

August 7, 2020

Q1FY21 Result Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	280		280	
Sales (Rs. m)	2,483,509	2,771,023	2,483,509	2,771,023
% Chng.	-	-	-	-
EBITDA (Rs. m)	127,209	132,782	127,209	132,782
% Chng.	-	-	-	-
EPS (Rs.)	41.9	40.9	41.9	40.9
% Chng.	-	-	-	-

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. bn)	2,688	1,994	2,484	2,771
EBITDA (Rs. bn)	51	97	127	133
Margin (%)	1.9	4.9	5.1	4.8
PAT (Rs. bn)	28	52	64	62
EPS (Rs.)	18.7	33.9	41.9	40.9
Gr. (%)	(52.8)	81.6	23.7	(2.5)
DPS (Rs.)	9.8	13.8	17.1	16.7
Yield (%)	4.6	6.5	8.0	7.8
RoE (%)	10.0	16.8	18.5	16.0
RoCE (%)	3.0	8.1	8.0	6.6
EV/Sales (x)	0.2	0.4	0.4	0.3
EV/EBITDA (x)	12.8	7.9	7.5	6.8
PE (x)	11.4	6.3	5.1	5.2
P/BV (x)	1.1	1.0	0.9	0.8

Key Data

HPCL.BO | HPCL IN

52-W High / Low	Rs.329 / Rs.150
Sensex / Nifty	38,041 / 11,214
Market Cap	Rs.325bn/ \$ 4,344m
Shares Outstanding	1,524m
3M Avg. Daily Value	Rs.3446.13m

Shareholding Pattern (%)

Promoter's	51.11
Foreign	16.07
Domestic Institution	23.61
Public & Others	9.21
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	1.2	(11.4)	(12.6)
Relative	(2.5)	(4.2)	(15.7)

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Marketing profits make up for weak refining performance

Quick Pointers:

- Core operational performance remains impressive
- HPCL with higher marketing share is best placed to benefit from benign crude oil prices.

We maintain our FY21/22 earnings estimates. During Q1FY21, core standalone EBIDTA adjusted for inventory gains was healthy at Rs37.2bn (+71% YoY) despite lower refining margins (\$0.04/bbl vs \$0.75/bbl in Q1FY20). Weak global demand and high inventory levels to likely keep crude oil prices range bound, thereby supporting marketing margins in medium term. Meanwhile GRMs will recover with pickup in economic activity and lower operating cost (due to soft spot LNG prices) will support refining earnings. HPCL remains one of our preferred pics in the oil and gas sector given high share of marketing. Maintain BUY with a PT of Rs280.

- Operationally strong results:** HPCL reported results in line with estimates with standalone EBITDA of Rs43.5bn (PLe Rs41.5bn) and PAT of Rs28.1bn (PLe Rs25.5bn). Q1 EBIDTA adjusted for inventory gains was at Rs37.2bn. Sharp lower other expenses at Rs25.7bn (-41%QoQ) also supported operating earnings.
- Refining margins were weak, in line with global trends:** HPCL's refining margins for Q1 came in at US\$0.04/bbl (Q4FY20 at -US\$1.2/bbl) and included inventory gains of US\$0.9/bbl. For Q1, refining throughput was lower at 3.97MTPA (4.54MTPA in Q4) due to pandemic related lockdown. GRMs are likely to remain under pressure due to **1)** weak demand in a Covid pandemic scenario **2)** new capacity addition.
- Marketing profitability drives earnings:** HPCL's core Q1 marketing EBIDTA was at Rs43.5bn against Rs25.7bn in Q4FY20. Profitability was supported by higher margins even as volumes were muted given pandemic related lockdown. For Q1, marketing margins were at Rs10,152/ton (Rs6,867/ton in Q4). HPCL's marketing volumes vis-à-vis the industry run rate were weak with HSD (-33.9% YoY vs -33.3% for industry) and MS (-37.0% YoY against industry rate of -35.9%YoY) respectively.
- Reiterate BUY:** HPCL remains one of our preferred pics in the oil and gas sector given higher share of marketing to refining- Q1 marketing sales were at 7.2MTPA vs refining volumes of ~4MTPA. Maintain BUY with a PT of Rs280.

Exhibit 1: Q1FY21 Result Overview (Rs mn)

Y/e March	Q1FY21	Q1FY20	YoY gr. (%)	Q4FY20	FY21E	FY20	YoY gr. (%)
Net sales	4,61,076	7,48,081	(38.4)	7,15,546	1,994,416	2,687,664	(25.8)
Inc/dec in stock	2,303	-749	NA	-6,862	-	-	NA
Raw material cons	68,013	1,45,702	(53.3)	1,47,762	4,74,551	5,93,322	25.0
Staff cost	8,643	8,125	6.4	8,382	32,254	31,935	(1.0)
Purchases	2,28,980	5,11,618	(55.2)	4,75,398	12,47,180	18,72,339	50.1
Duties	83,867	38,192	119.6	53,996	1,83,878	1,86,505	1.4
Other expenditure	25,733	28,754	(10.5)	43,936	1,43,686	1,38,833	(3.4)
Exp	-4,17,539	-7,31,642	NA	-7,22,611	20,81,548	28,22,935	35.6
Operating profit	43,536	16,439	164.8	-7,066	96,745	51,235	(47.0)
Interest	-3,217	-2,063	NA	-3,374	-10,570	-8,749	NA
Depreciation	-8,661	-8,151	NA	-8,114	-36,136	-33,044	NA
Other income	5,626	6,165	(8.7)	4,241	19,770	18,382	(7.0)
Profit before tax	37,284	12,390	200.9	-14,313	69,809	27,824	(60.1)
Current tax	-8,359	-3,363	NA	25,784	-13,962	-13,812	NA
Profit after current tax	28,925	9,028	220.4	11,471	55,847	41,635	(25.4)
Deferred tax	-787	-918	(14.3)	-1,174	-4,189	3,165	NA
Net profit	28,138	8,110	247.0	10,297	51,659	38,470	(25.5)
Exceptional	-	-	NA	-10,029	-	-10,029	NA
Reported PAT	28,138	8,110	247.0	268	51,659	28,441	(44.9)

Source: Company, PL

Exhibit 2: HPCL quarterly details

	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Total throughput	4.56	4.60	3.92	4.56	4.16	4.54	3.97
Market sales							
High sulphur crude as a % of total crude	62.80	60.40	67.00	54.80	55.80	55.50	50.00
Distillate yield (%)	76.90	75.90	70.00	75.40	76.70	75.00	74.80
Pipeline throughput (MMT)	5.22	5.61	5.34	5.05	5.09	5.72	3.54
Mkt sales (MMT)	9.44	10.03	10.09	9.4	9.76	9.25	7.24
GRMs (\$/bbl)	3.72	4.51	0.75	2.83	1.79	-1.23	0.04
Inventory gains (Marketing) (Rs m)	-19300	3440	-200	-130	2690	-15290	4,320
Inventory gains (Refining) (Rs m)	(15,350)	5,720	(5,160)	660	740	(25,840)	2,010
Total	(34,650)	9,160	(5,360)	530	3,430	(41,130)	6,330
Forex gains/losses (Rs m)	5,970.0	2,480.0	1,937.7	(1,220.0)	820.0	(9,750)	493
Inventory gains Refining/bbl	(6.3)	2.4	(2.6)	0.3	0.3	(10.7)	0.9

Source: Company, PL

Exhibit 3: EBITDA Breakup

	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
EBIDTA	9,632	51,662	16,439	23,189	18,633	(7,066)	43,536
Adj for forex	5,970	2,480		(1,142)		(9,750)	
Adj for inventory	(34,650)	9,160	(5,360)	530	3,430	(41,130)	6,330
Core EBIDTA	38,312	40,022	21,799	23,802	15,203	43,814	37,206
Marketing	34,167	34,030	24,296	21,849	14,986	25,769	43,523
Refining	4,145	5,992	(2,496)	1,953	217	18,045	(6,317)

Source: Company, PL

Conference Call Highlights:

- Debt as on July end stands at Rs310bn vs Rs430bn as on Q4 end.
- Government dues for LPG/Kerosene stands at Rs47bn as on July end vs Rs63bn as on Q4 end.
- Capex for FY21 will be at Rs115bn vs Rs150bn in FY20. The company spent Rs18.5bn over April-July20.
- Diesel demand in July was hit due to lower agri demand post onset of monsoon. It will pick up depending on industrial and construction activity.
- Consolidated results were impacted due to loss in Bhatinda and MRPL refinery as they had incurred inventory loss given that they are inland refineries.
- HPCL valued crude at USD40/bbl as on Q1 end while it was at USD30/bbl by Q4 end.

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	2,687,664	1,994,416	2,483,509	2,771,023
YoY gr. (%)	(2.3)	(25.8)	24.5	11.6
Cost of Goods Sold	2,465,661	1,721,731	2,167,468	2,435,446
Gross Profit	222,003	272,685	316,040	335,577
Margin (%)	8.3	13.7	12.7	12.1
Employee Cost	31,935	32,254	34,512	36,928
Other Expenses	138,833	143,686	154,320	165,868
EBITDA	51,235	96,745	127,209	132,782
YoY gr. (%)	(55.2)	88.8	31.5	4.4
Margin (%)	1.9	4.9	5.1	4.8
Depreciation and Amortization	33,044	36,136	52,435	62,785
EBIT	18,191	60,609	74,774	69,997
Margin (%)	0.7	3.0	3.0	2.5
Net Interest	8,749	10,570	10,559	10,701
Other Income	18,382	19,770	22,166	24,921
Profit Before Tax	17,794	69,809	86,381	84,217
Margin (%)	0.7	3.5	3.5	3.0
Total Tax	(10,647)	18,150	22,459	21,896
Effective tax rate (%)	(59.8)	26.0	26.0	26.0
Profit after tax	28,441	51,659	63,922	62,320
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	28,441	51,659	63,922	62,320
YoY gr. (%)	(52.8)	81.6	23.7	(2.5)
Margin (%)	1.1	2.6	2.6	2.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	28,441	51,659	63,922	62,320
YoY gr. (%)	-	-	-	-
Margin (%)	1.1	2.6	2.6	2.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	28,441	51,659	63,922	62,320
Equity Shares O/s (m)	1,524	1,524	1,524	1,524
EPS (Rs)	18.7	33.9	41.9	40.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	615,215	970,215	1,360,215	1,430,215
Tangibles	615,215	970,215	1,360,215	1,430,215
Intangibles	-	-	-	-
Acc: Dep / Amortization	137,746	173,882	226,316	289,101
Tangibles	137,746	173,882	226,316	289,101
Intangibles	-	-	-	-
Net fixed assets	477,469	796,333	1,133,899	1,141,114
Tangibles	477,469	796,333	1,133,899	1,141,114
Intangibles	-	-	-	-
Capital Work In Progress	171,437	171,437	80,000	80,000
Goodwill	5,435	5,435	5,435	5,435
Non-Current Investments	85,888	92,992	100,875	109,547
Net Deferred tax assets	(54,915)	(59,104)	(64,287)	(69,340)
Other Non-Current Assets	26,954	29,649	32,614	35,875
Current Assets				
Investments	53,449	58,793	64,673	71,140
Inventories	191,412	144,438	177,062	196,327
Trade receivables	39,227	29,730	36,391	40,320
Cash & Bank Balance	1,132	1,245	1,369	1,506
Other Current Assets	4,159	4,575	5,032	5,535
Total Assets	1,140,109	1,343,186	1,662,249	1,714,254
Equity				
Equity Share Capital	15,242	15,242	15,242	15,242
Other Equity	274,382	309,139	352,148	394,079
Total Networkth	289,624	324,381	367,390	409,321
Non-Current Liabilities				
Long Term borrowings	222,872	232,872	332,872	282,872
Provisions	502	552	607	668
Other non current liabilities	2,115	2,326	2,559	2,815
Current Liabilities				
ST Debt / Current of LT Debt	161,458	261,458	361,458	361,458
Trade payables	112,952	137,262	175,324	194,252
Other current liabilities	295,664	325,230	357,753	393,528
Total Equity & Liabilities	1,140,108	1,343,186	1,662,249	1,714,254

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	25,755	69,809	86,381	84,217
Add. Depreciation	33,044	36,136	52,435	62,785
Add. Interest	10,817	10,570	10,559	10,701
Less Financial Other Income	18,382	19,770	22,166	24,921
Add. Other	-	-	-	-
Op. profit before WC changes	69,617	116,515	149,375	157,703
Net Changes-WC	12,981	181,387	11,127	24,093
Direct tax	13,812	(13,962)	(17,276)	(16,843)
Net cash from Op. activities	96,410	283,940	143,226	164,952
Capital expenditures	(189,633)	(361,937)	(306,193)	(78,394)
Interest / Dividend Income	-	-	-	-
Others	2,681	(230)	(253)	(278)
Net Cash from Inv. activities	(186,952)	(362,167)	(306,446)	(78,672)
Issue of share cap. / premium	(13,776)	-	-	-
Debt changes	133,226	110,000	200,000	(50,000)
Dividend paid	(17,916)	(21,090)	(26,096)	(25,442)
Interest paid	(10,817)	(10,570)	(10,559)	(10,701)
Others	-	-	-	-
Net cash from Fin. activities	90,718	78,340	163,345	(86,144)
Net change in cash	175	114	124	137
Free Cash Flow	(93,223)	(77,997)	(162,967)	86,559

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Net Revenue	6,08,633	7,07,496	6,61,549	3,77,209
YoY gr. (%)	(9.9)	(1.9)	(2.6)	(46.9)
Raw Material Expenses	5,46,258	6,46,331	6,16,297	2,99,296
Gross Profit	62,375	61,165	45,252	77,913
Margin (%)	10.2	8.6	6.8	20.7
EBITDA	23,189	18,633	(7,066)	43,536
YoY gr. (%)	9.3	93.4	(113.7)	164.8
Margin (%)	3.8	2.6	(1.1)	11.5
Depreciation / Depletion	8,121	8,659	8,114	8,661
EBIT	15,068	9,974	(15,180)	34,875
Margin (%)	2.5	1.4	(2.3)	9.2
Net Interest	2,856	2,524	3,374	3,217
Other Income	3,957	4,058	4,241	5,626
Profit before Tax	16,170	11,508	(14,313)	37,284
Margin (%)	2.7	1.6	(2.2)	9.9
Total Tax	5,647	4,036	(24,611)	9,146
Effective tax rate (%)	34.9	35.1	171.9	24.5
Profit after Tax	10,523	7,472	10,297	28,138
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	10,523	7,472	268	28,138
YoY gr. (%)	(3.6)	201.9	(99.1)	247.0
Margin (%)	1.7	1.1	-	7.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	10,523	7,472	268	28,138
YoY gr. (%)	(3.6)	201.9	(99.1)	247.0
Margin (%)	1.7	1.1	-	7.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	10,523	7,472	268	28,138
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	-	-	-	-

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	18.7	33.9	41.9	40.9
CEPS	40.3	57.6	76.3	82.1
BVPS	190.0	212.8	241.0	268.5
FCF	(61.2)	(51.2)	(106.9)	56.8
DPS	9.8	13.8	17.1	16.7
Return Ratio(%)				
RoCE	3.0	8.1	8.0	6.6
ROIC	1.7	4.7	4.7	4.3
RoE	10.0	16.8	18.5	16.0
Balance Sheet				
Net Debt : Equity (x)	1.1	1.3	1.7	1.4
Net Working Capital (Days)	16	7	6	6
Valuation(x)				
PER	11.4	6.3	5.1	5.2
P/B	1.1	1.0	0.9	0.8
P/CEPS	5.3	3.7	2.8	2.6
EV/EBITDA	12.8	7.9	7.5	6.8
EV/Sales	0.2	0.4	0.4	0.3
Dividend Yield (%)	4.6	6.5	8.0	7.8

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Crude /bbl	61	45	55	60
US\$/Rs	71	74	77	79
GRM (US\$/bbl)	1	3	4	5
Refining volume (MTPA)	17	17	23	23

Source: Company Data, PL Research



Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Jul-20	BUY	280	211
2	17-Jun-20	BUY	280	214
3	08-Apr-20	BUY	280	200
4	06-Feb-20	BUY	295	237
5	03-Jan-20	BUY	354	264
6	07-Nov-19	BUY	354	310
7	03-Oct-19	BUY	434	323

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Accumulate	1,024	930
2	Bharat Petroleum Corporation	BUY	515	380
3	GAIL (India)	Accumulate	108	103
4	Hindustan Petroleum Corporation	BUY	280	211
5	Indian Oil Corporation	BUY	114	87
6	Indraprastha Gas	BUY	597	412
7	Mahanagar Gas	BUY	1,279	1,029
8	Manappuram Finance	BUY	1,279	994
9	NOCIL	BUY	96	98
10	Oil & Natural Gas Corporation	BUY	96	82
11	Oil India	Accumulate	117	99
12	Petronet LNG	BUY	384	261
13	Reliance Industries	BUY	2,170	2,102

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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