

## IOC NEUTRAL

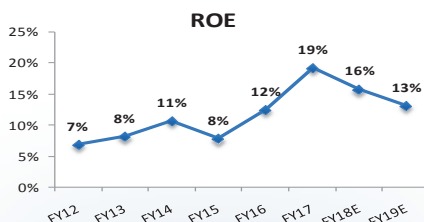
01-Nov-17

INDUSTRY - OIL MARKETING  
BSE Code - 530965  
NSE Code - IOC  
NIFTY - 10335

### Company Data

CMP	414
Target Price	440
Previous Target Price	445
Upside	6%
52wk Range H/L	462/281
Mkt Capital (Rs Cr)	2,01,957
Av. Volume (,000)	539

### RoE to decline in FY19E

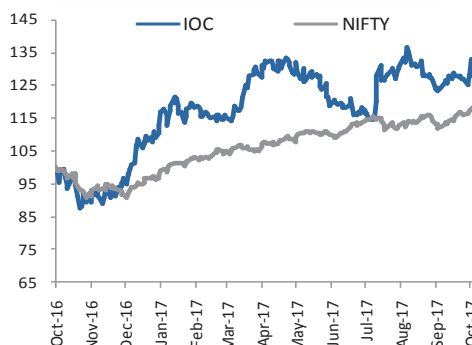


### Shareholding patterns %

	2QFY18	1QFY18	4QFY17
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	4.8	12.5	26.8
Rel.to Nifty	(1.7)	9.1	7.6



### Key Highlights of the Report:

- ✓ Reported GRM of USD 7.8/BBL in Q2FY18 vs USD 5.1/BBL in the same period of FY17.
- ✓ Refinery throughput was lower at 16.1 MMT due to planned shutdowns at Panipat, Mathura, Gujarat and Barauni refinery which is now operational.
- ✓ Jharsuguda-Ranchi pipeline is fully commissioned in July 2017 which will improve connectivity of Paradip refinery with major cities.
- ✓ Reported GST impact of Rs. 300 Cr in the last quarter due to unavailability of input credit.
- ✓ Currently, the stock is trading at 1.6x FY19E book value. We are 'NEUTRAL' in this stock with the target price of Rs. 440

Financials/Valu	FY15	FY16	FY17	FY18E	FY19E
Net Sales	4,37,526	3,47,165	3,59,873	3,40,309	3,17,940
EBITDA	10,147	21,057	31,781	30,053	28,078
EBIT	5,618	16,117	25,558	22,695	20,534
PAT	5,273	10,928	19,106	17,373	15,675
EPS (Rs)	11	23	39	36	32
EPS growth (%)	-25%	107%	75%	-9%	-10%
ROE (%)	8%	12%	19%	16%	13%
ROCE (%)	6%	14%	21%	17%	14%
BV	140	181	205	227	247
P/B (X)	1.3	1.1	1.9	1.7	1.6
P/E (x)	17.0	8.7	9.8	11.0	12.2

### RECENT DEVELOPMENT:

- ✓ IOC to invest Rs 32,000 crore to ramp up petrochemical capacity by FY21. This investment is part of the overall Rs 1.8 trillion capex planned for the next five to seven years
- ✓ IOC plans to expand Paradip refinery capacity by 3-4 MT. IOC is investing Rs 50,000 crore in Odisha. This includes the Rs 5,000 crore Dhamra LNG terminal in which IOC will have 40% equity, though it has not yet been firmed up.
- ✓ Indian Oil Corp is planning to set up battery charging stations for electric vehicles at its petrol pumps
- ✓ Government ruled out its intervention in daily revision in oil prices and cut in excise duty. Prices of fuel is linked to their international prices, and are not based on cost of production, which makes them fluctuate as per global trends

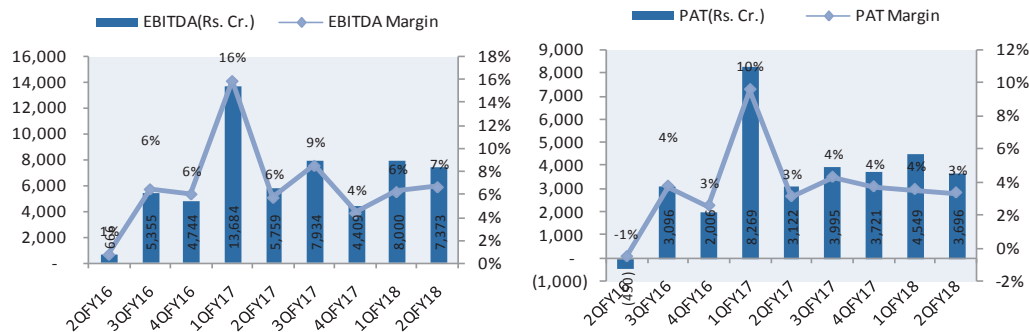
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## Quarterly Performance

Financials	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	YoY %	QoQ%	FY16	FY17	YoY %
Refinery Thr. put(MMT)	15.6	16.4	17.1	17.5	16.1	3%	-8%	56	65	16%
Marketing Thr.	18.5	19.7	21.3	22.5	20.9	13%	-7%	80	80	0%
Pipeline Thr. put(MMT)	21.0	20.2	19.8	21.4	19.3	-8%	-9%	80	82	3%
Net Sales	1,00,260	93,102	1,00,338	1,28,191	1,10,637	10%	-14%	3,47,165	3,59,873	4%
Other Income	868	808	2,060	1,228	588	-32%	-52%	2,305	4,209	83%
COGS	86,233	73,872	79,673	1,10,581	93,368	8%	-16%	2,89,365	2,83,576	-2%
Employee Cost	1,872	1,813	4,202	2,414	2,364	26%	-2%	7,019	9,658	38%
Other Expenses	6,397	9,483	12,054	7,196	7,531	18%	5%	29,723	34,858	17%
EBITDA	5,759	7,934	4,409	8,000	7,373	28%	-8%	21,057	31,781	51%
Depreciation	1,505	1,554	1,729	1,721	1,697	13%	-1%	4,940	6,223	26%
Interest	615	997	1,154	718	773	26%	8%	3,101	3,445	11%
PBT	4,507	6,191	3,585	6,788	5,491	22%	-19%	15,321	26,321	72%
Tax	1,385	2,196	(136)	2,239	1,795	30%	-20%	5,758	7,215	25%
PAT	3,122	3,995	3,721	4,549	3,696	18%	-19%	10,928	19,106	75%

### Planned shutdown of refineries impacted the pipeline volume :

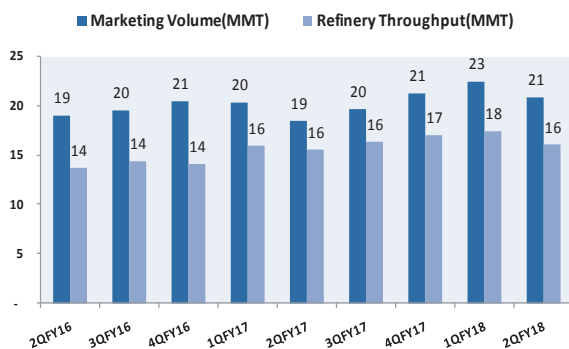
- ✓ Revenue has increased by 10.3% to Rs. 110367 Cr in 2QFY18 as compared to Rs. 100260 Cr in the same quarter in FY17. Revenue has improved on account of stabilization of Paradip refinery.
- ✓ Pipeline throughput has declined by 8% YoY due to planned shutdown of Panipat, Mathura, Gujarat and Barauni refineries. These refineries are now operational.
- ✓ EBITDA margin has improved by 100bps to 6.7% in 2QFY18 mainly due to improved GRM of 7.98 USD/barrel.
- ✓ Profit after tax has improved by 18% to Rs.3696 Cr in 2QFY18 vs Rs. 3122 Cr in the same period of FY17 due to the improved GRM to USD 7.98/BBL.
- ✓ GRM for the quarter is 7.98 USD/barrel vs 4.3 USD/barrel on account of favourable crude price and higher distillate yields.
- ✓ Compay has reported marketing volume of 20.89 MMT in the 2QFY18, a growth of 13% YoY . This is because of lower demand of petroleum products in 2QFY17.



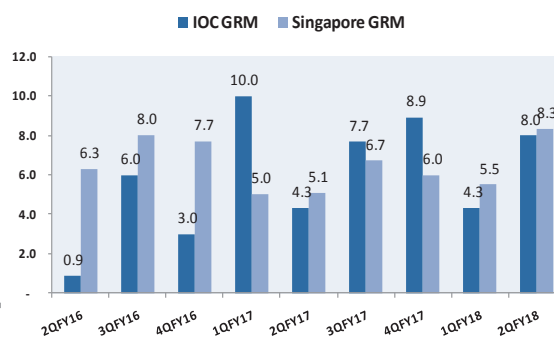
### Investment Arguments:

- ✓ **Higher Utilisation at Paradip refinery limits volume growth-** At present Capacity utilization at Paradip refinery is 97% 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 Q2FY18, IOC has posted GRM of 7.98 USD/barrel vs 4.3 USD/barrel due to higher distillate 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 35% of India's total refining capacity. The company with its strong distribution network of 25000+ outlets, caters about half of the petroleum demand of the India. In Q2FY18 company has posted revenue of Rs. 1,10,637 Cr., growth of 10% YoY where as PAT increased by 18% YoY to Rs.3696 Cr. GRM for Q2FY18 is 7.98 USD/barrel vs 4.3 USD/barrel in same period of FY17. In the last quarter there was a planned shutdown at Panipat, Mathura and Baruni refinery due to the low demand of petroleum products. Paradip refinery has been operated at 97% capacity utilization which indicates that Paradip refinery has now fully stabilized which leaves no further volume growth prospects for the company. Also, high GRM that IOC has been commanding over other refineries due to its new plant should now get stable. Hence we are NEUTRAL keeping the target price intact at Rs440/-. 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	2,232	2,232
Change (%)	122%	45%	-93%	0%
Margin (%)	7%	6%	0%	0%
Depr & Amor.	5,698	6,849	7,984	8,170
EBIT	17,745	27,164	(5,752)	(5,938)
Int. & other fin. Cost	3,469	3,721	3,252	3,439
Other Income	2,186	3,872	3,524	3,199
EBT	16,462	27,315	(5,480)	(6,178)
Exp Item	1,364	-	-	-
Tax	5,658	7,570	6,916	6,275
Minority Int & P/L share of As	246	640	-	-
Reported PAT	12,413	20,385	(12,396)	(12,452)
Adjusted PAT	11,518	20,385	(12,396)	(12,452)
Change (%)	153%	64%	-161%	0%
Margin(%)	4%	4%	-2%	-2%

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	1,07,916	1,17,442
Networth	89,980	1,02,096	1,12,655	1,22,182
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	1,64,622	1,76,882
Net Fixed Assets (incl CWIP)	1,26,251	1,32,735	1,39,316	1,52,751
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	1,83,526	1,96,961
Inventory	42,257	65,884	67,087	67,087
Debtors	7,685	8,899	8,437	7,908
Cash & Bank	735	330	547	24
Other Curr Assets	3,870	3,622	3,587	3,546
Curr Assets	73,696	96,551	84,832	79,683
Creditors	24,337	31,170	30,385	28,457
Provisions	12,491	22,292	29,123	29,123
Other Curr Liab	10,193	13,475	8,419	9,392
Curr Liabilities	64,208	79,612	83,234	83,046
Net Curr Assets	9,488	16,939	1,598	(3,363)
Total Assets	2,31,555	2,73,561	2,68,358	2,76,644

Cash Flow Statement				
in Rs Crores				
Y/E March	FY16	FY17	FY18E	FY19E
PBT	17,259	27,315	(5,480)	(6,178)
(inc)/Dec in Working Capital	26,295	37,885	5,756	5,431
Non Cash Op Exp	5,865	6,849	7,984	8,170
Int Paid (+)	3,630	3,721	3,252	3,439
Tax Paid	3,250	7,570	6,916	6,275
others	7,724	(5,449)	4,618	2,968
CF from Op. Activities	27,020	23,652	3,920	2,653
(inc)/Dec in FA & CWIP	(4,244)	(13,332)	(14,565)	(21,605)
Free Cashflow	22,776	10,319	(10,645)	(18,952)
(Pur)/Sale of Inv	629	-	-	-
others	(10,190)	(12,129)	-	-
CF from Inv. Activities	(13,805)	(25,461)	(14,565)	(21,605)
inc/(dec) in NW				
inc/(dec) in Debt	(4,175)	10,681	-	-
Div Paid (inc tax)	(3,590)	(7,494)	(6,814)	(6,148)
others	(4,661)	(3,721)	(3,252)	(3,439)
CF from Fin. Activities	(12,426)	(535)	(10,066)	(9,587)
Inc(Dec) in Cash	789	(2,344)	(20,711)	(28,539)
Add: Opening Balance	1,225	735	330	547
Closing Balance	2,014	(1,609)	(20,382)	(27,993)

## Key Ratios

	FY16	FY17	FY18E	FY19E
ROE	14%	20%	-11%	-10%
ROCE	15%	21%	-4%	-4%
Asset Turnover	1.5	2.1	2.3	2.2
Debtor Days	8	9	9	9
Inv Days	41	63	-	-
Payable Days	23	31	31	31
Int Coverage	5	7	(2)	(2)
P/E	8	9	(16)	(16)
Price / Book Value	1.1	1.8	1.7	1.6
EV/EBITDA	5	6	98	99
FCF per Share	24	21	(22)	(39)
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