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Q4FY20 result and
earnings revision

Oil & Gas

Target price: Rs278

Earnings revision

(%)	FY21E	FY22E
Sales	-	-
EBITDA	-	-
EPS	↑ 11.1	↑ 11.0

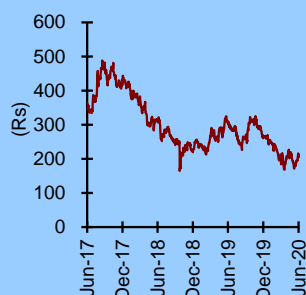
Target price revision

Rs278 from Rs273

Shareholding pattern

	Sep '19	Dec '19	Mar '20
Promoters	51.1	51.1	51.1
Institutional investors	39.8	40.0	39.4
MFs and others	14.3	13.9	14.9
Banks / FIs	4.3	3.9	3.6
Insurance Cos.	2.8	3.0	2.9
FIs	18.4	19.2	18.0
Others	9.1	8.9	9.5

Price chart



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INDIA



Hindustan Petroleum Corporation

BUY

Maintain

Rs210

Q4 hit by big inventory loss; FY21 outlook good

Hindustan Petroleum Corporation's (HPCL) consolidated and standalone recurring EPS were in the red in Q4FY20 and down 65-69% YoY in FY20, both hit mainly by inventory loss vs gain in FY19. We estimate the company's Q1FY21E EPS to be up 232% YoY, despite steep fall in sales volumes due to lockdown, boosted by record auto fuel marketing margins, YoY surge in GRM and inventory gain. Net marketing margin has recovered after being briefly in the red and the outlook for FY21 appears promising. GRM is weak, but has shown some recovery since last week. HPCL has adopted the lower tax rate of 25.17%. Factoring-in the lower tax rate has boosted FY21-FY22 EPS estimates by 11% and target price by 2% to Rs278 (32% upside). Reiterate BUY.

► **Q4FY20 in the red due to big inventory loss; core GRM US\$9.5/bbl in Q4:** HPCL's standalone and consolidated recurring EPS were in the red in Q4FY20 hit by inventory loss of Rs41.1bn vs gain of Rs9.2bn in Q4FY19. Company has treated inventory loss of Rs10bn caused due to valuing on net realisable basis, which was lower than cost, as an exceptional item. Reported Q4 GRM is in the red at minus US\$1.23/bbl, but core GRM is up 349% YoY at US\$9.5/bbl (our estimate US\$9.8/bbl). FY20 recurring standalone EPS is down 65% YoY, hit mainly by inventory loss of Rs42.5bn vs gain of Rs13.7bn in FY19. FY20 consolidated recurring EPS is down 69% YoY and share of profit of equity accounted investee is in the red.

► **Q1FY21E EPS to surge 232% YoY:** We estimate HPCL's Q1FY21 EPS to be up 232% YoY driven by: 1) record net auto fuel marketing margin of Rs5.81/l (up 3.1x YoY); 2) 7.8x YoY surge in GRM to US\$5.9/bbl (including inventory gain of US\$2/bbl); and 3) product inventory gain of Rs5.5bn vs loss of Rs0.2bn in Q1FY19. This would help make up for the 36% YoY fall assumed in auto fuel sales volume. We are assuming the company's crude throughput to be flat YoY in Q1; it was up 21% YoY and its utilisation rate was 101% in Apr'20. HPCL outperformed peers on throughput as it outsources ~60% of its auto fuel sales volume vs 15-30% by peers.

► **Upside to FY21E marketing margins; downside to GRM possible, but inventory gains to boost GRM:** HPCL's FY21 net marketing margin may be higher than our estimate of Rs2.5/l at Rs2.75-3.0/l. Q1FY21-TD net margin is at Rs5.81/l. We expect further retail price hikes (Rs5.47-5.8/l made since 6-Jun'20) to keep net margin at reasonable level of Rs1.5-2.5/l in rest of Jun'20 and on 1-Jul'20. Net margin is at Rs0.56/l on 16-Jun'20, but at current prices is likely to slip into the red on 1-Jul'20 unless further hike of Rs3-3.6/l is made. We remain optimistic on retail price hikes as reasonable marketing margin is crucial for success of BPCL's privatisation (last date for EoI for buying GoI's stake in BPCL is 31-Jul'20). Downside to FY21E core GRM of US\$4.3/bbl is possible, but that including inventory gain would be in line with our estimate, or higher. HPCL is our top pick as it is best placed to gain from strength in auto fuel marketing margins and is least impacted if GRMs disappoint.

Market Cap	Rs320bn/US\$4.2bn	Year to March	FY19	FY20	FY21E	FY22E
Reuters/Bloomberg	HPCL.BO/HPCL IN	Revenue (Rs mn)	29,72,050	28,77,324	14,18,475	14,59,141
Shares Outstanding (mn)	1,523.8	Net Income (Rs mn)	66,906	20,935	67,721	69,738
52-week Range (Rs)	329/155	EPS (Rs)	43.9	13.7	44.4	45.8
Free Float (%)	48.9	% Chg YoY	-7.3%	-68.7%	223.5%	3.0%
FII (%)	18.0	P/E (x)	4.7	15.3	4.7	4.6
Daily Volume (US\$'000)	17,435	CFPS (Rs)	(28.3)	28.8	69.1	72.2
Absolute Return 3m (%)	2.4	EV/E (x)	4.7	9.4	5.1	5.2
Absolute Return 12m (%)	(31.5)	Dividend Yield (%)	8%	3%	7%	7%
Sensex Return 3m (%)	7.4	RoCE (%)	17%	4%	11%	11%
Sensex Return 12m (%)	(13.9)	RoE (%)	24%	9%	20%	19%

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Q4 & FY20 hit by inventory loss of Rs41.1bn-42.5bn

Core GRM strong at US\$9.5/bbl in Q1FY20

Table 1: HPCL's Q4FY20 standalone recurring EPS in the red due to crude and product inventory loss of Rs41.1bn; FY20 recurring EPS down 65% YoY, also attributable to inventory loss

(Rs mn)	Q4FY20A	Q4FY19	Change	FY20	FY19	Change	Q3FY20	Change
Net sales	715,546	731,500	-2%	2,874,073	2,963,200	-3%	745,894	-4%
Total expenditure	722,611	679,838	6%	2,822,841	2,854,864	-1%	727,225	-1%
EBDITA	-7,066	51,662	NM	51,232	108,336	-53%	18,669	NM
EBITDA margin	-1.0%	7.1%		1.8%	3.7%		2.5%	
Interest	3,374	1,872	80%	10,817	7,259	49%	2,524	34%
Depreciation	8,114	8,285	-2%	33,044	30,126	10%	8,659	-6%
Other Income	4,241	5,225	-19%	18,384	22,436	-18%	4,022	5%
PBT	-14,313	46,731	NM	25,755	93,387	-72%	11,508	NM
Tax	-9,129	17,032	NM	4,835	33,100	-85%	4,036	NM
Recurring PAT	-5,184	29,699	NM	20,921	60,287	-65%	7,472	NM
Exceptional item	5,452	0	0%	5,452	0	0%	0	0%
Reported PAT	268	29,699	-99%	26,373	60,287	-56%	7,472	-96%
Recurring EPS	(3.4)	19.5	NM	13.7	39.6	-65%	4.9	NM
Reported EPS	0.2	19.5	-99%	17.3	39.6	-56%	4.9	-96%

Source: Company data, I-Sec research

Table 2: Q4FY20 EBITDA in the red due to large crude and product inventory loss in Q4FY20

(Rs mn)	Q4FY20A	Q4FY19	Change	FY20	FY19	Change	Q3FY20	Change
Refining	-7,801	6,500	NM	-12,111	22,540	NM	-1,410	NM
Inventory gains/losses	-15,290	3,440	NM	-12,920	6,240	NM	2,690	NM
Marketing including lubes	16,025	41,722	-62%	76,263	79,556	-4%	17,389	-8%
Others	4,241	5,225	NM	18,384	22,436	-18%	4,022	NM
EBITDA	-2,825	56,887	NM	69,616	130,772	-53%	22,691	NM
Key Variables								
Reported GRM (US\$/bbl)	(1.2)	4.5	NM	1.03	5.0	-79%	1.79	NM
Refining inventory gain/loss (US\$/bbl)	(10.7)	2.4	NM	(3.3)	0.8	NM	0.3	(32.5)
GRM net of inventory (US\$/bbl)	9.5	2.1	349%	4.28	4.2	1%	1.45	553%
Crude throughput (MMT)	4.5	4.6	-1%	17.2	18.4	-7%	4.2	9%
Domestic sales (MMT)	9.6	10.0	-5%	39.6	38.7	2%	9.8	-2%
Brent (US\$/bbl)	51.7	63.1	-18%	64.3	70.2	-8%	62.6	-17%
Exchange rate (US\$-Rs)	72.4	70.5	3%	64.5	69.9	-8%	71.2	2%

Source: Company data, I-Sec research

Table 3: HPCL's Q4FY20 consolidated recurring EPS in the red due to large crude and product inventory loss

(Rs mn)	Q4FY20A	Q4FY19	Change	FY20	FY19	Change	Q3FY20	Change
Net sales	716,543	732,513	-2%	2,877,324	2,972,149	-3%	746,597	-4%
Total expenditure	719,792	679,594	6%	2,820,701	2,856,668	-1%	726,430	-1%
EBDITA	-3,249	52,919	NM	56,622	115,482	-51%	20,166	NM
EBITDA margin	-0.5%	7.2%		2.0%	3.9%		2.7%	
Interest	3,506	2,025	73%	11,388.5	7,856	45%	2,666	32%
Depreciation	8,341	8,474	-2%	33,698.7	30,853	9%	8,808	-5%
Other Income	4,052	4,543	-11%	16,818.7	14,323	17%	3,853	5%
PBT	-11,045	46,962	NM	28,354	91,095	-69%	12,545	NM
Profit share of associate	-5,454	3,707	NM	-4,582	9,297	NM	1,660	NM
Tax	-10,771	17,269	NM	2,837	33,486	-92%	3,932	NM
Recurring PAT	-5,728	33,400	NM	20,935.4	66,906	-69%	10,272	NM
Add: Extraordinary items	5,452	0		5,452	0	NM	0	
Reported PAT	-276	33,400	NM	26,387	66,906	-61%	10,272	NM
Recurring EPS	(3.8)	21.9	NM	13.7	43.9	-69%	6.7	NM
Reported EPS	(0.2)	21.9	NM	17.3	43.9	-61%	6.7	NM

Source: Company data, I-Sec research

Financial summary

Table 4: Profit & loss statement
(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Op. Income (Sales)	29,72,050	28,77,324	14,18,475	14,59,141
Operating Expenses	28,56,379	28,20,701	13,07,243	13,41,766
EBITDA	1,15,671	56,622	1,11,232	1,17,375
% margins	3.9%	2.0%	7.8%	8.0%
Depreciation & Amortisation	-30,853	-33,699	-37,641	-40,341
Gross Interest	-7,856	-11,389	-12,945	-14,815
Other Income	14,133	16,819	15,902	15,902
Recurring PBT	91,095	33,806	76,548	78,121
Less: Taxes	-33,486	-2,837	-19,267	-19,663
Net Income (Reported)	66,906	26,387	67,721	69,738
Recurring Net Income	66,906	20,935	67,721	69,738

Source: Company data, I-Sec research

Table 5: Balance sheet
(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Assets				
Total Current Assets	3,93,059	3,73,947	2,38,210	2,56,975
of which cash & cash eqv.	2,185	2,231	11,964	1,294
Total Current Liabilities & Provisions	4,34,245	4,07,682	4,11,370	4,27,440
Net Current Assets	-41,185	-33,735	-1,73,160	-1,70,465
Investments	1,42,975	1,31,668	1,31,668	1,31,668
Net Fixed Assets	4,39,177	4,89,518	5,11,877	5,31,536
Capital Work-in-Progress	95,187	1,71,698	2,41,698	3,11,698
Total Assets	6,38,339	7,61,380	7,24,047	8,05,731
Liabilities				
Borrowings	2,60,365	3,93,858	3,12,858	3,48,858
Equity Share Capital	15,242	15,242	15,242	15,242
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus	2,88,765	2,94,564	3,38,232	3,83,916
Net Worth	3,04,007	3,09,807	3,53,474	3,99,158
Total Liabilities	6,38,339	7,61,380	7,24,047	8,05,731

Source: Company data, I-Sec research

Table 6: Quarterly trend
(Rs bn, year ending March 31)

	Jun'19	Sep'19	Dec'19	Mar'20
Net sales	748.1	664.6	745.8	715.5
% growth (YoY)	3	-9	-3	-2
EBITDA	16.4	23.2	18.9	-7.1
EBITDA Margin (%)	2.2	3.5	2.5	-1
Other income	6.2	4	4	4.2
Add: Extraordinaries	-	-	-	5.5
Net profit	8.1	10.5	7.5	-5.7

Source: Company data, I-Sec research

Table 7: Cashflow statement
(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Operating Cashflow	(43,134)	43,834	105,361	110,079
Working Capital Changes	(73,740)	7,450	(139,425)	2,695
Operating Cashflow	30,606	36,384	244,786	107,384
Capital Commitments	(84,605)	(126,510)	(130,000)	(130,000)
Cashflow from Investing Activities	(83,748)	(115,204)	(130,000)	(130,000)
Inc (Dec) in Borrowings	55,011	1,33,493	(81,000)	36,000
Dividend paid	27,318	10,309	24,053	24,053
Cashflow from Financing Activities	27,693	1,23,184	(105,053)	11,947
Chg. in Cash & Bank balances	(25,448)	44,364	9,733	(10,670)

Source: Company data, I-Sec research

Table 8: Key ratios
(Year ending March 31)

	FY19	FY20	FY21E	FY22E
Per Share Data (Rs)				
EPS (Basic Recurring)	43.9	13.7	44.4	45.8
Diluted Recurring EPS	43.9	13.7	44.4	45.8
Recurring Cash flow per share	(28.3)	28.8	69.1	72.2
Dividend per share (DPS)	15.9	6.0	14.0	14.0
Book Value per share (BV)	199.5	203.3	232.0	261.9
	81	16	20	159
Growth Ratios (%)				
Operating Income				
EBITDA	22%	-3%	-51%	3%
Recurring Net Income	17%	-51%	96%	6%
Diluted Recurring EPS	-7%	-69%	223%	3%
Cash flow per share	-7%	-69%	223%	3%
Valuation Ratios (x)				
P/E	4.8	15.3	4.7	4.6
P/CEPS	(7.4)	7.3	3.0	2.9
P/BV	1.1	1.0	0.9	0.8
EV / EBITDA	4.8	9.4	5.1	5.2
EV / Operating Income	4.8	9.4	5.1	5.2

Operating Ratios

Other Income / PBT (%)	15.5%	49.8%	20.8%	20.4%
Effective Tax Rate (%)	-36.8%	-8.4%	-25.2%	-25.2%
NWC / Total Assets (%)	-11.6%	1.0%	-19.3%	0.3%
D/E Ratio (%)	85.6%	127.1%	88.5%	87.4%

Return/Profitability Ratios (%)

Recurring Net Income Margins	2.3%	0.7%	4.8%	4.8%
RoCE	16.5%	3.6%	10.7%	10.9%
RoNW	23.9%	8.6%	20.4%	18.5%
Dividend Payout Ratio	42.1%	34.6%	37.2%	36.5%
Dividend Yield	7.6%	2.9%	6.7%	6.7%
EBITDA Margins	3.9%	2.0%	7.8%	8.0%

Source: Company data, I-Sec research

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