Equity Research

May 17, 2023

BSE Sensex: 62346

ICICI Securities Limited is the author and distributor of this report

Q4FY23 result review and earnings revision

Oil & Gas

Target price: Rs115

Earnings revision

(%)	FY24E	FY25E
Sales	↓ 8.6	↓ 7.2
EBITDA	↓ 1.3	↑ 9.8
EPS	↓ 2.9	↑ 14.0

Target price revision

Rs115 from Rs118

Shareholding pattern

	Sep '22	Dec '22	Mar '23
Promoters	51.5	51.5	51.5
Institutional investors	18.3	18.7	19.0
MFs and other	2.1	2.0	2.3
Banks / FIs	0.0	0.3	0.3
Insurance Cos.	9.0	9.4	9.5
FIIs	7.2	7.0	6.9
Others	30.2	29.8	29.5

ESG disclosure score

Year	2021	2022	Chg
ESG score	**67.6**	**65.8**	**(1.8)**
Environment	72.1	73.2	1.1
Social	43.3	41.7	(1.5)
Governance	87.4	82.4	-5.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.
Source: Bloomberg, I-sec research

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INDIA

Indian Oil Corporation

BUY
Maintain
Rs87

All-round improvement in operational metrics

Indian Oil Corporation (IOCL) has reported a recurring standalone EBITDA of Rs153bn and net earnings of Rs100.6bn for Q4FY23. Earnings were well ahead of our estimates of Rs80.5bn EBITDA and PAT of Rs35.6bn. Reported GRM of US$15.3/bbl beat our estimate of US$11.4/bbl, up US$2.4/bbl QoQ but down US$3.4/bbl YoY (Q4FY22 saw record GRMs of US$18.7/bbl), while throughput of 19.2mt (up 5% YoY/QoQ) was also marginally ahead of estimates. Blended retail margin of Rs2.4/ltr improved by Rs4/ltr QoQ, with blended marketing margin of ~Rs3,467/t up 8.0x YoY and 7.5x QoQ. Other opex of Rs100.2bn declined sharply by 17% YoY (I-Sec: Rs130bn) and was an additional factor driving the outperformance. With a further expansion in retail margins to Rs6.5/ltr, which should more than offset the relatively muted SG GRMs (down US$5/bbl QoQ as of the second week of May'23), we expect gross margins to improve by 21% YoY in FY24E. Attractive valuations, bonus issue (1:2 declared with Q4FY22 result) and robust dividend yield (expected at ~7% for FY24E) are all positives. Maintain BUY with a target price of Rs115/sh.

- **Sharp sequential improvement in marketing:** Overall marketing sales volumes of 24.3mt rose 4% YoY (remained flat QoQ) broadly in line with estimates. With sharply higher retail fuel margins and overall blended margins of Rs3,467/t (up 8x YoY and 7.5x QoQ), gross marketing earnings of Rs82bn were a sharp improvement both YoY (up 8.4x) and QoQ (up 7.5x). With continued growth in volumes and the considerably higher retail margins being seen in Q1FY24-TD, we would expect marketing earnings to propel very strong earnings growth over FY24E/FY25E.
- **GRMs surprise, but have come off subsequently**: The combination of volatile geopolitical worries, steady demand and refinery supply woes kept GRMs elevated in FY23, with benchmark Singapore GRMs at US$10.8/bbl in FY23, up US$2.2/bbl YoY. This has also reflected in IOCL's GRMS to improve by US$2.4/bbl QoQ to US$15.3/bbl, the second-highest quarterly GRMs reported in the last decade However, global recession worries and lack of demand momentum in China in Q1FY24-TD have led to a sharp pull-back in GRMs, with SG GRMs declining by US$5/bbl QoQ. We continue to believe however that the market will tighten in H2FY24E (please see **here)**, hence we build GRMs of US$11 for FY24E and US$12/bbl for FY25E.
- **Maintain BUY:** We have raised our retail margin forecast to Rs2.5-3/ltr for both FY24E and FY25E and have reduced GRM assumptions by ~US$2.5/bbl for FY24E. Our consolidated EPS reduces marginally to factor-in lower GRMs for CPCL; however, we raised FY25E EPS by 14% due to stronger marketing margins and normalised GRMs. Valuations at 4.9x FY25E P/E, 4.7x EV/EBITDA and 0.7x P/BV remain attractive. We believe dividend yield of ~7.4% (average estimated for FY24E/FY25E) and the support from CPCL earnings make risk-reward favourable for IOCL. Our FY24E EV/EBITDA-based valuation of Rs115/sh implies 32% upside. Maintain **BUY**.
- **Key upside risks:** Sharper recovery in GRMs, higher marketing volume growth, expansion in marketing margins. **Key downside risks:** Higher pass-through of retail profits, sustained downturn in GRMs.

Market Cap	Rs1229bn/US$14.9bn
Reuters/Bloomberg	IOC.BO / IOCL IN
Shares Outstanding (mn)	14,121.2
52-week Range (Rs)	87/66
Free Float (%)	48.5
FII (%)	6.9
Daily Volume (US$'000)	11,511
Absolute Return 3m (%)	9.0
Absolute Return 12m (%)	10.5
Sensex Return 3m (%)	1.3
Sensex Return 12m (%)	18.5

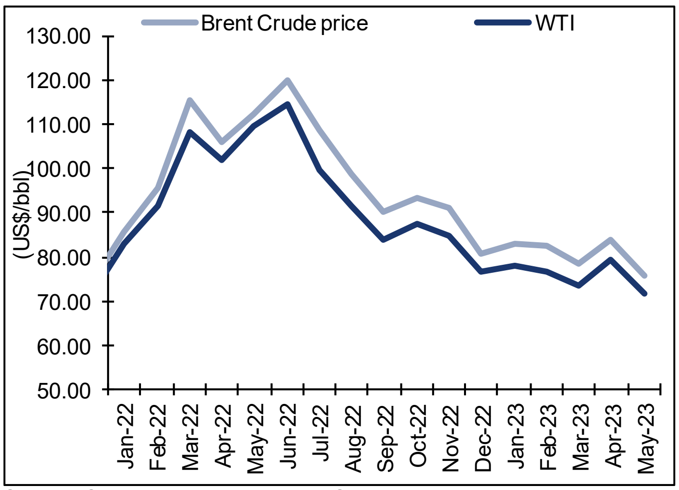
Year to March	FY22	FY23	FY24E	FY25E
Revenue (Rs mn)	58,93,357	84,17,559	83,09,427	87,39,935
Net Income (Rs mn)	2,51,022	97,921	2,38,716	2,49,743
EPS (Rs)	17.8	6.9	16.9	17.7
% Chg YoY	16.0%	-61.0%	143.8%	4.6%
P/E (x)	4.9	12.5	5.1	4.9
CEPS (Rs)	36.5	28.1	38.8	41.7
EV/E (x)	4.0	6.5	5.1	4.7
Dividend Yield	10%	3%	7%	8%
RoCE (%)	14%	6%	11%	11%
RoE (%)	20%	7%	16%	15%

Table 1: Q4FY23 snapshot (standalone)

(Rs mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ(%)	FY23	FY22	YoY(%)
Net Sales	**20,29,941**	**17,72,873**	**14.5**	**20,47,402**	**(0.9)**	**83,94,722**	**59,81,638**	**38.5**
EBITDA	1,53,403	1,16,275	31.9	35,934	326.9	2,22,526	4,32,438	(48.5)
PAT	1,00,587	60,219	67.0	4,480	2,145.2	82,418	2,41,841	(65.9)
Adjusted PAT	**1,00,587**	**60,219**	**67.0**	**4,480**	**2,145.2**	**82,418**	**2,41,841**	**(65.9)**
EPS(INR)	7.1	4.3	67.0	0.3	2,145.2	5.8	17.1	(65.9)
Adjusted EPS (Rs)	7.1	4.3	67.0	0.3	2,145.2	5.8	17.1	(65.9)
Marketing Inventory gain (loss)*	(17,825)	35,000		3,000		(59,825)	25,500	
Forex gain (loss)	9,890	(9,970)		(17,010)		(67,020)	(14,340)	
GRMs (US$/bbl)	**15.3**	**18.7**	**(18.3)**	**12.9**	**18.2**	**19.5**	**11.3**	**73.5**
Core GRM (US$/bbl)	**19.0**	**14.0**	**36.1**	**17.4**	**9.2**	**20.1**		
Gross margin	**2,72,290**	**2,64,956**	**2.8**	**1,73,660**	**56.8**	**8,14,646**	**9,47,812**	**(14.0)**

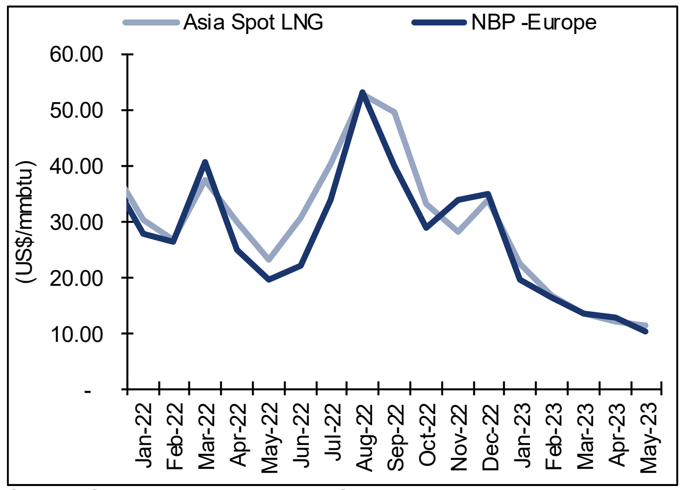
Source: Company data, I-Sec research *Marketing Inventory gain/loss are I-Sec estimates

Chart 1: Crude prices are moderating…



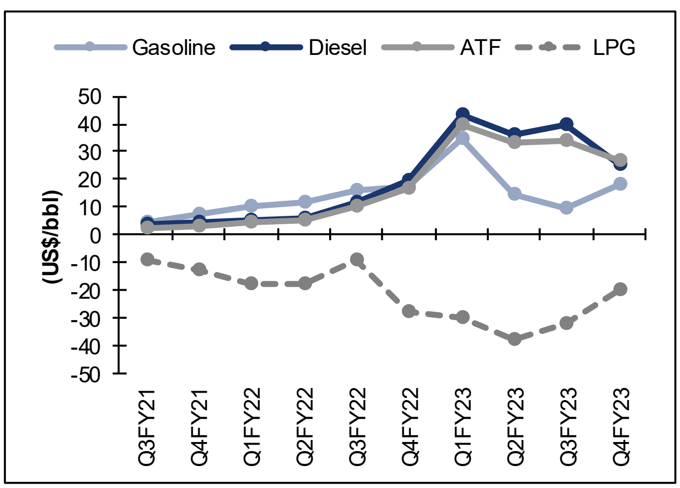
Source: Company data, Reuters, I-Sec research. Note: May'23 data is up to 12th May average price

Chart 2: …so are global LNG prices



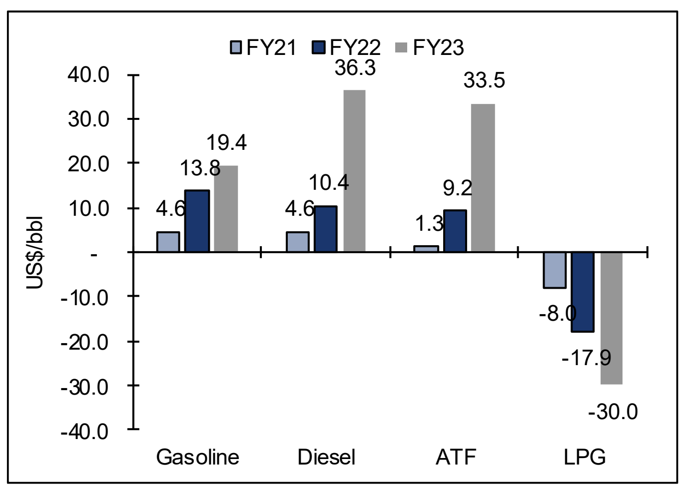
Source: Company data, Reuters, I-Sec research. Note: May'23 data is up to 12th May average price

Chart 3: Diesel and ATF spreads contracted; gasoline spread expanded in Q4FY23



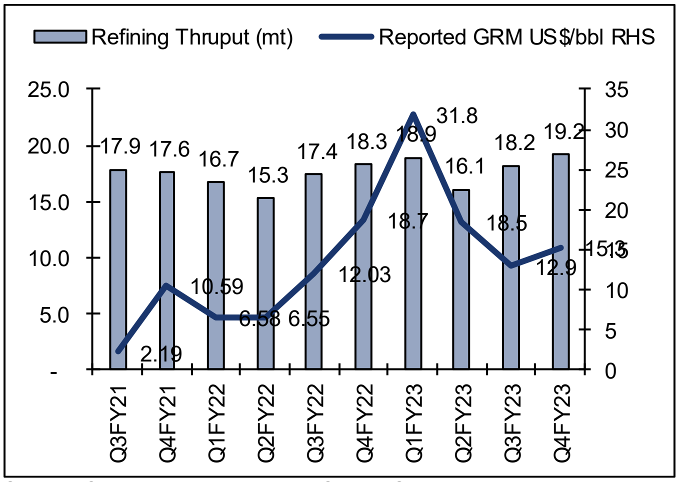
Source: Company data, Reuters, I-Sec research

Chart 4: Product cracks jumped sharply in FY23



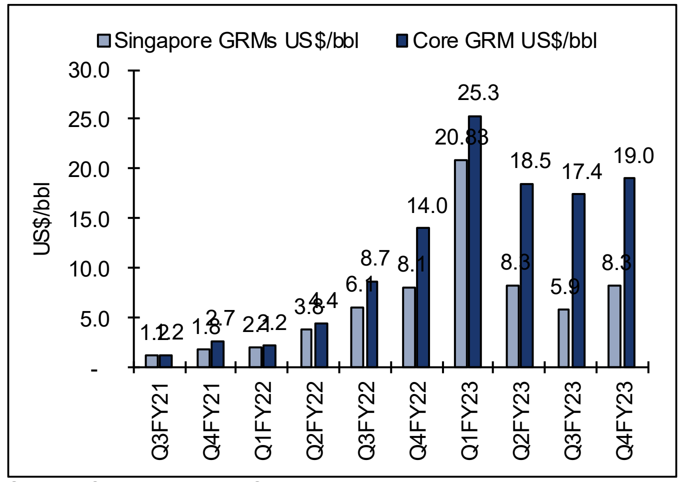
Source: Company data, I-Sec research

Chart 5: GRMs remained strong in Q4FY23



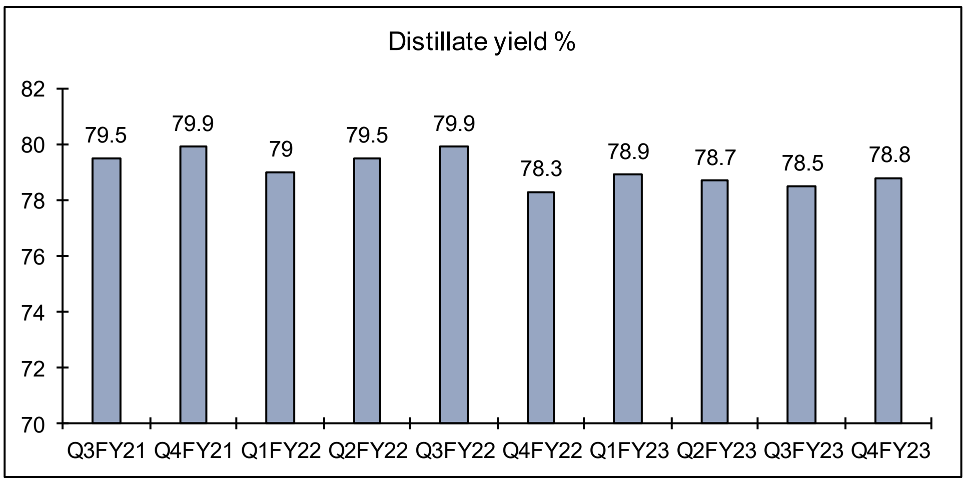
Source: Company data, Reuters, CME, I-Sec research.

Chart 6: Premium to Singapore GRMs has risen



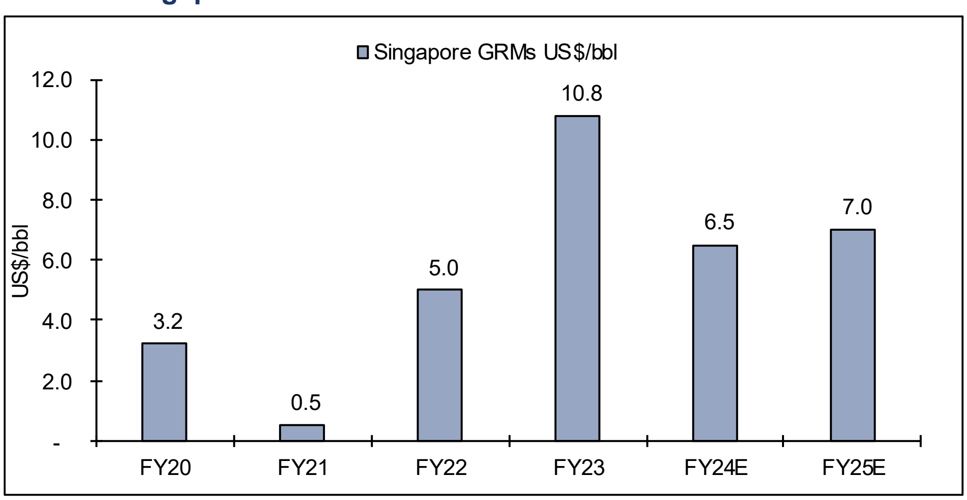
Source: Company data, I-Sec research

Chart 7: Distillate yields have remained steady over past few quarters



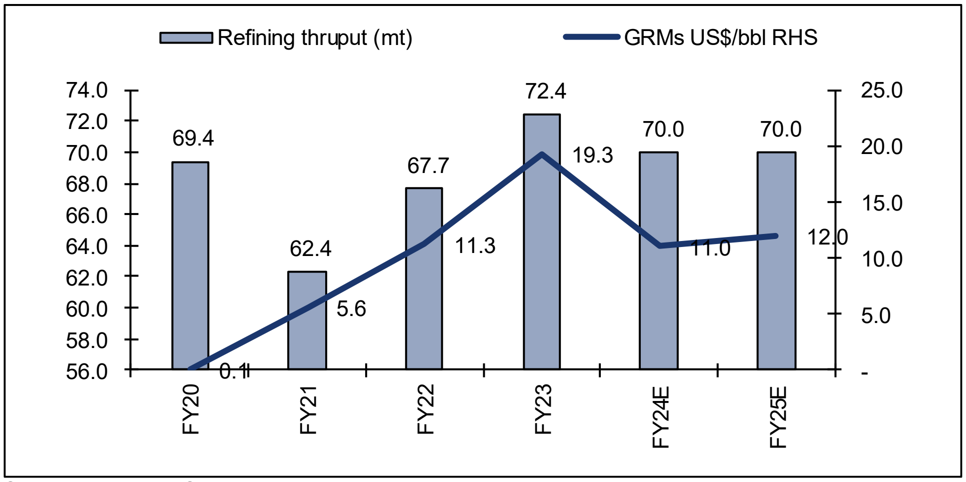
Source: Reuters, I-Sec research

Chart 8: Singapore GRM estimates for FY20-FY25E



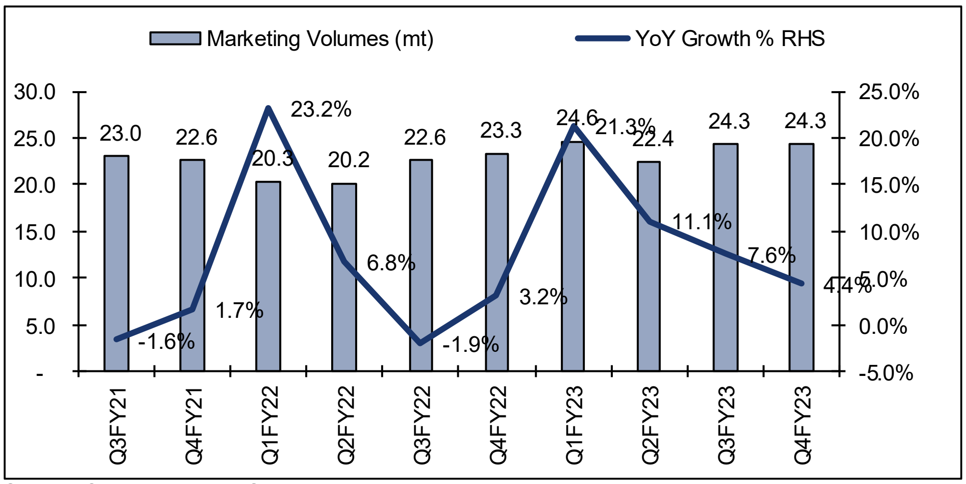
Source: Reuters, I-Sec research

Chart 9: IOCL's GRM estimates for FY20-FY25E



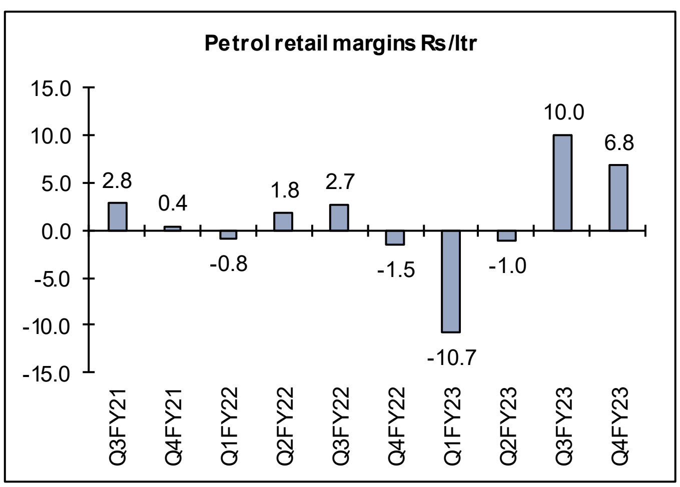
Source: Reuters, I-Sec research

Chart 10: Marketing volumes increased YoY



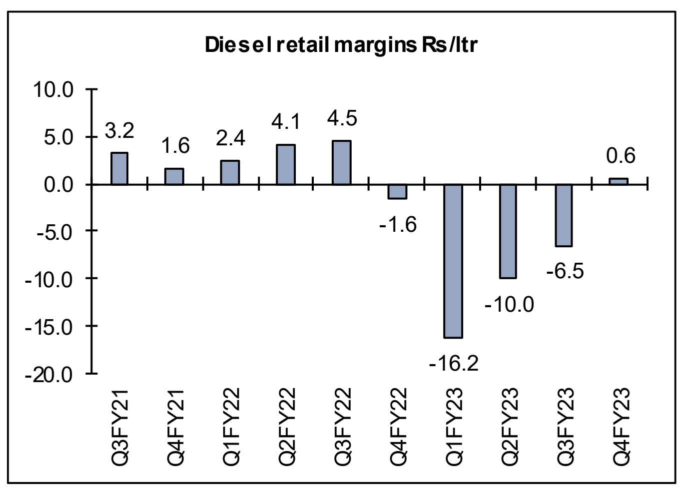
Source: Company data, I-Sec research

Chart 11: Petrol retail margin moderated in Q4FY23



Source: Company data, Reuters, I-Sec research

Chart 12: Diesel retail margin turned positive in Q4FY23



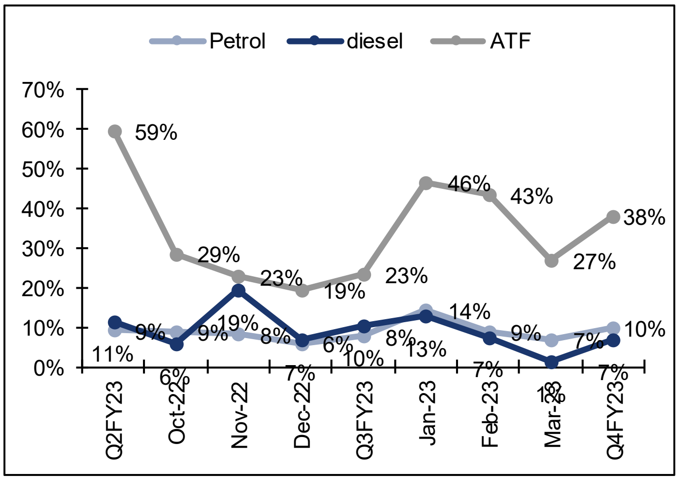
Source: Company data, Reuters, I-Sec research.

Table 2: Strong refining and marketing performance QoQ

(Rs mn)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Gross Margins	2,68,791	2,17,110	2,25,566	2,24,181	2,64,956	1,72,535	72,151	1,73,660	2,72,290
Inventory gains	25,350	18,000	7,500	-35,000	35,000	-15,000	-30,000	3,000	-17,825
Net under-recovery	-	-	-	-	-	-	-	-	-
Adj Earnings	2,43,441	1,99,110	2,18,066	2,59,181	2,29,956	1,87,535	1,02,151	1,70,660	2,90,115
Refining earnings	99,279	59,110	55,077	1,14,630	1,87,999	3,42,980	1,72,906	1,41,225	1,76,770
Pipeline margins	17,688	17,314	15,950	18,139	18,374	20,529	19,685	19,823	21,069
Chemical margins	28,980	26,390	24,620	16,320	137,86	9,941	4,847	-1,377	10,271
Marketing earnings	97,494	96,296	1,22,419	1,10,091	9,786	-1,85,916	-95,286	10,988	82,005
Marketing margin (Rs/mt)	4,464	4,896	6,302	5,032	435	-7,745	-4,352	459	3,467
Marketing margin (US$/bbl)	8.1	8.8	11.0	8.9	0.8	-13.2	-7.3	0.8	5.6

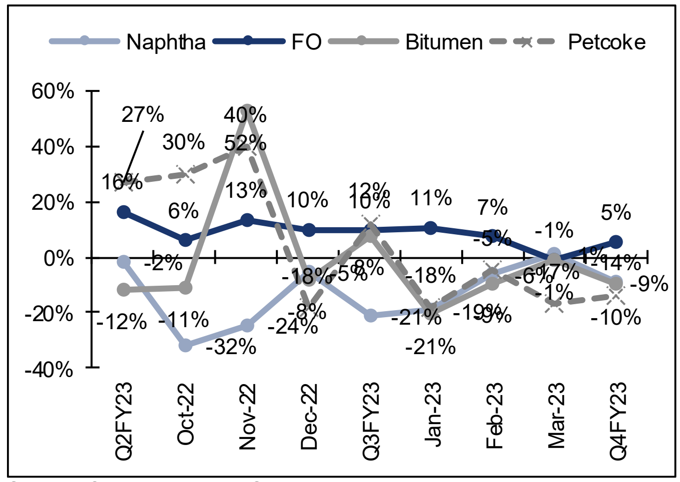
Source: Company data, I-Sec research

Chart 13: Transport fuel demand growth remained strong



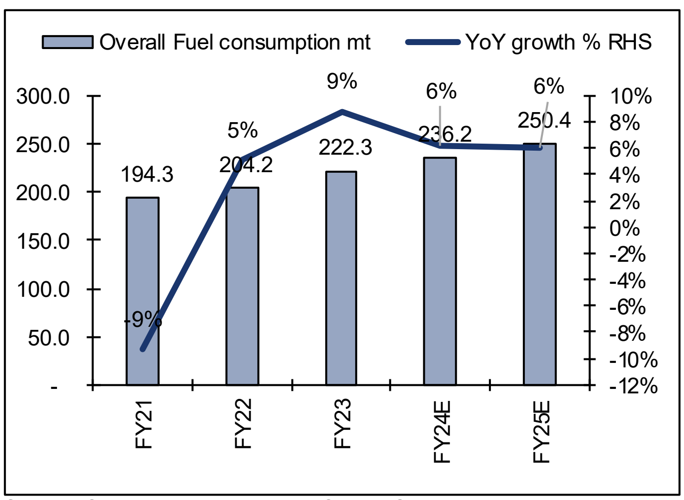
Source: Company data, Reuters, CME, I-Sec research

Chart 14: Industrial fuel demand growth trends



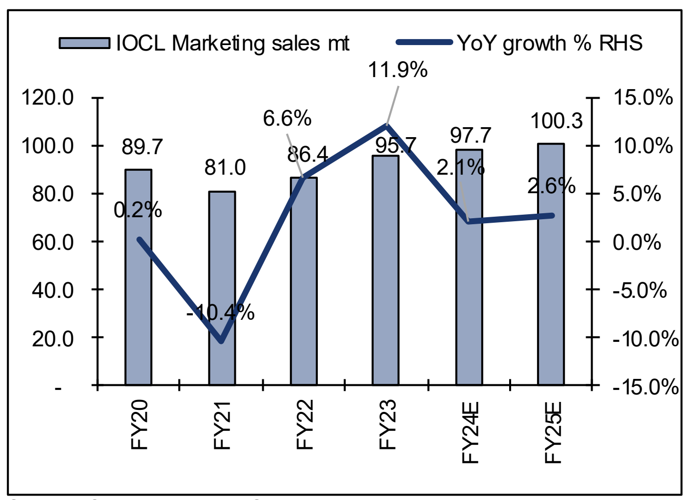
Source: Company data, I-Sec research

Chart 15: India fuel consumption growth trends



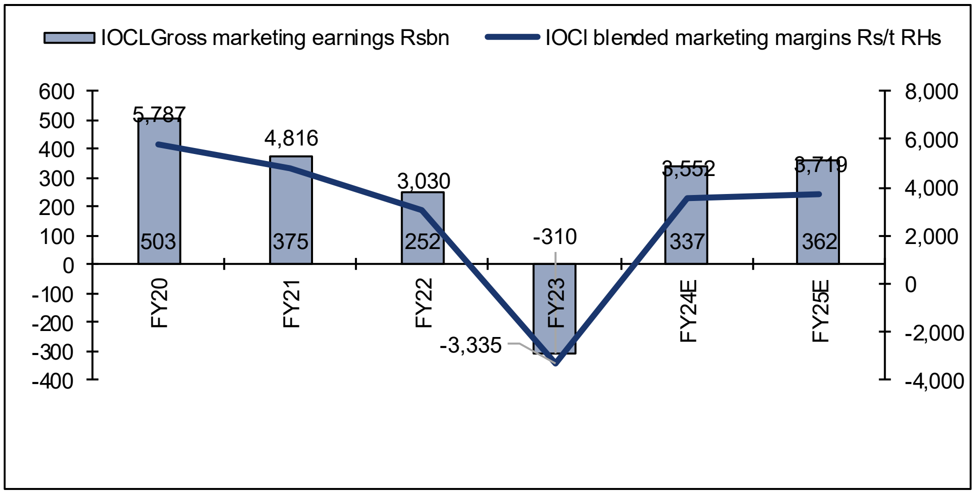
Source: Company data, Reuters, CME, I-Sec research

Chart 16: IOCL fuel consumption growth estimates



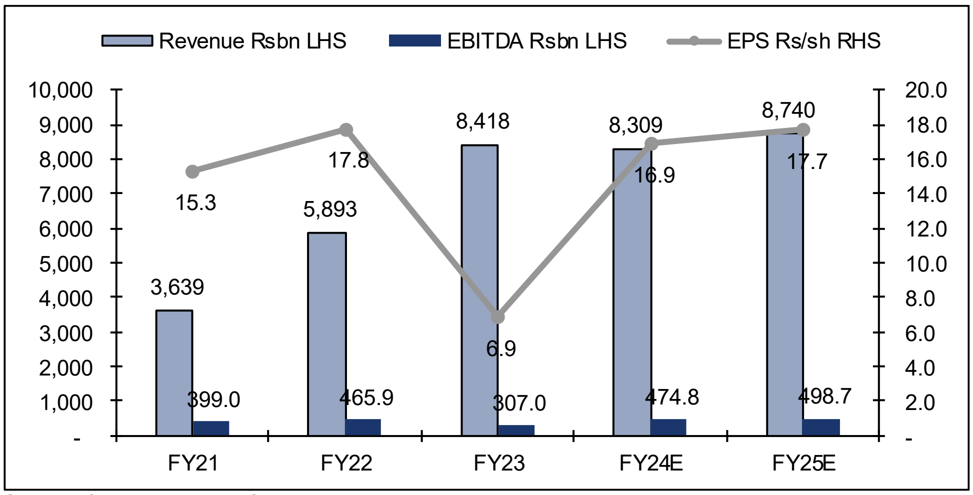
Source: Company data, I-Sec research

Chart 17: We expect margins to recover in FY24E-FY25E



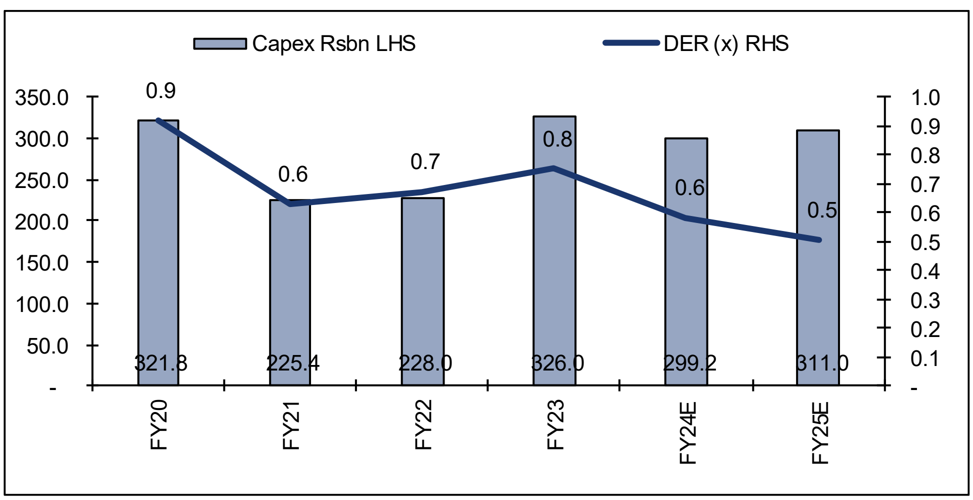
Source: Company data, I-Sec research

Chart 18: We expect earnings to recover over FY23-FY25E



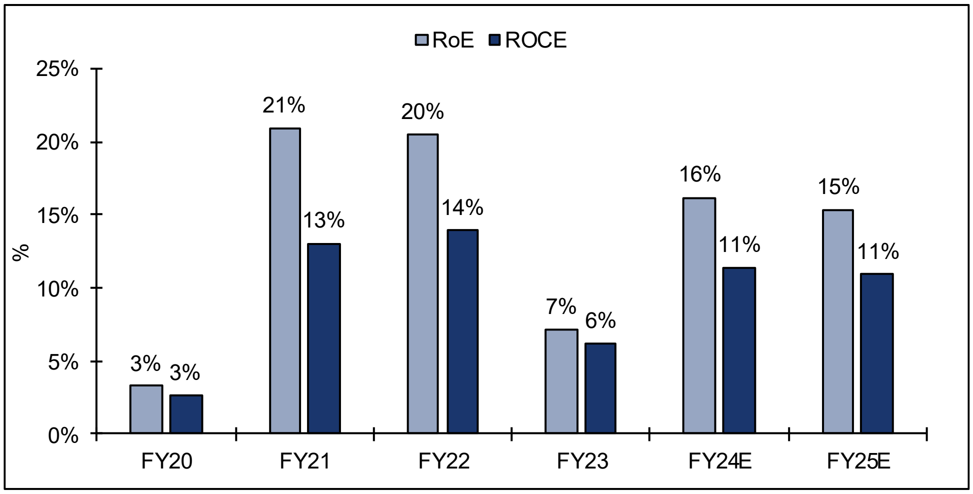
Source: Company data, I-Sec research

Chart 19: Capex to remain high though strong cash flow to reduce DER.



Source: Company data, I-Sec research

Chart 20: Return ratios to follow earnings trajectory and capex trends



Source: Company data, I-Sec research

Valuation gap is hard to ignore

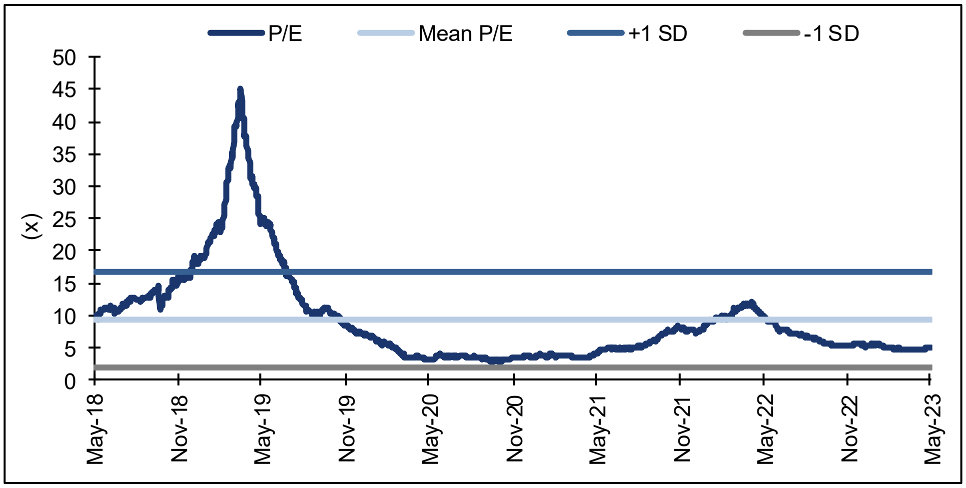
With strong recovery in marketing margin expected in FY24E/FY25E and normalised GRMs, we believe current valuations of just 4.9x FY25E P/E and 4.7x EV/EBITDA are attractive. Also, IOCL is trading below its 5-year mean P/B and P/E. Nearly ~7.4% dividend yield (average for FY24E/FY25E) improves the risk-reward for the stock as well. Our EV/EBITDA-based valuation delivers a fair value of Rs115/sh, 32% upside from CMP. Maintain **BUY**.

Table 3: Valuation summary

(Rs mn)	FY25E
EV @CMP	23,53,724
MCap	12,28,548
Debt	16,54,366
Cash & Cash Eq	2,15,211
Market value of investments	2,30,319
Oil bonds	83,660
EBITDA	4,98,678
EV/EBITDA of 5.5x	27,42,727
Less net debt	14,39,155
Add investments	**3,13,979**
Equity value	**16,17,552**
Target Price Per share	**115**
CMP	**87**
Upside/ (downside) %	**32%**

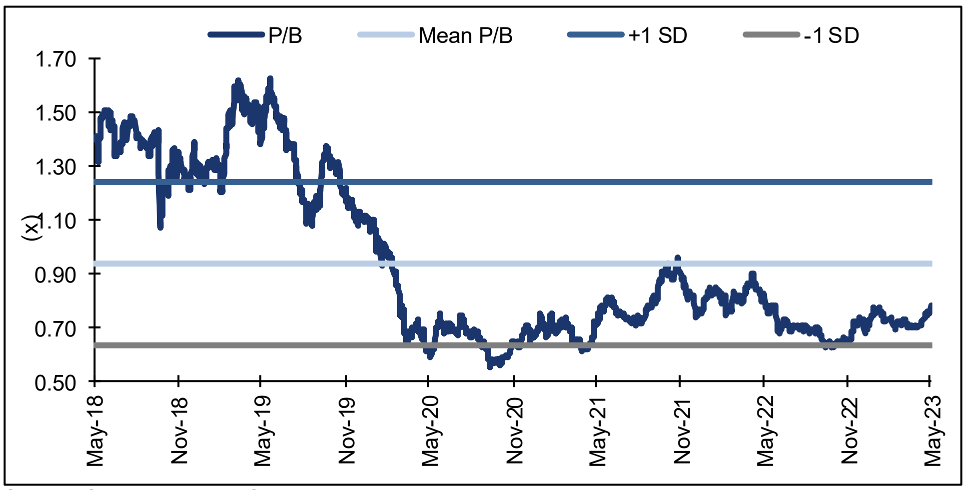
Source: Company data, I-Sec research

Chart 21: IOCL's P/E trading well below 5-year bands



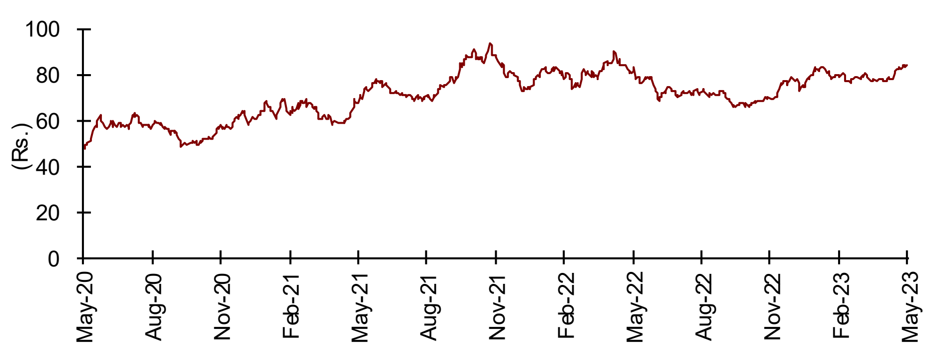
Source: Company data, I-Sec research

Chart 22: IOCL's P/B trading well below 5-year bands



Source: Company data, I-Sec research

Price chart



Source: Bloomberg

Financial summary

Table 4: Profit and Loss statement

(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
Operating Income (Sales)	**58,93,357**	**84,17,559**	**83,09,427**	**87,39,935**
Operating Expenses	54,27,474	81,10,569	78,34,641	82,41,257
EBITDA	**4,65,883**	**3,06,990**	**4,74,787**	**4,98,678**
% margins	7.9%	3.6%	5.7%	5.7%
Depreciation & Amortisation	-1,23,476	-1,31,811	-1,29,088	-1,39,585
Gross Interest	-42,699	-75,414	-79,780	-84,997
Other Income	30,822	41,989	47,514	60,299
Recurring PBT	3,30,530	1,41,755	3,13,433	3,34,395
Less: Taxes	-85,620	-33,334	-77,018	-81,767
Net Income (Reported)	**2,51,022**	**97,921**	**2,38,716**	**2,49,743**
Recurring Net Income	**2,51,022**	**97,921**	**2,38,716**	**2,49,743**

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
Assets				
Total Current Assets	15,36,628	16,48,733	15,60,389	14,17,862
of which cash & cash eqv.	18,201	20,966	71,671	2,15,211
Total Current Liabilities & Provisions	12,40,299	13,27,703	13,85,863	12,94,525
Net Current Assets	**2,96,330**	**3,21,030**	**1,74,526**	**1,23,337**
Investments	4,43,388	4,17,539	5,77,253	5,77,253
Net Fixed Assets	**16,05,133**	**18,00,465**	**18,69,685**	**19,30,100**
Capital Work-in-Progress	4,74,693	5,11,335	6,12,221	7,23,221
Total Assets	**28,37,755**	**30,71,346**	**33,05,367**	**35,69,132**
Liabilities				
Borrowings	13,61,140	14,89,771	15,56,366	16,54,366
Equity Share Capital	91,810	1,37,716	1,37,716	1,37,716
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus*	12,43,541	12,59,487	14,16,714	15,67,094
Net Worth	**13,35,352**	**13,97,202**	**15,54,429**	**17,04,810**
Total Liabilities	**28,37,755**	**30,71,346**	**33,05,367**	**35,69,132**

*Excluding revaluation reserves;
Source: Company data, I-Sec research

Table 8: Quarterly trend

(Rs mn, year ending March 31)

	Jun-22	Sep-22	Dec-22	Mar-23
Net sales	22,42,526	19,66,843	20,47,402	20,29,941
% growth (YoY)	82%	66%	52%	22%
EBITDA	13,589	-88,410	35,934	1,53,403
EBITDA Margin (%)	1%	-4%	2%	8%
Other income	6,837	21,984	17,151	16,381
Add: Extraordinaries	0	1,08,010	0	0
Net profit	-19,925	-1,23,169	4,480	1,00,587

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
Operating Cashflow	**4,60,673**	**3,68,026**	**4,74,787**	**4,98,678**
Working Capital Changes	(1,39,651)	(56,811)	1,46,504	51,190
Cashflow from Operating Activities	**2,45,703**	**2,96,437**	**5,44,272**	**4,68,100**
Capital Commitments	(2,28,038)	(3,26,001)	(2,99,194)	(3,11,000)
Cashflow from Investing Activities	**(2,22,276)**	**(2,75,728)**	**(3,98,894)**	**(2,38,201)**
Inc (Dec) in Borrowings	1,25,965	85,208	66,595	98,000
Dividend paid	(1,08,960)	(33,057)	(81,489)	(99,363)
Cash flow from Financing Activity	-29,973	-17,944	-94,674	-86,360
Chg. in Cash & Bank balances	**-6,546**	**2,765**	**50,705**	**1,43,540**

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY22	FY23	FY24E	FY25E
Per Share Data (Rs)				
EPS(Basic Recurring)	17.8	6.9	16.9	17.7
Recurring Cash flow per share	36.5	28.1	38.8	41.7
Dividend per share (DPS)	8.4	3.0	5.8	7.0
Book Value per share (BV)	94.6	98.9	110.1	120.7
Growth Ratios (%)				
Operating Income	62%	43%	-1%	5%
EBITDA	17%	-34%	55%	5%
Recurring Net Income	16%	-61%	144%	5%
Diluted Recurring EPS	16%	-61%	144%	5%
Diluted Recurring CEPS	3%	-23%	38%	7%
Valuation Ratios (x)				
P/E	4.9	12.5	5.1	4.9
P/CFPS	5.8	4.5	2.2	2.6
P/BV	0.9	0.9	0.8	0.7
EV / EBITDA	4.0	6.5	5.1	4.7
Operating Ratios				
Other Income / PBT (%)	9.3%	29.6%	15.2%	18.0%
Effective Tax Rate (%)	25.9%	23.5%	24.6%	24.5%
NWC / Total Assets (%)	10.4%	10.5%	5.3%	3.5%
D/E Ratio (%)	67.4%	75.2%	58.4%	50.6%
Return/Profitability Ratios (%)				
Recurring Net Income Margins	4.3%	1.2%	2.9%	2.9%
RoCE	13.9%	6.2%	11.4%	10.9%
RoNW	20.5%	7.2%	16.2%	15.3%
Dividend Payout Ratio	47.3%	28.8%	34.1%	39.8%
Dividend Yield	9.7%	3.4%	6.6%	8.1%
EBITDA Margins	7.9%	3.6%	5.7%	5.7%

Source: Company data, I-Sec research

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