kotak Securities

Pick of the week

20th July'20

Indian Oil Corporation Ltd

Recommendation	Time Period
Buy	12 Months

Current Price	Target Price	Potential Upside
₹ 87	₹ 115	32.1%

Investment Argument

- IOCL's normalized EBITDA, adjusted for inventory/forex movement, was ~Rs. 10,100 cr in Q4FY20, reflecting higher realized refining and marketing margins and lower operating expenses. Inventory-adjusted refining margins increased by US$6.2/bbl qoq to US$8.2/bbl turning significant premium to benchmark margins.

- In Q4FY20, Inventory-adjusted marketing margins also jumped 21% qoq to Rs2,082/ton, contrary to stable margins reported by BPCL and HPCL. Reported EBITDA was modestly positive ~ Rs210 cr, including inventory loss of ~Rs7,160 cr and forex loss of ~Rs2,720 cr.

- In FY20, IOCL's normalized EBITDA declined to ~Rs.27,400 cr from ~Rs.31,300 cr in FY19. Reported EBITDA was sharply lower at Rs18,160 cr including inventory loss and forex loss. Adjusted net income declined 69% yoy to ~Rs.5,200 cr (EPS of Rs.5.7). Gross debt increased to Rs.1,17,000 cr as on FY20 end from Rs.86,400 cr in FY19 led by increase in working capital deployment.

- In the post result conference call of Q4FY20, IOCL indicated that refining utilization had recovered to 90% in Jun'20 from ~55% in May'20, while auto fuel demand was ~85-90% of normal volumes from about 45-70% in Apr'20 and May'20.

- The recent hikes in auto fuel prices allay concerns on marketing margins for now. The SoTP-based fair value is Rs.115 based on 6x FY22E EV/EBITDA for standalone business plus the value of investments.

Note: The above is a brief note on the company, based on the inputs of KIE research report dated 26th June, 2020, which is available on our website at: https://www.kotaksecurities.com/ksweb/ResearchCall/Fundamental.

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