

### Oil and Gas August 16, 2021

<b>CMP</b>	<b>104</b>
<b>Sensex</b>	<b>55500</b>

#### Stock Statistics

Bloomberg code	IOCL IN
Equity Cap (INR mn)	9414
Face Value (INR)	10
Free float (%)	48.5
INR / USD	74.1
Market cap (INR bn)	1003
Market cap (USD bn)	13.5
52 Wk High/Low (INR)	118/71

#### Shareholding Pattern (%) – 'Jun-21

Promoter	51.5
Foreign Institutional Investor	6.7
MF / FI / UTI / Banks	12.4
Public & Others	29.4

#### Financials: (Rs/Cr)

Particulars	FY21	FY22e	FY23e
PBDIT	42,616	38,100	42,219
PBT	29,716	22,800	25,919
PAT	21,836	16,758	19,050
EPS (Rs/sh)	23.2	17.8	20.2
DPS (Rs/sh)	10.2	8.9	10.1
ROE (%)	21%	15%	15%
EV/EBIDTA (x)	4.7	5.3	4.8
Dividend Yield (%)	9.9%	8.6%	9.7%
P/BV (x)	0.9	0.8	0.8

Source: Company, Anvil Estimates

#### Indian oil Investment Argument:

**A Play on the recovery in the Global Refining Margins:** Global oil demand which had fallen to 73 mb/d during Covid has gradually recovered to 96-97 mb/d with highest recoveries in major oil consuming countries like China, USA and India accounting for 40% of world demand. Seasonal decline in utilization rates in USA coupled with high Gasoline demand recovery (almost reached to Pre covid levels of 10 mb/d) and decline in product inventories has lifted refining margins to above >\$3/bbl. in Asia. IOC with its mix of complex refineries helps them to achieve distillate yield > 75% coupled with duty protection available on petroleum products in India should help them to achieve \$5/bbl for FY22e/23e.

**Marketing Margins showing resilience despite higher crude Prices:** Our observation of Marketing Margins on auto fuels over last 2 years is suggesting that in situation where crude prices fall and subsequent inventory losses starts occurring, at the pump level OMC's have been holding fuel prices so as to negate the impact of inventory losses. while in rising crude scenario, inventory gains take care of fall in Marketing Margins where fuel prices are raised in staggered manner and hence net result is stable auto fuel marketing margins on yearly basis. IOC with its aggressive retail outlet additions of 4400 in last 2 years should help them to retain its market share in auto fuels as demand for auto fuels has almost reached pre-covid levels.

**Petrochemical contributes 20% to overall EBIDTA:** With capacities spread across various niche petrochemical products like LAB, Px-PTA, Polypropylene and Styrene Butadiene Rubber plant, IOC through its Naphtha cracker plant has been optimizing cost and this vertical has emerged as a silver lining to cushion the business against the risk of oil price volatility. With total Petchem capacity of 3.2 mmt, it commands 15% market share in polymers, 20% in LAB, 11% in MEG and 8% in PTA. Company is already implementing Projects worth Rs 350 bn to take total capacity to 13 mmt by 2030 which will be implemented in phases providing visibility for growth.

**Pipeline business-A Cash Cow:** With Product+ crude oil pipeline capacity of 92.6MMT 13548 kms & 51% Market share, the business is consistently generating EBIDTA of Rs 70 bn on annual basis which act as a cushion during the challenging times of refining segment and provides stable cash flow to the company.

**BPCL divestment could re-rate the OMC's:** Valuation of individual business units (BU's) of BPCL once disinvestment goes through will put IOC in very sweet spot as it is largest refiner and Marketer in India by market share. Some of the media reports quoting monetization of pipeline assets of IOC which if goes through could help the valuation rerating for IOC, as company is trading at not even 1x on the investments done on the assets.

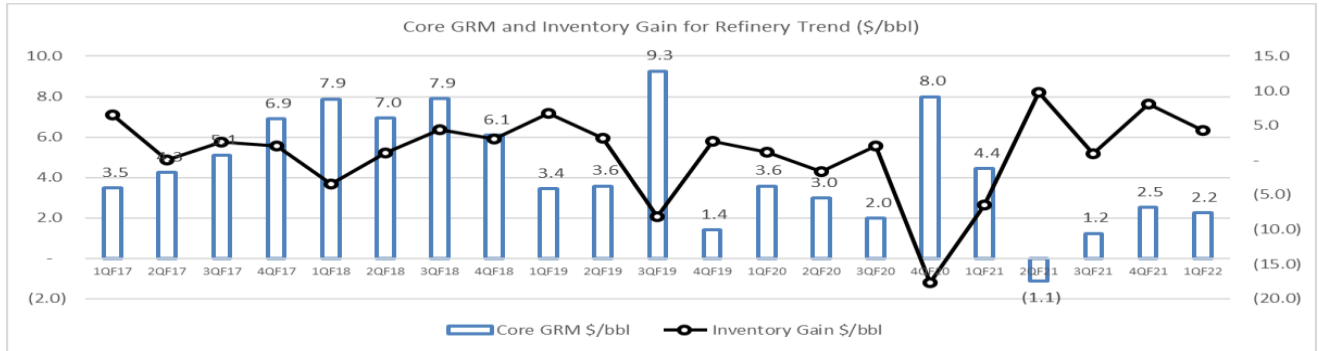
**NIL Under Recovery on LPG/ Kero could further boost cash flows:** OMCs managed to raise LPG Prices by almost Rs 240/cylinder in last 12-15 months helping them to bring LPG under recoveries to NIL. With Pending subsidy payments from Govt fallen nearly to Zero, Savings in subsidy would improve the liquidity situation at the company. IOC controls 47% of the LPG Market in India.

**Valuation and View:** At a FY23e EV/EBITDA of 4.8x, P/B of 0.8x and a dividend yield of 10%, the stock remains very attractive from valuation purpose. **We recommend a 'BUY' on the stock with a price target of Rs 155/share giving an upside of 49%.**

Analyst: Nirav Jimudia

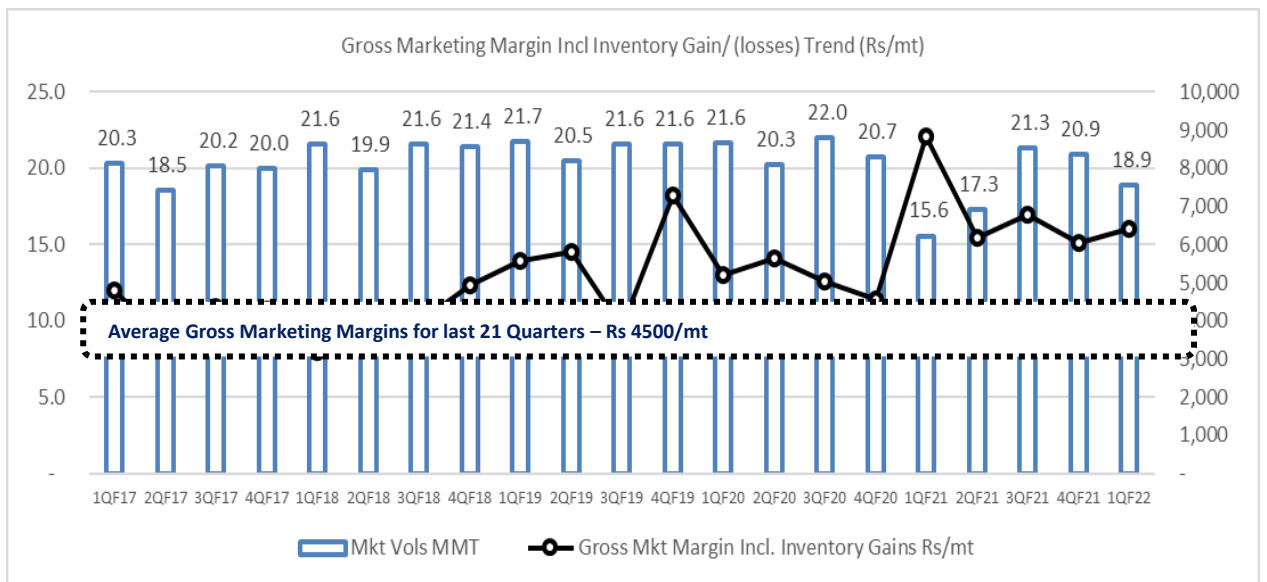
Email id: nirav@anvilresearch.com

**Exhibit 1: Refinery Margin Trend- IOC (\$/bbl)**



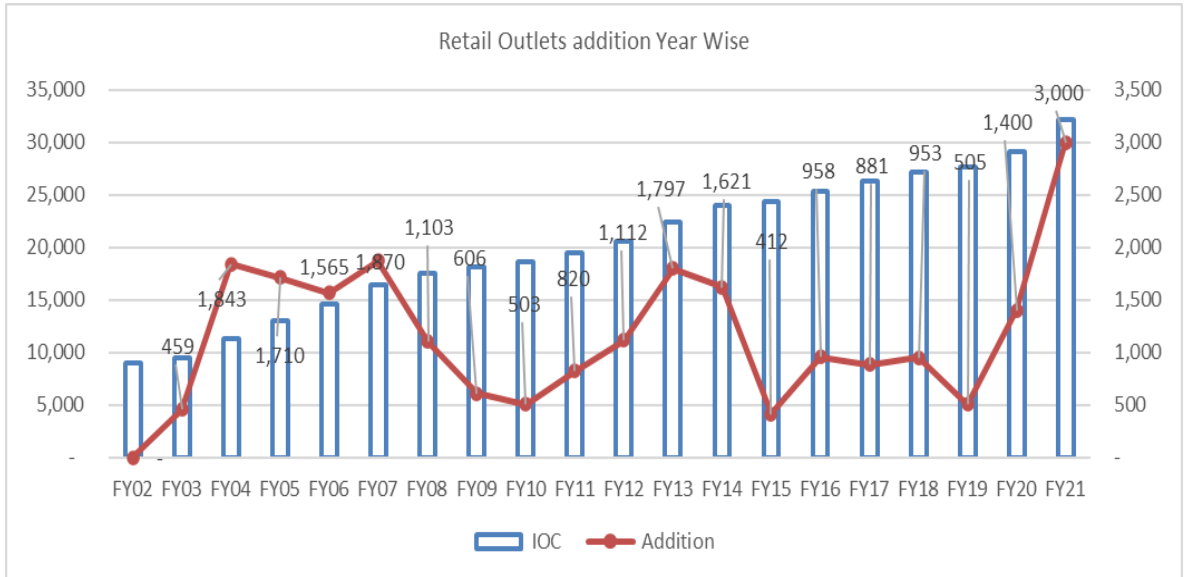
( Source: Company Reports, Anvil Estimates)

**Exhibit 2: Gross Marketing Margin Trend Including Inventory Gains- IOC (Rs/mt)**



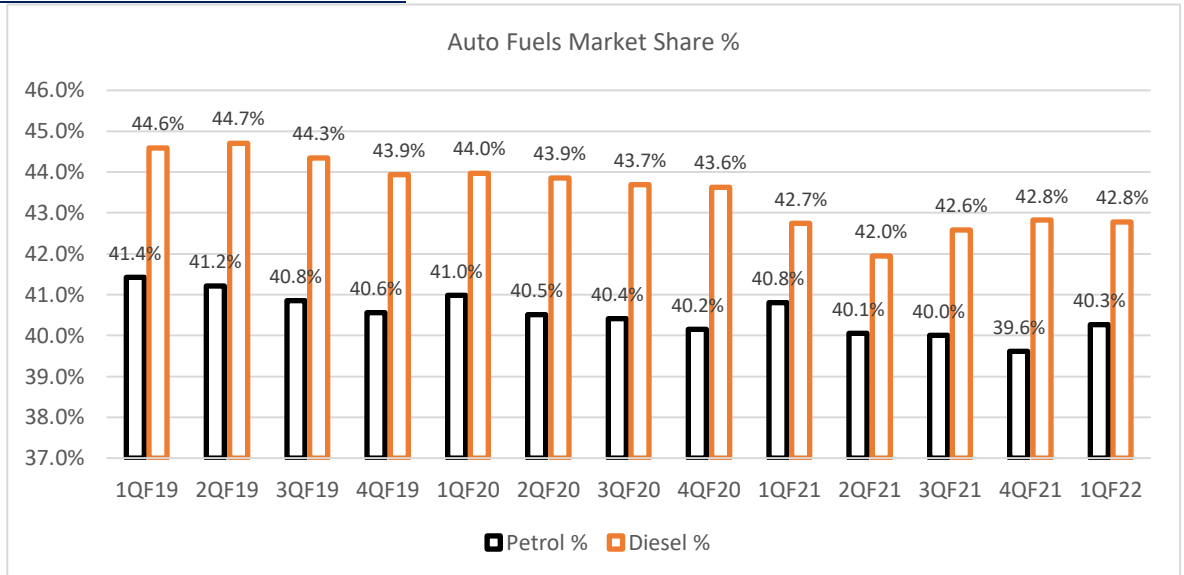
( Source: Company Reports, Anvil Estimates)

**Exhibit 3: Retail Outlet addition by IOC- Aggressive addition in last 3 years to retain market share**



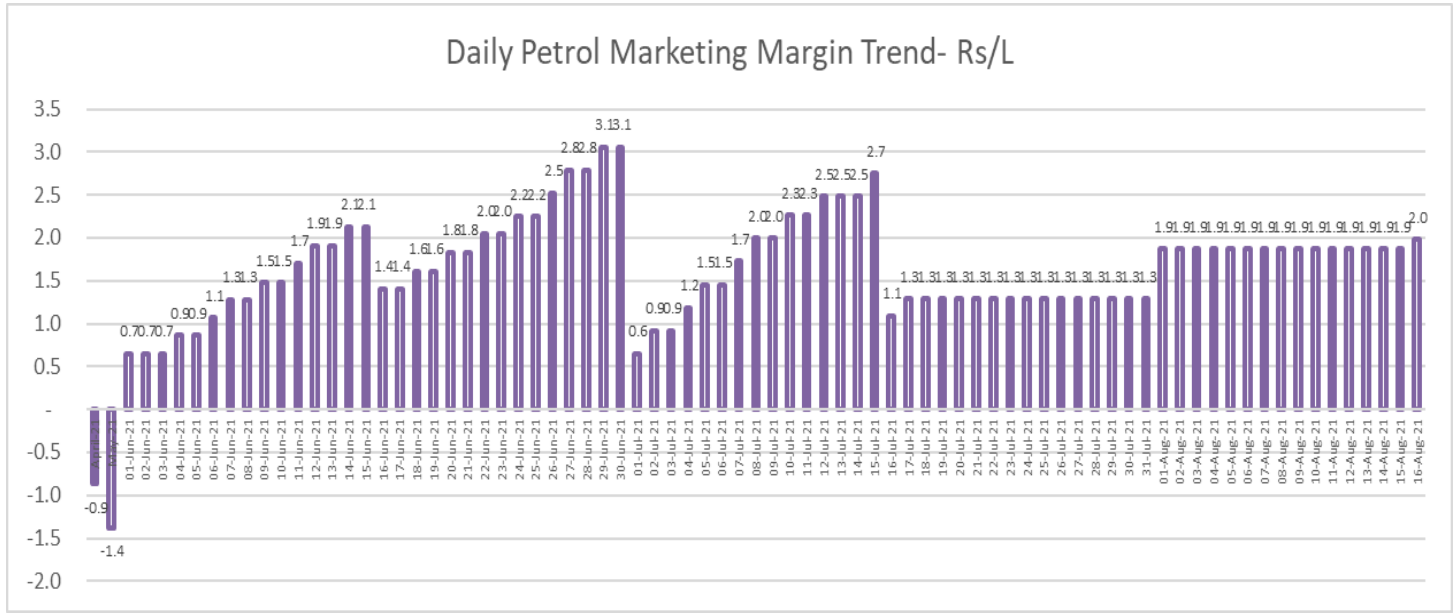
( Source: Company Reports, Anvil Estimates)

**Exhibit 4: Auto Fuels Market Share %- IOC**



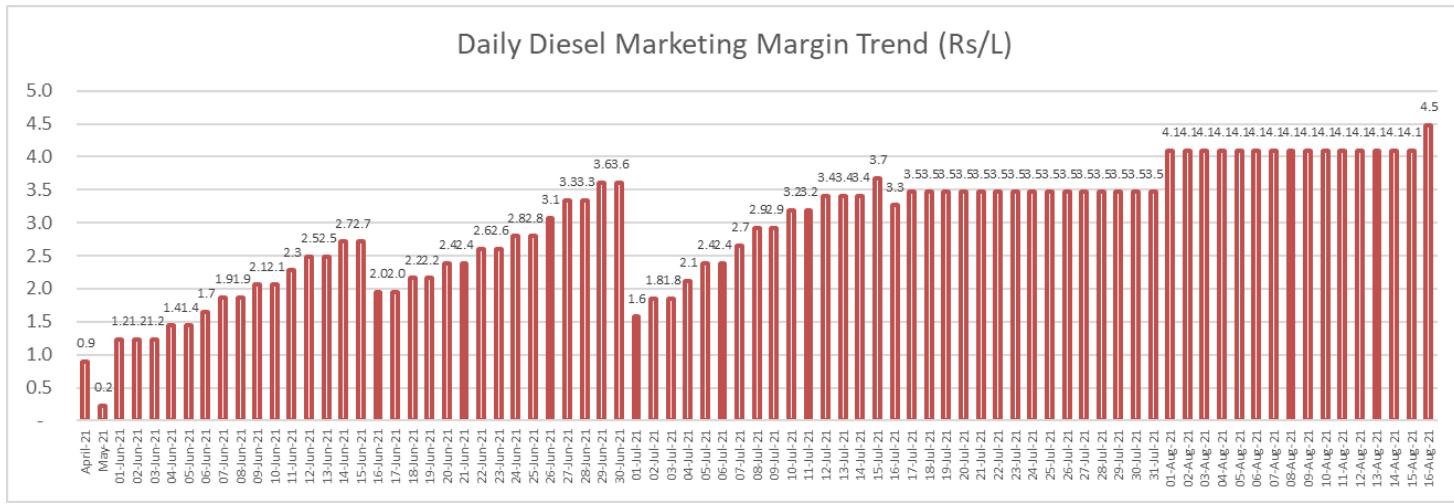
( Source: Company Reports, Anvil Estimates)

**Exhibit 6: Marketing Margin Trend – Petrol (Rs/L)**



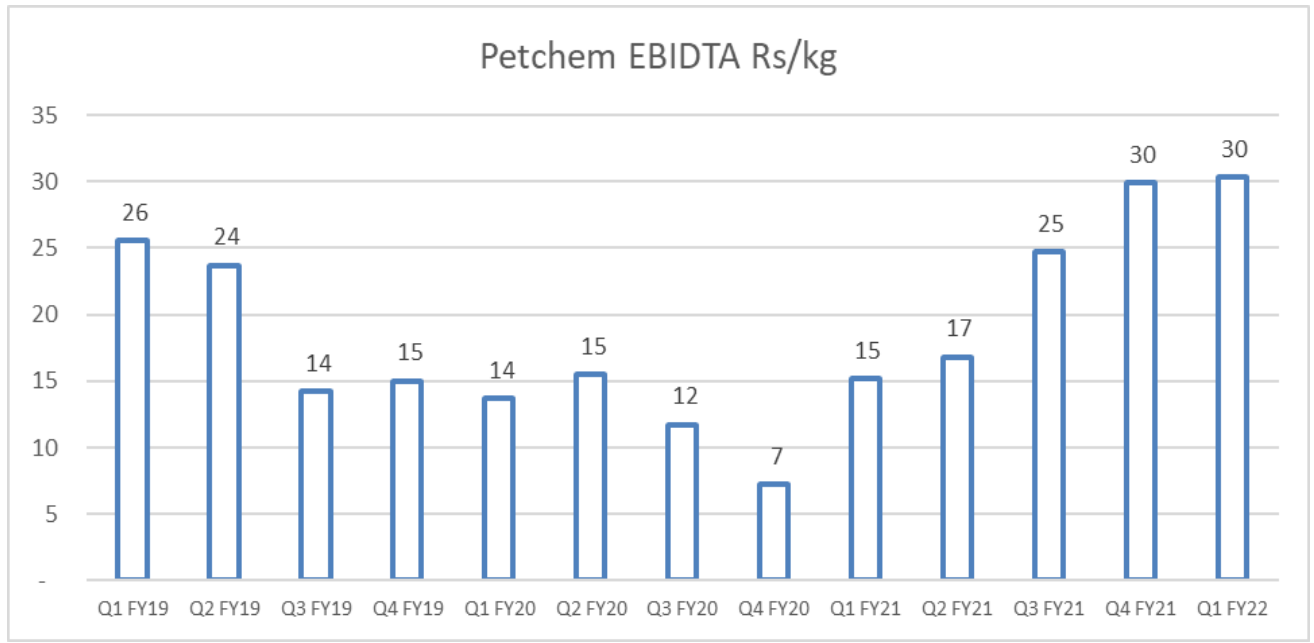
(Source: PPAC, Anvil Estimates)

**Exhibit 7: Marketing Margin Trend – Diesel (Rs/L)**



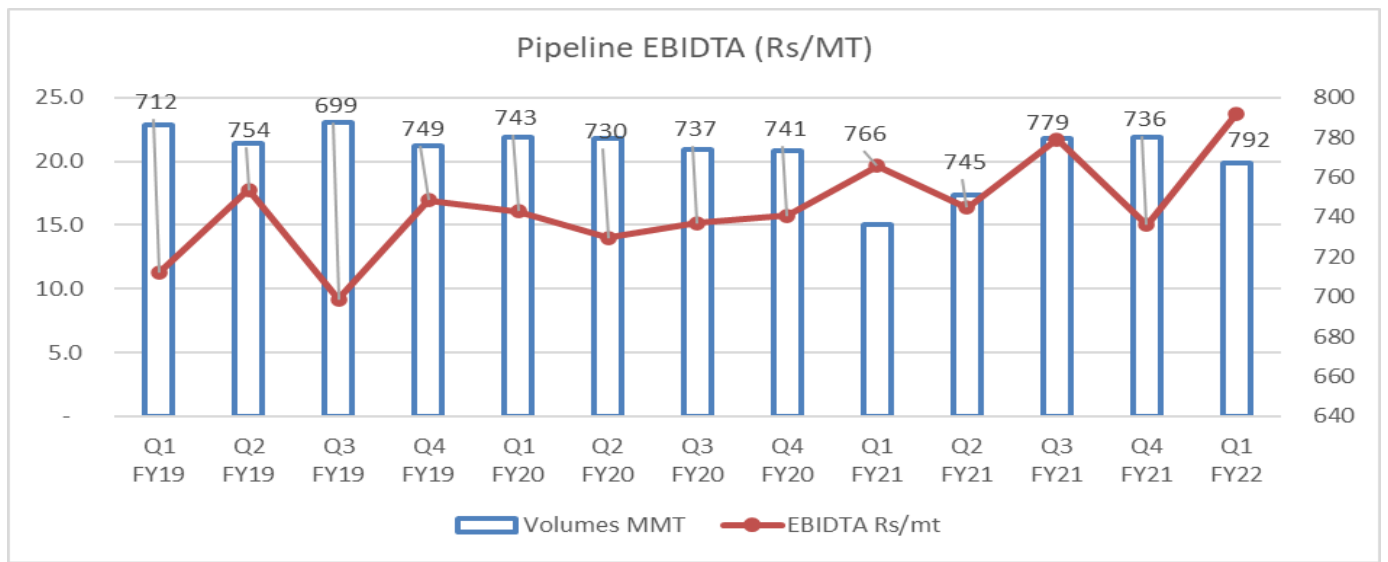
(Source: PPAC, Anvil Estimates)

**Exhibit 8: Petchem EBIDTA (Rs/kg)**



(Source: Company Reports, Anvil Estimates)

**Exhibit 9: Pipeline EBIDTA (Rs/MT)**



(Source: Company Reports, Anvil Estimates)

# INDIAN OIL CORPORATION LTD

## Exhibit 10: Key Operating Parameters

Particulars	U.O.M	FY17	FY18	FY19	FY20	FY21	FY22e	FY23e
<b>Refining</b>								
Throughput	MMT	65.2	69.0	71.9	69.4	62.4	65.5	72.5
Gross Refining Margin	\$/bbl	7.8	8.5	5.4	0.1	5.6	5.0	5.0
Inventory Gain/ (loss)	\$/bbl	2.8	1.8	0.9	(4.1)	3.3	2.0	2.0
Core GRM	\$/bbl	5.0	6.7	4.5	4.2	2.3	3.0	3.0
SG GRM	\$/bbl	5.8	7.2	4.9	3.2	0.5	3.5	3.5
EBIDTA	\$/bbl	4.1	6.3	2.2	(3.4)	1.9	1.8	1.8
Opex	\$/bbl	3.6	2.2	3.2	3.5	3.7	3.2	3.2
<b>Pipelines</b>								
Volumes	MMT	82.5	85.7	88.5	85.3	76.0	83.0	88.8
EBIDTA	Rs/MT	743	739	728	738	756	750	750
Capacity Utilization	%	93.6	91.0	93.9	90.4	80.4	87.4	93.7
<b>Petrochemicals</b>								
Volumes	MMT	2.6	2.4	2.6	2.6	2.7	3.1	3.4
EBIDTA	Rs/kg	29.5	25.8	19.6	10.2	22.5	22.0	25.0
<b>Marketing</b>								
Volumes	MMT	78.8	84.3	85.1	84.4	74.8	78.0	84.0
EBIDTA	Rs/MT	901.3	977.2	1,765.9	1,732.6	2,926.5	2,200.0	2,200.0

( Source: Company Reports, Anvil Estimates)

## Exhibit 11: SOTP Valuation based on FY22e:

Standalone Core Business	EBIDTA	EV/EBIDTA	Value	Value
	Rs/bn	times	Rs/bn	Rs/sh
Refining	64	6.5	415.7	44.5
Marketing	172	6.5	1,115.4	119.3
Petchem	62	6.0	373.5	39.9
Pipelines	68	7.0	477.4	51.1
<b>Total</b>			<b>2,382.0</b>	<b>254.8</b>
Less Debt			(1,053.3)	(112.6)
<b>Standalone Core Business</b>			<b>1,328.7</b>	<b>142.1</b>
	No of Shares	25% discount to CMP		
ONGC (7.8% stake)	98.7	87	85.9	9.2
PLNG (12.5% stake)	18.8	162	30.5	3.3
Oil India (4.9% stake)	5.4	125.25	6.8	0.7
GAIL (2.4% stake)	5.4	111.75	6.0	0.6
<b>Total Investments</b>				<b>13.8</b>
<b>Total Value of the company</b>				<b>155.9</b>

( Source: Company Reports, Anvil Estimates)

# INDIAN OIL CORPORATION LTD

## Exhibit 12: Profit and Loss Account (Rs/Cr)

Particulars	FY17	FY18	FY19	FY20	FY21	FY22e	FY23e
<b>PBDIT Break up</b>	<b>35,990</b>	<b>43,079</b>	<b>36,952</b>	<b>11,053</b>	<b>42,616</b>	<b>38,100</b>	<b>42,219</b>
of which							
<i>Refining</i>	13,276	20,533	8,237	(12,272)	6,606	6,395	7,079
<i>Marketing</i>	7,105	8,241	15,032	14,624	21,880	17,160	18,480
<i>Pipeline</i>	6,128	6,332	6,439	6,295	5,749	6,225	6,660
<i>Petchem</i>	7,590	6,104	5,164	2,677	6,141	6,820	8,500
<i>Others</i>	1,891	1,904	2,080	(271)	2,240	1,500	1,500
Interest	3,445	3,448	4,311	5,979	3,094	4,800	4,800
PBDT	32,545	39,631	32,641	5,074	39,522	33,300	37,419
Dep	6,223	7,067	7,518	8,772	9,804	10,500	11,500
PBT	26,321	32,564	25,123	(3,698)	29,718	22,800	25,919
Adj. PBT	26,304	32,575	25,127	(3,694)	29,716	22,800	25,919
Tax	7,215	11,218	8,233	(5,007)	7,880	6,042	6,868
PAT	19,089	21,357	16,894	1,313	21,836	16,758	19,050
<b>EPS (Rs/sh)</b>	<b>20.3</b>	<b>22.7</b>	<b>18.0</b>	<b>1.4</b>	<b>23.2</b>	<b>17.8</b>	<b>20.2</b>
<b>DPS (Rs/Sh)</b>	<b>11.2</b>	<b>10.1</b>	<b>10.3</b>	<b>5.1</b>	<b>10.2</b>	<b>8.9</b>	<b>10.1</b>
<b>ROE (%)</b>	<b>19%</b>	<b>21%</b>	<b>16%</b>	<b>1%</b>	<b>21%</b>	<b>15%</b>	<b>15%</b>
<b>EV/Ebidta (x)</b>	<b>4.3</b>	<b>3.6</b>	<b>5.0</b>	<b>19.4</b>	<b>4.7</b>	<b>5.3</b>	<b>4.8</b>
<b>P/BV (x)</b>	<b>1.0</b>	<b>0.9</b>	<b>0.9</b>	<b>1.1</b>	<b>0.9</b>	<b>0.8</b>	<b>0.8</b>

(Source: Company Reports, Anvil Estimates)

## Exhibit 13: Balance Sheet (Rs/Cr)

Particulars	FY17	FY18	FY19	FY20	FY21	FY22e	FY23e
Gross Block	1,73,053	1,31,504	1,43,879	1,67,348	1,86,242	2,09,242	2,33,242
Net Block	1,08,185	1,13,927	1,18,708	1,33,682	1,43,400	1,56,216	1,68,768
CWIP	10,738	14,348	23,764	29,738	33,052	33,052	33,052
Total Fixed Assets	1,18,922	1,28,276	1,42,472	1,63,420	1,76,452	1,89,268	2,01,820
Net Working Capital	(4,890)	646	18,340	18,580	(947)	(1,947)	(2,947)
Cash & Cash Equivalent	86	81	88	589	1,668	1,916	2,666
Investments	35,932	35,282	38,492	27,207	36,736	36,736	36,736
Oil Bonds	11,373	11,313	11,448	11,932	11,884	11,884	11,884
<b>Total</b>	<b>1,61,424</b>	<b>1,75,598</b>	<b>2,10,839</b>	<b>2,21,727</b>	<b>2,25,792</b>	<b>2,37,856</b>	<b>2,50,158</b>
Net Worth	99,845	1,05,548	1,08,658	93,769	1,10,500	1,18,879	1,28,404
Debt	54,820	58,030	86,359	1,16,545	1,02,328	1,05,328	1,07,328
Deferred Tax Liability	6,759	12,020	15,823	11,413	12,965	13,649	14,426
<b>Total</b>	<b>1,61,424</b>	<b>1,75,598</b>	<b>2,10,839</b>	<b>2,21,727</b>	<b>2,25,792</b>	<b>2,37,855</b>	<b>2,50,158</b>

(Source: Company Reports, Anvil Estimates)

# INDIAN OIL CORPORATION LTD

## Exhibit 14: Cash Flow Statement (Rs/Cr)

Particulars	FY17	FY18	FY19	FY20	FY21	FY22e	FY23e
PBDIT	35,990	43,079	36,952	11,053	42,616	38,100	42,219
Changes in Working Capital	(6,029)	(4,293)	(14,394)	3,551	10,768	1,000	1,000
Taxes Paid	(6,726)	(6,881)	(5,460)	(1,807)	(3,927)	(3,876)	(4,406)
Other Non-Cash Adjust	4,564	(5,481)	(3,608)	(5,607)	(361)	-	-
<b>Cash Flow from Operations</b>	<b>27,800</b>	<b>26,424</b>	<b>13,490</b>	<b>7,191</b>	<b>49,096</b>	<b>35,224</b>	<b>38,812</b>
Capex	(13,979)	(17,186)	(23,424)	(30,394)	(22,257)	(23,000)	(24,000)
Sale of Assets	959	389	1,068	700	999	200	200
Sale of financial instruments	2,729	829	500	-	115	-	-
Investment in Subsidiaries	(4,748)	(1,611)	(2,516)	(90)	(1)	-	-
Purchase of Investments	(2,587)	(1,142)	(513)	(736)	(4,580)	-	-
Government Grants	92	54	10	15	581	-	-
Interest Income	1,693	1,791	1,688	2,031	1,749	2,000	2,000
Dividend Income	1,107	1,097	1,349	1,592	1,241	1,600	1,600
<b>Cash Flow from Investing activities</b>	<b>(14,734)</b>	<b>(15,778)</b>	<b>(21,839)</b>	<b>(26,882)</b>	<b>(22,154)</b>	<b>(19,200)</b>	<b>(20,200)</b>
(Repayment) of borrowings	1,862	3,186	28,190	29,839	(14,322)	(3,000)	(2,000)
Interest Paid	(2,426)	(2,418)	(3,777)	(3,848)	(4,459)	(4,800)	(4,800)
Dividend & Dividend Distribution Tax	(12,707)	(11,408)	(11,635)	(5,802)	(8,383)	(7,977)	(11,062)
Expense of Issue of bonus/Buyback	(3)	(4)	(4,443)	-	-	-	-
<b>Cash Flow from Financing Activities</b>	<b>(13,275)</b>	<b>(10,644)</b>	<b>8,334</b>	<b>20,189</b>	<b>(27,164)</b>	<b>(15,777)</b>	<b>(17,862)</b>
<b>Increase / (Decrease) in Cash</b>	<b>(209)</b>	<b>1</b>	<b>(15)</b>	<b>498</b>	<b>(222)</b>	<b>247</b>	<b>750</b>
<b>Opening Cash</b>	<b>262</b>	<b>53</b>	<b>54</b>	<b>40</b>	<b>537</b>	<b>315</b>	<b>562</b>
<b>Closing Cash</b>	<b>53</b>	<b>54</b>	<b>40</b>	<b>537</b>	<b>315</b>	<b>562</b>	<b>1,313</b>

(Source: Company Reports, Anvil Estimates)



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**NSE Regn No. – INB231046831**

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