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Indian Oil Corporation Ltd. (IOCL) has a strong presence in refining, marketing, pipelines networks and petrochemicals. It is the largest oil marketing company in India with a ~43% market share. Further, it has the largest network of retail outlets across the country (more than 26,000 outlets). IOCL also has minor interest in the upstream segment.

## Key Events

### Largest operator of crude and product pipelines:

IOCL has the largest network of cross-country pipelines in India with a total length of 12,848 kilometers (kms) and capacity of 103.19 million metric tonnes per annum (mmtpa). Of its total pipeline infrastructure, 5,217 kms is used to transport crude oil with a capacity of 48.6 mmtpa while 7,491 kms is a product pipeline with a capacity of 45.1 mmtpa.

### Most extensive marketing network:

The company has an extensive marketing network with a market share of 42.9% as of FY17. It markets various brands of petrol, diesel, aviation fuel, lubricants and LPG. It has 26,212 retail outlets across India and reaches 114.4mn households with its cooking gas brand, Indane. Further, IOCL continued to maintain its dominant position in the Indian downstream sector with total petroleum product sales of 74.1mn tonnes in FY17.

### Core GRM improving steadily:

IOCL's gross refining margin (GRM) declined and stood at USD4.3/bbl (USD10.0/bbl in Q1FY17 and USD8.9/bbl in Q4FY17) mainly due to a large inventory loss of USD3.3/bbl in Q1FY18. However, core GRM (excluding inventory gain or loss) improved and stood at USD7.6/bbl (premium of \$1.2/bbl to Singapore Complex GRM) as compared to USD3.6/bbl in Q1FY17 and USD6.9/bbl in Q4FY17.

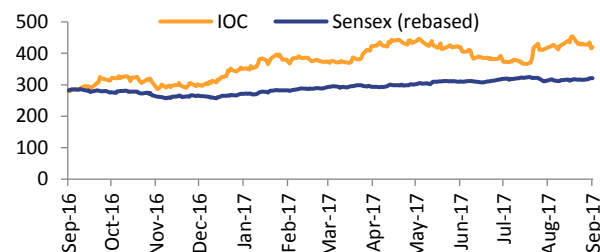
## Market Data

<b>CMP (Rs.)</b>	<b>407</b>
Face Value (Rs.)	10
52 week H/L (Rs.)	463/282
Adj. all time High (Rs.)	463
Decline from 52WH (%)	12.1
Rise from 52WL (%)	44.3
Beta	0.3
Mkt. Cap (Rs.Cr)	197,805
Enterprise Value (Rs.Cr)	216,010

## Fiscal Year Ended

	FY15	FY16	FY17
<b>Sales (Rs.cr)</b>	437,524	347,176	359,873
<b>EBITDA (Rs.cr)</b>	10,145	21,049	31,781
<b>PAT (Rs.Cr)</b>	3,605	9,878	19,106
<b>EPS (Rs.)</b>	14.8	41.7	40.3
<b>P/E (x)</b>	27.4	9.8	10.1
<b>P/B (x)</b>	1.5	1.1	1.9
<b>ROE (%)</b>	5.4	12.7	20.3

## One year Price Chart



Shareholding	Sep-17	Jun-17	Diff.
<b>Promoters (%)</b>	57.3	57.3	-
<b>Public (%)</b>	42.7	42.7	-
<b>Others (%)</b>	-	-	-

## Indian Oil Corporation Ltd.: Business overview

Indian Oil Corporation Ltd. (IOCL) was formed in 1964, following the merger of Indian Refineries with Indian Oil Company. Presently, it is the largest oil marketing company in India with a ~43% market share. It also has the largest network of retail outlets across the country (more than 26,000 outlets). Further, it has the largest refining capacity in the country at 80.7 million metric tonnes per annum (mmtpa). It has commissioned its 15.0 mmtpa refinery at Paradip which is the most complex PSU refinery. Moreover, IOCL has a large presence in pipelines and chemicals. Stable earnings from pipelines cushion it from the volatility of the refining and marketing segments. Besides, IOCL enjoys a first mover advantage and strong presence in the high entry barrier rural areas (~26%) which will enable it to ride the robust rural demand growth.

### Refineries controlled

Refineries	Installed Capacities (mmtpa)
Koyali	13.7
Panipat	15.0
Mathura	8.0
Barauni	6.0
Haldia	7.5
Paradip	15.0
Bongaigaon	2.4
Guwahati	1.0
Digboi	0.7
<b>Standalone IOCL</b>	<b>69.2</b>
CPCL, Chennai	10.5
CPCL, Narimanam	1.0
<b>Subsidiaries</b>	<b>11.5</b>
<b>Group Total</b>	<b>80.7</b>

### Pipeline network

Operating Pipelines	Length (km)	Capacities (mmtpa)
Crude Oil	5,217	48.60
Product	7,491	45.09
Gas	140	9.50
<b>Total</b>	<b>12,848</b>	<b>-</b>

Source: Company, In-house research

IOCL also forayed into the Exploration & Production segment by acquiring participating interests in several domestic as well as overseas blocks. The company's present domestic Exploration & Production portfolio comprises eight domestic blocks (including two Coal Bed Methane blocks) and 9 overseas blocks, with participating interest ranging from 3.5% to 50%. Out of the 17 blocks, 5 are under production (all overseas), 4 are under development (1 overseas & 3 domestic), 3 are under appraisal (all domestic), 3 are under discovery (2 overseas & 1 domestic) and 2 are under exploration phase (1 overseas & 1 domestic). The overseas blocks are located in 8 countries, namely, Canada, Gabon, Libya, Nigeria, Russia, USA, Venezuela and Yemen.

## Core GRM improving steadily

IOCL's gross refining margin (GRM) declined and stood at USD4.3/bbl (USD10.0/bbl in Q1FY17 and USD8.9/bbl in Q4FY17) mainly due to a large inventory loss of USD3.3/bbl in Q1FY18. However, core GRM (excluding inventory gain or loss) improved and stood at USD7.6/bbl (premium of \$1.2/bbl to Singapore Complex GRM) as compared to USD3.6/bbl in Q1FY17 and USD6.9/bbl in Q4FY17.

## Financial performance

IOCL's net revenue increased by 22.5% YoY (in line with expectation) due to higher refining and sales volume. Crude throughput increased by 8.8% YoY to 17.5 million metric tonnes (mmt) led by higher utilization of Paradip refinery (utilization at 88% from 32% in Q1FY17) coupled with 5.3% YoY increase in sales volume to 22.5mmt. EBITDA (reported) declined by 41.5% YoY on account of inventory loss of Rs4,040cr (refining inventory loss of Rs2,806 crore and product inventory loss of Rs1,234 crore) as against gains of Rs7,500cr in Q1FY17. However, the company also had a one-off gain on account of settlement of Rs2,810cr liability for entry tax in Haryana. After adjusting for one-off gain, EBITDA declined by 62.1% YoY. Net profit (reported) declined by 45% YoY. Going forward, we expect IOCL's adjusted net profit to grow at a CAGR of 3% over FY17-19E mainly due to lower or nil inventory gain on the back of stable crude oil prices.

Particulars (Rs cr)	YoY			QoQ	
	Q1FY18	Q1FY17	Growth %	Q4FY17	Growth %
<b>Sales</b>	105,434	86,077	22.5	100,338	5.1
<b>EBITDA</b>	<b>8,000</b>	<b>13,680</b>	<b>(41.5)</b>	<b>4,409</b>	<b>81.5</b>
Margin (%)	7.6	15.9	(52.3)	4.4	72.7
Depreciation	1,721	1,435	20.0	1,729	(0.4)
<b>EBIT</b>	<b>6,278</b>	<b>12,245</b>	<b>(48.7)</b>	<b>2,680</b>	<b>134.3</b>
Interest	718	680	5.6	1,154	(37.8)
Other Income	1,228	474	159.1	2,059	(40.4)
Exceptional Items	-	-	-	-	-
<b>PBT</b>	<b>6,788</b>	<b>12,039</b>	<b>(43.6)</b>	<b>3,585</b>	<b>89.3</b>
Tax	2,239	3,770	(40.6)	(136)	(1,749.5)
<b>Reported PAT</b>	<b>4,549</b>	<b>8,269</b>	<b>(45.0)</b>	<b>3,721</b>	<b>22.3</b>
Adjustment	-	-	-	-	-
<b>Adj PAT</b>	<b>4,549</b>	<b>8,269</b>	<b>(45.0)</b>	<b>3,721</b>	<b>22.3</b>
No. of shares (cr)	4,85.6	2,42.8	100.0	4,85.6	-
<b>EPS (Rs)</b>	<b>9.4</b>	<b>17.0</b>	<b>(45.0)</b>	<b>7.7</b>	<b>22.3</b>

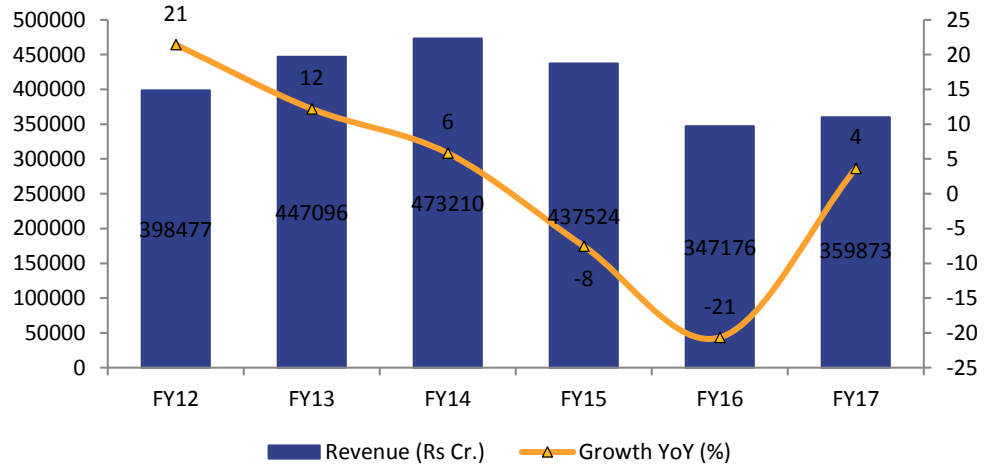
## Segment Revenue

Particulars (Rs cr)	YoY			QoQ	
	Q1FY18	Q1FY17	Growth %	Q4FY17	Growth %
Petroleum Products	123,856	102,799	20.5	117,055	5.8
Petrochemicals	4,965	4,683	6.0	5,955	(16.6)
Other Business Activities	2,635	2,248	17.2	3,007	(12.3)
Less: Inter Segment Revenue	3,266	2,533	28.9	3,731	(12.5)
<b>Total Income from Operations</b>	<b>128,191</b>	<b>107,197</b>	<b>19.6</b>	<b>122,285</b>	<b>4.8</b>

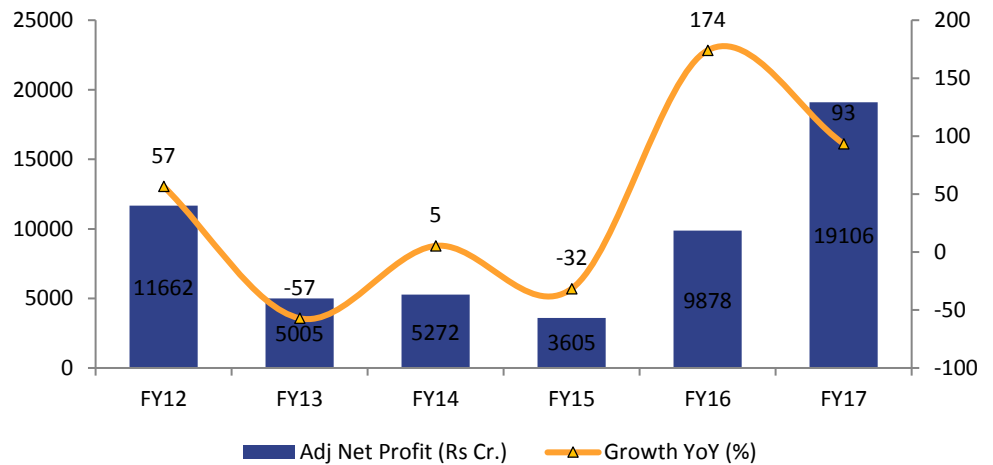
## Paradip refinery

Paradip refinery operated at 88% utilization during Q1FY18 as compared to 82% in Q4FY17 and 32% in Q1FY17. Notably, this number is skewed by low operating rate in April 2017 and the refinery operated at 100+% rate during May and June 2017. The Paradip refinery (15 MTPA), on full capacity utilization, will consistently generate GRMs which will be at a premium to Singapore benchmarks given its high complexity adding to IOCL's refining margins.

Revenue performance trend



PAT to grow at 10% CAGR over FY12-17



### Balance Sheet (Standalone)

(Rs.Cr)	FY15	FY16	FY17
Share Capital	2,428	2,370	4,739
Reserve and surplus	65,542	85,765	94,989
<b>Net Worth</b>	<b>67,970</b>	<b>88,134</b>	<b>99,729</b>
Minority Interest	-	-	-
Total Debt	55,245	42,483	50,385
Other non-current liabilities	17,472	18,157	20,964
<b>Total Equity &amp; Liabilities</b>	<b>140,687</b>	<b>148,775</b>	<b>171,077</b>
Fixed Assets	102,575	112,372	118,617
Investments	23,899	37,181	47,305
Net current assets	13,097	-1,276	4,215
Other non-current assets	1,115	497	940
<b>Total Assets</b>	<b>140,687</b>	<b>148,775</b>	<b>171,077</b>

### Cash Flow (Standalone)

Y/E (Rs. Cr)	FY15	FY16	FY17
<b>Net profit/loss before tax &amp; extraordinary items</b>	<b>7,995</b>	<b>16,827</b>	<b>26,321</b>
Net cashflow from operating activities	44,529	22,944	27,751
Net cash used in investing activities	(8,648)	(12,417)	(14,686)
Net cash used from financing activities	(38,374)	(10,367)	(13,275)
<b>Net inc/dec in cash and cash equivalents</b>	<b>(2,493)</b>	<b>160</b>	<b>(209)</b>

### Profit & Loss Account (Standalone)

(Rs.Cr)	FY15	FY16	FY17
<b>Total Operating income</b>	<b>437,524</b>	<b>347,176</b>	<b>359,873</b>
Expenses	427,379	326,128	328,092
<b>EBITDA</b>	<b>10,145</b>	<b>21,049</b>	<b>31,781</b>
Depreciation	4,529	4,819	6,223
Other Income	4,146	2,322	4,209
<b>EBIT</b>	<b>9,762</b>	<b>18,552</b>	<b>29,767</b>
Interest cost	3,435	3,090	3,445
<b>Profit Before Tax</b>	<b>6,327</b>	<b>15,462</b>	<b>26,321</b>
Tax	2,722	5,584	7,215
<b>Profit After Tax</b>	<b>3,605</b>	<b>9,878</b>	<b>19,106</b>
Minority Interest	-	-	-
P/L from Associates	-	-	-
<b>Adjusted PAT</b>	<b>3,605</b>	<b>9,878</b>	<b>19,106</b>
E/o income / (Expense)	1,668	1,364	-
<b>Net Profit</b>	<b>5,273</b>	<b>11,242</b>	<b>19,106</b>

### Key Ratios (Standalone)

	FY15	FY16	FY17
EBITDA Margin (%)	2.3	6.1	8.8
EBIT Margin (%)	1.3	5.3	8.3
NPM (%)	0.8	2.8	5.3
ROE (%)	5.4	12.7	20.3
ROCE (%)	7.1	14.6	21.2
EPS (Rs.)	14.8	41.7	40.3
P/E (x)	27.4	9.8	10.1
BVPS (Rs.)	279.9	371.9	210.4
P/BVPS (x)	1.5	1.1	1.9
EV/EBITDA (x)	15.2	6.6	7.7



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