

May 31, 2011

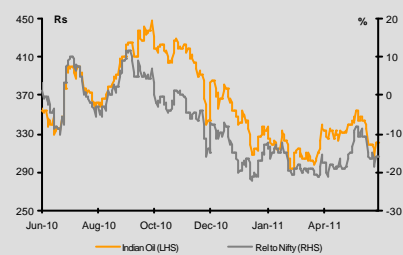
Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs. 320	Rs. 381
EPS change FY12E/13E (%)	-27/0
Target Price change (%)	2.4
Nifty	5,473
Sensex	18,232

Price Performance

(%)	1M	3M	6M	12M
Absolute	(6)	9	(7)	(6)
Rel. to Nifty	(0)	7	(0)	(12)

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	459/290
Market Cap (Rs bn/USD mn)	776/17,216
Daily Avg Volume (No of sh)	220603
Daily Avg Turnover (US\$m)	1.6

Shareholding Pattern (%)

	Mar-11	Dec-10	Sep-10
Promoters	78.9	78.9	78.9
FII/NRI	0.9	1.2	1.1
Institutions	5.1	4.8	5.0
Private Corp	9.6	9.5	9.6
Public	5.6	5.6	5.5

Source: Capitaline

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- IOCL reported results which were above our estimates with Revenue at Rs.987bn and PAT at Rs.86.4bn
- Crude throughput increased by 7.1% to 14.23mmt, while market sales has grown by 8.7% to 19.3mmt
- Average gross refining margin for FY11 was at \$5.95/bbl as compared to \$4.47/bbl (growth of 33.1 % YoY)
- Valuations look reasonable at 1.2x FY13E ABV, maintain ACCUMULATE rating with revised TP of Rs.381

Highlights of the results

IOCL reported results which were above our estimates, primarily due to volume growth plus better realisation during the quarter. Also company got higher subsidy sharing as discount from upstream companies inline with the recent announced made by the government last week. Revenue for the quarter was at Rs.987bn (against our expectation of Rs.877bn), growth of 25.6% YoY, mainly on account of higher volumes plus higher petroleum product prices. During the quarter company has received cash compensation from the government of Rs.109bn. EBIDTA during the quarter was at Rs.57.8bn, as against Rs.86.4bn, declined of 33%, YoY. During the quarter company reported inventory gain of Rs.20.5bn as against Rs.17.3bn a year ago. Interest cost increased by 99% to Rs.8.6bn. During the quarter the company reported net profit of Rs.39.1bn, against Rs.55bn, decline of 29.7% YoY mainly on account of higher depreciation and Interest cost.

The company received upstream discount of Rs.80.1bn, in respect of crude Oil/LPG/SKO purchased from them has been accounted during the quarter. The company has received budgetary support of Rs.109bn from the GOI for the under-recovery of cooking fuel and auto fuel during the quarter.

Clarity on subsidy sharing mechanism is cleared for FY11 but not yet cleared for FY12E

Last week Government has announced subsidy sharing formula for FY11 and forced upstream companies to bear higher burden of 38.7% or Rs.301bn from 33.3% earlier. For the full year the government has provided 52.5% or Rs.410bn as cash compensation and balance has been borne by the OMC's. There is the still uncertainty hovering on subsidy sharing mechanism for FY12E under recovery, which remains a key overhang on the stock.

Interest cost increased by 99% YoY to Rs.8.6bn

During the quarter, interest costs have increased significantly by 99% to Rs.8.6bn in tandem with increase in borrowings during the quarter.

GRM was at \$7.85 per bbl as against \$6.33 per bbl on QoQ

Higher product demand, especially in light distillate, has led to product spreads increasing in Q4FY11. Gross refining margin was at \$7.85/bbl as compared to \$6.33/bbl (Increased by 23% QoQ). We expect GRM's to improve further in the coming quarters, in tandem with the improvement in the global economy, which will improve the petro product spreads.

Valuation table

Y/E, Mar	Net	EBIDTA	APAT	AEPS	EPS	RoE	P/E	EV/	P/	
Rs Mn	Sales	(Rs mn)	(%)		% chg	(%)		EBIDTA	BV	
FY10	2539639	167339	6.6	107130	44.1	102.4	21.9	7.3	6.2	1.5
FY11	3106254	150243	4.8	78307	32.3	-26.9	14.2	9.9	7.2	1.3
FY12E	3399450	179422	5.3	88208	36.3	12.6	14.5	8.8	6.2	1.2
FY13E	3443434	197,030	5.7	97,676	40.2	10.7	14.5	8.0	5.7	1.1

Source: Company, Emkay Research

Financial Snapshot (Standalon No.)

Rs Mn

Rs mn	Q4 FY10	Q1 FY11	Q2 FY11	Q3 FY11	Q4 FY11	YoY (%)	QoQ (%)	FY11	FY10	YoY (%)
Revenue	785770	719245	773357	808973	987227	25.6	22.0	3288802	2691360	22.2
Expenditure	699312	745901	704457	776056	929400	32.9	19.8	3155814	2538303	24.3
<i>as % of sales</i>	89.0%	103.7%	91.1%	95.9%	94.1%					
Consumption of RM	652868	707658	653114	728402	847582	29.8	16.4	2936755	2345664	25.2
<i>as % of sales</i>	83.1%	98.4%	84.5%	90.0%	85.9%					
Employee Cost	19498	9832	16004	14092	24428	25.3	73.4	64356	57411	12.1
<i>as % of sales</i>	2.5%	1.4%	2.1%	1.7%	2.5%					
Other expenditure	26946	28412	35339	33563	57390	113.0	71.0	154704	135228	14.4
<i>as % of sales</i>	3.4%	4.0%	4.6%	4.1%	5.8%					
EBITDA	86457	-26657	68900	32917	57827	-33.1	75.7	132987	153058	-13.1
Depreciation	8872	10346	11178	11778	12165	37.1	3.3	45467	32271	40.9
EBIT	77586	-37003	57722	21140	45662	-41.1	116.0	87521	120786	-27.5
Other Income	5232	8830	8619	7886	4800	-8.2	(39.1)	30136	35539	-15.2
Interest	4357	5712	5079	7233	8675	99.1	19.9	26698	15265	74.9
PBT	78460	-33884	61262	21793	41788	-46.7	91.7	90958	141061	-35.5
Total Tax	22893	0	8323	5445	2736	-88.0	(49.8)	16504	38855	-57.5
Adjusted PAT	55568	-33884	52939	16348	39052	-29.7	138.9	74454	102206	-27.2
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0			0	0	
APAT after MI	55568	-33884	52939	16348	39052	-29.7	138.9	74454	102206	-27.2
Extra ordinary items	-37	0	0	0	0			0	-38	
Reported PAT	55605	-33884	52939	16348	39052	-29.8	138.9	74454	102244	-27.2
Reported EPS	22.90	-13.96	21.80	6.7	16.1	-29.8	138.9	31	58	-47.5

Margins (%)						(bps)	(bps)				(bps)
EBIDTA	11.0	-3.7	8.9	4.1	5.9	-514.5	178.8	4.0	5.7	-164.3	
EBIT	9.9	-5.1	7.5	2.6	4.6	-524.9	201.2	2.7	4.5	-182.7	
EBT	10.0	-4.7	7.9	2.7	4.2	-575.2	153.9	2.8	5.2	-247.6	
PAT	7.1	-4.71	6.85	2.02	3.96	-312.1	193.5	2.3	3.8	-153.5	
Effective Tax rate	29.2	0.0	13.6	25.0	6.5	-2263.0	-1,843.9	18.1	27.5	-940.1	

Revised Estimates

We have revised our FY12E revenue upwards by 12.6% to reflect higher crude oil prices. However earnings decline by 27.3% because of the continued pressure of higher under recovery for the year. Consequently, revised EPS stands at Rs. 36.3 as against Rs.49.9. We have also introduced our FY13E estimates and expect company to report an EPS of Rs.4.2, +10.7% YoY.

Rs. bn	FY12E			FY13E	
	Old	New	% Change	Introducing Estimates	% Change YoY
Net Sales	3035.4	3399.5	12.0	3443.4	1.3
EBIDTA	221.1	179.4	-18.9	197.0	9.8
EBIDTA %	7.3	5.3	-200.7	5.7	44.4
PAT	122.8	88.2	-28.2	97.7	10.7
EPS	49.9	36.3	-27.3	40.2	10.7

Valuations

Government has forced upstream companies to share higher subsidy burden resulting in higher profitability for OMC's during the quarter. But there is the still uncertainty hovering on subsidy sharing mechanism for FY12E under recovery, which remains the key overhang on the stock. However at CMP of Rs.320 valuation looks reasonable at 1.1 FY13E P/BV. We have rolled over our valuations to FY13E with target price of Rs.381 (1.3x P/BV), maintains ACCUMULATE rating on the stock.

Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	2,539,639	3,106,254	3,399,450	3,443,434
Growth (%)	(11.7)	22.3	9.4	1.3
Expenditure	2,372,300	2,956,010	3,220,028	3,246,404
Materials Consumed	1,747,515	1,993,610	2,552,296	2,165,838
Employee Cost	60,651	67,358	74,788	75,756
Other Exp	145,812	167,671	183,570	185,945
EBITDA	167,339	150,243	179,422	197,030
Growth (%)	119.2	(10.2)	19.4	9.8
EBITDA margin (%)	6.6%	4.8%	5.3%	5.7%
Depreciation	35,552	49,326	50,314	53,588
EBIT	131,788	100,917	129,108	143,442
EBIT margin (%)	5.2%	3.2%	3.8%	4.2%
Other Income	35,958	30,025	34,288	33,859
Interest expenses	17,262	29,803	31,864	32,047
PBT	150,484	101,140	131,532	145,254
Tax	40,499	20,284	40,775	45,029
Effective tax rate (%)	26.9	20.1	31.0	31.0
Adjusted PAT	109,985	80,856	90,757	100,225
Growth (%)	359.1	(26.5)	12.2	10.4
Net Margin (%)	4.3	2.6	2.7	2.9
(Profit)/loss from JVs/Ass/MI	2,854.9	2,549.0	2,549.0	2,549.0
Adj. PAT After JVs/Ass/MI	107,130	78,307	88,208	97,676
E/O items	-	-	-	-
Reported PAT	109,985	80,856	90,757	100,225
PAT after MI	107,130	78,307	88,208	97,676
Growth (%)	312.1	(26.9)	12.6	10.7

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
PBT (Ex-Other income)	150,484	101,140	131,532	145,254
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)	(63,471)	(41,346)
Tax paid	27,296	20,284	40,775	45,029
Operating Cashflow	-16,090	88,633	75,177	110,655
Capital expenditure	(138,236)	(95,874)	(92,457)	(88,346)
Free Cash Flow	-154,326	-7,241	-17,280	22,309
Other income	(16,431)	(30,025)	(34,288)	(33,859)
Investments	-	-	-	-
Investing Cashflow	35,948	-95,874	-92,457	-88,346
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)	(25,566)	(25,566)
Income from investments	16,431	30,025	34,288	33,859
Others	-	-	-	-
Financing Cashflow	-13,925	8,869	15,495	-20,486
Net chg in cash	5,933	1,628	-1,786	1,823
Opening cash position	10,052	15,985	17,613	15,827
Closing cash position	15,985	17,613	15,827	17,650

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11E	FY12E	FY13E
Equity share capital	24,280	24,280	24,280	24,280
Reserves & surplus	500,344	551,664	614,306	686,416
Net worth	524,623	575,944	638,586	710,696
Minority Interest	18,330	18,330	18,330	18,330
Secured Loans	193,433	204,031	216,514	218,729
Unsecured Loans	301,293	326,328	352,482	353,535
Loan Funds	494,726	530,359	568,996	572,264
Net deferred tax lia.	54,170	54,170	54,170	54,170
Total Liabilities	1,091,849	1,178,802	1,280,081	1,355,459
Gross Block	788,885	848,726	898,726	948,726
Less: Depreciation	334,111	380,777	431,091	484,679
Net block	454,774	467,949	467,635	464,047
Cap. work in progress	227,678	263,552	306,009	344,355
Investment	214,299	214,299	214,299	214,299
Current Assets				
Inventories	410,765	414,167	441,487	435,878
Sundry debtors	56,062	56,477	61,808	62,608
Cash & bank balance	15,984	17,613	15,827	17,650
Loans & advances	152,070	124,250	147,802	143,476
Other current assets	15,079	12,425	13,598	13,774
Current lia & Prov				
Current liabilities	351,658	357,430	348,674	307,939
Provisions	103,612	29,858	32,519	22,949
Net current assets	455,270	387,288	381,193	330,888
Misc. exp	184.9	-	-	-
Total Assets	1,091,849	1,178,802	1,280,081	1,355,459

Key ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
EBITDA Margin	6.6	4.8	5.3	5.7
Net Margin	4.2	2.5	2.6	2.8
ROCE	16.0	11.5	13.3	13.5
ROE	21.9	14.2	14.5	14.5
RoIC	23.5	15.3	18.1	18.8
Per Share Data (Rs)				
EPS	44.1	32.3	36.3	40.2
CEPS	58.8	52.6	57.1	62.3
BVPS	216.1	237.2	263.0	292.7
DPS	13.0	9.5	9.0	9.0
Valuations (x)				
PER	7.3	9.9	8.8	8.0
P/CEPS	5.4	6.1	5.6	5.1
P/BV	1.5	1.3	1.2	1.1
EV / Sales	0.4	0.3	0.3	0.3
EV / EBITDA	6.2	7.2	6.2	5.7
Dividend Yield (%)	4.1	3.0	2.8	2.8
Gearing Ratio (x)				
Net Debt/ Equity	0.9	0.9	0.9	0.8
Net Debt/EBITDA	2.9	3.4	3.1	2.8
Work Cap Cycle (days)	16.6	13.3	16.6	20.2

Recommendation History: IOCL – IOCL IN

Date	Reports	Reco	CMP	Target
11/02/2011	IOCL Q3FY11 Result Update	Accumulate	313	372
15/11/2010	IOCL Q2FY11 Result Update	Accumulate	403	458
26/07/2010	IOCL Q1FY11 Result Update	Buy	372	392
31/05/2010	IOCL Q4FY10 Result Update	Buy	340	392

Recent Research Reports

Date	Reports	Reco	CMP	Target
27/05/2011	GSPL Q4FY11 Result Update	Buy	97	120
27/05/2011	HPCL Q4FY11 Result Update	Buy	356	463
24/05/2011	GAIL Q4FY11 Result Update	Accumulate	430	510
29/04/2011	Gujarat Gas Company Q1CY11 Result Update	Buy	375	481

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