

Hindustan Petroleum Corporation

BUY
INDUSTRY OIL & GAS
CMP (as on 08 Aug 2018) Rs 282
Target Price Rs 463

Nifty 11,450

Sensex 37,888

KEY STOCK DATA

Bloomberg HPCL IN

No. of Shares (mn) 1,524

MCap (Rs bn) / (\$ mn) 431/6,274

6m avg traded value (Rs mn) 1,851

STOCK PERFORMANCE (%)
52 Week high / low Rs 493/251
3M 6M 12M

Absolute (%) (7.9) (29.3) (35.2)

Relative (%) (15.5) (39.4) (53.5)

SHAREHOLDING PATTERN (%)

Promoters 51.11

FIs & Local MFs 12.96

FPIs 23.39

Public & Others 12.54

Source : BSE

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Good show in tough times

HPCL's 1QFY19 EBITDA came in at Rs 31.91bn, up 96% YoY owing to 22% increase in GRM to USD 7.15/bbl (including inventory gains of USD 3.47/bbl). Marketing volumes were up 5% YoY while gross marketing margins were down 9.4% YoY to Rs 3.61/ltr. PAT stood at Rs 17.19bn up 86% YoY on lower other income at Rs 3.06bn (-46.4% YoY) and higher interest cost at Rs 1.91/bn (+33.5% YoY).

- In last two and half years to a peak in Aug-17, HPCL stock was up 233% (Sensex was up 14%) on account of 124% jump in EBITDA and 133% jump in PAT. However, since recording peaks in Aug-17, HPCL has been largely on a down trend and have sharply underperformed the market. The stock has corrected 42% while Sensex was up 18%. Currently stock is trading at 6.5x FY21E EV/EBITDA and 7.8x FY21E P/E. We believe these valuations are undemanding.
- Certainly, inadequate and untimely Petrol and Diesel retail price hikes as oil prices have surged is disturbing and an overhang on the stock. Gross margins are low currently compared to normalised margins. But, we believe that OMCs will be allowed to make normative

margins and thus recoup margins like in the past. HPCL's earnings are highly sensitive to change in marketing margin compared to other OMCs. Therefore, HPCL will be largest beneficiary if there is any increase in marketing margins from current level.

- We expect benchmark Singapore GRMs to remain healthy owing to strong global demand for petroleum products in CY18/19. We believe, with recent corrections most negatives seem to be priced in and valuations are compelling. **Our SOTP target is Rs 463 (5x Jun 20E EV/e for standalone refining, 8x EV/e for marketing, 9x for pipeline and Rs 159/sh from other investments). Maintain BUY.**

Highlights of the quarter

- Refining volumes were 4.52mmt (+0.7% YoY and -2.4% QoQ. Pipeline throughput was at 5.45mmt (+17.2% YoY, +3.4% QoQ).
- Debt was reduced from Rs 209.9bn in 4Q to Rs148bn in 1QFY19.
- Near-term outlook: GRMs should remain strong, owing to strong middle distillate cracks.

Financial Summary (Standalone)

Year Ending March (Rs bn)	1QFY19	1QFY18	YoY (%)	4QFY18	QoQ (%)	FY18	FY19E	FY20E	FY21E
Revenues	676.29	534.69	26.5	608.10	11.2	2,193.33	2,619.03	2,727.41	2,883.67
EBITDA	31.91	16.28	96.0	29.23	9.2	107.38	98.36	103.93	124.20
APAT	17.19	9.25	85.9	17.48	(1.6)	63.57	49.83	48.35	55.20
EPS (Rs/sh)	11.3	6.1	85.9	11.5	(1.6)	41.7	32.7	31.7	36.2
P/E (x)						6.8	8.7	9.0	7.8
EV/EBITDA (x)						4.9	7.0	7.8	6.5
RoE (%)						28.7	19.5	16.8	17.2

Source: Company, HDFC sec Inst Research

Operating expenses include forex losses of Rs 5.37bn. Adjusting for this opex was up 12% YoY and down 8.3% QoQ.

Core EBITDA was up 4.7% to Rs 25.93bn owing to increase in GRM, crude throughput, and marketing volumes. However, offset by lower marketing margins.

Higher interest cost owing to 22% jump in debt to Rs148bn from Rs 122bn in 1QFY18

Core GRM was down mainly due to lower cracks of LPG, bitumen and higher fuel and losses.

Quarterly Financials Snapshot (Standalone)

(Rs bn)	1QFY19	1QFY18	YoY (%)	4QFY18	QoQ (%)
Net Sales	676.29	534.69	26.5	608.10	11.2
Raw Material and Traded goods	600.92	483.89	24.2	537.54	11.8
Employee Expenses	7.35	6.98	5.3	7.82	(6.0)
Other Expenses	36.11	27.53	31.2	33.51	7.7
EBITDA	31.91	16.28	96.0	29.23	9.2
Core EBITDA*	25.93	24.76	4.7	29.54	(12.2)
Depreciation	7.06	6.67	5.9	7.25	(2.6)
EBIT	24.84	9.61	158.5	21.97	13.1
Other Income	3.06	5.70	(46.4)	3.43	(10.8)
Interest Cost	1.91	1.43	33.5	1.78	7.5
PBT	25.99	13.88	87.2	23.62	10.0
Tax	8.80	4.64	89.8	6.14	43.2
RPAT	17.19	9.25	85.9	17.48	(1.6)
EO (Loss) / Profit (Net Of Tax)	-	-	-	-	-
APAT	17.19	9.25		17.48	
AEPS	11.28	6.07	85.9	11.47	(1.6)

Margin Analysis

	1QFY19	1QFY18	YoY (bps)	4QFY18	QoQ (bps)
Raw Material As % Of Net Sales	88.9	90.5	(164.5)	88.4	45.9
Employee Expenses as % of Net Sales	1.1	1.3	(21.9)	1.3	(19.9)
Other Operating Expenses As % of Net Sales	5.3	5.1	19.1	5.5	(17.2)
EBITDA Margin (%)	4.7	3.0	167.3	4.8	(8.8)
Net Profit Margin (%)	2.5	1.7	81.3	2.9	(33.2)
Tax Rate (%)	33.9	33.4	46.0	26.0	783.9

Key Quarterly Data

	1QFY19	1QFY18	YoY (%)	4QFY18	QoQ (%)
Refinery Thruput (mnT)	4.52	4.49	0.7	4.63	(2.4)
Pipeline Thruput (mnT)	5.45	4.65	17.2	5.27	3.4
Marketing Throughput (mnT)	9.72	9.26	5.0	9.45	2.9
Core GRM (USD/bbl)	3.68	8.82	(58.3)	6.60	(44.2)
Inventory Gain/(Loss) (USD/bbl)	3.47	(2.96)	(217.2)	0.47	638.3
Reported GRM (USD/bbl)	7.15	5.86	22.0	7.07	1.1
Exchange Gain/(Loss) (Rs bn)	(5.38)	1.12	(579.4)	(0.84)	540.2
Adventitious Gain/(Loss) (Rs bn)	11.35	(9.60)	(218.2)	0.53	2,041.5
Debt (Rs bn)	148.42	122.08	21.6	209.91	(29.3)

Source: Company, HDFC sec Inst Research, *Core EBITDA net off inventory gains, forex gain/ (loss) and other operating income

HMEL crude throughput will increase in FY19 as it complete its expansion in 1HFY18.

The Visakh refinery expansion will increase crude throughput for HPCL in FY21

Overall sales volumes to grow by 6% over FY18-FY21

Assumptions

	FY17	FY18	FY19E	FY20E	FY21E
Refining					
HPCL Throughput (mnT)	17.7	18.2	17.7	17.9	22.8
HMEL Throughput (mnT)	10.5	8.8	12.5	12.5	12.5
GRM Standalone(USD/bbl)	6.2	7.4	7.0	7.0	7.2
HMEL GRM (USD/bbl)	11.3	13.2	12.9	12.9	12.9
Marketing					
Volumes (mnT)	35.2	36.9	38.8	40.8	44.0
YoY Gr (%)	3.0	4.7	5.3	5.0	7.9
Diesel Volume (mn T)	17.0	17.7	18.6	19.6	20.2
Diesel Volume Gr (%)	0.8	4.4	5.0	5.0	3.5
Diesel's Margin (Rs/l)	2.6	2.6	2.6	2.7	2.9
Pipeline					
Volumes (mnT)	17.9	20.9	22.0	23.0	23.0
Macro					
Crude Price (USD/bbl)	50.0	57.5	70.0	70.0	70.0
USD - INR	67.1	66.0	68.0	68.0	68.0

Source: Company, HDFC sec Inst Research

Change in estimates

Rs bn	FY19E			FY20E		
	Old	New	% change	Old	New	% change
Revenues	2,617.39	2,619.03	0.1	2,725.69	2,727.41	0.1
EBIDTA	96.85	98.36	1.6	102.61	103.93	1.3
APAT	48.56	49.83	2.6	46.86	48.35	3.2
AEPS	31.86	32.69	2.6	30.74	31.72	3.2

Source: Company, HDFC sec Inst Research

Valuation (Based On Jun 20E)

Business	EBIDTA (Rs bn)	Multiple	Value (Rs bn)	Value (Rs/sh)*	Valuation basis
Standalone					
Refining	40.7	5.0	203.5	133	EV/EBIDTA on Jun 20E
Marketing	56.0	8.0	447.9	294	EV/EBIDTA on Jun 20E
Pipeline	12.3	9.0	110.9	73	EV/EBIDTA on Jun 20E
Standalone net Debt			(287.3)	-188	As on Jun 19E
Standalone Equity Value			474.9	312	
Investments					
Traded investments			20.3	13	30% disc. to CMP
HMEL Investment	65.3	7.0	457.2	300	EV/EBIDTA on Jun 20E
HMEL net debt			(62.1)	-41	As on Jun 19E
HMEL Equity value			395.2	127	HPCL's stake is 48.9%
Other non traded investments				11	1x BV
Investments Equity Value				151	
Value per share				463	

Source: Company, HDFC sec Inst Research

Peer Set Comparison

	MCap (Rs bn)	CMP (Rs)	RECO	TP (Rs)	Upside %	EPS (Rs/sh)				P/E (x)				P/BV (x)				ROE (%)			
						FY17E	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E
Reliance Industries	7,507	1,185	BUY	1,271	7	53.1	67.0	75.5	81.1	22.3	17.7	15.7	14.6	2.4	2.1	1.9	1.7	11.1	12.8	12.9	12.4
ONGC	2,117	165	BUY	275	67	15.5	21.1	22.5	22.8	10.6	7.8	7.3	7.3	1.1	1.0	1.0	0.9	10.5	13.6	13.5	12.9
Indian Oil Corp	1,555	164	BUY	228	39	22.5	23.0	24.5	26.9	7.3	7.1	6.7	6.1	1.5	1.3	1.2	1.1	20.3	18.7	17.9	17.6
BPCL	777	387	BUY	581	49	39.7	43.2	45.9	49.8	9.8	9.0	8.5	7.8	2.2	1.9	1.7	1.4	24.8	23.3	21.5	20.3
HPCL	433	282	BUY	463	63	41.7	32.7	31.7	36.2	6.8	8.7	9.0	7.8	1.8	1.6	1.4	1.3	28.7	19.5	16.8	17.2
Petronet LNG	345	230	BUY	316	37	13.9	13.5	16.8	19.9	16.6	17.1	13.7	11.6	3.5	3.2	2.7	2.3	23.3	19.6	21.4	21.7
GAIL	819	363	BUY	360	(1)	20.4	23.2	24.6	27.0	17.8	15.7	14.7	13.5	2.0	1.9	1.7	1.6	11.7	12.5	12.2	12.4
Oil India	239	211	BUY	338	60	23.5	30.6	32.5	33.3	9.0	6.9	6.5	6.3	0.9	0.8	0.7	0.6	9.4	11.7	11.1	10.2
Indraprastha Gas	212	303	BUY	427	41	9.6	11.3	13.1	13.4	31.6	26.9	23.2	22.6	6.0	5.3	4.6	4.1	20.9	20.9	21.2	19.1
Mahanagar Gas	90	911	BUY	1,292	42	48.4	47.7	47.4	49.1	18.8	19.1	19.2	18.6	4.3	3.9	3.5	3.2	24.3	21.3	19.1	18.0

Source: Company, HDFC sec Inst Research

Standalone Income Statement

Rs bn	FY17	FY18	FY19E	FY20E	FY21E
Revenues	1,870.24	2,193.33	2,619.03	2,727.41	2,883.67
Growth (%)	4.2	17.3	19.4	4.1	5.7
Material Expenses	1,634.15	1,944.47	2,370.71	2,467.27	2,593.84
Employee Expenses	29.46	28.59	32.02	32.98	34.62
Other Operating Expenses	100.85	112.89	117.95	123.24	131.00
EBIDTA	105.77	107.38	98.36	103.93	124.20
EBIDTA Margin (%)	5.7	4.9	3.8	3.8	4.3
EBITDA Growth (%)	24.8	1.5	(8.4)	5.7	19.5
Core EBITDA*	79.06	96.08	98.36	103.93	124.20
Core EBITDA margin (%)	4.23	4.38	3.76	3.81	4.31
Core EBITDA growth (%)	(16.51)	21.52	2.37	5.66	19.51
Depreciation	25.35	27.53	29.24	35.81	44.32
EBIT	80.42	79.86	69.12	68.12	79.89
Other Income Incl EO	15.15	18.49	14.12	14.47	14.76
Interest	5.36	5.67	8.13	9.71	11.44
PBT	90.21	92.68	75.11	72.89	83.21
Tax	28.12	28.45	25.28	24.53	28.01
RPAT	62.09	64.24	49.83	48.35	55.20
EO (Loss) / Profit (Net Of Tax)	0.17	0.67	-	-	-
APAT	61.91	63.57	49.83	48.35	55.20

Source: Company, HDFC sec Inst Research , *Core EBITDA net off inventory gains, forex gain/(loss) and other operating income

Standalone Balance Sheet

Rs bn	FY17	FY18	FY19E	FY20E	FY21E
SOURCES OF FUNDS					
Share Capital	10.16	15.24	15.24	15.24	15.24
Reserves	193.31	224.24	256.63	288.06	323.94
Total Shareholders' Funds	203.47	239.48	271.87	303.30	339.18
Long-term Debt	62.79	88.31	148.60	292.60	292.60
Short-term Debt	108.92	107.62	205.62	205.62	205.62
Total Debt	171.71	195.93	354.22	498.22	498.22
Deferred Taxes	58.96	65.69	65.69	65.69	65.69
Long Term Provisions & Others	1.90	0.81	0.81	0.81	0.81
TOTAL SOURCES OF FUNDS	436.04	501.92	692.60	868.03	903.91
APPLICATION OF FUNDS					
Net Block	361.32	379.72	395.48	644.67	645.36
CWIP	76.20	100.91	177.10	84.29	106.01
Investments	51.09	49.99	49.99	49.99	49.99
LT Loans & Advances	4.56	4.62	10.38	3.16	4.74
Other Non-current Assets	13.39	14.09	14.09	14.09	14.09
Total Non-current Assets	506.56	549.33	647.05	796.21	820.19
Inventories	185.76	184.20	225.53	234.72	246.76
Debtors	40.64	55.73	57.54	59.92	63.35
Cash & Equivalents	0.34	11.94	8.52	36.31	34.83
Other Current Assets	51.39	66.87	145.94	149.76	161.91
Total Current Assets	278.13	318.74	437.53	480.71	506.85
Creditors	126.65	157.04	172.93	185.55	195.07
Other Current Liabilities	222.01	209.11	219.05	223.34	228.06
Total Current Liabilities	348.66	366.15	391.98	408.89	423.13
Net Current Assets	(70.52)	(47.41)	45.55	71.82	83.72
TOTAL APPLICATION OF FUNDS	436.04	501.92	692.60	868.03	903.91

Source: Company, HDFC sec Inst Research

Standalone Cash Flow

Rs bn	FY17	FY18	FY19E	FY20E	FY21E
Reported PBT	90.03	92.02	75.11	72.89	83.21
Non-operating & EO Items	(15.15)	(18.49)	(14.12)	(14.47)	(14.76)
Interest Expenses	5.36	5.67	8.13	9.71	11.44
Depreciation	25.35	27.53	29.24	35.81	44.32
Working Capital Change	69.51	(12.61)	(102.15)	8.74	(14.95)
Tax Paid	(18.36)	(21.71)	(25.28)	(24.53)	(28.01)
OPERATING CASH FLOW (a)	156.74	72.39	(29.07)	88.13	81.24
Capex	(57.40)	(70.63)	(121.19)	(192.19)	(66.72)
Free Cash Flow (FCF)	99.34	1.76	(150.26)	(104.05)	14.52
Investments	10.39	18.89	14.12	14.47	14.76
INVESTING CASH FLOW (b)	(47.01)	(51.75)	(107.07)	(177.72)	(51.96)
Debt Issuance/(Repaid)	(66.14)	24.19	158.29	144.00	-
Interest Expenses	(5.36)	(5.67)	(8.13)	(9.71)	(11.44)
FCFE	27.84	20.28	(0.10)	30.24	3.08
Share Capital Issuance	6.77	5.08	-	-	-
Dividend	(36.72)	(31.19)	(16.31)	(15.82)	(18.06)
Others	(8.19)	(1.46)	(1.13)	(1.10)	(1.25)
FINANCING CASH FLOW (c)	(109.64)	(9.04)	132.72	117.37	(30.76)
NET CASH FLOW (a+b+c)	0.10	11.60	(3.42)	27.79	(1.48)

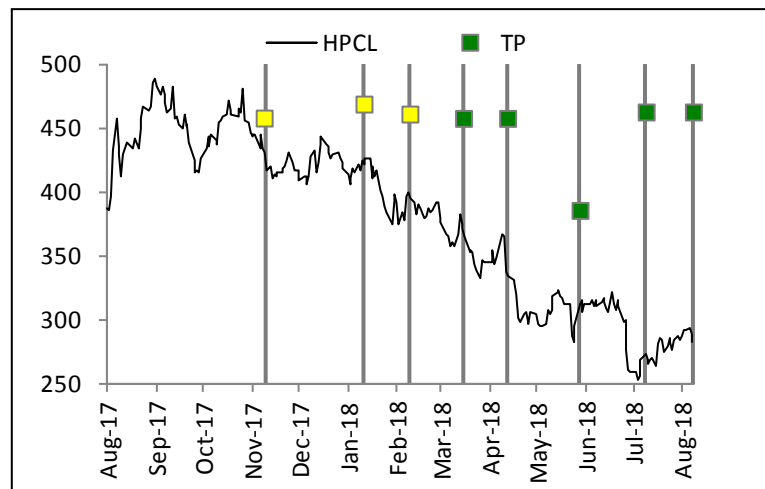
Source: Company, HDFC sec Inst Research

Standalone Key Ratios

	FY17	FY18	FY19E	FY20E	FY21E
PROFITABILITY %					
EBITDA Margin	5.7	4.9	3.8	3.8	4.3
EBIT Margin	5.1	4.5	3.2	3.0	3.3
APAT Margin	3.3	2.9	1.9	1.8	1.9
RoE	32.3	28.7	19.5	16.8	17.2
Core RoCE	21.8	24.7	18.2	11.5	9.9
RoCE	17.3	18.7	12.5	9.5	9.2
EFFICIENCY					
Tax Rate %	31.2	30.9	33.7	33.7	33.7
Asset turnover (x)	2.5	2.7	2.7	2.3	2.2
Inventory (days)	36	31	31	31	31
Debtor (days)	8	9	8	8	8
Other Current Assets (days)	10	11	20	20	20
Payables (days)	26	27	25	26	26
Other Curr Liab & Prov (days)	26	27	25	26	26
Cash conversion cycle (days)	2	(4)	10	8	8
Net Debt/EBITDA (x)	1.1	1.2	3.0	4.0	3.3
Net D/E	0.6	0.6	1.1	1.4	1.2
Interest Coverage	17.8	17.4	10.2	8.5	8.3
PER SHARE DATA					
EPS (Rs)	40.6	41.7	32.7	31.7	36.2
CEPS (Rs)	57.2	59.8	51.9	55.2	65.3
DPS (Rs)	20.0	17.0	8.9	8.6	9.8
BV (Rs)	133.4	157.1	178.4	199.0	222.5
VALUATION					
P/E (x)	7.0	6.8	8.7	9.0	7.8
P/Cash EPS (x)	5.0	4.8	5.5	5.1	4.3
P/BV (x)	2.1	1.8	1.6	1.4	1.3
EV/EBITDA (x)	5.1	4.9	7.0	7.8	6.5
EV/Revenue (x)	0.3	0.2	0.3	0.3	0.3
OCF/EV (%)	28.9	13.6	(4.2)	10.9	10.0
FCFF/EV (%)	18.3	0.3	(21.8)	(12.9)	1.8
FCFE/M CAP (%)	6.4	4.7	(0.0)	7.0	0.7
Dividend Yield (%)	7.0	6.0	3.1	3.0	3.5

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
9-Nov-17	431	NEU	458
11-Jan-18	431	NEU	469
11-Feb-18	395	NEU	460
15-Mar-18	376	BUY	458
12-Apr-18	338	BUY	458
29-May-18	313	BUY	386
9-Jul-18	271	BUY	463
8-Aug-18	282	BUY	463

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

Disclosure:

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