

Estimate change	↔
TP change	↔
Rating change	↔

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Bloomberg	HPCL IN
Equity Shares (m)	1,524
M.Cap.(INRb)/(USDb)	325.4 / 4.4
52-Week Range (INR)	329 / 155
1, 6, 12 Rel. Per (%)	-3/-4/-16
12M Avg Val (INR M)	1575

Financials & Valuations (INR b)

Y/E March	2020	2021E	2022E
Sales	2,691	1,956	2,479
EBITDA	56.6	125.5	121.9
Adj. PAT	36.4	73.0	69.8
Adj. EPS (INR)	23.9	47.9	45.8
EPS Gr. (%)	(45.6)	100.4	(4.4)
BV/Sh.(INR)	203.3	218.8	233.6

Ratios

Net D:E	0.8	0.9	1.2
RoE (%)	11.9	22.7	20.2
RoCE (%)	12.0	9.8	8.3
Payout (%)	79.8	67.6	67.6

Valuations

P/E (x)	9.0	4.5	4.7
P/BV (x)	1.1	1.0	0.9
EV/EBITDA (x)	12.7	6.2	7.2
Div. Yield (%)	4.6	12.6	12.0
FCF Yield (%)	(33.2)	(12.0)	(17.1)

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	51.1	51.1	51.1
DII	23.6	21.7	17.2
FII	16.1	17.7	19.6
Others	9.2	9.5	12.0

FII Includes depository receipts

CMP: INR214
TP: INR304 (+42%)
Buy

Poor refining margin leads miss; Marketing margins to normalize

- HPCL posted a miss on EBITDA, led by poor refining margin (core at -USD0.9/bbl); while refining throughput (4.0mmt), marketing sales (7.6mmt) and margin (INR8.2/liter) were in line with estimates.
- On an average, MS and HSD demand was ~63/66% of normal and LPG was ~114% of normal in the quarter for HPCL. Lubes were ~85% of normal for HPCL (i.e. 15% impact on volumes, while industry had ~30%).
- The company expects some more time before 100% demand is retained, with further pickup in demand from industrial and commercial space. The company foresees demand for MS to be 85-90% and HSD at 80-85% of normal in the near term. LPG demand though should remain strong.
- HPCL plans to maintain full utilization of its refineries (1QFY21 utilization rate was ~101%), leveraging its marketing business.
- Borrowings declined for the company to INR366b in Jun'20 (~INR260b long term and the rest in short-term debt), and it is further down to INR310b in Jul'20 (v/s INR430b at end-FY20).
- While HPCL's leverage to marketing remains the highest, it is the least preferred in our pecking list due to its high ongoing capex (INR115b for FY21), which would raise its net debt. Additionally, the Vizag expansion, involving a slurry hydrocracker, is expected to face challenges related to execution in FY22E, which could hamper its performance/profitability.

Poor refining margin leads to EBITDA miss

- Reported EBITDA stood at INR43.5b. Adjusting for inventory, EBITDA stood at INR37.2b (v/s est. -9%; INR19.9 in 1QFY20). The higher interest cost was offset by higher other income. Adj. PAT stood at INR28.1b (v/s est. -12%; INR8.1b in 1QFY20), with tax rate of 24.5%.
- Total inventory gain for the quarter stood at INR6.3b (refining at INR2.0b and marketing at INR4.3b), resulting in inventory gain of USD0.9/bbl (v/s est. USD2.5/bbl). Thus, core GRM came in at -USD0.9/bbl (v/s est. USD3/bbl; USD3.3 in 1QFY20).

Key operational performance

- Refining** – Reported GRM stood at USD0.04/bbl. Refining throughput (+1% YoY, -13% QoQ) stood at 4.0mmt (in-line). High sulphur crude processing decreased to 50% during 1QFY21 (v/s 58% in FY20), while distillates' yield remained unchanged at 74.8%.
- Marketing** – Sales and margin were in line: Marketing margin stood at INR8.2/liter (v/s INR3.8/liter in 1QFY20 and INR3.6/liter in 4QFY20). Marketing sales volumes stood at 7.6mmt (-25% YoY, -20% QoQ).

Management commentary highlights

- HPCL foresees marketing margins to normalize around current levels (as per our calculation MS-HSD margins at INR3.5-4.5/liter) and remain the same going ahead as well. While, refining is weak, margins should revive off the trough as activities across the globe pick up.

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- Brent prices have marginally picked up recently, though high crude oil inventories across the globe is likely to cap the spike in Brent prices. However, lower volatility in crude prices should help maintain normalized marketing margin and lesser vulnerabilities in inventory gain/loss.
- Our model was in line with the aforementioned developments and we have built in FY21 refining throughput at 17.1mmt (flat YoY) factoring in HPCL's sales/throughput of ~2.3x. Marketing sales volumes are built at ~4% lower YoY at 38mmt (v/s average 5% YoY volumes gain that we assume).
- On margins front, we have built in GRM of USD3.8/6/bbl and marketing margin of INR5.3/INR4.4/liter for FY21/22E.

Capex plan of INR115b for FY21

- Capex plans for FY21 projected at INR115b (v/s INR150b done last year) – Apr-Jul'20 saw spends of ~INR19b despite the lockdowns.
- As of today, most project sites are back to work, though returning of 100% workforce will take some time.
- HPCL is targeting completion of the Mumbai and Vizag expansions in 2021, followed by upgradation at Vizag in 2022 and Rajasthan (Barmer) refinery in 2023. The company expects all pipeline projects to be completed on time as well.

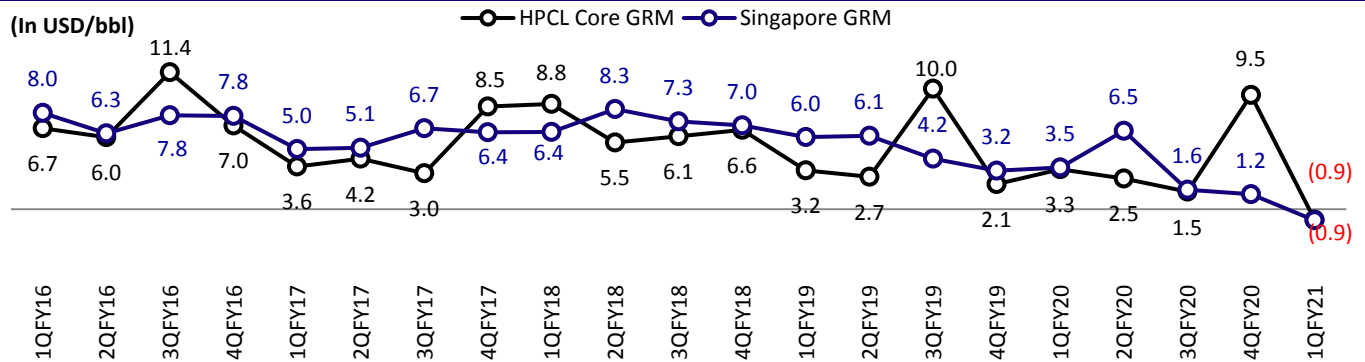
Valuation and View

- The company has reiterated that overall business is a function of both refining and marketing margins, which tends to normalize in the longer term (which is in line with our thesis and our model estimates).
- The stock trades at 4.7x FY22E EPS of INR45.8 and 0.9x FY21E BV of INR234. The company has made strong dividend payout of 80% in FY20, with dividend yield at 4.6%. However, owing to higher capex, FCF generation for the company is forecasted to remain negative.
- We value it at 1.3x FY22E PBV (20% discount to FY15-18 post the reform period, factoring in heavy capex and project execution risk), to arrive at a TP of INR304. Maintain **Buy**.

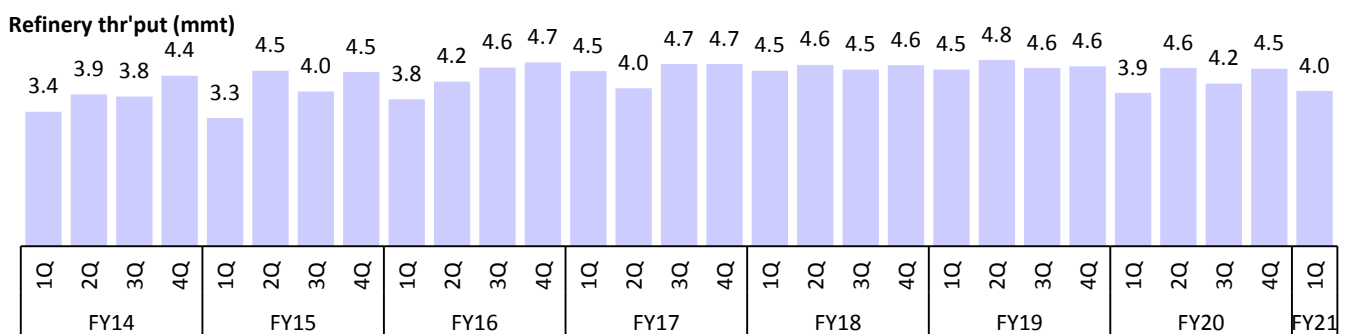
Standalone - Quarterly Earning Model

Y/E March	FY20				FY21				FY20	FY21E	FY21	Var. vs
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Net Sales	709.9	608.7	707.5	661.5	377.2	489.9	539.6	547.2	2,687.6	1,953.9	294.9	28%
YoY Change (%)	5.0	-9.8	-1.9	-2.6	-46.9	-19.5	-23.7	-17.3	-2.3	-27.3	-58.5	
Total Expenditure	695.4	584.2	687.1	660.9	333.7	463.8	511.9	519.5	2,627.6	1,828.9	245.1	180%
EBITDA	14.5	24.5	20.4	0.7	43.5	26.1	27.7	27.7	60.0	125.1	49.8	-13%
Margins (%)	2.0	4.0	2.9	0.1	11.5	5.3	5.1	5.1	2.2	6.4	16.9	
Depreciation	8.2	8.1	8.7	8.1	8.7	9.5	9.5	10.3	33.0	37.9	9.5	-9%
Forex loss	-1.9	1.2	1.7	7.7	0.0	0.0	0.0	0.0	8.7	0.0	0.1	
Interest	2.1	2.9	2.5	3.4	3.2	3.5	3.5	3.7	10.8	13.8	1.2	NM
Other Income	6.2	3.9	4.1	4.2	5.6	4.3	4.3	3.0	18.4	17.3	3.8	47%
PBT before EO expense	12.4	16.2	11.5	-14.3	37.3	17.5	19.1	16.7	25.8	90.6	42.9	-13%
Extra-Ord expense	0.0	0.0	0.0	10.0	0.0	0.0	0.0	0.0	10.0	0.0	0.0	
PBT	12.4	16.2	11.5	-24.3	37.3	17.5	19.1	16.7	15.7	90.6	42.9	-13%
Tax	4.3	5.6	4.0	-24.6	9.1	4.4	4.8	4.2	-10.6	22.6	10.8	-15%
Rate (%)	34.6	34.9	35.1	101.1	24.5	25.2	25.2	25.2	-67.7	24.9	25.2	
Adj PAT	8.1	10.5	7.5	10.3	28.1	13.1	14.3	12.5	36.4	68.0	32.1	-12%
YoY Change (%)	-52.8	-3.6	201.8	-65.3	247.0	24.3	90.8	21.6	-39.6	86.8	296.2	
Key Assumptions												
Refining throughput (mmt)	3.9	4.6	4.2	4.5	4.0	4.4	4.4	4.4	17.2	17.1	4.0	-1%
Core GRM (USD/bbl)	3.3	2.5	1.5	9.5	-0.9	5.0	5.0	5.0	4.2	3.5	3.0	NM
Marketing sales incl exports (mmt)	10.1	9.4	10.6	9.6	7.6	9.4	10.6	10.6	39.6	38.2	7.5	2%
Marketing GM incld inv (INR/litre)	3.8	4.5	4.1	3.6	8.2	4.4	4.3	4.4	4.0	5.3	8.2	0%

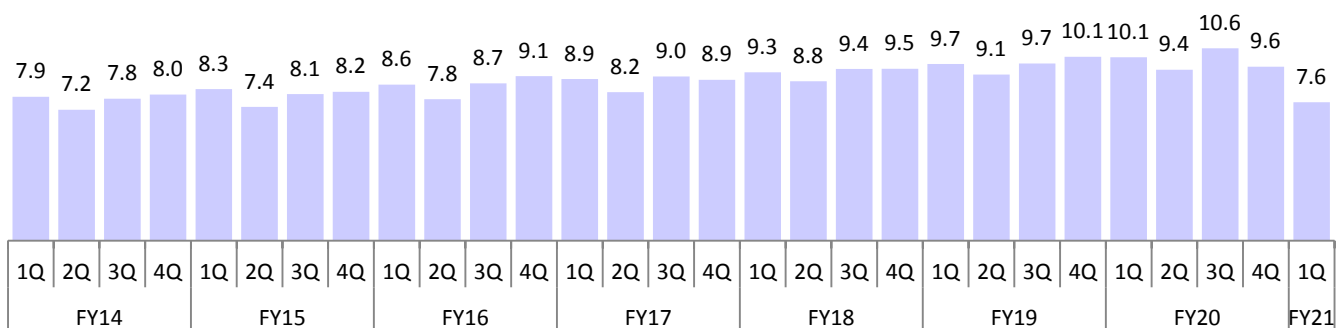
E: MOFSL Estimates

Exhibit 1: Core GRM at -USD0.9/bbl, in line with Singapore GRM at -USD0.9/bbl

Source: Company, MOFSL

Exhibit 2: Throughput at 4.0mmt, marginally up 1.3% YoY, down 12.6% QoQ

Source: Company, MOFSL

Exhibit 3: Marketing volume down 24.6% YoY and 20.5% QoQ (to 7.6mmt)

Source: Company, MOFSL

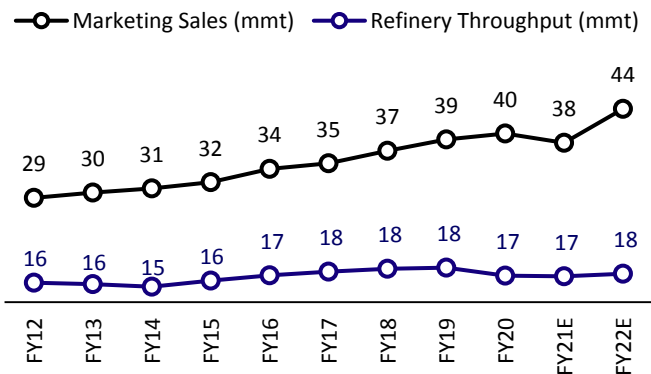
Exhibit 4: HPCL – key assumptions

Y End: March 31	2015	2016	2017	2018	2019	2020	2021E	2022E
Exchange Rate (INR/USD)	61.4	65.5	67.1	64.5	70.0	70.9	74.9	75.8
Brent Crude (USD/bbl)	85.5	47.3	48.6	57.6	70.1	61.2	40.4	50.0
Market Sales (MMT)	32	34	35	37	39	40	38	44
YoY (%)	3	7	3	6	5	2	(4)	14
GRM (USD/bbl)	2.8	6.7	6.2	7.4	5.0	1.0	3.8	6.0
Singapore GRM (USD/bbl)	6.4	7.5	5.8	7.3	4.9	3.2	3.5	6.0
Prem/(disc) (USD/bbl)	(4)	(1)	0	0	0	(2)	0.4	0.0
Total Refinery throughput (MMT)	16.2	17.2	17.8	18.3	18.4	17.2	17.1	17.5
YoY (%)	4%	6%	3%	3%	1%	-7%	0%	2%
Blended marketing margin incld inventory (INR/lit)	3.9	3.4	4.0	3.6	4.3	4.0	5.3	4.4
Cons EPS	9.8	30.7	54.0	47.4	43.9	23.9	47.9	45.8

Source: Company, MOFSL

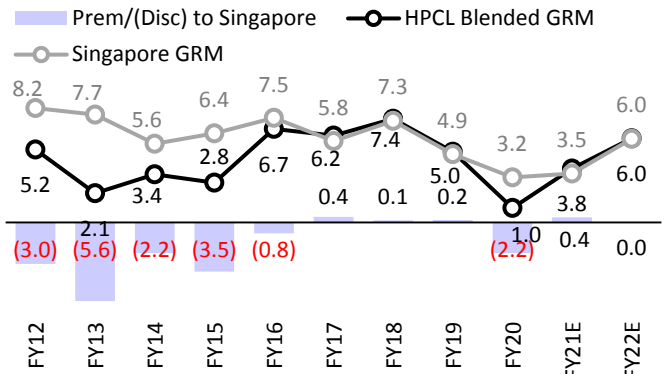
Story in charts

Exhibit 5: Refining throughput/marketing sales of HPCL



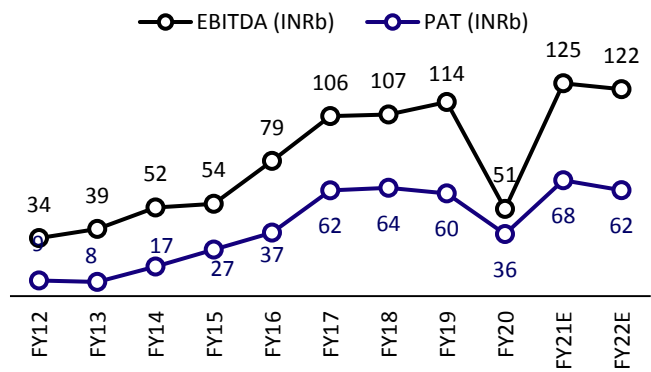
Source: Company, MOFSL

Exhibit 6: GRM trend of HPCL



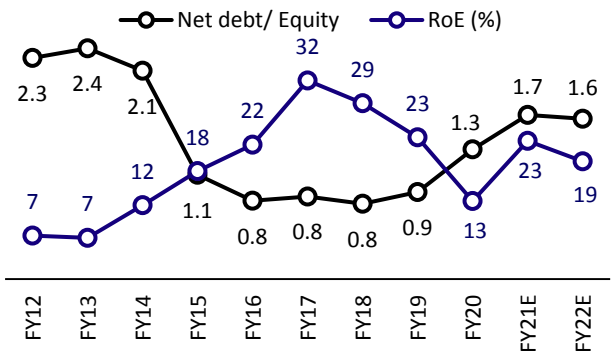
Source: Company, MOFSL

Exhibit 7: EBITDA v/s PAT (standalone)



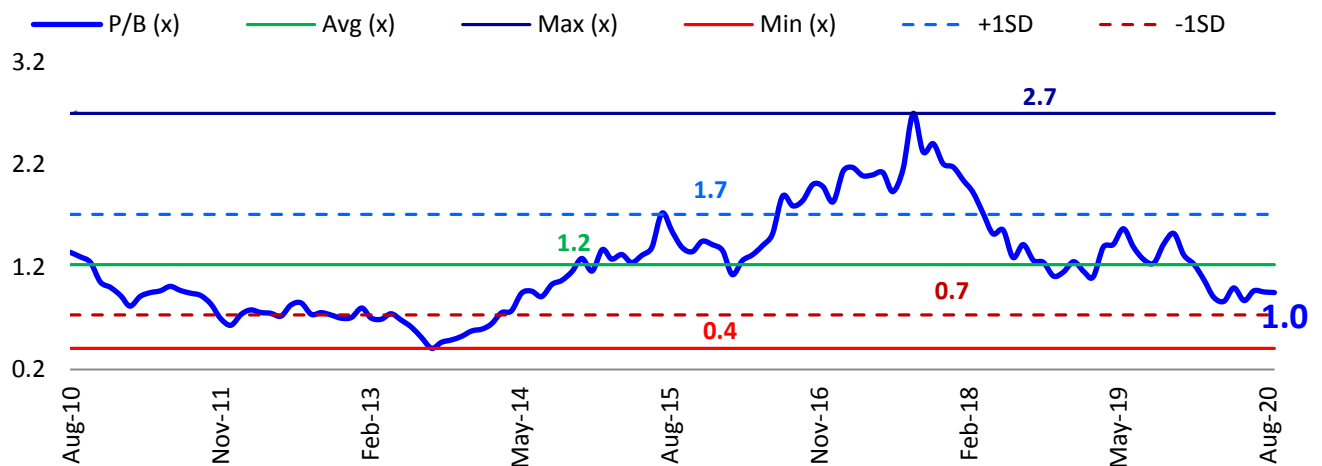
Source: Company, MOFSL

Exhibit 8: Standalone return ratios



Source: Company, MOFSL

Exhibit 9: HPCL – 1-year forward P/B trades at ~17% discount to its long-term average



Source: Company, MOFSL

Financials and Valuations

Consolidated - Income Statement							(INR Million)	
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Total Income from Operations	23,04,792	17,79,102	18,74,929	21,95,096	27,54,906	26,90,915	19,55,681	24,79,154
Change (%)	-6.3	-22.8	5.4	17.1	25.5	-2.3	-27.3	26.8
EBITDA	46,992	82,795	1,08,797	1,07,130	1,15,273	56,625	1,25,466	1,21,941
Margin (%)	2.0	4.7	5.8	4.9	4.2	2.1	6.4	4.9
Depreciation	24,967	28,461	27,764	28,344	30,853	33,699	40,252	46,608
EBIT	22,025	54,334	81,033	78,786	84,420	22,926	85,214	75,333
Int. and Finance Charges (incl'd forex)	18,412	7,232	6,092	6,179	7,856	11,389	18,677	22,800
Other Income	18,649	10,826	13,844	15,279	14,531	16,816	17,846	26,239
PBT bef. JVs/associates EO	22,263	57,928	88,784	87,886	91,095	28,354	84,383	78,772
EO Items	44	0	0	0	0	-10,029		
Minority Interest	97	9,423	23,190	13,216	9,297	-4,582	13,120	14,452
PBT after EO Exp.	22,404	67,351	1,11,974	1,01,101	1,00,392	13,743	97,503	93,224
Total Tax	7,418	20,604	29,616	28,919	33,486	-12,644	24,541	23,464
Tax Rate (%)	33.1	30.6	26.4	28.6	33.4	-92.0	25.2	25.2
Reported PAT	14,986	46,747	82,358	72,183	66,906	26,387	72,961	69,760
Adjusted PAT	14,942	46,747	82,358	72,183	66,906	36,417	72,961	69,760
Change (%)	32.3	212.9	76.2	-12.4	-7.3	-45.6	100.4	-4.4
Margin (%)	0.6	2.6	4.4	3.3	2.4	1.4	3.7	2.8

Consolidated - Balance Sheet							(INR Million)	
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Equity Share Capital	3,390	3,390	10,163	15,242	15,242	15,242	15,242	15,242
Total Reserves	1,35,854	1,63,248	2,00,552	2,40,082	2,88,765	2,94,564	3,18,216	3,40,830
Net Worth	1,39,244	1,66,638	2,10,714	2,55,324	3,04,007	3,09,806	3,33,458	3,56,072
Total Loans	3,69,156	2,21,602	1,80,322	2,05,354	2,60,365	3,93,858	5,40,000	6,00,000
Deferred Tax Liabilities	28,045	50,342	61,493	68,048	73,963	54,914	54,914	54,914
Capital Employed	5,37,588	4,38,582	4,52,529	5,28,726	6,38,334	7,58,578	9,28,373	10,10,987
Net Fixed Assets	4,53,066	3,36,617	3,68,596	3,86,785	4,16,248	4,89,351	5,68,799	6,22,191
Goodwill on Consolidation	1,186	167	167	167	167	167	167	167
Capital WIP	39,498	23,224	18,675	40,105	95,187	1,71,698	2,15,837	2,79,677
Total Investments	61,128	91,845	1,17,734	1,28,820	1,42,975	1,43,956	1,43,956	1,43,956
Curr. Assets, Loans&Adv.	3,02,569	2,43,677	2,83,590	3,22,457	3,95,477	3,36,823	3,58,038	3,60,486
Inventory	1,60,448	1,33,548	1,86,292	1,86,122	2,04,436	1,93,260	1,40,456	1,78,051
Account Receivables	40,707	37,763	40,917	55,870	56,678	39,342	28,593	36,246
Cash and Bank Balance	22,358	1,542	1,364	12,897	2,185	2,231	86,999	44,198
Loans and Advances	79,056	70,825	5,315	10,430	19,923	18,192	18,192	18,192
Others			49,702	57,138	1,12,255	83,798	83,798	83,798
Curr. Liability & Prov.	3,19,859	2,56,948	3,50,657	3,67,991	4,35,131	4,10,484	3,58,425	3,95,490
Account Payables	1,26,395	94,648	1,26,997	1,57,800	1,90,534	1,90,534	1,38,475	1,75,540
Other Current Liabilities	1,62,108	1,40,567	1,99,122	1,85,036	2,23,191	1,93,098	1,93,098	1,93,098
Provisions	31,357	21,733	24,539	25,155	21,406	26,852	26,852	26,852
Net Current Assets	-17,290	-13,271	-67,067	-45,534	-39,654	-73,661	-387	-35,004
Appl. of Funds	5,37,588	4,38,582	4,52,529	5,28,726	6,38,334	7,58,578	9,28,373	10,10,987

E: MOFSL Estimates

Financials and Valuations

Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Basic (INR)								
EPS	9.8	30.7	54.0	47.4	43.9	23.9	47.9	45.8
Cash EPS	26.2	49.3	72.2	66.0	64.1	46.0	74.3	76.3
BV/Share	91.4	109.3	138.2	167.5	199.5	203.3	218.8	233.6
DPS	5.4	9.6	22.8	17.0	15.9	9.8	27.0	25.8
Payout (%)	67.3	37.5	50.8	44.5	45.5	79.8	67.6	67.6
Valuation (x)								
P/E	21.8	7.0	4.0	4.5	4.9	9.0	4.5	4.7
Cash P/E	8.2	4.3	3.0	3.2	3.3	4.7	2.9	2.8
P/BV	2.3	2.0	1.5	1.3	1.1	1.1	1.0	0.9
EV/Sales	0.3	0.3	0.3	0.2	0.2	0.3	0.4	0.4
EV/EBITDA	14.3	6.6	4.6	4.8	5.1	12.7	6.2	7.2
Dividend Yield (%)	2.5	4.5	10.7	7.9	7.4	4.6	12.6	12.0
FCF per share	86.2	116.0	78.5	19.1	-18.6	-71.0	-25.7	-36.5
Return Ratios (%)								
RoE	10.7	30.6	43.7	31.0	23.9	11.9	22.7	20.2
RoCE	4.8	10.1	17.9	15.8	12.9	12.0	9.8	8.3
RoIC	3.2	10.2	18.7	17.0	15.1	10.5	13.8	11.0
Working Capital Ratios								
Fixed Asset Turnover (x)	3.4	4.9	4.4	4.7	5.2	4.2	2.6	2.9
Asset Turnover (x)	4.3	4.1	4.1	4.2	4.3	3.5	2.1	2.5
Inventory (Days)	25	27	36	31	27	26	26	26
Debtor (Days)	6	8	8	9	8	5	5	5
Creditor (Days)	20	19	25	26	25	26	26	26
Leverage Ratio (x)								
Current Ratio	0.9	0.9	0.8	0.9	0.9	0.8	1.0	0.9
Interest Cover Ratio	1.2	7.5	13.3	12.8	10.7	2.0	4.6	3.3
Net Debt/Equity	2.1	0.8	0.3	0.2	0.4	0.8	0.9	1.2

Consolidated - Cash Flow Statement

(INR Million)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
OP/(Loss) before Tax	22,404	67,351	1,11,974	1,01,101	1,00,392	13,743	97,503	93,224
Depreciation	24,967	28,461	27,764	28,344	30,853	33,699	40,252	46,608
Change in deferred tax liability	-5,377	22,298	11,151	6,556	5,914	-19,048	0	0
Direct Taxes Paid	-7,418	-20,604	-29,616	-28,919	-33,486	12,644	-24,541	-23,464
(Inc)/Dec in WC	1,63,127	-24,836	53,619	-10,000	-16,592	34,053	11,494	-8,184
CF from Operations	1,98,810	71,526	1,74,891	97,082	87,082	75,091	1,24,707	1,08,184
CF from Operating incl EO	1,97,791	72,545	1,74,891	97,082	87,082	75,091	1,24,707	1,08,184
(Inc)/Dec in FA	-66,475	1,04,262	-55,194	-67,963	-1,15,399	-1,83,312	-1,63,840	-1,63,840
Free Cash Flow	1,31,315	1,76,807	1,19,698	29,119	-28,317	-1,08,221	-39,133	-55,656
(Pur)/Sale of Investments	-4,220	-30,717	-25,889	-11,086	-14,155	-982	0	0
CF from Investments	-70,695	73,545	-95,507	-83,009	-1,34,581	-1,87,950	-1,36,772	-1,63,840
Inc/(Dec) in Debt	-1,10,797	-1,47,554	-41,280	25,032	55,011	1,33,493	1,46,143	60,000
Dividend Paid	-10,082	-17,525	-41,857	-32,118	-30,442	-21,068	-49,309	-47,145
CF from Fin. Activity	-1,26,526	-1,66,907	-79,562	-2,541	36,787	1,12,905	96,833	12,855
Inc/Dec of Cash	569	-20,817	-178	11,533	-10,711	46	84,768	-42,801
Opening Balance	21,789	22,358	1,542	1,364	12,897	2,185	2,231	86,999
Closing Balance	22,358	1,542	1,364	12,897	2,185	2,231	86,999	44,198

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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