Indiabulls

INDIAN OIL CORPORATION LIMITED
RESEARCH

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RESULTS REVIEW

Indian Oil Corporation Ltd. Hold

Share Data

Market Cap	Rs. 789.69 bn
Price	Rs. 650.5
BSE Sensex	16,677.04
Reuters	IOC.BO
Bloomberg	IOCL IN
Avg. Volume (52 Week)	0.13 mn
52-Week High/Low	Rs. 688/299
Shares Outstanding	1,214.0 mn

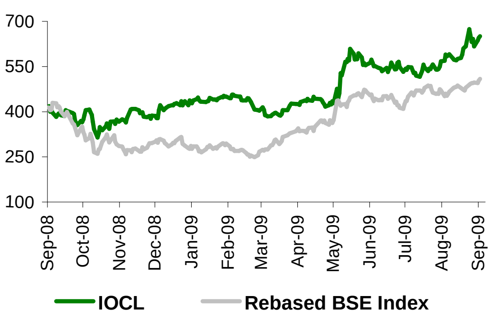
Valuation Ratios (Consolidated)

Year to 31 March	2010E	2011E
EPS (Rs.)	55.7	60.2
+/- (%)	160.1%	8.1%
PER (x)	11.7x	10.8x
EV/ Sales (x)	0.4x	0.4x
EV/ EBITDA (x)	9.0x	8.3x

Shareholding Pattern (%)

Promoters	79
FIIs	1
Institutions	5
Public & Others	15

Relative Performance



Margins improved in spite of a drop in sales

In Q1'10, Indian Oil Corporation (IOC) reported a 33.2% yoy drop in sales from Rs. 885.9 bn to Rs. 591.8 bn, owing to lower fuel price realisations. However, lower average crude prices (USD 61/bbl vs.USD 125/bbl in Q1'09) led to a sharp fall in under-recoveries, thereby helping the Company improve its EBITDA margins by 715 bps yoy to 8.4% vs.1.3% in Q1'09. In addition, foreign exchange gains and lower interest rates helped the Company register a 787.2% yoy increase in net profit to Rs. 36.8 bn vs. Rs. 4.2 bn in Q1'09. The average GRMs dropped to USD 7.4/bbl, as against USD 16.8/bbl in Q1'09.

Uncertainty on deregulation continues: Under-recoveries have come down yoy due to lower crude oil prices. However, in the face of the imminent recovery in the global economy, crude prices are inching forward and we expect prices to average USD 70/bbl and 80/bbl in FY10 and FY11, respectively. The increasing prices are expected to increase under-recoveries in the coming quarters, though not to FY09 highs. In this context, the Government's policy on subsidy sharing is vital, but remains uncertain.

Some positive cues from Secretary of Petroleum: OMCs have received certain positive signals from the Secretary of Petroleum in July 2009, who had indicated that the Government will bear the under-recovery on sale of LPG and kerosene. The proposal, if implemented, is expected to significantly reduce the under-recovery burden of IOC and help improve its margins. The OMCs are expected to lose around Rs. 700 bn in FY10, of which Rs. 300 bn will be on account of kerosene and LPG.

Key Figures (Standalone)

Quarterly Data	Q1'09	Q4'09	Q1'10	YoY%	QoQ%
(Figures in Rs. mn, except per share data)					
Net Sales	885,890	599,377	591,796	(33.2%)	(1.3%)
EBITDA	11,496	89,582	49,990	334.8%	(44.2%)
Adj. Net Profit	4,151	66,230	36,828	787.2%	(44.4%)
Margins(%)					
EBITDA	1.3%	14.9%	8.4%		
NPM	0.5%	11.0%	6.2%		
Per Share Data (Rs.)					
Normalized EPS	3.5	54.6	30.3	771.8%	(44.4%)

Valuation

At its current market price (CMP) of Rs. 650.5, the stock trades at a forward P/E of 11.7x and 10.8x for FY10 and FY11, respectively. The 5-year average P/E for public sector OMCs - HPCL, BPCL, and IOC - stands at 12.2x. RIL, in contrast, currently trades at a FY10 P/E of 17.6x. Based on the 5-year average P/E for public sector refineries, we arrive at a target P/E multiple of 12.0x for FY10, which results in a fair value of Rs. 668. Since our target price does not provide a significant upside potential to the CMP we reiterate a Hold rating on the stock.

Recent Developments

Set to increase processing capability: To capitalise on the 5% increase in domestic demand of fuel, the Company plans to increase its processing capacity by 33%, from its current capacity of ~60 MMT per annum to 80 MMT per annum by 2012. The Company plans to build a new 15 MMT plant at Paradip in eastern Orissa and increase its current capacity at the refineries at Panipat, Gujarat, and Chennai.

To open 1,362 retail outlets: The Company proposes to open 1,362 outlets in the high potential rural areas of Punjab, Haryana, Himachal Pradesh, and Jammu and Kashmir where the monthly sale of diesel is over 25,000 litres and the monthly sale of petrol is over 6,000 litres.

Plans to enter Nuclear Power industry: With an aim to become an integrated energy major, the Company is planning to enter into a joint venture agreement with Nuclear Power Corporation of India limited (NPCIL) with a 26-49% stake. An investment of Rs. 2.2-8.3 bn per annum would be required depending on the equity option chosen by IOC. However, the Ministry of Petroleum has expressed its reservations on the proposed plan.

Result Highlights and Outlook

Fuel price hike to improve net realisations

IOC’s net sales declined 33.2% yoy to Rs. 591.8 bn, despite an increase in domestic product sales (by 4.1% yoy), mainly because of lower fuel price realisations. However, the recent fuel price hike of Rs. 4 on petrol and Rs. 2 on diesel is expected to improve net realisations in the coming quarters. Product sales increased 4.1% yoy and are expected to increase further on the back of the revival in economy. Refinery throughput declined in the quarter because of maintenance shut-downs at the Company's Barauni and Koyali units. EBITDA increased to Rs. 50 bn in Q1'10 from Rs. 11.5 bn in Q1'09 as a result of lower under-recoveries and reduced employee costs. Under-recovery for the quarter stood at Rs. 29.6 bn, compared to Rs. 73.2 bn in Q1'09.

(in MMT)	Q1'09	Q4'09	Q1'10	QoQ%	YoY%
Product sales					
Domestic	15.9	16.3	16.6	1.5%	4.1%
Export	1.1	0.9	1.1	15.8%	1.3%
Refineries Throughput	12.6	14.8	12.5	(15.6%)	(0.7%)
Pipelines Throughput	15.1	15.8	16.1	2.1%	6.6%

Further, foreign exchange gains helped the Company record an adj. net profit of Rs. 36.8 bn vs. Rs. 4.2 bn in Q1'09. However, the Company's margins declined on a qoq basis due to an increase in crude prices and lack of oil bonds. On a yoy basis, the Company's under-recovery position is expected to be better on the back of lower crude oil prices (compared to FY 09). In addition, we expect under-recoveries to decrease substantially if the Government implements the Oil Secretary's recommendation to bear the entire under-recovery of the sale of domestic LPG and kerosene.

On 25 March 2009, IOC merged its subsidiary Bongaigaon Refinery and Petrochemical Ltd. (BRPL) with itself, resulting in an increase in the number of shares from 1,192 mn to 1,214 mn. The impact on the Company's financials is not substantial, since BRPL is relatively very small with an installed refining capacity of 2.3 MMT per annum.

Key Figures (Consolidated)

Year to March	FY07	FY08	FY09	FY10E	FY11E	CAGR (%)
(Figures in Rs. mn, except per share data)						(FY09-11E)
Net Sales	1,999,308	2,279,454	2,861,047	2,442,749	2,738,479	(2.2%)
EBITDA	116,844	127,211	62,046	119,789	129,024	44.2%
Adj. Net Profit	65,523	79,127	25,994	67,606	73,115	67.7%
Margins(%)						
EBITDA	5.8%	5.6%	2.2%	4.9%	4.7%	
NPM	3.3%	3.5%	0.9%	2.8%	2.7%	
Per Share Data (Rs.)						
Normalized EPS	56.1	66.4	21.4	55.7	60.2	67.7%
PER (x)	7.1x	6.7x	18.1x	11.7x	10.8x	

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