

November 1, 2021

## Q2FY22 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
<b>Rating</b>	BUY		UNDER REVIEW	
<b>Target Price</b>	205		-	
Sales (Rs. m)	6,018,517	6,298,543	6,011,288	6,327,338
% Chng.	0.1	(0.5)		
EBITDA (Rs. m)	449,550	473,383	367,772	383,539
% Chng.	22.2	23.4		
EPS (Rs.)	24.5	25.3	18.0	18.2
% Chng.	36.2	39.3		

### Key Financials - Standalone

Y/e Mar	FY21	FY22E	FY23E	FY24E
Sales (Rs. bn)	3,639	5,371	6,019	6,299
EBITDA (Rs. bn)	406	445	450	473
Margin (%)	11.2	8.3	7.5	7.5
PAT (Rs. bn)	194	221	225	232
EPS (Rs.)	21.1	24.0	24.5	25.3
Gr. (%)	189.3	13.9	1.9	3.4
DPS (Rs.)	12.0	12.0	12.2	12.6
Yield (%)	9.1	9.1	9.3	9.6
RoE (%)	18.7	18.6	17.0	15.8
RoCE (%)	13.4	14.1	13.2	12.5
EV/Sales (x)	0.6	0.4	0.3	0.3
EV/EBITDA (x)	5.4	4.5	4.6	4.4
PE (x)	6.2	5.5	5.4	5.2
P/BV (x)	1.1	1.0	0.9	0.8

### Key Data

IOC.BO | IOCL IN

52-W High / Low	Rs.140 / Rs.77
Sensex / Nifty	60,138 / 17,930
Market Cap	Rs.1,238bn/ \$ 16,534m
Shares Outstanding	9,414m
3M Avg. Daily Value	Rs.2967.47m

### Shareholding Pattern (%)

Promoter's	51.50
Foreign	7.21
Domestic Institution	4.57
Public & Others	36.72
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	3.2	44.7	65.3
Relative	0.9	17.4	8.9

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## Improving business outlook led by refining

### Quick Pointers:

- Recovery in refining profits drive Q2 earnings. Refining profitability to improve in Q3 as fuel prices soar; Singapore GRMs at over USD7/bbl v/s USD3.8 in Q2.
- IOC's diversified business well placed to benefit from sector uptick.

**We increase IOCL's earnings estimate for FY22-24E by 36-39% to factor in higher GRMs led by 1) pickup in global economic activity and 2) gas to oil shift due to high prices and increase in petrochemical margins. IOCL reported higher than expected Q2 results with standalone EBITDA of Rs106.2bn (-4%QoQ; PLe Rs 81.7bn) and PAT of Rs63.6bn (+7%QoQ; PLe Rs43.9bn), led by higher than expected refining profitability. Time lag adjusted GRMs improved to USD4.8/bbl (Q1 \$2.2). OMCs are well placed to benefit from global pickup in economic activity post pandemic as their refining and marketing earnings are expected to improve. We had put our ratings 'Under Review' post sharp rise in stock prices, but we like the business and rate 'BUY' at a PT of Rs205.**

- Refining margins recover smartly:** IOCL's refining margins for Q2 came in at US\$6.6/bbl (Q1FY22 at US\$6.6/bbl; PLe USD4.8/bbl) and adjusted for inventory and time lag, management expects normalized GRMs at US\$4.8/bbl (Q1 US\$2.2/bbl). Refinery opex came in higher at \$4.1/bbl (USD3.8 in Q1 due to higher gas cost). For Q2, refining throughput came down to 15.3MTPA (16.7 in Q1).
- For Q2, benchmark HSD and MS margins were higher at USD9.7/bbl (Q1: 8.0) and USD8.1/bbl (USD6.9) respectively. We expect GRMs to improve as global economic activity picks up with rising vaccination drive and accordingly increase our estimates to USD6.0/6.0/bbl (USD3.4/3.6/bbl for FY22/23E).
- Marketing profitability remain steady:** IOCL's Q2 marketing EBITDA was at Rs53.7bn against Rs54.2bn in Q1FY22. IOCL's marketing volumes came in lower vis-à-vis the industry for HSD was at 7.3MTA (2 yr CAGR -5.9% vs industry rate of -4.2%) while for MS it was at 3.13MTPA (2 yr CAGR 1.7% vs industry rate of 3%).
- Petrochemicals and pipeline performance came down QoQ:** For Q2, petrochemicals EBITDA came down to Rs18.1bn against Rs19.9bn in Q1 due to lower spreads of USD258/ton vs Q1 levels of USD325/ton. Pipeline EBITDA came in at Rs14.5bn (-8% QoQ) due to lower thruput of 19.5MMT (-1.7%Q/Q).
- Reiterate BUY:** We maintain BUY on IOCL with a PT of Rs205 as we value based on 8x PER core EPS FY23E and add the value of investments at Rs9/sh.

**Exhibit 1: Q2FY22 Result Overview (Rs mn) - Standalone**

Y/e March	Q2FY22	Q2FY21	YoY gr. (%)	Q1FY22	H1FY22	H1FY21	YoY gr. (%)
<b>Net sales</b>	<b>1,697,708</b>	<b>1,157,494</b>	<b>46.7</b>	<b>1,550,563</b>	<b>3,248,270</b>	<b>2,046,860</b>	<b>58.7</b>
Inc/dec in stock	(16,403)	16,369	(200.2)	(51,228)	(67,631)	23,301	(390.3)
Purchases	499,915	314,583	58.9	393,221	893,136	542,634	64.6
Raw material cons	641,099	322,283	98.9	623,603	1,264,702	563,634	124.4
Duties	343,530	301,389	14.0	363,858	707,388	566,789	24.8
Staff cost	26,819	24,904	7.7	24,278	51,096	46,944	8.8
Other expenditure	96,466	83,696	15.3	85,572	182,038	154,163	18.1
Exp	(1,591,427)	(1,063,223)	49.7	(1,439,302)	(3,030,729)	(1,897,465)	59.7
<b>Operating profit</b>	<b>106,281</b>	<b>94,272</b>	<b>12.7</b>	<b>111,261</b>	<b>217,542</b>	<b>149,394</b>	<b>45.6</b>
Interest	(9,857)	(2,211)	345.8	(12,570)	(22,427)	(13,924)	61.1
Depreciation	(27,058)	(24,036)	12.6	(26,342)	(53,399)	(47,582)	12.2
Other income	14,337	15,374	(6.7)	5,636	19,973	21,796	(8.4)
<b>Profit before tax</b>	<b>83,703</b>	<b>83,398</b>	<b>0.4</b>	<b>77,985</b>	<b>161,688</b>	<b>109,684</b>	<b>47.4</b>
Current tax	(19,913)	(8,115)	145.4	(13,216)	(33,129)	(8,115)	308.3
<b>Profit after current tax</b>	<b>63,790</b>	<b>75,284</b>	<b>(15.3)</b>	<b>64,769</b>	<b>128,559</b>	<b>101,570</b>	<b>26.6</b>
Deferred tax	(190)	(13,011)	(98.5)	(5,355)	(5,545)	(20,188)	(72.5)
<b>Net profit</b>	<b>63,600</b>	<b>62,273</b>	<b>2.1</b>	<b>59,414</b>	<b>123,014</b>	<b>81,382</b>	<b>51.2</b>

Source: Company, PL

**Exhibit 2: Core EBIDTA not comparable due to non-disclosure of inventor gains**

	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
EBIDTA	35,722	66,503	2,122	55,123	94,272	96,219	1,46,972	1,11,261	106,281
Less Forex adj	(11,351)	(1,820)	(27,200)	810	6,720	3,699	315	(5,900)	1,700
Less Inventory gains/loss	(11,780)	18,040	(71,704)	(31,960)	74,000	26,300	75,955	39,252	
Less others									
<b>Core EBIDTA</b>	<b>58,854</b>	<b>50,283</b>	<b>1,01,026</b>	<b>86,273</b>	<b>13,552</b>	<b>66,220</b>	<b>70,702</b>	<b>77,909</b>	<b>104,781</b>

Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
<b>Net Revenues</b>	<b>3,639,497</b>	<b>5,370,677</b>	<b>6,018,517</b>	<b>6,298,543</b>
YoY gr. (%)	(24.9)	47.6	12.1	4.7
Cost of Goods Sold	2,816,405	4,418,972	5,024,888	5,259,351
Gross Profit	823,092	951,705	993,629	1,039,192
Margin (%)	22.6	17.7	16.5	16.5
Employee Cost	-	-	-	-
Other Expenses	417,242	507,147	544,079	565,809
<b>EBITDA</b>	<b>405,850</b>	<b>444,558</b>	<b>449,550</b>	<b>473,383</b>
YoY gr. (%)	147.4	9.5	1.1	5.3
Margin (%)	11.2	8.3	7.5	7.5
Depreciation and Amortization	109,415	118,773	116,725	130,035
<b>EBIT</b>	<b>296,436</b>	<b>325,785</b>	<b>332,825</b>	<b>343,348</b>
Margin (%)	8.1	6.1	5.5	5.5
Net Interest	35,891	58,225	62,975	66,475
Other Income	34,995	37,761	41,211	44,197
<b>Profit Before Tax</b>	<b>295,540</b>	<b>305,320</b>	<b>311,060</b>	<b>321,070</b>
Margin (%)	8.1	5.7	5.2	5.1
Total Tax	89,885	82,695	84,244	86,951
Effective tax rate (%)	30.4	27.1	27.1	27.1
<b>Profit after tax</b>	<b>205,655</b>	<b>222,626</b>	<b>226,816</b>	<b>234,119</b>
Minority interest	11,967	2,048	2,047	1,775
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>193,688</b>	<b>220,578</b>	<b>224,769</b>	<b>232,345</b>
YoY gr. (%)	189.3	13.9	1.9	3.4
Margin (%)	5.3	4.1	3.7	3.7
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>193,688</b>	<b>220,578</b>	<b>224,769</b>	<b>232,345</b>
YoY gr. (%)	189.3	13.9	1.9	3.4
Margin (%)	5.3	4.1	3.7	3.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	193,688	220,578	224,769	232,345
<b>Equity Shares O/s (m)</b>	<b>9,181</b>	<b>9,181</b>	<b>9,181</b>	<b>9,181</b>
<b>EPS (Rs)</b>	<b>21.1</b>	<b>24.0</b>	<b>24.5</b>	<b>25.3</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>2,005,019</b>	<b>2,230,170</b>	<b>2,534,695</b>	<b>2,839,220</b>
Tangibles	2,005,019	2,230,170	2,534,695	2,839,220
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>468,035</b>	<b>564,293</b>	<b>681,018</b>	<b>811,053</b>
Tangibles	468,035	564,293	681,018	811,053
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>1,536,984</b>	<b>1,665,877</b>	<b>1,853,677</b>	<b>2,028,167</b>
Tangibles	1,536,984	1,665,877	1,853,677	2,028,167
Intangibles	-	-	-	-
Capital Work In Progress	396,759	237,266	236,714	236,348
Goodwill	10	27,322	30,054	33,059
Non-Current Investments	400,020	448,600	474,270	502,505
Net Deferred tax assets	(139,645)	(160,772)	(191,436)	(223,174)
Other Non-Current Assets	53,300	58,382	64,220	70,642
<b>Current Assets</b>				
Investments	92,826	88,673	88,673	88,673
Inventories	834,275	908,410	1,034,097	1,087,548
Trade receivables	138,003	223,522	260,830	274,261
Cash & Bank Balance	24,747	273,698	272,469	324,892
Other Current Assets	37,861	38,914	40,859	42,902
<b>Total Assets</b>	<b>3,549,159</b>	<b>4,017,870</b>	<b>4,405,962</b>	<b>4,742,190</b>
<b>Equity</b>				
Equity Share Capital	91,810	91,810	91,810	91,810
Other Equity	1,026,570	1,158,544	1,301,704	1,449,583
<b>Total Networkth</b>	<b>1,118,381</b>	<b>1,250,354</b>	<b>1,393,514</b>	<b>1,541,394</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	609,349	684,259	734,259	784,259
Provisions	15,968	11,061	11,614	12,194
Other non current liabilities	25,834	25,761	25,761	25,761
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	475,800	488,236	508,236	528,236
Trade payables	372,479	563,242	657,361	691,255
Other current liabilities	773,469	810,502	856,116	904,520
<b>Total Equity &amp; Liabilities</b>	<b>3,549,158</b>	<b>4,017,870</b>	<b>4,405,962</b>	<b>4,742,190</b>

Source: Company Data, PL Research



## Cash Flow (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	295,540	305,320	311,060	321,070
Add. Depreciation	109,415	118,773	116,725	130,035
Add. Interest	35,891	58,225	62,975	66,475
Less Financial Other Income	34,995	37,761	41,211	44,197
Add. Other	-	-	-	-
Op. profit before WC changes	440,846	482,318	490,761	517,580
Net Changes-WC	227,549	85,059	(5,328)	33,288
Direct tax	(68,685)	(52,605)	(53,580)	(55,213)
<b>Net cash from Op. activities</b>	<b>599,710</b>	<b>514,772</b>	<b>431,852</b>	<b>495,656</b>
Capital expenditures	(258,877)	(157,293)	(306,706)	(307,164)
Interest / Dividend Income	-	-	-	-
Others	(67,166)	(21,931)	(22,617)	(24,879)
<b>Net Cash from Inv. activities</b>	<b>(326,043)</b>	<b>(179,224)</b>	<b>(329,323)</b>	<b>(332,043)</b>
Issue of share cap. / premium	48,715	(5,998)	1,031	1,035
Debt changes	(174,531)	87,345	70,000	70,000
Dividend paid	(110,172)	(109,718)	(111,814)	(115,749)
Interest paid	(35,891)	(58,225)	(62,975)	(66,475)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(271,880)</b>	<b>(86,596)</b>	<b>(103,759)</b>	<b>(111,189)</b>
<b>Net change in cash</b>	<b>1,787</b>	<b>248,952</b>	<b>(1,230)</b>	<b>52,423</b>
Free Cash Flow	340,833	357,479	125,147	188,491

Source: Company Data, PL Research

## Quarterly Financials (Rs m)

Y/e Mar	Q3FY21	Q4FY21	Q1FY22	Q2FY22
<b>Net Revenue</b>	<b>1,063,365</b>	<b>1,237,140</b>	<b>1,186,705</b>	<b>1,354,178</b>
YoY gr. (%)	(14.7)	4.5	90.2	58.2
Raw Material Expenses	853,706	964,349	965,595	1,124,612
Gross Profit	209,658	272,791	221,110	229,566
Margin (%)	19.7	22.1	18.6	17.0
<b>EBITDA</b>	<b>96,219</b>	<b>146,972</b>	<b>111,261</b>	<b>106,281</b>
YoY gr. (%)	44.7	6,827.1	101.8	12.7
Margin (%)	9.0	11.9	9.4	7.8
Depreciation / Depletion	24,667	37,750	26,342	27,058
<b>EBIT</b>	<b>71,552</b>	<b>109,223</b>	<b>84,919</b>	<b>79,224</b>
Margin (%)	6.7	8.8	7.2	5.9
Net Interest	6,286	10,729	12,570	9,857
Other Income	12,695	11,017	5,636	14,337
<b>Profit before Tax</b>	<b>77,962</b>	<b>109,511</b>	<b>77,985</b>	<b>83,703</b>
Margin (%)	7.3	8.9	6.6	6.2
Total Tax	28,796	21,698	18,571	20,103
Effective tax rate (%)	36.9	19.8	23.8	24.0
<b>Profit after Tax</b>	<b>49,166</b>	<b>87,812</b>	<b>59,414</b>	<b>63,600</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>49,166</b>	<b>87,812</b>	<b>59,414</b>	<b>63,600</b>
YoY gr. (%)	110.2	(269.3)	210.9	2.1
Margin (%)	4.6	7.1	5.0	4.7
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>49,166</b>	<b>87,812</b>	<b>59,414</b>	<b>63,600</b>
YoY gr. (%)	110.2	43.5	210.9	2.1
Margin (%)	4.6	7.1	5.0	4.7
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>49,166</b>	<b>87,812</b>	<b>59,414</b>	<b>63,600</b>
Avg. Shares O/s (m)	9,181	9,181	9,181	9,181
<b>EPS (Rs)</b>	<b>5.4</b>	<b>9.6</b>	<b>6.5</b>	<b>6.9</b>

Source: Company Data, PL Research

## Key Financial Metrics

Y/e Mar	FY21	FY22E	FY23E	FY24E
<b>Per Share(Rs)</b>				
EPS	21.1	24.0	24.5	25.3
CEPS	33.0	37.0	37.2	39.5
BVPS	121.8	136.2	151.8	167.9
FCF	37.1	38.9	13.6	20.5
DPS	12.0	12.0	12.2	12.6
<b>Return Ratio(%)</b>				
RoCE	13.4	14.1	13.2	12.5
ROIC	8.6	8.9	8.2	7.9
RoE	18.7	18.6	17.0	15.8
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.9	0.6	0.6	0.6
Net Working Capital (Days)	60	39	39	39
<b>Valuation(x)</b>				
PER	6.2	5.5	5.4	5.2
P/B	1.1	1.0	0.9	0.8
P/CEPS	33.0	37.0	37.2	39.5
EV/EBITDA	5.4	4.5	4.6	4.4
EV/Sales	0.6	0.4	0.3	0.3
Dividend Yield (%)	9.1	9.1	9.3	9.6

Source: Company Data, PL Research

## Key Operating Metrics

Y/e Mar	FY21	FY22E	FY23E	FY24E
Crude /bbl	45	65	70	70
US\$/Rs	74	77	79	81
GRM (US\$/bbl)	6	6	6	6
Refining volume (MTPA)	62	66	69	71

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	5-Oct-21	UR	-	126
2	2-Aug-21	BUY	135	106
3	2-Jul-21	BUY	135	108
4	20-May-21	BUY	135	105
5	5-Apr-21	BUY	114	91
6	2-Feb-21	BUY	124	96
7	8-Jan-21	BUY	114	95
8	2-Nov-20	BUY	118	78

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Hold	985	1,021
2	Bharat Petroleum Corporation	BUY	589	418
3	Burger King India	BUY	250	168
4	GAIL (India)	BUY	184	149
5	Gujarat Gas	BUY	845	594
6	Hindustan Petroleum Corporation	BUY	404	303
7	Indian Oil Corporation	UR	-	126
8	Indraprastha Gas	BUY	662	528
9	Mahanagar Gas	BUY	1,345	997
10	NOCIL	BUY	393	296
11	Oil & Natural Gas Corporation	UR	-	148
12	Oil India	BUY	328	242
13	Petronet LNG	BUY	351	236
14	Reliance Industries	BUY	2,955	2,627

**PL's Recommendation Nomenclature (Absolute Performance)**

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



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