EQUITY RESEARCH | **December 17, 2007**

RESULTS REVIEW

Indian Oil Corporation Ltd. — Hold

Share Data

Market Cap	Rs. 735.58 bn
Price	Rs. 616.90
BSE Sensex	19,261.35
Reuters	IOC.BO
Bloomberg	IOCL IN
Avg. Volume (52 Week)	0.11 mn
52-Week High/Low	Rs. 697.25/370.0
Shares Outstanding	1,192.37 mn

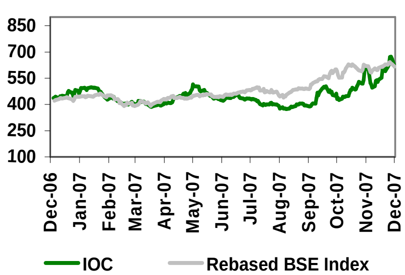
Valuation Ratios (Consolidated)

Year to 31 March	2008E	2009E
EPS (Rs.)	57.9	52.0
+/- (%)	3.1%	(10.1%)
PER (x)	10.7x	11.9x
EV/ Sales (x)	0.4x	0.4x
EV/ EBITDA (x)	7.9x	8.6x

Shareholding Pattern (%)

Promoters	80
FIIs	2
Institutions	4
Public & Others	13

Relative Performance



Special oil bonds protect the bottomline

Indian Oil Corporation (IOC) booked a net profit of Rs. 38,117.5 mn for the second quarter on the back of special oil bonds worth Rs. 63,622.5 mn issued by the GOI. These bonds more than offset the under-recovery of Rs. 35,077.4 mn on the sale of petroleum products incurred due to non-revision of retail selling prices. On the other hand, the net sales (excluding the effect of oil bonds) declined by 5.8% qoq to Rs. 497.9 bn due to lower domestic as well as export sales volume. The average GRM (for H1'08) reduced to USD 8.4 per barrel from USD 10.7 per barrel in Q1'08, due to higher raw material costs and lower throughputs resulting from a temporary shutdown of a couple of refineries.

The OMC's have been continuously suffering from rising oil prices not supported by a corresponding rise in the retail prices. There are indications that the government is considering a hike in retail fuel prices; however, there is still a lot of uncertainty regarding the final outcome. We have not incorporated any price hike in our estimates till FY09E. Considering the recent surge in crude prices, we have moderated our earnings estimate by 11% for FY08E and 19% for FY09E.

The stock trades at a forward P/E of 10.7x for FY08E and 11.9x for FY09E. We remain concerned about the rising crude prices and the continuation of administered price regime. Hence, we maintain Hold.

Key Figures (Standalone)

Quarterly Data	Q2'07	Q1'08	Q2'08	YoY%	QoQ%	H1'07	H1'08	YoY%
(Figures in Rs mn, except per share data)								
Net Sales	578,304.8	528,619.6	561,487.0	(2.9%)	6.2%	1,063,301	1,090,107	2.5%
EBITDA	38,985	14,187	51,213	31.4%	261.0%	26,103	65,399	150.5%
Net Profit	29,004	14,661	38,117	31.4%	160.0%	10,129	52,778	421.1%
Margins(%)								
EBITDA	*6.7%*	*2.7%*	*9.1%*			*2.5%*	*6.0%*	
NPM	*5.0%*	*2.8%*	*6.8%*			*1.0%*	*4.8%*	
Per Share Data (Rs.)								
Normalized EPS	24.8	12.3	32.0	28.7%	160.0%	8.7	44.3	410.4%

Result Highlights

Decline in production and sales volume

During the quarter, IOC's net sales (excluding the effect of oil bonds) declined by 5.8% qoq to Rs. 497.9 bn due to the lower domestic and export volume. The sales in domestic market dropped by 8.9% to 13.38 MMT and that to the international customers dropped by 5.4% to 0.88 MMT in Q2'08. The refinery as well as pipeline throughputs reduced by 8.2% to 11.04 MMT and 13.4 MMT, respectively, mainly due to refinery shutdowns at various locations. The Mathura and Haldia refineries remained closed for almost a month. The secondary units at Koyali (Gujarat) were also shut for sometime. However, the escalation in throughputs from Panipat pipelines provided some support.

Key Indicators

(in MMT)	Q2'07	Q1'08	Q2'08	QoQ%	YoY%
Product sales					
Domestic	12.79	14.68	13.38	(8.9%)	4.6%
Export	0.78	0.93	0.88	(5.4%)	12.8%
Refineries Throughput	10.51	12.02	11.04	(8.2%)	5.0%
Pipelines Throughput	12.67	14.60	13.40	(8.2%)	5.8%

Refinery throughput (in '000 tonnes)

Quarterly Data	Q2'07	Q1'08	Q2'08	YoY%	QoQ%
1. Guwahati	242	207	225	(7.0%)	8.7%
2. Barauni	1,455	1,543	1,463	0.5%	(5.2%)
3. Koyali	3,160	3,391	3,223	2.0%	(5.0%)
4. Haldia	1,407	1,548	1,332	(5.3%)	(14.0%)
5. Mathura	2,164	1,958	1,308	(39.6%)	(33.2%)
6. Digboi	154	135	137	(11.0%)	1.5%
7. Panipat	1,928	3,240	3,352	73.9%	3.5%
Total	**10,510**	**12,022**	**11,040**	**5.0%**	**(8.2%)**

Government issued Rs. 63.6 bn worth of Special oil bonds in the quarter

IOC received discounts from the upstream companies, ONGC/GAIL/OIL, of Rs. 49.7 bn in the half year ended September '07. The GOI also issued special oil bonds worth Rs. 63.6 bn to protect the Company against rising crude prices. It was because of these bonds that the Corporation was able to report EBITDA of Rs. 51.2 bn despite a display of lower capacity utilisation in this quarter. The average GRM (for H1'08) reduced to USD 8.4 per barrel from USD 10.7 per barrel in Q1'08. This was a consolidated outcome of higher raw material costs due to higher crude prices and lower throughputs due to temporary shutdown at Mathura, Haldia, and Koyali refineries.

On a regular basis, the Company has been registering forex gains. This quarter, the gains were Rs. 14.5 bn i.e. 27.5% higher than the previous quarter. Forex gains provided an added support to the net profit apart from the oil bonds issued by the GOI.

Key Events

- The board of Indian Oil has given a nod to the Corporation's plan of acquiring a 5% stake in Oil India Limited. It will acquire 10,700,220 equity shares from the Government at a price equivalent to the issue price proposed to be offered to the public by OIL through an IPO.
- IOC has signed a Memorandum of Understanding (MoU) with the Government of Chhattisgarh to form a joint venture (74:26) with CREDA to, (a) facilitate plantation of bio-crops (Jatropha) over a wasteland of 100 thousand hectares, (b) production of Biodiesel, and (c) blending & marketing of the product.
- Post IBP takeover, the Corporation has undergone a major cost-cutting programme and managed a net annual savings of Rs. 1.1 bn in the operating cost of the merged petroleum retailing business.
- IOC plans to expand its Haldia refinery from 6 mtpa to 7.5 mpta. It is trying to manage the expansion within the plant's 500 acre property near the port town.
- The Corporation is planning a USD 9 bn refinery joint venture with Egyptian General Petroleum Corporation (EGPC) in the oil-rich country, Egypt.
- The GOI, the shareholder of IOC, has asked the Corporation to consider a bonus issue in the immediate future on the grounds that the PSE has reserves and surplus of Rs. 336.89 bn which is 29 times its paid up capital. A bonus issue would bring variations in the Corporation's dividend yield and thus affect IOC's stock value too.

Key Risks

- The GoI's stand on the revision of retail fuel prices has become a key risk factor, which can affect our rating either way.

- Crude prices have shown higher than expected volatility in the recent past. Any further rise in the prices would pressurise the Company's margins.
- On the contrary, any further weakening of the dollar would provide an upside to our estimates.

Outlook

Government's decision to revise the retail fuel price holds the key

The continuous up-cliff movement of crude prices has made the position of OMC's under-recoveries grimmer by the day as the fuel retail prices are not witnessing a corresponding rise. The government has indicated its intention to review the retail fuel price; however, there is still a lot of uncertainty regarding the final outcome. On the other hand, as the unrest in Iraq continues, the possibility of further surge in crude prices cannot be negated. Operationally, IOC had been witnessing problems because of the refinery shutdown at Mathura, Haldia, and Koyali, which negatively affected the throughputs and consequently the GRMs. Based on the above, we have lowered our earnings estimates by 11% for FY08E and 19% for FY09E.

At the current price of Rs. 616.90, the stock trades at a forward P/E of 10.7x for FY08E and 11.9x for FY09E. We remain concerned about the rising crude prices and the continuation of administered price regime. Hence, we maintain Hold.

Key Figures (Consolidated)

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR (%)
(Figures in Rs mn, except per share data)						(FY07-09E)
Net Sales	1,316,955	1,608,056	1,999,308	2,382,390	2,352,555	8.5%
EBITDA	93,981	86,391	116,844	129,504	119,007	0.9%
Net Profit	55,580	46,080	65,523	68,997	62,046	(2.7%)
Margins(%)						
EBITDA	*7.1%*	*5.4%*	*5.8%*	*5.4%*	*5.1%*	
NPM	*4.2%*	*2.9%*	*3.3%*	*2.9%*	*2.6%*	
Per Share Data (Rs.)						
Normalized EPS	47.6	39.5	56.1	57.9	52.0	(3.7%)
PER (x)	9.2x	14.8x	11.0x	10.7x	11.9x	

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