

## IOC PART BOOK PROFIT

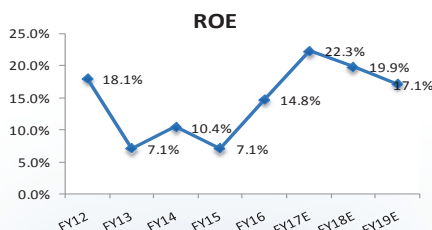
06-May-17

INDUSTRY - OIL MARKETING  
BSE Code - 530965  
NSE Code - IOC  
NIFTY - 9311

### Company Data

CMP	443
<b>Target Price</b>	
Previous Target Price	
<b>Upside</b>	
52wk Range H/L	448/196
Mkt Capital (Rs Cr)	2,15,140
Av. Volume (,000)	526

### RoE to maintain over 22% in FY17E

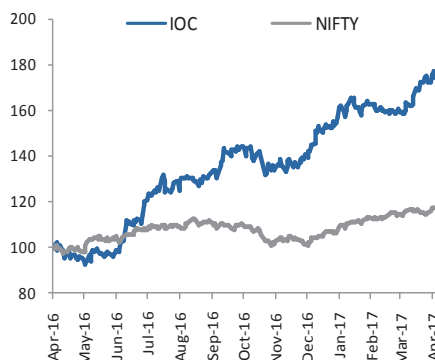


### Shareholding patterns %

	4QFY17	3QFY17	2QFY17
Promoters	57.3	58.3	58.3
Public	42.7	41.7	41.7
Total	100.0	100.0	100.0

### Stock Performance %

	1Mn	3Mn	1Yr
Absolute	17.6	107.4	63.3
Rel.to Nifty	16.2	88.8	54.8



### Key Highlights of the Report:

- ✓ Management expects higher capacity utilization at 15MT Paradip refinery in 1QFY18, will boost volume and will improve GRM of the company.
- ✓ IOC has various major expansion plans which will increase the IOC's refining capacity to 104 MT from existing 80.7MT by 2022.
- ✓ Management expects 60km Jharsuguda-Ranchi pipeline to be commissioned in FY18 which will increase offtake from Paradip refinery.
- ✓ Considering recent rallies in the stock price, valuation seems little expensive.
- ✓ Currently, the stock is trading at 1.9x FY19E P/BV. We recommend 'Book Profit' for the short term investors and long term investors may "HOLD" rating in this stock.

Financials/Valu	FY15	FY16	FY17E	FY18E	FY19E
Net Sales	4,49,509	3,55,927	5,81,260	6,05,700	6,09,900
EBITDA	10,550	23,197	38,362	38,949	39,653
EBIT	5,331	17,278	31,289	31,275	31,142
PAT	4,912	11,219	19,778	20,133	19,539
EPS (Rs)	20	46	41	41	40
EPS growth (%)	-31%	128%	-12%	2%	-3%
ROE (%)	7%	15%	22%	20%	17%
ROCE (%)	5%	16%	24%	22%	20%
BV	68,832	75,994	88,501	1,01,413	1,13,930
P/B (X)	1.3	1.3	2.4	2.1	1.9
P/E (x)	18.2	8.5	10.8	10.6	10.9

### RECENT DEVELOPMENT:

- ✓ National Green Tribunal (NGT) has confirmed its order dated August 2, 2016, permitting IndianOil to "go ahead" with its LPG import terminal project at Puthuvypeen, Kerala. This will enable the company to cater growing LNG demand in future.
- ✓ IOC plans to come up with a 15-million-tonne (MT) refinery, with an investment of about Rs 40,000 crore, at Nagapattinam in Tamil Nadu. Currently, Nagapattinam has a 1-mt plant operated by Chennai Petroleum Corporation (CPCL), an IOC subsidiary.
- ✓ 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.

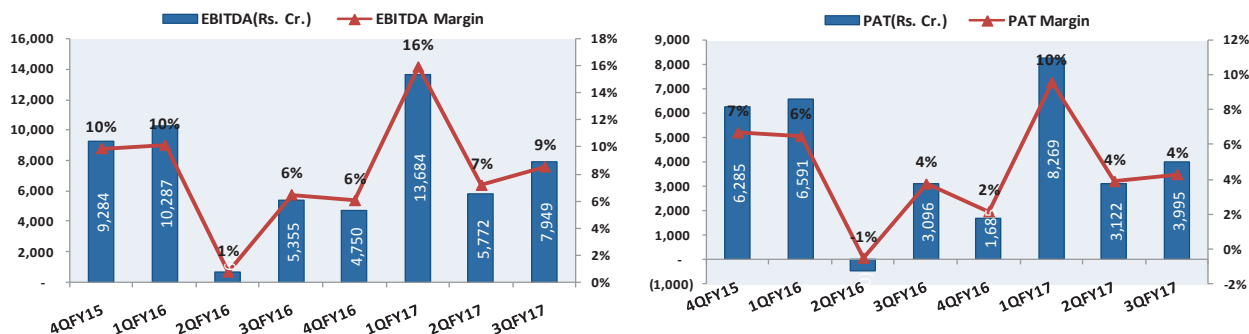
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## Quarterly Performance

Financials	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	YoY %	QoQ%	FY15	FY16	YoY %
Petroleum products	93,261	93,276	1,02,802	95,732	1,11,212	19%	16%	4,19,264	3,32,270	-21%
Petrochemicals	4205	5172	4683	4474	4714	12%	5%	20264	16992	-16%
Other business activities	2,758	2,925	2,247	2,836	2,940	7%	4%	17,176	13,651	-21%
Net Sales	82,676	78,401	86,081	80,370	93,117	13%	16%	4,49,509	3,55,927	-21%
Other Income	648	722	470	854	793	22%	-7%	4,204	2,246	-47%
COGS	69,055	64,134	63,701	66,330	73,872	7%	11%	3,99,121	2,89,225	-28%
Employee Cost	1,716	1,288	1,772	1,872	1,813	6%	-3%	7,662	8,228	7%
Other Expenses	6,550	8,230	6,925	6,397	9,483	45%	48%	32,175	35,277	10%
EBITDA	5,355	4,750	13,684	5,772	7,949	48%	38%	10,550	23,197	120%
Depreciation	1,191	1,439	1,435	1,505	1,554	30%	3%	5,219	5,919	13%
Interest	641	1,085	680	615	997	56%	62%	4,175	3,630	-13%
PBT	4,172	2,948	12,039	4,507	6,191	48%	37%	5,346	15,894	197%
Tax	1,549	1,255	3,770	1,385	2,196	42%	59%	2,143	5,653	164%
PAT	3,096	1,685	8,269	3,122	3,995	29%	28%	4,912	11,219	128%

### Robust PAT growth in 3QFY17:

- ✓ Profit after tax has increased by 29% to Rs. 3995 Cr in 3QFY17 as compared to Rs. 3096 Cr in the same quarter in FY16.
- ✓ Revenue from sale of Petroleum products has increased from Rs. 93261 Cr to Rs. 111212 Cr in 3QFY17.
- ✓ Revenue from sale of Petrochemicals has increased from Rs. 4205 Cr to Rs. 4714 Cr in 3QFY17.
- ✓ Revenue from Other business activities has increased from Rs. 2758 Cr to Rs. 2940 Cr in 3QFY17.



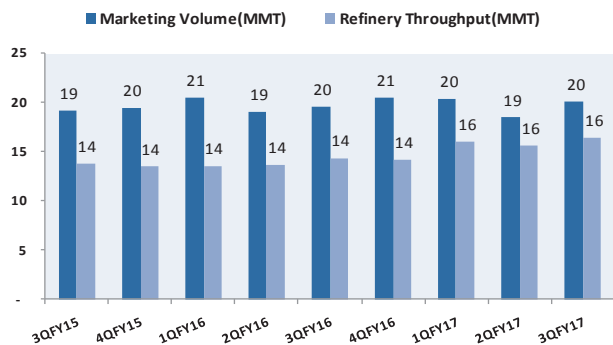
### Concall Highlights:

- ✓ Management expecting a volume growth of between 3- 4 million tonne(MT) going forward.
- ✓ IOC's management indicated merger with Chennai Petro, but no timeline yet
- ✓ All units of Paradip refinery are fully commissioned with capacity utilization of 80% in 3QFY17. Management expects 95% capacity utilization by March 2017.
- ✓ Management has guided for provisioning of Rs. 20000 Cr for the Entry tax. Out of which provision of Rs. 10000 Cr already made.
- ✓ Capex guidance for FY18 is Rs. 19600 Cr and FY19 is ~ Rs. 25000 Cr.
- ✓ Anticipated VAT for Paradip refinery is Rs. 150 Cr per month.

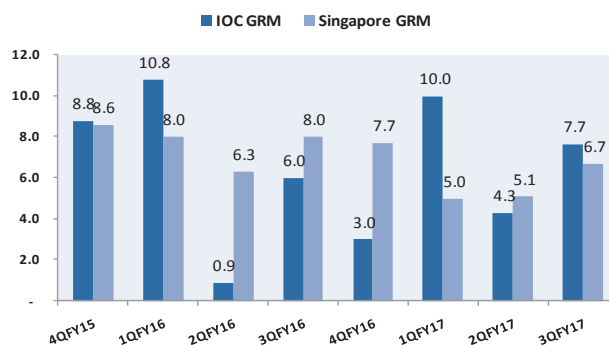
### Investment Arguments:

- ✓ **Stabilization of Paradip refinery-** All units of Paradip refinery are fully commissioned with capacity utilization of 80% in Dec'16. Management expects 95% capacity utilization in 1QFY18. It will improve the refining volume by 13MTPA and will improve GRM in FY18.
- ✓ **Growth in Pipeline volume** – Evacuation through the Paradip- Jharsuguda-Raipur-Ranchi pipeline has been started in the month of Jan'17. Jharsuguda-Ranchi pipeline of 60Km is yet to be commissioned. Management is optimistic to commission this pipeline in FY18. This will increase the pipeline throughput by 3-4% to 21 MMT
- ✓ **Growth in Gasoline volume** - Management indicated that volume growth of gasoline is gaining traction from March'17. Liquefied Petroleum Gas (LPG) volume is also growing at double digits. But, diesel growth has remained flat.
- ✓ **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.
- ✓ **High Operational Efficiency-** Paradip is expected to achieve GRM of USD 12/BBL post 95% capacity utilisation. This will improve core GRM to USD 8/BBL.
- ✓ **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.

Volume Trend



GRM Trend



### View & Valuation

With the full commissioning of 15MMTPA Paradip refinery, Indian Oil Corporation is equipped to cater the growing fuel demand in the country. Management expects 95% capacity utilization of Paradip refinery and volume growth of 3-4 MTPA going forward. Further management plans to add 300 retail outlets every year to its existing network of 25000+ outlets. This will improve the volume of the company up-to a large extent. IOC has equipped with BS VI standard HSD and BS VI standard motor spirit and prepared to start supply by Oct'17. IOC maintains healthy dividend payout of 33%. Currently stock is trading at 1.9x FY19 P/BV. Recently IOC rallied smartly and achieved our recommended target price of Rs 445. We expect that the stock has discounted all the near term positives and at this price point the valuation seems little stretched, so we recommend our short term investors to “book profit” at current levels but long term investors may hold this stock.

### Financials Snap Shot

Income Statement				
	in Rs Crores			
Y/E March	FY16	FY17E	FY18E	FY19E
Revenue from Operation	3,55,927	5,81,260	6,05,700	6,09,900
Change (%)	-21%	63%	4%	1%
EBITDA	23,197	38,362	38,949	39,653
Change (%)	120%	65%	2%	2%
Margin (%)	7%	7%	6%	7%
<b>Depr &amp; Amorr.</b>	<b>5,919</b>	<b>7,073</b>	<b>7,674</b>	<b>8,511</b>
EBIT	17,278	31,289	31,275	31,142
Int. & other fin. Cost	3,630	4,044	4,044	4,044
Other Income	2,246	3,350	3,261	2,523
EBT	15,894	30,596	30,493	29,621
Exp Item	1,364	-	-	-
Tax	5,653	10,431	10,360	10,082
Minority Int & P/L share of A:	387	387	-	-
Reported PAT	11,219	19,778	20,133	19,539
Adjusted PAT	10,340	19,778	20,133	19,539
<b>Change (%)</b>	<b>128%</b>	<b>76%</b>	<b>2%</b>	<b>-3%</b>
<b>Margin(%)</b>	<b>3%</b>	<b>3%</b>	<b>3%</b>	<b>3%</b>

Balance Sheet				
	in Rs Crores			
Y/E March	FY16	FY17E	FY18E	FY19E
Share Capital	2,428	2,428	2,428	2,428
Reserves	73,566	86,073	98,985	1,11,502
Networth	75,994	88,501	1,01,413	1,13,930
Debt	50,850	56,711	56,711	56,711
<b>Other Non Cur Liab</b>	<b>18,020</b>	<b>18,020</b>	<b>18,020</b>	<b>18,020</b>
Total Capital Employed	1,26,844	1,45,212	1,58,124	1,70,640
Net Fixed Assets (incl CWIP)	1,28,434	1,37,821	1,50,813	1,68,368
Non Cur Investments	8,667	15,000	14,000	10,000
Other Non Cur Asst	146	146	146	146
Non Curr Assets	1,47,550	1,63,271	1,75,262	1,88,817
Inventory	42,095	50,372	52,654	55,160
<b>Debtors</b>	<b>8,660</b>	<b>10,396</b>	<b>10,874</b>	<b>11,400</b>
Cash & Bank	2,014	2,514	3,654	3,600
Other Curr Assets	2,902	3,844	4,104	4,389
Curr Assets	94,474	1,14,532	1,19,708	1,23,250
<b>Creditors</b>	<b>24,921</b>	<b>29,767</b>	<b>31,103</b>	<b>32,570</b>
Provisions	32,109	38,462	40,214	42,137
Other Curr Liab	29,060	35,303	37,024	38,914
Curr Liabilities	83,614	1,01,056	1,05,865	1,11,145
Net Curr Assets	10,860	13,476	13,843	12,105
Total Assets	2,42,024	2,77,802	2,94,971	3,12,067

Cash Flow Statement				
	in Rs Crores			
Y/E March	FY16	FY17E	FY18E	FY19E
PBT	17,259	30,596	30,493	29,621
(inc)/Dec in Working Capital	26,295	41,326	42,211	42,176
Non Cash Op Exp	5,865.2	7,073.2	7,674.1	8,511.2
Int Paid (+)	3,629.71	4,043.85	4,043.85	4,043.85
Tax Paid	3,249.9	10,431.3	10,360.0	10,082.4
others	7,724	(380)	1,251	2,209
CF from Op. Activities	27,020	28,780	32,623	33,778
(inc)/Dec in FA & CWIP	(4,244)	(16,460)	(20,666)	(26,066)
Free Cashflow	22,776.2	12,319.2	11,957.3	7,712.3
(Pur)/Sale of Inv	629	-	-	-
others	(10,190)	(6,333)	1,000	4,000
CF from Inv. Activities	(13,805)	(22,794)	(19,666)	(22,066)
inc/(dec) in NW				
inc/(dec) in Debt	(4,175.5)	5,861.1	-	-
Div Paid (inc tax)	(3,590.0)	(7,270.9)	(7,220.1)	(7,022.6)
others	(4,661)	(4,044)	(4,044)	(4,044)
CF from Fin. Activities	(12,426)	(5,454)	(11,264)	(11,066)
Inc(Dec) in Cash	789	532	1,693	646
Add: Opening Balance	1,225	2,014	2,514	3,654
Closing Balance	2,014	2,546	4,207	4,300

### Key Ratios

	FY16	FY17E	FY18E	FY19E
ROE	15%	22%	20%	17%
ROCE	16%	24%	22%	20%
Asset Turnover	1.5	2.1	2.1	2.0
Debtor Days	8	8	8	8
Inv Days	40	40	40	40
<b>Payable Days</b>	<b>23</b>	<b>23</b>	<b>23</b>	<b>23</b>
Int Coverage	5	8	8	8
P/E	9	11	11	11
Price / Book Value	1.3	2.4	2.1	1.9
EV/EBITDA	5	7	7	6
<b>FCF per Share</b>	<b>47</b>	<b>25</b>	<b>25</b>	<b>16</b>
Div Yield	2%	3%	3%	3%

### Key Assumptions

	FY16	FY17E	FY18E	FY19E
Refinery Throughput (MT)	56	65	70	70
Pipeline Throughput (MMT)	80	85	91	99
Marketing Volume(MT)	80	80	84	88