

Refineries

Company Overview

Indian Oil Corporation Limited (IOCL) incorporated in 1959, is engaged in refining business largely owned by government of India with 51.5% equity stake. The company segment's includes sale of petroleum products, petrochemicals, gas, explosives and cryogenics, wind mill and solar power generation, and oil and gas exploration activities. Its portfolio brands are Indane liquefied petroleum gas (LPG) cooking gas, SERVO lubricants, XTRAPREMIUM petrol, XTRAMILE diesel and PROPEL petrochemicals. Currently, it has 10 refineries with a combined capacity of 80.7 mn metrics per tonne. Its business operations span across 25,000 petrol and diesel stations.

Investment Rationale

Leadership position in country liquor market

The new entrants would find challenging to manage supply chain logistics and volatility in margins. Further, IOC's refining assets in the interior locations, especially in the North gives it a competitive advantage in supply chain logistics for marketing, especially in auto fuel retailing in towns and cities located away from coastal locations in North and Central India. It also has one refinery on the west coast and two on the east coast (three including subsidiary CPCL) to source its product requirements for the coastal markets and nearby highways.

GRM levels are expected improve further

Indian Oil Corporation has commenced supply of low sulphur marine fuel for ships that is compliant with IMTO norms and available for immediate delivery at kandla and kochi ports. Other Indian ports of Mumbai, Mangalore, Tuticorin, Chennai, Visakhapatnam, Paradip and Haldia would start delivery by mid November. The company plans to produce 1mn tonne of IMO compliant FO at its Gujarat refinery, the only one to produce this fuel at present. Company's operating efficiencies will play out taking into account improvement in diesel spreads.

Marketing margins to remain steady

The marketing segment performance has been stable QoQ as oil prices have remained relatively steady for a majority of the days in the quarter. We expect similar profitability from this segment in coming quarters. In terms of marketing sales, IOC reported marginal growth of 1.8% YoY to 20.2 MMT (marginally lower than our estimates) due to lower-than-expected diesel sales. Going forward, we expect marketing sales volumes to grow at 3-4% CAGR in the next two years. Crude throughput in Q2FY20 was marginally lower YoY at 17.5 MMT, largely in line with our estimates. Going forward, we estimate throughput of ~69.7 MMT for both FY20E, and FY21E.

Valuation and outlook

The poor Q2FY20 results are priced in and currently stock available at close to its book value offering high dividend yield of 5%. Going forward, we expect normalized GRMs based on improvement in spreads and higher petrochemical earnings from new polypropylene units that started operations. We are also hopeful that debt levels won't accelerate further from current INR 800bn over limited forward capex plans. On the valuation front, we estimate Revenue and PAT to grow at ~16% and ~19% CAGR for FY19- FY21E respectively by valuing the company based on 4.2x EV/EBITDA multiple for FY21 and assign a buy rating on the stock with target price of INR 142.

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook

Positive

Stock

CMP (INR)	120
Target Price (INR)	142
NSE Symbol	IOC
Bloomberg	IOCL IN
Reuters	IOC.BO

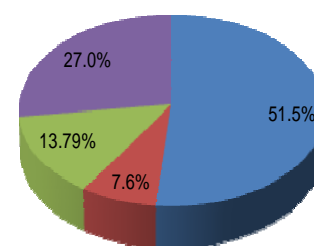
Key Data

Nifty	
52WeekH/L(INR)	170/112
O/s Shares (Mn)	9414.6
Market Cap (INR bn)	1124
Face Value (INR)	10

Average volume

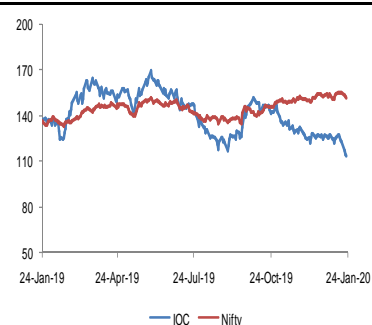
3 months	82,99,330
6 months	1,28,27,110
1 year	1,32,23,320

Share Holding Pattern (%)



■ Promoters ■ FII ■ DII ■ Others

Relative Price Chart



Weekly Wealth

Key Financials

YE March (INR mn)	FY17	FY18	FY19	FY20E	FY21E
Revenue	3,555,862	4,214,918	5,281,489	5,814,920	7,065,127
<i>Revenue Growth (Y-o-Y)</i>	<i>(5.6%)</i>	<i>18.5%</i>	<i>25.3%</i>	<i>10.1%</i>	<i>21.5%</i>
EBIDTA	340,643	416,580	352,601	337,265	536,950
<i>EBIDTA Growth (Y-o-Y)</i>	<i>1.5%</i>	<i>22.3%</i>	<i>(15.4%)</i>	<i>(4.3%)</i>	<i>59.2%</i>
Net Profit	198,495	221,895	173,767	133,743	247,279
<i>Net Profit Growth (Y-o-Y)</i>	<i>5.9%</i>	<i>11.8%</i>	<i>(21.7%)</i>	<i>(23.0%)</i>	<i>84.9%</i>
Diluted EPS	21.1	23.6	18.5	14.2	26.3
<i>Diluted EPS Growth (Y-o-Y)</i>	<i>5.9%</i>	<i>11.8%</i>	<i>(21.7%)</i>	<i>(23.0%)</i>	<i>84.9%</i>

Key Ratios

EBIDTA (%)	9.6%	9.9%	6.7%	5.8%	7.6%
NPM (%)	5.6%	5.3%	3.3%	2.3%	3.5%
RoE (%)	19.4%	19.5%	15.5%	11.4%	18.6%
RoCE (%)	20.6%	23.2%	16.9%	15.8%	23.4%

Valuation Ratios

P/E (x)	5.7x	5.1x	6.5x	8.4x	4.6x
EV/EBITDA	5.2x	4.3x	5.9x	6.2x	3.9x
P/BV (x)	1.1x	1.0x	1.0x	1.0x	0.8x
Market Cap. / Sales (x)	0.3x	0.3x	0.2x	0.2x	0.2x

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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