

Estimate change



TP change



Rating change



Bloomberg	HPCL IN
Equity Shares (m)	1452
M.Cap.(INRb)/(USDb)	329.2 / 4
52-Week Range (INR)	307 / 200
1, 6, 12 Rel. Per (%)	-4/-5/-24
12M Avg Val (INR M)	1134

Financials & Valuations (INR b)

Y/E March	FY23E	FY24E	FY25E
Sales	4239	4215	4228
EBITDA	-76	131	133
Adj. PAT	-84	67	65
Adj. EPS (INR)	-55.0	44.0	42.6
EPS Gr. (%)	PL	LP	-3.2
BV/Sh.(INR)	216.7	250.0	282.1

Ratios

Net D:E	2.0	1.9	1.8
RoE (%)	-22.5	18.8	16.0
RoCE (%)	-8.1	7.0	6.3
Payout (%)	0.0	24.2	24.5

Valuations

P/E (x)	-4.2	5.3	5.5
P/BV (x)	1.1	0.9	0.8
EV/EBITDA (x)	-13.3	8.1	8.3
Div. Yield (%)	0.0	4.6	4.5
FCF Yield (%)	-53.7	-0.4	0.3

Shareholding pattern (%)

As On	Dec-22	Sep-22	Dec-21
Promoter	54.9	54.9	54.9
DII	19.6	18.0	15.1
FII	15.7	16.7	20.2
Others	9.8	10.4	9.8

FII Includes depository receipts

CMP: INR232

TP: INR247 (+6%)

Neutral

Beat in estimates, led by higher-than-expected GRM

- HPCL reported a beat on both EBITDA and PAT, primarily due to higher-than-expected GRM at USD9.1/bbl (v/s est. of USD6.2/bbl, up 41% YoY). However, over the past three quarters, HPCL's GRM has been lower than other OMCs (IOCL, BPCL), due to ongoing expansion at the Vizag refinery.
- Refinery throughput stood at 4.8mmt (est. of 5.5mmt; up 14% YoY). Singapore GRM of ~USD6.3/bbl in 3QFY23 has now increased to USD9.6/bbl in 4QFY23'td, which could further improve refining margins in the coming quarter.
- In the **marketing segment**, sales volumes were in line with estimates at 11.4mmt (up 7% YoY). OMCs are estimated to be generating a gross marketing margin of INR8.6/1.4 per liter on petrol/diesel, respectively, in 4QFY23'td. **HPCL has highest leverage to marketing amongst OMCs and would benefit the most due to improvement in marketing margins.**
- **We highlight that the company is battling a three headed-monster – a) project execution risk, b) rising debt as a result of poor refining margin with delayed stabilization (INR642b in 3QFY23 vs. INR450b in end-FY22), and c) a loss of marketing leverage in the longer term with capacity expansion at Vizag and the upcoming Rajasthan refinery.**
- Owing to the beat in our estimates, we decrease our operating loss to INR76b (v/s operating loss of INR90b earlier) and net loss to INR84b (v/s net loss of INR94b earlier) in FY23. We expect consolidated net debt to rise ~1.8x to INR793b in FY25E from INR450b in FY22. We value the stock at 0.9x Dec'24E P/BV and recommend a Neutral rating with a TP of INR247.

Reported GRM above estimate; refinery throughput below estimates

- Refining throughput stood at 4.8mmt (our est. 5.5mmt, up 14% YoY). Reported GRM stood at USD9.1/bbl (v/s our est. GRM of USD6.2/bbl and v/s USD8.4/bbl in 2QFY23)
- Marketing volumes were in line with our estimate at 11.3mmt (up 7% YoY) while marketing margins (inc. inv.) stood at INR2.2/lit (v/s INR3/lit in 3QFY22).
- **Resultant EBITDA stood at INR20.7b (v/s our est. EBITDA of INR6.4b). PAT came in at INR1.7b (v/s our est. of a loss of INR10.5b)**
- **For 9MFY23, operating loss stood at INR103.7b (EBITDA of INR81.5b in 9MFY22), with net loss at INR122b (PAT of INR45.9b in 9MFY22).**
 - This was primarily on account of lower average marketing margin (inc. inv.) at -INR2.3/lit (v/s INR4.9 in 9MFY22), with marketing volumes up 14% YoY to 32.3mmt.
 - Reported GRM stood at USD11.4/bbl in 9MFY23 (v/s USD4.1/bbl in 9MFY22), with refining throughput up 52% YoY to 14.1mmt.

Valuation and view

- **We expect FY23 capex at ~INR147b** with an estimated capex of INR610b over the next five years. The company plans to enhance its refining and marketing infrastructure, foray into petrochemicals, and expand footprints in Alternate Energy.
- Completion of various ongoing projects is expected to drive growth over the next three to five years such as: Bhatinda refinery expansion, expansion of Vizag refinery, and new Rajasthan (Barmer) refinery in FY24.
- Further, HPCL is working on petchem projects such as setting up of a 4.6mmtpa petrochemical capacity by FY25 along with JVCs, which will help the company become the second largest petrochemicals production facility in India.
- **Despite the potential highlighted above, we reiterate our Neutral rating on the stock because of the project execution risk at Vizag and rising debt levels.** We value HPCL at 0.9x FY24E P/BV and arrive at a TP of INR247.

Standalone - Quarterly Earnings Model

Y/E March	(INR b)											
	FY22				FY23E				FY22	FY23E	FY23	Var (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	
Net Sales	724.4	830.6	966.0	975.7	1,144.5	1,084.2	1,096.0	911.9	3,496.8	4,236.6	1,166.7	-6%
YoY Change (%)	92.1	60.4	40.7	30.4	58.0	30.5	13.5	-6.5	50.1	21.2	20.8	
EBITDA	32.6	30.1	18.7	21.9	-115.5	-8.9	20.7	26.6	103.3	-77.1	6.4	225%
Margins (%)	4.5	3.6	1.9	2.2	-10.1	-0.8	1.9	2.9	3.0	-1.8	0.5	
Depreciation	9.1	9.5	10.2	10.8	10.9	10.8	11.1	12.5	39.7	45.3	11.5	
Forex loss	0.7	-1.1	-1.4	0.9	9.5	6.0	4.0	0.0	-1.0	19.5	3.5	
Interest	2.5	1.5	2.4	3.3	3.3	5.9	6.8	7.2	9.7	23.2	5.4	
Other Income	3.7	3.4	4.1	16.0	3.4	2.8	2.9	3.2	27.2	12.3	3.6	
PBT before EO expense	24.0	23.6	11.6	22.8	-135.8	-28.9	1.7	10.2	82.0	-152.9	-10.5	LP
PBT	24.0	23.6	11.6	22.8	-135.8	-28.9	1.7	10.2	82.0	-152.9	-10.5	LP
Rate (%)	25.1	18.5	25.1	21.4	24.9	24.9	-2.4	25.2	22.2	25.2	0.0	
Adj PAT	18.0	19.2	8.7	18.0	-102.0	-21.7	1.7	7.6	63.8	-114.4	-10.5	LP
YoY Change (%)	-36.2	-22.4	-63.1	-40.5	PL	PL	-80.2	-57.7	-40.1	PL	PL	
Key Assumptions												
Refining throughput (mmt)	2.5	2.5	4.2	4.7	4.8	4.5	4.8	7.9	14.0	22.0	5.5	-12%
Reported GRM (USD/bbl)	3.3	2.4	6.4	12.5	16.7	8.4	9.1	5.0	6.2	9.8	6.2	47%
Marketing sales volume incl exports (mmt)	8.8	9.1	10.5	10.7	10.7	10.4	11.3	8.8	39.1	10.3	11.3	0%
Marketing GM incl inv (INR/litre)	5.8	5.9	3.0	2.7	-9.9	0.7	2.2	4.7	4.3	-0.6	2.0	8%

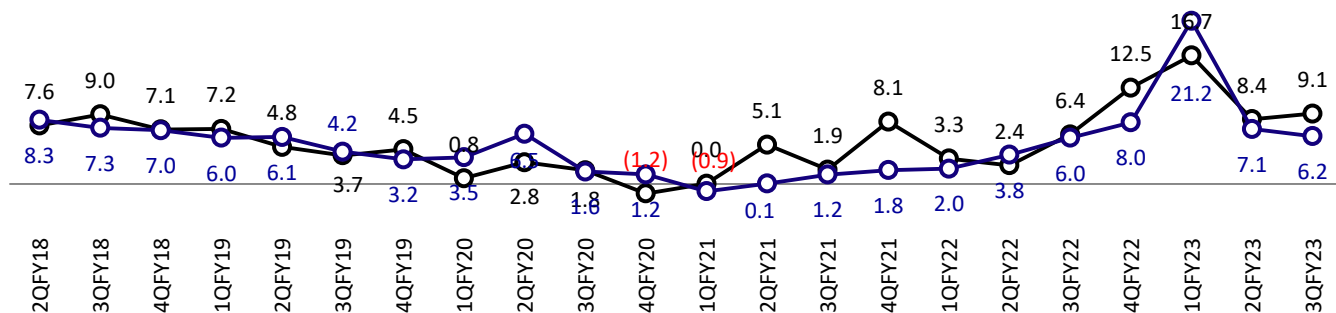
Particulars	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Exchange Rate (INR/USD)	64.5	70.0	70.9	74.3	74.5	80.7	84.4	83.3
Brent Crude (USD/bbl)	57.6	70.1	61.2	44.4	80.5	98.3	90.0	90.0
Market Sales (MMT)	37	39	40	37	39	41	43	44
YoY (%)	6	5	2	(8)	7	5	4	4
GRM (USD/bbl)	7.4	5.0	1.0	3.9	7.2	9.1	5.0	5.0
Singapore GRM (USD/bbl)	7.3	4.9	3.2	0.5	5.0	10.1	6.0	6.0
Prem/(disc) (USD/bbl)	0	0	(2)	3	2	(1.0)	(1.0)	(1.0)
Total Refinery throughput (MMT)	18.3	18.4	17.2	16.4	14.0	22.0	24.0	24.0
YoY (%)	3%	1%	-7%	-4%	-15%	57%	9%	0%
Refining capacity utilization (%)	116%	117%	109%	104%	88%	98%	98%	98%
Blended marketing margin incl inventory (INR/lit)	3.6	4.3	4.0	6.3	4.3	(0.6)	4.5	4.5
Consolidated EPS	47.4	43.9	23.9	70.0	47.9	-55.0	44.0	42.6

Story in charts

Exhibit 1: Reported GRM stood at USD9.1/bbl, while SG GRM stood at USD6.2/bbl in 3QFY23

(In USD/bbl)

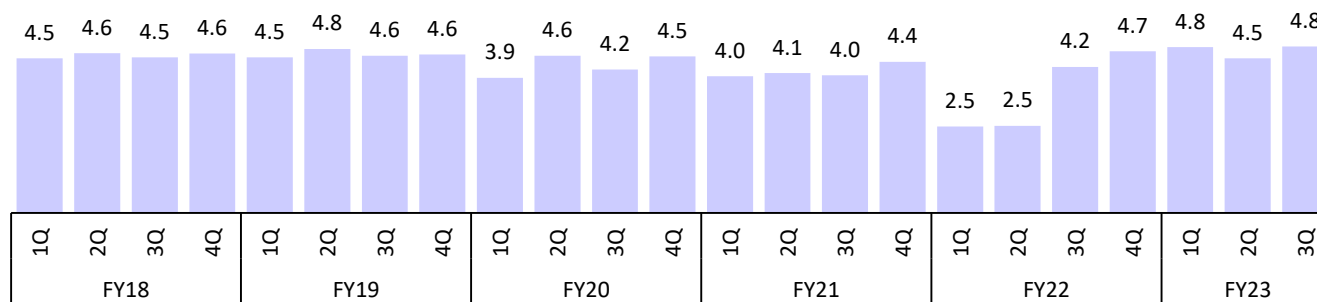
—○— HPCL Reported GRM —○— Singapore GRM



Source: Company, MOFSL

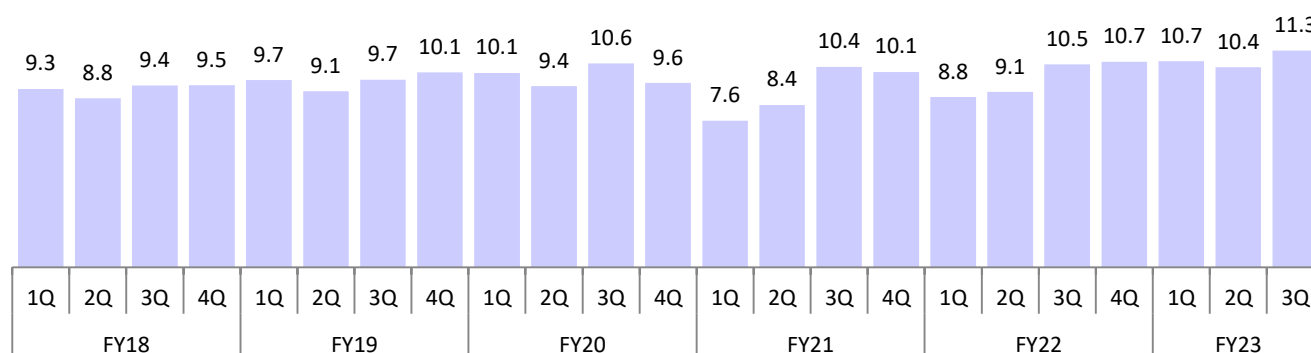
Exhibit 2: Throughput at 4.8mmt in 3QFY23 (up 14% YoY, up 9% QoQ)

Refinery thr'put (mmt)



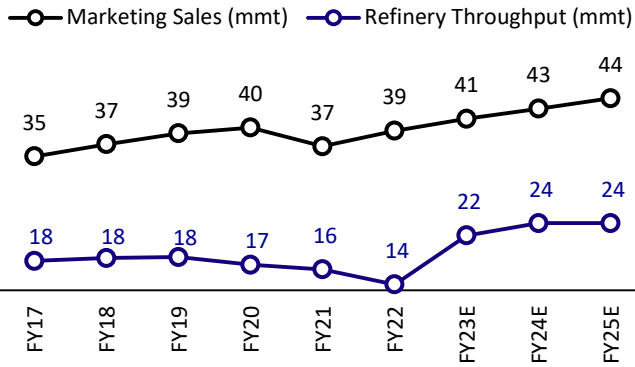
Source: Company, MOFSL

Exhibit 3: Marketing volume grew 7% YoY and 8% QoQ to 11.3mmt

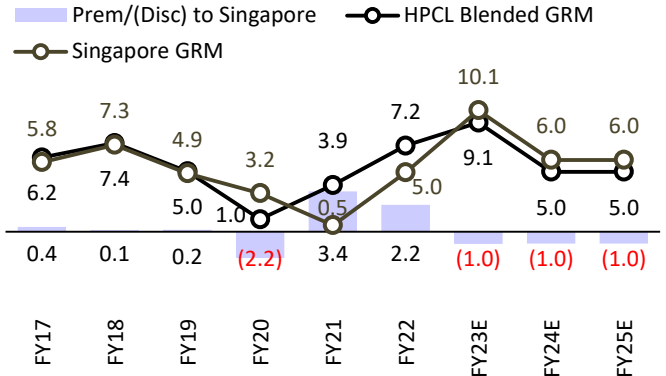


Source: Company, MOFSL

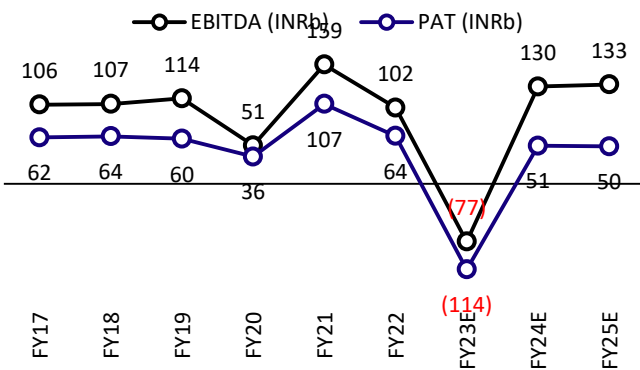
Story in charts

Exhibit 4: Refining throughput/marketing sales of HPCL


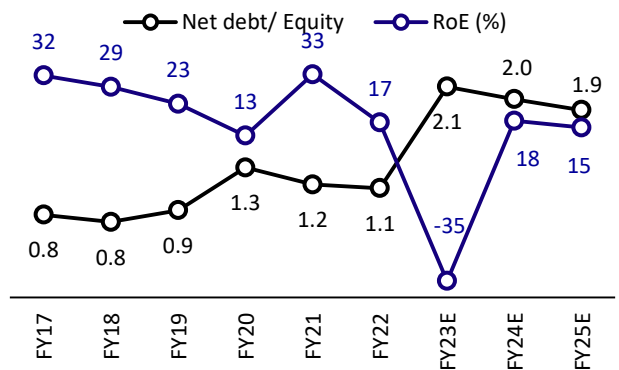
Source: Company, MOFSL

Exhibit 5: GRM trend of HPCL


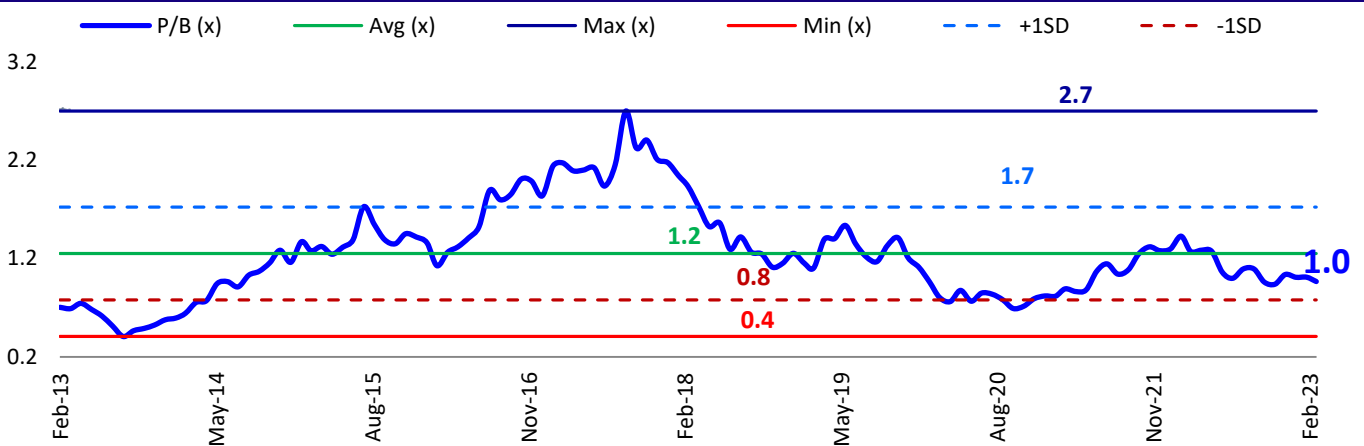
Source: Company, MOFSL

Exhibit 6: EBITDA v/s PAT (standalone)


Source: Company, MOFSL

Exhibit 7: Standalone ratios


Source: Company, MOFSL

Exhibit 8: HPCL – 1-year forward P/B trades at a 17% discount to its long-term average of 1.2x


Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement

(INR b)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Total Income from Operations	2,195	2,755	2,691	2,332	3,499	4,239	4,215	4,228
Change (%)	17%	26%	-2%	-13%	50%	21%	-1%	0%
EBITDA	107	115	57	160	102	-76	131	133
Margin (%)	4.9	4.2	2.1	6.9	2.9	-1.8	3.1	3.2
Depreciation	28	31	34	36	40	47	50	55
EBIT	79	84	23	124	62	-123	81	78
Interest Charges (incl'd forex)	6	8	11	10	10	26	27	29
Other Income	15	15	17	26	24	20	20	19
PBT bef. JVs/associates EO	88	91	28	141	77	-130	73	69
EO Items	0	0	-10	0	0	0	0	0
Minority Interest	13	9	-5	1	15	18	16	18
PBT after EO Exp.	101	100	14	142	91	-112	90	87
Tax Rate (%)	28.6	33.4	-92.0	24.9	20.2	25.2	25.2	25.2
Reported PAT	72	67	26	107	73	-84	67	65
Adjusted PAT	72	67	36	107	73	-84	67	65
Change (%)	-12%	-7%	-46%	193%	-32%	PL	LP	-3%
Margin (%)	3.3	2.4	1.4	4.6	2.1	-2.0	1.6	1.5

Consolidated - Balance Sheet

(INR b)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity Share Capital	15	15	15	15	14	14	14	14
Total Reserves	240	289	295	366	400	316	367	416
Net Worth	255	304	310	381	414	330	381	430
Total Loans	205	260	394	427	450	721	721	793
Deferred Tax Liabilities	68	74	55	55	60	60	60	60
Capital Employed	529	638	759	862	924	1,110	1,161	1,282
Net Fixed Assets	387	416	489	506	578	681	731	776
Capital WIP	40	95	172	253	289	286	333	380
Total Investments	129	143	144	151	189	189	189	189
Curr. Assets, Loans&Adv.	322	395	337	397	453	595	547	578
Inventory	186	204	193	288	355	430	428	429
Account Receivables	56	57	39	69	63	77	76	77
Cash and Bank Balance	13	2	2	6	3	56	11	40
Cash	1	2	2	5	2	56	11	40
Bank Balance	12	0	0	1	0	0	0	0
Loans and Advances	10	20	18	11	11	11	11	11
Others	57	112	84	24	21	21	21	21
Curr. Liability & Prov.	368	435	411	479	622	678	677	678
Account Payables	158	191	115	178	265	321	319	320
Other Current Liabilities	185	223	269	272	332	332	332	332
Provisions	25	21	27	29	25	25	25	25
Net Current Assets	-46	-40	-74	-82	-169	-83	-129	-100
Appl. of Funds	529	638	759	862	924	1,110	1,161	1,282

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Basic (INR)								
EPS	47.4	43.9	23.9	70.0	47.9	-55.0	44.0	42.6
Cash EPS	66.0	64.1	46.0	93.7	74.1	-24.1	76.8	78.7
BV/Share	167.5	199.5	203.3	249.8	271.6	216.7	250.0	282.1
DPS	16.2	15.2	9.3	21.7	13.3	0.0	10.7	10.4
Payout (%)	42.8	43.8	77.2	31.0	27.9	0.0	24.2	24.5
Valuation (x)								
P/E	4.9	5.3	9.7	3.3	4.9	-4.2	5.3	5.5
Cash P/E	3.5	3.6	5.1	2.5	3.1	-9.6	3.0	3.0
P/BV	1.4	1.2	1.1	0.9	0.9	1.1	0.9	0.8
EV/Sales	0.2	0.2	0.3	0.3	0.2	0.2	0.3	0.3
EV/EBITDA	5.1	5.3	13.2	4.8	7.8	-13.3	8.1	8.3
Dividend Yield (%)	7.0	6.5	4.0	9.3	5.7	0.0	4.6	4.5
FCF per share	28.4	-17.8	-54.6	40.8	24.8	-124.8	-1.0	0.7
Return Ratios (%)								
RoE	31.0	23.9	11.9	30.9	18.4	-22.5	18.8	16.0
RoCE	15.8	12.9	12.0	14.9	8.3	-8.1	7.0	6.3
RoIC	17.0	15.1	10.5	20.8	11.1	-18.1	10.0	9.0
Working Capital Ratios								
Fixed Asset Turnover (x)	4.7	5.2	4.2	3.4	4.4	4.5	4.0	3.7
Asset Turnover (x)	4.2	4.3	3.5	2.7	3.8	3.8	3.6	3.3
Inventory (Days)	31	27	26	45	37	37	37	37
Debtor (Days)	9	8	5	11	7	7	7	7
Creditor (Days)	26	25	16	28	28	28	28	28
Leverage Ratio (x)								
Current Ratio	0.9	0.9	0.8	0.8	0.7	0.9	0.8	0.9
Interest Cover Ratio	12.8	10.7	2.0	12.8	6.3	-4.7	2.9	2.7
Net Debt/Equity	0.8	0.8	1.3	1.1	1.1	2.0	1.9	1.8

Consolidated - Cash Flow Statement

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
(INR b)								
OP/(Loss) before Tax	101	100	14	142	91	-112	90	87
Depreciation	28	31	34	36	40	47	50	55
Interest expense	6	8	11	10	10	26	27	29
Interest income and dividend	-4	-4	-4	-4	-4	0	0	0
Direct Taxes Paid	-20	-21	-17	-32	-15	28	-23	-22
MI and others	-11	-4	10	-3	-20	0	0	0
(Inc)/Dec in WC	9	-24	7	29	55	-33	1	-1
CF from Operations	110	86	55	178	158	-43	146	148
(Inc)/Dec in FA	-67	-113	-138	-116	-120	-147	-147	-147
Free Cash Flow	43	-27	-83	62	38	-190	-1	1
Others	4	9	6	7	9	0	0	0
CF from Investments	-66	-111	-142	-123	-137	-147	-147	-147
Inc/(Dec) in Debt	-11	51	115	3	39	270	0	72
Interest Paid	-5	-8	-13	-16	-17	-26	-27	-29
Dividend Paid	-28	-17	-17	-15	-32	0	-16	-16
CF from Fin. Activity	-44	26	87	-53	-23	244	-44	27
Inc/Dec of Cash	0	1	0	3	-2	54	-45	29
Opening Balance	1	1	2	2	5	2	56	11
Closing Balance	1	2	2	5	2	56	11	40

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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