

August 4, 2020

Q1FY21 Result Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	114		114	
Sales (Rs. m)	51,05,698	56,34,697	51,05,698	56,34,697
% Chng.	-	-	-	-
EBITDA (Rs. m)	3,54,335	3,64,244	3,54,335	3,64,244
% Chng.	-	-	-	-
EPS (Rs.)	16.6	16.6	16.6	16.6
% Chng.	-	-	-	-

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. bn)	4,844	4,105	5,106	5,635
EBITDA (Rs. bn)	164	282	354	364
Margin (%)	3.4	6.9	6.9	6.5
PAT (Rs. bn)	67	106	152	153
EPS (Rs.)	7.3	11.6	16.6	16.6
Gr. (%)	(53.8)	58.4	43.3	0.5
DPS (Rs.)	4.3	4.7	6.7	6.7
Yield (%)	4.9	5.4	7.7	7.8
RoE (%)	6.4	10.6	13.9	12.7
RoCE (%)	3.1	8.3	10.5	9.8
EV/Sales (x)	0.4	0.4	0.4	0.3
EV/EBITDA (x)	11.9	6.1	5.2	5.2
PE (x)	11.9	7.5	5.3	5.2
P/BV (x)	0.8	0.8	0.7	0.6

Key Data

IOC.BO | IOCL IN

52-W High / Low	Rs.156 / Rs.71
Sensex / Nifty	37,688 / 11,095
Market Cap	Rs.819bn/ \$ 10,907m
Shares Outstanding	9,414m
3M Avg. Daily Value	Rs.4053.96m

Shareholding Pattern (%)

Promoter's	51.50
Foreign	6.33
Domestic Institution	13.85
Public & Others	28.31
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(1.0)	(23.6)	(35.7)
Relative	(5.4)	(17.3)	(36.7)

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Inventory loss mask core performance

Quick Pointers:

- Core operational performance remains impressive.
- Benign crude oil prices to drive marketing margins, GRMs to track pickup in economic activity.

We maintain our FY21/22 earnings estimates. In Q1FY21, core standalone EBIDTA adjusted for inventory and forex loss was healthy at Rs86.2bn (+35%YoY) despite lower refining margins (-\$1.98/bbl vs \$4.7/bbl in Q1FY20). Weak global demand and high inventory levels to likely keep crude oil prices range bound, which will support marketing margins in medium term. GRMs will recover with pickup in economic activity, and lower operating cost (due to soft spot LNG prices) will support refining earnings. Maintain BUY with a PT of Rs114.

- Lower than expected results:** IOCL reported lower than expected Q1 results with standalone EBITDA of Rs55.1bn (PLe 150 bn) and PAT of Rs19.1bn (PLe Rs83.1bn). Lower operating profit was due to 1) inventory losses of Rs31.9bn (PLe +Rs17.7bn) and 2) lower than expected GRMs. Q1 EBIDTA adjusted for inventory and forex loss was at Rs86.3bn. For Q1 IOC followed accounting norms to value crude at cost or net realizable value whichever is lower- crude valued at Q1 end was t USD32.6/bbl vs Q4 end price of USD36/bbl. With crude prices at over USD40/bbl, management expects inventory gains going forward.
- Refining margins surprised negatively:** IOCL's refining margins for Q1 came in at -US\$1.98/bbl (Q4FY20 at -US\$9.6/bbl) and included inventory loss of US\$6.4/bbl. Adjusted for inventory and time lag, management expects normalized GRMs at US\$4.3/bbl (Q4 USD2.2/bbl). For Q1, refining throughput was lower at 12.9MTPA (17.1 in Q4) due to pandemic related lockdown. GRMs are likely to remain under pressure due to 1) weak demand in a Covid pandemic scenario 2) new capacity addition.
- Adjusted marketing profitability remains healthy:** IOCL's core Q1 marketing EBIDTA was at Rs63.1bn against Rs13.2bn in Q4FY20. Profitability was supported by higher margins even as volumes were muted given pandemic related lockdown. IOCL's marketing volumes vis-à-vis the industry run rate was weak with HSD (-35.2% YoY vs -33.3% for industry), and MS (-36.2% YoY against industry rate of -35.9%YoY) respectively.
- Petrochemicals and pipeline performance was mixed:** For Q1FY21, petrochemicals EBIDTA improved to Rs7.3bn against Rs4.8bn in Q4 due to benign RM prices, while pipeline EBIDTA came in at Rs11.5bn (-25% QoQ).

Exhibit 1: Q1FY21 Result Overview (Rs mn) - Standalone

Y/e March	Q1FY21	Q1FY20	YoY gr. (%)	Q4FY20	FY21E	FY20	YoY gr. (%)
Net sales	8,89,365	15,01,352	(40.8)	13,96,189	40,94,464	56,69,496	38.5
Inc/dec in stock	6,932	22,460	(69.1)	(56,677)	-	(64,104)	NA
Purchases	2,28,052	4,59,667	(50.4)	4,85,191	12,23,326	17,85,355	45.9
Raw material cons	2,41,352	6,43,133	(62.5)	6,07,713	16,55,867	24,70,770	49.2
Duties	2,65,399	1,86,227	42.5	2,11,798	4,47,778	8,06,932	80.2
Staff cost	22,040	23,881	(7.7)	21,140	92,323	87,927	(4.8)
Other expenditure	70,468	82,484	(14.6)	1,24,902	4,04,877	3,94,770	(2.5)
Exp	(8,34,243)	(14,17,852)	NA	(13,94,067)	38,24,171	(54,81,650)	NA
Operating profit	55,123	83,500	(34.0)	2,122	2,70,293	1,87,847	(30.5)
Interest	(11,713)	(15,091)	NA	(18,504)	(69,742)	(59,795)	NA
Depreciation	(23,545)	(20,929)	NA	(23,895)	(87,636)	(87,661)	NA
Other income	6,422	6,314	1.7	17,223	33,402	35,714	6.9
Profit before tax	26,286	53,794	(51.1)	(23,055)	1,46,318	76,105	(48.0)
Current tax	-	(10,011)	NA	15,401	24,874	1,659	(93.3)
Profit after current tax	26,286	43,783	(40.0)	(7,655)	1,21,444	77,764	(36.0)
Deferred tax	(7,177)	(7,822)	NA	68,848	14,632	48,415	230.9
Net profit	19,108	35,961	(46.9)	61,193	1,06,812	1,26,179	18.1

Source: Company, PL

Exhibit 2: Core EBIDTA up 35%YoY

	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
EBIDTA	83,500	35,722	66,503	2,122	55,123
Less Forex adj	920	(11,351)	(1,820)	(27,200)	810
Less Inventory gains/loss	12,330	(11,780)	18,040	(71,704)	(31,960)
Less others	6,310				
Core EBIDTA	63,940	58,854	50,283	1,01,026	86,273

Source: Company, PL

Conference Call Highlights:

- FY20 capex at Rs260bn with standalone at Rs210bn. Of that, refining capex will be Rs40bn, marketing Rs50bn, Pipelines at Rs45bn and petrochemicals at Rs22bn.
- Q1 inventory loss despite higher crude oil prices of USD40/bbl was due to accounting forms being followed by the company to value crude at cost or net realizable value whichever is lower. Q1 end IOC had valued crude at USD32.6/bbl vs Q4 end value of USD36/bbl.
- IOC refinery utilization for July was at 90% vs 97% in June due to weak domestic demand.
- Debt at Q1 end was at Rs986bn vs Q4 end levels of Rs1165bn. The debt also included lease obligation of Rs77bn.

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	48,43,623	41,04,520	51,05,698	56,34,697
YoY gr. (%)	(8.3)	(15.3)	24.4	10.4
Cost of Goods Sold	42,05,439	33,05,632	42,11,000	47,06,730
Gross Profit	6,38,184	7,98,887	8,94,698	9,27,966
Margin (%)	13.2	19.5	17.5	16.5
Employee Cost	-	-	-	-
Other Expenses	4,74,135	5,16,853	5,40,362	5,63,723
EBITDA	1,64,049	2,82,034	3,54,335	3,64,244
YoY gr. (%)	(53.4)	71.9	25.6	2.8
Margin (%)	3.4	6.9	6.9	6.5
Depreciation and Amortization	98,549	93,464	99,906	1,05,758
EBIT	65,500	1,88,571	2,54,430	2,58,485
Margin (%)	1.4	4.6	5.0	4.6
Net Interest	65,787	75,196	80,896	86,596
Other Income	27,903	32,666	34,874	37,189
Profit Before Tax	27,615	1,46,041	2,08,407	2,09,078
Margin (%)	0.6	3.6	4.1	3.7
Total Tax	(53,007)	39,713	56,697	57,289
Effective tax rate (%)	(191.9)	27.2	27.2	27.4
Profit after tax	80,622	1,06,328	1,51,711	1,51,789
Minority interest	13,661	277	(251)	(984)
Share Profit from Associate	-	-	-	-
Adjusted PAT	66,961	1,06,051	1,51,962	1,52,773
YoY gr. (%)	(53.8)	58.4	43.3	0.5
Margin (%)	1.4	2.6	3.0	2.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	66,961	1,06,051	1,51,962	1,52,773
YoY gr. (%)	(53.8)	58.4	43.3	0.5
Margin (%)	1.4	2.6	3.0	2.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	66,961	1,06,051	1,51,962	1,52,773
Equity Shares O/s (m)	9,181	9,181	9,181	9,181
EPS (Rs)	7.3	11.6	16.6	16.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	18,17,717	19,93,254	22,42,777	24,32,305
Tangibles	18,17,717	19,93,254	22,42,777	24,32,305
Intangibles	-	-	-	-
Acc: Dep / Amortization	3,76,954	4,49,252	5,49,158	6,54,916
Tangibles	3,76,954	4,49,252	5,49,158	6,54,916
Intangibles	-	-	-	-
Net fixed assets	14,40,763	15,44,001	16,93,619	17,77,388
Tangibles	14,40,763	15,44,001	16,93,619	17,77,388
Intangibles	-	-	-	-
Capital Work In Progress	3,57,896	2,09,222	2,39,081	2,68,712
Goodwill	10	21,450	23,572	25,906
Non-Current Investments	3,21,214	3,64,410	3,83,273	4,04,022
Net Deferred tax assets	(1,14,393)	(1,29,986)	(1,50,985)	(1,72,203)
Other Non-Current Assets	71,240	78,098	85,908	94,499
Current Assets				
Investments	82,912	80,864	80,864	80,864
Inventories	6,70,108	5,02,391	6,29,321	6,87,868
Trade receivables	1,32,595	1,10,742	1,40,231	1,56,369
Cash & Bank Balance	22,960	2,72,776	2,48,996	2,95,715
Other Current Assets	42,542	44,621	46,852	49,195
Total Assets	32,97,368	34,06,950	37,59,598	40,38,459
Equity				
Equity Share Capital	91,810	91,810	91,810	91,810
Other Equity	8,62,169	9,47,848	10,59,062	11,70,668
Total Networkth	9,53,979	10,39,658	11,50,873	12,62,479
Non-Current Liabilities				
Long Term borrowings	5,60,706	5,56,942	6,56,942	7,06,942
Provisions	15,972	12,458	13,081	13,735
Other non current liabilities	20,481	20,425	20,425	20,425
Current Liabilities				
ST Debt / Current of LT Debt	6,98,974	7,08,601	7,28,601	7,48,601
Trade payables	2,76,035	2,23,759	2,81,915	3,13,829
Other current liabilities	6,40,169	6,94,813	7,34,816	7,77,345
Total Equity & Liabilities	32,97,369	34,06,950	37,59,598	40,38,459

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	27,615	1,46,041	2,08,407	2,09,078
Add. Depreciation	98,549	93,464	99,906	1,05,758
Add. Interest	65,787	75,196	80,896	86,596
Less Financial Other Income	27,903	32,666	34,874	37,189
Add. Other	-	-	-	-
Op. profit before WC changes	1,91,952	3,14,700	3,89,209	4,01,432
Net Changes-WC	(30,911)	1,82,365	(59,798)	(3,340)
Direct tax	(2,212)	(25,077)	(35,698)	(36,071)
Net cash from Op. activities	1,58,828	4,71,988	2,93,713	3,62,022
Capital expenditures	(3,06,262)	(1,09,670)	(2,81,519)	(2,21,508)
Interest / Dividend Income	-	-	-	-
Others	99,099	(11,139)	(14,821)	(16,303)
Net Cash from Inv. activities	(2,07,163)	(1,20,809)	(2,96,340)	(2,37,812)
Issue of share cap. / premium	(1,67,108)	10,695	1,060	1,061
Debt changes	3,32,563	5,862	1,20,000	70,000
Dividend paid	(39,019)	(42,725)	(61,316)	(61,957)
Interest paid	(65,787)	(75,196)	(80,896)	(86,596)
Others	-	-	-	-
Net cash from Fin. activities	60,648	(1,01,364)	(21,153)	(77,492)
Net change in cash	12,313	2,49,816	(23,780)	46,718
Free Cash Flow	(1,47,434)	3,62,318	12,194	1,40,514

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Net Revenue	11,16,897	12,46,152	11,84,391	6,23,966
YoY gr. (%)	(15.4)	(11.0)	(6.2)	(52.6)
Raw Material Expenses	9,61,619	10,68,915	10,36,227	4,76,335
Gross Profit	1,55,278	1,77,237	1,48,164	1,47,631
Margin (%)	13.9	14.2	12.5	23.7
EBITDA	35,722	66,503	2,122	55,123
YoY gr. (%)	(47.2)	84.2	(98.0)	(34.0)
Margin (%)	3.2	5.3	0.2	8.8
Depreciation / Depletion	20,975	21,862	23,895	23,545
EBIT	14,747	44,641	(21,774)	31,577
Margin (%)	1.3	3.6	(1.8)	5.1
Net Interest	13,083	13,117	18,504	11,713
Other Income	6,481	5,697	17,223	6,422
Profit before Tax	8,145	37,222	(23,055)	26,286
Margin (%)	0.7	3.0	(1.9)	4.2
Total Tax	2,511	13,832	(84,248)	7,177
Effective tax rate (%)	30.8	37.2	365.4	27.3
Profit after Tax	5,634	23,390	61,193	19,108
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	5,634	23,390	(51,853)	19,108
YoY gr. (%)	(82.6)	226.3	(185.0)	(46.9)
Margin (%)	0.5	1.9	(4.4)	3.1
Extra Ord. Income / (Exp)	-	-	1,13,046	-
Reported PAT	5,634	23,390	61,193	19,108
YoY gr. (%)	(82.6)	226.3	0.3	(46.9)
Margin (%)	0.5	1.9	5.2	3.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,634	23,390	61,193	19,108
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	-	-	-	-

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	7.3	11.6	16.6	16.6
CEPS	18.0	21.7	27.4	28.2
BVPS	103.9	113.2	125.4	137.5
FCF	(16.1)	39.5	1.3	15.3
DPS	4.3	4.7	6.7	6.7
Return Ratio(%)				
RoCE	3.1	8.3	10.5	9.8
ROIC	2.1	6.2	7.4	7.1
RoE	6.4	10.6	13.9	12.7
Balance Sheet				
Net Debt : Equity (x)	1.2	0.9	0.9	0.9
Net Working Capital (Days)	40	35	35	34
Valuation(x)				
PER	11.9	7.5	5.3	5.2
P/B	0.8	0.8	0.7	0.6
P/CEPS	18.0	21.7	27.4	28.2
EV/EBITDA	11.9	6.1	5.2	5.2
EV/Sales	0.4	0.4	0.4	0.3
Dividend Yield (%)	4.9	5.4	7.7	7.8

Source: Company Data, PL Research

Key Operating Metrics

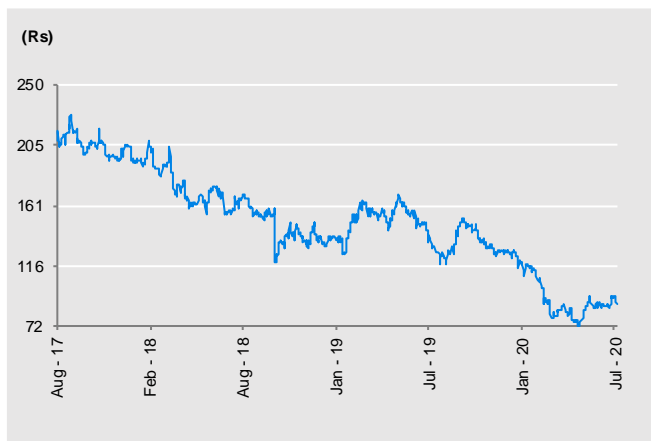
Y/e Mar	FY20	FY21E	FY22E	FY23E
Crude /bbl	61	45	55	60
US\$/Rs	71	74	77	79
GRM (US\$/bbl)	4	3	4	6
Refining volume (MTPA)	68	67	72	73

Source: Company Data, PL Research



Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Jul-20	BUY	114	86
2	25-Jun-20	BUY	114	85
3	08-Apr-20	BUY	133	82
4	31-Jan-20	BUY	145	113
5	03-Jan-20	BUY	190	127
6	01-Nov-19	BUY	209	143
7	03-Oct-19	BUY	181	152

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Accumulate	1,024	930
2	Bharat Petroleum Corporation	BUY	515	380
3	GAIL (India)	Accumulate	108	103
4	Hindustan Petroleum Corporation	BUY	280	211
5	Indian Oil Corporation	BUY	114	86
6	Indraprastha Gas	BUY	597	412
7	Mahanagar Gas	BUY	1,279	1,029
8	Manappuram Finance	BUY	1,279	994
9	NOCIL	BUY	96	98
10	Oil & Natural Gas Corporation	BUY	96	82
11	Oil India	Accumulate	117	99
12	Petronet LNG	BUY	384	261
13	Reliance Industries	BUY	2,170	2,102

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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