

Inventory gains underline a sizable earnings beat

Oil & Gas ▶ Result Update ▶ January 25, 2024

TARGET PRICE (Rs): 160

IOCL reported a sizable earnings beat in Q3FY24, driven by the inventory gains surprise (refining at USD3.5/bbl vs est. USD2.5 loss). SA adj. EBITDA came in at Rs158.9bn. Core GRM was in line, at USD10/bbl. Marketing segment could also have logged inventory gains. Blended marketing margin was better, albeit largely offset by higher opex, with core EBITDA being inline. Domestic sales grew 1% YoY, while diesel was down 6% (below industry). Petchem EBIT turned negative at Rs2bn, due to lower deltas & volumes. Gross debt grew 7% QoQ to Rs1.06trn. OMCs remain well-poised in a strong marketing environment, as auto-fuel price-cuts remain elusive, and with nearing general elections and macros being stable. We raise FY24E EPS 25% and FY25/26E EPS 7-8% each on better refining outlook; retain ADD with revised Dec-24E TP of Rs160/sh.

Indian Oil: Financial Snapshot (Standalone)					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	5,981,492	8,286,712	7,558,363	7,520,638	7,747,129
EBITDA	446,996	187,639	723,186	487,614	498,997
Adj. PAT	242,118	(4,179)	405,573	225,613	221,638
Adj. EPS (Rs)	26.4	(0.3)	29.5	16.4	16.1
EBITDA margin (%)	7.5	2.3	9.6	6.5	6.4
EBITDA growth (%)	13.8	(58.0)	285.4	(32.6)	2.3
Adj. EPS growth (%)	10.8	(77.3)	410.5	(46.4)	(1.8)
RoE (%)	20.0	(0.3)	27.9	13.9	12.7
RoIC (%)	17.2	(2.5)	20.6	10.4	9.2
P/E (x)	5.4	(472.8)	4.9	8.8	8.9
EV/EBITDA (x)	5.4	17.5	4.5	6.7	6.5
P/B (x)	1.0	1.5	1.3	1.2	1.1
FCFF yield (%)	0.5	(2.9)	6.8	4.6	4.4

Source: Company, Emkay Research

Result Highlights

IOCL's Q3FY24 SA R-PAT was down 38% QoQ to Rs80.6bn, but the over 3x beat to our estimate was primarily led by the EBITDA beat. Refining volumes were in-line at 18.5mmt (up 4% QoQ) with ~105% utilization. Petchem was hit by lower blended deltas, with volume down 16% QoQ. Assuming marketing inventory gain (not disclosed by IOCL) of ~Rs10bn in Q3 (vs Rs8.5bn loss built-in by us originally), blended marketing margin was at a 17% beat. Marketing volume rose 1% YoY domestically vs 2% for Industry, while total volume was at a marginal 1% beat to our estimate. Petrol/diesel sales grew/fell 3%/6% vs 5%/1% growth for the industry. Opex was 7% higher than expected, while D/A rose 32% QoQ to Rs43.4bn due to Rs6.4bn additional charge led by change in useful life & residual value. Interest cost fell 1% QoQ. Other Income fell 15% YoY to Rs14.5bn, while forex loss was Rs1.0bn. Capex for 9MFY24, as per PPAC, was Rs270bn.

Other Highlights

Capex target for FY24 is Rs304bn, as per PPAC. Channel checks indicate that product inventories in the refining division led to sizable inventory gains, while crude inventory saw a loss. The marketing segment also saw inventory gains.

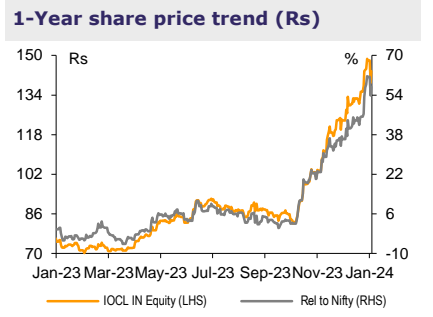
Valuation and Outlook

We value IOCL on SOTP-EV/EBITDA based methodology, with investments at a 30% holdco discount. We raise FY24E earnings by 25%, based on the prevailing run-rate. We rollover to Dec-25E and retain our blended target EV/EBITDA of 6.2x. Key risks: Adverse crude oil prices and downstream margins; currency movement; government policies; and project issues.

Target Price – 12M	Dec-24
Change in TP (%)	18.9
Current Reco.	ADD
Previous Reco.	ADD
Upside/(Downside) (%)	11.5
CMP (24-Jan-24) (Rs)	143.5

Stock Data	Ticker
52-week High (Rs)	152
52-week Low (Rs)	76
Shares outstanding (mn)	14,121.2
Market-cap (Rs bn)	2,026
Market-cap (USD mn)	24,367
Net-debt, FY24E (Rs mn)	1,308,911
ADTV-3M (mn shares)	32
ADTV-3M (Rs mn)	3,757.4
ADTV-3M (USD mn)	45.2
Free float (%)	27.0
Nifty-50	21,454
INR/USD	83.1
Shareholding, Dec-23	
Promoters (%)	51.5
FPIs/MFs (%)	8.9/10.0

Price Performance			
(%)	1M	3M	12M
Absolute	16.0	63.1	72.5
Rel. to Nifty	15.4	46.6	45.7



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Exhibit 1: Actuals vs. Estimates (Q3FY24)

(Rs mn)	Actual	Estimates (Emkay)	Consensus Estimates (Bloomberg)	Variation		Comments
				Emkay	Consensus	
Total Revenue	1,991,040	1,853,859	2,022,000	7%	-2%	
Adjusted EBITDA	158,873	70,042	91,986	127%	73%	Refining inventory gains, better marketing margin
EBITDA Margin	8.0%	3.8%	4.5%	420bps	343bps	
Adjusted Net Profit	82,855	25,714	50,945	222%	63%	D/A was higher, though

Source: Company, Emkay Research

Exhibit 2: Quarterly Summary

(Rs mn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	YoY	QoQ	9MFY23	9MFY24	YoY
Revenue	2,047,402	2,029,941	1,953,066	1,797,398	1,991,040	-3%	11%	6,256,771	5,741,504	-8%
COGS	1,869,742	1,753,651	1,618,730	1,436,887	1,692,840	-9%	18%	5,826,425	4,748,457	-19%
Gross Profit	177,660	276,290	334,336	360,511	298,199	68%	-17%	430,346	993,047	131%
Opex	123,505	132,667	134,825	139,900	139,326	13%	0%	386,330	414,052	7%
Total Expenditure	1,993,247	1,886,318	1,753,555	1,576,787	1,832,167	-8%	16%	6,212,755	5,162,509	-17%
EBITDA	54,155	143,623	199,511	220,611	158,873	193%	-28%	44,016	578,995	
Depreciation	30,990	29,517	31,522	32,797	43,413	40%	32%	89,078	107,732	21%
Interest	19,528	18,118	16,263	18,460	18,321	-6%	-1%	51,185	53,044	4%
Other Income	17,151	16,381	6,715	9,825	14,529	-15%	48%	45,971	31,068	-32%
Exceptional Items	(1,211)	(115)	22,128	959	(2,966)			102,013	20,121	-80%
Forex Gain/(Losses)	(17,011)	9,895	170	(8,440)	(1,020)			(76,906)	(9,290)	
PBT	2,566	122,150	180,738	171,699	107,682		-37%	(25,168)	460,119	
Tax	(1,914)	21,563	43,234	42,026	27,048		-36%	(7,000)	112,308	
PAT	4,480	100,587	137,504	129,673	80,634		-38%	(18,169)	347,812	
Adjusted PAT	5,691	100,702	120,669	128,949	82,855		-36%	(93,115)	332,473	
Adjusted EPS (Rs)	0.4	7.3	8.8	9.4	6.0		-36%	(7.4)	24.1	
Tax Rate	-75%	18%	24%	24%	25%			28%	24%	
Core EBITDA*	117,655	188,923	228,911	171,671	109,373	-7%	-36%	91,316	509,955	458%
Core PAT*	63,047	117,937	140,504	97,419	46,502	-26%	-52%	(2,226)	284,425	
Core EPS (Rs)*	4.6	8.6	10.2	7.1	3.4	-26%	-52%	(1.2)	20.7	
Refining Volumes (mmt)	18.2	19.2	18.8	17.8	18.5	2%	4%	53.2	55.0	3%
Reported GRM (USD/bbl)	12.9	15.3	8.3	18.1	13.5	5%	-25%	21.3	13.2	-38%
Core GRM (USD/bbl)*	17.4	19.0	9.1	16.3	10.0	-42%	-39%	20.5	11.7	-43%
Adjusted Refining EBITDA*	108,485	141,413	60,095	159,894	116,180	7%	-27%	561,815	336,168	
Marketing Volumes (mmt)	24.3	24.3	24.4	23.2	24.6	1%	6%	71.4	72.3	1%
Diesel	10.1	9.5	10.1	8.4	9.5	-6%	14%	29.5	28.0	-5%
Petrol	3.6	3.5	3.8	3.7	3.7	3%	1%	10.8	11.1	3%
Marketing Margin (Rs/mt)*	1,382	3,093	9,912	4,858	4,626	235%	-5%	(3,253)	6,486	
Adjusted Marketing EBITDA*	(68,180)	(22,110)	117,321	38,537	22,568		-41%	(572,749)	178,426	
Marketing Inventory Gain/(Losses)*	(15,000)	(2,200)	(21,400)	29,940	10,000		-67%	(67,800)	18,540	
Pipeline Volumes (mmt)	23.8	25.3	25.0	23.9	25.2	6%	6%	72.1	74.0	3%
Pipeline EBITDA*	17,850	19,220	19,095	18,380	19,625	10%	7%	53,350	57,100	7%
Petchem EBITDA*	(4,000)	5,100	3,000	3,800	500	-113%	-87%	1,600	7,300	356%
Gross Debt	1,440,650	1,324,950	1,010,120	994,066	1,061,900	-26%	7%	1,440,650	1,061,900	-26%
Implied Net Debt**	1,352,251	1,235,390	922,308	908,003	990,367	-27%	9%	1,352,251	990,367	-27%
Net Under-recovery	-	-	-	-	-			-	-	

Source: Company, Emkay Research; Note: * is estimated as marketing inventory figure & segmental EBITDA is not given; **Net debt includes only reported oil bonds and assumed cash, STI is additionally there

Exhibit 3: Change in assumptions

	FY24E			FY25E			FY26E		
	Previous	Revised	Variance	Previous	Revised	Variance	Previous	Revised	Variance
GRM (USD/bbl)	10.5	12.4	19%	9.0	10.0	11%	9.1	10.1	11%
Marketing Margin (Rs/mt)	5,567	5,845	5%	4,592	4,685	2%	4,684	4,778	2%
Growth	-345.5%	-357.8%	NM	-17.5%	-19.9%	NM	2.0%	2.0%	0bps
Marketing Sales (mmt)	98	97	-1%	101	100	-1%	105	103	-1%
Growth	2.8%	1.7%	-112bps	3.1%	3.2%	11bps	3.1%	3.1%	0bps

Source: Company, Emkay Research

Exhibit 4: Change in estimates

(Rs bn)	FY24E			FY25E			FY26E		
	Previous	Revised	Variance	Previous	Revised	Variance	Previous	Revised	Variance
Revenue	7,773	7,558	-3%	7,413	7,521	1%	7,636	7,747	1%
EBITDA	604	723	20%	448	488	9%	459	499	9%
EBITDA Margins	7.8%	9.6%	179bps	6.0%	6.5%	44bps	6.0%	6.4%	43bps
PAT	323	406	25%	210	226	7%	205	222	8%
EPS (Rs)	23.5	29.5	25%	15.3	16.4	7%	14.9	16.1	8%

Source: Company, Emkay Research

Exhibit 5: SOTP-based valuation (Dec-24E)

Components	Basis	Dec-25E EBITDA	Multiple (x)	EV (Rs bn)	EV/sh (Rs)	Comments
Refining Standalone	EV/EBITDA	313	6.2	1,939	141	
Pipelines Standalone	EV/EBITDA	81	6.2	500	36	
Petrochemicals Standalone	EV/EBITDA	15	6.2	94	7	
Marketing Standalone	EV/EBITDA	88	6.2	544	39	
Core Business EV		496	6.2	3,076	223	Blended Multiple at 6.2x
Less: Adj. Net Debt (Dec-24 end)				1,155	84	
Core Business Valuation				1,921	139	
Value of Investments	TP/CMP			282	20	At 30% HoldCo Discount
Target Price-Fair Value				2,203	160	

Source: Company, Emkay Research

Exhibit 6: Schedule and Value of Listed Investments

Listed	Type	Basis of Valuation	TP/CMP (Rs/sh)	Equity Value (Rs bn)	IOCL Stake	Pro-rata Value (Rs bn)	HoldCo Discount	Contr. to SOTP (Rs bn)	Per Share Value (Rs)
CPCL	Subsidiary	CMP	754	112	51.9%	58	30%	41	3.0
Lanka IOC	Subsidiary	CMP	26	12	75.1%	9	30%	6	0.5
PLNG	JV	TP (Emkay)	245	368	12.5%	46	30%	32	2.3
ONGC	Financial	TP (Emkay)	250	3,145	7.8%	247	30%	173	12.5
GAIL	Financial	TP (Emkay)	125	822	2.4%	20	30%	14	1.0
Oil India	Financial	TP (Emkay)	445	483	4.9%	24	30%	17	1.2
Total Listed						403		282	20.5

Source: Company, Emkay Research

Indian Oil: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	5,981,492	8,286,712	7,558,363	7,520,638	7,747,129
Revenue growth (%)	58.2	38.5	(8.8)	(0.5)	3.0
EBITDA	446,996	187,639	723,186	487,614	498,997
EBITDA growth (%)	13.8	(58.0)	285.4	(32.6)	2.3
Depreciation & Amortization	110,059	118,594	151,747	174,026	197,669
EBIT	336,937	69,045	571,439	313,588	301,328
EBIT growth (%)	14.4	(79.5)	727.6	(45.1)	(3.9)
Other operating income	0	0	0	0	0
Other income	43,388	62,352	48,196	53,133	58,560
Financial expense	48,291	69,303	71,019	65,100	63,581
PBT	332,034	62,094	548,616	301,621	296,308
Extraordinary items	(364)	101,898	20,121	0	0
Taxes	75,490	14,563	138,743	76,009	74,670
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	241,841	82,418	420,704	225,613	221,638
PAT growth (%)	10.8	(65.9)	410.5	(46.4)	(1.8)
Adjusted PAT	242,118	(4,179)	405,573	225,613	221,638
Diluted EPS (Rs)	26.4	(0.3)	29.5	16.4	16.1
Diluted EPS growth (%)	10.8	(77.3)	410.5	(46.4)	(1.8)
DPS (Rs)	12.6	3.0	14.8	7.9	7.7
Dividend payout (%)	47.8	50.1	48.5	48.0	48.0
EBITDA margin (%)	7.5	2.3	9.6	6.5	6.4
EBIT margin (%)	5.6	0.8	7.6	4.2	3.9
Effective tax rate (%)	22.7	162.9	28.0	25.2	25.2
NOPLAT (pre-IndAS)	260,614	(43,438)	411,164	234,564	225,393
Shares outstanding (mn)	9,181.0	13,771.6	13,771.6	13,771.6	13,771.6

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	332,034	62,094	548,616	301,621	296,308
Others (non-cash items)	119,229	187,594	174,570	185,993	202,689
Taxes paid	(72,305)	(1,480)	(128,743)	(66,209)	(65,066)
Change in NWC	(136,342)	(73,243)	(71,432)	37,100	(4,494)
Operating cash flow	227,913	209,854	533,843	458,505	429,438
Capital expenditure	(216,691)	(304,463)	(309,736)	(309,783)	(288,045)
Acquisition of business	(102,697)	26,642	(4,736)	(4,783)	(4,831)
Interest & dividend income	44,377	57,114	48,196	53,133	58,560
Investing cash flow	(208,000)	(252,856)	(263,572)	(258,723)	(231,600)
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	135,027	135,810	40,000	5,000	(10,000)
Payment of lease liabilities	(14,871)	(14,871)	(14,871)	(14,871)	(14,871)
Interest paid	(42,018)	(63,158)	(71,019)	(65,100)	(63,581)
Dividend paid (incl tax)	(108,960)	(33,094)	(204,042)	(108,294)	(106,386)
Others	(11,816)	2,345	0	0	0
Financing cash flow	(27,767)	41,903	(235,061)	(168,394)	(179,967)
Net chg in Cash	(7,854)	(1,100)	35,210	31,388	17,871
OCF	227,913	209,854	533,843	458,505	429,438
Adj. OCF (w/o NWC chg.)	364,254	283,096	605,274	421,405	433,931
FCFF	11,222	(94,610)	224,107	148,722	141,392
FCFE	7,308	(106,798)	201,284	136,755	136,372
OCF/EBITDA (%)	51.0	111.8	73.8	94.0	86.1
FCFE/PAT (%)	3.0	(129.6)	47.8	60.6	61.5
FCFF/NOPLAT (%)	4.3	217.8	54.5	63.4	62.7

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	91,810	137,716	137,716	137,716	137,716
Reserves & Surplus	1,221,053	1,209,860	1,426,523	1,543,841	1,659,093
Net worth	1,312,864	1,347,575	1,564,239	1,681,557	1,796,809
Minority interests	0	0	0	0	0
Deferred tax liability (net)	136,274	146,130	156,130	165,930	175,534
Total debt	1,194,628	1,415,500	1,455,500	1,460,500	1,450,500
Total liabilities & equity	2,643,765	2,909,206	3,175,869	3,307,987	3,422,843
Net tangible fixed assets	1,349,884	1,535,850	1,787,085	2,035,636	2,203,486
Net intangible assets	25,753	25,753	25,753	25,753	25,753
Net ROU assets	93,251	93,251	93,251	93,251	93,251
Capital WIP	444,461	489,907	391,926	274,348	192,044
Goodwill	0	0	0	0	0
Investments [JV/Associates]	500,218	473,576	478,311	483,095	487,926
Cash & equivalents	86,478	109,347	146,589	180,050	200,036
Current assets (ex-cash)	1,383,346	1,471,877	1,350,667	1,345,187	1,383,989
Current Liab. & Prov.	1,239,626	1,290,355	1,097,713	1,129,333	1,163,641
NWC (ex-cash)	143,720	181,522	252,954	215,854	220,348
Total assets	2,643,765	2,909,206	3,175,869	3,307,987	3,422,843
Net debt	1,108,150	1,306,153	1,308,911	1,280,450	1,250,465
Capital employed	2,643,765	2,909,206	3,175,869	3,307,987	3,422,843
Invested capital	1,612,609	1,836,376	2,159,042	2,370,495	2,542,838
BVPS (Rs)	143.0	97.9	113.6	122.1	130.5
Net Debt/Equity (x)	0.8	1.0	0.8	0.8	0.7
Net Debt/EBITDA (x)	2.5	7.0	1.8	2.6	2.5
Interest coverage (x)	0.1	0.5	0.1	0.2	0.2
RoCE (%)	15.5	4.7	20.4	11.3	10.7

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	5.4	(472.8)	4.9	8.8	8.9
P/CE(x)	3.7	17.3	3.5	4.9	4.7
P/B (x)	1.0	1.5	1.3	1.2	1.1
EV/Sales (x)	0.4	0.4	0.4	0.4	0.4
EV/EBITDA (x)	5.4	17.5	4.5	6.7	6.5
EV/EBIT(x)	7.2	47.5	5.7	10.4	10.7
EV/IC (x)	1.5	1.8	1.5	1.4	1.3
FCFF yield (%)	0.5	(2.9)	6.8	4.6	4.4
FCFE yield (%)	0.6	(5.4)	10.2	6.9	6.9
Dividend yield (%)	8.8	2.1	10.3	5.5	5.4
DuPont-RoE split					
Net profit margin (%)	4.0	(0.1)	5.4	3.0	2.9
Total asset turnover (x)	2.4	3.0	2.5	2.3	2.3
Assets/Equity (x)	2.0	2.1	2.1	2.0	1.9
RoE (%)	20.0	(0.3)	27.9	13.9	12.7
DuPont-RoIC					
NOPLAT margin (%)	4.4	(0.5)	5.4	3.1	2.9
IC turnover (x)	0.0	0.0	0.0	0.0	0.0
RoIC (%)	17.2	(2.5)	20.6	10.4	9.2
Operating metrics					
Core NWC days	46.0	35.1	35.1	35.1	35.1
Total NWC days	46.0	35.1	35.1	35.1	35.1
Fixed asset turnover	3.1	3.9	3.0	2.6	2.4
Opex-to-revenue (%)	8.4	6.3	7.4	7.8	7.9

Source: Company, Emkay Research

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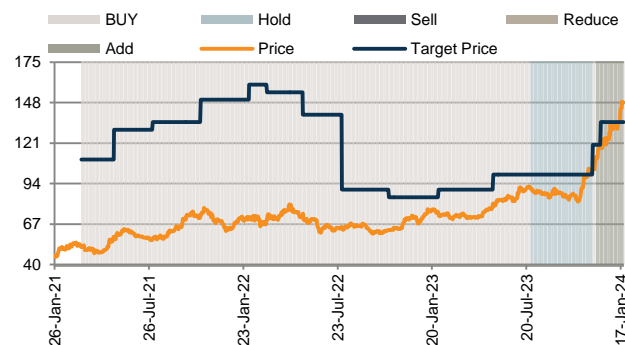
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RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
09-Dec-23	119	135	Add	Sabri Hazarika
30-Nov-23	112	120	Add	Sabri Hazarika
24-Nov-23	103	120	Buy	Sabri Hazarika
01-Nov-23	88	100	Hold	Sabri Hazarika
28-Jul-23	91	100	Hold	Sabri Hazarika
17-May-23	81	100	Buy	Sabri Hazarika
01-Feb-23	74	90	Buy	Sabri Hazarika
06-Dec-22	70	85	Buy	Sabri Hazarika
29-Oct-22	63	85	Buy	Sabri Hazarika
07-Sep-22	66	90	Buy	Sabri Hazarika
31-Jul-22	65	90	Buy	Sabri Hazarika
15-Jul-22	63	140	Buy	Sabri Hazarika
28-Jun-22	64	140	Buy	Sabri Hazarika
22-May-22	70	140	Buy	Sabri Hazarika
17-May-22	74	140	Buy	Sabri Hazarika
09-Mar-22	70	155	Buy	Sabri Hazarika
03-Feb-22	72	160	Buy	Sabri Hazarika
25-Dec-21	63	150	Buy	Sabri Hazarika
23-Nov-21	73	150	Buy	Sabri Hazarika
02-Nov-21	73	150	Buy	Sabri Hazarika
02-Aug-21	58	135	Buy	Sabri Hazarika
26-Jul-21	57	130	Buy	Sabri Hazarika
23-Jun-21	62	130	Buy	Sabri Hazarika
29-May-21	60	130	Buy	Sabri Hazarika
20-May-21	57	130	Buy	Sabri Hazarika
23-Apr-21	48	110	Buy	Sabri Hazarika
23-Mar-21	53	110	Buy	Sabri Hazarika
18-Mar-21	52	110	Buy	Sabri Hazarika

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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