

## IOC NEUTRAL

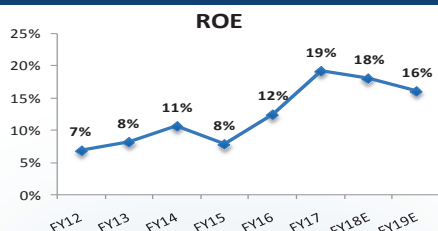
08-Aug-17

INDUSTRY - OIL MARKETING  
BSE Code - 530965  
NSE Code - IOC  
NIFTY - 10066

### Company Data

CMP	430
Target Price	445
Previous Target Price	445
Upside	3%
52wk Range H/L	450/265
Mkt Capital (Rs Cr)	2,09,435
Av. Volume (,000)	600

### RoE to maintain over 16% in FY19E

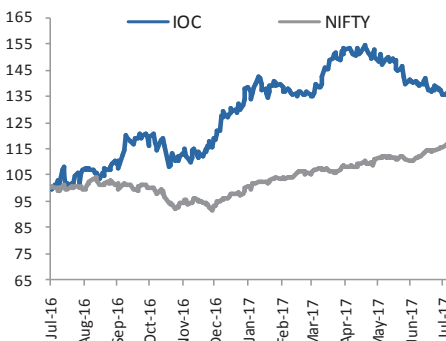


### Shareholding patterns %

	1QFY18	4QFY17	3QFY17
Promoters	57.3	57.3	58.3
Public	42.7	42.7	41.7
Total	100.0	100.0	100.0

### Stock Performance %

	1Mn	3Mn	1Yr
Absolute	9.4	51.1	41.1
Rel.to Nifty	5.3	34.3	15.4



ADITYA GUPTA

aditya.gupta@narnolia.com

### Key Highlights of the Report:

- ✓ Weak operational performance has lowered GRM to 4.32 USD/BBL vs 9.98 USD/BBL in the same period in FY17.
- ✓ Rupee appreciation against dollar and decline in crude oil prices remained major concern in 1QFY18.
- ✓ Management expects 60km Jharsuguda-Ranchi pipeline to be commissioned in FY18 which will increase volume from Paradip refinery.
- ✓ We expect core GRM to remain under pressure due to uncertainties in the crude oil prices.
- ✓ Currently, the stock is trading at 1.5x FY19E P/BV. We maintain 'NEUTRAL' rating in this stock with the target price of Rs.445.

Financials/Valu	FY15	FY16	FY17	FY18E	FY19E
Net Sales	4,37,526	3,47,165	3,59,873	3,80,052	3,85,906
EBITDA	10,147	21,057	31,781	33,563	34,080
EBIT	5,618	16,117	25,558	26,205	26,168
PAT	5,273	10,928	19,106	20,111	19,930
EPS (Rs)	11	23	39	41	41
EPS growth (%)	-25%	107%	75%	5%	-1%
ROE (%)	8%	12%	19%	18%	16%
ROCE (%)	6%	14%	21%	20%	18%
BV	140	181	205	231	255
P/B (X)	1.3	1.1	1.9	1.7	1.5
P/E (x)	17.0	8.7	9.8	9.5	9.6

### RECENT DEVELOPMENT:

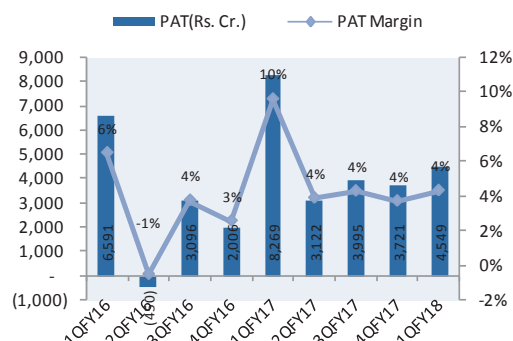
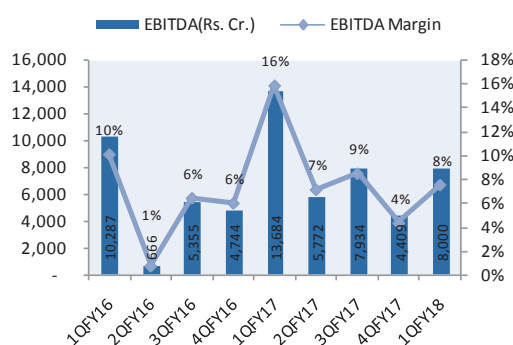
- ✓ IndianOil and LanzaTech sign a Statement of Intent to Construct World's First Refinery Off Gas-to-Bioethanol Production Facility in India. The work at 40 MTPA facility will begin later this year for installation at IndianOil's Panipat Refinery at an estimated cost of Rs.350 Cr.
- ✓ IOC is facing violent protest at its newly proposed LPG terminal at Puthuvyppeen in Kochi which may delay its commissioning. The NGT, vide its order of April 13, 2017, has reconfirmed its August 2016 order permitting IOC to continue with the work.
- ✓ Oil companies to bear merchant discount rate fees on debit card payments for fuel. The fee is 1% on credit card transactions and 0.25-1% on debit card transactions.
- ✓ IOC keen to buy 26% stake in GSPC's Mundra LNG terminal. With a view to expand its gas business, IOC invests Rs. 4500 Cr in Mundra project.

### Quarterly Performance

Financials	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	YoY %	QoQ%	FY16	FY17	YoY %
Refinery Thr.put(MMT)	16	16	16	17	18	10%	4%	56	65	16%
Market Thr.put(MMT)	20	19	20	21	23	10%	8%	80	80	0%
Pipeline Thr.put(MMT)	21	21	20	20	21	0%	-2%	80	82	3%
Net Sales	86,081	80,370	93,102	1,00,338	1,05,434	22%	8%	3,47,165	3,59,873	4%
Other Income	470	854	808	2,060	1,228	161%	155%	2,305	4,209	83%
COGS	63,701	66,330	73,872	79,673	87,825	38%	8%	2,89,365	2,83,576	-2%
Employee Cost	1,772	1,872	1,813	4,202	2,414	36%	132%	7,019	9,658	38%
Other Expenses	6,925	6,397	9,483	12,054	7,196	4%	27%	29,723	34,858	17%
EBITDA	13,684	5,772	7,934	4,409	8,000	-42%	-44%	21,057	31,781	51%
Depreciation	1,435	1,505	1,554	1,729	1,721	20%	11%	4,940	6,223	26%
Interest	680	615	997	1,154	718	6%	16%	3,101	3,445	11%
PBT	12,039	4,507	6,191	3,585	6,788	-44%	-42%	15,321	26,321	72%
Tax	3,770	1,385	2,196	(136)	2,239	-41%	-106%	5,758	7,215	25%
PAT	8,269	3,122	3,995	3,721	4,549	-45%	-7%	10,928	19,106	75%

### Higher Inventory loss resulted into subdued bottom line :

- ✓ Revenue has increased by 22.5% to Rs. 105434 Cr in 1QFY18 as compared to Rs. 86081 Cr in the same quarter in FY17. Revenue has improved on account of increased refinery throughput by 9% YoY.
- ✓ Pipeline throughput has increased to 21.35 MMT in Q1FY18, growth of 7% QoQ. This growth is on account of commissioning of Haldia Baruna pipeline which has been commissioned in March 17.
- ✓ EBITDA margin has declined by 160bps to 7.6% in 1QFY18 mainly due to higher inventory loss and lower GRM of 4.32 USD/barrel.
- ✓ Profit after tax has declined by 45% to Rs. 4549 Cr in 1QFY18 as compared to Rs. 8269 Cr in the same quarter in FY17 on account of lower refining margins and higher depreciation.
- ✓ GRM for the quarter is 4.2 USD/barrel vs 9.98 USD/barrel on account of crude price fluctuations and lower yields.
- ✓ Compay has reported marketing volume of 20.73 MMT in the Q1FY18, a muted growth of 2% YoY. This muted growth is led by lower demand of Diesel.

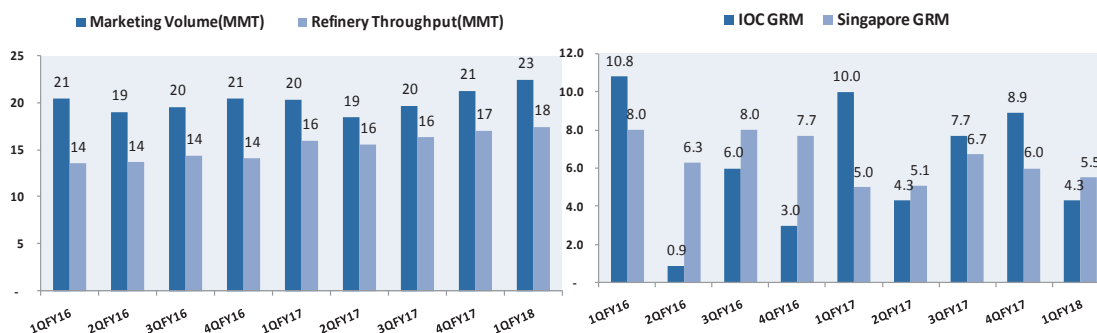


### Investment Arguments:

- ✓ **Higher Utilisation at Paradip refinery limits volume growth-** At present Capacity utilization at paradip refinery is 85% which indicates that volume offtake from paradip refinery has already stabilized and there is limited scope for volume growth going ahead.
- ✓ **Slow down in the volume growth –** The demand of the diesel has decreased in the month of June by about 9%. We expect demand of Diesel to remain sluggish in the near term due to heavy rain in this year. Volume remains the key concern for the growth of the company and considering less scope of growth, we are cautious on volume growth.
- ✓ **LPG pipeline-** The company is on track to construct 710km Paradip-Haldia-Durgapur LPG pipeline, which will facilitate LPG transportation from Paradip and Haldia to the LPG bottling plants at Balasore, Budge-Budge, Kalyani and Durgapur.
- ✓ **Lower Operational Efficiency-** In Q1FY18, IOC has posted GRM of 4.32 USD/barrel vs 9.98 USD/barrel due to uncertainties in the crude price and lower yields. Considering the current crude price fluctuations we expect GRM to remain under pressure going ahead.
- ✓ **Upcoming Projects-** IOCL is investing Rs 34,000 Cr. on the petrochemical complex. The entire petrochemical complex is expected to be commissioned by 2021. The polypropylene unit would have a capacity of 7,000 kilo tonne per annum (KTPA) would be integrated with the oil refinery. We expect volume offtake from FY22 onwards.

### Volume Trend

### GRM Trend (USD/barrel)



### View & Valuation

Indian Oil is the largest petrochemical company with the 35% of the India's total refining capacity. The company with its strong distribution network of 25000+ outlets, caters about half of the petroleum demand of India. In Q1FY18 company has posted revenue of Rs. 1,05,434 Cr., growth of 22% YoY where as PAT declines by 45% YoY to Rs.4549 Cr. GRM for Q1FY18 is 4.32 USD/barrel vs 9.98 USD/barrel in same period of FY17. We have been positive on IOC for more than a year on account of the projected volume growth arising out of paradip refinery and also enhanced GRM due to the new capacity at Paradip that is able to process high sulphur content effectively. Recently, the paradip's capacity utilisation has reached 85% which suggest that volume growth story will now go on backfoot. Also, the high GRM that IOC has been commanding over other refineries due to its new plant should now get stable. Hence we revise our rating from BUY to NEUTRAL keeping the target price intact at Rs445/-. Currently stock is trading at 1.7x FY19's Expected Book value (BV).

## Financials Snap Shot

Income Statement				
	in Rs Crores			
Y/E March	FY16	FY17	FY18E	FY19E
Revenue from Operation	3,46,045	5,81,260	6,05,700	6,09,900
Change (%)	-23%	68%	4%	1%
EBITDA	23,443	34,013	35,200	36,312
Change (%)	122%	45%	3%	3%
Margin (%)	7%	6%	6%	6%
Depr & Amor.	5,698	6,849	7,984	8,538
EBIT	17,745	27,164	27,216	27,774
Int. & other fin. Cost	3,469	3,721	3,252	3,439
Other Income	2,186	3,872	3,525	3,199
EBT	16,462	27,315	27,489	27,534
Exp Item	1,364	-	-	-
Tax	5,658	7,570	7,787	7,881
Minority Interest	246	640	-	-
Reported PAT	12,413	20,385	19,703	19,653
Adjusted PAT	11,518	20,385	19,703	19,653
Change (%)	153%	64%	-3%	0%
Margin(%)	4%	4%	3%	3%

Balance Sheet				
	in Rs Crores			
Y/E March	FY16	FY17	FY18E	FY19E
Share Capital	2,370	4,739	4,739	4,739
Reserves	87,610	97,357	1,09,317	1,21,430
Networth	89,980	1,02,096	1,14,056	1,26,169
Debt	48,149	58,830	51,967	54,700
Other Non Cur Liab	678	752	752	752
Total Capital Employed	1,38,129	1,60,926	1,66,023	1,80,870
Net Fixed Assets (incl CWIP)	1,26,251	1,32,735	1,44,977	1,62,065
Non Cur Investments	24,089	36,218	36,218	36,218
Other Non Cur Asst	2,605	3,148	3,148	3,148
Non Curr Assets	1,57,820	1,76,951	1,89,187	2,06,274
Inventory	42,257	65,884	60,920	60,920
Debtors	7,685	8,899	9,217	9,514
Cash & Bank	735	330	557	24
Other Curr Assets	3,870	3,622	3,647	3,669
Curr Assets	73,696	96,551	89,558	86,534
Creditors	24,337	31,170	32,295	33,348
Provisions	12,491	22,292	29,123	29,123
Other Curr Liab	10,193	13,475	8,312	9,342
Curr Liabilities	64,208	79,612	85,037	87,887
Net Curr Assets	9,488	16,939	4,521	(1,353)
Total Assets	2,31,555	2,73,561	2,78,745	2,92,809

Cash Flow Statement				
	in Rs Crores			
Y/E March	FY16	FY17E	FY18E	FY19E
PBT	17,259	27,315	27,506	27,534
(inc)/Dec in Working Capital	26,295	37,885	38,742	39,511
Non Cash Op Exp	5,865	6,849	7,984	8,538
Int Paid (+)	3,630	3,721	3,252	3,439
Tax Paid	3,250	7,570	7,775	7,874
others	7,724	(5,449)	1,842	4,836
CF from Op. Activities	27,020	23,652	32,492	36,176
(inc)/Dec in FA & CWIP	(4,244)	(13,332)	(20,226)	(25,626)
Free Cashflow	22,776	10,319	12,266	10,550
(Pur)/Sale of Inv	629	-	-	-
others	(10,190)	(12,129)	-	-
CF from Inv. Activities	(13,805)	(25,461)	(20,226)	(25,626)
inc/(dec) in NW				
inc/(dec) in Debt	(4,175)	10,681	-	-
Div Paid (inc tax)	(3,590)	(7,494)	(7,706)	(7,809)
others	(4,661)	(3,721)	(3,252)	(3,439)
CF from Fin. Activities	(12,426)	(535)	(10,958)	(11,248)
Inc(Dec) in Cash	789	(2,344)	1,308	(698)
Add: Opening Balance	1,225	735	330	744
Closing Balance	2,014	(1,609)	1,638	46

## Key Ratios

	FY16	FY17	FY18E	FY19E
ROE	14%	20%	17%	16%
ROCE	15%	21%	20%	18%
Asset Turnover	1.5	2.1	2.2	2.1
Debtor Days	8	9	9	9
Inv Days	41	63	-	-
Payable Days	23	31	31	31
Int Coverage	5	7	8	8
P/E	8	9	10	10
Price / Book Value	1.1	1.8	1.7	1.5
EV/EBITDA	5	6	6	6
FCF per Share	24	21	25	22
Div Yield	2%	3%	3%	3%

## Key Assumptions

	FY16	FY17	FY18E	FY19E
Refinery Throughput (MT)	56	65	70	70
Pipeline Throughput (MMT)	80	82	86	86
Marketing Volume(MT)	80	80	79	79