

CMP: ₹ 88

Target: ₹ 105 (19%)

Target Period: 12 months

May 17, 2023

BUY

## Core GRMs premium expands vs. Singapore GRMs...

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

- IOC operates 34559 retail outlets as of end of FY22
- Petrol and diesel together historically constitute ~52% of marketing sales

**Q4FY23 Results:** IOC's results were higher than estimates on the profitability front.

- Revenue increased 9.7% YoY, flat QoQ to ₹ 226492.1 crore in line with I-direct estimate of ₹ 225244 crore. Marketing sales increased 5% YoY, flat QoQ at 23 MMT
- Average GRM for the quarter was US\$15.28/bbl, higher than I-direct estimate of US\$10/bbl. Marketing margins were in line with estimates, as per our understanding, EBITDA was at ₹ 15340.3 crore, up 32% YoY, (327% QoQ on a weak base)
- PAT was at ₹ 10058.7 crore, higher than I-direct estimate of ₹ 6345 crore

**What should investors do?** IOC's operating profit improved QoQ due to strong refining margins and improvement in marketing segment performance. In Q1FY24-TD, GRMs are likely to be subdued but expected to be countered by strong marketing margins. However, we expect GRMs to improve in H2FY24 with expected rise in demand. IOC also plans to increase its refining capacity to 107 MMT/PA by 2024-25.

- We revise our rating on the stock from HOLD to BUY

**Target Price and Valuation:** We value IOC at ₹ 105 i.e. average of P/E multiple: ₹ 105/share (~7x P/E on FY25E EPS) and P/BV multiple: ₹ 105/share (~1x P/BV).

**Key triggers for future price performance:**

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

**Alternate Stock Idea:** Apart from IOC, in our oil & gas coverage we also like Hindustan Petroleum Corporation (HPCL).

- HPCL is one India's largest public sector refining and marketing companies. It operates more than 21000 retail outlets
- Petrol & diesel together historically contributed more than 60% of total sales
- BUY with target price of ₹ 310



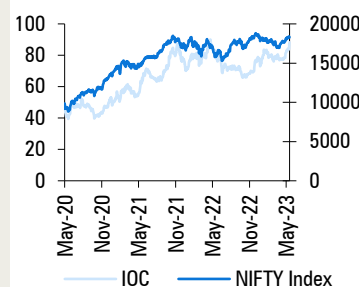
### Particulars

Particular	Amount
Market Capitalization (₹Crore)	1,21,190.1
Total Debt (FY23) (₹ Crore)	1,41,550.0
Cash and Investments(FY23)	10,773.0
EV (₹ Crore)	2,51,967.1
52 week H/L	89 / 65
Equity capital (₹ Crore)	13,771.6
Face value (₹)	10.0

### Shareholding pattern

(in %)	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	51.5	51.5	51.5	51.5
FII	8.2	7.2	7.0	6.9
DII	11.5	11.2	11.7	12.1
Others	28.8	30.0	29.8	29.5

### Price Chart



### Recent event & key risks

- **Key Risk:** (i) Weaker than expected GRMs, (ii) Inability to pass on higher oil costs to customers

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## Key Financial Summary

Key Financials	FY21	FY22	FY23E	5 year CAGR (FY18-23)	FY24E	FY25E	2 year CAGR (FY23-25E)
Revenues (₹ crore)	5,14,894.9	7,28,459.9	9,34,952.7	13.0	8,05,112.0	8,09,062.1	(7.0)
EBITDA (₹ crore)	38,068.0	43,243.8	22,252.6	(10.9)	42,656.2	45,218.3	42.5
Net Profit (₹ crore)	21,836.0	24,184.1	8,241.8	(17.3)	19,367.8	21,200.4	60.4
EPS (₹)	15.5	17.1	6.0		14.1	15.4	
P/E (x)	5.2	4.7	13.5		5.8	5.3	
Price / Book (x)	1.0	0.9	0.8		0.8	0.7	
EV/EBITDA (x)	3.0	2.6	5.0		2.6	2.5	
RoCE (%)	13.3	12.9	3.8		10.0	9.8	
RoE (%)	19.8	18.4	6.1		13.5	13.8	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter

### Q4FY23 Results: IOC reports strong GRMs

- IOC's GRM came in at US\$15.28/bbl, up US\$2.6/bbl QoQ
- Going ahead, we expect GRM at US\$9.5/bbl and US\$10/bbl in FY24E and FY25E, respectively
- Crude throughput was up 5% YoY, 5.4% QoQ to 19.2 MMT, higher than I-direct estimate of 18.6 MMT. We estimate crude throughput at 72.4 MMT both in FY24E and FY25E, respectively
- Overall marketing margins improved QoQ and were in line with estimates as per our understanding
- We expect sales at 94.1 MMT and 97.6 MMT in FY24E and FY25E, respectively

### IOCL- ESG Disclosure Score

Score	FY20	FY21	FY22
Environmental	54.9	68.4	NA
Social	35.6	43.3	NA
Governance	81.1	87.4	NA
<b>Overall ESG</b>	<b>57.2</b>	<b>66.4</b>	<b>NA</b>

Source: Bloomberg, ICICI Direct Research

## Peer comparison

### Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY22	FY23E	Y24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
BPCL (BHAPET)	343	380	Hold	73,040	91.0	43.7	5.2	3.8	7.9	65.8	5.8	6.3	13.0	14.8	13.9	2.7	34.9	18.5	2.2
HPCL (HINPET)	259	310	Buy	36,740	70.6	44.9	-63.3	3.7	5.8	-4.1	5.0	8.2	-13.9	15.6	7.3	-12.4	29.5	16.5	-32.4
Indian Oil Corp (INDOIL)	88	105	Buy	1,21,190	15.5	17.1	6.0	5.7	5.1	14.7	3.3	2.9	5.4	13.3	12.9	3.8	19.8	18.4	6.1

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
Total Revenues	2,26,492.1	2,25,244.4	2,06,460.9	9.7	2,28,168.3	-0.7	In line with estimates
Raw materials costs	1,75,365.1	1,68,685.6	1,50,391.8	16.6	1,86,974.2	-6.2	
Employees Cost	2,271.5	3,449.3	3,193.8	-28.9	1,880.5	20.8	
Other Expenses	33,515.2	40,402.4	41,247.9	-18.7	35,720.2	-6.2	
Total Expenditure	2,11,151.8	2,12,537.2	1,94,833.4	8.4	2,24,575.0	-6.0	
EBITDA	15,340.3	12,707.2	11,627.5	31.9	3,593.4	326.9	Refining margins were higher than expected, while marketing margins were in line with estimates
EBITDA margins (%)	6.8	5.6	5.6	114 bps	1.6	520 bps	
Depreciation	2,951.7	3,288.8	2,887.3	2.2	3,099.0	-4.8	
EBIT	12,388.6	9,418.4	8,740.2	41.7	494.3	2,406.0	
Interest	1,811.8	1,980.0	1,607.2	12.7	1,952.8	-7.2	
Other Income	1,638.1	1,043.5	951.7	72.1	1,715.1	-4.5	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	12,215.0	8,482.0	8,084.7	51.1	256.6	4,659.4	
Total Tax	2,156.3	2,137.5	2,062.8	4.5	-191.4	-1,226.8	
PAT	10,058.7	6,344.5	6,021.9	67.0	448.0	2,145.2	Higher than expected

Key Metrics

Exchange rate (₹/\$)	82.3	82.3	75.2	9.4	82.2	0.1	
Throughput (mmt)	19.2	18.6	18.3	5.0	18.2	5.4	Higher than estimates
Sales (mmt)	23.0	23.3	21.8	5.3	23.2	-0.9	In line with estimates
GRM (\$/barrel)	15.3	10.0	18.5	-17.6	12.9	18.2	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(\$ Crore)	FY24E			FY25E			Comments
	Old	New	Change	Old	New	Change	
Revenue	8,27,685.1	8,05,112.0	-2.7	7,89,990.4	8,09,062.1	2.4	
EBITDA	51,270.2	42,656.2	-16.8	42,972.9	45,218.3	5.2	Realign segmental estimates post Q4FY23 performance
EBITDA Margin (%)	6.2	5.3	-90 bps	5.4	5.6	15 bps	
PAT	25,145.5	19,367.8	-23.0	18,433.8	21,200.4	15.0	
EPS (₹)	17.8	14.1	-21.0	13.1	15.4	17.9	

Source: ICICI Direct Research

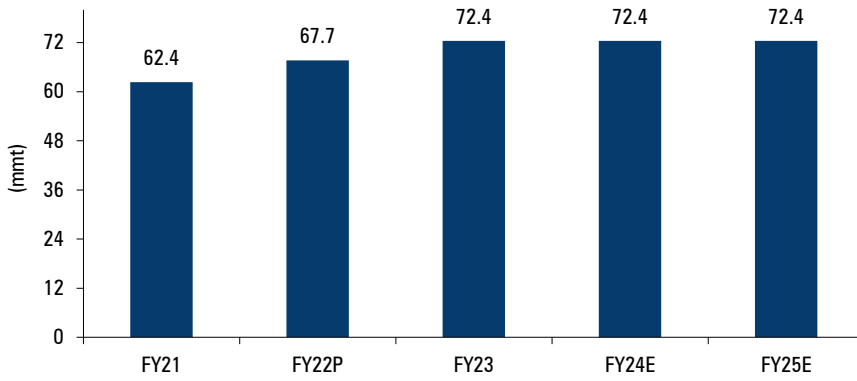
Exhibit 4: Assumptions

	Current				Earlier		Comments
	FY22	FY23	FY24E	FY25E	FY24E	FY25E	
Exchange rate (₹/\$)	74.6	80.3	82.2	82.2	82.2	82.2	
Throughput (mmt)	67.7	72.4	72.4	72.4	72.4	72.4	
Sales (mmt)	80.5	90.7	94.1	97.6	94.4	98.0	Increased sales estimates post Q4FY23 performance
GRM (\$/barrel)	11.3	19.7	9.5	10.0	10.0	8.0	Revised GRMs as per current product cracks trend

Source: ICICI Direct Research

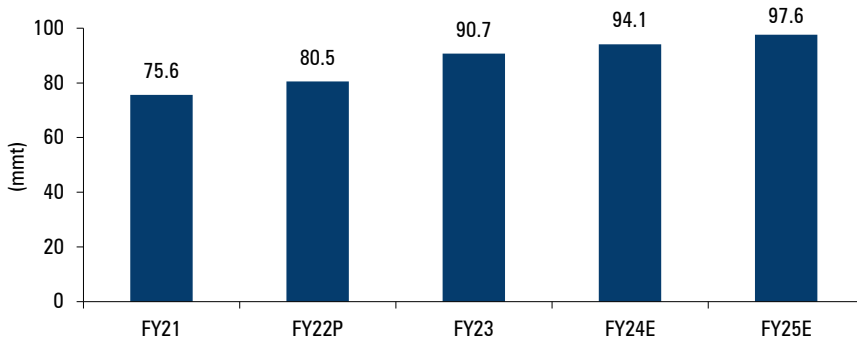
## Story in charts

Exhibit 5: Oil throughput trend



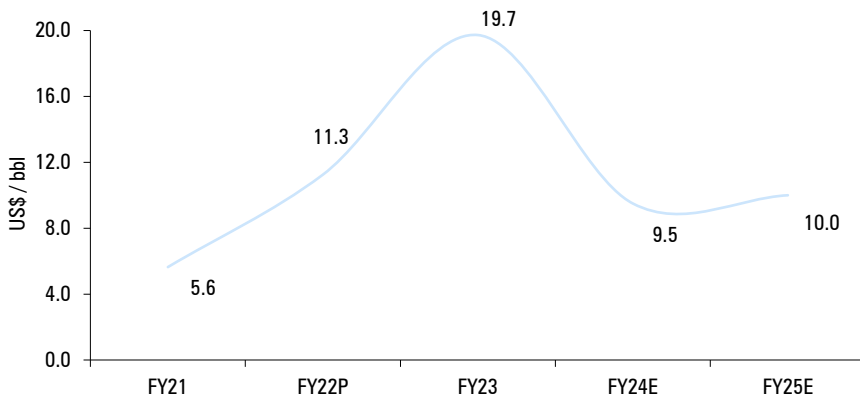
Source: Company, ICICI Direct Research

Exhibit 6: Marketing sales trend



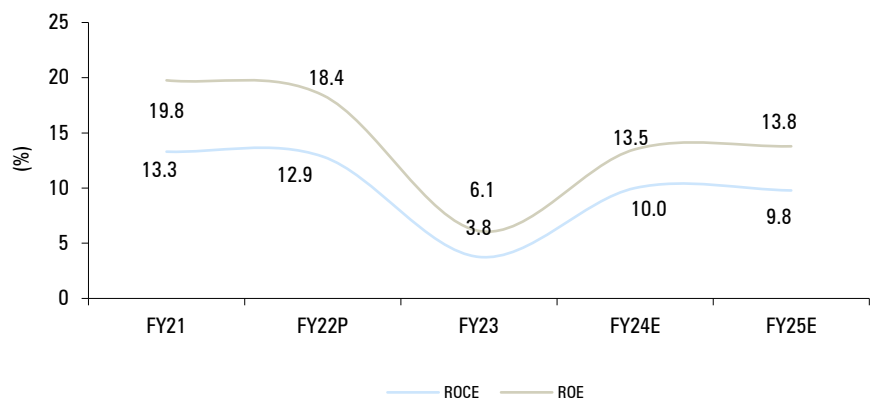
Source: Company, ICICI Direct Research

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			
	FY22	FY23	FY24E	FY25E
<b>Revenue</b>	<b>728459.9</b>	<b>934952.7</b>	<b>805112.0</b>	<b>809062.1</b>
Growth (%)	41.5	28.3	-13.9	0.5
(Inc./)(Dec.) in stock in trade	-12197.0	-7064.6	0.0	0.0
Raw material Costs	294501.5	440693.1	323573.5	323573.5
Purchase of Products	221078.1	324379.1	273207.9	273207.9
Employee Costs	10991.7	8769.9	9296.0	9853.8
Other Expenditure	170841.9	145922.6	156378.4	157208.6
Op. Expenditure	685216.1	912700.0	762455.8	763843.8
<b>EBITDA</b>	<b>43243.8</b>	<b>22252.6</b>	<b>42656.2</b>	<b>45218.3</b>
Growth (%)	13.6	-48.5	91.7	6.0
Depreciation	11005.9	11859.4	13261.5	14561.5
EBIT	32237.9	10393.2	29394.7	30656.9
Interest	4829.1	6930.3	7527.5	7977.5
Other Income	4324.3	6235.2	4025.6	5663.4
PBT	31733.1	9698.1	25892.8	28342.8
Growth (%)	6.8	-69.4	167.0	9.5
Tax	7549.0	1456.3	6525.0	7142.4
<b>Reported PAT</b>	<b>24184.1</b>	<b>8241.8</b>	<b>19367.8</b>	<b>21200.4</b>
Growth (%)	10.8	-65.9	135.0	9.5
<b>EPS</b>	<b>17.1</b>	<b>6.0</b>	<b>14.1</b>	<b>15.4</b>

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Profit after Tax	24,184.1	8,241.8	19,367.8	21,200.4
Add: Depreciation	11,005.9	11,859.4	13,261.5	14,561.5
Add: Others	0.0	0.0	0.0	0.0
Cash Profit	22,317.9	16,253.1	22,898.2	26,030.8
Increase/(Decrease) in CL	15,430.7	5,073.0	-17,215.7	868.3
(Increase)/Decrease in CA	-17,485.5	-4,019.3	26,608.7	9,378.1
<b>CF from Operating Activi</b>	<b>6,728.4</b>	<b>22,487.6</b>	<b>21,560.1</b>	<b>25,546.0</b>
Purchase of Fixed Assets	25,952.1	30,446.3	29,500.0	29,500.0
(Inc)/Dec in Investments	-9,167.2	267.4	-1,000.0	-1,000.0
Others	0.0	0.0	0.0	0.0
<b>CF from Investing Activi</b>	<b>-35,119.3</b>	<b>-44,748.1</b>	<b>-30,500.0</b>	<b>-30,500.0</b>
Inc/(Dec) in Loan Funds	17,405.3	22,087.2	9,000.0	9,000.0
Dividend Paid	13,534.7	4,833.8	10,731.1	10,731.1
Inc/(Dec) in Sh. Cap. & Res.	10,137.0	63.2	-64.1	0.0
Others	0.0	0.0	0.0	0.0
<b>CF from financing activi</b>	<b>14,007.6</b>	<b>17,316.6</b>	<b>-1,795.2</b>	<b>-1,731.1</b>
Change in cash Eq.	-848.6	-110.0	-4.0	4,046.0
Op. Cash and cash Eq.	1,731.5	883.0	773.0	769.0
<b>Cl. Cash and cash Eq.</b>	<b>883.0</b>	<b>773.0</b>	<b>769.0</b>	<b>4,815.0</b>

Source: Company, ICICI Direct Research

Exhibit 11: Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
<b>Source of Funds</b>				
Equity Capital	9,181.0	13,771.6	13,771.6	13,771.6
Preference capital	0.0	0.0	0.0	0.0
Reserves & Surplus	1,22,105.3	1,20,986.0	1,29,558.5	1,40,027.9
Shareholder's Fund	1,31,286.4	1,34,757.6	1,43,330.1	1,53,799.5
Loan Funds	1,19,462.8	1,41,550.0	1,50,550.0	1,59,550.0
Deferred Tax Liability	13,627.4	14,613.0	15,613.0	16,613.0
Minority Interest	0.0	0.0	0.0	0.0
<b>Source of Funds</b>	<b>264376.5</b>	<b>290920.6</b>	<b>309493.2</b>	<b>329962.5</b>
<b>Application of Funds</b>				
Gross Block	1,99,571.9	2,30,027.9	2,55,027.9	2,80,027.9
Less: Acc. Depreciation	52,683.1	64,542.5	77,804.0	92,365.4
Net Block	1,46,888.8	1,65,485.4	1,77,224.0	1,87,662.5
Capital WIP	44,446.1	48,990.7	53,490.7	57,990.7
Total Fixed Assets	1,91,334.9	2,14,476.1	2,30,714.7	2,45,653.2
Investments	57,786.6	57,519.3	58,519.3	59,519.3
Inventories	1,03,206.9	1,13,853.4	99,260.4	99,747.4
Debtor	18,136.6	15,539.9	13,455.3	13,521.3
Cash	883.0	773.0	769.0	4,815.0
Loan & Advance, Other CA	16991.1	17794.4	18594.4	19394.4
Total Current assets	139217.5	147960.7	132079.0	137478.1
Current Liabilities	113660.5	118495.2	101466.2	101964.0
Provisions	10302.1	10540.3	10353.7	10724.1
Total CL and Provisions	123962.6	129035.5	111819.8	112688.1
Net Working Capital	15255.0	18925.2	20259.2	24790.0
Miscellaneous expense	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>264376.5</b>	<b>290920.6</b>	<b>309493.1</b>	<b>329962.5</b>

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
(Year-end March)	FY22	FY23	FY24E	FY25E
<b>Per share data (₹)</b>				
Book Value	93.0	97.9	104.1	111.7
Cash per share	0.6	0.6	0.6	3.5
EPS	17.1	6.0	14.1	15.4
Cash EPS	24.9	14.6	23.7	26.0
DPS	8.4	3.0	6.7	6.7
<b>Profitability &amp; Operating Ratios</b>				
EBITDA Margin (%)	5.9	2.4	5.3	5.6
PAT Margin (%)	3.3	0.9	2.4	2.6
Fixed Asset Turnover (x)	3.8	4.4	3.5	3.3
Inventory Turnover (Days)	51.7	44.4	45.0	45.0
Debtor (Days)	9.1	6.1	6.1	6.1
Current Liabilities (Days)	57.0	46.3	46.0	46.0
<b>Return Ratios (%)</b>				
RoE	18.4	6.1	13.5	13.8
RoCE	12.9	3.8	10.0	9.8
RoIC	13.4	3.9	10.4	10.3
<b>Valuation Ratios (x)</b>				
PE	4.7	13.5	5.8	5.3
Price to Book Value	0.9	0.8	0.8	0.7
EV/EBITDA	2.6	5.0	2.6	2.5
EV/Sales	0.3	0.3	0.3	0.3
<b>Leverage &amp; Solvency Ratios</b>				
Debt to equity (x)	0.9	1.1	1.1	1.0
Interest Coverage (x)	6.7	1.5	3.9	3.8
Debt to EBITDA (x)	2.8	6.4	3.5	3.5
Current Ratio	1.1	1.1	1.2	1.2
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 (%)		
					FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
BPCL (BHAPET)	343	380	Hold	73,040	91.0	43.7	5.2	3.8	7.9	65.8	5.8	6.3	13.0	14.8	13.9	2.7	34.9	18.5	2.2
GAIL (India) (GAIL)	96	120	Buy	63,121	11.0	23.3	9.4	8.7	4.1	10.2	7.3	3.4	8.4	8.7	18.8	9.0	10.5	18.6	10.5
Gujarat Gas (GUJGA)	485	570	Buy	33,387	0.0	0.0	0.0	31.9	27.3	27.3	0.0	0.0	0.0	76.3	51.1	60.5	28.7	20.6	22.2
HPCL (HINPET)	259	310	Buy	36,740	70.6	44.9	-63.3	3.7	5.8	-4.1	5.0	8.2	-13.9	15.6	7.3	-12.4	29.5	16.5	-32.4
Indian Oil Corp (INDOIL)	88	105	Buy	1,21,190	15.5	17.1	6.0	5.7	5.1	14.7	3.3	2.9	5.4	13.3	12.9	3.8	19.8	18.4	6.1
Indraprastha Gas (INDGAS)	488	590	Buy	34,160	14.4	18.8	20.8	34.0	26.0	23.5	22.3	17.5	15.5	20.0	22.3	23.5	17.1	19.0	20.5
Mahanagar Gas (MAHGAS)	1077	1,300	Buy	10,638	327.2	364.2	418.5	44.8	35.6	34.3	17.2	17.8	13.5	0.0	0.0	0.0	172.4	123.8	81.5
ONGC (ONGC)	152	180	Buy	1,95,067	10.4	8.9	32.0	14.6	17.0	4.7	4.2	6.5	3.4	10.2	4.5	14.8	6.7	5.5	17.0
Petronet LNG (PETLNG)	227	240	Hold	34,050	19.7	22.3	21.6	11.5	10.2	10.5	7.0	6.3	6.5	26.0	27.0	22.7	25.3	25.0	21.7
Reliance Industries (RELIND)	2,349	2,850	Buy	15,89,099	89.7	89.7	98.6	30.8	26.2	23.8	22.2	17.0	12.8	5.5	7.3	9.0	7.0	7.8	8.1

Source: Bloomberg, ICICI Direct Research

## RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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