

# HPCL

## Earnings improve on better marketing margins

### Our View

HPCL's 3QFY23 reported Ebitda stood at Rs 16.7bn (-11% YoY; -212% QoQ), better than our and street estimates as marketing margins possibly stood better than our estimates. Company doesn't declare marketing margins. The GRM at USD 9.14/bbl however stood marginally below our assessment. The sequential improvement in earnings stemmed from QoQ recovery in Petrol and Diesel retail margins to ~ Rs10/ltr (2Q: Rs(0.04)/liter) and Rs (5.5)/ltr (2Q: Rs (12)/ltr), as global product price moderated, however firm HSD cracks helped sustain GRMs. As we write while Petrol margins have moderated to Rs 6.5/ltr, the loss on retailing of Diesel has also narrowed to Rs (3-4)/ltr. We expect retail marketing to normalize over FY24-25e. BUY with a TP of Rs 320/sh.

### Result Highlights

- **Profitability:** The Ebitda and PAT for the quarter stood at Rs 16.7bn (-11% YoY) and Rs 1.724bn (-80% YoY). The 9MFY23 Ebitda and PAT stood at a loss of Rs (123.2) bn and Rs (121.9)bn, respectively.
- **Refinery Utilization:** The refining throughput stood 14% YoY & 8% QoQ higher at 4.83mmt, implying a utilization of 109%. The throughput at Mumbai refinery (MR) stood at 2.43mmt, at Vizag refinery (VR) at 2.41mmt. The Vizag refinery while operating at 116% of its pre expansion capacity, is yet to reach full post expansion potential.
- **Gross Refinery Margin:** GRM for HPCL stood YoY and QoQ higher at USD 9.14/bbl. The GRM for the 9MFY23 stand at USD 11.4/bbl. HPCL, so far has reported weakest GRMs among PSU-OMCs as its Vizag refinery is undergoing expansion and operating below full potential.
- **Marketing sales:** Total Domestic products sales stood at 10.9mmt (+10% YoY; +11.0% QoQ), vs industry at (+7% YoY; +8% QoQ), during the quarter. MS sales stood at 2.21mmt (+11% YoY and +2% QoQ) vs industry growth of +7.6% YoY & +2.3% QoQ and HSD sales stood at 5.08mmt (+15% YoY & +17% QoQ) vs industry growth figures at: +10.2 % YoY & +17.1% QoQ, respectively.
- **Marketing margins:** As per our assessment, the retail marketing margin during the quarter stood at Rs 2793/t (2Q: Rs 2250/t) as retailing losses for HSD moderate QoQ and margins for MS turn positive.

### Valuation

We maintain BUY rating on HPCL with a TP of Rs 320/sh. We value HPCL on SOTP basis, with an equity value of Rs 258/sh for the standalone business, Rs 54/sh for investment in HMEL Refinery and Rs 10/sh for other investment. At CMP the stock is trading at inexpensive P/BV valuation of 0.8x FY25 BV.

### Exhibit 1: Actual vs estimate

Rs Bn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	1,096.0	1,127.6	1,049	(6.97)	(4.29)	Operating profit slightly ahead of our estimates on stronger than estimated marketing margin
EBITDA	16.7	10.8	6	(47.4)	(66.0)	
EBITDA (%)	1.5	1.0	0.5	-42 bps	-98 bps	
Adjusted PAT	1.7	(1.1)	(6.5)	n.a.	n.a.	

Reco	: <b>BUY</b>
CMP	: Rs 232
Target Price	: Rs 320
Potential Return	: 38%

### Stock data (as on Feb 09, 2023)

Nifty	17,893
52 Week h/l (Rs)	307/200
Market cap (Rs/USD mn)	328890/3988
Outstanding Shares (mn)	1,419
6m Avg t/o (Rs mn):	995
Div yield (%):	6.0
Bloomberg code:	HPCL IN
NSE code:	HINDPETRO

### Stock performance



	1M	3M	1Y
Absolute return	-5.3%	13.5%	-21.6%

### Shareholding pattern (As of Dec'22 end)

Promoter	54.9%
FII+DII	35.3%
Others	9.8%

### Financial Summary

(Rs bn)	FY23E	FY24E	FY25E
Revenue	4,364	4,154	3,848
YoY Growth	25	(5)	(7)
EBIDTA	(112)	89	179
OPM %	(2.6)	2.1	4.7
PAT	(102.4)	45.7	112.1
YoY Growth	(260)	(145)	145
ROE	(28)	13	29
EPS	(72.2)	32.2	79.0
P/E	(3.2)	7.2	2.9
BV	235.0	251.8	292.9
EV/EBITDA	(7.6)	9.9	4.8

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## Exhibit 2: Earnings snapshot

Particulars (Rs mn)	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	y/y (%)	q/q (%)	9M FY22	9M FY23	y/y (%)
Revenue	966,024	975,727	1,144,547	1,084,173	1,096,032	13.5	1.1	2,521,102	3,324,752	31.9
Expenditure	947,317	954,741	1,269,493	1,099,151	1,079,315	13.9	(1.8)	2,440,330	3,447,959	41.3
Operating Profit	18,707	20,986	(124,946)	(14,979)	16,717	(10.6)	n.a.	80,772	(123,208)	n.a.
OPM(%)	1.9	2.2	(10.9)	(1.4)	1.5	-41bps	291bps	3.2	(3.7)	-691bps
Other Income	5,504	15,979	3,397	2,805	2,889	(47.5)	3.0	13,718	9,091	(33.7)
Interest	2,358	3,283	3,327	5,950	6,817	189.1	14.6	6,444	16,093	149.7
Depreciation	10,247	10,832	10,945	10,809	11,105	8.4	2.7	28,859	32,858	13.9
Excpnl Loss/(Profit)	-	-	-	-	-	-	-	-	-	n.a.
PBT	11,607	22,850	(135,820)	(28,932)	1,684	(85.5)	n.a.	59,187	(163,068)	n.a.
Tax	2,918	4,897	(33,850)	(7,211)	(40)	n.a.	n.a.	13,314	(41,101)	n.a.
PAT	8,689	17,953	(101,969)	(21,721)	1,724	(80.2)	n.a.	45,874	(121,967)	n.a.
Adj PAT	8,689	17,953	(101,969)	(21,721)	1,724	(80.2)	n.a.	45,874	(121,967)-	n.a.

## Exhibit 3: Operating highlights

Particulars	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	y/y (%)	q/q (%)	9M FY22	9M FY23	y/y (%)
Mumbai & Vizag Refinery										
Throughput (MT)	4.2	4.7	4.8	4.5	4.8	13.9	7.6	9.3	14.1	52.4
Mumbai	1.8	2.4	2.4	2.4	2.4	39.0	0.1	3.2	7.3	123.9
Vizag	2.5	2.4	2.4	2.1	2.4	(3.1)	17.1	6.0	6.9	13.7
Refinery Utilisation	107%	119%	108%	101%	109%			78%	106%	
GRMs (US\$/bbl)	6.39	12.44	16.69	8.41	9.14	43.0	8.7	4.05	11.41	182.0
Adjusted GRMs	6.4	12.4	16.7	8.4	9.1	43.0	8.7	4.0	11.4	182.0
Domestic Marketing sales (MT)	10.0	10.3	10.5	9.9	11.0	10.1	10.9	27.2	31.3	15.0
Total Marketing Sales (MT)	10.5	10.7	10.7	10.4	11.3	6.7	8.3	28.5	32.3	13.6
Marketing Margin (INR/T)	5,706	1,221	(10,612)	2,250	2,794	(51)	24	5,487	(1,856)	n.a.
Marketing Inventory Gain/(Loss)- INR bn	(17.5)	27.0	(3.2)	(9.0)	4.4	n.a.	n.a.	17.2	(7.7)	n.a.
Debt	372.5	431.9	472.8	685.5	642.5	72.5	(6.3)	367.2	600.2	63.4

\*YES Sec estimates

## VIEW & VALUATION

**Maintain BUY with a TP of Rs 320/sh.**

We maintain BUY rating on HPCL with a TP of Rs 320/sh. We value HPCL on SOTP basis, with an equity value of Rs 258/sh for the standalone business, Rs 54/sh for investment in HMEL Refinery and Rs 10/sh for other investment.

**Exhibit 4: Valuation table**

	EV	EBITDA	Multiple	Rs/sh
Refining	545,264	90,877	6	384
Pipeline	47,223	7,870	6	33
Markteing	321,552	80,388	4	227
<b>Standalone EV</b>	<b>914,038</b>			<b>644</b>
JV Refining				
HMEL Bhatinda	150,851	51,310	6	106
<b>Total EV</b>	<b>1,064,890</b>			<b>750</b>
<b>Other Investments</b>		<b>Shares</b>	<b>Price</b>	
Holding discount	30%			
OINL	3,558	27	190	3
MRPL	10,395	297	50	7
	13,953			10
Debt (S.A.)	604,906			426
Cash (S.A.)	57,173			40
Net Debt (HMEL)	73,682			52
<b>Equity</b>	<b>457,428</b>			<b>322</b>

## Exhibit 5: Key Assumptions

	Unit	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22e	FY23e	FY24e	FY25e
Brent	USD/bbl	84.5	48.3	49.9	57.9	71	62	45.7	79.9	90	80	70
<b>Refining</b>												
Throughput	MT	16.3	17.2	17.8	18.3	18.4	17.2	16.4	14.0	20.6	23.0	25.5
Mumbai	MT	7.5	8.0	8.5	8.6	8.7	8.1	6.8	5.6	8.6	9.5	10.5
Vizag	MT	8.8	9.2	9.3	9.6	9.8	9.1	9.1	8.4	12.0	13.5	15.0
GRM	USD/bbl	3.4	6.7	6.2	7.4	5.0	1.0	3.9	7.2	12.0	8.0	8.6
Mumbai	USD/bbl	4.9	8.1	7.0	8.4	5.8	3.6	2.5	4.5	12.0	8.0	8.0
Vizag	USD/bbl	1.1	5.5	5.5	7.7	4.3	-1.3	2.5	4.0	12.0	8.0	9.0
<b>Marketing</b>												
Sales Volume	MT	32.0	34.2	35.2	36.9	38.7	39.6	36.6	39.2	43.1	43.7	44.7
Gross Marketing Margin	Rs/ton	5,137	4,641	4,205	4,554	3,958	5,242	6,309	5108	-1863	3795	5487
HSD sales	MT	15.8	16.9	17.0	17.8	18.1	17.7	15.7	16.6	18.2	18.5	18.9
HSD sales growth	(%)	-1%	6%	1%	4%	2%	-2%	-11%	5%	10%	1%	2%
HSD -Retail margin	Rs/liter		2.6	2.6	2.5	1.8	4.0	4.9	3.5	-10.0	1.0	3.5
Exchange rate	Rs/USD	61	66	67	65	70	70	74	74.5	80.0	80.0	80.0

## FINANCIALS

**Exhibit 6: Balance sheet**

Y/e 31 Mar (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity capital	10,163	15,242	15,242	15,242	14,524	14,189	14,189	14,189	14,189
Reserves	193,311	224,240	266,506	274,382	347,337	372,581	319,341	343,126	401,396
<b>Net worth</b>	<b>203,474</b>	<b>239,482</b>	<b>281,748</b>	<b>289,624</b>	<b>361,861</b>	<b>386,770</b>	<b>333,530</b>	<b>357,316</b>	<b>415,585</b>
Debt	171,706	195,930	251,103	384,330	418,891	465,906	577,906	604,906	596,906
Deferred tax liab (net)	58,956	65,692	71,648	54,915	55,111	59,783	59,783	59,783	59,783
<b>Capital Employed</b>	<b>434,136</b>	<b>501,104</b>	<b>604,499</b>	<b>728,869</b>	<b>835,863</b>	<b>912,459</b>	<b>971,219</b>	<b>1,022,004</b>	<b>1,072,274</b>
Fixed assets	379,424	419,571	504,752	654,341	741,340	838,996	936,895	992,145	1,044,745
Investments	109,186	111,051	118,186	125,116	149,928	179,437	179,437	179,437	179,437
<b>Net working capital</b>	<b>(54,474)</b>	<b>(29,518)</b>	<b>(18,439)</b>	<b>(50,588)</b>	<b>(55,405)</b>	<b>(105,974)</b>	<b>(145,114)</b>	<b>(149,578)</b>	<b>(151,908)</b>
Inventories	185,763	184,202	201,934	191,412	285,922	353,456	399,257	360,188	322,378
Sundry debtors	40,642	55,729	56,526	39,227	68,563	63,318	89,668	85,356	79,068
Cash & Bank Balance	337	11,941	956	1,132	2,372	1,310	1,311	3,457	9,640
Other current assets	69,345	85,578	155,154	128,881	64,267	65,087	65,087	65,087	65,087
Sundry creditors	126,646	157,039	188,767	112,952	176,973	264,479	375,771	339,001	303,414
Other liabilities	223,915	209,930	244,243	298,288	299,556	324,666	324,666	324,666	324,666
<b>Application of Funds</b>	<b>434,136</b>	<b>501,104</b>	<b>604,499</b>	<b>728,869</b>	<b>835,863</b>	<b>912,459</b>	<b>971,219</b>	<b>1,022,004</b>	<b>1,072,274</b>

**Exhibit 7: Income statement**

Y/e 31 Mar (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Revenue	1,870,905	2,193,326	2,751,974	2,687,664	2,329,968	3,496,829	4,363,860	4,153,991	3,847,966
Total Expense	1,764,467	2,086,607	2,637,554	2,636,430	2,170,714	3,395,071	4,475,921	4,065,164	3,668,830
<b>Operating Profit</b>	<b>106,439</b>	<b>106,719</b>	<b>114,420</b>	<b>51,235</b>	<b>159,254</b>	<b>101,759</b>	<b>(112,062)</b>	<b>88,827</b>	<b>179,136</b>
Other Income	14,481	18,495	16,352	18,382	27,887	29,697	30,697	31,697	32,697
Depreciation	25,353	27,528	30,126	33,044	35,526	39,691	42,100	44,750	47,400
EBIT	95,567	97,686	100,646	36,572	151,615	91,764	(123,465)	75,773	164,432
Interest	5,357	5,667	7,259	10,817	9,147	9,727	13,048	14,785	15,023
Extraordinary Item	-	-	-	(10,029)	-	-	-	-	-
<b>PBT</b>	<b>90,210</b>	<b>92,019</b>	<b>93,387</b>	<b>15,726</b>	<b>142,468</b>	<b>82,037</b>	<b>(136,513)</b>	<b>60,988</b>	<b>149,409</b>
Tax	28,120	28,449	33,100	(10,647)	35,829	18,211	(34,128)	15,247	37,352
<b>PAT</b>	<b>62,090</b>	<b>63,571</b>	<b>60,287</b>	<b>26,373</b>	<b>106,639</b>	<b>63,826</b>	<b>(102,385)</b>	<b>45,741</b>	<b>112,057</b>
Adj. PAT	62,090	63,571	60,287	36,402	106,639	63,826	(102,385)	45,741	112,057
Eps	43.8	44.8	42.5	18.6	75.2	45.0	(72.2)	32.2	79.0

## Exhibit 9: Cash flow statement

Y/e 31 Mar (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
PBT	90,210	92,019	93,387	15,726	142,468	82,037	(136,513)	60,988	149,409
Depreciation & amortization	25,353	27,528	30,126	33,044	35,526	39,691	42,100	44,750	47,400
Interest expense	5,357	5,667	7,259	10,817	9,147	9,727	13,048	14,785	15,023
(Inc)/Dec in working capital	(26,971)	(15,544)	(24,862)	39,648	5,089	47,214	39,141	6,610	8,512
Tax paid	(21,252)	(19,477)	(21,793)	(10,729)	(35,786)	(14,382)	34,128	(15,247)	(37,352)
Less: Interest/Dividend Income Received	(8,014)	-	-	-	-	-	-	-	-
Other operating Cash Flow	65	-	-	-	-	-	-	-	-
<b>Cash flow from operating activities</b>	<b>64,748</b>	<b>90,193</b>	<b>84,117</b>	<b>88,507</b>	<b>156,445</b>	<b>164,287</b>	<b>(8,096)</b>	<b>111,887</b>	<b>182,993</b>
Capital expenditure	(55,238)	(67,675)	(115,307)	(182,633)	(122,526)	(137,347)	(140,000)	(100,000)	(100,000)
Inc/(Dec) in investments	(1,173)	1,094	(844)	(2,611)	(727)	461	-	-	-
Add: Interest/Dividend Income Received	7,677	(3,001)	(8,845)	(6,999)	(22,964)	(26,834)	-	-	-
<b>Cash flow from investing activities</b>	<b>(48,735)</b>	<b>(69,583)</b>	<b>(124,996)</b>	<b>(192,243)</b>	<b>(146,217)</b>	<b>(163,720)</b>	<b>(140,000)</b>	<b>(100,000)</b>	<b>(100,000)</b>
Inc/(Dec) in share capital	6,773	5,079	-	-	(718)	(335)	-	-	-
Inc/(Dec) in debt	27,756	24,224	55,174	133,226	34,561	47,015	112,000	27,000	(8,000)
Dividend Paid	(36,695)	(31,190)	(29,078)	(12,659)	(51,187)	(30,637)	49,145	(21,956)	(53,787)
Others	(13,748)	(7,119)	3,798	(16,656)	8,356	(17,673)	(13,048)	(14,785)	(15,023)
<b>Cash flow from financing activities</b>	<b>(15,914)</b>	<b>(9,006)</b>	<b>29,894</b>	<b>103,912</b>	<b>(8,988)</b>	<b>(1,629)</b>	<b>148,097</b>	<b>(9,741)</b>	<b>(76,810)</b>
<b>Net cash flow</b>	<b>99</b>	<b>11,604</b>	<b>(10,985)</b>	<b>175</b>	<b>1,240</b>	<b>(1,062)</b>	<b>1</b>	<b>2,146</b>	<b>6,182</b>

## Exhibit 10: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
Tax burden (x)	0.7	0.7	0.6	1.7	0.7	0.8	0.8	0.8	0.8
Interest burden (x)	0.9	0.9	0.9	0.4	0.9	0.9	1.1	0.8	0.9
EBIT margin (x)	0.1	0.0	0.0	0.0	0.1	0.03	(0.03)	0.02	0.04
Asset turnover (x)	2.5	2.7	2.9	2.5	1.9	2.5	2.8	2.5	2.3
Financial leverage (x)	3.9	3.7	3.7	3.8	3.8	3.8	4.4	4.9	4.4
RoE (%)	32.4	28.7	23.1	9.2	32.7	17.1	(28.4)	13.2	29.0

## Exhibit 11: Ratio analysis

Y/e 31 Mar	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
<b>Growth matrix (%)</b>									
Revenue growth	5	17	25	(2)	(13)	50	25	(5)	(7)
Op profit growth	34	0	7	(55)	211	(36)	(210)	(179)	102
EBIT growth	49	2	3	(64)	315	(39)	(235)	(161)	117
Net profit growth	67	2	(5)	(56)	304	(40)	(260)	(145)	145
<b>Profitability ratios (%)</b>									
OPM	5.7	4.9	4.2	1.9	6.8	2.9	(2.6)	2.1	4.7
EBIT margin	5.1	4.5	3.7	1.4	6.5	2.6	(2.8)	1.8	4.3
Net profit margin	3.3	2.9	2.2	1.0	4.6	1.8	(2.3)	1.1	2.9
RoCE	25.3	27.1	23.3	7.0	24.0	12.4	(15.0)	8.7	17.8
RoE	32.4	28.7	23.1	9.2	32.7	17.1	(28.4)	13.2	29.0
RoA	8.4	7.7	6.3	2.4	8.7	4.5	(6.5)	2.7	6.6
<b>Per share ratios</b>									
EPS	43.8	44.8	42.5	18.6	75.2	45.0	(72.2)	32.2	79.0
Dividend per share	21.5	18.3	17.1	7.4	30.1	18.0	(28.9)	12.9	31.6
Cash EPS	61.6	64.2	63.7	41.9	100.2	73.0	(42.5)	63.8	112.4
Book value per share	143.4	168.8	198.6	204.1	255.0	272.6	235.0	251.8	292.9
<b>Valuation ratios</b>									
P/E	5.3	5.2	5.5	12.5	3.1	5.2	(3.2)	7.2	2.9
P/CEPS	3.8	3.6	3.6	5.5	2.3	3.2	(5.5)	3.6	2.1
P/B	1.6	1.4	1.2	1.1	0.9	0.9	1.0	0.9	0.8
EV/EBIDTA	4.2	4.3	4.6	12.9	4.3	7.3	(7.6)	9.9	4.8
<b>Payout (%)</b>									
Dividend payout	49	41	40	40	40	40	40	40	40
Tax payout	32	32	35	31	25	25	25	25	25
<b>Liquidity ratios</b>									
Debtor days	7.9	9.3	7.5	7.5	7.5	7.5	7.5	7.5	7.5
Inventory days	41.5	34.6	29.7	28.3	52.1	40.1	34.0	34.0	34.0
Creditor days	28.3	29.5	27.8	16.7	32.2	30.0	32.0	32.0	32.0

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