

## Inventory gains drive profits; demand recovery key...

Indian Oil Corporation (IOC) reported Q4FY21 profits better than our estimates, mainly driven by inventory gains. Revenues increased 11.6% QoQ to ₹ 163605.7 crore (our estimate: ₹ 170485 crore). The quarter saw strong inventory gains of US\$8.1/bbl leading to reported GRMs at US\$10.6/bbl (our estimate: US\$4.5/bbl). EBITDA was at ₹ 13501.8 crore (up 40.3% QoQ), above our estimate of ₹ 7738.4 crore, mainly due to higher profitability in both refining and petchem segments. Subsequently, reported PAT was at ₹ 8781.3 crore, up 78.6% QoQ (our estimate: ₹ 3908.9 crore).

### Marketing profitability weaker

Crude oil prices sharply increased during the quarter on expectations of global demand recovery. Average crude oil prices increased by US\$16.1/bbl to US\$60.7/bbl while Brent crude oil prices on a closing basis jumped US\$11.2/bbl QoQ to US\$62.4/bbl. The company declined to disclose marketing inventory details. Marketing margins were lower QoQ as higher crude oil costs were not fully passed on to customers. Subsequently, marketing segment's profitability was relatively weaker. IOC's marketing sales grew 2.4% YoY to 21.2 MMT marginally lower than estimate. Going ahead, we expect marketing sales at 85.8 MMT and 93.4 MMT for FY22E and FY23E, respectively. Crude throughput in Q4FY21 was up 2.9% YoY at 17.6 MMT, largely in line with estimate. Going ahead, we estimate throughput at 67.2 MMT and 70 MMT for FY22E and FY23E, respectively.

### Core GRMs trend important, going ahead

Reported GRMs during the quarter were at US\$10.6/bbl, above our estimate of US\$4.5/bbl. Core GRMs were at US\$2.5/bbl while inventory gain was US\$8.1/bbl. Benchmark Singapore GRMs, while recovering from Q3 levels of US\$1.2/bbl, still remained low at US\$1.8/bbl in Q4FY21. Improvement in product cracks (mainly diesel) will be important for further recovery in GRMs. Going ahead, we expect GRMs at US\$3.4/bbl for FY22E and US\$4.3/bbl for FY23E.

### Valuation & Outlook

Marketing sales increased YoY (on a lower base) during Q4FY21. However, in the current quarter (Q1FY22-TD), second wave of Covid-19 and subsequent restrictions on movement led to reduction in demand. Petrol, diesel sales fell ~33% in May 2021 vs. May 2019. Recovery in demand and steady marketing margins will be important for marketing segment, going ahead. While inventory gains supported overall refining margins, core GRMs are still weak and affecting the operational performance. Global demand recovery and improvement in product cracks will be key monitorable. We are neutral on IOC at the current juncture given the volatility in refining margins. We maintain **HOLD** on the stock with a revised target price of ₹ 115/share (earlier ₹ 105/share). We value the stock based on average of P/BV multiple: ₹ 116/share, P/E multiple: ₹ 115/share.

#### Particulars

Particular	Amount
Market Capitalization (₹ Crore)	95,850.1
Total Debt (FY 20) (₹ Crore)	116,545.0
Cash and Investments (FY 20)	10,589.1
EV (₹ Crore)	201,805.9
52 week H/L	110 / 71
Equity capital (₹ Crore)	9,181.0
Face value (₹)	10.0

#### Key Highlights

- Performance above our estimates on account of refining and petchem segment
- Marketing margins lower QoQ as higher costs were not passed on
- Maintain HOLD rating on stock with target price of ₹ 115/share

#### Key risks to our call

- Weaker than estimated GRMs will lead to lower than expected earnings
- Faster than expected recovery in demand and marketing margin will result in higher profitability

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#### Key Financial Summary

(Year-end March)	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Revenues (₹ crore)	605,923.8	566,949.7	514,890.5	687,303.9	722,580.8	8.4
EBITDA (₹ crore)	33,826.2	18,784.7	38,063.2	27,791.7	31,665.2	19.0
Net Profit (₹ crore)	16,894.1	1,313.2	21,836.0	10,374.7	13,091.5	115.2
EPS (₹)	18.4	1.4	23.8	11.3	14.3	
P/E (x)	5.7	73.0	4.4	9.2	7.3	
Price / Book (x)	0.9	1.0	0.9	0.9	0.9	
EV/EBITDA (x)	2.8	5.1	2.5	3.4	3.0	
RoCE (%)	13.5	4.8	13.8	7.9	9.4	
RoE (%)	15.5	1.4	21.3	9.7	11.8	
RoE (%)	21.4	22.8	22.7	27.5	22.0	

Exhibit 1: Variance Analysis

	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
Total Revenues	163,605.7	170,485	139,618.9	17.2	146,598.8	11.6	
Raw materials costs	96,434.9	112,359	103,622.7	-6.9	85,370.6	13.0	
Employees Cost	3,135.3	2,346.5	2,114.0	48.3	2,882.3	8.8	
Other Expenses	50,533.6	48,040.7	33,670.0	50.1	48,724.0	3.7	
Total Expenditure	150,103.9	162,746	139,406.7	7.7	136,976.9	9.6	
EBITDA	13,501.8	7,738.4	212.2	6,263.4	9,621.9	40.3	Better than estimates due to higher profitability in refinery and petchem segments
EBITDA margins (%)	8.3	4.5	0.2	810 bps	6.6	169 bps	
Depreciation	2,579.5	2,504.9	2,389.5	7.9	2,466.7	4.6	
EBIT	10,922.3	5,233.5	-2,177.3	-601.6	7,155.2	52.6	
Interest	1,072.9	951.2	1,850.4	-42.0	628.6	70.7	
Other Income	1,101.7	943.5	1,722.3	-36.0	1,269.5	-13.2	
Extra Ordinary Item	0.0	0.0	-11,304.6	NA	0.0	NA	
PBT	10,951.1	5,225.8	-13,610.2	-180.5	7,796.2	40.5	
Total Tax	2,169.8	1,316.9	-8,424.8	-125.8	2,879.6	-24.6	
PAT	8,781.3	3,908.9	-5,185.3	-269.3	4,916.6	78.6	

Key Metrics

Exchange rate (₹/\$)	72.9	72.9	72.5	0.6	73.8	-1.2	
Throughput (mmt)	17.6	17.5	17.1	2.9	17.9	-1.5	Crude throughput marginally higher than expectations
Sales (mmt)	21.2	21.5	20.7	2.4	21.4	-1.0	
GRM (\$/barrel)	10.6	4.5	-9.6	-209.9	2.2	383.6	IOC reported inventory gain of US\$8.1/bbl. Core GRMs were at US\$2.5/bbl

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	689,805.0	687,303.9	-0.4	713,672.4	722,580.8	1.2	
EBITDA	28,296.2	27,791.7	-1.8	29,695.3	31,665.2	6.6	
EBITDA Margin (%)	4.1	4.0	-6 bps	4.2	4.4	22 bps	
PAT	10,340.8	10,374.7	0.3	11,275.7	13,091.5	16.1	Lower depreciation and interest costs led to change in estimates in FY23E
EPS (₹)	11.3	11.3	0.3	12.3	14.3	16.1	

Source: Company, ICICI Direct Research

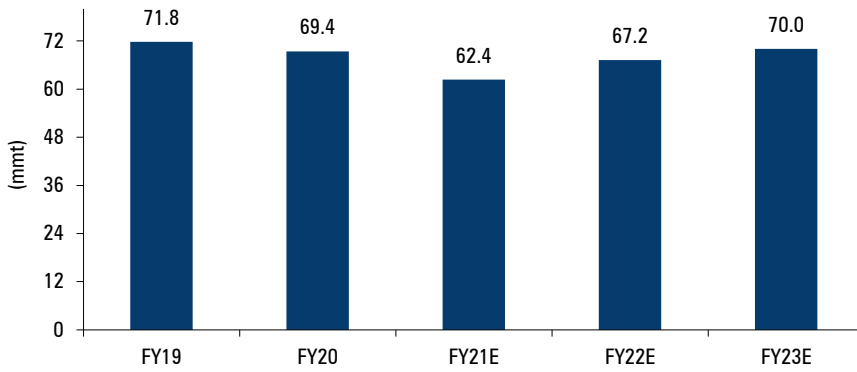
Exhibit 3: Assumptions

	Current				Earlier		Comments
	FY20	FY21E	FY22E	FY23E	FY22E	FY23E	
Exchange rate (₹/\$)	70.9	74.0	73.5	73.5	74.0	74.0	
Throughput (mmt)	69.4	62.4	67.2	70.0	69.8	70.0	
Sales (mmt)	84.3	75.6	85.8	93.4	90.2	93.4	Revised sales estimates downwards due to reduced demand in Q1FY22E
GRM (\$/barrel)	0.1	5.6	3.4	4.3	3.4	3.8	Realigned estimates after Q4FY21 performance

Source: Company, ICICI Direct Research

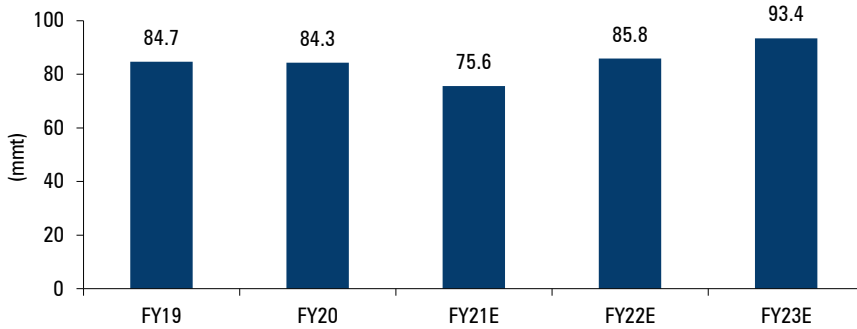
## Story in charts

Exhibit 4: Oil throughput trend



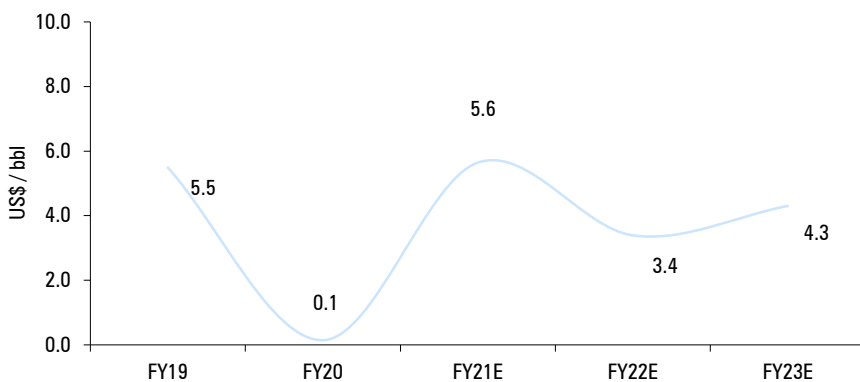
Source: Company, ICICI Direct Research

Exhibit 5: Marketing sales trend



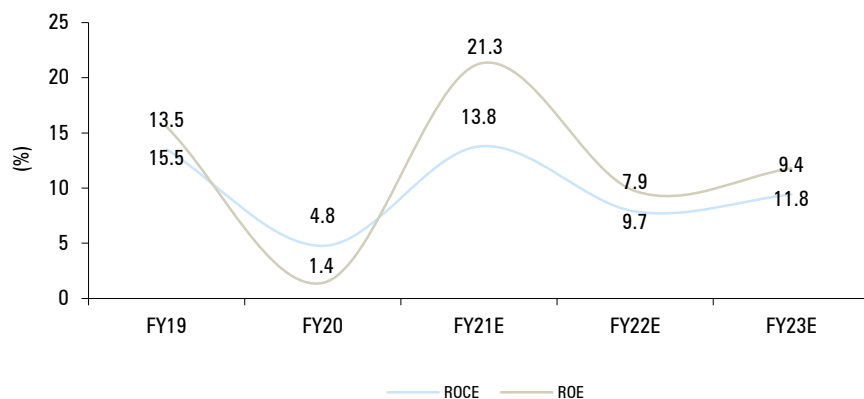
Source: Company, ICICI Direct Research

Exhibit 6: Refining margin trend



Source: Company, ICICI Direct Research

Exhibit 7: Return ratios trend



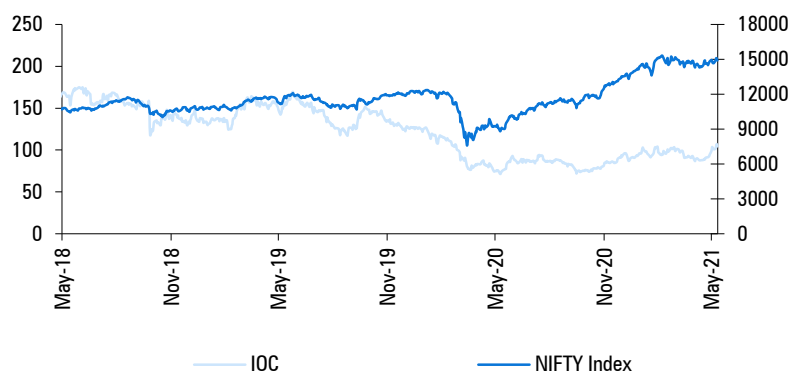
Source: Company, ICICI Direct Research

Exhibit 8: Shareholding Pattern

(in %)	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Promoter	51.5	51.5	51.5	51.5	51.5
FII	7.2	6.3	6.1	5.8	5.8
DII	13.4	13.9	13.4	13.5	13.0
Others	27.9	28.3	29.1	29.1	29.7

Source: Company, ICICI Direct Research

Exhibit 9: Price Performance



Source: Company, ICICI Direct Research

## Financial summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>566949.7</b>	<b>514890.5</b>	<b>687303.9</b>	<b>722580.8</b>
Growth (%)	-6.4	-9.2	33.5	5.1
(Inc.)/(Dec.) in stock in tra	-6410.4	-5547.6	0.0	0.0
Raw material Costs	247077.0	156648.0	227334.1	236806.3
Purchase of Products	178535.5	143662.1	247538.1	247538.1
Employee Costs	8792.7	10712.0	11783.2	12961.6
Other Expenditure	120170.2	171352.8	172856.8	193609.6
Op. Expenditure	548165.0	476827.3	659512.2	690915.6
<b>EBITDA</b>	<b>18784.7</b>	<b>38063.2</b>	<b>27791.7</b>	<b>31665.2</b>
Growth (%)	-44.5	102.6	-27.0	13.9
Depreciation	8766.1	9804.3	12071.6	13230.5
EBIT	10018.6	28258.9	15720.1	18434.7
Interest	5979.5	3093.9	5623.2	5105.7
Other Income	-7733.3	4550.7	3773.1	4173.1
PBT	-3694.1	29715.7	13869.9	17502.1
Growth (%)	-114.7	-904.4	-53.3	26.2
Tax	-5007.3	7879.6	3495.2	4410.5
<b>Reported PAT</b>	<b>1313.2</b>	<b>21836.0</b>	<b>10374.7</b>	<b>13091.5</b>
Growth (%)	-92.2	1562.8	-52.5	26.2
<b>EPS</b>	<b>1.4</b>	<b>23.8</b>	<b>11.3</b>	<b>14.3</b>

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	1,313.2	21,836.0	10,374.7	13,091.5
Add: Depreciation	8,766.1	9,804.3	12,071.6	13,230.5
Add: Others	0.0	0.0	0.0	0.0
Cash Profit	-136.9	20,250.2	19,001.3	20,728.6
Increase/(Decrease) in CL	-15,504.9	16,758.7	16,799.5	8,862.6
(Increase)/Decrease in CA	21,417.2	15,938.6	4,384.1	8,164.4
<b>CF from Operating Activities</b>	<b>-30.8</b>	<b>40,057.3</b>	<b>33,739.8</b>	<b>29,162.1</b>
Purchase of Fixed Assets	29,878.9	15,726.6	25,000.0	25,000.0
(Inc)/Dec in Investments	10,616.8	-9,480.8	2,500.0	2,500.0
Others	4.0	4.0	4.0	4.0
<b>CF from Investing Activities</b>	<b>-19,262.0</b>	<b>-25,207.5</b>	<b>-22,500.0</b>	<b>-22,500.0</b>
Inc/(Dec) in Loan Funds	30,186.3	-14,000.0	-9,500.0	-8,500.0
Dividend Paid	5,806.3	12,890.2	6,445.1	8,593.5
Inc/(Dec) in Sh. Cap. & Res.	-10,395.6	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
<b>CF from financing activities</b>	<b>13,984.4</b>	<b>-26,890.2</b>	<b>-15,945.1</b>	<b>-17,093.5</b>
Change in cash Eq.	497.8	849.9	1,739.8	-1,837.9
Op. Cash and cash Eq.	91.3	589.1	1,439.0	3,178.8
<b>Cl. Cash and cash Eq.</b>	<b>589.1</b>	<b>1,439.0</b>	<b>3,178.8</b>	<b>1,340.9</b>

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Source of Funds</b>				
Equity Capital	9,181.0	9,181.0	9,181.0	9,181.0
Preference capital	0.0	0.0	0.0	0.0
Reserves & Surplus	84,587.8	93,533.7	97,463.3	101,961.4
Shareholder's Fund	93,768.8	102,714.7	106,644.3	111,142.4
Loan Funds	116,545.0	102,545.0	93,045.0	84,545.0
Deferred Tax Liability	11,413.1	12,913.1	15,913.1	18,913.1
Minority Interest	0.0	0.0	0.0	0.0
<b>Source of Funds</b>	<b>221727.0</b>	<b>218172.8</b>	<b>215602.5</b>	<b>214600.5</b>
<b>Application of Funds</b>				
Gross Block	168,951.3	188,993.1	213,993.1	236,493.1
Less: Acc. Depreciation	33,665.9	45,285.3	57,357.0	70,587.5
Net Block	135,285.5	143,707.8	156,636.1	165,905.6
Capital WIP	28,134.1	25,634.1	25,634.1	28,134.1
Total Fixed Assets	163,419.6	169,341.9	182,270.2	194,039.7
Investments	39,138.6	48,619.4	46,119.4	43,619.4
Inventories	63,677.6	78,188.0	80,970.0	85,126.0
Debtor	12,844.1	11,285.3	15,064.2	15,837.4
Cash	589.1	1,439.0	3,178.8	1,340.9
Loan & Advance, Other CA	31421.6	15421.6	10921.6	6421.6
Total Current assets	108532.4	106333.9	110134.6	108725.8
Current Liabilities	78877.1	95924.8	112981.5	118780.4
Provisions	10486.5	10197.5	9940.3	13004.0
Total CL and Provisions	89363.6	106122.3	122921.8	131784.4
Net Working Capital	19168.9	211.6	-12787.2	-23058.6
Miscellaneous expense	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>221727.0</b>	<b>218172.8</b>	<b>215602.5</b>	<b>214600.5</b>

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Per share data (₹)</b>				
Book Value	102.1	111.9	116.2	121.1
Cash per share	0.6	1.6	3.5	1.5
EPS	1.4	23.8	11.3	14.3
Cash EPS	11.0	34.5	24.4	28.7
DPS	6.0	12.0	6.0	8.0
<b>Profitability &amp; Operating Ratios</b>				
EBITDA Margin (%)	3.3	7.4	4.0	4.4
PAT Margin (%)	0.2	4.2	1.5	1.8
Fixed Asset Turnover (x)	3.5	3.0	3.8	3.7
Inventory Turnover (Days)	41.0	43.0	43.0	43.0
Debtor (Days)	8.3	8.0	8.0	8.0
Current Liabilities (Days)	50.8	68.0	60.0	60.0
<b>Return Ratios (%)</b>				
RoE	1.4	21.3	9.7	11.8
RoCE	4.8	13.8	7.9	9.4
RoIC	5.0	14.6	8.4	10.0
<b>Valuation Ratios (x)</b>				
PE	73.0	4.4	9.2	7.3
Price to Book Value	1.0	0.9	0.9	0.9
EV/EBITDA	5.1	2.5	3.4	3.0
EV/Sales	0.4	0.4	0.3	0.2
<b>Leverage &amp; Solvency Ratios</b>				
Debt to equity (x)	1.2	1.0	0.9	0.8
Interest Coverage (x)	1.7	9.1	2.8	3.6
Debt to EBITDA (x)	6.2	2.7	3.3	2.7
Current Ratio	1.2	1.0	0.9	0.8
Quick ratio	0.5	0.3	0.2	0.2

Source: Company, ICICI Direct Research

**Exhibit 14: ICICI Direct Coverage Universe (Oil & Gas)**

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
BPCL (BHAPET)	461	350	Hold	67,267	36.3	13.6	48.4	12.7	33.8	9.5	10.1	20.8	8.3	13.1	3.5	12.2	19.4	8.1	24.2
GAIL (India) (GAIL)	146	150	Hold	65,848	14.7	10.8	14.6	9.9	13.5	10.0	8.2	11.5	7.7	13.7	7.8	12.4	15.1	10.5	13.2
Gujarat Gas (GUJGA)	512	505	Buy	35,246	17.3	17.8	21.2	29.5	28.7	24.2	22.3	17.5	14.8	25.2	32.1	31.8	36.3	28.2	25.8
Indian Oil Corp (INDOIL)	104	115	Hold	95,850	1.4	23.8	11.3	73.0	4.4	9.2	5.1	2.5	3.4	4.8	13.8	7.9	1.4	21.3	9.7
Indraprastha Gas (INDGAS)	502	595	Hold	35,140	16.2	14.6	20.9	30.9	34.3	24.0	21.7	22.4	16.0	25.0	20.8	25.2	22.5	17.7	21.2
Mahanagar Gas (MAHGAS)	1135	1340	Buy	11,211	80.3	64.0	96.6	14.1	17.7	11.8	10.5	11.8	7.7	29.7	22.7	29.3	26.9	19.0	23.9
Petronet LNG (PETLNG)	236	275	Hold	35,400	18.0	20.1	21.5	13.1	11.8	11.0	8.6	7.1	6.4	22.3	26.3	29.0	24.6	26.1	26.6

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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