

BSE SENSEX 85,138 S&P CNX 26,032



Motilal Oswal values your support in the EXTEL POLL 2025 for India Research, Sales, Corporate Access and Trading team. We request your ballot.

EXTEL POLL 2025



Stock Info

Bloomberg	HPCL IN
Equity Shares (m)	2128
M.Cap.(INRb)/(USD\$)	958.5 / 10.7
52-Week Range (INR)	495 / 288
1, 6, 12 Rel. Per (%)	-7/5/11
12M Avg Val (INR M)	2169
Free float (%)	45.1

Financials Snapshot (INR b)

Y/E March	FY26E	FY27E	FY28E
Sales	3,870	3,550	3,399
EBITDA	292	260	223
Adj. PAT	167	135	99
EPS (INR)	79	64	47
EPS Gr. (%)	148	-19	-27
BV/Sh. (INR)	297	343	376

Ratios

Net D:E	0.9	0.7	0.6
RoE (%)	29.3	19.9	13.0
RoCE (%)	15.0	11.9	9.1
Payout (%)	28.3	27.1	29.1

Valuations

P/E (x)	5.7	7.1	9.6
P/BV (x)	1.5	1.3	1.2
EV/EBITDA (x)	5.3	5.7	6.6
Div. Yield (%)	5.0	3.8	3.0
FCF Yield (%)	16.4	13.0	9.1

Shareholding pattern (%)

As On	Sep-25	Jun-25	Sep-24
Promoter	54.9	54.9	54.9
DII	22.3	23.2	21.7
FII	14.5	13.6	14.1
Others	8.4	8.4	9.3

FII Includes depository receipts

CMP: INR450

TP: INR590 (+31%)

Buy

Diesel cracks easing; marketing leverage intact

- HPCL's stock price has increased ~20% over the last three months and is currently trading at 1.4x one-year forward P/B (vs LTA of 1.2x P/B). However, the stock has corrected 8% from its recent high over the last 15 days. The weakness is driven by a sharp decline in diesel gross marketing margin, which contracted 18% QoQ/46% YoY, as diesel cracks surged to as high as USD30/bbl (LTA: USD16/bbl). In a scenario where diesel cracks over Brent sustain at ~USD30/bbl, Brent averages USD63/bbl, and the INR/USD exchange rate stabilizes at INR89.4/USD, we estimate diesel gross marketing margin to decline 70% vs 2QFY26 margin. That said, diesel cracks have already started to correct, currently at ~USD22/bbl, which should help alleviate pressure on the stock.
- HPCL's current valuation appears reasonable, and we believe the stock should continue to perform well, as: 1) receipt of INR6.6b per month in LPG compensation over Nov'25-Oct'26 shall boost earnings; 2) a sharp decline in LPG under-recovery to INR30-40/cyl currently, vs ~INR135/cyl in 1HFY26, shall improve blended marketing margins; 3) mid-term auto-fuel marketing margin outlook remains robust amid a weak crude price outlook (USD60/bbl in FY27/28); and 4) start-up RUF and HRRL, coupled with sustained strength in diesel cracks, would meaningfully boost refining earnings.

Near-term strength in diesel cracks; medium-term outlook remains balanced

- Refined product markets remain tight as elevated diesel/gasoil cracks reflect widespread refinery disruptions, including post-summer maintenance, unplanned outages, ~0.8mb/d cumulative product loss from refinery closures in CY25YTD in Atlantic Basin, and repeated strikes by Ukraine, which have curtailed Russian exports and temporarily removed ~1.1mb/d of Russian capacity. With global refinery downtime peaking at ~9.4mb/d in Oct'25 and Russia's diesel export ban extending through CY25, near-term cracks are expected to stay above long-term averages. However, as maintenance cycles ease, new global capacity ramps up, and any progress in resolving the Russia-Ukraine conflict enables Russian products to re-enter the market, cracks are likely to normalize. Over FY27-28, we maintain a neutral stance on refining, as expected net capacity additions broadly match refined-product demand growth, although delays in project start-ups or fresh outages could continue to support margins.

Marketing remains a preferred sub-sector

- Our positive stance on retail marketing is driven by: 1) our negative bias for crude oil prices (FY27-28E: USD60/bbl), 2) expectations of limited sharp cuts in retail prices of MS/HSD. These factors, along with a healthy ~4% marketing volume CAGR, should drive robust marketing profitability. LPG under-recovery per cylinder declined to INR30-40 in 3QFY26'TD (vs INR100+ over the last few quarters). Further, INR6.6b per month LPG compensation that the company will receive over Nov'25-Oct'26 will directly add to earnings. The anticipated crude oil surplus is expected to keep crude oil and propane prices lower, enhancing stability in marketing segment earnings.

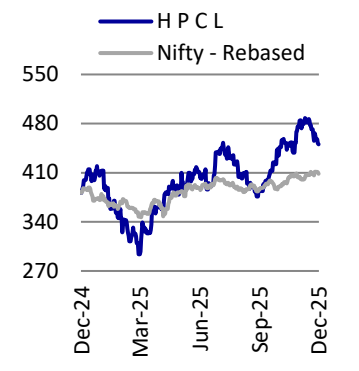
Abhishek Nigam – Research Analyst (Abhishek.Nigam@MotilalOswal.com)

Rishabh Daga – Research Analyst (Rishabh.Daga@MotilalOswal.com)

Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Stock performance (one-year)



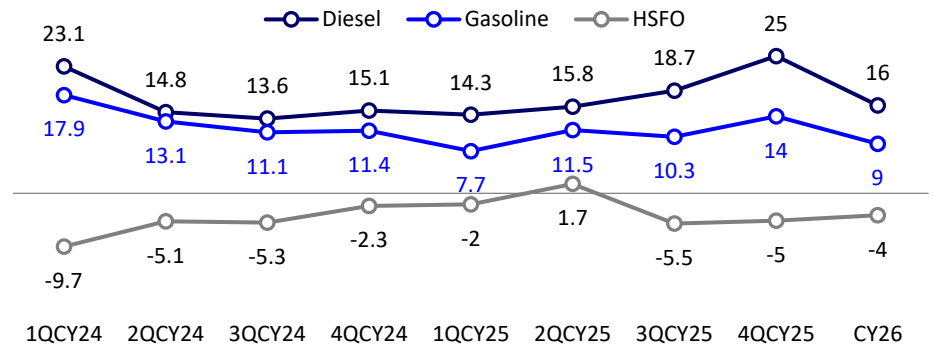
Valuation and view

- We continue to prefer HPCL among OMCs due to the following factors: 1) HPCL's higher leverage toward the marketing segment, 2) higher dividend yield as HPCL's capex cycle is tapering off, and 3) start-up of HPCL's multiple mega-projects in the next 12 months, providing a push to earnings.
- HPCL currently trades at 1.3x FY27E P/B. We estimate the company to deliver 29.3%/19.9% RoE during FY26/27 and project a 3.8% FY27E dividend yield. Our earnings assumptions remain conservative as we build in a refining GRM of USD6.5/bbl and an MS/HSD gross marketing margin of INR3.5/lit. We have not assumed any significant benefits from: 1) the start-up bottom-upgrade unit and 2) Project Samriddhi, which has unlocked savings worth USD0.5/bbl in 1HFY26. We reiterate our BUY rating on the stock with our SoTP-based TP of INR590.

Refining margin strength to sustain in the near-to-mid term

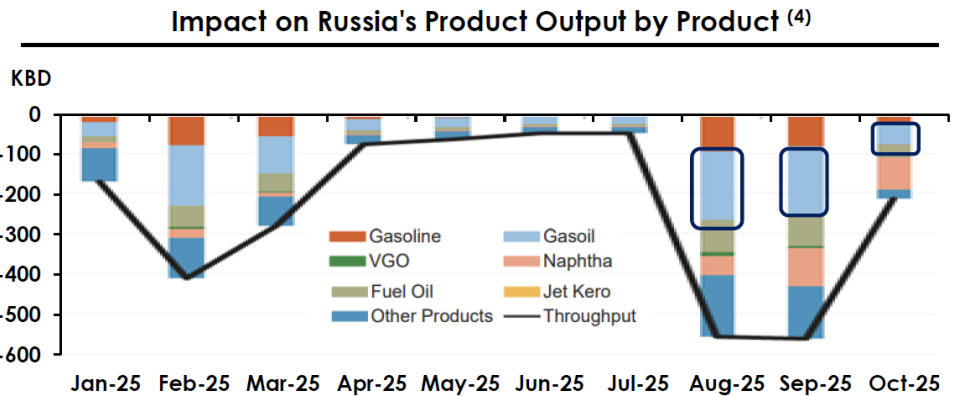
- Diesel and gasoline cracks have surged recently, averaging USD27/16 per bbl in Nov'25, vs LTA of USD16/12.6 per bbl. The strength in cracks is driven by recent refinery shutdowns, scheduled post-summer maintenance, unplanned outage-related repairs, ~0.8mb/d cumulative product loss from refinery closures in CY25YTD in Atlantic Basin, and Ukraine's strikes, which have disrupted Russia's product exports. According to Thai Oil, a Southeast Asia-based refiner, **Ukrainian attacks have disrupted 1.1mb/d of Russian refining capacity (~17%/~1% of Russia's/global refining capacity)**. According to S&P Global, global refinery downtime in Oct'25 stood at 9.4mb/d, up 1.5/0.6 mb/d MoM/YoY, leading to tighter refined-product supply. Russia's ban on Diesel exports till CY25-end to counter domestic fuel shortages ([link](#)) has further added to the global diesel shortage.
- While product cracks are expected to remain robust (above the LTA) in the near-term, given the upcoming EU sanctions on the import of Russian refined products from Jan'26 ([link](#)) and recurring attacks on Russian refineries by Ukraine ([link](#)), we expect cracks to soften as planned refinery maintenance concludes globally and new capacities begin. According to recent [media articles](#), Russia has seen the latest copy of a US plan to end the Ukraine war. We highlight that a resolution would likely allow Russian diesel to re-enter markets more freely, potentially leading diesel cracks to normalize to USDxx/bbl levels or even lower.
- Further, we reiterate our neutral stance on refining over FY27-28 as net refinery capacity addition over CY25-27 (~1.35mb/d) remains in line with the expected growth in refined product demand during the period (~1.32mb/d) (S&P Global estimates). However, delays in refinery start-ups or announcements of new shutdowns can support stronger margins.

Exhibit 1: IRPC's (Southeast Asia's refining company) estimates: 4QCY25 and CY26 petroleum product spreads over Dubai crude



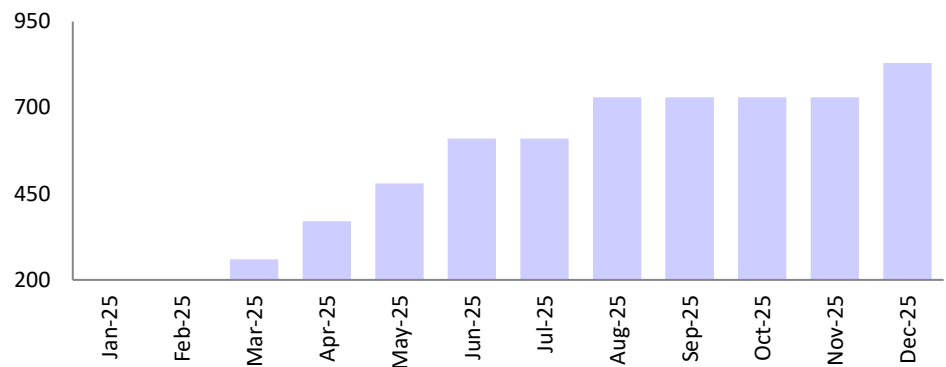
Source: IRPC, MOFSL

Exhibit 2: Ukrainian drone strikes and Russia's export ban through Dec'25 to tighten Russian gasoil supply



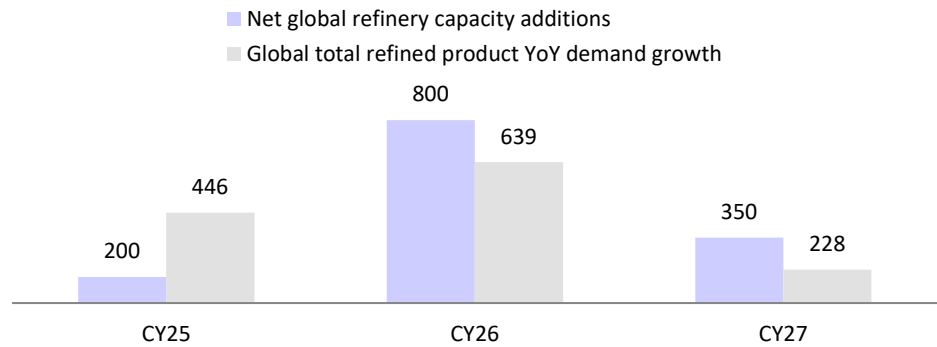
Source: Thai Oil, MOFSL

Exhibit 3: Cumulative product losses from CY25 Atlantic Basin refinery closures (kb/d)



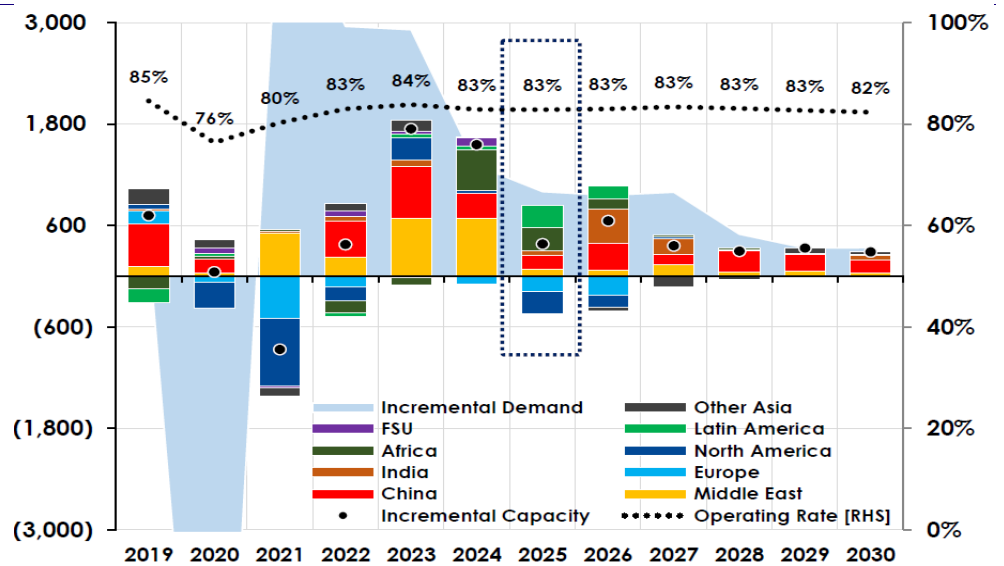
Source: Thai Oil, MOFSL

Exhibit 4: Net global refinery capacity additions largely in line with YoY global refined product demand growth as per S&P Global



Source: S&P Global, MOFSL

Exhibit 5: Global effective CDU additions vs additional demand (kb/d) – Thai Oil



Source: Thai Oil, MOFSL

HPCL's minimal Russian crude exposure keeps risk contained

- The latest US sanctions on **Lukoil and Rosneft** ([link](#)) mark the **first-ever full blocking actions** against Russia's largest private and state-owned oil companies, representing a far harsher step than previous, more limited measures. **Unlike earlier episodes, bringing full volumes of Russian oil instantly back into the market now appears difficult**, given the size of refiners and the heightened risk for buyers and intermediaries. The move also **signals a clear US intent to directly target Russian oil**, reflecting confidence that the current oversupplied market can absorb reduced Russian flows without major disruption.
- **HPCL has the least exposure to Russian crude among OMCs:** In 2QFY26, Russian crude accounted for only **~5%** of HPCL's crude slate. Hence, even a complete halt in Russian supplies would have a very limited impact. The company increased the share of West African grades during 2QFY26, while the Middle East continued to remain HPCL's primary sourcing region.
- **Russian oil offered to India at steep ~USD7/bbl discounts following US sanctions:** According to a [media article](#), Russia's Urals crude is being offered to Indian refiners at the steepest discounts in two years following US sanctions. Urals is now quoted at up to **USD7/bbl below Dated Brent** on a delivered basis for Dec'25 loadings. **Most Indian refiners initially avoided post-sanctions**

cargoes, effectively pausing a trade that had thrived since CY22. However, the deeper discounts have prompted some interest in volumes routed through non-sanctioned sellers, although only about **one-fifth of available cargoes are free of blacklisted entities**.

Strong diesel cracks to benefit the residue upgrade unit and HRRL start-up!

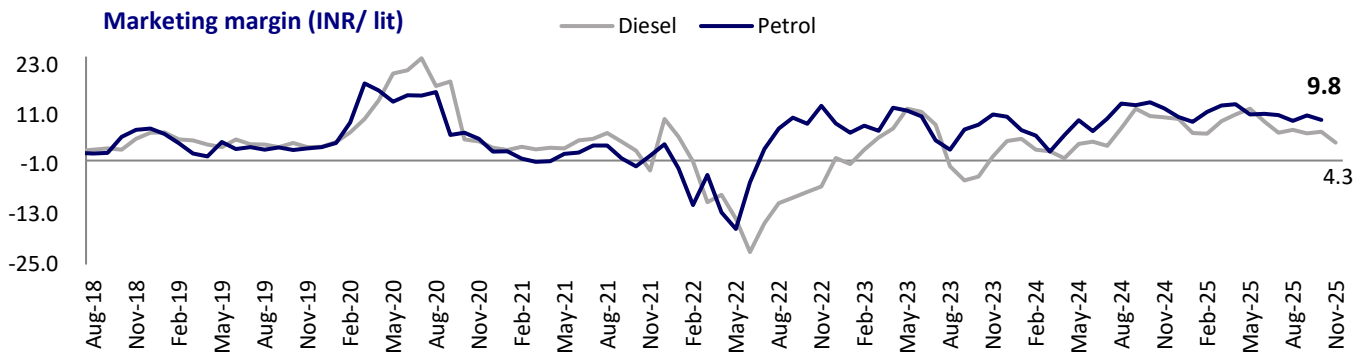
- HPCL Rajasthan Refinery Limited (HRRL) has achieved 89% overall physical progress, with the refinery section surpassing 95% completion. Of the 13 process units, three - Diesel Hydrotreating (DHDT), Hydrogen Generation Unit (HGU), and Crude/Vacuum Distillation - are currently in the pre-commissioning stage. **Crude feed into the Crude Distillation Unit (CDU) is anticipated by end-Dec'25. Within three months, the refinery section is expected to run at 100% (~8mmtpa). At full capacity, HRRL is expected to produce 45-48% middle distillates, 16-18% gasoline, and no fuel oil, supporting improved GRMs.**
- At the Residue Upgradation Facility (RUF) in Visakhapatnam, pre-commissioning activities were completed on 30th Oct'25. The ISBL hydrogen and flare headers have been successfully commissioned. Integrity testing of the unit under high-pressure and high-temperature conditions using hydrogen has been completed, and catalyst loading is currently underway. The full benefit of the project shall be visible from **Feb'26**. The RUF is designed to replace low-value products with distillate yield-improving GRMs by USD2-3/bbl.
- If strong diesel margins persist for an extended period, HPCL stands to benefit as RUF and HRRL reach full-capacity operations.

Auto-fuel marketing margins squeezed but remain resilient

- **Marketing margins soften, but remain above our assumption:** MS/HSD marketing margins are down 18%/3% QoQ in 3QFY26'TD due to a sharp uptick in MS/HSD refining cracks (up 42%/40% QoQ). **In a scenario where diesel cracks over Brent sustain at ~USD30/bbl, Brent averages USD63/bbl, and the INR/USD exchange rate stabilizes at INR89.4/USD, we estimate diesel gross marketing margin to decline 70% vs 2QFY26 margin.** However, while near-term weakness in the stock may persist if diesel cracks remain strong, we believe the cracks should normalize as global refinery maintenance cycles ease. Hence, we maintain our assumption of INR3.5/lit MS/HSD marketing margins.
- **Marketing upcycle to continue amid weak crude price outlook:** Brent has already declined by ~USD14/bbl over the past year, averaging ~USD63.7/bbl in Nov'25. We expect Brent to average USD65/bbl in 2HFY26 and USD60/bbl in FY27-28, driven by a significantly oversupplied crude market. The IEA forecasts global oil demand growth of ~790/770kb/d in CY25/26, compared with supply growth of 3.1/2.5 mb/d, underscoring the bearish outlook. We believe that if the Russia-Ukraine war concludes and OPEC+ continues increasing output to defend market share, there would be an additional downside risk to our crude oil price assumptions.
- We estimate every USD1/bbl change in global MS/HSD prices affects MS/HSD gross marketing margins by INR0.5/INR0.5 per lit (5%/12% vs. current levels). However, we remain conservative and build in MS/HSD marketing margins of INR3.5/lit.
- **Lower crude favors HPCL, but strong refining may limit near-term upside:** Among OMCs, HPCL stands to benefit the most from softer crude prices, given

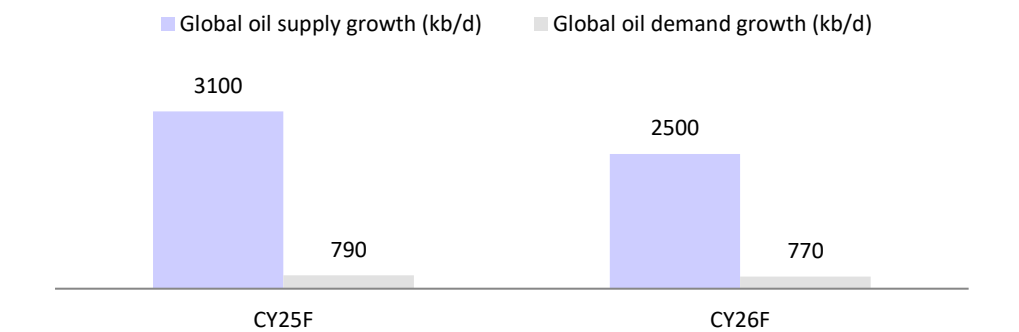
its leverage towards marketing. However, in the near term, while refining margins remain strong, HPCL may slightly underperform due to its relatively lower refining exposure.

Exhibit 6: MS/HSD marketing margin trend



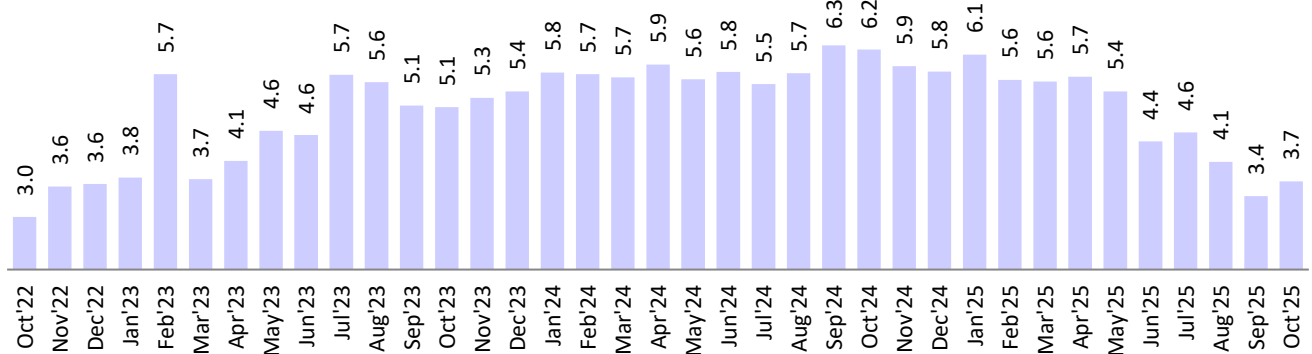
Source: MOFSL

Exhibit 7: IEA expects crude oil oversupply of 2.3/1.7 mb/d in CY25/26



Source: MOFSL

Exhibit 8: OPEC+ spare oil production capacity trend



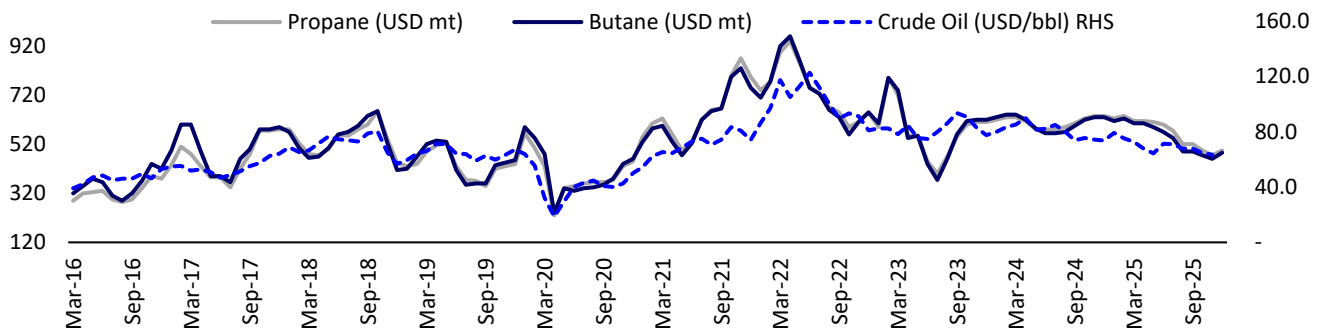
Source: IEA, MOFSL

LPG overhang fades as losses narrow sharply

- **LPG losses could decline by INR60/cyl QoQ in 3Q:** Propane prices have corrected sharply over the last few months, with Saudi CP propane price averaging USD482/ton in 3QFY26 (down USD526/630 per ton QoQ/YoY). We estimate LPG under-recovery of INR30-40/cyl in 3QFY26 (vs INR100+ per cyl during the last few quarters).
- **LPG compensation to add INR6.6b/month to PAT over Nov'25-Oct'26:** Further, HPCL is slated to receive LPG compensation of INR6.6b/month over Nov'25-Oct'26, further increasing profitability on a QoQ/YoY basis.

- With OPEC+ increasing oil production and strong growth in NGL extraction, propane supply is expected to remain in surplus, resulting in soft propane prices. Hence, LPG losses for OMCs should remain low, leading to improved blended marketing margins.

Exhibit 9: Saudi CP propane and butane price trend



Source: Bloomberg, Industry, MOFSL

Project Samriddhi emerges as a promising initiative

- The company launched Project Samriddhi in Apr'25, targeting an EBITDA improvement of **INR10b in FY26**. Under the project, accruals during 1HFY26 amounted to INR8.2b, translating to ~USD0.52/bbl saving. While 35% of the accrual amount is recurring, the remainder is one-time. Further, **the company expects to exceed the FY26 target of INR10b**.
- While we have not factored in any major gains from the project, additional progress could translate into a meaningful uplift in earnings.

Valuation and view

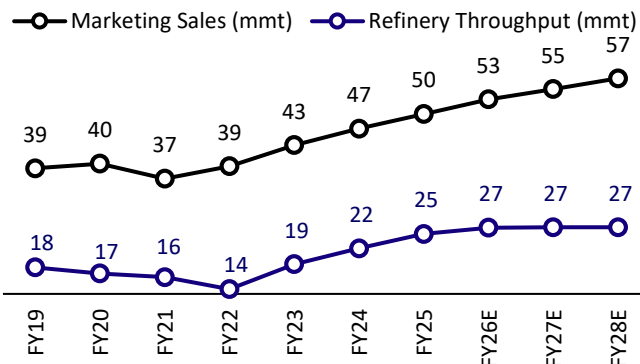
- We continue to prefer HPCL among OMCs due to the following factors: 1) HPCL's higher leverage toward the marketing segment, 2) higher dividend yield as HPCL's capex cycle is tapering off, and 3) the start-up of HPCL's multiple mega-projects over the next 12 months, providing a push to earnings.
- HPCL currently trades at 1.3x FY27E P/B. We estimate the company to deliver 29.3%/19.9% RoE during FY26/27 and project a 3.8% FY27E dividend yield. Our earnings assumptions remain conservative as we build in a refining GRM of USD6.5/bbl and an MS/HSD gross marketing margin of INR3.5/lit. We have not assumed any significant benefit from: 1) the start-up bottom-upgrade unit and 2) Project Samriddhi, which has unlocked savings worth USD0.5/bbl in 1HFY26. We reiterate our BUY rating on the stock with our SoTP-based TP of INR590.

Exhibit 10: SoTP-based valuation

Particulars	Earning metric		Val metric	Multiple	Amount (INR m)
HPCL standalone	Dec'27E EBITDA	2,31,504	EV/EBITDA	6.5	15,00,145
(-) Standalone Dec'27E Net Debt					4,79,867
Standalone Market Cap					10,20,279
+ MRPL	25% disc. to CMP	37,210			37,210
+ HMEL	FY24 PAT	9,310	P/E	8.0	74,480
+ Chhara terminal	Book Value	12,232	P/B	1.0	12,232
+ HRRL	Equity invested till date		P/B	0.5	1,09,105
SoTP					12,53,305
(/) shares outstanding					2,128
TP (INR/share)					590

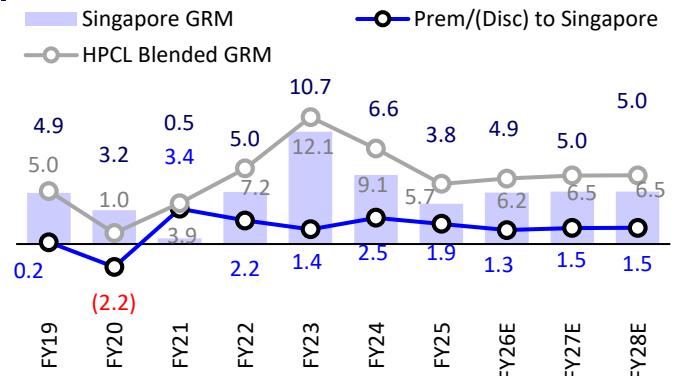
Story in charts

Exhibit 11: Refining throughput/marketing sales of HPCL



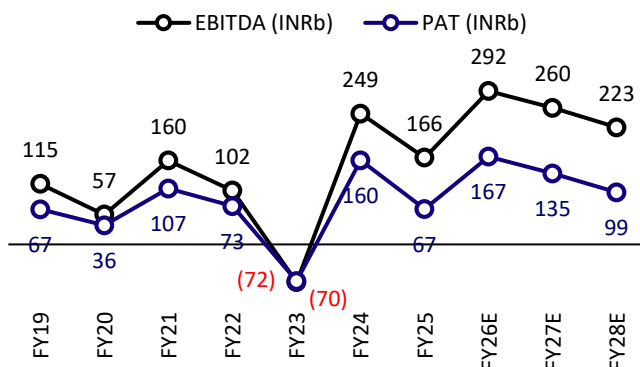
Source: Company, MOFSL

Exhibit 12: GRM trend of HPCL



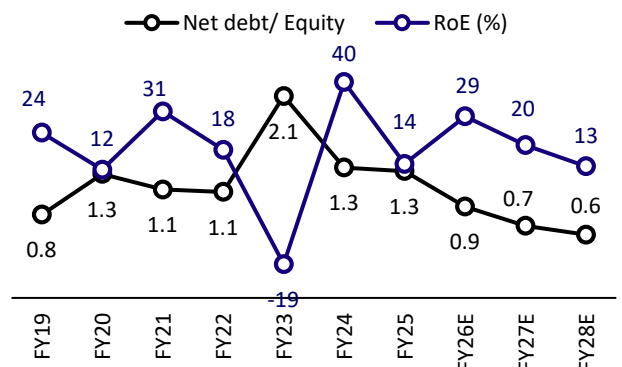
Source: Company, MOFSL

Exhibit 13: EBITDA vs. PAT (standalone)



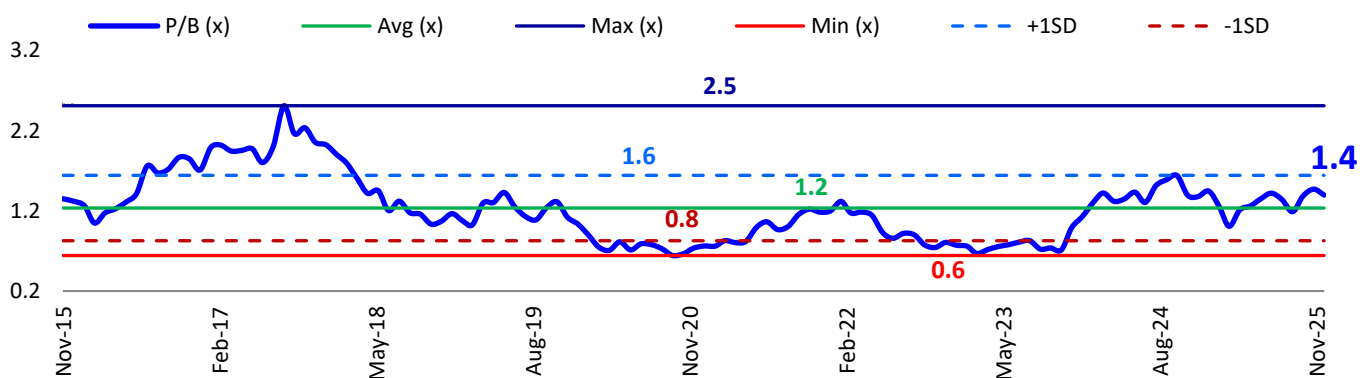
Source: Company, MOFSL

Exhibit 14: Standalone ratios



Source: Company, MOFSL

Exhibit 15: One-year forward P/B trades at 1.4x (long-term P/B average at 1.2x)



Source: IEA, MOFSL

Financials and valuations

Consolidated - Income Statement

(INR b)

Y/E March	FY23	FY24	FY25	FY26E	FY27E	FY28E
Total Income from Operations	4,407	4,339	4,341	3,870	3,550	3,399
Change (%)	26%	-2%	0%	-11%	-8%	-4%
EBITDA	-72	249	166	292	260	223
Margin (%)	-1.6	5.7	3.8	7.6	7.3	6.6
Depreciation	46	56	62	67	73	78
EBIT	-118	193	104	225	188	145
Interest Charges (incl'd forex)	22	26	34	35	36	37
Other Income	15	19	21	24	30	34
PBT bef. JVs/associates EO	-125	187	91	214	182	142
EO Items	0	0	0	0	0	0
JV and Associate Income	25	18	-1	10	-1	-10
PBT after EO Exp.	-100	205	90	224	181	133
Tax Rate (%)	30.1	21.9	25.2	25.2	25.2	25.2
Reported PAT	-70	160	67	167	135	99
Change (%)	PL	LP	-58%	148%	-19%	-27%
Margin (%)	-1.6	3.7	1.6	4.3	3.8	2.9

Consolidated - Balance Sheet

(INR b)

Y/E March	FY23	FY24	FY25	FY26E	FY27E	FY28E
Equity Share Capital	14	14	21	21	21	21
Total Reserves	308	455	490	610	709	779
Net Worth	323	469	511	631	730	800
Total Loans	671	628	664	684	705	726
Deferred Tax Liabilities	29	69	77	77	77	77
Capital Employed	1,023	1,167	1,253	1,393	1,512	1,603
Net Fixed Assets	681	795	859	891	918	941
Capital WIP	256	201	180	215	250	285
Total Investments	189	295	270	270	270	270
Curr. Assets, Loans&Adv.	447	489	596	636	671	695
Inventory	296	342	383	342	313	300
Account Receivables	68	93	118	105	96	92
Cash and Bank Balance	7	5	3	97	168	210
Cash	5	3	2	96	168	209
Bank Balance	2	2	1	1	1	1
Loans and Advances	11	13	53	53	53	53
Others	64	36	40	40	40	40
Curr. Liability & Prov.	591	661	695	662	640	630
Account Payables	229	273	298	266	244	233
Other Current Liabilities	334	353	360	360	360	360
Provisions	28	35	36	36	36	36
Net Current Assets	-144	-172	-99	-26	30	65
Appl. of Funds	1,023	1,167	1,253	1,393	1,512	1,603

Financials and valuations

Ratios

Y/E March	FY23	FY24	FY25	FY26E	FY27E	FY28E
Basic (INR)						
EPS	-32.8	75.2	31.6	78.6	63.5	46.6
Cash EPS	-11.4	101.5	60.6	110.3	97.6	83.2
BV/Share	151.6	220.5	240.3	296.6	342.9	376.0
DPS	0.0	21.0	10.5	22.3	17.2	13.6
Payout (%)	0.0	27.9	33.2	28.3	27.1	29.1
Valuation (x)						
P/E	-13.7	6.0	14.2	5.7	7.1	9.6
Cash P/E	-39.4	4.4	7.4	4.1	4.6	5.4
P/BV	3.0	2.0	1.9	1.5	1.3	1.2
EV/Sales	0.4	0.4	0.4	0.4	0.4	0.4
EV/EBITDA	-22.4	6.3	9.8	5.3	5.7	6.6
Dividend Yield (%)	0.0	4.7	2.3	5.0	3.8	3.0
FCF per share	-60.2	65.3	22.5	73.7	58.2	40.6
Return Ratios (%)						
RoE	-19.0	40.4	13.7	29.3	19.9	13.0
RoCE	-7.8	15.9	8.2	15.0	11.9	9.1
RoIC	-16.2	24.4	10.6	20.9	17.2	13.1
Working Capital Ratios						
Fixed Asset Turnover (x)	4.6	3.9	3.5	2.9	2.5	2.2
Asset Turnover (x)	4.3	3.7	3.5	2.8	2.3	2.1
Inventory (Days)	24	29	32	32	32	32
Debtor (Days)	6	8	10	10	10	10
Creditor (Days)	19	23	25	25	25	25
Leverage Ratio (x)						
Current Ratio	0.8	0.7	0.9	1.0	1.0	1.1
Interest Cover Ratio	-5.4	7.6	3.1	6.4	5.2	3.9
Net Debt/Equity	2.1	1.3	1.3	0.9	0.7	0.6

Consolidated - Cash Flow Statement

Y/E March	FY23	FY24	FY25	FY26E	FY27E	FY28E
OP/(Loss) before Tax	-100	205	90	224	181	133
Depreciation	46	56	62	67	73	78
Interest expense	22	26	34	35	36	37
Interest income and dividend	-4	-4	-4	0	0	0
Direct Taxes Paid	-2	-3	4	-56	-45	-33
MI and others	-10	-13	1	0	0	0
(Inc)/Dec in WC	13	-28	-44	22	15	7
CF from Operations	-35	239	142	292	259	221
(Inc)/Dec in FA	-93	-99	-94	-135	-135	-135
Free Cash Flow	-128	139	48	157	124	86
Others	12	4	-31	0	0	0
CF from Investments	-114	-130	-106	-135	-135	-135
Inc/(Dec) in Debt	213	-100	26	20	21	21
Interest Paid	-32	-41	-44	-35	-36	-37
Dividend Paid	-20	-21	-23	-47	-37	-29
CF from Fin. Activity	151	-111	-38	-63	-52	-45
Inc/Dec of Cash	3	-2	-1	94	72	41
Opening Balance	2	5	3	2	96	168
Closing Balance	5	3	2	96	168	209

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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Nainesh Rajani

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Correspondence Address: Palm Spring Centre, 2nd Floor, Palm Court Complex, New Link Road, Malad (West), Mumbai- 400 064. Tel No: 022 71881000. Details of Compliance Officer: Neeraj Agarwal,

Email Id: na@motilaloswal.com, Contact No.:022-40548085.

Grievance Redressal Cell:

Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
Mr. Ajay Menon	022 40548083	am@motilaloswal.com
Mr. Neeraj Agarwal	022 40548085	na@motilaloswal.com
Mr. Siddhartha Khemka	022 50362452	po.research@motilaloswal.com

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