

IOC Ltd

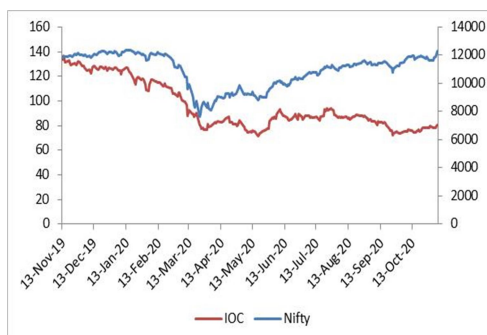
Analyst Recommendation: **BUY**

BSE Code: 530965 NSE: IOC Reuters Code: IOC.NS Bloomberg Code: IOC:IN

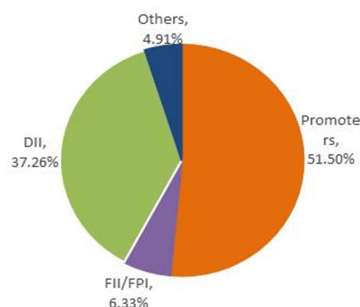
CMP: Rs 80
2 Year Target: Rs 120

Face Value	10.0
Market Cap (Rs cr)	76,113
52 week high/low	140/71
Beta	0.72
Shares O/S (Cr)	951.4
Book Value per Share (Rs)	102.5
Sensex	42,316
Nifty	12,382

1 yr. Price Chart of Stock and Nifty



Shareholding pattern as on 30th Sep 2020.



Investor's Rationale

➤ Growing Reported 2QFY21 standalone EBITDA up 163.9% YoY.

This was driven by massive swing from loss of Rs20.3bn in 2QFY20 to a profit of Rs40.77bn in refining, 56.5% YoY rise in petchem and 8x growth in 'others' segment. These gains offset 5.4% fall in marketing segment to Rs36.06bn and 18% fall in pipeline EBITAA to Rs12.92bn as pipeline volume fell 20.3%. Marketing EBITDA was down due to 14.7% decline in sales volume, slightly offset by higher unit margins, especially on MS/HSD. Petchem EBITDA margin was up 420bps at 27%. IOC's overall EBITDA margin improved by 781bps to 11.01%. This was the result of improved refining/petchem EBITDA and higher unit marketing margins on lower realisations, driven by the 30.5% crash in Brent YoY that continues to weigh down on revenues.

➤ Gross standalone debt declined

Gross standalone debt declined from Rs1.16trn in Mar'20 to Rs915bn in Sept'20 due to lower working capital needs and reduced cooking fuel subsidy dues - down from Rs110bn to Rs91.6bn. Capex aimed at supply chain gains and future growth: The management did not see any risk to its Rs260bn capex plan for FY21 and assured investors that these investments have been vetted for their viability on threshold return benchmarked to WACC of 11%. IOC aims to invest in refining, marketing and petchem projects based on attractive long-term domestic estimates. This includes expansion of retail outlets. On buy back, the company was undecided and said that a decision on this will be taken as per government's mandate.

We value the stock for target price of Rs.120 (5.5x FY22E EPS) representing an upside of 50% from CMP of Rs 80.

	FY19	FY20	FY21E	FY22E
Revenue (Rs.Cr)	5,28,148.9	4,84,262.3	3,66,814.8	4,96,088.9
EBITDA (Rs. cr)	35,222.7	16,404.9	35,494.2	46,049.8
Adj. profit (Rs.Cr)	17,376.7	10,410.9	14,114.2	20,144.0
Adj. EPS (Rs.)	18.9	11.3	15.4	21.9
P/E (x)	4.1	6.9	5.1	3.6
EV/Net Sales	0.4	0.4	0.5	0.4
EV/EBITDA (x)	5.4	11.6	5.4	4.2
ROE (%)	15.4%	10.9%	13.8%	17.5%
ROCE (%)	18.0%	5.5%	16.0%	20.9%

Conference Call Highlights

2QFY21 results were supported by high inventory gains of Rs74bn mostly in refining. Petchem business also saw growth in EBITA by more than 60% to Rs12.1bn based on higher volumes from PX-PTA unit currently running at 85%.

The volumes from Paradip PP may also have aided petchem volume growth as these plants were facing teething issues in 2QFY20 under start-up. PP units were running at 65% in October. Petroleum business volumes were mixed - refining improved to 81% in September after dipping to 67% in August from the July high of 90%.

Marketing has seen MoM increase in volumes towards pre-Covid levels and both petrol and HSD have seen YoY growth of 4%/2% in October. Volume trends in 2QFY21 YOY: refining/marketing/pipeline at 25.2%/27.2%/31.5%. Petchem volumes improving based on 100% operations in cracker and increase in PX-PTA and PP. Positive on long term petroleum demand in India. Not looking at a buy back as of now

Refining capacity utilisation stood at 81% by end-September and increased to 95% in Oct'20. 2QFY21 operating details YoY: Refining utilisation at 79.5% at 14mn tonnes vs 17.5mn tonnes a year ago. The management is optimistic about full utilisation with the current strength in demand in all products, except ATF. Distillate yield at 79.6%/9.7%, fuel and loss 10.2%/8.9% and sour crude at 49.1%/51.3%

PetChem and Capex Commentary

Petchem volumes up 54.8% from 0.465mn tonne to 0.72mn tonne - segment EBITDA up 56.5% at Rs12.1bn. Panipat cracker and Gujarat LAB plants at 100%. Panipat PX-PTA at 80-85% in October Paradip PP plants operating at 65% of capacity in October (640,000 tpa capacity) Polymer delta down 7% YoY PX-PTA spread weak at US\$75 vs US\$227 a year ago MEG spread down 41% QoQ and up 41% YoY . Capex maintained at Rs260bn in FY21; 1HFY21 spend at Rs75bn.

Refining - Rs40bn, pipelines - Rs45bn, marketing - Rs50bn, petchem - Rs20bn, JVs and E&P - Rs50bn ~ includes Rs10bn on gas and Rs5bn on EVs and rest on other projects. The company confirmed that it will go ahead with its above capex. In 1QFY21 call, IOC had said that the long-term investments in marketing and pipelines of nearly Rs100bn will yield savings in logistics and supply chain costs. (US\$4/bbl on aggregate volumes across refining, marketing and pipeline divisions). Every US\$0.1/bbl saving on normal volumes of 1.75bn bbls amounts to US\$175mn

Threshold Returns and Buyback

IOC evaluates projects to earn at least 11% to match its WACC. On government mandating higher capex, the company is only happy to step up the effort if it gets support in expediting approvals. Overall, the company will only take up projects if it is supported by domestic demand and meets its threshold.

On Maharashtra mega refinery project – the land acquisition remains an issue. Other factors that could decide this project include:

- Aramco/ADNOC support
- BPCL divestment.

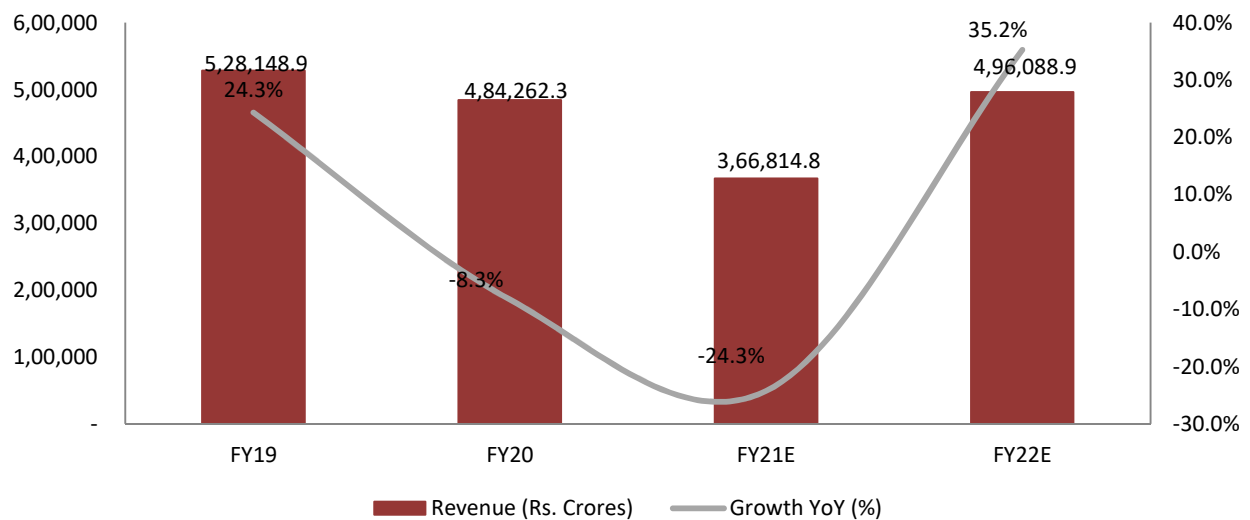
There were many queries on the merits of investments on capex vs a buyback as a capital allocation strategy. The company was caught off guard and gave defensive response saying that it will look into this as per government directions. To be fair to the management, IOC did share that its past experience with buyback was not a good one and hence it is not convinced about its merits.

Return ratios to show growth in future

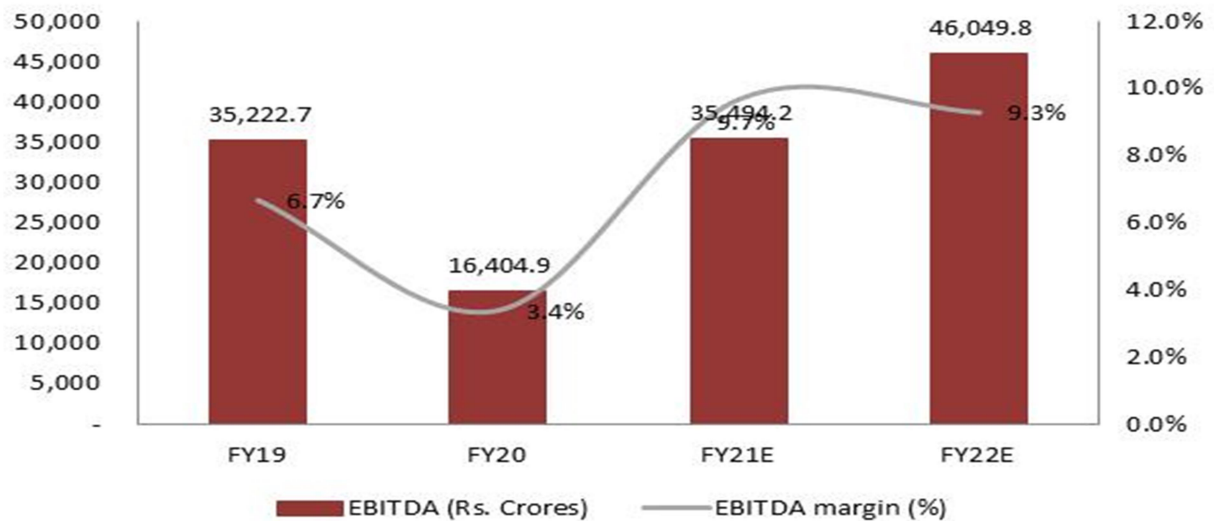
We expect return ratios to grow over future with and slowly climb towards return ratios for FY 2019.



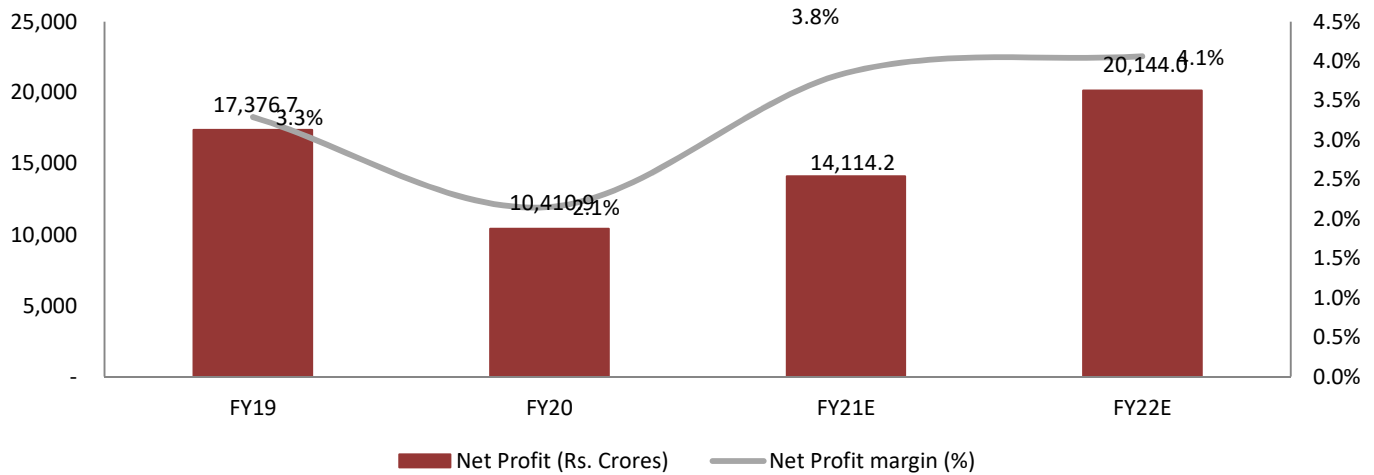
Revenue growth will be back at historical levels from FY22



EBITDA will show a substantial increase



Net profit margins to improve over next 2 years



Outlook and Valuation

We value the stock for target price of Rs.120 (5.5x FY22E EPS) representing an upside of 50% from CMP of Rs 80.

IOC Ltd- Company Overview

Indian Oil Corporation Limited (IOCL), d/b/a IndianOil is an Indian public sector oil and gas company headquartered in New Delhi. It is the largest commercial oil company in the country. It is ranked 1st in Fortune India 500 list for year 2016[6] and 117th in Fortune Global 500 list of world's largest companies in the year 2019. It is India's largest downstream oil company, with a workforce of more than 33,000 employees,

IndianOil's business interests overlap the entire hydrocarbon value-chain, including refining, pipeline transportation, marketing of petroleum products, exploration and production of crude oil, natural gas and petrochemicals.

Key Risks

- Volatility in GRMs and currency
- Lower-than-expected volume in all segments
- Govt. policy on higher dividend payout, buying out government stake in other PSUs
- Increase in competition in MS and HSD retailing and from other fuel substitutes
- Requirement to fund CPCL for refinancing its debt and working capital if refining margins fall below estimates. In the near term, there is the risk of inventory impact hurting the company as Brent price appears to have touched an interim peak and has come off 3% overnight on worries over excess supply amid weak demand.



Balance sheet (Consolidated)

(Rs crore)	FY19	FY20	FY21E	FY22E
Liabilities				
Paid up capital	9181	9181	9181	9181
Reserves and Surplus	103288	86217	93445	106244
Net worth	112469	95398	102626	115425
Minority interest	1,877.40	876.30	1,128.40	1,586.90
Total Debt	60,090	71,909	69,437	63,812
Other non- current liabilities				
Total Liabilities	174436	168183	173192	180825
Assets				
Total fixed assets	160775	179867	190112	201370
Investments JV/Assoc	11,893.40	13,572.20	13,572.20	13,572.20
Goodwill				
Investments	23,617.40	13,707.50	13,707.50	13,707.50
Inventory	-	-	-	-
Net Current Assets	-30943	-50929	-56166	-59791
Other non- current assets	9,094	11,966	11,966	11,966
Total Assets	174436	168183	173192	180825

Profit & Loss Account (Consolidated)

(Rs crore)	FY19	FY20	FY21E	FY22E
Total operating Income				
	528149	484262	366815	496089
Operating Expenses	492926	467857	331321	450039
EBITDA	35223	16405	35494	46050
Depreciation	8507	9855	10859	12213
EBIT	26716	6550	24635	33837
Interest cost	4888	6579	7898	8289
Other Income & Extraordinary Items	2714	2790	2591	2864
Profit before tax	24543	2762	19329	28413
Tax	8653	-5300	6379	9376
Profit after tax	15889	8062	12950	19036
Minority Interests	102.90	983.20	-252.10	-458.50
P/L from Associates	1,384.40	1,366.10	1,416.10	1,566.10
Adjusted PAT	17377	10411	14114	20144



Equity Research

Cash Flow (Consolidated)

Y.E March (Rs crore)	FY19	FY20	FY21E	FY22E
Pretax profit	24543	2762	19329	28413
Depreciation	8507	10275	10859	12213
Chg in Working Capital	15058	-4938	-5465	6136
Others	-39546	-1887	3480	-25600
Tax paid	5571	2151	6379	9376
Cash flow from operating activities	14133	8362	34581	30538
Capex	-26881	-31427	-21105	-23471
Other Investment (Net of Exp)	2926	2330	4008	4431
Cash flow from investing activities	-9822	-20735	17484	11497
Other Exp	-8861	-5905	-7898	-8289
Inc/Dec in Borrowings	30976	32653	3670	9375
Dividend(incl Tax)	-11679	-5803	-6886	-7345
Cash flow from financing activities	615	210	6371	5239
Net chg in cash	4926	-12162	58436	47274

Key Ratios & Valuations (Consolidated)

Y.E March (Rs crore)	FY19	FY20	FY21E	FY22E
Working Capital Ratios				
Receivable Days	9.20	10.90	10.00	10.00
Inventory Days	61.00	63.00	62.00	60.00
Payable Days	27.00	26.00	29.00	29.00
Margin (%)				
EBITDA	6.7%	3.4%	9.7%	9.3%
NPM	3.3%	2.1%	3.8%	4.1%
Return Ratios (%)				
RoE	15.4%	10.9%	13.8%	17.5%
RoCE	18.0%	5.5%	16.0%	20.9%
Valuation(x)				
P/E	4.1	6.9	5.1	3.6
EV/EBITDA	5.4	11.6	5.4	4.2
EV/Net Sales	0.4	0.4	0.5	0.4
Per share data (Rs.)				
EPS	18.9	11.3	15.4	21.9



Equity Research

Large Cap.	Return	Mid/Small Cap.	Return
Buy	More than equal to 10%	Buy	More than equal to 15%
Hold	Between 10% & -5%	Accumulate*	Upside between 10% & 15%
Reduce	Less than -5%	Hold	Between 0% & 10%
		Reduce/sell	Less than 0%

* To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.



Member: BSE, NSE, MCX, MCX-SX, CDSL

Reg. office: PG-4, Rotunda Bldg, Bombay Samachar Marg, Fort, Mumbai - 400001, Maharashtra, India

Corp Office: 24/26 Cama Bldg, 3rd Floor, Dalal Street, Fort Mumbai - 400001, Maharashtra India

Tel: 91-22-67378001 **Fax:** 91-22-22646410

Dealing: 91-22-67378011 **Institutional Dealing:** 91-22-6737833

Email: research@mjpgdirect.com **Website:** www.mjpgdirect.com

Registration Number: SEBI- INZ000218338

Disclaimer:

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment. M J Patel Share & Stock Brokers Ltd. its affiliates, directors, its proprietary trading and investment businesses may, from time to time, make investment decisions that are inconsistent with or contradictory to the recommendations expressed herein. The views contained in this document are those of the analyst, and the company may or may not subscribe to all the views expressed within. Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals. The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. M J Patel Share & Stock Brokers Ltd. or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. M J Patel Share & Stock Brokers Ltd. has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While M J Patel Share & Stock Brokers Ltd. endeavours to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly. M J Patel Share & Stock Brokers Ltd. and its affiliates may seek to provide or have engaged in providing corporate finance, investment banking or other advisory services in a merger or specific transaction to the companies referred to in this report, as on the date of this report or in the past.

This document disclaims any warranty of any kind imputed by the laws of any jurisdiction, whether express or implied, as to any matter what so ever relating to the service, including without limitation the implied warranties of merchantability, fitness for a particular purpose and non-infringement. Any disputes are subject to the jurisdiction only of the Courts of Republic of India at Mumbai.

M J Patel Share & Stock Brokers Ltd shall not be liable for any misrepresentation, falsification and deception or for any lack of availability of services through website even if the same is advertised on the website.

Neither M J Patel Share & Stock Brokers Ltd. nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.