

Q4FY21 result review
and reco change

Oil&Gas

Target price: Rs110

Earnings revision

(%)	FY22E	FY23E
Sales	↑ 14.6	0.0
EBITDA	↑ 3.4	0.0
EPS	↑ 4.0	0.0

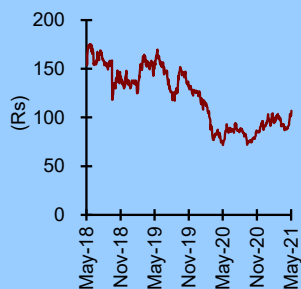
Target price revision

Rs110 from Rs105

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	51.5	51.5	51.5
Institutional investors	19.4	19.4	18.8
MFs and other	5.7	5.4	4.7
Banks / FIs	0.1	0.1	0.0
Insurance Cos.	7.6	8.1	8.3
FIs	6.0	5.8	5.8
Others	29.1	29.1	29.7

Price chart



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Indian Oil Corporation

HOLD

Downgrade from ADD

Marketing margin & GRM rise key to outlook

Rs107

Indian Oil Corporation's (IOC) Q4FY21 recurring EPS is up 4x YoY driven by inventory gain vs loss, petrochemical EBITDA jump and fall in interest cost. FY21 recurring EPS is also up 4x YoY driven by same factors as in Q4 besides 37% YoY rise in auto fuel net marketing margin. We have raised FY22E EPS by 4% and target price by 5% to Rs110 (3% upside) mainly on upgrade in petrochemical EBITDA to reflect the recent margin strength and outlook. Net marketing margin is weak in FY22-TD at Rs0.43/l. Rs2.05-2.5/l price hike is required to boost it to Rs2.5/l, which is our FY22 estimate. We are optimistic about future hikes given the government's track record. IOC's GRM is weak in FY22-TD and recovery in diesel cracks is key to GRM rising to our FY22 estimate of US\$3/bbl. We downgrade IOC to HOLD from ADD as we await GRM and marketing margin recovery.

- Q4 EPS surge driven by inventory gain and petrochemical EBITDA jump:** Standalone Q4FY21 recurring EPS is up 4.3x YoY driven by 1) estimated crude and product inventory gain of Rs84bn vs loss of Rs185bn in Q4FY20; 2) 4.7x YoY jump in petrochemical EBITDA to Rs22.5bn and 3) 42% YoY fall in interest cost (**debt is down 12% YoY but up 41% QoQ to Rs1,023bn in end-Mar'21**). Reported GRM was US\$12.5/bbl vs minus US\$9.6/bbl in Q4FY20 while core GRM at US\$4.5/bbl is down 44% YoY vs US\$8.2/bbl in Q4FY20. Net marketing margin was down 61% YoY at Rs1.2/l. **Excluding inventory gain/loss, Q4 standalone EPS is down 84% YoY.** Consolidated recurring Q4 profit stood at Rs90.3bn vs loss of Rs5.5bn in Q4FY20; share of profit from JV/associates is up 6% YoY driven by subsidiary Chennai Petroleum's recurring profit of Rs2.3bn vs loss of Rs16.4bn in Q4FY20.
- Auto fuel marketing margin weak in FY22-TD, need hikes to boost it:** Auto fuel net marketing margin was up 37% YoY at Rs3.05/l in FY21. It is weak at Rs0.66/l on 19-May'21 and Rs0.43/l in FY22-TD despite petrol and diesel price hikes of Rs2.5-2.8/l in the last two weeks. Net margin is estimated at Rs0.39/l on 1-Jun'21 and Rs0.79/l on 16-Jun'21. Price hike or excise duty cut (not passed on) of Rs2.05-2.5/l is needed for net margin to rise to Rs2.5/l, which is also our FY22 estimate.
- Core GRM up QoQ in Q1FY22-TD:** We estimate IOC's Q1FY22-TD GRM at US\$0.79/bbl. For GRM to rise to our FY22 estimate US\$3/bbl, diesel cracks, which are at US\$5.1/bbl in FY22-TD need to rise to over ~US\$10/bbl. Gradual recovery in global demand as vaccines are rolled out may help diesel cracks and GRM recover.
- Raise FY22E EPS and target price:** We have cut IOC's FY22E GRM to US\$3/bbl from US\$3.4/bbl earlier but raised petrochemical EBITDA estimate by 45% to Rs70bn to reflect the strength in petrochemical margins due to snowstorm in the US gulf coast in Feb'21; IOC's petrochemical EBITDA was at Rs19.5-22.5bn in Q3-Q4FY21 and we estimate it at Rs23bn in Q1FY22E. The net impact is an upgrade in FY22E EPS by 4% and target price by 5% to Rs110 (3% upside). Recovery in auto fuel marketing margin and GRM is key to improvement in IOC's stock performance.

Market Cap	Rs1009bn/US\$13.8bn	Year to March	FY20	FY21	FY22E	FY23E
Reuters/Bloomberg	IOC.BO / IOCL IN	Revenue (Rs mn)	57,51,635	52,02,368	76,41,750	80,64,233
Shares Outstanding (mn)	9,414.2	Net Income (Rs mn)	59,661	2,39,203	1,73,362	1,98,877
52-week Range (Rs)	106/72	EPS (Rs)	6.3	25.4	18.4	21.1
Free Float (%)	48.5	% Chg YoY	-65.8%	300.9%	-27.5%	14.7%
FII (%)	5.8	P/E (x)	16.9	4.2	5.8	5.1
Daily Volume (US\$'000)	36,206	CEPS (Rs)	1.6	36.1	27.6	31.2
Absolute Return 3m (%)	13.3	EV/E (x)	8.4	5.2	5.9	5.3
Absolute Return 12m (%)	65.2	Dividend Yield	4%	11%	7%	7%
Sensex Return 3m (%)	(1.8)	RoCE (%)	3%	13%	9%	10%
Sensex Return 12m (%)	67.1	RoE (%)	-3%	20%	13%	14%

Table 1: Q4FY21 standalone recurring EPS up 4.3x YoY and FY21 EPS up 187% YoY*(Rs mn, year ending March 31)*

	Q4FY21	Q4FY20	Change	FY21	FY20	Change	Q3FY21	Change
Net sales	16,36,057	13,88,354	18%	51,48,905	56,55,242	-9%	14,65,988	12%
Total expenditure	15,01,039	13,82,917	9%	47,68,273	54,69,939	-13%	13,69,769	10%
EBDITA	1,35,018	5,437	2383%	3,80,632	1,85,303	105%	96,219	40%
EBDITA margin	8.3%	0.4%		7%	3%		6.6%	
Interest	10,729	18,504	-42%	30,939	59,795	-48%	6,286	71%
Depreciation	25,795	23,895	8%	98,043	87,661	12%	24,667	5%
Other Income	11,017	17,223	-36%	45,507	35,714	27%	12,695	-13%
PBT	1,09,511	-19,740	NM	2,97,157	73,561	304%	77,962	40%
Current tax	21,698	-40,219	NM	62,913	-7,983	NM	12,912	68%
Recurring PAT	87,813	20,479	329%	2,34,244	81,544	187%	65,049	35%
Exceptional item	0	-72,332		-15,883	-68,411		-15,883	
Reported PAT	87,813	-51,853	NM	2,18,360	13,132	1563%	49,166	79%
Recurring EPS	9.3	2.2	329%	24.9	8.7	187%	6.9	35%
Reported EPS	9.3	(5.5)	NM	23.2	1.4	1563%	5.2	79%

Source: Company data, I-Sec research

Table 2: Q4FY21 EBITDA including other income up 6.4x YoY driven by surge in GRM boosted by inventory gain and 4.7x YoY rise in petrochemical EBITDA

<i>(Rs mn)</i>	Q4FY21	Q4FY20	Change	FY21	FY20	Change	Q3FY21	Change
Refining	63,780	-1,24,510	NM	66,050	-1,22,730	NM	-3,260	NM
Inventory gains	9,066	-22,910	NM	40,856	-17,900	NM	17,110	-47%
Petrochemical	22,480	4,750	373%	61,410	26,770	129%	19,540	15%
Pipelines	16,080	15,400	4%	57,490	62,950	-9%	16,990	-5%
Marketing including lubes	25,364	46,230	-45%	1,77,934	1,64,870	8%	54,190	-53%
Others	9,270	1,03,700	-91%	22,400	1,07,057	-79%	4,350	113%
EBITDA	1,46,035	22,660	544%	4,26,139	2,21,017	93%	1,08,914	34%
Reported GRM (US\$/bbl)	12.5	(9.6)	NM	5.6	0.1	6950%	2.1	491%
Core GRM (US\$/bbl)	4.5	8.2	-44%	2.3	4.2	-44%	1.2	291%
Crude throughput (MMT)	17.6	17.1	3%	62.4	69.4	-10%	17.9	-2%
Domestic sales (MMT)	19.4	19.2	2%	69.4	78.5	-12%	19.6	-1%
Brent (US\$/bbl)	60.7	50.6	20%	44.8	60.9	-26%	44.6	36%
Exchange rate (US\$-Rs)	72.9	72.4	1%	74.2	70.9	5%	73.8	-1%

Source: Company data, I-Sec research

Note: Inventory gain for Q4FY21 is our estimate. Marketing EBITDA reported including inventory gain was Rs34.4bn

Table 3: Q4FY21 consolidated recurring profit at Rs90.3bn vs loss of Rs5.5bn in Q4FY20; FY21 EPS up 301% YoY*(Rs mn, year ending March 31)*

	Q4FY21	Q4FY20	Change	FY21	FY20	Change	Q3FY21	Change
Net sales	16,56,070	14,15,884	17%	52,02,368	57,51,635	-10%	14,78,102	12%
Total expenditure	15,12,666	14,43,685	5%	47,96,518	55,90,130	-14%	13,80,165	10%
EBDITA	1,43,404	-27,801	NM	4,05,850	1,61,505	151%	97,938	46%
EBDITA margin	9%	-2%		8%	3%		7%	
Interest	12,031	20,320	-41%	35,891	65,787	-45%	7,336	64%
Depreciation	29,489	26,525	11%	1,09,415	98,549	11%	27,231	8%
Other Income	7,129	12,483	-43%	34,995	27,903	25%	9,590	-26%
PBT	1,09,013	-62,163	NM	2,95,540	25,071	1079%	72,960	49%
Share of profit/loss of associates/JVs	5,675	5,358	6%	11,967	13,661	-12%	2,759	106%
Tax	23,239	-43,482	NM	67,064	-11,097	NM	11,874	96%
Minority interest	1,184	-7,830	NM	1,240	-9,832	NM	-2,567	NM
Recurring PAT	90,265	-5,494	NM	2,39,203	59,661	301%	66,412	36%
Extra-ordinary items	0	-72,332		-22,821	-68,592		-22,821	
Reported PAT	90,265	-77,826	NM	2,16,382	-8,931	NM	43,591	107%
Recurring EPS	9.6	(0.6)	NM	25.4	6.3	301%	7.1	36%
Reported EPS	9.6	(8.3)	NM	23.0	(0.9)	NM	4.6	107%

Source: Company data, I-Sec research

Financial summary

Table 4: Profit & loss statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Operating Income (Sales)	57,51,635	52,02,368	76,41,750	80,64,233
Operating Expenses	55,90,130	47,96,518	73,25,088	77,04,125
EBITDA	1,61,505	4,05,850	3,16,662	3,60,108
% margins	2.8%	7.8%	4.1%	4.5%
Depreciation & Amortisation	-98,549	-1,09,415	-1,09,806	-1,14,319
Gross Interest	-65,787	-35,891	-40,270	-43,694
Other Income	27,903	34,995	34,897	34,899
Recurring PBT	-43,521	2,72,719	2,01,483	2,36,993
Less: Taxes	11,097	-67,064	-48,386	-57,330
Net Income (Reported)	-8,931	2,16,382	1,73,362	1,98,877
Recurring Net Income	59,661	2,39,203	1,73,362	1,98,877

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Assets				
Total Current Assets	10,33,170	11,43,490	13,90,533	14,19,970
of which cash & cash eqv.	22,960	24,747	42,033	1,10,597
Total Current Liabilities & Provisions	9,60,553	11,96,226	13,96,780	14,72,455
Net Current Assets	72,617	-52,735	-6,247	-52,485
Investments	4,42,568	4,47,168	4,88,180	4,88,180
Net Fixed Assets	14,70,211	15,70,838	12,38,895	12,24,577
Capital Work-in-Progress	3,28,448	3,62,905	7,46,025	9,52,024
Total Assets	23,36,815	23,52,934	25,08,896	27,22,903
Liabilities				
Borrowings	12,59,681	10,85,149	11,42,495	12,40,495
Equity Share Capital	91,810	91,810	91,810	91,810
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus*	8,62,169	10,26,570	11,25,630	12,39,592
Net Worth	9,53,979	11,18,381	12,17,441	13,31,402
Total Liabilities	23,36,815	23,52,934	25,08,896	27,22,903

*Excluding revaluation reserves;

Source: Company data, I-Sec research

Table 8: Quarterly trend

(Rs mn, year ending March 31)

	Jun-20	Sep-20	Dec-20	Mar-21
Net sales	8,89,365	11,57,494	14,65,988	16,36,057
% growth (YoY)	-41%	-13%	1%	18%
EBITDA	55,123	94,272	96,219	1,35,018
EBITDA Margin (%)	6%	8%	7%	8%
Other income	6,422	15,374	12,695	11,017
Add: Extraordinaries	-	-	(15,833)	-
Net profit	19,108	62,273	65,049	87,813

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Operating Cashflow	15,421	3,40,321	2,59,362	2,93,983
Working Capital Changes	(21,447)	(1,25,352)	46,489	(46,238)
Cashflow from Operating Activities	(8,244)	3,38,300	1,38,572	2,55,305
Capital Commitments	2,08,817	2,49,098	2,01,995	3,06,000
Cashflow from Investing Activities	(2,17,061)	89,202	(63,423)	(50,695)
Inc (Dec) in Borrowings	(3,32,563)	1,74,531	(57,345)	(98,000)
Dividend paid	45,111	1,27,374	74,301	84,916
Chg. in Cash & Bank balances	(4,06,321)	(4,91,651)	(4,97,728)	(4,50,423)

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
Per Share Data (Rs)				
EPS(Basic Recurring)	6.3	25.4	18.4	21.1
Recurring Cash flow per share	1.6	36.1	27.6	31.2
Dividend per share (DPS)	4.3	12.0	7.0	8.0
Book Value per share (BV)	101.3	118.8	129.3	141.4
Growth Ratios (%)				
Operating Income	-7%	-10%	47%	6%
EBITDA	-54%	151%	-22%	14%
Recurring Net Income	-66%	301%	-28%	15%
Diluted Recurring EPS	-66%	301%	-28%	15%
Diluted Recurring CEPS	-95%	2107%	-24%	13%
Valuation Ratios (x)				
P/E	16.9	4.2	5.8	5.1
P/CFPS	13.5	2.2	4.6	2.9
P/BV	1.06	0.90	0.83	0.76
EV / EBITDA	8.4	5.2	5.9	5.3
Operating Ratios				
Other Income / PBT (%)	-64.1%	12.8%	17.3%	14.7%
Effective Tax Rate (%)	25.5%	24.6%	24.0%	24.2%
NWC / Total Assets (%)	3.1%	-2.2%	-0.2%	-1.9%
D/E Ratio (%)	132.0%	97.0%	93.8%	93.2%

Return/Profitability Ratios (%)

Recurring Net Income Margins	1.0%	4.6%	2.3%	2.5%
RoCE	3.0%	13.4%	9.1%	10.0%
RoNW	-3.1%	19.8%	13.1%	14.1%
Dividend Payout Ratio	67.1%	47.2%	38.0%	37.9%
Dividend Yield	4.0%	11.2%	6.5%	7.5%
EBITDA Margins	2.8%	7.8%	4.1%	4.5%

Source: Company data, I-Sec research

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