.7	6.4	-	6.7	6.4	-
PAT	187,412	144,655	(22.8)	218,281	189,288	(13.3)	237,128	205,184	(13.5)
EPS (Rs)	20.4	15.8	(22.8)	23.8	20.6	(13.3)	25.8	22.3	(13.5)

Source: BOBCAPS Research

FIG 6 – KEY ASSUMPTIONS

	FY20E	FY21E	FY22E
Average petchem product spreads (US\$/mt)	600	700	700
Oil (US\$/bbl)	65.0	70.0	70.0
GRMs (US\$/bbl)	3.5	5.0	5.0
Singapore GRMs (US\$/bbl)	3.5	5.0	5.0
Refinery throughput (mmt)	76.8	81.8	86.8
Pipeline throughput (mmt)	94.0	102.0	110.0
Market sales (mmt)	82.0	85.7	90.0
USDINR	72.0	74.0	74.0

Source: BOBCAPS Research

FIG 7 – RELATIVE STOCK PERFORMANCE

Source: NSE

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	5,578,406	6,675,351	7,287,866
EBITDA	416,275	352,227	298,235	391,763	425,787
Depreciation	(76,635)	(85,065)	(85,739)	(94,368)	(102,422)
EBIT	339,640	267,162	212,496	297,395	323,365
Net interest income/(expenses)	(38,448)	(48,880)	(66,003)	(82,082)	(90,590)
Other income/(expenses)	34,199	27,143	48,949	39,621	43,245
EBT	335,391	245,425	195,442	254,934	276,020
Income taxes	(118,239)	(86,531)	(49,247)	(64,239)	(69,553)
Min. int./Inc. from associates	4,759	14,942	(1,541)	(1,407)	(1,283)
Reported net profit	221,911	173,837	144,655	189,288	205,184
Adjusted net profit	221,911	173,837	144,655	189,288	205,184

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	365,817	411,941	457,191	545,694	596,031
Other current liabilities	513,541	573,909	602,345	717,922	786,035
Provisions	166,721	123,860	141,533	185,317	200,923
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	1,038,994	1,104,363	1,175,520
Shareholders' fund	1,138,738	1,124,692	1,130,805	1,196,173	1,267,331
Total liabilities and equities	2,956,757	3,351,551	3,379,013	3,821,079	4,068,533
Cash and cash eq.	4,963	10,647	2,914	25,586	25,474
Accounts receivables	106,965	157,977	171,402	204,766	223,225
Inventories	705,679	771,265	781,667	935,833	1,026,930
Other current assets	259,256	364,641	363,587	436,170	477,539
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	3,379,013	3,821,079	4,068,533

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	298,546	258,901	230,393	283,656	307,605
Changes in working capital	(53,147)	(158,351)	68,585	(12,248)	(16,869)
Other operating cash flows	20,593	14,276	(55,815)	(39,621)	(43,245)
Cash flow from operations	265,992	114,826	243,163	231,786	247,491
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	48,949	39,621	43,245
Cash flow from investing	(81,461)	(139,985)	36,527	(119,659)	(53,396)
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)	(110,010)	(143,954)	(156,042)
Other financing cash flows	(88,154)	(145,030)	(74,017)	(92,711)	(74,133)
Cash flow from financing	(183,666)	30,842	(281,519)	(86,545)	(190,629)
Changes in cash and cash eq.	865	5,683	(1,829)	25,583	3,466
Closing cash and cash eq.	4,963	10,647	8,818	28,496	29,052

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	23.4	18.9	15.8	20.6	22.3
Adjusted EPS	23.4	18.9	15.8	20.6	22.3
Dividend per share	12.0	11.5	10.2	13.4	14.5
Book value per share	120.1	122.5	123.2	130.3	138.0

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	0.4	0.3	0.3	0.3	0.3
EV/EBITDA	4.1	4.9	6.3	5.1	4.7
Adjusted P/E	4.8	6.0	7.2	5.5	5.1
P/BV	0.9	0.9	0.9	0.9	0.8

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	66.2	70.8	74.0	74.3	74.3
Interest burden (PBT/EBIT)	98.7	91.9	92.0	85.7	85.4
EBIT margin (EBIT/Revenue)	8.1	5.1	3.8	4.5	4.4
Asset turnover (Revenue/Avg TA)	148.1	167.4	165.8	185.4	184.7
Leverage (Avg TA/Avg Equity)	2.6	2.8	3.0	3.1	3.2
Adjusted ROAE	20.6	15.4	12.8	16.3	16.7

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	5.6	19.7	9.2
EBITDA	22.5	(15.4)	(15.3)	31.4	8.7
Adjusted EPS	11.7	(19.1)	(16.8)	30.9	8.4
Profitability & Return ratios (%)					
EBITDA margin	9.9	6.7	5.3	5.9	5.8
EBIT margin	8.1	5.1	3.8	4.5	4.4
Adjusted profit margin	5.3	3.3	2.6	2.8	2.8
Adjusted ROAE	20.6	15.4	12.8	16.3	16.7
ROCE	12.7	9.0	7.8	10.5	10.7
Working capital days (days)					
Receivables	8	9	11	10	11
Inventory	74	61	58	53	55
Payables	33	29	30	29	30
Ratios (x)					
Gross asset turnover	2.5	3.4	3.2	3.5	3.5
Current ratio	0.7	0.8	0.8	0.8	0.8
Net interest coverage ratio	8.8	5.5	3.2	3.6	3.6
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%

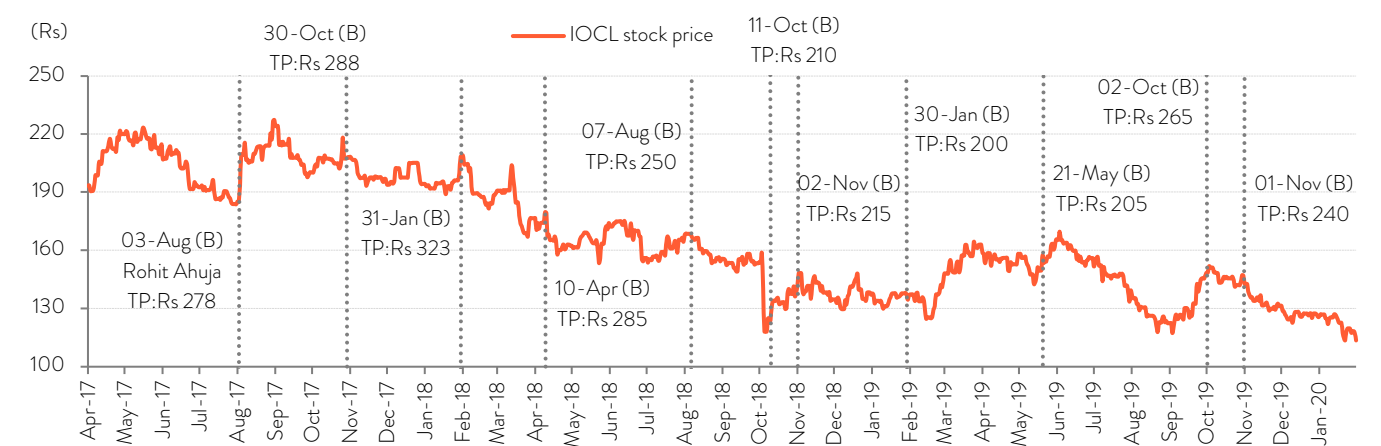
ADD – Expected return from >+5% to +15%

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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