

November 11, 2011

<b>Reco</b>	<b>Previous Reco</b>
Accumulate	Accumulate
<b>CMP</b>	<b>Target Price</b>
Rs. 288	Rs. 381
EPS change FY12E/13E (%)	NA
Target Price change (%)	NA
Nifty	5,221
Sensex	17,570

### Price Performance

(%)	1M	3M	6M	12M
Absolute	(8)	(15)	(17)	(30)
Rel. to Nifty	(12)	(17)	(12)	(16)

Source: Bloomberg

### Relative Price Chart



Source: Bloomberg

### Stock Details

Sector	Oil & Gas
Bloomberg	IOCL@IN
Equity Capital (Rs mn)	24280
Face Value(Rs)	10
No of shares o/s (mn)	2428
52 Week H/L	430/287
Market Cap (Rs bn/USD mn)	699/14,124
Daily Avg Volume (No of sh)	597220
Daily Avg Turnover (US\$m)	3.8

### Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	78.9	78.9	78.9
FII/NRI	0.9	0.9	0.9
Institutions	5.1	5.1	5.1
Private Corp	9.6	9.6	9.6
Public	5.5	5.5	5.6

Source: Capitaline

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- **IOCL reported results which were below our estimates with EBIDTA loss at Rs.53.2bn and Net loss at Rs.74.8bn, however revenue grew by 15.3% to Rs.891.8bn**
- **The direct market sale grew by 4.6% to 17.7mmt, while crude throughput increased by 7.5% to 13mmt YoY**
- **Average gross refining margin for Q2 FY12 was at \$-0.03/bbl as compared to \$6.6/bbl YoY and \$4.7/bbl QoQ**
- **Valuations look reasonable at 1x FY13E ABV, maintain ACCUMULATE rating with TP of Rs.381**

### Highlights of the results

IOCL reported results which were above our estimates at EBIDTA and PAT Level, primarily due to denial of cash compensation from the government during the quarter. Revenue for the quarter was at Rs.891bn, growth of 15.3% YoY, mainly on account of higher volumes plus better realisation. EBIDTA loss during the quarter was at Rs.53.2bn, as against EBIDTA profit of Rs.Rs.68.9bn, YoY. Interest cost increased significantly by 192% to Rs.14.8bn. During the quarter the company reported net loss of Rs.74.8bn, against net profit of Rs.52.9bn YoY, mainly attributable to higher under recovery lead by higher crude oil prices, forex loss of Rs.23.1bn and increase in interest outgo. Direct market sales grew by 4.6% to 17.7mmt, while crude throughput increased by 7.5% to 13mmt YoY. Capacity utilization for the quarter improved from 83.2% to 95.6% YoY. Company received upstream discount of Rs.39.2bn, in respect of crude Oil/LPG/SKO purchased from them has been accounted during the quarter. However, company has not received budgetary support from the GOI for the under-recovery on cooking fuel and auto fuel during the quarter.

### No clarity on subsidy sharing mechanism for FY12E

The gross under recovery for the quarter stood at Rs.117.6bn. For 1H FY12, company received upstream discount of Rs.118.5bn, 33.3% of the total share/under recovery. However, there is still uncertainty hovering on subsidy sharing mechanism for 2H FY12E under recovery, which remains a key overhang on the stock.

### Interest cost increased by 192% YoY to Rs.14.8bn

During the quarter, interest cost has increased significantly by 192% to Rs.14.8bn in tandem with increase in borrowings during the quarter. Loan fund grew by 39% YTD to Rs.732bn.

### GRM was at \$-0.03 per bbl as against \$4.7 per bbl on QoQ

During the quarter GRM has decline significantly on sequentially from \$4.7/bbl to \$-0.03/bbl. The primary reason for decline in GRM were 1) decline in throughput 2) forex loss of Rs.12.2bn on crude purchases 3) company couldn't get better realisation mainly on account of a bit correction in crude oil in mid quarter and 4) product spreads declined in some of the light and mid distillate segment resulting in lower gross refining margin for the quarter. However, after adjusting for forex loss on crude purchases the GRM for the quarter stood at \$2.7/bbl.

### Financial Snapshot

(Rs.mn)

YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Core)	(%)	(Rs)	% chg	(%)	P/E	EBITDA	P/BV	
FY10	1158103	38146	3.4	14761	43.5	94.9	13.5	7.6	6.6	0.9
FY11	1428996	43772	3.1	17036	50.3	15.4	14.6	6.6	6.7	0.8
FY12E	1521815	41931	2.8	15515	45.8	-8.9	12.2	7.3	7.0	0.8
FY13E	1530304	43,570	2.9	16,496	48.7	6.3	11.9	6.8	6.7	0.7

## Financial Snapshot

Rs mn	Q2 FY11	Q3 FY11	Q4 FY11	Q1 FY12	Q2 FY12	YoY (%)	QoQ (%)	1H FY12	1H FY11	YoY (%)
<b>Revenue</b>	773357	808973	987227	1012845	891851	15.3	(11.9)	1904696	1492602	27.6
<b>Expenditure</b>	704457	776056	929400	1031463	945073	34.2	(8.4)	1976537	1450358	36.3
<i>as % of sales</i>	91.1	95.9	94.1	101.8	106.0			103.8	97.2	
Consumption of RM	653114	728402	847582	979846	864418	32.4	(11.8)	1844264	1360772	35.5
<i>as % of sales</i>	84.5	90.0	85.9	96.7	96.9			96.8	91.2	
Employee Cost	16004	14092	24428	11650	11800	-26.3	1.3	23450	25836	-9.2
<i>as % of sales</i>	2.1	1.7	2.5	1.2	1.3			1.2	1.7	
Other expenditure	35339	33563	57390	39967	68855	94.8	72.3	108822	63751	70.7
<i>as % of sales</i>	4.6	4.1	5.8	3.9	7.7			5.7	4.3	
<b>EBITDA</b>	68900	32917	57827	-18618	-53222	-177.2	185.9	-71840	42244	-270.1
Depreciation	11178	11778	12165	12235	12638	13.1	3.3	24873	21524	15.6
<b>EBIT</b>	57722	21140	45662	-30853	-65860	-214.1	113.5	-96713	20720	-566.8
Other Income	8619	7886	4800	4042	5845	-32.2	44.6	9887	17449	-43.3
Interest	5079	7233	8675	10376	14840	192.2	43.0	25216	10791	133.7
<b>PBT</b>	61262	21793	41788	-37187	-74856	-222.2	101.3	-112042	27378	-509.2
Total Tax	8323	5445	2736	0	0	-100.0	-	0	8323	-100.0
<b>Adjusted PAT</b>	52939	16348	39052	-37187	-74856	-241.4	101.3	-112042	19055	-688.0
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0			0	0	
<b>APAT after MI</b>	52939	16348	39052	-37187	-74856	-241.4	101.3	-112042	19055	-688.0
<b>Extra ordinary items</b>	0	0	0	0	0			0	0	
<b>Reported PAT</b>	52939	16348	39052	-37187	-74856	-241.4	101.3	-112042	19055	-688.0
<b>Reported EPS</b>	21.80	6.7	16.1	-15.3	-30.8	-241.4	101.3	-46	8	-688.0

Margins (%)						(bps)	(bps)				(bps)
EBIDTA	8.9	4.1	5.9	-1.8	-6.0	-1487.7	(412.9)	-3.8	2.8	-660.2	
EBIT	7.5	2.6	4.6	-3.0	-7.4	-1484.8	(433.8)	-5.1	1.4	-646.6	
EBT	7.9	2.7	4.2	-3.7	-8.4	-1631.5	(472.2)	-5.9	1.8	-771.7	
PAT	6.85	2.02	3.96	-3.67	-8.39	-1523.9	(472.2)	-5.9	1.3	-715.9	
Effective Tax rate	13.6	25.0	6.5	0.0	0.0	-1358.5	-	0.0	30.4	-3039.9	

## Current under recovery on petroleum products

IOCL currently lose Rs.8.58/ltr on diesel, Rs.25.66/ltr on kerosene sold through the public distribution system (PDS) and Rs.260.50/14.2 kg LPG cylinder supplied to domestic households for cooking purposes.

## Valuations

Due to lower gross refining margin, forex loss and no budgetary support from the GOI, IOCL reported net loss during the quarter. There is still uncertainty hovering on subsidy sharing mechanism for FY12E under recovery, which remains the key overhang on the stock. At CMP of Rs.288 valuations look reasonable at 1x FY13E P/Bv. We maintain our Accumulate rating with PT of Rs.381.

## Key Financials

## Income statement

Y/E Mar (Rsmn)	FY10A	FY11E	FY12E	FY13E
<b>Net Sales</b>	<b>2,539,639</b>	<b>3,106,254</b>	<b>3,742,483</b>	<b>3,772,461</b>
<i>Growth (%)</i>	<i>(11.7)</i>	<i>22.3</i>	<i>20.5</i>	<i>0.8</i>
<b>Expenditure</b>	<b>2,372,300</b>	<b>2,956,010</b>	<b>3,569,317</b>	<b>3,583,740</b>
Materials Consumed	1,747,515	1,993,610	2,552,296	2,165,838
Employee Cost	60,651	67,358	74,850	75,449
Other Exp	145,812	167,671	224,549	226,348
<b>EBITDA</b>	<b>167,339</b>	<b>150,243</b>	<b>173,166</b>	<b>188,721</b>
<i>Growth (%)</i>	<i>119.2</i>	<i>(10.2)</i>	<i>15.3</i>	<i>9.0</i>
<b>EBITDA margin (%)</b>	<b>6.6%</b>	<b>4.8%</b>	<b>4.6%</b>	<b>5.0%</b>
Depreciation	35,552	49,326	50,314	53,588
<b>EBIT</b>	<b>131,788</b>	<b>100,917</b>	<b>122,851</b>	<b>135,133</b>
<b>EBIT margin (%)</b>	<b>5.2%</b>	<b>3.2%</b>	<b>3.3%</b>	<b>3.6%</b>
Other Income	35,958	30,025	25,716	26,787
Interest expenses	17,262	29,803	31,864	32,047
<b>PBT</b>	<b>150,484</b>	<b>101,140</b>	<b>116,703</b>	<b>129,874</b>
<b>Tax</b>	<b>40,499</b>	<b>20,284</b>	<b>36,178</b>	<b>40,261</b>
<i>Effective tax rate (%)</i>	<i>26.9</i>	<i>20.1</i>	<i>31.0</i>	<i>31.0</i>
<b>Adjusted PAT</b>	<b>109,985</b>	<b>80,856</b>	<b>80,525</b>	<b>89,613</b>
<i>Growth (%)</i>	<i>359.1</i>	<i>(26.5)</i>	<i>(0.4)</i>	<i>11.3</i>
<b>Net Margin (%)</b>	<b>4.3</b>	<b>2.6</b>	<b>2.2</b>	<b>2.4</b>
(Profit)/loss from JVs/Ass/MI	2,854.9	2,549.0	2,549.0	2,549.0
<b>Adjusted PAT AfterJV/ MI</b>	<b>107,130</b>	<b>78,307</b>	<b>77,976</b>	<b>87,064</b>
E/O items	-	-	-	-
<b>Reported PAT</b>	<b>109,985</b>	<b>80,856</b>	<b>80,525</b>	<b>89,613</b>
<b>PAT after MI</b>	<b>107,130</b>	<b>78,307</b>	<b>77,976</b>	<b>87,064</b>
<i>Growth (%)</i>	<i>312.1</i>	<i>(26.9)</i>	<i>(0.4)</i>	<i>11.7</i>

## Cash Flow

Y/E Mar (Rsmn)	FY10A	FY11E	FY12E	FY13E
<b>PBT (Ex-Other income)</b>	<b>150,484</b>	<b>101,140</b>	<b>116,703</b>	<b>129,874</b>
Depreciation	35,677	49,326	50,314	53,588
Interest Provided	17,265	29,803	31,864	32,047
Other Non-Cash items	-	-	-	-
Chg in working cap	(182,446)	(41,327)	(69,377)	(39,340)
Tax paid	27,296	20,284	36,178	40,261
<b>Operating Cashflow</b>	<b>-16,090</b>	<b>88,633</b>	<b>67,610</b>	<b>109,120</b>
Capital expenditure	(138,236)	(95,874)	(92,457)	(88,346)
<b>Free Cash Flow</b>	<b>-154,326</b>	<b>-7,241</b>	<b>-24,847</b>	<b>20,774</b>
Other income	(16,431)	(30,025)	(25,716)	(26,787)
Investments	-	-	-	-
<b>Investing Cashflow</b>	<b>35,948</b>	<b>-95,874</b>	<b>-92,457</b>	<b>-88,346</b>
Equity Capital Raised	-	-	-	-
Loans Taken / (Repaid)	31,069	35,633	38,637	3,268
Interest Paid	(24,276)	(29,803)	(31,864)	(32,047)
Dividend paid (incl tax)	(10,907)	(26,987)	(14,204)	(15,624)
Income from investments	16,431	30,025	25,716	26,787
Others	-	-	-	-
<b>Financing Cashflow</b>	<b>-13,925</b>	<b>8,869</b>	<b>18,286</b>	<b>-17,615</b>
<b>Net chg in cash</b>	<b>5,933</b>	<b>1,628</b>	<b>-6,561</b>	<b>3,159</b>
Opening cash position	10,052	15,985	17,613	11,051
<b>Closing cash position</b>	<b>15,985</b>	<b>17,613</b>	<b>11,051</b>	<b>14,210</b>

## Balance Sheet

Y/E Mar (Rsmn)	FY10A	FY11E	FY12E	FY13E
Equity share capital	24,280	24,280	24,280	24,280
Reserves & surplus	500,344	551,664	615,437	686,877
<b>Net worth</b>	<b>524,623</b>	<b>575,944</b>	<b>639,717</b>	<b>711,157</b>
<b>Minority Interest</b>	<b>18,330</b>	<b>18,330</b>	<b>18,330</b>	<b>18,330</b>
Secured Loans	193,433	204,031	216,514	218,729
Unsecured Loans	301,293	326,328	352,482	353,535
<b>Loan Funds</b>	<b>494,726</b>	<b>530,359</b>	<b>568,996</b>	<b>572,264</b>
Net deferred tax lia.	54,170	54,170	54,170	54,170
<b>Total Liabilities</b>	<b>1,091,849</b>	<b>1,178,802</b>	<b>1,281,212</b>	<b>1,355,920</b>
Gross Block	788,885	848,726	898,726	948,726
Less: Depreciation	334,111	380,777	431,091	484,679
<b>Net block</b>	<b>454,774</b>	<b>467,949</b>	<b>467,635</b>	<b>464,047</b>
Capital WIP	227,678	263,552	306,009	344,355
<b>Investment</b>	<b>214,299</b>	<b>214,299</b>	<b>214,299</b>	<b>214,299</b>
<b>Current Assets</b>				
Inventories	410,765	414,167	486,037	477,527
Sundry debtors	56,062	56,477	68,045	68,590
Cash & bank balance	15,984	17,613	11,051	14,210
Loans & advances	152,070	124,250	162,717	157,186
Other current assets	15,079	12,425	14,970	15,090
<b>Current lia &amp; Prov</b>				
Current liabilities	351,658	357,430	406,348	364,333
Provisions	103,612	29,858	36,012	25,311
<b>Net current assets</b>	<b>455,270</b>	<b>387,288</b>	<b>442,360</b>	<b>389,644</b>
Misc. exp	184.9	-	-	-
<b>Total Assets</b>	<b>1,091,849</b>	<b>1,178,802</b>	<b>1,281,212</b>	<b>1,355,920</b>

## Key Ratios

Y/E Mar	FY10A	FY11E	FY12E	FY13E
<b>Profitability (%)</b>				
EBITDA Margin	6.6	4.8	4.6	5.0
Net Margin	4.2	2.5	2.1	2.3
ROCE	16.0	11.5	12.1	12.3
ROE	21.9	14.2	12.8	12.9
RoIC	23.5	15.3	17.1	17.6
<b>Per Share Data (Rs)</b>				
EPS	44.1	32.3	32.1	35.9
CEPS	58.8	52.6	52.8	57.9
BVPS	216.1	237.2	263.5	292.9
DPS	13.0	9.5	5.0	5.5
<b>Valuations (x)</b>				
PER	6.8	9.3	9.3	8.3
P/CEPS	5.1	5.7	5.7	5.2
P/BV	1.4	1.3	1.1	1.0
EV / Sales	0.4	0.3	0.3	0.3
EV / EBITDA	5.9	6.8	6.2	5.7
Dividend Yield (%)	4.3	3.2	1.7	1.8
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	0.9	0.9	0.9	0.8
Net Debt/EBIDTA	2.9	3.4	3.2	3.0
Working Cap Cycle (days)	16.6	13.3	14.4	17.6

**Recommendation History: IOCL – IOCL IN**

Date	Reports	Reco	CMP	Target
11/08/2011	<a href="#">IOCL Q1FY12 Result Update</a>	Accumulate	326	381
31/05/2011	<a href="#">IOCL Q4FY11 Result Update</a>	Accumulate	320	381
11/02/2011	<a href="#">IOCL Q3FY11 Result Update</a>	Accumulate	313	372
15/11/2010	<a href="#">IOCL Q2FY11 Result Update</a>	Accumulate	403	458

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
04/11/2011	<a href="#">Gujarat Gas Company Q2CY11 Result Update</a>	Buy	444	481
02/11/2011	<a href="#">HPCL Q2FY12 Result Update</a>	Buy	337	463
01/11/2011	<a href="#">BPCL Q2FY12 Result Update</a>	Accumulate	623	684
25/10/2011	<a href="#">Reliance Industries Initiating Coverage</a>	Buy	846	1,119

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