

BSE SENSEX	S&P CNX
34,651	10,537
Bloomberg	HPCL IN
Equity Shares (m)	1524.2
M.Cap.(INRb)/(USD\$)	475.7 / 7.0
52-Week Range (INR)	493 / 289
1, 6, 12 Rel. Per (%)	4/-29/-22
Avg Val, INRm	1862.0
Free float (%)	48.9

Financials & Valuations (INR b)

Y/E Mar	2018	2019E	2020E
Sales	2,193	2,402	2,507
EBITDA	106.1	100.2	114.8
Adj. PAT	63.6	50.2	57.7
Adj. EPS (INR)	41.7	32.9	37.9
EPS Gr. (%)	2.4	(21.0)	14.9
BV/Sh.(INR)	157.1	178.5	203.1
RoE (%)	28.7	19.6	19.8
RoCE (%)	16.7	11.1	10.9
P/E (x)	7.5	9.5	8.2
P/BV (x)	2.0	1.7	1.5
EV/EBITDA (x)	6.2	7.0	6.3

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR312
TP: INR507(+63%)
Buy

Adj. EBITDA significantly above estimate; core GRM at USD6.6/bbl

- HPCL's reported EBITDA of INR29.2b (+1% YoY, -7% QoQ) in 4QFY18 was slightly higher than our estimate of INR27.8b. However, EBITDA adjusted for inventory gains stood at INR27.7b (-2% YoY, +64% QoQ), significantly above our estimate of INR22.4b, primarily led by higher GRM and lower inventory gains. HPCL reported total inventory gain of INR1.6b in 4QFY18 (est. of INR5.5b): INR1.04b (~USD0.5/bbl) in refining and INR530m in marketing. The quarter witnessed a forex loss of INR840m. PAT declined 4% YoY (-10% QoQ) to INR17.5b (est. of INR14.2b).
- Core GRM stood at USD6.6/bbl**, higher than our estimate of USD4.6/bbl. Core GRM in 4QFY17 and 3QFY18 stood at USD8.5/bbl and USD6.1/bbl, respectively. Refining throughput grew 2% QoQ (flat YoY) to 4.6mmt.
- Marketing sales volume grew 7% YoY** (flat QoQ) to 9.5mmt in 4QFY18. Implied gross marketing margin including inventory rose 9% YoY (+42% QoQ) to INR4.4/liter.
- For FY18, EBITDA stood at INR106b (flat YoY) and PAT grew 2% YoY to INR64b. Core GRM stood at USD6.74/bbl and refining throughput at 18.3mmt, implying 116% utilization.

Valuation view

- OMCs have seen a sharp correction in the recent past due to fear of price cap on auto fuel in the light of upcoming elections and rising crude oil price. However, post the Gujarat election, OMCs have been gradually increasing retail prices. Thus, we believe that this sharp correction in stock prices offers an attractive opportunity to add OMCs.
- HPCL is trading at 8.2x FY20E EPS of INR37.9 and 6.3x FY20E EV/EBITDA. We value refining at 6x EV/EBITDA, marketing at 8x EV/EBITDA and pipeline at 7.5x EV/EBITDA, and reiterate **Buy** with a target price of INR507.

Standalone - Quarterly Earning Model

Y/E March	FY17				FY18				(INR Million)			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	FY17	FY18	FY18 4QE	Var. vs est
Net Sales	448,495	421,025	485,556	515,248	534,685	475,226	574,743	608,101	1,870,324	2,192,754	617,314	-1%
YoY Change (%)	-12.9	0.0	12.9	25.3	19.2	12.9	18.4	18.0	5.3	17.2	19.8	
Total Expenditure	411,534	408,416	455,903	486,388	518,405	446,170	543,157	578,874	1,762,241	2,086,607	589,442	-2%
EBITDA	36,961	12,609	29,653	28,860	16,280	29,056	31,585	29,226	108,083	106,147	27,871	5%
Margins (%)	8.2	3.0	6.1	5.6	3.0	6.1	5.5	4.8	5.8	4.8	4.5	
EBITDA adj. for inventory and one-offs	21,567	18,593	18,398	28,203	32,164	21,183	16,873	27,656	86,761	97,875	22,394	23%
Depreciation	6,108	6,160	6,336	6,749	6,671	6,804	6,799	7,254	25,353	27,528	7,068	3%
Interest	1,250	1,164	530	2,268	1,430	1,563	899	1,776	5,212	5,667	1,581	12%
Other Income	2,665	5,469	2,878	4,047	5,703	5,194	4,743	3,427	15,060	19,067	2,105	63%
PBT	32,268	10,755	25,666	23,890	13,883	25,882	28,631	23,624	92,578	92,019	21,326	11%
Tax	10,534	3,741	8,143	5,702	4,636	8,535	9,134	6,145	28,120	28,449	7,108	-14%
Rate (%)	32.6	34.8	31.7	23.9	33.4	33.0	31.9	26.0	30.4	30.9	33.3	
Reported PAT	21,734	7,013	17,523	18,188	9,247	17,347	19,497	17,479	64,458	63,571	14,218	23%
YoY Change (%)	72.5	-356.9	60.9	24.9	-57.5	147.4	11.3	-3.9	82.5	-1.4	-21.8	
Margins (%)	4.8	1.7	3.6	3.5	1.7	3.7	3.4	2.9	3.4	2.9	2.3	
Key Assumptions												
Refining throughput (mmt)	4.5	4.0	4.7	4.6	4.5	4.6	4.5	4.6	17.8	18.3	4.6	0%
Core GRM (USD/bbl)	4.8	4.2	3.9	8.5	8.8	5.6	6.1	6.6	5.4	6.8	4.6	44%
Marketing sales volume incl exports (mmt)	8.9	8.0	9.3	8.9	9.3	8.7	9.4	9.5	35.1	36.9	9.2	3%
Marketing GM incld inv (INR/litre)	4.7	3.5	3.9	4.0	3.2	3.8	3.1	4.4	4.0	3.6	4.3	2%

E: MOSL Estimates

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

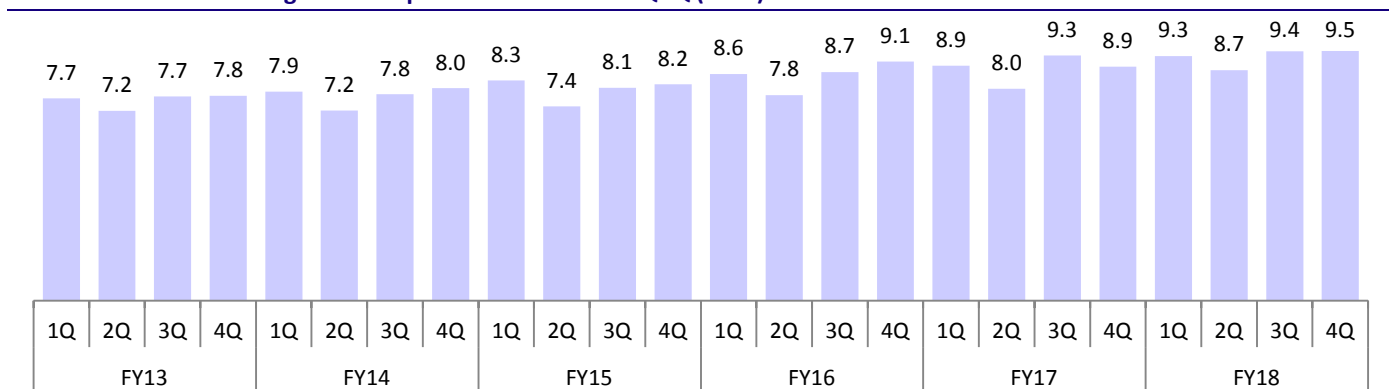
Motilal Oswal research is available on www.motilalosal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Exhibit 1: HPCL quarterly earnings snapshot (INR m)

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	YoY (%)	QoQ (%)
Key Operating Metrics										
Crude cost (USD/bbl)	44.6	44.7	49.6	53.4	49.6	51.1	60.9	65.9	23%	8%
Fx rate (INR/USD)	66.9	67.0	67.4	67.2	64.5	64.3	64.8	64.4	-4%	-1%
Marketing volume (mmt)	8.9	8.0	9.3	8.9	9.3	8.7	9.4	9.5	7%	0%
GRM (USD/bbl)	6.8	3.2	6.4	8.0	5.9	7.6	9.0	7.1	-11%	-22%
Reuters Singapore GRM (USD/bbl)	5.0	5.1	6.7	6.4	6.4	8.3	7.3	7.0	9%	-5%
Refinery thr' put (mmt)	4.5	4.0	4.7	4.6	4.5	4.6	4.5	4.6	0%	2%
Financial Summary (INRm)										
Net Sales	447,793	420,306	484,856	514,142	533,848	473,396	572,298	605,199	18%	6%
Reported EBITDA	36,961	12,609	29,653	28,860	16,280	29,056	31,585	29,226	1%	-7%
Net under recovery	0	0	0	0	0	0	0	0		
Refining inventory gain/(loss)	4,394	(1,984)	5,756	(1,143)	(6,284)	4,483	6,312	1,040	-191%	-84%
Marketing inventory gain/(loss)	11,000	(4,000)	7,000	7,000	(9,600)	3,390	8,400	530	-92%	-94%
Others (loss)	0	0	1,500	5,200	0	0	0	0		
Adjusted EBITDA	21,567	18,593	18,398	28,203	32,164	21,183	16,873	27,656	-2%	64%
Depreciation	(6,108)	(6,160)	(6,336)	(6,749)	(6,671)	(6,804)	(6,799)	(7,254)	7%	7%
EBIT	30,853	6,450	23,318	22,111	9,609	22,252	24,786	21,973	-1%	-11%
Interest	(1,250)	(1,164)	(530)	(2,268)	(1,430)	(1,563)	(899)	(1,776)	-22%	98%
Other Income	2,665	5,469	2,878	4,047	5,703	5,194	4,743	3,427	-15%	-28%
PBT b/f exceptionals	32,268	10,755	25,666	23,890	13,883	25,882	28,631	23,624	-1%	-17%
Exceptionals	0	0	0	0	0	0	0	0		
PBT	32,268	10,755	25,666	23,890	13,883	25,882	28,631	23,624	-1%	-17%
Income Tax	(10,534)	(3,741)	(8,143)	(5,702)	(4,636)	(8,535)	(9,134)	(6,145)	8%	-33%
Tax rate (%)	32.6%	34.8%	31.7%	23.9%	33.4%	33.0%	31.9%	26.0%		
PAT	21,734	7,013	17,523	18,188	9,247	17,347	19,497	17,479	-4%	-10%
PAT margin (%)	4.9%	1.7%	3.6%	3.5%	1.7%	3.7%	3.4%	2.9%		
EPS	14.3	4.6	11.5	11.9	6.1	11.4	12.8	11.5	-4%	-10%

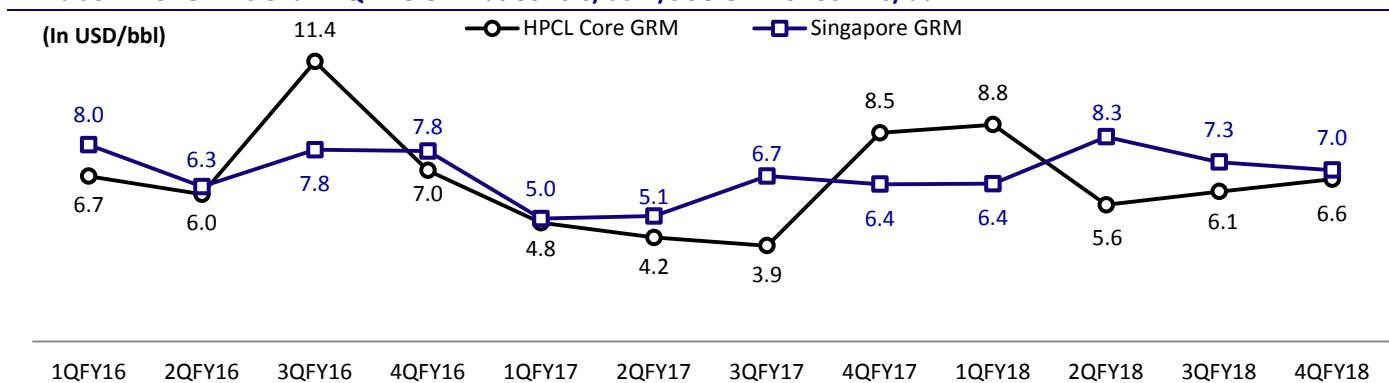
Source: Company, MOSL

Exhibit 2: HPCL marketing volume up +6.7% YoY and flat QoQ (mmt)



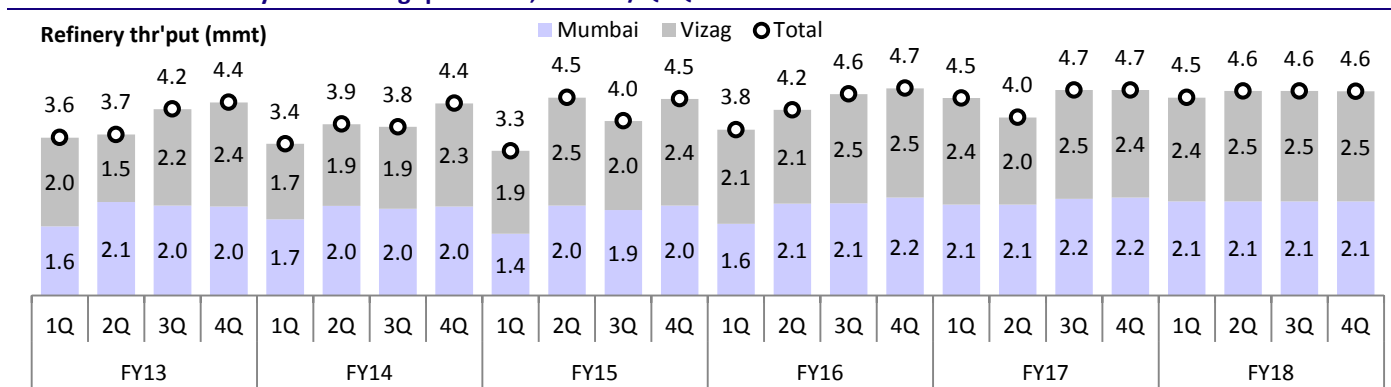
Source: Company, MOSL

Exhibit 3: HPCL GRM trend – 4QFY18 GRM at USD6.6/bbl v/s SG GRM of USD7.0/bbl



Source: Company, MOSL

Exhibit 4: HPCL refinery-wise throughput trend; flat YoY/QoQ



Source: Company, MOSL

Valuation and view

- Although there is room for further improvement in marketing margins on auto fuels, it remains to be seen to what extent the OMCs are able to regain their marketing margins – especially considering that a series of elections are scheduled over the coming months.
- OMCs have seen a sharp correction in the recent past due to fear of price cap on auto fuel in the light of upcoming elections and rising crude oil price. However, post the Gujarat election, OMCs have been gradually increasing retail prices. Thus, we believe this sharp correction in stock prices offers an attractive opportunity to add OMCs.
- HPCL is trading at 8.2x FY20E EPS of INR37.9 and 6.3x FY20E EV/EBITDA. We value refining at 6x EV/EBITDA, marketing at 8x EV/EBITDA and pipeline at 7.5x EV/EBITDA, and reiterate **Buy** with a target price of INR507.
- Rising oil prices, upcoming elections, the government's unwillingness to cut excise, INR depreciation and threat of subsidy sharing in light of inadequate provisioning by the government are the main risks for the stock.

Exhibit 5: HPCL – Key Assumptions

Y End: March 31	2012	2013	2014	2015	2016	2017	2018	2019E	2020E
Exchange Rate (INR/USD)	47.8	54.4	60.6	61.4	65.5	67.1	64.5	66.0	67.7
Brent Crude (USD/bbl)	114.4	110.5	107.5	85.5	47.5	49.0	57.6	60.0	60.0
Market Sales (MMT)	29	30	31	32	34	35	37	38	40
YoY (%)	9	3	2	3	7	3	5	4	4
GRM (USD/bbl)	2.9	2.1	3.4	2.8	6.7	6.2	7.4	6.5	6.4
Singapore GRM (USD/bbl)	8.3	7.9	5.6	6.4	7.5	5.8	7.3	6.0	6.0
Prem/(disc) (USD/bbl)	(5)	(6)	(2)	(4)	(1)	0	0	0.5	0.4
Total Refinery throughput (MMT)	16.2	15.8	15.5	16.2	17.2	17.8	18.3	17.5	17.5
YoY (%)	10%	-3%	-2%	4%	6%	3%	3%	-4%	0%
Refining capacity utilization (%)	109%	107%	105%	109%	116%	120%	124%	118%	118%
Blended marketing margin exclud inventory (INR/lit)				4.4	3.8	3.5	3.6	3.6	3.9

Source: Company, MOSL

Exhibit 6: SOTP value of INR507

Valuation	EBITDA (INR mn)	EV/EBITDA (x)	Valuation (INR mn)
Refining	38,506	6	231,037
Marketing	57,466	8	459,726
Pipeline	14,535	7.5	109,010
Others	4,248	5	21,238
Total			821,012
Net debt			224,010
Oil bonds			49,071
Net debt excluding oil bonds (FY19)			174,939
Standalone valuation			646,073
Value per share (INR)			424
Stake in MRPL (INR)			18
Stake in Oil India (INR)			1
Stake in HMEL (INR)			64
Total valuation (INR)			507

Source: Company, MOSL

Story in charts

Exhibit 7: Refining throughput of HPCL

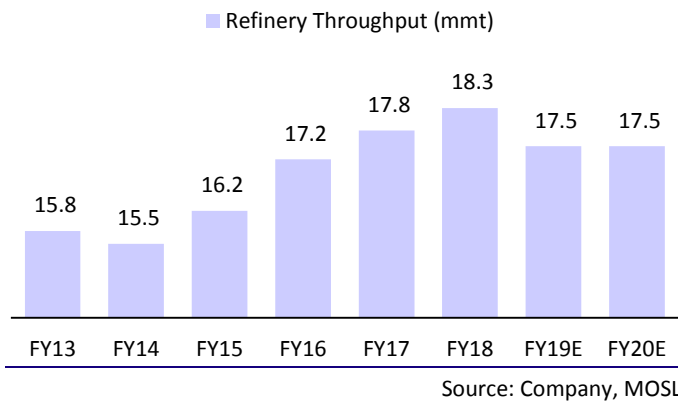


Exhibit 8: GRM trend of HPCL

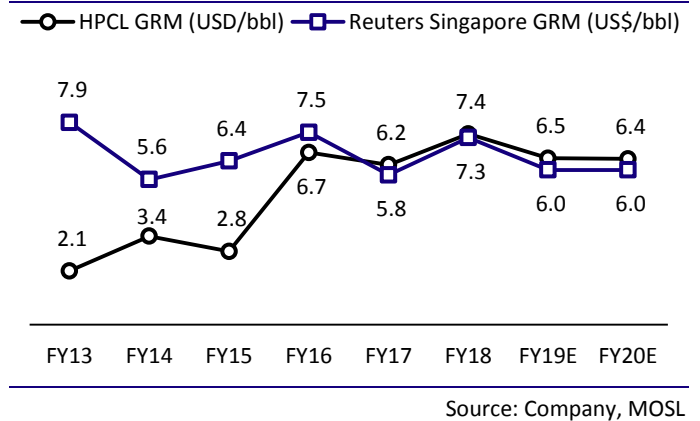


Exhibit 9: Marketing sales volume

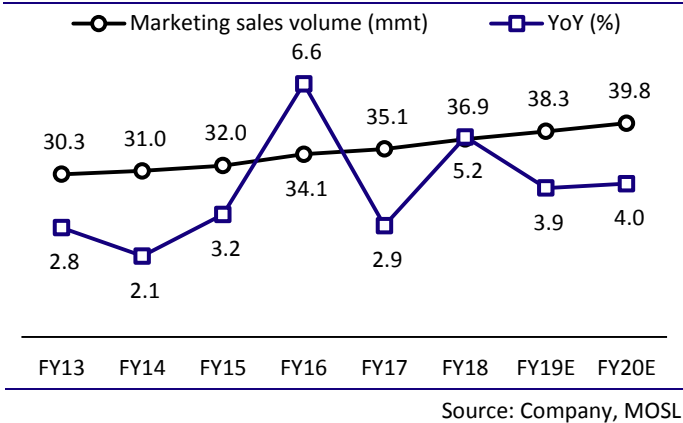


Exhibit 10: Pipeline throughput

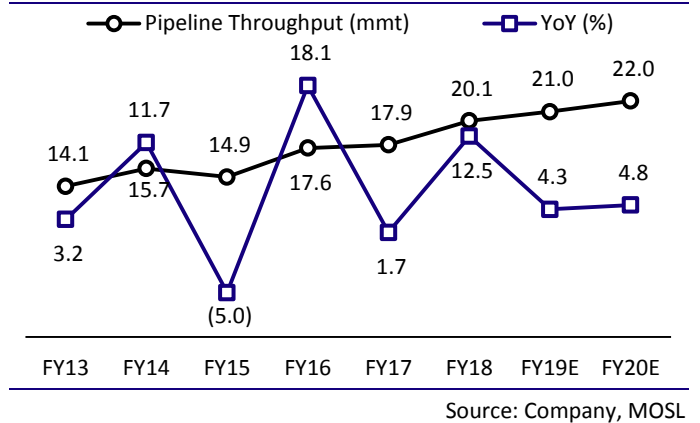


Exhibit 11: Return ratios

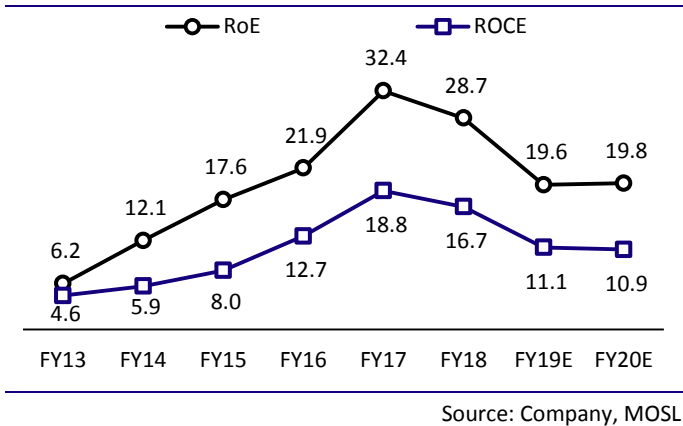
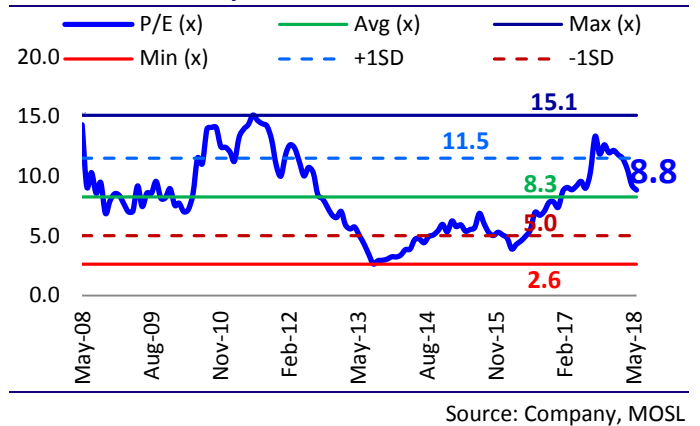


Exhibit 12: HPCL: 1-year forward P/E



Financials and Valuations

Standalone - Income Statement

(INR m)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Net Sales	2,231,454	2,063,804	1,777,006	1,870,237	2,192,754	2,401,578	2,506,988
Change (%)	8.0	-7.5	-13.9	5.2	17.2	9.5	4.4
Finished Goods	1,451,380	1,292,784	1,159,484	1,227,317	1,424,557	1,664,117	1,736,460
Raw Materials Cons	613,881	599,079	409,025	406,836	519,908	501,415	514,720
Other Exp	114,112	117,765	129,104	130,313	142,141	135,797	141,054
Total Expenditure	2,179,372	2,009,627	1,697,613	1,764,467	2,086,607	2,301,330	2,392,234
% of Sales	97.7	97.4	95.5	94.3	95.2	95.8	95.4
EBITDA	52,081	54,176	79,393	105,771	106,147	100,248	114,754
Margin (%)	2.3	2.6	4.5	5.7	4.8	4.2	4.6
Depreciation	21,884	19,712	26,532	25,353	27,528	30,902	33,087
EBIT	30,197	34,465	52,861	80,418	78,620	69,346	81,667
Int. and Finance Charges	15,046	7,066	6,536	5,357	5,667	7,139	8,850
Other Income	11,004	14,142	11,442	15,147	19,067	13,112	13,757
PBT bef. EO Exp.	26,155	41,541	57,766	90,208	92,019	75,319	86,574
EO Items	0	0	0	0	0	0	0
PBT after EO Exp.	26,155	41,541	57,766	90,208	92,019	75,319	86,574
Total Tax	8,817	14,209	20,505	28,120	28,449	25,104	28,855
Tax Rate (%)	33.7	34.2	35.5	31.2	30.9	33.3	33.3
Reported PAT	17,338	27,333	37,262	62,088	63,571	50,215	57,719
Adjusted PAT	17,338	27,333	37,262	62,088	63,571	50,215	57,719
Change (%)	108.0	57.6	36.3	66.6	2.4	-21.0	14.9
Margin (%)	0.8	1.3	2.1	3.3	2.9	2.1	2.3

Standalone - Balance Sheet

(INR m)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Equity Share Capital	3,390	3,390	3,390	10,163	15,242	15,242	15,242
Total Reserves	146,732	156,831	176,308	193,311	224,240	256,830	294,291
Net Worth	150,122	160,221	179,698	203,474	239,482	272,073	309,533
Total Loans	319,301	170,556	143,950	171,706	195,930	280,000	310,000
Deferred Tax Liabilities	39,084	41,036	52,814	59,682	65,692	65,692	65,692
Capital Employed	508,506	371,813	376,461	434,862	501,104	617,764	685,225
Gross Block	424,668	481,749	547,104	604,615	650,541	641,749	681,749
Less: Accum. Deprn.	165,545	191,121	216,028	243,296	270,824	301,726	334,813
Net Fixed Assets	259,122	290,628	331,076	361,319	379,717	340,024	346,936
Capital WIP	45,856	34,744	18,528	18,105	39,854	148,645	208,645
Total Investments	108,599	112,415	105,786	109,186	103,518	103,518	103,518
Curr. Assets, Loans&Adv.	362,204	237,719	240,404	296,037	344,983	439,698	458,509
Inventory	187,754	129,723	132,114	185,763	184,202	229,918	239,989
Account Receivables	54,660	36,031	37,580	40,642	55,729	52,553	54,855
Cash and Bank Balance	347	171	238	337	11,941	55,990	59,278
Loans and Advances	119,444	71,796	70,472	69,296	93,111	101,237	104,388
Curr. Liability & Prov.	267,275	303,693	319,332	349,785	366,969	414,120	432,383
Account Payables	243,978	273,903	301,228	323,869	341,114	394,145	411,409
Provisions	23,296	29,790	18,104	25,916	25,855	19,975	20,974
Net Current Assets	94,930	-65,974	-78,928	-53,748	-21,985	25,578	26,126
Appl. of Funds	508,506	371,813	376,461	434,862	501,104	617,764	685,225

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Basic (INR)							
EPS	11.4	17.9	24.4	40.7	41.7	32.9	37.9
Cash EPS	25.7	30.9	41.9	57.4	59.8	53.2	59.6
BV/Share	98.5	105.1	117.9	133.5	157.1	178.5	203.1
DPS	3.4	5.4	9.6	22.8	17.1	9.9	11.4
Payout (%)	35.4	36.5	47.0	67.4	48.0	35.1	35.1
Valuation (x)							
P/E	27.4	17.4	12.8	7.7	7.5	9.5	8.2
Cash P/E	12.1	10.1	7.5	5.4	5.2	5.9	5.2
P/BV	3.2	3.0	2.6	2.3	2.0	1.7	1.5
EV/Sales	0.4	0.3	0.3	0.3	0.3	0.3	0.3
EV/EBITDA	15.3	11.9	7.8	6.1	6.2	7.0	6.3
Dividend Yield (%)	1.1	1.7	3.1	7.3	5.5	3.2	3.6
FCF per share	7.2	110.2	24.8	9.2	-15.1	-14.7	-4.2
Return Ratios (%)							
RoE	12.1	17.6	21.9	32.4	28.7	19.6	19.8
RoCE	5.9	8.0	12.7	18.8	16.7	11.1	10.9
RoIC	5.8	7.8	14.3	19.8	16.6	14.1	17.5
Working Capital Ratios							
Asset Turnover (x)	4.4	5.6	4.7	4.3	4.4	3.9	3.7
Inventory (Days)	31	23	27	36	35	35	35
Debtor (Days)	9	6	8	8	8	8	8
Creditor (Days)	40	48	62	63	60	60	60
Leverage Ratio (x)							
Net Debt/Equity	1.4	0.4	0.2	0.3	0.3	0.4	0.5

Standalone - Cash Flow Statement

(INR m)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
OP/(Loss) before Tax	26,155	39,921	57,766	90,208	92,019	75,319	86,574
Depreciation	21,884	19,712	26,532	25,353	27,528	30,902	33,087
Direct Taxes Paid	-8,817	-14,209	-20,505	-28,120	-28,449	-25,104	-28,855
(Inc)/Dec in WC	18,291	160,727	13,021	-25,081	-20,158	-3,514	2,740
CF from Operations	57,513	206,151	76,815	62,360	70,940	77,604	93,546
Others	3,101	1,952	11,778	6,868	6,010	0	0
CF from Operating incl EO	60,614	208,103	88,592	69,228	76,950	77,604	93,546
(Inc)/Dec in FA	-49,647	-40,106	-50,763	-55,173	-100,000	-100,000	-100,000
Free Cash Flow	10,968	167,997	37,829	14,055	-23,050	-22,396	-6,454
(Pur)/Sale of Investments	-2,329	-3,816	6,629	-3,400	5,668	0	0
CF from Investments	-51,976	-43,922	-44,134	-58,573	-94,332	-100,000	-100,000
Inc/(Dec) in Debt	-5,282	-148,744	-26,607	27,756	24,224	84,070	30,000
Dividend Paid	-6,141	-9,985	-17,525	-41,857	1,831	-17,625	-20,259
Others	1,661	-5,628	-259	3,545	2,931	0	0
CF from Fin. Activity	-9,762	-164,357	-44,391	-10,556	28,986	66,446	9,741
Inc/Dec of Cash	-1,124	-176	67	99	11,604	44,049	3,288
Opening Balance	1,471	347	171	238	337	11,941	55,990
Closing Balance	347	171	238	337	11,941	55,990	59,278

Corporate profile

Company description

Fortune-500 company, HPCL is a refining and marketing company in India and also has interests in upstream. It owns 14.8mmt of refining capacity, split across Mumbai (6.5mmt) and Vishakapatnam (8.3mmt). It has a crude and product pipeline network of ~2,400km and sells ~30mmt of petroleum products. HPCL also holds a 16.9% stake in MRPL and 49% stake in 9mmt Bhatinda refinery. HPCL is a state-owned company, with 51.1% Government of India (GoI) stake.

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Mar-18	Dec-17	Mar-17
Promoter	0.0	51.1	51.1
DII	13.0	12.0	9.6
FII	23.4	24.8	16.9
Others	63.7	12.1	22.4

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
OIL AND NATURAL GAS CORPORATION LIMITED	51.1
LIFE INSURANCE CORPORATION OF INDIA	2.2
ADITYA BIRLA SUNLLIFE TRUSTEE PVT LTD A/C ADITYA BIRLA SUNLIFE FRONTLINE EQUITY FUND	1.8
SBI BLUE CHIP FUND	1.4
NATIONAL WESTMINSTER BANK PLC AS TRUSTEE OF THE JUPITER INDIA FUND	1.2

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Mukesh Kumar Surana	Chairman & Managing Director
J Ramaswamy	Director (Finance) & CFO
Pushp Kumar Joshi	Director (Human Resources)
S Jeya Krishnan	Director (Marketing)
Shrikant M Bhosekar	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Sandeep Poundrik	Urvashi Sadhwani
Vinod S Shenoy	Ram Niwas Jain

*Independent

Exhibit 6: Auditors

Name	Type
A Ramachandra Rao & Co	Branch
CVK & Associates	Statutory
G M Kapadia & Co	Statutory
R Nanabhoy & Co	Cost Auditor
Upendra Shukla	Secretarial Audit

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY18	34.7	38.1	-9.0
FY19	31.5	39.5	-20.2
FY20	36.4	39.8	-8.6

Source: Bloomberg

NOTES

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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