

Indian Oil Corporation

ADD

High inventory gains spike earnings!

We maintain ADD on IOC with a target price of INR 83, owing to an expected recovery in demand for petroleum products and subsequently, refining margins in 2HFY21. Reported EBITDA/APAT were 97/366% above estimates owing to better-than-anticipated inventory gains, and lower-than-anticipated finance cost, offset by a lower GRM of USD -0.8/bbl (HSIE: USD 2/bbl). Refining and marketing business' inventory gains were INR 73bn and INR 0.8bn. Adjusting for inventory gains and forex gain, core EBITDA comes to INR 14bn (-77/-84% YoY/QoQ).

- Refining:** Crude throughput in 2Q stood at 14mmt (-20/+9% YoY and QoQ). Lower utilisation across refineries given the lower demand amid the lockdown led to lower throughput. Core GRM stood at USD -0.8/bbl vs USD 2.9/4.3 in 2QFY20/1QFY21. Core GRMs declined sequentially with fall in naphtha, gas oil, gasoline and jet kero-cracks.
- Marketing:** Domestic marketing sales volume was 17.2mmt (-20% YoY). India's petroleum product consumption contracted by 11% YoY, thus demonstrating that IOCL lost market share on an annual basis. Blended gross margin stood at INR 5/lit (+10/-21% YoY/QoQ) in 2Q, but these do not seem sustainable in the near term. We expect a blended gross margin to correct to INR ~3.8 in FY21/22E.
- Call takeaways:** (1) Utilisation in October for refinery/petchem stood at 95/85%. Polypropylene plant at Paradip is operating at 65% capacity. (2) Capex planned by IOCL for FY21 is of INR 210bn along with INR 45bn for its subsidiaries and JVs. In 1HFY21, the company has spent INR 75bn. Capex earmarked for refinery/marketing/pipeline/petchem business is of INR 40/55/14/20bn. There is increased thrust from the GoI to increase Capex. (3) In 1HFY21, IOCL commissioned 994 retail outlets, and the target is set at 2,400 new retail outlets for FY21. (4) IOCL maintains refinery crude inventory of 8-9mmt and product inventory of 6-7mmt.
- Our SOTP target comes to INR 83/sh (5.0x Sept-22E EV/e for standalone refining, marketing and petchem businesses and 5.5x Sept-22E EV/e for pipeline business and INR 25/sh for other investments). The stock is currently trading at 7x on FY22E EPS.**

Standalone financial summary

YE March (INR bn)	2Q FY21	1Q FY21	QoQ (%)	2Q FY20	YoY (%)	FY19*	FY20*	FY21E*	FY22E*
Revenues	856	624	37.2	1,117	(23.3)	5,282	4,844	3,305	3,736
EBITDA	94	55	71.0	36	163.9	352	168	199	254
APAT	62	19	225.9	6	1,005.3	174	(159)	10	102
AEPS (Rs)	6.8	2.1	225.9	0.6	NA	18.9	(5.0)	12.3	11.1
P/E (x)						4.1	(15.7)	6.3	7.0
EV/EBITDA (x)						4.4	11.1	9.0	7.2
RoE (%)						15.4	(15.3)	1.0	9.5

Source: Company, HSIE Research | *Consolidated

CMP (as on 2 Nov 2020)	INR 78
Target Price	INR 83
NIFTY	11,669

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 83	INR 83
EPS %	FY21E	FY22E
	-	-

KEY STOCK DATA

Bloomberg code	IOCL IN
No. of Shares (mn)	9,414
MCap (Rs bn) / (\$ mn)	736/9,894
6m avg traded value (Rs mn)	1,897
52 Week high / low	Rs 143/71

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(11.6)	(7.1)	(45.2)
Relative (%)	(17.3)	(25.0)	(44.2)

SHAREHOLDING PATTERN (%)

	Jun-20	Sept-20
Promoters	51.50	51.50
FIs & Local MFs	13.97	13.48
FPIs	6.33	6.07
Public & Others	28.20	28.95
Pledged Shares	0.00	0.00

Source : BSE

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