

July 26, 2010

REDUCE

Price Rs 372	Target Price Rs 392
Sensex	18,131

Price Performance

(%)	1M	3M	6M	12M
Absolute	7	32	21	41
Rel. to Sensex	5	28	12	18

Source: Bloomberg

Stock Details

Sector	Oil & Gas
Reuters	IOC.BO
Bloomberg	IOCL@IN
Equity Capital (Rs mn)	24279.52
Face Value(Rs)	10
No of shares o/s (mn)	2427.9
52 Week H/L	418/257
Market Cap (Rs bn/USD mn)	904/19,252
Daily Avg Volume (No of sh)	2197296
Daily Avg Turnover (US\$m)	17.2

Shareholding Pattern (%)

	J'10	M'10	D'09
Promoters	78.92	78.92	78.92
FII/NRI	0.71	0.73	0.84
Institutions	5.32	5.3	5.29
Private Corp	9.53	9.5	9.39
Public	5.53	5.54	5.56

Dhaval Joshi

dhaval.joshi@emkayglobal.com

+91 22 6612 1282

- IOCL reported results which were below our estimates at EBIDTA and PAT Level, due to foreign exchange loss and non-issuance of oil bonds/Cash receivables during the quarter
- Operating profit/ (loss) at (Rs.26.6bn), decline of 153.3% YoY, mainly due to forex loss of Rs.4.6bn and non issuance of oil bonds/cash receivables during the quarter
- Average gross refining margin was at \$3/bbl as compared to \$7.4/bbl (decline of 59% YoY) below our expectation of \$4.2/bbl
- Valuations look attractive at 1.3x FY12E ABV, mainly due to recent change in reforms, Continue BUY rating with TP of Rs392

Highlights of the results

IOCL reported results which were below our estimates at EBIDTA and PAT Level, primarily due to foreign exchange loss and non-issuance of oil bonds/Cash receivables during the quarter. Revenue for the quarter was at Rs.719bn (against our expectation of Rs.689bn), growth of 21.5% mainly on account of higher realizations and higher crude oil prices. EBITDA loss during the quarter was at Rs.26bn, decline of 153.3% on a y-o-y basis. During the quarter Inventory gain were at Rs.1.6bn as compared to inventory gain of Rs. 17.3bn in Q4FY10. Interest cost increased by 71% to Rs.5.7bn, as debt levels have increased significantly as compared to last year. During the quarter the company reported net loss of Rs.33.8bn, decline of 192% on a y-o-y basis, mainly due to non-issuance of oil bonds/cash receivables by the government.

The company received upstream discount of Rs. 36.7bn, in respect of crude Oil/LPG/SKO purchased from them has been accounted during the quarter. The company has not received budgetary support from the GOI for the under-recovery of cooking fuel and auto fuel during the quarter.

Better clarity on subsidy sharing mechanism

After years of ad-hoc subsidy arrangements, a proper subsidy sharing mechanism is being worked out. The Oil secretary S Sudarshan has clarified that the 1/3rd of the under recovery would be absorbed by the upstream companies, the government would certainly absorb 50% or more, the balance 17% would be based on the companies performance over the quarter.

Interest cost significantly down

During the quarter, interest costs increased by 71% to Rs.5.7bn, as debt on the books have increased significantly.

Average GRM was at \$3.72 per bbl as against \$5.71 per bbl a year ago

Lower product demand, especially in light distillate, has seen product spreads reducing in Q1FY11. Average gross refining margin was at \$3/bbl as compared to \$7.4/bbl (decrease of 59% YoY) below our expectation of \$4.2/bbl. However, we expect GRM's to improve in the coming quarters, in tandem with the improvement in the global economy, which helps to improve the petro product spreads.

Valuation table

Rs Mn	Net Sales	EBIDTA	EBIDTA (%)	APAT	AEPS	EPS (%chg)	RoE (%)	P/E	EV/EBIDTA	P/BV
FY09	2875353	76352	2.7	25994	21.8	(67.1)	5.7	17.1	7.8	1.0
FY10	2539639	167339	6.6	107130	44.1	102.4	20.4	8.4	7.0	1.7
FY11E	2981900	216287	7.3	121071	49.9	13.0	19.9	7.5	4.9	1.5
FY12E	3035380	221139	7.3	122834	50.6	1.5	17.7	7.4	4.5	1.3

Source: Company, Emkay Research

Valuation attractive, Maintain Buy

Though there has been some clarity on sharing mechanism (upstream companies sharing entire 1/3rd of the total under recovery), more budgetary support from GOI is needed to keep IOCL in black. We expect GOI's budgetary support to increase only if it is able to garner larger funds from disinvestment or by full implementation of Kirit Parekh committee recommendation. At CMP of Rs.372, the stock trades at 1.5x and 1.3x FY11 and FY12 P/BV. We maintain our BUY rating on the stock with target price of Rs.392.

Key financials – Quarterly

Rs mn	Q1 FY10	Q2 FY10	Q3 FY10	Q4 FY10	Q1 FY11	YoY (%)	QoQ (%)
Revenue	591796	609697	704098	785770	719245	21.5	(8.5)
Expenditure	541806	603559	693625	699312	745901	37.7	6.7
as % of sales	91.6%	99.0%	98.5%	89.0%	103.7%		
Consumption of RM	500600	559695	632502	652868	707658	41.4	8.4
as % of sales	84.6%	91.8%	89.8%	83.1%	98.4%		
Employee Cost	9915	11195	16802	19498	9832	-0.8	(49.6)
as % of sales	1.7%	1.8%	2.4%	2.5%	1.4%		
Other expenditure	31291	32670	44321	26946	28412	(9.2)	5.4
as % of sales	5.3%	5.4%	6.3%	3.4%	4.0%		
EBITDA	49990	6138	10473	86457	-26656	(153.3)	(130.8)
Depreciation	7598	7805	7996	8872	10346	36.2	16.6
EBIT	42392	-1667	2476	77586	-37002	(187.3)	(147.7)
Other Income	15044	8481	6783	5232	8830	(41.3)	68.8
Interest	3340	3477	4091	4357	5712	71.0	31.1
PBT	54096	3337	5168	78460	-33884	(162.6)	(143.2)
Total Tax	17267	493	-1798	22893	0	(100.0)	(100.0)
Adjusted PAT	36828	2844	6966	55568	-33884	(192.0)	(161.0)
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0		
APAT after MI	36828	2844	6966	55568	-33884	(192.0)	(161.0)
Extra ordinary items	0	-2	0	-37	0		
Reported PAT	36828	2845	6966	55605	-33884	(192.0)	(160.9)
Reported EPS	30.34	2.34	2.87	22.90	-13.96	(146.0)	(161.0)

Margins (%)						(bps)	(bps)
EBIDTA	8.4	1.0	1.5	11.0	-3.7	(1,215.3)	(1,470.9)
EBIT	7.2	-0.3	0.4	9.9	-5.1	(1,230.8)	(1,501.8)
EBT	9.1	0.5	0.7	10.0	-4.7	(1,385.2)	(1,469.6)
PAT	6.2	0.5	1.0	7.1	-4.7	(1,093.4)	(1,178.8)
Effective Tax rate	31.9	14.8	-34.8	29.2	0.0	(3,192.0)	(2,917.7)

Source: Company, Emkay Research

Key Financials

Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10P	FY11E	FY12E
Net Sales	2,875,353	2,539,639	2,981,900	3,035,380
<i>Growth (%)</i>	26.1	(11.7)	17.4	1.8
Expenditure	2,799,000	2,372,300	2,765,613	2,814,242
Materials Consumed	1,397,731	1,747,515	1,993,610	2,552,296
Employee Cost	59,275	60,651	77,529	72,849
Other Exp	187,429	145,812	178,914	173,017
EBITDA	76,352	167,339	216,287	221,139
<i>Growth (%)</i>	(40.0)	119.2	29.3	2.2
EBITDA margin (%)	2.7%	6.6%	7.3%	7.3%
Depreciation	31,894	35,552	38,526	38,467
EBIT	44,458	131,788	177,761	182,671
EBIT margin (%)	1.5%	5.2%	6.0%	6.0%
Other Income	34,109	35,958	22,716	19,716
Interest expenses	42,076	17,262	16,789	16,067
PBT	36,491	150,484	183,688	186,320
Tax	12,533	40,499	60,617	61,486
<i>Effective tax rate (%)</i>	34.3	26.9	33.0	33.0
Adjusted PAT	23,958	109,985	123,071	124,834
<i>Growth (%)</i>	(72.0)	359.1	11.9	1.4
Net Margin (%)	0.8	4.3	4.1	4.1
(Profit)/loss from JVs/Ass/MI	(2,035.6)	2,854.9	2,000.0	2,000.0
Adjusted PAT After JVs/Ass/MI	25,994	107,130	121,071	122,834
E/O items	-	-	-	-
Reported PAT	23,958	109,985	123,071	124,834
PAT after MI	25,994	107,130	121,071	122,834
<i>Growth (%)</i>	(67.1)	312.1	13.0	1.5

Cash Flow

Y/E, Mar (Rs. mn)	FY09	FY10P	FY11E	FY12E
PBT (Ex-Other income)	36,491	150,484	183,688	186,320
Depreciation	33,391	35,552	38,526	38,467
Interest Provided	17,262	16,789	16,067	15,284
Other Non-Cash items	-	-	-	-
Chg in working cap	94,184	(75,384)	62,622	(1,267)
Tax paid	10,146	40,499	60,617	61,486
Operating Cash flow	(213,520)	51,456	218,292	158,386
Capital expenditure	(133,081)	(141,949)	(75,000)	(65,000)
Free Cash Flow	-346,601	-90,493	143,292	93,386
Other income	(10,231)	(35,958)	(22,716)	(19,716)
Investments	-	99,047	25,000	25,000
Investing Cash flow	183,480	-42,902	-50,000	-40,000
Equity Capital Raised	-	-	-	-
Loans Taken / (Repaid)	37,862	21,257	(75,000)	(85,000)
Interest Paid	(46,017)	(17,262)	(16,789)	(16,067)
Dividend paid (incl tax)	(9,754)	(36,929)	(36,929)	(36,929)
Income from investments	-	-	-	-
Others	-	-	-	-
Financing Cash flow	29,489	3,024	-106,003	-118,280
Net chg in cash	-550	11,579	62,290	105
Opening cash position	10,602	10,052	21,631	83,920
Closing cash position	10,052	15,985	83,920	84,026

Balance Sheet

Y/E, Mar (Rs. mn)	FY09	FY10P	FY11E	FY12E
Equity share capital	11,924	24,280	24,280	24,280
Reserves & surplus	443,121	500,344	584,486	670,391
Net worth	455,045	524,623	608,765	694,670
Minority Interest	15,774	18,330	18,330	18,330
Secured Loans	185,108	195,737	185,737	170,737
Unsecured Loans	288,365	298,993	233,993	163,993
Loan Funds	473,473	494,730	419,730	334,730
Net deferred tax liability	59,691	54,170	54,170	54,170
Total Liabilities	1,003,983	1,091,853	1,100,995	1,101,900
Gross Block	683,571	730,520	790,520	840,520
Less: Depreciation	299,402	334,954	373,480	411,947
Net block	384,099	395,566	417,040	428,573
Capital work in progress	191,886	286,886	301,886	316,886
Investment	313,345	214,298	189,298	164,298
Current Assets				
Inventories	285,182	410,765	298,190	303,538
Sundry debtors	47,817	56,062	49,698	50,590
Cash & bank balance	10,052	15,984	83,920	84,026
Loans & advances	118,432	152,070	124,246	126,474
Other current assets	10,544	15,079	11,044	11,242
Current lia & Prov				
Current liabilities	332,024	351,658	339,272	346,191
Provisions	26,630	103,612	27,824	28,303
Net current assets	358,654	455,270	367,096	374,495
Misc. exp	383.2	184.9	-	-
Total Assets	1,003,983	1,091,853	1,100,995	1,101,900

Key ratios

Y/E, Mar	FY09	FY10P	FY11E	FY12E
Profitability (%)				
EBITDA Margin	2.7	6.6	7.3	7.3
Net Margin	0.9	4.2	4.1	4.0
ROCE	7.8	15.4	18.2	18.4
ROE	5.7	20.4	19.9	17.7
RoIC	9.1	22.9	33.8	34.0
Per Share Data (Rs)				
EPS	21.8	44.1	49.9	50.6
CEPS	48.5	58.8	65.7	66.4
BVPS	381.6	216.1	250.7	286.1
DPS	3.9	3.3	3.3	3.3
Valuations (x)				
PER	17.1	8.4	7.5	7.4
P/CEPS	7.7	6.3	5.7	5.6
P/BV	1.0	1.7	1.5	1.3
EV / Sales	0.2	0.5	0.4	0.3
EV / EBITDA	7.8	7.0	4.9	4.5
Dividend Yield (%)	3.9	3.5	3.5	3.5
Gearing Ratio (x)				
Net Debt/ Equity	1.0	0.9	0.6	0.4
Net Debt/EBIDTA	6.1	2.9	1.6	1.1
Working Cap Cycle (days)	0.1	16.6	1.1	1.0

Recommendation History: IOCL – IOCL IN

Date	Reports	Reco	CMP	Target
31.05.2010	IOCL Q4FY10 Result Update	Buy	340	392
01.02.2010	IOCL Q3FY10 Result Update	Buy	311	392

Recent Research Reports

Date	Reports	Reco	CMP	Target
28.06.2010	Oil and Gas Event Update			
28.05.2010	BPCL Q4FY10 Result Update	Buy	555	675
27.05.2010	HPCL Q4FY10 Result Update	Buy	338	515

Emkay Global Financial Services Ltd.

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013. Tel No. 6612 1212. Fax: 6624 2410

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