

Indian Oil Corporation

Performance Highlights

Standalone (₹ cr)	2QFY16	2QFY15	yoy (%)	1QFY16	qoq%
Total Revenue	85,385	1,11,664	(23.5)	1,01,307	(15.7)
EBITDA	695	(356)	(295.1)	10,101	(93.1)
Margin (%)	0.8	(0.3)	113bp	10.0	(916)bp
Reported PAT	(329)	(898)	(63.4)	6,436	0.0

Source: Company, Angel Research

Indian Oil Corporation (IOCL)'s 2QFY2016 revenue came in 2.4% ahead of our estimate at ₹85,385cr, led by a 5.8% yoy increase in product sales volumes to 19.07MMT as against 18.03MMT in 2QFY2015. Refining throughput increased 2.1% to 13.68MMT as against 13.41MMT in 2QFY2015, while total throughput increased 5% yoy to 19.98MMT as against 19.04MMT in 2QFY2015. Revenue however declined 24% yoy on account of lower price realisations. The EBITDA at ₹695cr was much lower than our expectation of ₹3,714cr, owing to lower than expected refining margins and high inventory losses. Refining margin at \$0.9/bbl was much lower than our expectation and compared to \$10.8/bbl as in 1QFY2016. This was largely on account of reduced spreads and adventitious loss of ₹1,197cr. We expect the impact from inventory losses to reduce going forward and profit to stabilise as crude prices stabilise at current levels.

The commissioning of its state-of-the-art 15MMTPA coastal refinery at Paradip is expected to be fully operational in an integrated manner by Dec 2015. With its commissioning, IOCL's refining capacity is set to increase by ~23% to 80.7MMTPA from the current capacity of 65.7MMTPA.

Outlook and valuation

IOC is currently trading at an EV/EBITDA multiple of 5.4x its FY2017E EBITDA and 8.4x FY2017E EPS of ₹48.7. Lower oil prices resulting in significant reduction in under recoveries, expected improvements in refining margins and IOCL's reach make it a structural play on the refining sector. **We apply a 6x multiple on its FY2017E EBITDA to arrive at our price target of ₹455 and retain our Accumulate rating on the stock.**

Key financials (Consolidated)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
Net sales	4,66,837	4,94,528	4,49,509	3,59,607	4,02,760
% chg	12.9	5.9	(9.1)	(20.0)	12.0
Adj. net profit	4,427	5,976	3,753	10,308	11,831
% chg	(58.5)	35.0	(37.2)	174.6	14.8
Adj. EPS (₹)	18.2	24.6	15.5	42.5	48.7
OPM (%)	3.0	3.5	2.3	5.9	6.1
P/E (x)	22.4	14.0	20.3	9.7	8.4
P/BV (x)	1.6	1.5	1.4	1.3	1.1
RoE (%)	5.9	10.6	7.1	14.1	14.3
RoCE (%)	5.5	6.8	3.6	11.6	12.7
EV/Sales (x)	0.4	0.4	0.3	0.4	0.3
EV/EBITDA	12.4	10.3	13.4	6.6	5.4

Source: Company, Angel Research

ACCUMULATE

CMP	₹410
Target Price	₹455

Investment Period	12 months
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Stock Info

Sector	Oil&Gas
Market Cap (₹ cr)	99,607
Net Debt (₹ cr)	48,349
Beta	0.7
52 Week High / Low	465 / 307
Avg. Daily Volume	8,69,14,736
Face Value (₹)	10
BSE Sensex	26,553
Nifty	8,040
Reuters Code	IOC.BO
Bloomberg Code	IOCL IN

Shareholding Pattern (%)

Promoters	58.6
MF / Banks / Indian Fls	13.6
FII / NRIs / OCBs	3.3
Indian Public / Others	24.6

Abs. (%)	3m	1yr	3yr
Sensex	(5.4)	(4.7)	41.6
IOCL	(3.5)	12.4	56.7

3-year price chart



Source: Company, Angel Research

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Exhibit 1: 2QFY2016 performance (Standalone)

(₹ cr)	2QFY16	2QFY15	yoy%	1QFY16	qoq%	FY2015	FY2014	yoy%
Net Sales	85,115	1,11,305	(23.5)	1,01,009	(15.7)	4,32,330	4,54,985	(5.0)
Other Operating Income	270	359	(24.8)	298	(9.4)	17,178	39,543	(56.6)
Total Revenue	85,385	1,11,664	(23.5)	1,01,307	(15.7)	4,49,509	4,94,528	(9.1)
Material Expenses	74,233	1,02,676	(27.7)	81,889	(9.3)	3,99,121	4,32,808	(7.8)
% of net sales	86.9	92.0		80.8		88.8	87.5	
Employee Cost	1,628	1,576	3.3	2,362	(31.1)	7,662	7,137	7.4
% of net sales	1.9	1.4		2.3		1.7	1.4	
Other Expenses	8,829	7,768	13.7	6,956	26.9	32,189	37,490	(14.1)
% of net sales	10.3	7.0		6.9		7.2	7.6	
Total expenditure	84,690	1,12,020	(24.4)	91,206	(7.1)	4,38,973	4,77,435	(8.1)
% of net sales	99.2	100.3		90.0		97.7	96.5	
EBITDA	695	(356)		10,101	(93.1)	10,536	17,094	(38.4)
Margin (%)	0.8	-0.3		10.0	(916bp)	2.3	3.5	(264bp)
Interest	729	1,039	(29.8)	592	23.2	4,175	5,948	(29.8)
Depreciation	1,129	730	54.6	1,143	(1.3)	5,219	6,360	(17.9)
Other income	1,003	847	18.3	835	20.1	5,872	5,192	13.1
Exceptional items	0	0		0		0	0	
Profit before tax	(160)	(1,278)		9,200		7,014	9,978	(29.7)
% of net sales	(0.2)	(1.1)		9.1		1.6	2.0	
Tax	169	(380)		2,764		2,143	3,011	(28.8)
% of PBT	NM	29.7		30.0		30.5	30.2	
Net Profit	(329)	(898)		6,436		4,872	6,967	(30.1)
Adj Net Profit	(326)	(1,289)		6,105		3,753	5,976	(37.2)

Source: Company, Angel Research

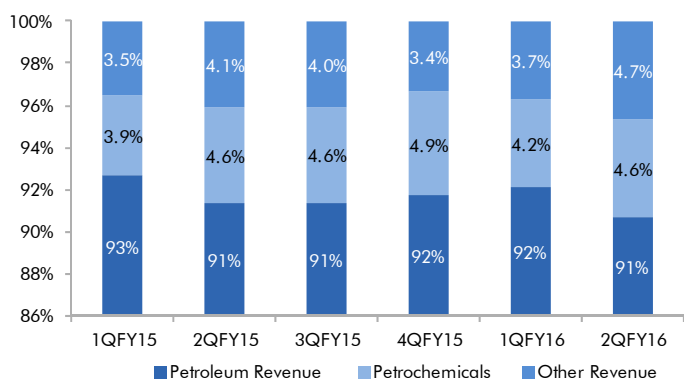
Exhibit 2: Standalone – 2QFY2016 Actual vs. estimates

(₹ cr)	Actual	Estimates	Variation (%)
Revenue	85,385	83,364	2.4
EBITDA	695	3,714	(81.3)
EBITDA margin (%)	0.8	4.5	(364bp)
Net Profit	(329)	1,614	NM

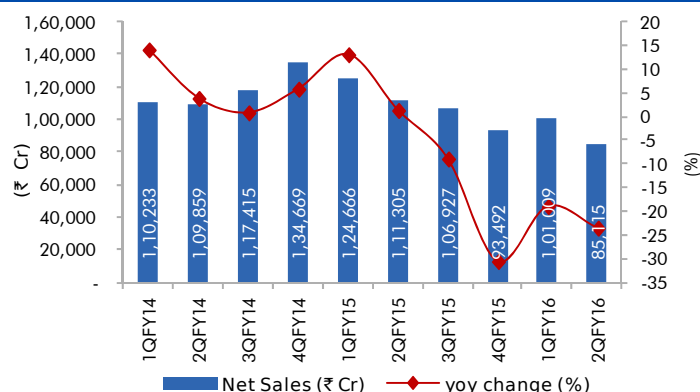
Source: Company, Angel Research

Result highlights
Revenue growth in line with expectation

IOCL's 2QFY2016 revenue came in 2.4% ahead of estimate at ₹85,385, led by a 5.8% increase in product sales volumes to 19.07MMT as against 18.03MMT in 2QFY2015. Refining throughput increased 2.1% to 13.68MMT as against 13.41MMT in 2QFY2015, while total throughput increased 5% to 19.98MMT as against 19.04MMT in 2QFY2015. Revenue however declined 24% yoy on account of lower price realisations.

Exhibit 3: Revenue mix


Source: Company, Angel Research

Exhibit 4: Lower realisations impact revenue


Source: Company, Angel Research

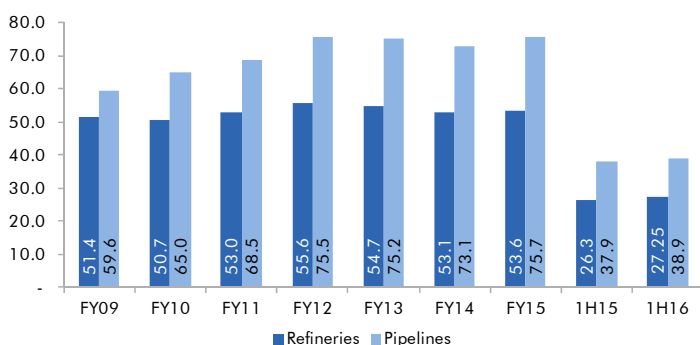
EBITDA decline led by inventory losses

IOCL reported an EBITDA of ₹695cr, much lower than our expectation of ₹3,714cr, owing to lower than expected refining margins and high inventory losses. Refining margin at \$0.9/bbl was much lower than our expectation and compared to \$10.8/bbl as in 1QFY2016. This was largely on account of reduced spreads and adventitious loss of ₹1,197cr. We expect the impact from inventory losses to reduce going forward and profit to stabilise as crude prices stabilise at current levels.

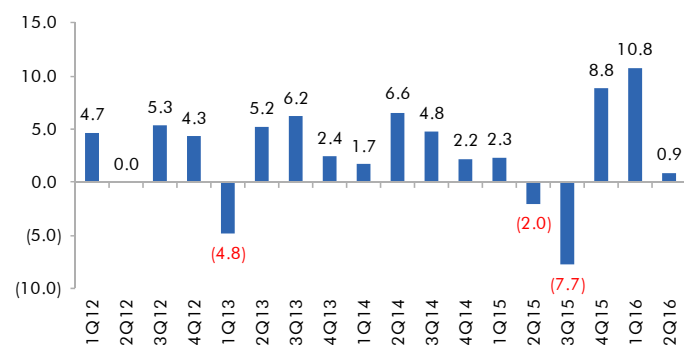
Exhibit 5: Refining Margins

	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16
IOC Refining Margin	2.3	(2)	(7.7)	8.8	10.8	0.9
Singapore GRM (\$ / bbl)	5.8	4.8	6.3	8.6	8.0	6.3

Source: Company, Angel Research

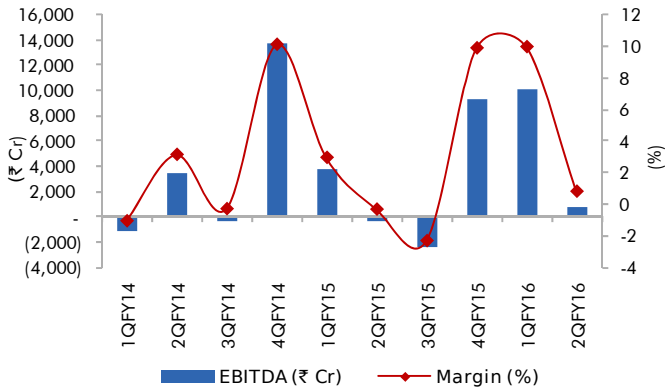
Exhibit 6: Throughput volumes remain stable


Source: Company, Angel Research

Exhibit 7: Weak refining margins this quarter


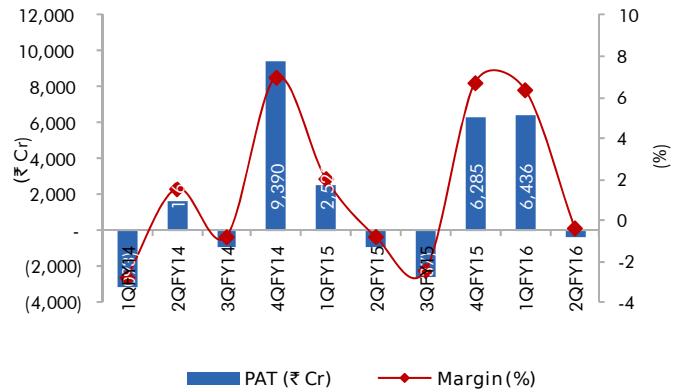
Source: Company, Angel Research

Exhibit 8: EBITDA margin declines to 0.8%



Source: Company, Angel Research

Exhibit 9: Net loss led by inventory losses



Source: Company, Angel Research

Investment arguments

Lower oil prices and government reforms transform OMCs into structural plays

Lower oil prices coupled with oil & gas reforms are resulting in reduced net under recoveries, higher margins and lower working capital requirements for oil marketing companies (OMCs). Brent crude oil prices have declined significantly over the last one year and this has resulted in significant reduction in gross under recoveries. Gross under recoveries stood at a mere ₹4,793cr in the first half of this fiscal as against ₹27,543cr in 1HFY2015. We expect oil prices to remain near current levels, with pressure from US shale suppliers changing the dynamics of the global oil industry. This will help the OMCs to keep their net under recoveries to a minimum, enabling stable profitability.

Exhibit 10: Under recoveries almost eliminated

	FY10	FY11	FY12	FY13	FY14	FY15	1H15	1H16
Gross Under Recovery	25,879	43,112	75,127	85,793	72,938	39,758	27,543	4,793
Sharing:								
Upstream discount	7,548	16,704	29,619	31,967	34,674	23,597	17,205	1,340
Budgetary Support	15,172	22,605	45,486	53,278	37,182	14,960	9,161	3,448
Net Under Recovery	3,159	3,803	22	548	1,083	1,201	1,177	4
% of Gross Under Recovery	12.2%	8.8%	0.0%	0.6%	1.5%	3.0%	4.3%	0.1%

Source: Company, Angel Research

IOCL's net under recoveries have also reduced, led by oil sector reforms such as auto fuel deregulation and direct benefit transfer for LPG subsidies. Net under recoveries for IOCL have reduced from ~12% in FY2010 to 3% in FY2015 and 0.1% in 1HFY2016. With oil prices under pressure, political interference to regulate prices of auto fuels will remain low. We also expect stable oil prices to minimize inventory losses going forward.

Paradip refinery to drive refining segment revenues

IOCL began the commissioning of its state-of-the-art 15 MMTPA coastal refinery at Paradip in March 2015. The refinery is expected to be fully operational in an integrated manner by Dec 2015. With its commissioning, IOCL's refining capacity is set to increase by ~23% to 80.7MMTPA from the current capacity of 65.7MMTPA. We expect throughput and refining revenues to increase in line with increase in capacity.

The refinery, built at a cost of more than US\$5bn, is one of the most modern refineries in the world and categorized among the best refineries worldwide across major performance parameters such as distillate yield, complexity factor and energy consumption. With a nelson complexity of 12.2, it is designed to process a broad range of crude, including heavy and high sulfur heavy crudes, along with the capability to produce futuristic Euro-V standard fuels. Led by the increase in marketing and refining margins, we expect IOCL to report a 380bp improvement in EBITDA margin over FY2015-FY2017E.

Outlook and valuation

IOC is currently trading at an EV/EBITDA multiple of 5.4x its FY2017E EBITDA and 8.4x FY2017E EPS of ₹48.7. Lower oil prices resulting in significant reduction in under recoveries, expected improvements in refining margins and IOCL's reach make it a structural play on the refining sector. We apply a 6x multiple on its FY2017E EBITDA to arrive at our price target of ₹455 and retain our Accumulate rating on the stock.

Exhibit 11: Valuation

	₹ Cr
FY2017E Consolidated EBITDA	24,707
Multiple (x)	6
Total EV	1,48,243
Net Debt	50,084
Investments (0.8x BV)	12,855
Minority Interest	993
Equity Value	1,10,021
Target Price	455

Source: Company, Angel Research

Company background

Incorporated in 1959, Indian Oil Corporation Ltd (IOCL) is India's leading oil refiner with a capacity of 65.7MMTPA (31% market share). It is also the country's largest oil marketing company with a 42% market share and a pipeline network of over 11,000km. IOCL is a 'Maharatna' company and is ranked 96th in the Fortune Global 500 Company rankings.

Profit & loss statement (Consolidated)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
Net Sales	4,66,837	4,94,528	4,49,509	3,59,607	4,02,760
% chg	12.9	5.9	(9.1)	(20.0)	12.0
Total Expenditure	4,52,945	4,77,435	4,38,973	3,38,266	3,78,053
Net Raw Materials	4,14,541	4,32,808	3,99,121	3,06,385	3,42,346
Other Mfg costs	30,620	37,490	32,189	25,751	28,841
Personnel	7,784	7,137	7,662	6,130	6,866
Other	-	-	-	-	-
EBITDA	13,892	17,094	10,536	21,341	24,707
% chg	17.8	23.0	(38.4)	102.6	15.8
(% of Net Sales)	3.0	3.5	2.3	5.9	6.1
Depreciation & Amort.	5,692	6,360	5,219	6,050	7,050
EBIT	8,201	10,734	5,317	15,291	17,657
% chg	26.4	30.9	(50.5)	187.6	15.5
(% of Net Sales)	1.8	2.2	1.2	4.3	4.4
Interest & other Charges	7,165	5,948	4,175	3,489	3,618
Other Income	3,468	5,192	5,872	3,523	3,558
Share in profit of Asso.	-	-	-	-	-
Profit before tax	4,504	9,978	7,014	15,325	17,598
% chg	12.7	121.5	(29.7)	118.5	14.8
Tax	877	3,011	2,143	5,057	5,807
(% of PBT)	19.5	30.2	30.5	33.0	33.0
PAT (reported)	3,627	6,967	4,872	10,268	11,791
Minority Interest	(822)	(119)	(40)	(40)	(40)
Net Profit	4,449	7,086	4,912	10,308	11,831
Adjusted Profit	4,427	5,976	3,753	10,308	11,831
% chg	(58.5)	35.0	(37.2)	174.6	14.8
(% of Net Sales)	0.9	1.2	0.8	2.9	2.9

Balance sheet (Consolidated)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
SOURCES OF FUNDS					
Equity Share Capital	2,428	2,428	2,428	2,428	2,428
Reserves & Surplus	60,609	65,485	66,404	74,789	84,697
Shareholders Funds	63,037	67,913	68,832	77,217	87,125
Minority Interest	1,262	1,171	1,073	1,033	993
Total Loans	89,671	94,916	58,154	58,154	53,154
Deferred Tax Liability	6,332	6,423	6,836	6,836	6,836
Other Long term liabilities	11,874	14,135	15,930	16,408	16,900
Total Liabilities	1,72,176	1,84,557	1,50,826	1,59,648	1,65,008
APPLICATION OF FUNDS					
Gross Block	1,15,182	1,26,982	1,38,745	1,63,745	1,88,745
Less: Acc. Depreciation	48,408	54,427	59,646	65,696	72,746
Net Block	66,774	72,554	79,098	98,048	1,15,998
Capital Work-in-Progress	27,240	38,061	38,061	22,837	7,993
Goodwill	0	0	0	0	0
Investments	17,351	15,895	16,069	16,069	16,069
Current Assets	1,23,880	1,34,003	93,778	87,682	96,248
Cash	1,220	3,705	1,221	1,502	3,070
Inventory	66,758	72,505	49,917	49,686	54,038
Debtors	12,502	12,552	7,645	7,725	7,724
Other	43,400	45,241	34,995	28,769	31,415
Current liabilities	69,702	82,254	82,870	71,810	78,259
Net Current Assets	54,177	51,749	10,909	15,871	17,989
Other Assets	6,633.8	6,297.5	6,689.4	6,823.2	6,959.6
Total Assets	1,72,176	1,84,557	1,50,826	1,59,648	1,65,008

Cash flow statement (Consolidated)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
Profit before tax	4,504	9,978	7,014	15,325	17,598
Depreciation	5,710	6,369	5,219	6,050	7,050
Change in Working Capital	(4,453)	5,451	28,111	(10,908)	2,097
Others	4,747	4,302	14,324	10,060	1,327
Direct taxes paid	(1,169)	(1,896)	(1,730)	(5,057)	(5,807)
Cash Flow from Operations	9,339	24,204	52,939	15,469	22,265
(Inc.)/ Dec. in Fixed Assets	(12,289)	(21,424)	(11,763)	(9,776)	(10,156)
(Inc.)/ Dec. in Investments	899	931	(174)	0	0
Share of profit/ (loss) from asso.	2,096	1,899	0	0	0
Cash Flow from Investing	(9,294)	(18,594)	(11,936)	(9,776)	(10,156)
Issue of Equity	-	-	-	-	-
Inc./(Dec.) in loans	9,668.1	5,597.5	(36,761.8)	-	(5,000.0)
Dividend Paid (Incl. Tax)	(1,492.2)	(1,850.1)	(2,549.7)	(1,923.0)	(1,923.0)
Others	(7,824.0)	(6,872.2)	(4,174.6)	(3,489.2)	(3,617.5)
Cash Flow from Financing	352	(3,125)	(43,486)	(5,412)	(10,541)
Inc./(Dec.) in Cash	398	2,485	(2,483)	281	1,568
Opening Cash balances	822	1,220	3,705	1,221	1,502
Closing Cash balances	1,220	3,705	1,221	1,502	3,070

Key Ratios (Consolidated)

Y/E March	FY2013	FY2014	FY2015	FY2016E	FY2017E
Per Share Data (₹)					
Reported EPS	18.3	29.2	20.2	42.5	48.7
Adjusted EPS	18.2	24.6	15.5	42.5	48.7
Cash EPS	41.8	55.4	41.7	67.4	77.8
DPS	6.2	8.7	6.6	6.6	6.6
Book Value	259.6	279.7	283.5	318.0	358.8
Valuation Ratio (x)					
P/E (on FDEPS)	22.4	14.0	20.3	9.7	8.4
P/CEPS	9.8	7.4	9.8	6.1	5.3
P/BV	1.6	1.5	1.4	1.3	1.1
Dividend yield (%)	1.5	2.1	1.6	1.6	1.6
EV/Sales	0.4	0.4	0.3	0.4	0.3
EV/EBITDA	12.4	10.3	13.4	6.6	5.4
EV/Total Assets	1.0	1.0	0.9	0.9	0.8
Returns (%)					
ROCE	5.5	6.8	3.6	11.6	12.7
ROE	5.9	10.6	7.1	14.1	14.3
Turnover ratios (x)					
Asset Turnover (Gross Block)	4.2	4.1	3.4	2.4	2.3
Inventory (days)	51.1	51.4	49.7	50.5	47.0
Receivables (days)	9.4	9.2	8.2	7.8	7.0
Payables (days)	51.2	56.1	67.0	78.5	68.0
WC cycle (ex-cash) (days)	40.0	37.3	23.4	12.2	13.3
Solvency ratios (x)					
Net debt to equity	1.4	1.3	0.8	0.7	0.6
Net debt to EBITDA	1.0	1.0	1.0	1.0	0.9
Interest Coverage (EBIT / Int.)	1.1	1.8	1.3	4.4	4.9

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Disclosure of Interest Statement	Indian Oil Corporation
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Based on expected returns over 12 months investment period):	Buy (> 15%)	Accumulate (5% to 15%) Reduce (-5% to -15%)	Neutral (-5 to 5%) Sell (< -15)
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