

CMP: ₹ 71

Target: ₹ 80 (13%)

Target Period: 12 months

HOLD

August 1, 2022

Weak marketing performance dents profitability...

About the stock: Indian Oil Corporation (IOC) is India's largest refining & marketing company with an installed refining capacity of ~70 MMT.

- IOC operates 32062 retail outlets as of end of FY21
- Petrol and diesel together historically constitute ~52% of marketing sales

Q1FY23 Results: IOC's results were lower than estimates on the profitability front.

- Revenue increased 22% QoQ to ₹ 251932.9 crore (our estimate: ₹ 240101.8 crore). Marketing sales increased 5.4% QoQ to 23 MMT
- Reported GRM was US\$31.8/bbl while core GRM was US\$25.3/bbl. Marketing profitability was lower than estimates as per our understanding. EBITDA was at ₹ 1358.9 crore, down 88.3% QoQ (estimate: ₹ 6191.2 crore)
- The company reported a net loss of ₹ 1992.5 crore compared to PAT of ₹ 6021.9 crore in Q4FY22 (estimated PAT: ₹ 1936.9 crore)

What should investors do? IOC's core GRM improved sharply in Q1FY23. We expect it to stabilise at lower levels taking into account recent product spreads trend. The company has not passed on higher crude oil costs to customers and weaker marketing profitability is likely to impact earnings in the near term.

- We maintain our **HOLD** rating on the stock

Target Price and Valuation: We value IOC at ₹ 80 i.e. average of P/E multiple: ₹ 82/share and P/BV multiple: ₹ 79/share.

Key triggers for future price performance:

- Global product cracks sustaining at higher level
- Passing on higher retail prices of petrol & diesel to customers (due to higher crude oil costs)
- Pipeline segment profitability has been consistent over last few years
- Consistent dividend payout

Alternate Stock Idea: Apart from IOC, in our oil & gas coverage we also like Gail.

- Gail is a beneficiary of increasing gas consumption. Stable volume growth along with higher profitability from gas trading, petchem and LPG segment due to higher oil prices will add value
- BUY with target price of ₹ 180



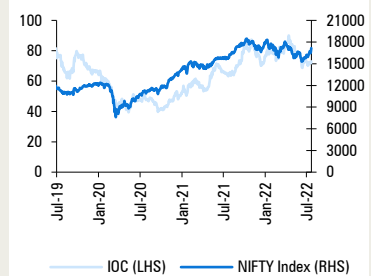
Particulars

Particular	Amount
Market Capitalization (₹Crore)	1,00,613.8
Total Debt (FY21) (₹ Crore)	1,02,057.5
Cash and Investments(FY21)	11,668.3
EV (₹ Crore)	1,91,003.1
52 week H/L	95 / 68
Equity capital (₹ Crore)	14,121.2
Face value (₹)	10.0

Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	51.5	51.5	51.5	51.5
FII	7.2	7.9	8.4	8.2
DII	4.6	12.5	11.3	11.5
Others	36.7	28.1	28.8	28.8

Price Chart



Recent event & key risks

- **Key Risk:** (i) Weaker than expected GRMs, (ii) Passing on higher fuel costs to customers

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Key Financial Summary

(Year-end March)	FY19	FY20	FY21	FY22P	5 year CAGR (FY17-22P)	FY23E	FY24E	2 year CAGR (FY22E-24E)
Revenues (₹ crore)	6,05,923.8	5,66,949.7	5,14,894.9	7,28,459.9	10.3	9,25,943.9	8,33,129.7	6.9
EBITDA (₹ crore)	33,826.2	18,784.7	38,068.0	43,243.8	6.3	29,267.1	40,177.8	(3.6)
Net Profit (₹ crore)	16,894.1	1,313.2	21,836.0	24,184.1	4.8	10,875.3	18,472.2	(12.6)
EPS (₹)	12.0	0.9	15.5	17.1		7.7	13.1	
P/E (x)	6.0	76.6	4.6	4.2		9.3	5.4	
Price / Book (x)	0.9	1.1	0.9	0.8		0.8	0.7	
EV/EBITDA (x)	3.0	5.4	2.6	2.3		3.4	2.5	
RoCE (%)	13.5	4.8	13.3	12.9		6.4	9.6	
RoE (%)	15.5	1.4	19.8	18.4		8.3	13.3	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter

Q1FY23 Results: Core refining operations report healthy profits

- IOC's core GRM improved to US\$25.3/bbl vs. US\$13.5/bbl in Q4FY22. Inventory gain of US\$6.5/bbl supported overall profitability of segment during the quarter
- Going ahead, we expect GRM at US\$16.6/bbl and US\$9/bbl in FY23E and FY24E, respectively
- Crude throughput was up 3.7% QoQ to 18.9 MMT (vs. our estimate: 19 MMT). We estimate crude throughput at 72.9 MMT and 72.4 MMT in FY23E and FY24E, respectively
- The company's overall marketing profitability was lower than estimates as per our understanding as the company did not pass on increased crude oil costs to customers in Q1FY23. Additionally, the company is likely to have faced inventory losses in the marketing segment post excise duty cut
- We expect sales at 89 MMT and 92.5 MMT in FY23E and FY24E, respectively

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
BPCL (BHAPET)	332	360	Hold	70,698	41.6	25.3	44.8	8.0	13.1	7.4	6.3	8.9	5.9	13.9	7.7	13.2	17.8	10.6	17.0
HPCL (HINPET)	231	255	Hold	32,778	44.9	8.0	42.8	5.1	29.0	5.4	7.8	16.4	7.1	7.3	0.8	7.3	16.5	3.0	15.0
Indian Oil Corp (INDOIL)	71	80	Hold	1,00,614	17.1	7.7	13.1	4.2	9.3	5.4	2.3	3.4	2.5	12.9	6.4	9.6	18.4	8.3	13.3

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Total Revenues	251,932.9	240,102	155,056.3	62.5	206,460.9	22.0	
Raw materials costs	206,599.1	191,886	96,559.5	114.0	150,391.8	37.4	
Employees Cost	2,426.4	2,622.0	2,427.8	-0.1	3,193.8	-24.0	
Other Expenses	41,548.5	39,402.4	44,942.9	-7.6	41,247.9	0.7	
Total Expenditure	250,574.0	233,911	143,930.2	74.1	194,833.4	28.6	
EBITDA	1,358.9	6,191.2	11,126.1	-87.8	11,627.5	-88.3	Lower than estimates due to weaker profitability in marketing segment
EBITDA margins (%)	0.5	2.6	7.2	-664 bps	5.6	-509 bps	
Depreciation	2,847.1	3,256.4	2,634.2	8.1	2,887.3	-1.4	
EBIT	-1,488.2	2,934.8	8,491.9	-117.5	8,740.2	-117.0	
Interest	1,724.7	1,388.6	1,257.0	37.2	1,607.2	7.3	
Other Income	683.7	1,043.2	563.6	21.3	951.7	-28.2	Lower than expected
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	-2,529.2	2,589.4	7,798.5	-132.4	8,084.7	-131.3	
Total Tax	-536.7	652.5	1,857.1	-128.9	2,062.8	-126.0	
PAT	-1,992.5	1,936.9	5,941.4	-133.5	6,021.9	-133.1	

Key Metrics

Exchange rate (₹/\$)	77.3	77.3	73.9	4.6	75.2	2.7	
Throughput (mmt)	18.9	19.0	16.7	13.3	18.3	3.7	In line with estimates
Sales (mmt)	23.0	22.3	18.7	22.6	21.8	5.4	Higher than expected
GRM (\$/barrel)	31.8	26.5	6.6	383.4	18.5	71.6	IOC reported inventory gain of US\$6.5/bbl. Core GRMs were at US\$25.3/bbl

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	8,58,219.9	9,25,943.9	7.9	7,73,188.4	8,33,129.7	7.8	
EBITDA	36,445.3	29,267.1	-19.7	39,541.5	40,177.8	1.6	Realigned segmental estimates post Q1FY23 performance
EBITDA Margin (%)	4.2	3.2	-109 bps	5.1	4.8	-29 bps	
PAT	16,559.5	10,875.3	-34.3	17,996.2	18,472.2	2.6	
EPS (₹)	12.0	7.7	-36.0	13.1	13.1	0.1	

Source: ICICI Direct Research

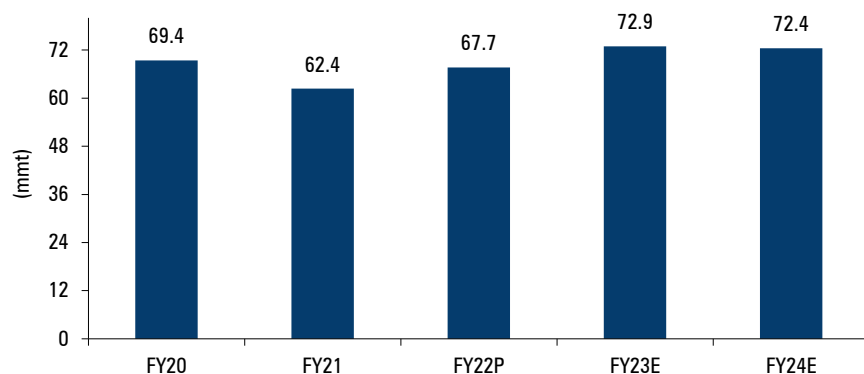
Exhibit 4: Assumptions

	Current				Earlier		Comments
	FY21	FY22	FY23E	FY24E	FY23E	FY24E	
Exchange rate (₹/\$)	74.0	74.6	78.5	79.0	76.5	76.5	
Throughput (mmt)	62.4	67.7	72.9	72.4	72.0	73.5	
Sales (mmt)	75.6	80.5	89.0	92.5	88.0	91.5	
GRM (\$/barrel)	5.6	11.3	16.6	9.0	13.5	9.0	Surge in refining gains in Q1FY23 led to change in assumptions for FY23E

Source: ICICI Direct Research

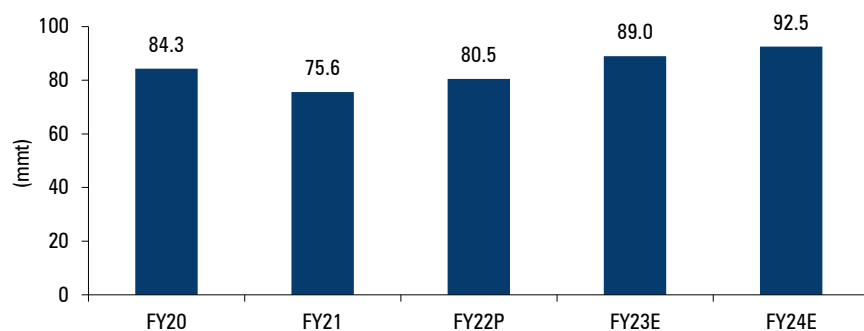
Story in charts

Exhibit 5: Oil throughput trend



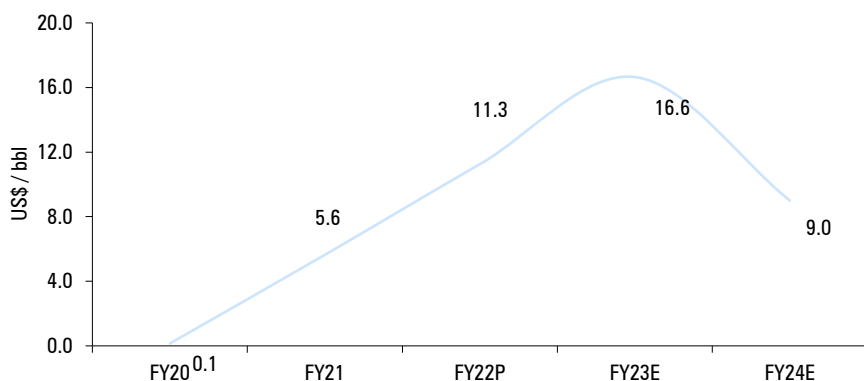
Source: Company, ICICI Direct Research

Exhibit 6: Marketing sales trend



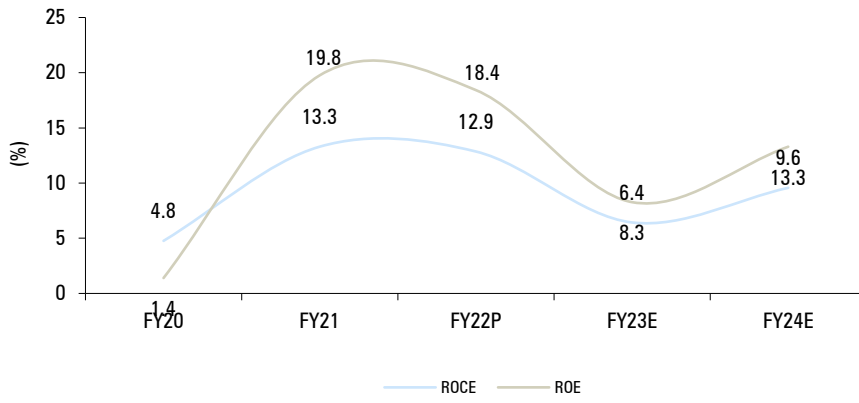
Source: Company, ICICI Direct Research

Exhibit 7: Refining margin trend



Source: Company, ICICI Direct Research

Exhibit 8: Return ratios trend



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 9: Profit and loss statement				
	₹ crore			
	FY21	FY22P	FY23E	FY24E
Revenue	514894.9	728459.9	925943.9	833129.7
Growth (%)	-9.2	41.5	27.1	-10.0
(Inc./)(Dec.) in stock in trade	-5547.6	-12197.0	-6790.7	0.0
Raw material Costs	156648.0	294501.5	405386.3	340705.1
Purchase of Products	143662.1	221078.1	329650.2	283492.5
Employee Costs	10712.0	10991.7	11675.4	12375.9
Other Expenditure	171352.4	170841.9	156755.7	156378.4
Op. Expenditure	476826.9	685216.1	896676.8	792951.9
EBITDA	38068.0	43243.8	29267.1	40177.8
Growth (%)	102.7	13.6	-32.3	37.3
Depreciation	9804.3	11005.9	12616.4	14208.6
EBIT	28263.7	32237.9	16650.7	25969.2
Interest	3093.9	4829.1	5890.5	5846.9
Other Income	4545.9	4324.3	3913.6	4573.1
PBT	29715.7	31733.1	14673.7	24695.4
Growth (%)	-904.4	6.8	-53.8	68.3
Tax	7879.6	7549.0	3798.4	6223.2
Reported PAT	21836.0	24184.1	10875.3	18472.2
Growth (%)	1562.8	10.8	-55.0	69.9
EPS	15.5	17.1	7.7	13.1

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22P	FY23E	FY24E
Profit after Tax	21,836.0	24,184.1	10,875.3	18,472.2
Add: Depreciation	9,804.3	11,005.9	12,616.4	14,208.6
Add: Others	0.0	0.0	0.0	0.0
Cash Profit	23,551.5	22,317.9	13,377.1	22,666.1
Increase/(Decrease) in CL	19,168.3	15,430.7	24,451.0	-7,965.7
(Increase)/Decrease in CA	10,269.5	-17,485.5	-5,530.9	23,946.0
CF from Operating Activities	43,348.7	6,728.4	21,282.7	27,631.8
Purchase of Fixed Assets	22,836.8	25,857.7	27,590.7	29,000.0
(Inc)/Dec in Investments	-9,480.8	-9,167.2	-1,000.0	-750.0
Others	0.0	0.0	0.0	0.0
CF from Investing Activities	-32,317.7	-35,024.9	-28,590.7	-29,750.0
Inc/(Dec) in Loan Funds	-14,487.5	17,374.0	8,000.0	5,000.0
Dividend Paid	9,640.5	13,534.7	11,014.6	11,014.6
Inc/(Dec) in Sh. Cap. & Res.	4,535.6	10,136.0	349.7	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activities	-19,592.4	13,975.3	-2,664.9	-6,014.6
Change in cash Eq.	1,079.1	-786.5	1,041.7	2,881.8
Op. Cash and cash Eq.	589.1	1,668.2	881.7	1,923.4
Cl. Cash and cash Eq.	1,668.2	881.7	1,923.4	4,805.2

Source: Company, ICICI Direct Research

Exhibit 11: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22P	FY23E	FY24E
Source of Funds				
Equity Capital	9,181.0	9,181.0	14,121.2	14,121.2
Preference capital	0.0	0.0	0.0	0.0
Reserves & Surplus	1,01,319.0	1,22,104.4	1,17,374.6	1,24,832.2
Shareholder's Fund	1,10,500.0	1,31,285.4	1,31,495.8	1,38,953.4
Loan Funds	1,02,057.5	1,19,431.5	1,27,431.5	1,32,431.5
Deferred Tax Liability	12,964.7	13,627.4	14,527.4	15,527.4
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	225522.2	264344.2	273454.7	286912.3
Application of Funds				
Gross Block	1,87,693.8	2,03,435.5	2,27,435.5	2,51,935.5
Less: Acc. Depreciation	42,842.3	54,896.3	67,921.9	82,130.5
Net Block	1,44,851.5	1,48,539.3	1,59,513.6	1,69,805.1
Capital WIP	31,600.6	42,764.6	46,764.6	51,264.6
Total Fixed Assets	1,76,452.1	1,91,303.9	2,06,278.2	2,21,069.7
Investments	48,619.4	57,786.6	58,786.6	59,536.6
Inventories	78,188.0	1,03,206.9	1,14,157.5	1,02,714.6
Debtor	13,397.7	18,136.6	22,831.5	20,542.9
Cash	1,668.2	881.7	1,923.4	4,805.2
Loan & Advance, Other CA	15728.6	16991.1	17891.1	18691.1
Total Current assets	108982.6	139216.3	156803.4	146753.8
Current Liabilities	98334.3	113660.5	139525.8	130105.2
Provisions	10197.5	10302.1	8887.8	10342.7
Total CL and Provisions	108531.8	123962.6	148413.6	140447.9
Net Working Capital	450.8	15253.7	8389.8	6306.0
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	225522.2	264344.2	273454.7	286912.3

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
(Year-end March)	FY21	FY22P	FY23E	FY24E
Per share data (₹)				
Book Value	78.3	93.0	93.1	98.4
Cash per share	1.2	0.6	1.4	3.4
EPS	15.5	17.1	7.7	13.1
Cash EPS	22.4	24.9	16.6	23.1
DPS	8.0	8.4	6.7	6.7
Profitability & Operating Ratios				
EBITDA Margin (%)	7.4	5.9	3.2	4.8
PAT Margin (%)	4.2	3.3	1.2	2.2
Fixed Asset Turnover (x)	2.9	3.8	4.5	3.8
Inventory Turnover (Days)	55.4	51.7	45.0	45.0
Debtor (Days)	9.5	9.1	9.0	9.0
Current Liabilities (Days)	69.7	60.0	55.0	57.0
Return Ratios (%)				
RoE	19.8	18.4	8.3	13.3
RoCE	13.3	12.9	6.4	9.6
RoIC	14.1	13.4	6.7	10.1
Valuation Ratios (x)				
PE	4.6	4.2	9.3	5.4
Price to Book Value	0.9	0.8	0.8	0.7
EV/EBITDA	2.6	2.3	3.4	2.5
EV/Sales	0.4	0.3	0.2	0.3
Leverage & Solvency Ratios				
Debt to equity (x)	0.9	0.9	1.0	1.0
Interest Coverage (x)	9.1	6.7	2.8	4.4
Debt to EBITDA (x)	2.7	2.8	4.4	3.3
Current Ratio	1.0	1.1	1.1	1.0
Quick ratio	0.3	0.3	0.3	0.3

Source: Company, ICICI Direct Research

Exhibit 13: ICICI Direct coverage universe (Oil & Gas)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
BPCL (BHAPET)	332	360	Hold	70,698	41.6	25.3	44.8	8.0	13.1	7.4	6.3	8.9	5.9	13.9	7.7	13.2	17.8	10.6	17.0
GAIL (India) (GAIL)	146	180	Buy	64,830	23.2	20.0	18.8	6.3	7.3	7.8	5.0	5.7	6.0	19.0	14.5	12.4	18.5	14.5	12.5
Gujarat Gas (GUJGA)	456	625	Buy	31,391	18.9	18.8	24.1	24.1	24.2	19.0	15.4	15.2	11.9	26.9	23.4	25.5	23.2	19.6	20.9
HPCL (HINPET)	231	255	Hold	32,778	44.9	8.0	42.8	5.1	29.0	5.4	7.8	16.4	7.1	7.3	0.8	7.3	16.5	3.0	15.0
Indian Oil Corp (INDOIL)	71	80	Hold	1,00,614	17.1	7.7	13.1	4.2	9.3	5.4	2.3	3.4	2.5	12.9	6.4	9.6	18.4	8.3	13.3
Indraprastha Gas (INDGAS)	366	440	Buy	25,620	18.8	20.6	23.0	19.4	17.7	15.9	12.9	11.1	9.7	22.3	22.0	21.1	19.0	18.1	17.5
Mahanagar Gas (MAHGAS)	779	820	Hold	7,695	60.4	71.3	78.1	12.9	10.9	10.0	7.9	6.7	5.9	20.1	21.4	21.1	16.9	17.9	17.5
Petronet LNG (PETLNG)	217	210	Hold	32,550	22.3	17.6	21.2	9.7	12.3	10.2	6.0	6.9	5.7	27.0	20.3	22.7	25.0	18.9	21.1
Reliance Industries (RELIND)	2,572	2,700	Hold	17,39,958	89.7	104.1	123.7	28.7	24.7	20.8	18.6	13.8	11.5	7.1	9.2	10.4	7.8	8.3	9.1

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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