

Indian Oil Corp

Skids on non-issuance of oil bonds

Topline down 30% YoY, broadly in line with expectations: IOC reported a 29.5% YoY decline in revenues to Rs 609.7bn in Q2FY10, which was marginally below our estimate of Rs 632.4bn as the non-issuance of government bonds pushed up the subsidy burden during the quarter. The YoY decline in topline stemmed from a 68% drop in crude prices, which was partially offset by higher crude throughput and product sales. The company's crude throughput increased 3.4% YoY to 12.4mmt, whereas product sales rose 7.7% to 16.7mmt. GRMs (combining its seven refineries) came in at US\$ 3.5/bbl versus US\$ 6.4/bbl in Q2FY09.

Margin up YoY but down sequentially in absence of government aid: In Q2FY10, IOC had to bear a subsidy burden of Rs 41.7bn (the entire cooking fuel under-recovery) as against our estimate of Rs 4.5bn (25% of auto fuel subsidy). Thus, despite being reimbursed fully for the auto fuel under-recovery of Rs 18bn, the company's EBITDA margin suffered, clocking in at just 1% as against our estimate of 5%. However, the EBITDA margin improved significantly YoY from -6.8% in Q2FY09 on the sharp fall in crude prices and better refinery utilisation.

PAT below expectations: IOC reported a net profit of Rs 2.8bn in Q2FY10 as against a net loss of Rs 70.5bn in Q2FY09, primarily because of lower crude prices, higher other income and lower interest cost. The company witnessed a 62.7% YoY growth in other income and a 65% fall in interest costs in Q2FY10. However, net profit was significantly below our expectation of Rs 20.1bn due to non-issuance of oil bonds during the quarter. Adjusting for the impact of above-expected subsidy sharing, IOC's PAT for Q2 would have been Rs 27.4bn.

Estimates pared: We have revised our crude price assumptions for FY10 and FY11 upwards to US\$ 69/bbl and US\$ 85/bbl from US\$ 65/bbl and US\$ 75/bbl respectively. We are also revising our rupee-dollar exchange rate assumption from Rs 48.5 and Rs 46 to Rs 47.5 and Rs 45 for FY10 and FY11 respectively. Consequently, we have increased our estimates for IOC's under-recoveries to Rs 245bn in FY10 and Rs 424bn in FY11 from Rs 179bn and Rs 303bn respectively. Further, due to rising crude prices and the absence of oil bonds, we assume that upstream companies will bear 33% of the under-recoveries, government 47% through bond issuance, and OMCs 20%.

Rolling forward target price, maintain Hold: We are rolling forward our target price from FY10 to FY11, assigning a P/BV multiple of 1.1x on FY11E. This gives us a revised price target of Rs 335 from Rs 287 earlier (includes Rs 68 as value of IOC's investments in ONGC, GAIL and Petronet: 30% holding discount). We feel that uncertainty in the subsidy sharing mechanism and rising crude oil prices would continue to depress valuations. We maintain a Hold rating on the stock.

What's New?	Target	Rating	Estimates
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CMP	TARGET	RATING	RISK
Rs 311	Rs 335	HOLD	MEDIUM

BSE	NSE	BLOOMBERG
530965	IOC	IOCL IN

Company data

Market cap (Rs bn / US\$ bn)	742 / 16
Outstanding equity shares (mn)	2385
Free float (%)	19.7
Dividend yield (%)	1.3
52-week high/low (Rs)	395 / 146
2-month average daily volume	1,522,137

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
IOC	311	(8.5)	11.7	40.7
BSE Oil&Gas	9,434	(9.9)	2.2	16.0
Sensex	15,896	(7.2)	3.3	39.4

Valuation matrix

(x)	FY08	FY09	FY10E	FY11E
P/E @ CMP	9.3	33.6	9.3	9.4
P/E @ Target	10.0	36.2	10.0	10.1
EV/EBITDA @ CMP	9.4	20.7	10.0	10.2

Financial highlights

(Rs mn)	FY08	FY09	FY10E	FY11E
Revenue	2,279,454	2,861,047	2,456,856	3,041,232
Growth (%)	14.0	25.5	(14.1)	23.8
Adj net income	79,527	22,094	80,040	78,731
Growth (%)	32.8	(72.2)	262.3	(1.6)
FDEPS (Rs)	33.3	9.3	33.6	33.0
Growth (%)	30.1	(72.2)	262.3	(1.6)

Profitability and return ratios

(%)	FY08	FY09	FY10E	FY11E
EBITDA margin	5.6	2.0	4.9	3.9
EBIT margin	4.3	0.9	3.6	2.8
Adj PAT margin	3.5	0.8	3.3	2.6
ROE	19.8	5.0	16.4	14.3
ROIC	8.8	1.9	5.9	5.5
ROCE	12.4	5.5	10.0	9.8





Result highlights

Fig 1 - Actual vs estimated performance

(Rs mn)	Actual	Estimate	% Variance
Revenue	609,697	632,444	(3.6)
EBITDA	6,138	30,470	(79.9)
EBITDA margin (%)	1.0	5.0	(404)
Adj net income	2,844	20,107	(85.9)
FDEPS (Rs)	1.2	8.3	(85.9)

Source: RHH

Fig 2 - Quarterly performance

(Rs mn)	Q2FY10	Q2FY09	% Chg YoY	Q1FY10	% Chg QoQ
Net sales	609,697	864,663	(29.5)	591,796	3.0
Expenditure	603,559	923,553	(34.6)	541,806	11.4
EBITDA	6,138	(58,890)	-	49,990	(87.7)
EBITDA margin (%)	1.0	(6.8)	-	8.4	(744bps)
Other income	8,481	5,212	62.7	15,044	(43.6)
Interest	3,477	9,928	(65.0)	3,340	4.1
Depreciation	7,805	6,775	15.2	7,598	2.7
PBT	3,337	(70,381)	-	54,096	(93.8)
Tax	493	90	447.2	17,267	(97.1)
PAT	2,844	(70,471)	-	36,828	(92.3)
EPS (Rs)	1.2	(29.6)	-	15.2	(92.3)
Throughput (mmt)	12.41	12.01	3.4	12.47	(0.4)
Sales (mmt)	16.73	15.53	7.7	16.58	0.9
GRM (US\$/bbl)	3.48	6.36	(45.3)	7.36	(52.7)

Source: Company, RHH

Fig 3 - Revised estimates

Key parameters (Rs mn)	FY10E			FY11E		
	Old	New	% Chg	Old	New	% Chg
Revenue	2,342,723	2,456,856	4.9	2,786,228	3,044,126	9.3
EBITDA margin (%)	5.5	4.9	(61 bps)	4.6	4.0	(61 bps)
Net profit	90,436	82,749	(8.5)	86,845	81,062	(6.7)
FDEPS (Rs)	37.9	34.7	(8.5)	36.4	34.0	(6.7)

Source: RHH

Fig 4 - IOC's share of under-recovery burden

(Rs mn)	Q1FY10	Q2FY10	FY10E	FY11E
IOC under-recovery	31,902	59,735	245,354	423,835
Shared by:				
Government bonds	-	-	115,316	199,202
% share	-	-	47.0	47.0
Upstream discount	2,291	17,991	80,967	139,865
% share	7.2	30.1	33.0	33.0
IOC	29,611	41,744	49,071	84,767
% share	92.8	69.9	20.0	20.0

Source: RHH, Company

Results suffered due to higher-than-expected subsidy burden

Revenues down 30% YoY due to the drop in crude prices

Bottomline better YoY on lower crude prices, higher other income and reduced interest cost



Consolidated financials

Profit and Loss statement

Y/E March (Rs mn)	FY08	FY09	FY10E	FY11E
Revenues	2,279,454	2,861,047	2,456,856	3,041,232
Growth (%)	14.0	25.5	(14.1)	23.8
EBITDA	127,610	58,146	120,118	118,656
Growth (%)	9.2	(54.4)	106.6	(1.2)
Depreciation & amortisation	30,417	31,894	32,844	33,759
EBIT	97,193	26,252	87,274	84,897
Growth (%)	11.6	(73.0)	232.4	(2.7)
Interest	18,039	42,076	21,884	24,238
Other income	45,733	52,315	58,098	61,003
EBT	124,887	36,491	123,488	121,663
Income taxes	39,381	12,533	42,232	41,736
Effective tax rate (%)	31.5	34.3	34.2	34.3
Extraordinary items	-	-	-	-
Min into / inc from associates	6,378	(2,036)	1,216	1,196
Reported net income	79,127	25,994	80,040	78,731
Adjustments	(399)	3,900	-	-
Adjusted net income	79,527	22,094	80,040	78,731
Growth (%)	32.8	(72.2)	262.3	(1.6)
Shares outstanding (mn)	2,384.7	2,384.7	2,384.7	2,384.7
FDEPS (Rs) (adj)	33.3	9.3	33.6	33.0
Growth (%)	30.1	(72.2)	262.3	(1.6)
DPS (Rs)	2.9	3.9	5.4	7.4

Cash flow statement

Y/E March (Rs mn)	FY08	FY09	FY10E	FY11E
Net income + Depreciation	109,502	59,375	112,884	112,490
Non-cash adjustments	(186,815)	(396,669)	20,349	25,965
Changes in working capital	(14,926)	94,184	(25,779)	(3,400)
Cash flow from operations	(92,238)	(243,110)	107,454	135,055
Capital expenditure	(11,099)	(18,382)	(26,919)	(21,938)
Change in investments	93,413	297,975	(28,829)	(49,801)
Other investing cash flow	(63,695)	(112,540)	-	-
Cash flow from investing	18,619	167,054	(55,748)	(71,739)
Issue of equity	-	-	-	-
Issue/repay debt	93,398	85,259	(40,000)	(45,000)
Dividends paid	(19,944)	(9,754)	(15,108)	(20,694)
Other financing cash flow	-	-	-	-
Change in cash & cash eq	(165)	(550)	(3,402)	(2,378)
Closing cash & cash eq	10,602	10,052	6,650	4,272

Economic Value Added (EVA) analysis

Y/E March	FY08	FY09	FY10E	FY11E
WACC (%)	12.0	11.8	12.2	12.6
ROIC (%)	8.8	1.9	5.9	5.5
Invested capital (Rs mn)	833,815	945,649	995,275	1,037,629
EVA (Rs mn)	(27,288)	(92,947)	(62,479)	(73,844)
EVA spread (%)	(3.3)	(9.8)	(6.3)	(7.1)

Balance sheet

Y/E March (Rs mn)	FY08	FY09	FY10E	FY11E
Cash and cash eq	10,602	10,052	6,650	4,272
Accounts receivable	52,565	47,817	41,062	81,241
Inventories	372,211	285,182	244,893	363,967
Other current assets	147,304	128,976	128,061	128,735
Investments	207,625	313,239	342,068	391,868
Gross fixed assets	635,291	679,293	704,293	724,293
Net fixed assets	365,824	379,990	372,773	359,641
CWIP	100,849	191,889	193,808	195,746
Intangible assets	3,032	4,542	4,542	4,542
Deferred tax assets, net	(61,134)	(59,691)	(60,282)	(60,933)
Other assets	1,667	945	945	945
Total assets	1,200,545	1,302,940	1,274,520	1,470,025
Accounts payable	209,739	205,195	127,069	278,943
Other current liabilities	129,401	126,829	130,311	133,966
Provisions	14,999	26,630	46,757	72,501
Debt funds	388,209	473,469	433,469	388,469
Other liabilities	22,002	15,774	16,939	18,135
Equity capital	23,847	23,847	23,847	23,847
Reserves & surplus	412,348	431,196	496,128	554,165
Shareholder's funds	436,195	455,044	519,975	578,012
Total liabilities	1,200,545	1,302,940	1,274,520	1,470,025
BVPS (Rs)	182.9	190.8	218.0	242.4

Financial ratios

Y/E March	FY08	FY09	FY10E	FY11E
Profitability & Return ratios (%)				
EBITDA margin	5.6	2.0	4.9	3.9
EBIT margin	4.3	0.9	3.6	2.8
Net profit margin	3.5	0.8	3.3	2.6
ROE	19.8	5.0	16.4	14.3
ROCE	12.4	5.5	10.0	9.8
Working Capital & Liquidity ratios				
Receivables (days)	8	6	7	7
Inventory (days)	60	41	42	41
Payables (days)	33	30	28	27
Current ratio (x)	1.7	1.4	1.6	1.4
Quick ratio (x)	0.2	0.2	0.2	0.2
Turnover & Leverage ratios (x)				
Gross asset turnover	3.7	4.4	3.6	4.3
Total asset turnover	2.1	2.3	1.9	2.2
Interest coverage ratio	5.4	0.6	4.0	3.5
Adjusted debt/equity	0.9	1.0	0.8	0.7
Valuation ratios (x)				
EV/Sales	0.5	0.4	0.5	0.4
EV/EBITDA	9.4	20.7	10.0	10.2
P/E	9.3	33.6	9.3	9.4
P/BV	1.7	1.6	1.4	1.3



Quarterly trend

Particulars	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10
Revenue (Rs mn)	864,663	705,341	599,377	591,796	609,697
YoY growth (%)	52.5	10.1	(16.6)	(33.1)	(29.5)
QoQ growth (%)	(2.2)	(18.4)	(15.0)	(1.3)	3.0
EBITDA (Rs mn)	(58,890)	33,831	89,582	49,990	6,138
EBITDA margin (%)	(6.8)	4.8	14.9	8.4	1.0
Adj net income (Rs mn)	(70,471)	29,585	66,230	36,828	2,844
YoY growth (%)	-	41.5	-	787.2	-
QoQ growth (%)	-	-	123.9	(44.4)	(92.3)

DuPont analysis

(%)	FY07	FY08	FY09E	FY10E	FY11E
Tax burden (Net income/PBT)	51.6	63.7	60.5	64.8	64.7
Interest burden (PBT/EBIT)	133.3	128.5	139.0	141.5	143.3
EBIT margin (EBIT/Revenues)	4.4	4.3	0.9	3.6	2.8
Asset turnover (Revenues/Avg TA)	213.7	209.0	228.6	190.6	221.6
Leverage (Avg TA/Avg equity)	278.5	272.1	280.9	264.3	250.0
Return on equity	17.8	19.8	5.0	16.4	14.3

Company profile

IOC is the 20th largest petroleum company in the world and the largest integrated oil marketing player in India, with a presence in refining, marketing, pipelines, petrochemicals and a limited interest in the upstream sector. IOC owns ~35% of India's refining capacity and commands ~50% market share in the country's auto and cooking fuel sales. In FY07, it reached a unique milestone by becoming the first and only Indian company to date to cross Rs 2,000bn in turnover.

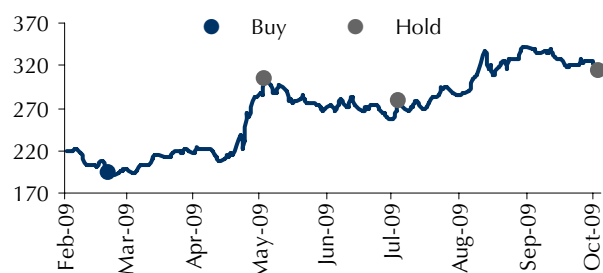
Shareholding pattern

(%)	Mar-09	Jun-09	Sep-09
Promoters	80.4	78.9	78.9
FII's	1.0	0.9	0.9
Banks & FI's	5.2	5.5	5.5
Public	13.5	14.7	14.7

Recommendation history

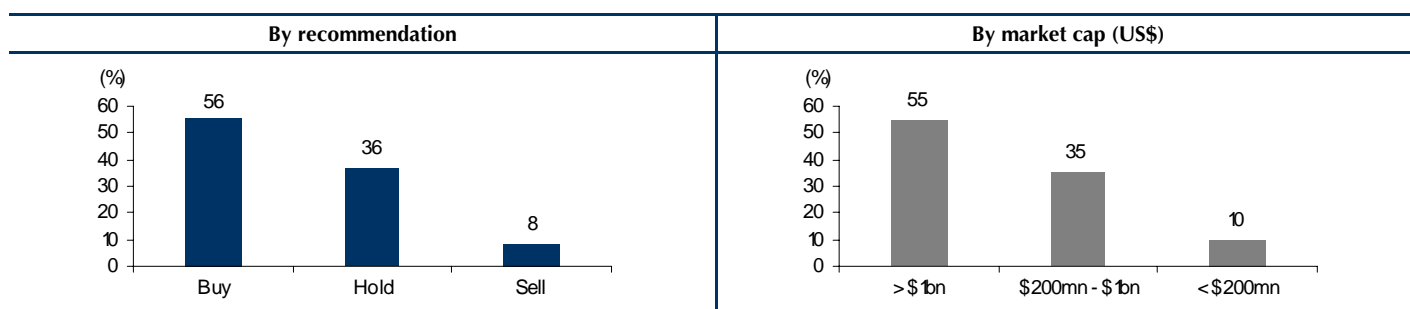
Date	Event	Reco price	Tgt price	Reco
20-Mar-09	Initiating Coverage	387	533	Buy
1-Jun-09	Results Review	609	627	Hold
30-Jul-09	Results Review	556	574	Hold
30-Oct-09	Results Review	311	335	Hold

Stock performance





Coverage Profile



Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

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