

31 July 2024

Indian Oil Corporation

Results ahead of estimates; maintaining a Hold

Despite the loss on domestic LPG, Indian Oil's Q1 results exceeded estimates. We expect full compensation from the government for domestic LPG, a controlled product. Calculated core EBIDTA adjusted for inventory and LPG loss rose 103% q/q to Rs169.2bn. We expect range-bound crude oil prices (\$80-90/bbl) to benefit OMCs with steady refining and marketing margins. We maintain our estimates and Hold rating, with a higher 12-mth TP of Rs199 (Rs173 earlier), 6x EV/EBITDA FY26e (5.5x).

LPG losses slash earnings. Q1 EBITDA/PAT fell 17/45% q/q to Rs86.3bn/Rs26.4bn. (ARe: Rs56.5bn/Rs15bn). The GRM was \$6.4/bbl (\$8.4 the quarter prior vs. our \$5.4 estimate) and core GRM adjusted for inventory loss was \$2.8/bbl (Q4: \$10.5). In Q1, the company factored in a Rs51.6bn loss in sales of domestic LPG, a controlled product with pricing set by the government; we expect the losses to be reimbursed.

Strong core earnings: We calculate core Q1 EBIDTA adj. for forex, inventory and LPG losses at Rs169.2bn vs. Rs83.4bn in Q4. Refinery throughput was 18.2m tonnes vs. 18.3m the quarter prior. Debt was Rs1.1trn, flat q/q, but y/y up 18%.

Domestic marketing throughput at 24m tonnes, up 13% y/y. The company's diesel sales were 9.7m tpa (down 6% y/y). We calculate marketing EBIDTA at Rs32.2bn, lower q/q due to loss on LPG sale. The petchem EBIT loss was Rs119m vs. Rs4bn loss in Q4. End-Q4 debt was Rs1.1trn, down 12% y/y, but q/q up 12%.

Outlook, valuation. We maintain a Hold, with a higher TP of Rs199 on a sum-of-parts basis, as we value the core business at 6x FY26e EV/ EBITDA (5.5x earlier), given the high earnings volatility. Our pecking order is BPC, HPC, IOC.

Risks: Lower GRMs, change in crude prices and inventory losses, adverse government policy: subsidy-sharing, weak marketing margin, poor petchem spreads.

Key financials (YE Mar)	FY22	FY23	FY24	FY25e	FY26e
Sales (Rs bn)	5,893	8,418	8,223	7,132	6,954
EBITDA (Rs bn)	477	307	1,652	550	524
Net profit (Rs bn)	233	100	1,327	290	266
EPS (Rs)	25.3	7.2	96.3	21.0	19.3
PE (x)	14.2	25.3	1.9	8.7	9.5
EV / EBITDA (x)	12.3	11.9	1.8	4.6	4.5
P/BV (x)	3.7	1.8	1.4	1.3	1.1
RoE (%)	19.0	7.3	83.2	15.2	12.6
RoCE (%)	10.8	5.6	44.2	10.3	9.1
Dividend yield (%)	6.9	1.6	6.3	4.5	4.1
Net debt / equity (x)	0.7	0.8	0.3	0.0	-0.1

Source: Company, Anand Rathi Research

Rating: **Hold**

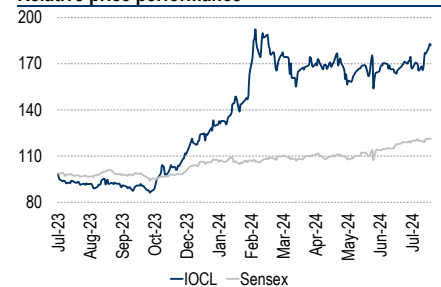
Target Price (12-mth): Rs199

Share Price: Rs183

Key data	IOCL IN / IOC.BO
52-week high / low	Rs197 / 86
Sensex / Nifty	81618 / 24913
3-m average volume	\$61.8m
Market cap	Rs2569bn / \$30681m
Shares outstanding	14121m

Shareholding pattern (%)	Jun-24	Mar-24	Dec-23
Promoters	51.50	51.50	51.50
- of which, Pledged	-	-	-
Free float	48.50	48.50	48.50
- Foreign institutions	7.79	8.50	8.85
- Domestic institutions	10.15	10.33	10.04
- Public	30.56	29.68	29.62

Relative price performance



Source: Bloomberg

Avishek Datta
Research Analyst

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs bn)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Net revenues	5,893.4	8,417.6	8,223.2	7,132.1	6,954.3
Growth (%)	61.9	42.8	-2.3	-13.3	-2.5
Direct costs	5,006.6	7,476.4	6,893.3	5,940.8	5,764.6
SG&A	409.3	634.2	-322.3	640.9	665.9
EBITDA	477	307	1,652	550	524
EBITDA margins (%)	8.1	3.6	20.1	7.7	7.5
- Depreciation	123.5	131.8	151.7	144.3	153.4
Other income	30.8	42.0	48.8	64.2	69.4
Interest expenses	54.2	75.4	80.7	61.9	64.0
PBT	330.5	141.8	1,468.7	408.6	375.7
Effective tax rates (%)	25.9	23.5	9.1	27.0	27.0
+ Associates / (Minorities)					
Net income	232.6	99.8	1,326.8	289.9	265.9
Adjusted income	232.6	99.8	1,326.8	289.9	265.9
WANS	9.2	13.8	13.8	13.8	13.8
FDEPS (Rs)	25.3	7.2	96.3	21.0	19.3

Fig 3 – Cash-flow statement (Rs bn)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
PBT (adj. OI and interest)	354	175	1,501	406	370
+ Non-cash items	123	132	152	144	153
Oper. prof. before WC	477	307	1,652	550	524
- Incr. / (decr.) in WC	97	68	-266	-195	-89
Others incl. taxes					
Operating cash-flow	380	239	1,918	745	613
- Capex (tang. + intang.)	270	364	322	76	308
Free cash-flow	110	-125	1,596	669	305
Acquisitions					
- Div.(incl. buyback & taxes)	116	41	158	113	103
+ Equity raised	-	46	-	-	-
+ Debt raised	154	170	-233	-150	30
- Fin investments	152	-44	572	128	141
- Misc. (CFI + CFF)	(83)	57	793	(50)	(50)
Net cash-flow	79	37	-160	328	141

Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 2 – Balance sheet (Rs bn)

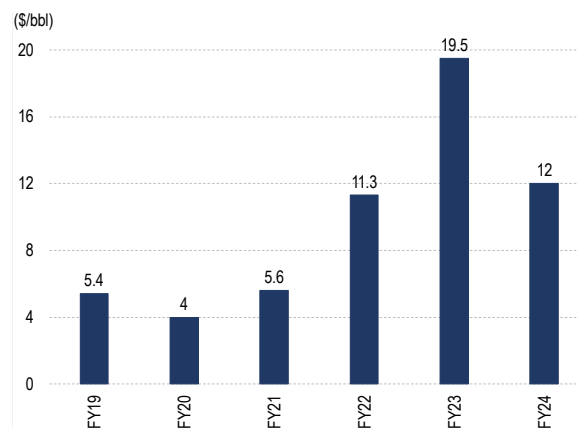
Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Share capital	91.8	91.8	137.7	137.7	137.7
Net worth	1,118.4	1,335	1,397	1,834	2,006
Debt	1,166	1,320	1,490	1,235	1,107
Minority interest	9.8	16	35	47	57
DTL / (Assets)	147.7	160	168	190	211
Capital employed	2,442	2,831	3,090	3,306	3,381
Net tangible assets	1,537	1,967	1,788	1,879	1,793
Net intangible assets	-	-	71	76	22
Goodwill	-	-	-	-	36
CWIP (tang. & intang.)	396.8	508	476	573	342
Investments (strategic)	354	443	237	371	680
Investments (financial)	297	360	104	104	100
Current assets (excl. cash)	1,446.3	1,450	1,667	1,670	1,408
Cash	24.7	18	21	32	325
Current liabilities	1,613.7	1,915	1,275	1,397	1,326
Working capital	-167	-465	393	273	82
Capital deployed	2,443	2,832	3,090	3,306	3,381
Contingent liabilities	-	-	-	-	-

Fig 4 – Ratio analysis

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
P/E (x)	14.2	25.3	1.9	8.7	9.5
EV / EBITDA (x)	12.3	11.9	1.8	4.6	4.5
EV / Sales (x)	1.0	0.4	0.4	0.4	0.3
P/B (x)	3.7	1.8	1.4	1.3	1.1
RoE (%)	19.0	7.3	83.2	15.2	12.6
RoCE (%) - after tax	10.8	5.6	44.2	10.3	9.1
ANDA filings					
DPS (Rs)	12.6	3.0	11.5	8.2	7.5
Dividend yield (%)	6.9	1.6	6.3	4.5	4.1
Dividend payout (%) - incl. DDT	49.7	41.4	11.9	38.9	38.8
Net debt / equity (x)	0.7	0.8	0.3	0.0	-0.1
Receivables (days)	12	7	6	7	7
Inventory (days)	69	53	54	49	48
Payables (days)	30	24	24	22	22

Source: Company, Anand Rathi Research

Fig 6 – GRMs fell from record highs



Source: Company, Anand Rathi Research

Result Highlights

Fig 7 – Quarterly trend

(Rs m)	Q1 FY25	Q1 FY24	YY	Q4 FY24	Q/Q
Gross sales					
Net sales	2,159,888	2,211,454	(2.3)	2,198,756	(1.8)
Incr. / decr. in stock	8,880	76,383	(88.4)	52,029	(82.9)
Purchases	647,287	588,463	10.0	690,171	(6.2)
Raw material cons	1,043,553	953,884	9.4	980,020	6.5
Duties	227,532	236,189	(3.7)	218,973	3.9
Staff costs	26,995	28,349	(4.8)	28,275	(4.5)
Other expenditure	119,293	106,548	12.0	124,937	(4.5)
Expenses	(2,073,540)	(1,989,815)	4.2	(2,094,404)	(1.0)
Operating profit	86,347	221,639	(61.0)	104,352	(17.3)
Interest	(19,603)	(16,263)	20.5	(20,234)	(3.1)
Depreciation	(37,557)	(31,522)	19.1	(37,364)	0.5
Other income	5,339	6,885	(22.5)	16,570	(67.8)
Profit before tax	34,527	180,738	(80.9)	63,323	(45.5)
Current tax	(6,307)	(37,069)	(83.0)	(14,323)	(56.0)
Profit after current tax	28,221	143,670	(80.4)	49,000	(42.4)
Deferred tax	(1,789)	(6,165)	(71.0)	(623)	187.2
Net profit	26,432	137,504	(80.8)	48,377	(45.4)

Source: Company, Anand Rathi Research

Fig 8 – IOC quarterly volumes and margins

	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25
Average exchange rate	75.0	77.1	79.6	82.0	82.2	82.2	82.7	83.2	83.0	83.4
Crude oil (\$ / bbl)	100.0	112.0	100.0	90.0	82.0	79.0	86.6	84.3	83.1	83.4
Refinery throughput (m tpa)	18.3	18.9	16.1	18.2	19.1	18.8	17.8	18.5	18.3	18.2
Pipelines throughput (m tpa)	22.1	24.7	23.6	23.8	23.0	25.0	23.9	25.2	24.6	25.8
GRM (\$ / bbl)	18.5	31.8	18.5	12.9	15.3	8.3	18.1	13.6	8.4	6.4
Refining inventory gains (Rs m)	-	69,239	(94)	(48,904)	(42,856)	(8,043)	(18,422)	(40,995)	23,469	(39,428)
Core GRM (\$ / bbl)	-	25.3	18.5	17.4	19.0	9.1	16.4	10.0	10.5	2.8
Refining inventory gains (\$ / bbl)	-	6.5	(0.0)	(4.5)	(3.7)	(0.7)	(1.7)	(3.6)	2.1	(3.6)
Refining opex (\$ / bbl)	2.9	2.9	2.9	3.0	2.9	3.0	2.9	3.0	3.0	3.0
Distillate yield (%)	78%	79%	79%	79%	79%	80%	80%	81%	78%	79%
High sulphur utilisation (%)	61%	58%	55%	59%	60%	61%	55%	60%	60%	56%
Mkt sales, domestic (m tonnes)	20.0	21.3	19.9	21.6	21.1	21.3	21.9	23.3	23.7	24.1
Mkt sales, exports (m tonnes)	1.5	1.7	0.9	1.1	1.4	1.1	1.3	1.3	1.5	1.2
Mkting Inventory gain / loss (Rs m)										
Marketing volumes (m tpa)										
Petrol	3.2	3.7	3.6	3.6	3.4	3.8	3.7	3.7	3.7	4.0
Diesel	8.8	10.4	9.1	10.1	9.5	10.1	8.4	9.5	9.1	9.8
Kerosene	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
LPG	3.5	3.5	3.3	3.5	3.4	3.1	3.4	3.4	3.7	3.7
Petrochem thrupt (m tonnes)	0.8	0.6	0.5	0.4	0.7	0.7	0.8	0.7	0.7	0.7
Petrochem EBIT	5,702	2,693	(1,294)	(6,164)	2,951	884	1,634	(1,962)	(3,997)	119
Forex gain / loss	-	(29,370)	(30,530)	(17,010)	9,890	170	(7,910)	(1,020)	(2,520)	(2,090)

Source: Company, Anand Rathi Research

Fig 9 – IOC quarterly volumes and margins (contd.)

	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25
EBIDTA (Rs m)										
Refining	24,920	20,280	75,930	156,040	308,312	145,447	108,639	141,469	60,489	162,783
Marketing	54,250	53,770	(3,990)	(54,772)	(311,360)	(122,582)	(69,529)	5,868	146,105	37,387
Pipeline	15,740	14,500	16,490	16,687	18,646	17,878	18,003	17,360	18,911	18,056
Petrochem	19,890	18,120	9,820	7,837	4,828	841	(4,029)	5,086	3,019	3,770
Others	2,110	13,950	14,130	-	-	-	-	-	-	-
Total	116,910	120,620	112,380	125,792	20,426	41,584	53,084	169,784	228,524	221,996
EBIDTA	111,261	106,281	93,911	116,275	13,589	19,600	35,934	153,403	221,639	212,171
Less Forex adj	(5,900)	1,700	(150)	0	(29,370)	(30,530)	(17,010)	9,890	170	(7,910)
Less Inventory gains/loss	39,252	0	(29,250)	0	(26,890)	(94)	(48,904)	(42,856)	(8,043)	(18,422)
Less others	0	0	0	0	0	0	0	0	0	0
Core EBIDTA	77,909	104,581	123,311	116,275	69,849	50,224	101,848	186,368	229,512	238,503
Loan outstanding (Rs m)	857,200	840,020	883,230	1,107,990	1,107,990	1,403,220	1,440,650	1,324,950	1,010,120	994,070
Bonds outstanding (Rs m)	82,610	82,610	81,830	81,830	81,830	81,830	81,830	81,830	81,830	81,830
Net loans (Rs m)	774,590	757,410	801,400	1,026,160	1,026,160	1,321,390	1,358,820	1,243,120	928,290	912,240

Source: Company, Anand Rathi Research

Key highlights

- **LPG loss impacts earnings.** Q1 EBITDA/PAT fell 17/45% q/q to Rs86.3bn/Rs26.4bn (ARe: Rs56.5bn/Rs15bn).
- Q1 refinery throughput was slightly lower at 18.2m tonnes vs. 18.3m the quarter prior. The GRM was ~\$6.39/bbl (\$8.39 the previous quarter; vs. our \$5.4 estimate) and core GRMs adjusted for inventory loss at \$2.8/bbl.
- Loss on domestic LPG sale was Rs41.4bn as government cut retail prices Rs100/cyl in Mar24 to Rs802.5. We expect similar losses in the next quarter as Saudi propane prices are \$570/ton.
- We expect full compensation from government toward the LPG losses a controlled product.

Valuations

We maintain our FY25e/26e, given the possibility of continuing geopolitical tensions, which would keep GRMs high.

We maintain our estimates, but raise our 12-month TP to Rs199, 6x FY26e EV/EBITDA (5.5x earlier). We reiterate our Hold recommendation, with a higher 12-month TP, valuing it on a sum-of-parts basis.

Fig 10 - IOC valuation (Rs m)

FY26e EV / EBIDTA (x)	6.0
FY26e EBIDTA	497,798
EV	2,986,791
Net debt	712,025
Investments	470,441
Equity	2,745,207
Rs / sh	199

Source: Anand Rathi Research

Risks

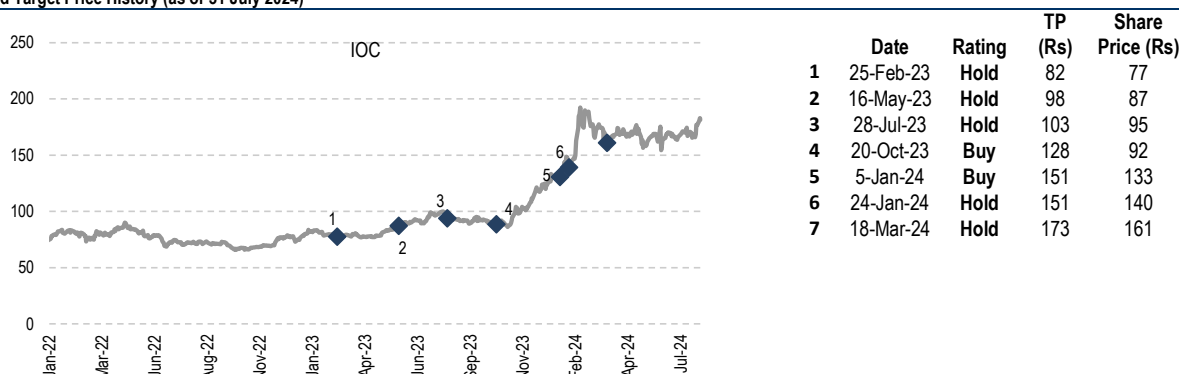
- Lower GRMs.
- Change in crude prices, inventory losses.
- Adverse government policy – subsidy-sharing.
- Weak marketing-margin environment.
- Poor petchem spreads.

Appendix

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Compliance officer-Deepak Kedia, email id - deepakkedia@rathi.com, Contact no. +91 22 6281 7000

Grievance officer-Madhu Jain-email id- grievance@rathi.com, Contact no. +91 22 6281 7191

ARSSBL registered address: Express Zone, A Wing, 9th Floor, Western Express Highway, Diagonally Opposite Oberoi Mall, Malad (E), Mumbai – 400097.
Tel No: +91 22 6281 7000 | Fax No: +91 22 4001 3770 | CIN: U67120MH1991PLC064106.