

BUY

TP: Rs 175 | ▲ 106%

INDIAN OIL CORP

Oil & Gas

25 June 2020

Upbeat operating performance

IOCL reported a loss in Q4 due to an inventory hit of Rs 184bn and a Rs 27bn exchange loss. Adjusted for these, earnings at Rs 62bn beat estimates. Q4 highlights: (a) adj. GRM outperformed at US\$ 9/bbl, (b) adj. marketing business EBITDA also beat estimates at Rs 63bn (Rs 2,833/mt), (c) pipeline/petchem EBITDA trends were mixed at Rs 15.4bn/Rs 4.8bn. We lower FY21/FY22 earnings by 12%/8% as we cut volume and petchem EBITDA estimates. Our Mar'21 TP moves to Rs 175 (vs. Rs 200) on reduced cyclical business multiples.

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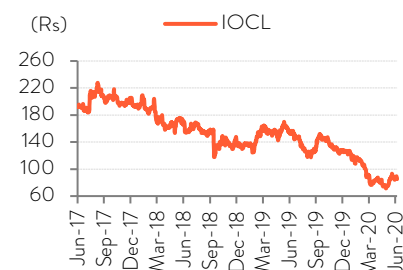
GRMs outperform: IOCL's GRMs at US\$ 9/bbl (ex-inventory loss of US\$ 17/bbl) outperformed the Singapore benchmark of US\$ 1.7/bbl in Q4FY20. Like OMC peers, IOCL was able to take advantage of high discounts for Middle East crude. This GRM advantage may sustain in Q1FY21, with additional impetus from inventory gains following the recent increase in crude prices. The company expects limited impact from Covid-19 disruptions as utilisation likely scales back to near-100% levels by Jul'20.

Ticker/Price	IOCL IN/Rs 85
Market cap	US\$ 10.7bn
Shares o/s	9,479mn
3M ADV	US\$ 19.5mn
52wk high/low	Rs 158/Rs 71
Promoter/FPI/DII	51%/7%/41%

Source: NSE

Marketing earnings improve: Marketing business EBITDA at Rs 63bn (ex-inventory loss) was above estimates on the back of better margins. Management has delivered on its guidance of improving marketing margins, which bolsters the outlook on earnings over FY21-FY22. Pipeline business EBITDA was stable at Rs 15.4bn. Petchem margins at US\$ 97/mt were below estimates and caused a steep 53% YoY drop in segment EBITDA to Rs 4.8bn.

STOCK PERFORMANCE



Source: NSE

Remains our top pick: 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. IOCL's GRMs could continue to outperform peers, in our view.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	4,214,918	5,281,489	5,522,411	3,819,405	4,750,389
EBITDA (Rs mn)	416,275	352,227	293,308	425,094	440,281
Adj. net profit (Rs mn)	221,911	173,837	140,969	214,120	220,755
Adj. EPS (Rs)	23.4	18.9	15.4	23.3	24.0
Adj. EPS growth (%)	11.7	(19.1)	(18.9)	51.9	3.1
Adj. ROAE (%)	20.6	15.4	12.5	18.4	17.8
Adj. P/E (x)	3.6	4.5	5.5	3.6	3.5
EV/EBITDA (x)	3.4	4.1	5.4	4.0	3.7

Source: Company, BOBCAPS Research

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FIG 1 – IOCL Q4FY20 SALES VOLUME GROWTH VS. INDUSTRY

Petroleum products (mmt)	IOCL YoY growth (%)	Industry YoY growth (%)	IOCL FY20 YoY growth (%)	Industry FY20 YoY growth (%)
LPG	2.5	1.1	7.1	6.1
MS	(2.2)	(1.2)	4.8	5.9
HSD	(7.7)	(7.1)	(2.4)	(1.1)
SKO	(39.4)	(39.6)	(29.8)	(30.7)
ATF	(8.2)	(10.9)	0.5	(2.4)
FO/LSHS	(0.8)	(10.8)	(5.1)	(7.2)
Others	(13.4)	3.8	(11.2)	(1.5)
Total	(6.7)	(3.1)	(1.8)	(0.2)

Source: Company, Industry, BOBCAPS Research

FIG 2 – QUARTERLY PERFORMANCE

Y/E March (Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Net sales	1,184,391	1,262,141	(6.2)	1,246,152	(5.0)	4,862,565	5,276,927	(7.9)
EBITDA	2,122	108,759	(98.0)	66,503	(96.8)	187,847	338,237	(44.5)
EBITDA margin (%)	0.18	8.62	-	5.34	-	3.86	6.41	-
Adjusted EBITDA (ex inv and exchg changes)	118,250	84,570	39.8	55,980	111.2	316,240	342,830	(7.8)
Depreciation and Amortisation	23,895	20,567	16.2	21,862	9.3	87,661	75,143	16.7
Interest	18,504	12,442	48.7	13,117	41.1	59,795	43,110	38.7
Other income	17,223	10,595	62.6	5,697	202.3	35,714	31,285	14.2
PBT	(23,055)	86,344	-	37,222	-	76,105	251,269	(69.7)
Provision for tax	(84,248)	25,351	-	13,832	-	(50,073)	82,328	-
Effective Tax Rate (%)	365.42	29.36	-	37.16	-	(65.79)	32.76	-
PAT Adjusted	61,193	60,993	0.3	23,390	161.6	126,179	168,942	(25.3)
EPS Adjusted (Rs)	6.5	6.5	(0.4)	2.5	-	13.3	17.8	(25.3)

Source: Company, BOBCAPS Research

FIG 3 – SEGMENT PERFORMANCE

Particulars	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Refining								
Refining throughput (mmt)	17.10	17.35	(1.4)	17.50	(2.2)	69.42	71.82	(3.3)
GRMs (US\$/bbl)	(9.64)	4.09	-	4.10	-	0.08	5.41	(98.5)
Normalised GRM (US\$/bbl)	8.94	1.11	703.9	2.18	309.9	4.59	4.90	(6.3)
Refining EBITDA (Rs mn)	(124,510)	12,080	-	5,460	-	(122,720)	82,370	-
Refining EBITDA (US\$/bbl)	(13.4)	1.4	-	0.6	-	(3.3)	2.2	-
Inventory gains/(loss) (Rs mn)	(161,840)	23,900	-	19,150	-	(148,360)	32,420	557.6
Inventory gains/(loss) (US\$/bbl)	(17.4)	2.7	-	2.1	-	(4.0)	0.9	557.5
Exchange fluctuation gain/(loss) (Rs mn)	(10,530)	2,740	484.3	(1,660)	-	(17,510)	(13,500)	29.7
Adj. EBITDA	47,860	(14,560)	-	(12,030)	-	43,150	63,450	(32.0)
Adj. EBITDA (US\$/bbl)	5.2	(1.6)	-	(1.3)	-	1.2	1.7	(32.0)
Operating costs (US\$/bbl)	2.6	3.0	(13.2)	3.3	(20.2)	2.9	2.8	4.9
Marketing								
Total Marketing sales (mmt)	22.21	22.63	(1.9)	23.41	(5.1)	88.64	86.28	2.7
Domestic	20.70	20.52	0.9	20.39	1.5	78.56	79.97	(1.8)
Exports	1.51	0.96	57.7	1.54	(1.8)	5.35	5.16	3.7
Marketing EBITDA (Rs mn)	23,320	68,480	(65.9)	39,140	(40.4)	146,230	150,320	(2.7)
Marketing EBITDA (Rs/mt)	1,050	3,026	(65.3)	1,672	(37.2)	1,650	1,742	(5.3)
Inventory gains/(loss) (Rs mn)	(22,910)	2,520	-	(1,110)	1,964.0	(17,910)	9,300	-
Inventory gains/(loss) (Rs/mt)	(1,032)	111	-	(47)	2,075.8	(202)	108	287.5
Exchange fluctuation gain/(loss) (Rs mn)	(16,670)	5,630	396.1	(160)	-	(21,940)	(1,530.0)	1,334.0
Adj. EBITDA	62,900	60,330	4.3	40,410	55.7	186,080	142,550	30.5
Adj. EBITDA (Rs/mt)	2,833	2,666	6.3	1,726	64.1	2,099	1,652	27.1
Pipeline								
Pipeline throughput (mmt)	20.79	21.22	(2.0)	20.96	(0.8)	85.35	88.52	(3.6)
Pipeline EBITDA (Rs mn)	15,400	15,890	(3.1)	15,450	(0.3)	62,950	64,390	(2.2)
Pipeline EBITDA (Rs/mt)	741	749	(1.1)	737	0.5	738	727	1.4
Petrochemicals								
Volumes (mmt)	0.66	0.67	(1.3)	0.63	4.4	2.29	2.64	(13.2)
Petrochemicals EBITDA (Rs mn)	4,750	10,050	(52.7)	7,420	(36.0)	26,770	51,640	(48.2)
Petrochemicals EBITDA (US\$/mt)	97	214	(54.5)	165	(41.0)	162	281	(42.3)
Others (Rs mn)	(12,660)	12,860	-	4,730	367.7	(2,710)	20,800	-
Total Adjusted EBITDA (Rs mn)	118,250	84,570	39.8	55,980	111.2	316,240	342,830	(7.8)

Source: Company, BOBCAPS Research

Valuation methodology – maintain BUY

We lower FY21/FY22 earnings estimates by 12%/8% as we scale back assumptions for volumes and petrochemical business EBITDA. Our Mar'21 SOTP-based target price stands revised to Rs 175 (from Rs 200) on higher debt, lower investment value and a reduction in valuation multiples for cyclical businesses. Maintain BUY.

Our SOTP valuation is based on the following:

- refining business valued at 6x FY22E EBITDA (vs. 6.5x earlier),
- marketing business valued at 6x FY22E EBITDA,
- petrochemicals business valued at 7x FY22E EBITDA (vs. 7.5x earlier), and
- pipeline business valued at 5x FY22E EBITDA.

FIG 4 – REVISED ESTIMATES

(Rs mn)	FY21E			FY22E		
	Old	New	Var (%)	Old	New	Var (%)
Revenue	3,639,022	3,465,736	(4.8)	4,464,366	4,334,335	(2.9)
EBITDA	471,342	428,493	(9.1)	534,109	464,442	(13.0)
EBITDA margin (%)	6.7	12.4	-	6.7	10.7	-
PAT	213,917	187,974	(12.1)	220,344	203,468	(7.7)
EPS (Rs)	23.3	20.5	(12.1)	24.0	22.2	(7.7)

Source: BOBCAPS Research

FIG 5 – SOTP VALUATION SUMMARY

	EV (Rs bn)	Value (Rs/sh)	Comments
Refining	412	45	6x FY22E EBITDA
Marketing	1,007	110	6x FY22E EBITDA
Petrochemicals	290	32	7x FY22E EBITDA
Pipeline	447	49	5x FY22E EBITDA
Total core business EV	2,155	235	
Less: Net Debt	640	70	
Equity value of operational segments	1,515	165	-
Add: Total investments	95	12	Listed holdings at 20% discount to CMP and others at investment value
IOCL Equity value	1,610	175	7.9x FY22E EPS

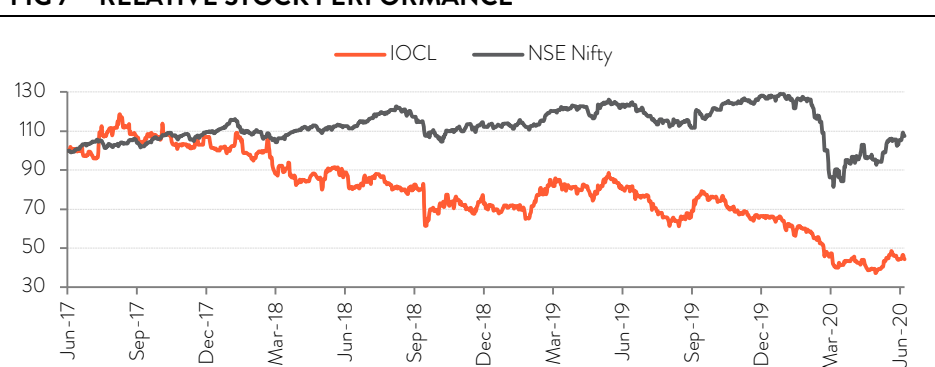
Source: BOBCAPS Research

FIG 6 – KEY ASSUMPTIONS

	FY21E	FY22E
Average petchem product spreads (US\$/mt)	700	700
Oil (US\$/bbl)	35.0	40.0
GRMs (US\$/bbl)	4.0	4.5
Singapore GRMs (US\$/bbl)	4.0	4.0
Refinery throughput (mmt)	75	80
Pipeline throughput (mmt)	102.0	110.0
Market sales (mmt)	80	85
USDINR	76	78

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	FY20P	FY21E	FY22E
Total revenue	4,214,918	5,281,489	5,522,411	3,819,405	4,750,389
EBITDA	416,275	352,227	293,308	425,094	440,281
Depreciation	(76,635)	(85,065)	(85,739)	(94,428)	(102,665)
EBIT	339,640	267,162	207,570	330,666	337,616
Net interest income/(expenses)	(38,448)	(48,880)	(66,003)	(82,082)	(90,590)
Other income/(expenses)	34,199	27,143	48,949	39,548	49,811
EBT	335,391	245,425	190,516	288,131	296,838
Income taxes	(118,239)	(86,530)	(48,005)	(72,605)	(74,799)
Min. int./Inc. from associates	4,759	14,942	(1,541)	(1,407)	(1,283)
Reported net profit	221,911	173,837	140,969	214,120	220,755
Adjusted net profit	221,911	173,837	140,969	214,120	220,755

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Accounts payables	365,817	411,941	452,713	302,353	379,856
Other current liabilities	513,541	573,909	596,329	377,542	485,392
Provisions	166,721	123,860	137,920	209,662	216,189
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	1,037,680	1,111,901	1,188,610
Shareholders' fund	1,138,738	1,124,692	1,129,491	1,203,712	1,280,421
Total liabilities and equities	2,956,757	3,351,551	3,363,593	3,269,241	3,580,071
Cash and cash eq.	4,963	10,647	1,083	191,586	170,242
Accounts receivables	106,965	157,977	169,714	118,696	146,753
Inventories	705,679	771,265	773,552	494,777	635,112
Other current assets	259,256	364,641	359,805	243,280	306,159
Investments	448,061	439,277	497,616	577,616	577,616
Net fixed assets	1,280,970	1,373,725	1,334,016	1,379,414	1,444,222
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	3,363,593	3,269,232	3,580,024

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Net income + Depreciation	298,546	258,901	226,708	308,549	323,420
Changes in working capital	(53,147)	(158,351)	68,063	148,913	(39,390)
Other operating cash flows	20,593	14,276	(55,815)	(39,548)	(49,811)
Cash flow from operations	265,992	114,826	238,956	417,913	234,219
Capital expenditures	(104,472)	(175,911)	45,923	(81,454)	(100,865)
Change in investments	(11,188)	8,784	(58,339)	(80,000)	0
Other investing cash flows	34,199	27,143	48,949	39,548	49,811
Cash flow from investing	(81,461)	(139,985)	36,533	(121,906)	(51,053)
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)	(107,207)	(162,838)	(167,884)
Other financing cash flows	(88,154)	(145,030)	(74,017)	(92,711)	(74,133)
Cash flow from financing	(183,666)	30,842	(278,716)	(105,429)	(202,471)
Changes in cash and cash eq.	865	5,683	(3,228)	190,578	(19,306)
Closing cash and cash eq.	4,963	10,647	7,419	191,661	172,280

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20P	FY21E	FY22E
Reported EPS	23.4	18.9	15.4	23.3	24.0
Adjusted EPS	23.4	18.9	15.4	23.3	24.0
Dividend per share	12.0	11.5	10.0	15.2	15.6
Book value per share	120.1	122.5	123.0	131.1	139.5

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20P	FY21E	FY22E
EV/Sales	0.3	0.3	0.3	0.4	0.3
EV/EBITDA	3.4	4.1	5.4	4.0	3.7
Adjusted P/E	3.6	4.5	5.5	3.6	3.5
P/BV	0.7	0.7	0.7	0.6	0.6

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20P	FY21E	FY22E
Tax burden (Net profit/PBT)	66.2	70.8	74.0	74.3	74.4
Interest burden (PBT/EBIT)	98.7	91.9	91.8	87.1	87.9
EBIT margin (EBIT/Revenue)	8.1	5.1	3.8	8.7	7.1
Asset turnover (Revenue/Avg TA)	148.1	167.4	164.5	115.2	138.7
Leverage (Avg TA/Avg Equity)	2.6	2.8	3.0	2.8	2.8
Adjusted ROAE	20.6	15.4	12.5	18.4	17.8

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

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
YoY growth (%)					
Revenue	18.6	25.3	4.6	(30.8)	24.4
EBITDA	22.5	(15.4)	(16.7)	44.9	3.6
Adjusted EPS	11.7	(19.1)	(18.9)	51.9	3.1
Profitability & Return ratios (%)					
EBITDA margin	9.9	6.7	5.3	11.1	9.3
EBIT margin	8.1	5.1	3.8	8.7	7.1
Adjusted profit margin	5.3	3.3	2.6	5.6	4.6
Adjusted ROAE	20.6	15.4	12.5	18.4	17.8
ROCE	12.7	9.0	7.6	11.7	11.1
Working capital days (days)					
Receivables	8	9	11	14	10
Inventory	74	61	58	74	52
Payables	33	29	30	41	29
Ratios (x)					
Gross asset turnover	2.5	3.4	3.2	2.0	2.3
Current ratio	0.7	0.8	0.8	0.7	0.8
Net interest coverage ratio	8.8	5.5	3.1	4.0	3.7
Adjusted debt/equity	0.5	0.8	0.7	0.7	0.7

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

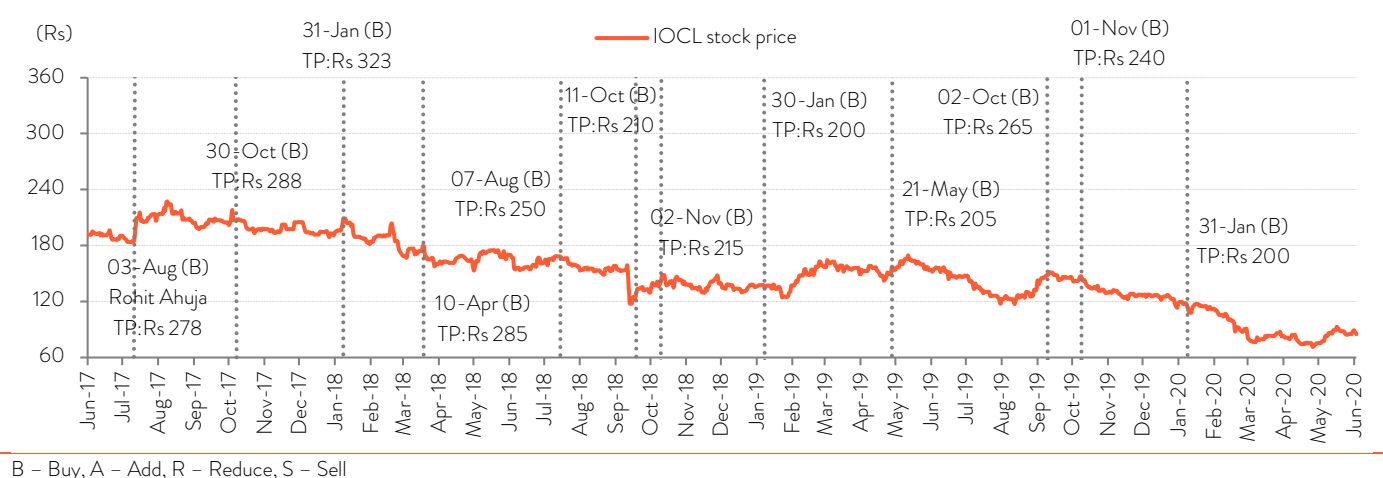
ADD – Expected return from >+5% to +15%

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)



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