FLASH NOTE

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INDIAN OIL CORP | Oil & Gas | 06 June 2020

Covid-19 update – operations fast returning to normal

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IOCL announced that domestic petroleum product demand improved in May as staggered easing of the lockdown stemmed the decline in consumption to 30% YoY (from 46% YoY in April). Refinery utilisation has also ramped up from 39% levels in April to >80% currently. The company hinted at a massive inventory loss in Q4FY20 (results not yet out) but also expects a reversal of losses in Q1FY21 given the recent surge in oil price and INR appreciation. Overall, these developments support our view of a V-shaped recovery in Q2FY21.

Sale volumes hit in Q1FY21: Demand for petroleum products declined 46% YoY in Apr'20. Specifically, sales of petrol/diesel/ATF saw the largest drops of 61%/57%/92%. Staggered easing of the nationwide lockdown in May has stemmed the decline in demand to 39% on average for these products. June could see further improvement in consumption.

Refinery utilisation also affected: IOCL had to curtail utilisation levels at its refineries to 39% on average in April. This has improved sharply to ~80% in May and the company expects further ramp-up in June as lockdown restrictions are eased across the country. Given IOCL's pan-India presence, its operations could recover much faster than OMC peers.

Inventory piles up, rise in working capital: The company indicated a spurt in working capital requirements due to lower sales volumes. However, the recent improvement in sales should lead to reversal of most of this debt burden. IOCL managed to defer or cancel some crude cargoes in Apr-May, while some were sold to the government for strategic petroleum reserves (SPR).

Capex guidance sustained: The company indicated that it is likely to maintain earlier approved capex levels of ~Rs 200bn for FY21 as work across most of its projects has resumed.

Remains our top pick: IOCL's pan-India presence across marketing, refining and pipeline assets gives it a significant advantage over peers in terms of faster normalisation of sales. Valuations at 3.7x FY22E EBITDA are at a significant discount to BPCL, offering a staggering >12% dividend yield potential. Like other PSUs, the stock has been under pressure owing to concerns over cash utilisation. We believe valuations price in most of these concerns. GRMs for IOCL could outperform peers, in our view.

Ticker/Price	IOCL IN/Rs 89
Market cap	US$ 11.5bn
Shares o/s	9,712mn
3M ADV	US$ 19.3mn
52wk high/low	Rs 169/Rs 71
Promoter/FPI/DII	52%/8%/41%

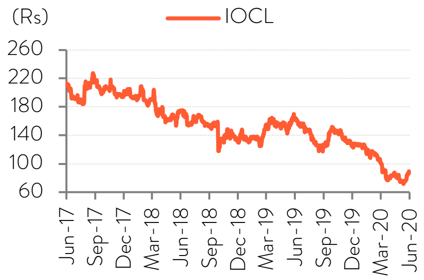
Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY20E	FY21E	FY22E
Total revenue (Rs mn)	5,522,411	3,819,405	4,750,389
EBITDA (Rs mn)	293,308	425,094	440,281
Adj. net profit (Rs mn)	140,969	214,120	220,755
Adj. EPS (Rs)	15.4	23.3	24.0
Adj. EPS growth (%)	(18.9)	51.9	3.1
Adj. ROAE (%)	12.5	18.4	17.8
Adj. P/E (x)	5.8	3.8	3.7
EV/EBITDA (x)	5.6	4.1	3.8

Source: Company, BOBCAPS Research

STOCK PERFORMANCE



Source: NSE

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

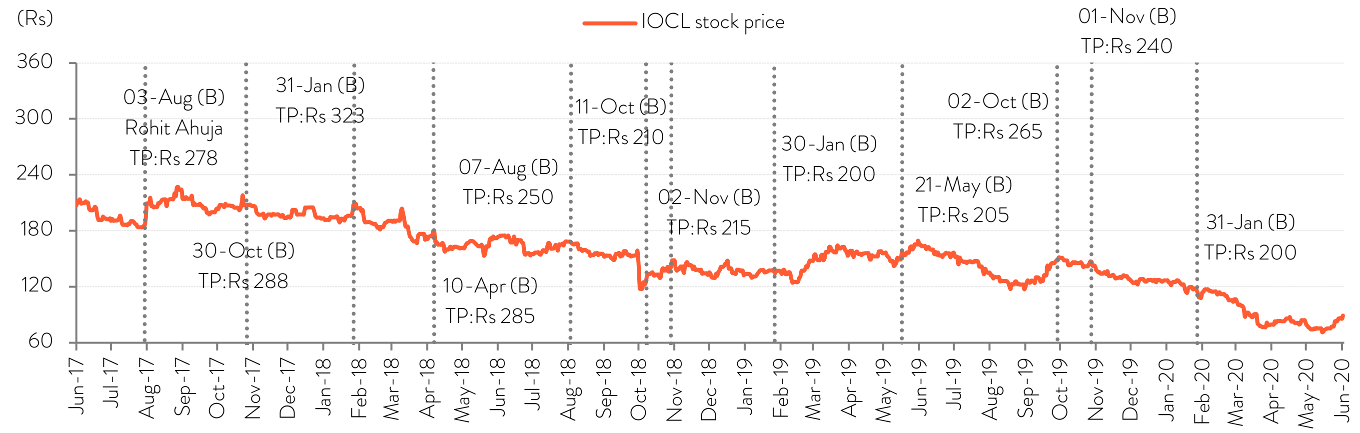
ADD – Expected return from >+5% to +15%

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)



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

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