1. Indian Oil Corporation (IOC)

- Fuel price reforms have led to reduction in working capital requirement for IOC. Company earlier subsidized petrol and diesel and had to recover the difference from Government or upstream companies.
- Low crude oil prices augur well for the IOC by the way of (a) lower working capital requirement in general (b) reduction in subsidy on Liquefied Petroleum Gas and kerosene for which working capital is blocked and (c) lower cost on internal fuel consumed and process loss.
- Since petrol and diesel have now moved to free pricing regime, scope for improvement of marketing margins is high. Depending on cycles, around 35-50% of IOC's EBITDA comes from marketing business. Companies have displayed flexible and differential pricing policies across various retail outlets as against standard and stringent pricing policy earlier.
- Global refinery margins are holding above 10-year average, which augur well for IOC.
- With capitalization of its complex Paradip refinery, IOC is likely to witness expansion in its blended refinery margin and overall EBITDA.
- With the above factors in play, IOC's ROCE is likely to inch up from 6% and 16% witnessed in FY15 and FY16 respectively to 25% in FY17E and average upwards of 20% in next 4 – 5 years.
- IOC is valued at an inexpensive EV/EBITDA of 4.8x and P/E of 8.2x FY17E.