

IOCL Ltd

IOCL IN; IOC.BO

August 14, 2013

Oil and Gas | India

1Q/F14 result review

BUY

Forex losses lead to lower margins

Current price	Rs	211
Target price	Rs	293
Upside/(downside)	%	39
Earning estimate		Unchanged

Market data

Mkt capitalisation	Rs bn	511.7
Average daily vol	'000	469.4
52-week h/w	Rs	375 / 186
Shares O/S	mn	2428.0
Free float	mn	511.8
Promotor holding	%	78.9
Foreign holding	%	2.0
Face value	Rs	10.0

Price performance (%)

	1m	3m	6m	1yr
Nifty (abs)	(4.8)	(4.5)	(2.9)	6.4
Stock (abs)	(5.8)	(30.5)	(33.4)	(17.3)
Relative to Index	(1.0)	(26.0)	(30.5)	(23.7)

Performance



Source: Bloomberg, SSL

IOCL's losses YoY reduced in 1QF14 to Rs30.9bn due to improvement in the GRM and lower underrecovery. Government's intention to reduce the subsidy burden by hiking the prices of HSD is expected to improve Indian Oil Corporation Limited's (IOCL) earnings visibility; leading to rerating of the stock. For every Rs1/litre increase in high speed diesel (HSD) price, the EPS improves by 4%. Our call is further backed by the company's comfortable balance sheet.

The stock is currently trading at 0.8x P/BV and PER of 9.9x F14e earnings, which is a near 5 year trough valuation. We recommend Buy with a sum-of-the-part (SOTP) based target price of Rs293.

Revenue growth driven by rising sales volume and lower underrecovery: IOCL's revenue grew by 14%YoY to Rs1,106bn. The increase in revenues was driven by strong sales volume of 19.8MMT (increase of 2% YoY) and low underrecovery of only Rs12.1bn compared to Rs174.8bn in 1Q F13. The increase in sales volume was driven by an increase of 11.9%YoY in MS sales volume and 3.3% YoY for HSD.

EBITDA shows improvement: EBITDA improved to loss of Rs11.7bn from loss of Rs170.5bn. The improvement in EBITDA was driven partially by improvement in GRM (USD1.67/bbl in 1QF14 from USD (4.81)/bbl in 1QF13). This was partially offset by the forex loss of Rs40.2bn (compared to Rs31.9bn in 1QF13). The improvement in EBITDA margin also included one time recovery of Rs4.36bn for the recovery of entry tax from Uttar Pradesh Government.

Forex remains the key risk: The recent decline in the forex has increased the underrecovery. This has been further compounded by the volatility in the forex rate which has increased uncertainty on the earnings growth. We expect that the recent steps taken by the government will help in stabilising the forex market leading to better earnings visibility.

Attractive valuation; expect stock to get rerated: The stock is currently trading at P/BV of 0.8x and PER of 9.9x F14 earnings, which is near 5 year trough valuation. We believe the stock will get rerated based on: 1) expected improvement in the earnings visibility due to the Government's intention to reduce the subsidy burden, and 2) IOCL's comfortable balance sheet. We maintain Buy with target price of Rs293.

Financial Summary

Y/E March (Rs mn)	F12	F13e	F14e	F15e
Sales	4,058,568	4,617,797	4,618,061	4,748,041
EBITDA Margin (%)	5.3	3.4	3.6	3.8
PAT	42,260	44,602	51,377	45,816
EPS (Rs)	17.4	18.4	21.2	18.9
P/BV (x)	0.8	0.8	0.8	0.7
EV/EBITDA (x)	4.5	6.4	6.6	7.0
Dividend yield (%)	2.4	3.0	3.3	2.9
RoE (%)	7.0	7.1	7.8	6.6
RoCE (%)	11.3	6.4	6.7	6.0

Source: Company, SSL

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Quarterly Financials

Y/E March (Rs mn)	1QF14	1QF13	YoY (%)	4QF13	QoQ (%)
Revenues	1,104,666	966,028	14	1,286,810	(14)
Cost of sales	(999,670)	(1,073,238)	(7)	(1,036,776)	(4)
Gross profit	104,997	(107,210)	(198)	250,035	(58)
Gross margin	10	(11)		19	(51)
Employee expenses	(17,309)	(13,316)	30	(31,464)	(45)
Other expenses	(99,347)	(49,965)	99	(51,052)	95
EBITDA	(11,660)	(170,490)	(93)	167,518	(107)
EBITDA margin(%)	(1)	(18)		13	(108)
Depreciation	(13,858)	(12,775)	8	(13,128)	6
Interest expense	(14,702)	(18,491)	(20)	(13,766)	7
Other income	4,924	9,117	(46)	10,930	(55)
PBT	(35,295)	(192,639)	(82)	151,554	(123)
Exceptional item	4,363	(31,870)	(114)	0	
Tax	0	0		(6,426)	(100)
PAT	(30,932)	(224,510)	(86)	145,128	(121)
Key highlights					
Product sales	19.84	19.44	2	19.24	3
Refinery throughput	13.13	13.58	(3)	13.75	(4)
Pipeline throughput	18.58	18.58	(0)	19.16	(3)
GRM (USD/bbl)	1.67	(4.81)	135	2.39	(30)

Source: Company, SSL

Financials**Income Statement**

Y/E March (Rs mn)	F12	F13e	F14e	F15e
Net sales	4,058,568	4,617,797	4,618,061	4,748,041
Growth YoY (%)	32	14	0	3
Operating costs	3,757,539	4,339,360	4,348,465	4,453,747
Staff expenses	53,001	77,839	61,261	66,220
Other expenses	34,948	41,657	40,009	45,848
EBITDA	213,080	158,940	168,326	182,225
EBITDA (%)	5	3	4	4
Depreciation	54,895	58,915	58,682	75,864
EBIT	158,185	100,025	109,645	106,361
EBIT (%)	4	2	2	2
Net interest expense	58,947	70,835	69,686	77,557
Other income	48,800	35,116	36,971	36,334
Other adjustments	108,086	19,153	2,115	1,947
Earnings before tax	39,953	45,154	74,815	63,191
Tax- total	(2,700)	8,770	20,520	15,409
Rate of tax (%)	(7)	19	27	24
Net profit	42,653	36,384	54,294	47,782
interest	(393)	8,217	(2,917)	(1,966)
Net profit for group	42,260	44,602	51,377	45,816

Balance Sheet

Y/E March (Rs mn)	F12	F13e	F14e	F15e
Share capital	24,280	24,280	24,280	24,280
surplus	579,454	606,080	637,573	666,345
Net worth	603,734	630,360	661,853	690,625
Loans	800,675	933,990	963,823	1,092,785
Minority Interest	19,437	11,220	14,137	16,103
Deferred tax liability	59,696	63,325	64,025	64,725
employed	1,483,541	1,638,895	1,703,838	1,864,238
Net fixed assets	882,433	956,590	1,089,768	1,225,292
Goodwill	244	244	244	244
Investments	53,814	53,814	53,814	53,814
Current assets				
loans and adv.	1,261,620	1,367,750	1,366,336	1,408,219
Inventories	638,510	675,670	713,766	768,495
Debtors	115,518	106,663	124,309	126,151
Cash and bank	354,435	427,255	359,947	335,108
Loans and advances	145,234	152,577	162,577	172,577
Current investments and others	7,923	5,585	5,737	5,888
Less Current liab. & prov.	714,725	739,657	806,478	823,486
Current liabilities	560,697	635,141	695,583	716,554
Provisions	154,028	104,516	110,895	106,932
Net current assets	546,895	628,093	559,858	584,733
Miscellaneous	154	154	154	154
Total capital employed	1,483,541	1,638,895	1,703,838	1,864,238

Source: Company, SSLe

Cash Flow Statement

Y/E March (Rs mn)	F12	F13e	F14e	F15e
Profit after Tax	42,653	36,384	54,294	47,782
Depreciation	54,895	58,915	58,682	75,864
Other Income	59,286	(15,964)	(34,856)	(34,387)
Interest	58,947	70,835	69,686	77,557
Working capital changes	(39,672)	(8,378)	928	(49,715)
others	(17,547)	3,629	700	700
Operating Cash Flow	158,561	145,422	149,434	117,800
Capital Expenditure	(161,344)	(133,072)	(191,859)	(211,388)
Investments	(5,336)	-	-	-
Other income	(59,286)	15,964	34,856	34,387
Cash flow from investnents	(225,966)	(117,108)	(157,004)	(177,001)
Equity	0	0	0	0
Debt	222,298	133,316	29,833	128,962
Interest expense	(58,947)	(70,835)	(69,686)	(77,557)
Dividends	(14,890)	(17,975)	(19,885)	(17,044)
Cash flow from financing	148,462	44,505	(59,737)	34,360
Total Cash Generation	81,057	72,820	(67,307)	(24,840)
Opening Cash Balance	273,378	354,435	427,255	359,947
Balance	354,435	427,255	359,947	335,108

Key ratios

Y/E March	F12	F13e	F14e	F15e
O/S shares	2,428	2,428	2,428	2,428
EBITDA margin (%)	5.3	3.4	3.6	3.8
ROCE (%)	11.3	6.4	6.7	6.0
Interest coverage (x)	2.7	1.4	1.6	1.4
Net Debt/Equity (x)	0.7	0.8	0.9	1.1
Debtors days	10	8	10	10
Inventory days	62	57	60	63
Creditor days	44	48	46	48

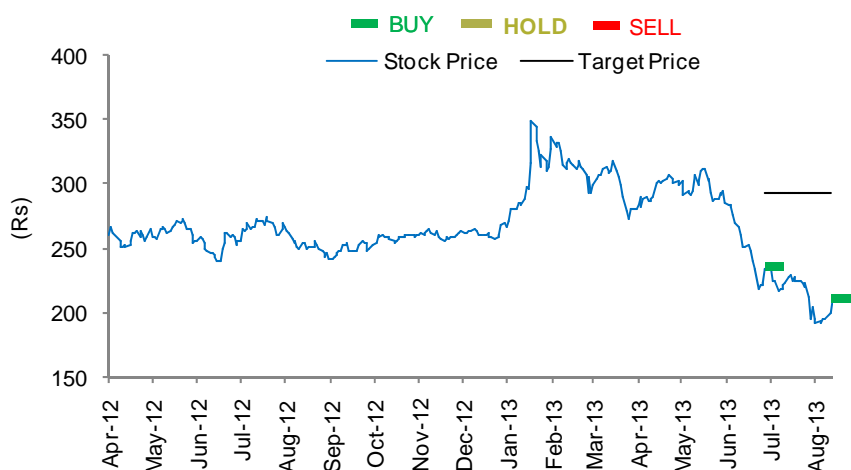
Key ratios

Y/E March	F12	F13e	F14e	F15e
P/E	12.1	11.4	9.9	11.1
Price/BV	0.8	0.8	0.8	0.7
EV/EBITDA	4.5	6.4	6.6	7.0
Yield (%)	2.4	3.0	3.3	2.9
Market Cap/Sales	0.1	0.1	0.1	0.1

Du Pont Analysis

Y/E March	F12	F13e	F14e	F15e
NPM (%)	1.0	1.0	1.1	1.0
Asset turnover (x)	2.7	2.8	2.7	2.5
Leverage (x)	2.5	2.6	2.6	2.7
RoE(%)	7.0	7.1	7.8	6.6

Recommendation History



Rating based on Current Rating System (Feb'13)

Date	Stock Price	TP	Rec.
1-Jul-13	223	293	BUY
14-Aug-13	211	293	BUY

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Guide to the expected return over the next 12 months. 1=BUY (expected to give absolute returns of 15 or more percentage points); 2=HOLD (expected to give absolute returns between -10 to 15 percentage points); 3=SELL (expected to give absolute returns less than -10 percentage points)

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