

Marketing segment lifts earnings...

Hindustan Petroleum Corporation's (HPCL) Q1FY21 results were above our estimates on the profitability mainly due to better marketing segment performance and inventory gains. Revenues fell 35.6% QoQ to ₹ 46107.6 crore due to sharp fall in product sales. On the refining front, core refining performance was weak as core GRMs came in at -US\$0.9/bbl. Reported GRMs were at zero as inventory gain of US\$0.9/bbl was reported. Marketing segment reported inventory gain of ₹ 432 crore. Hence, EBITDA came in at ₹ 4353.6 crore against estimate of ₹ 3832 crore. Reported PAT was at ₹ 2813.8 crore (our estimate: ₹ 2272.2 crore) against ₹ 26.8 crore in Q4FY20.

Marketing segment reports good performance

Global oil prices fell to multi-year lows in April due to a sharp reduction in demand. With increase in demand following a resumption of economic activities, oil prices recovered. Brent crude oil prices on a closing basis increased by US\$19.4/bbl QoQ to US\$40.9/bbl. HPCL reported marketing inventory gain of ₹ 432 crore. Core marketing margins were strong during the quarter as the company did not fully pass on low costs to the customers and increased petrol & diesel prices post excise duty hike. Marketing sales de-grew 26.3% YoY to 7.2 MMT due to lockdown. Going forward, considering localised lockdown in some parts, we expect marketing sales at 34.6 MMT & 42.2 MMT in FY21E and FY22E, respectively. Crude throughput in Q1FY21 was marginally higher YoY at 4 MMT in line with estimates. Going ahead, we estimate crude throughput of 17.1 MMT and 21.5 MMT for FY21E and FY22E, respectively, on account of increase in refining capacity.

Core GRMs weak

Reported GRMs during the quarter were at zero, lower than our estimate of US\$3.8/bbl. Core GRMs were weak at -US\$0.9/bbl while inventory loss was at US\$0.9/bbl. Benchmark Singapore GRMs are currently at very low levels and marginal recovery was witnessed recently. Improvement in petrol & diesel spreads will be important for stable GRMs. We estimate GRMs at US\$2.7/bbl and US\$3.5/bbl for FY21E and FY22E, respectively.

Valuations and Outlook

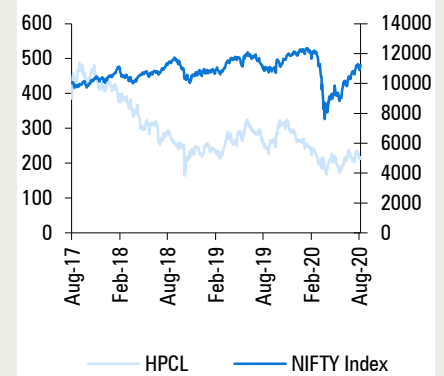
Marketing sales have improved from April lows but are still lower YoY. Fuel demand in July fell MoM due to localised lockdowns and monsoon. Post excise duty hike, HPCL has hiked retail prices by ~₹ 9-12/litre, which will result in steady marketing margins, going forward. However, we remain neutral on HPCL at the current juncture given the volatility in refining margins. We maintain **HOLD** rating on the stock with a target price of ₹ 220 (based on average of P/BV multiple: ₹ 247/share, P/E multiple: ₹ 192/share).

Particulars	
Particular	Amount
Market Capitalization (₹ Cr)	32,799.2
Total Debt (FY 19) (₹ Crore)	27,239.7
Cash and Investments (FY)	95.6
EV (₹ Crore)	59,943.3
52 week H/L	329/155
Equity capital (₹ Crore)	1,524.2
Face value (₹)	10.0

Key Highlights

- Results better than estimates on profitability front due to better marketing segment performance, inventory gains
- Marketing margins to remain steady in near term
- Maintain HOLD on stock with target price of ₹ 220/share

Price Chart



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Key Financial Summary

(Year-end March)	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY19-22E)
Revenues (₹ crore)	2,44,027.9	2,96,928.4	2,87,407.3	2,33,765.8	3,59,258.9	6.6
EBITDA (₹ crore)	10,614.7	11,442.0	5,123.2	10,496.8	9,213.5	(7.0)
Net Profit (₹ crore)	6,357.1	6,028.7	2,637.3	5,682.7	3,946.9	(13.2)
EPS (₹)	41.7	39.5	17.3	37.2	25.9	
P/E (x)	5.2	5.4	12.4	5.8	8.3	
Price / Book (x)	1.4	1.2	1.1	1.0	1.0	
EV/EBITDA (x)	5.0	5.2	13.3	6.6	7.1	
RoCE (%)	17.5	15.2	2.8	9.4	6.6	
RoE (%)	26.5	21.4	9.1	17.5	11.8	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q1FY21	Q1FY21E	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Comments
Total Revenues	46,107.6	40,567.4	74,808.1	-38.4	71554.56	-35.6	
Raw materials costs	29,929.6	27,606.7	65,657.1	-54.4	61,629.7	-51.4	
Employees Cost	864.3	828.8	812.5	6.4	838.2	3.1	
Other Expenses	10,960.0	8,300.0	6,694.6	63.7	9,793.2	11.9	
Total Expenditure	41,753.9	36,735.5	73,164.2	-42.9	72,261.1	-42.2	
EBITDA	4,353.6	3,832.0	1,643.9	164.8	-706.6	-716.2	Higher-than-expected due to better profits in marketing segment and inventory gains
EBITDA margins (%)	9.4	9.4	2.2	724 bps	-1.0	1043 bps	
Depreciation	866.1	922.9	815.1	6.3	811.4	6.7	
EBIT	3,487.5	2,909.0	828.9	320.8	-1,518.0	-329.8	
Interest	321.7	296.4	206.3	55.9	337.4	-4.7	
Other Income	562.6	425.0	616.5	-8.7	424.1	32.7	
Extra Ordinary Item	0.0	0.0	0.0	NA	-1,002.9	NA	
PBT	3,728.4	3,037.7	1,239.0	200.9	-2,434.3	-253.2	
Total Tax	914.6	765.5	428.1	113.6	-2,461.1	-137.2	
PAT	2,813.8	2,272.2	811.0	247.0	26.8	10,399.4	

Key Metrics							
Exchange rate (₹/\$)	75.9	75.9	69.6	9.1	72.5	4.7	
Throughput (mmt)	4.0	4.0	3.9	1.3	4.5	-12.6	
Sales (mmt)	7.2	7.2	9.8	-26.3	9.3	-21.7	In line with estimates
GRM (\$/barrel)	0.0	3.8	0.8	-94.7	-1.2	-103.3	Reported GRMs below estimates. Core GRMs at - US\$0.9/bbl

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	213767.7	233765.8	9.4	330570.8	359258.9	8.7	Increased estimates mainly due to higher excise duty on petrol & diesel
EBITDA	10090.1	10,496.8	4.0	9326.8	9,213.5	-1.2	On the back of better profitability in Q1FY21 in marketing segment
EBITDA Margin (%)	4.7	4.5	-23 bps	2.8	2.6	-26 bps	
PAT	5170.9	5,682.7	9.9	3956.8	3,946.9	-0.3	
EPS (₹)	33.9	37.2	9.9	25.9	25.9	-0.3	

Source: Company, ICICI Direct Research

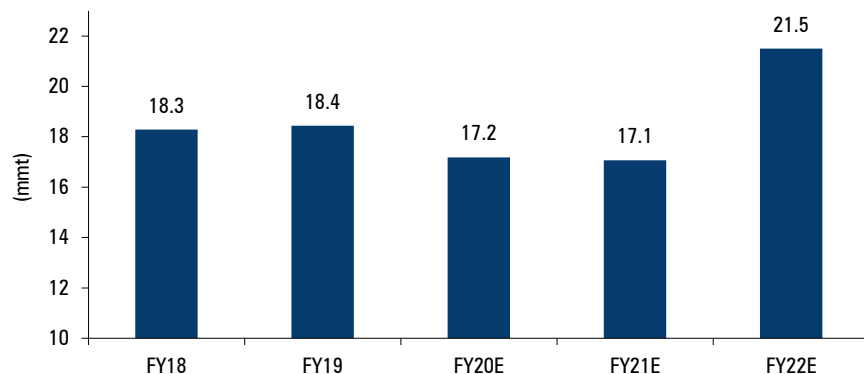
Exhibit 3: Assumptions

	Current				Earlier		Comments
	FY19E	FY20E	FY21E	FY22E	FY21E	FY22E	
Exchange rate (₹/\$)	69.9	70.9	75.2	75.0	75.2	75.0	
Throughput (mmt)	18.4	17.2	17.1	21.5	17.7	21.9	
Sales (mmt)	37.9	37.8	34.6	42.2	37.5	42.2	Lowered FY21E estimates on account of slower-than-expected recovery in volumes
GRM (\$/barrel)	5.0	1.0	2.7	3.5	3.6	3.5	

Source: Company, ICICI Direct Research

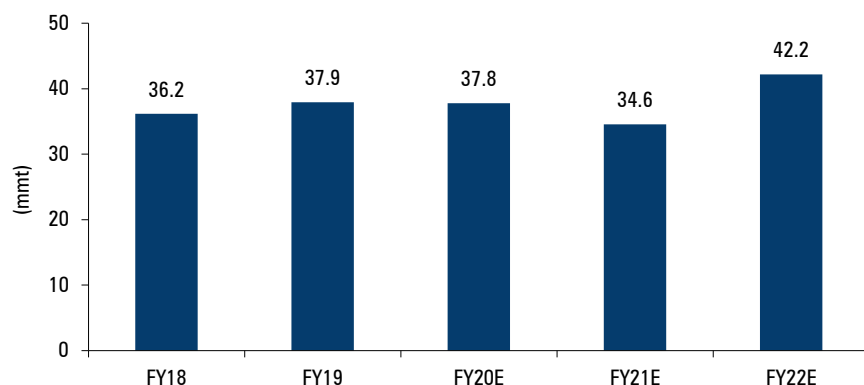
Story in charts

Exhibit 4: Oil throughput trend



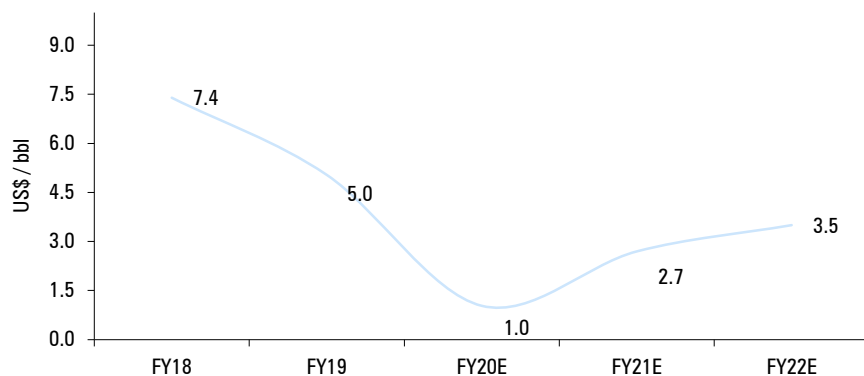
Source: Company, ICICI Direct Research

Exhibit 5: Marketing sales volume trend



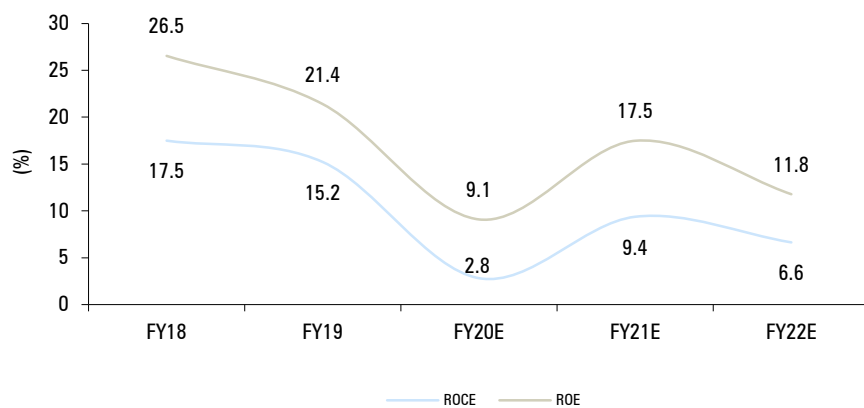
Source: Company, ICICI Direct Research

Exhibit 6: Refining margins trend



Source: Company, ICICI Direct Research

Exhibit 7: Return ratios



Source: Company, ICICI Direct Research

Exhibit 8: Shareholding Pattern

(in %)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoter	51.1	51.1	51.1	51.1	51.1
FII	19.6	18.3	19.2	17.7	16.1
DII	17.2	21.5	20.8	21.7	23.6
Others	12.0	9.1	8.9	9.5	9.2

Source: Company, ICICI Direct Research

Financial summary

Exhibit 9: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Revenue	296928.4	287407.3	233765.8	359258.9
Growth (%)	21.7	-3.2	-18.7	53.7
(Inc.)/(Dec.) in stock in tra	-2166.5	-418.5	230.3	0.0
Raw material Costs	69609.8	59734.5	38246.9	61740.2
Purchase of Products	180474.0	187205.1	136537.7	240692.2
Employee Costs	2938.5	3194.7	3294.1	3392.9
Other Expenditure	34630.6	32568.3	44960.0	44220.0
Op. Expenditure	285486.4	282284.1	223269.1	350045.4
EBITDA	11442.0	5123.2	10496.8	9213.5
Growth (%)	7.8	-55.2	104.9	-12.2
Depreciation	3012.6	3304.4	3634.9	4454.8
EBIT	8429.4	1818.8	6861.9	4758.7
Interest	725.9	1081.7	1210.8	1382.1
Other Income	1635.2	835.5	1912.6	1900.0
PBT	9338.7	1572.6	7563.7	5276.6
Growth (%)	1.5	-83.2	381.0	-30.2
Tax	3310.0	-1064.7	1881.1	1329.7
Reported PAT	6028.7	2637.3	5682.7	3946.9
Growth (%)	-5.2	-56.3	115.5	-30.5
EPS	39.5	17.3	37.2	25.9

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Source of Funds				
Equity Capital	1,524.2	1,524.2	1,524.2	1,524.2
Preference capital	0.0	0.0	0.0	0.0
Reserves & Surplus	26,650.6	27,497.6	30,976.9	31,986.0
Shareholder's Fund	28,174.8	29,021.8	32,501.1	33,510.2
Loan Funds	27,239.7	35,739.7	40,739.7	38,239.7
Deferred Tax Liability	7,164.8	4,491.5	5,091.5	5,691.5
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	62579.3	69253.1	78332.4	77441.4
Application of Funds				
Gross Block	51,589.0	56,439.0	63,289.0	80,889.0
Less: Acc. Depreciation	10,609.7	13,933.4	17,625.1	22,079.9
Net Block	40,979.3	42,505.6	45,663.9	58,809.1
Capital WIP	9,495.9	17,143.7	21,143.7	12,393.7
Total Fixed Assets	50,475.2	59,649.3	66,807.6	71,202.8
Investments	11,818.6	12,511.6	12,761.6	13,011.6
Inventories	20,193.4	19,141.2	16,011.4	24,606.8
Debtor	5,652.6	3,922.7	4,483.2	6,889.9
Cash	95.6	304.8	4,109.3	5,352.4
Loan & Advance, Other C	15515.4	12742.3	7992.3	7167.8
Total Current assets	41457.0	36111.0	32596.1	44016.8
Current Liabilities	38113.1	38583.4	31382.3	48229.3
Provisions	3058.5	435.3	2450.7	2560.5
Total CL and Provisions	41171.6	39018.8	33832.9	50789.8
Net Working Capital	285.4	-2907.8	-1236.9	-6773.0
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	62579.3	69253.1	78332.4	77441.4

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Profit after Tax	6,028.7	2,637.3	5,682.7	3,946.9
Add: Depreciation	3,012.6	3,304.4	3,634.9	4,454.8
Add: Others	595.6	-2,673.2	600.0	600.0
Cash Profit	7,983.5	1,478.2	7,714.1	6,063.9
Increase/(Decrease) in CI	5,872.6	-2,152.8	-5,185.8	16,956.9
(Increase)/Decrease in C/	-7,157.2	7,345.5	9,522.7	-7,239.8
CF from Operating Acti	5045.6	4880.6	9847.7	12843.1
Purchase of Fixed Assets	11,530.7	12,478.5	10,793.2	8,850.0
(Inc)/Dec in Investments	-713.5	-693.0	-250.0	-250.0
Others	0.0	0.0	0.0	0.0
CF from Investing Acti	-12244.2	-13171.4	-11043.2	-9100.0
Inc/(Dec) in Loan Funds	6,248.8	8,500.0	5,000.0	-2,500.0
Less: Dividend Paid	1,653.3	1,790.2	2,203.4	2,937.8
Inc/(Dec) in Sh. Cap. & Re	-148.9	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activ	4,446.6	6,709.8	2,796.6	-5,437.8
Change in cash Eq.	-1,098.7	209.2	3,804.4	1,243.1
Op. Cash and cash Eq.	1,194.3	95.6	304.8	4,109.3
Cl. Cash and cash Eq.	95.6	304.8	4,109.3	5,352.4

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Per share data (₹)				
Book Value	184.7	190.2	213.0	219.7
Cash per share	0.6	2.0	26.9	35.1
EPS	39.5	17.3	37.2	25.9
Cash EPS	59.3	38.9	61.1	55.1
DPS	9.0	9.8	12.0	16.0
Profitability & Operating Ratios				
EBITDA Margin (%)	3.9	1.8	4.5	2.6
PAT Margin (%)	2.0	0.9	2.4	1.1
Fixed Asset Turnover (x)	5.9	4.8	3.5	5.0
Inventory Turnover (Days)	24.8	25.0	25.0	25.0
Debtor (Days)	6.9	7.0	7.0	7.0
Current Liabilities (Days)	46.9	49.0	49.0	49.0
Return Ratios (%)				
RoE	21.4	9.1	17.5	11.8
RoCE	15.2	2.8	9.4	6.6
RoIC	16.7	3.1	10.7	7.8
Valuation Ratios (x)				
PE	5.4	12.4	5.8	8.3
Price to Book Value	1.2	1.1	1.0	1.0
EV/EBITDA	5.2	13.3	6.6	7.1
EV/Sales	0.2	0.2	0.3	0.2
Leverage & Solvency Ratios				
Debt to equity (x)	1.0	1.2	1.3	1.1
Interest Coverage (x)	11.6	1.7	5.7	3.4
Debt to EBITDA (x)	2.4	7.0	3.9	4.2
Current Ratio	1.0	0.9	1.0	0.9
Quick ratio	0.5	0.4	0.5	0.4

Source: Company, ICICI Direct Research

Exhibit 13: ICICI Direct Coverage Universe (Oil & Gas)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
BPCL (BHAPET)	408	350	Hold	67,267	13.6	30.3	29.9	29.9	13.5	13.6	16.8	10.8	10.1	4.2	8.8	8.7	7.5	15.5	14.6
GAIL (India) (GAIL)	93	100	Hold	41,944	14.7	8.9	9.4	6.3	10.4	9.9	5.3	7.8	7.5	12.6	7.2	7.4	14.0	8.2	8.4
Gujarat Gas (GUJGA)	304	350	Buy	20,927	17.3	14.0	18.4	17.5	21.6	16.5	13.4	12.5	9.8	26.7	26.0	30.2	36.4	23.2	24.1
HPCL (HINPET)	215	220	Hold	32,799	17.3	37.2	25.9	12.4	5.8	8.3	13.3	6.6	7.1	2.8	9.4	6.6	9.1	17.5	11.8
Indian Oil Corp (INDOIL)	87	90	Hold	79,875	1.4	9.9	11.7	60.8	8.8	7.5	4.3	3.3	3.0	4.9	7.6	8.8	1.3	8.5	10.1
Indraprastha Gas (INDGAS)	388	440	Hold	27,160	16.2	14.4	18.9	23.9	26.9	20.6	17.6	18.4	13.8	25.2	20.1	23.0	22.6	17.5	19.7
Mahanagar Gas (MAHGAS)	970	1145	Hold	9,581	80.3	54.1	87.4	12.1	17.9	11.1	8.5	11.4	6.8	32.0	20.5	29.2	28.5	17.6	23.9
ONGC (ONGC)	77	80	Hold	98,817	10.5	4.4	10.9	7.3	17.5	7.1	2.5	4.5	3.4	9.2	1.3	5.7	6.3	2.6	6.3
Petronet LNG (PETLNG)	246	295	Buy	36,900	18.0	15.9	19.6	13.7	15.5	12.5	9.2	8.7	7.2	22.2	23.0	29.0	25.5	22.6	27.1

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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