

Estimate change	↔
TP change	↔
Rating change	↔

Bloomberg	HPCL IN
Equity Shares (m)	1,524
M.Cap.(INRb)/(USD\$b)	312.8 / 3.8
52-Week Range (INR)	323 / 155
1, 6, 12 Rel. Per (%)	11/-36/-37
12M Avg Val (INR M)	1476

Financials & Valuations (INR b)

Y/E March	2020	2021E	2022E
Sales	2,691	1,954	2,424
EBITDA	56.6	128.6	112.0
Adj. PAT	36.4	67.8	58.2
Adj. EPS (INR)	23.9	44.5	38.2
EPS Gr. (%)	(45.6)	86.2	(14.1)
BV/Sh.(INR)	203.3	217.7	230.1

Ratios

Net D:E	0.8	0.9	1.2
RoE (%)	11.9	21.1	17.1
RoCE (%)	12.0	10.1	7.2
Payout (%)	79.8	67.6	67.6

Valuations

P/E (x)	8.6	4.6	5.4
P/BV (x)	1.0	0.9	0.9
EV/EBITDA (x)	12.4	6.0	7.8
Div. Yield (%)	4.8	12.2	10.5
FCF Yield (%)	(34.6)	(14.2)	(21.2)

Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	51.1	51.1	51.1
DII	22.3	23.6	21.5
FII	15.5	16.1	18.3
Others	11.1	9.2	9.1

FII Includes depository receipts

CMP: INR205
TP: INR308 (+50%)
Buy
Better margins lead beat; Value creation for investors proposed

- HPCL reported better-than-estimated EBITDA, driven by healthy margins (core GRM at USD2.7/bbl, marketing margin at INR6/lit) and sales volumes (8.4mmt). Refining throughput was in line with estimates (4.1mmt).
- MS and HSD demand for the company was +2.6/-4% YoY of the normal level in Sep'20, which further improved to +4.7/+11.5% YoY in Oct'20. Lubes saw 22.5% YoY growth in 2QFY21. HPCL's sales decline was 2% lower than peers due to better inventory and leverage on its marketing business.
- Borrowings remain similar to end-Mar'20 levels at INR346b (and INR320b excluding lease liability); receivables from the government stood ~INR40b.
- The board approved the proposal for a buyback, of up to 100m equity shares, i.e. ~6.56% of total paid-up equity share capital; the amount would not exceed INR25b, at a price not exceeding INR250/share.
- India is seeing significant increase in vehicular traffic movement, with gradual revival in domestic air travel as well. Currently, gross marketing margins for petrol and diesel are trending at INR5-6/liter (which is higher than the normative long-term average of INR3.6/liter). This would be most beneficial for HPCL as it continues to leverage its marketing business.

Better margins lead to beat on numbers...

- Reported EBITDA stood at INR36b (v/s est. +58%; +47% YoY, -17% QoQ).
- Forex gains stood at INR5.7b.
- Reported PAT stood at INR24.8b (v/s est. +83%; +135% YoY, -12% QoQ).
- For 1HFY21, EBITDA stood at INR79.6b (+95% YoY). Owing to higher forex gains during this period, the company reported PBT of INR70.2b (+146% YoY), with PAT of INR52.9b (+184% YoY) – tax rate of ~24.6%.

...with core GRM at USD2.7/bbl

- HPCL reported inventory gains of INR17.8b (refining at INR5.2b and marketing at INR12.6b). Refining gains translated to USD2.4/bbl.
- Refining:** Core GRM stood at USD2.7/bbl (v/s est. USD2/bbl; USD2.5 in 2QFY20, -USD0.9/bbl in 1QFY21). HPCL reported GRM of USD5.1/bbl, while refining throughput was in line with est. of 4.1mmt (-11% YoY).
- Refining margin was better for the company owing to improvement in lubes and FO cracks during the quarter.
- Marketing:** Margin stood at INR6/liter (v/s est. INR5.5/liter); marketing sales volumes were 6% higher than est. at 8.4mmt (-10% YoY, +11% QoQ).
- EBITDA was higher YoY in 1HFY21, led by better average marketing margins at INR7.1/liter in 1HFY21 (v/s INR4.1/liter in 1HFY20). Reported GRM stood at USD2.6/bbl in 1HFY21 (v/s USD1.9/bbl in 1HFY20). Volumes were impacted by COVID; thus, marketing sales volumes were 18% lower YoY at 16mmt and refining throughput was 5% lower YoY at 8mmt.

Outlook – from management commentary

- HPCL believes that the current weak refining margins should revive off the trough as activities across the globe pick up and inventories draw down.

Swarnendu Bhushan - Research Analyst (Swarnendu.Bhushan@MotilalOswal.com)

Sarfraz Bhimani - Research Analyst (Sarfraz.Bhimani@MotilalOswal.com)

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- The company believes crude prices should hover around similar levels as there is surplus inventory in the market, while OPEC is discussing additional moderation of cuts by 2mnbopd starting Jan'21. Also, Europe is going into further extension of lockdowns.
- Thus, lower volatility in crude prices should help maintain normalized marketing margin and lesser vulnerabilities in inventory gain/loss.
- The company is working on petchem integration projects, thus, totaling it to ~6.2mmt (~15% of total refining capacity) over the next 3-4 years:
 - Additional cracker (already under construction) at HMEL, which will have expanded capacity of ~2.7mmt.
 - Rajasthan refinery to have 2.2mmt of petchem capacity.
 - Vizag has captive propylene manufacturing unit and company plans on setting up propylene unit at Mumbai and further expansion at Vizag.
 - OMPL and MRPL combined should have another 1.2-1.4mmt of capacity.

Capex plan of INR115b for FY21 (incurred ~INR49b till date)

- HPCL expects ongoing projects to be completed as per following timelines:
 - Mumbai refinery expansion to be completed by 2QFY22E (~80% of capex and ~92% of physical progress is completed).
 - Vizag refinery to be completed by 3QFY22E (~50% of capex and ~70% of physical progress is completed).
 - Further, bottom upgradation unit at Vizag to be completed in 3QFY23E.
 - Rajasthan refinery to be completed in CY23E.
- HPCL commissioned ~895 new retail outlets (ROs) in 1HFY21 and plans to add another ~900 ROs by end-FY21. Currently, the company has 17,000 ROs across the country with plans to add ~5,000 ROs over the next three years. All new outlets have at least one additional fuel option (CNG or EV).
- HPCL has ~575 ROs selling CNG currently and is planning to set up ~11 LNG stations (has allocated ~INR1b for setting up a LNG corridor).
- HPCL is setting up ~5mmt of LNG gasification terminal (in JV), along with two new cross-country pipelines and has ~20 CGD geographical areas (GAs).

Valuation and View

- We believe the overall business of an OMC 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).
- As per our calculations, HPCL requires ~INR0.3/liter of incremental marketing margin to offset USD1/bbl of refining margin. Currently, gross marketing margin for petrol and diesel trend at INR5-6/liter (which is higher than the normative long-term average of INR3/liter).
- The stock trades at 5.4x FY22E EPS of INR38.2 and 0.9x FY21E BV of INR230.
- The company has made strong dividend payout of 80% in FY20, with dividend yield at 4.8%. Despite announcing a buyback plan, the company reiterated that it would continue with its dividend policy for the year, although the payout can be altered in considering the announcement of buyback.
- We value it at 1.3x (20% discount to FY15-18 post the reform period, factoring in the heavy capex and slurry hydrocracker's project execution risk at Vizag) Sep'22E PBV to arrive at a TP of INR308. Maintain Buy.

Standalone - Quarterly Earning Model

(INR Billion)

Y/E March	FY20				FY21				FY20	FY21E	FY21	Var. vs est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Net Sales	709.9	608.7	707.5	661.5	377.2	517.7	528.6	528.4	2,687.6	1,951.9	563.7	-8%
YoY Change (%)	5.0	-9.8	-1.9	-2.6	-46.9	-14.9	-25.3	-20.1	-2.3	-27.4	-7.4	
EBITDA	16.4	24.5	20.4	0.7	43.5	36.0	25.3	23.3	61.9	128.2	22.8	58%
Margins (%)	2.3	4.0	2.9	0.1	11.5	7.0	4.8	4.4	2.3	6.6	4.0	
Depreciation	8.2	8.1	8.7	8.1	8.7	8.7	9.5	11.1	33.0	37.9	9.5	-8%
Forex loss	-1.9	1.2	1.7	7.7	0.0	-5.7	0.0	0.0	8.7	-5.7	-3.9	
Interest	2.1	2.9	2.5	3.4	3.2	2.6	3.5	4.6	10.8	13.8	3.5	-25%
Other Income	4.2	3.9	4.1	4.2	5.6	2.4	4.1	4.0	16.4	16.1	4.3	-43%
PBT before EO expense	12.4	16.2	11.5	-14.3	37.3	32.9	16.4	11.7	25.8	98.3	18.1	82%
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	32.9	16.4	11.7	15.7	98.3	18.1	82%
Tax	4.3	5.6	4.0	-24.6	9.1	8.1	4.1	2.9	-10.6	24.4	4.5	79%
Rate (%)	34.6	34.9	35.1	101.1	24.5	24.7	25.2	25.2	-67.7	24.8	25.2	
Adj PAT	8.1	10.5	7.5	10.3	28.1	24.8	12.3	8.7	36.4	73.9	13.5	83%
YoY Change (%)	-52.8	-3.6	201.8	-65.3	247.0	135.4	64.6	-15.2	-39.6	103.1	28.5	
Key Assumptions												
Refining throughput (mmt)	3.9	4.6	4.2	4.5	4.0	4.1	4.4	4.4	17.2	16.8	4.0	1%
Core GRM (USD/bbl)	3.3	2.5	1.5	9.5	-0.9	2.7	4.0	4.0	4.2	2.5	2.0	37%
Marketing sales incl exports (mmt)	10.1	9.4	10.6	9.6	7.6	8.4	10.6	10.6	39.6	37.2	8.0	6%
Marketing GM incl inv (INR/litre)	3.8	4.5	4.1	3.6	8.2	6.0	4.3	4.5	4.0	5.7	5.5	9%

E: MOSL Estimates

Exhibit 1: HPCL – Buy back annexure

Annexure – B

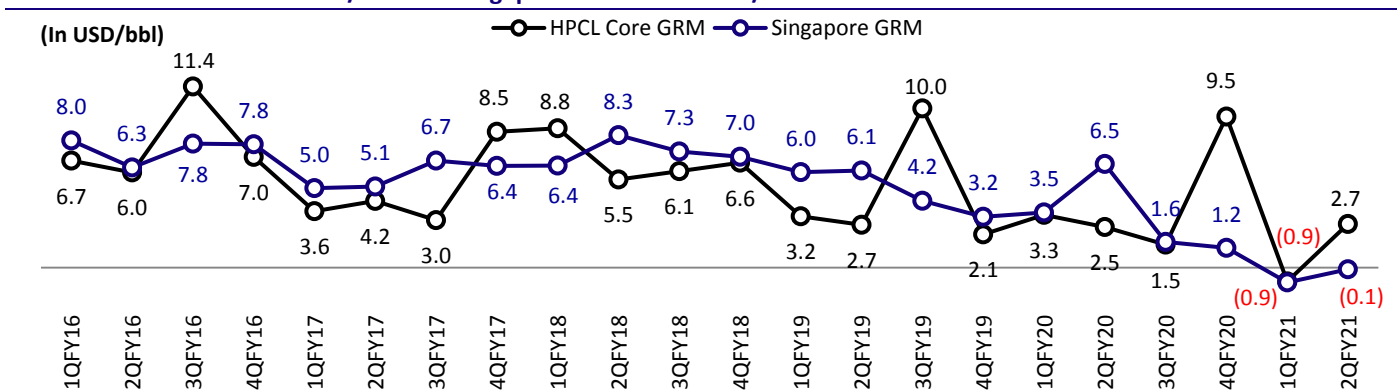
The shareholding pattern of the Company as on October 30, 2020 ("Pre-Buyback") and the shareholding pattern of the Company post the completion of the Buyback ("Post-Buyback") is as follows:

Shareholder	Pre-Buyback		Post-Buyback [#]	
	No. of Equity Shares	% of Equity Shares	No. of Equity Shares	% of Equity Shares
(A) Promoter and Promoter Group	77,88,45,375	51.11	77,88,45,375	54.70
(B) Public	74,49,77,250	48.89	64,49,77,250	45.30
(C1) Shares underlying DRs	-	-	-	-
(C2) Shares held by Employee Trust	-	-	-	-
(C) Non-Promoter -Non-Public (C=C1+C2)	-	-	-	-
Grand Total (A+B+C)	152,38,22,625	100.00	142,38,22,625	100.00

[#]Assuming that the indicative Maximum Buyback Shares are bought back. However, the shareholding post completion of the Buyback, may differ depending upon the actual number of Equity Shares bought back in the Buyback.

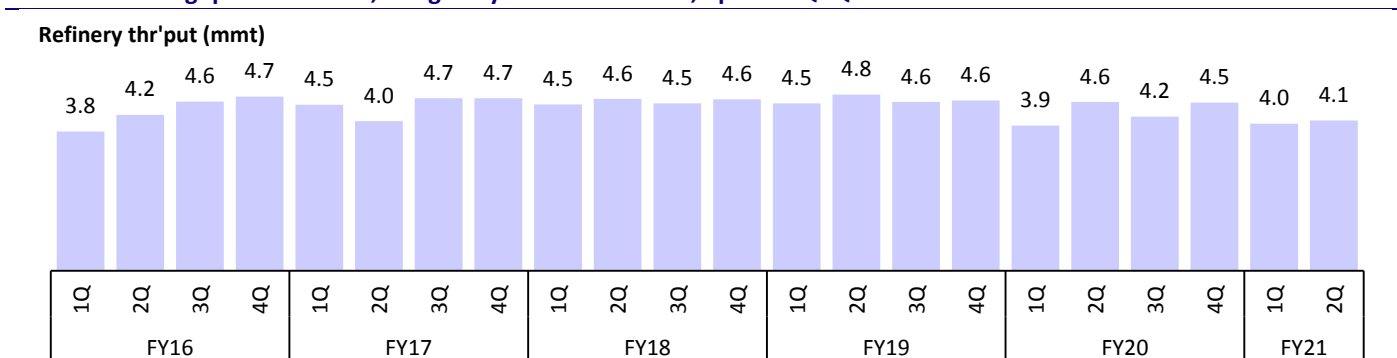
Source: Company, MOFSL

Exhibit 2: Core GRM at USD2.7/bbl with Singapore GRM at -USD0.1/bbl



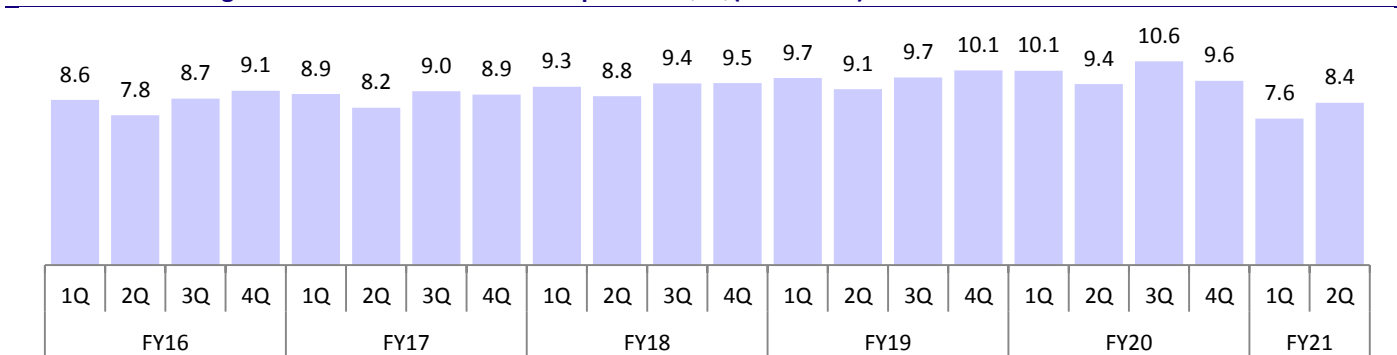
Source: Company, MOFSL

Exhibit 3: Throughput at 4.1mmt, marginally down 11.3% YoY, up 2.3% QoQ



Source: Company, MOFSL

Exhibit 4: Marketing volume down 10.3% YoY and up 10.8% QoQ (to 8.4mmt)



Source: Company, MOFSL

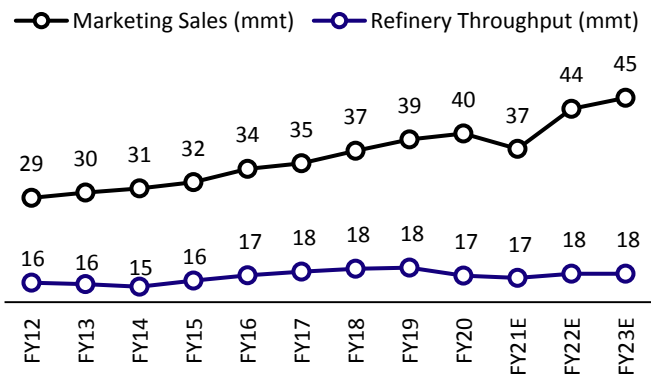
Exhibit 5: HPCL – key assumptions

Y End: March 31	2016	2017	2018	2019	2020	2021E	2022E	2023E
Exchange Rate (INR/USD)	65.5	67.1	64.5	70.0	70.9	74.6	75.3	75.3
Brent Crude (USD/bbl)	47.3	48.6	57.6	70.1	61.2	40.6	50.0	50.0
Market Sales (MMT)	34	35	37	39	40	37	44	45
YoY (%)	7	3	6	5	2	(6)	17	4
GRM (USD/bbl)	6.7	6.2	7.4	5.0	1.0	3.3	5.0	6.0
Singapore GRM (USD/bbl)	7.5	5.8	7.3	4.9	3.2	1.7	5.0	6.0
Total Refinery throughput (MMT)	17.2	17.8	18.3	18.4	17.2	16.8	17.5	17.5
YoY (%)	6%	3%	3%	1%	-7%	-2%	4%	0%
Blended marketing margin incld inventory (INR/lit)	3.4	4.0	3.6	4.3	4.0	5.7	4.4	4.4
Cons EPS	30.7	54.0	47.4	43.9	23.9	44.5	38.2	41.9

Source: Company, MOFSL

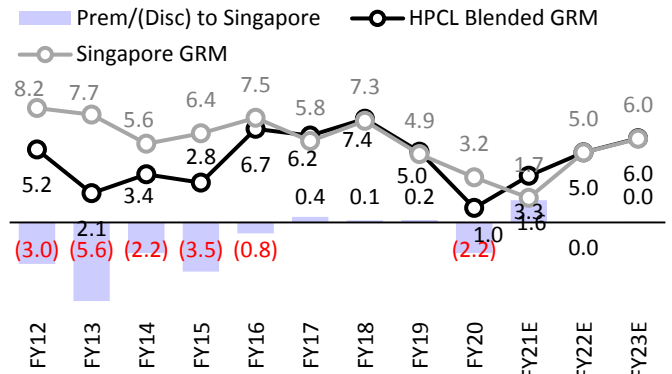
Story in charts

Exhibit 6: Refining throughput/marketing sales of HPCL



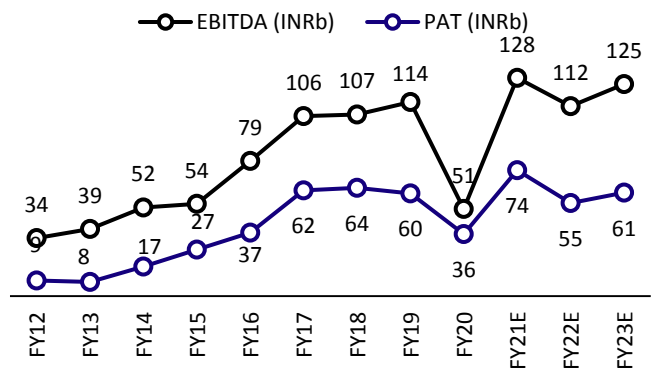
Source: Company, MOFSL

Exhibit 7: GRM trend of HPCL



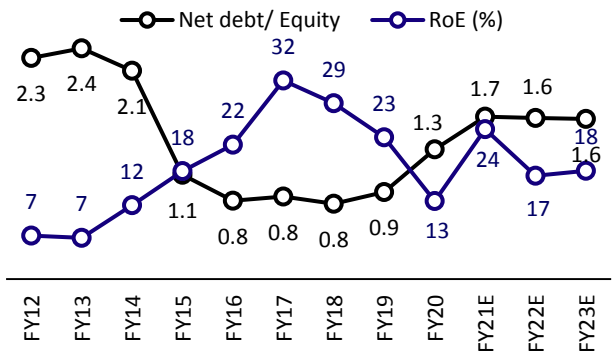
Source: Company, MOFSL

Exhibit 8: EBITDA v/s PAT (standalone)



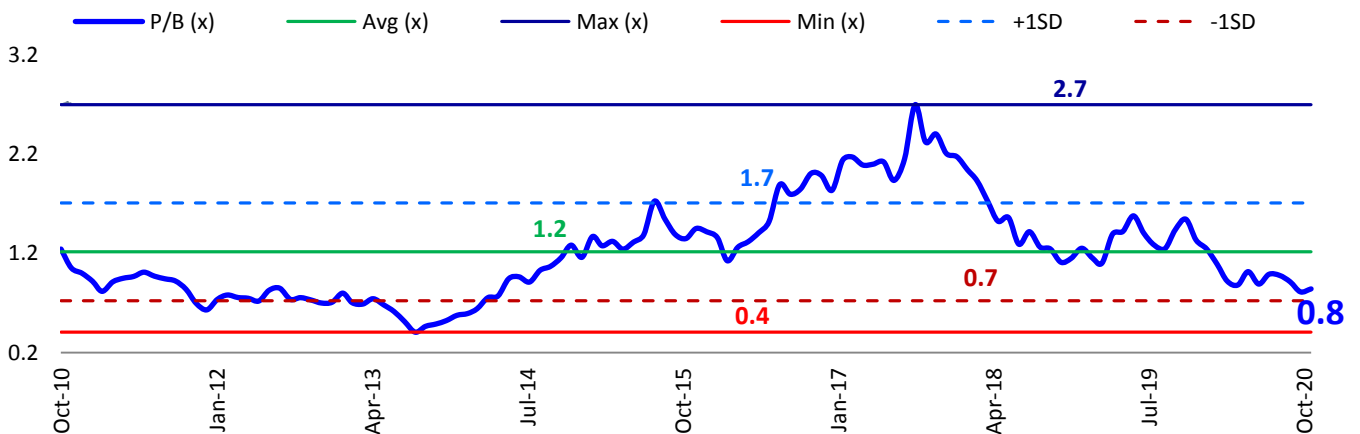
Source: Company, MOFSL

Exhibit 9: Standalone return ratios



Source: Company, MOFSL

Exhibit 10: HPCL – 1-year forward P/B trades at ~33% discount to its long-term average



Source: Company, MOFSL

Financials and Valuations

Consolidated - Income Statement

(INR M)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Total Income from Operations	17,79,102	18,74,929	21,95,096	27,54,906	26,90,915	19,53,697	24,24,222	25,03,421
Change (%)	-22.8	5.4	17.1	25.5	-2.3	-27.4	24.1	3.3
EBITDA	82,795	1,08,797	1,07,130	1,15,273	56,625	1,28,647	1,11,985	1,24,994
Margin (%)	4.7	5.8	4.9	4.2	2.1	6.6	4.6	5.0
Depreciation	28,461	27,764	28,344	30,853	33,699	40,252	46,608	52,387
EBIT	54,334	81,033	78,786	84,420	22,926	88,395	65,377	72,608
Int. and Finance Charges (incld forex)	7,232	6,092	6,179	7,856	11,389	18,677	22,800	26,000
Other Income	10,826	13,844	15,279	14,531	16,816	17,517	21,876	24,013
PBT bef. JVs/associates EO	57,928	88,784	87,886	91,095	28,354	87,235	64,452	70,621
EO Items	0	0	0	0	-10,029			
Minority Interest	9,423	23,190	13,216	9,297	-4,582	3,361	13,383	14,771
PBT after EO Exp.	67,351	1,11,974	1,01,101	1,00,392	13,743	90,596	77,836	85,391
Total Tax	20,604	29,616	28,919	33,486	-12,644	22,803	19,591	21,493
Tax Rate (%)	30.6	26.4	28.6	33.4	-92.0	25.2	25.2	25.2
Reported PAT	46,747	82,358	72,183	66,906	26,387	67,793	58,244	63,898
Adjusted PAT	46,747	82,358	72,183	66,906	36,417	67,793	58,244	63,898
Change (%)	212.9	76.2	-12.4	-7.3	-45.6	86.2	-14.1	9.7
Margin (%)	2.6	4.4	3.3	2.4	1.4	3.5	2.4	2.6

Consolidated - Balance Sheet

(INR M)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Equity Share Capital	3,390	10,163	15,242	15,242	15,242	15,242	15,242	15,242
Total Reserves	1,63,248	2,00,552	2,40,082	2,88,765	2,94,564	3,16,541	3,35,422	3,56,136
Net Worth	1,66,638	2,10,714	2,55,324	3,04,007	3,09,806	3,31,783	3,50,664	3,71,378
Total Loans	2,21,602	1,80,322	2,05,354	2,60,365	3,93,858	5,40,000	6,00,000	7,00,000
Deferred Tax Liabilities	50,342	61,493	68,048	73,963	54,914	54,914	54,914	54,914
Capital Employed	4,38,582	4,52,529	5,28,726	6,38,334	7,58,578	9,26,697	10,05,579	11,26,293
Net Fixed Assets	3,36,617	3,68,596	3,86,785	4,16,248	4,89,351	5,68,799	6,22,191	6,69,804
Capital WIP	23,224	18,675	40,105	95,187	1,71,698	2,15,837	2,79,677	3,43,517
Total Investments	91,845	1,17,734	1,28,820	1,42,975	1,43,956	1,43,956	1,43,956	1,43,956
Curr. Assets, Loans&Adv.	2,43,677	2,83,590	3,22,457	3,95,477	3,36,823	3,56,222	3,51,188	3,66,057
Inventory	1,33,548	1,86,292	1,86,122	2,04,436	1,93,260	1,40,313	1,74,106	1,79,794
Account Receivables	37,763	40,917	55,870	56,678	39,342	28,564	35,443	36,601
Cash and Bank Balance	1,542	1,364	12,897	2,185	2,231	85,355	39,649	47,672
Loans and Advances	70,825	5,315	10,430	19,923	18,192	18,192	18,192	18,192
Curr. Liability & Prov.	2,56,948	3,50,657	3,67,991	4,35,131	4,10,484	3,58,284	3,91,600	3,97,208
Account Payables	94,648	1,26,997	1,57,800	1,90,534	1,90,534	1,38,334	1,71,650	1,77,258
Other Current Liabilities	1,40,567	1,99,122	1,85,036	2,23,191	1,93,098	1,93,098	1,93,098	1,93,098
Provisions	21,733	24,539	25,155	21,406	26,852	26,852	26,852	26,852
Net Current Assets	-13,271	-67,067	-45,534	-39,654	-73,661	-2,062	-40,413	-31,152
Appl. of Funds	4,38,582	4,52,529	5,28,726	6,38,334	7,58,578	9,26,697	10,05,579	11,26,293

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Basic (INR)								
EPS	30.7	54.0	47.4	43.9	23.9	44.5	38.2	41.9
Cash EPS	49.3	72.2	66.0	64.1	46.0	70.9	68.8	76.3
BV/Share	109.3	138.2	167.5	199.5	203.3	217.7	230.1	243.7
DPS	9.6	22.8	17.0	15.9	9.8	25.0	21.5	23.6
Payout (%)	37.5	50.8	44.5	45.5	79.8	67.6	67.6	67.6
Valuation (x)								
P/E	6.7	3.8	4.3	4.7	8.6	4.6	5.4	4.9
Cash P/E	4.2	2.8	3.1	3.2	4.5	2.9	3.0	2.7
P/BV	1.9	1.5	1.2	1.0	1.0	0.9	0.9	0.8
EV/Sales	0.3	0.3	0.2	0.2	0.3	0.4	0.4	0.4
EV/EBITDA	6.4	4.5	4.7	5.0	12.4	6.0	7.8	7.7
Dividend Yield (%)	4.7	11.1	8.3	7.8	4.8	12.2	10.5	11.5
FCF per share	116.0	78.5	19.1	-18.6	-71.0	-29.0	-43.5	-32.0
Return Ratios (%)								
RoE	30.6	43.7	31.0	23.9	11.9	21.1	17.1	17.7
RoCE	10.1	17.9	15.8	12.9	12.0	10.1	7.2	7.2
RoIC	10.2	18.7	17.0	15.1	10.5	14.3	9.6	9.6
Working Capital Ratios								
Fixed Asset Turnover (x)	4.9	4.4	4.7	5.2	4.2	2.6	2.8	2.6
Asset Turnover (x)	4.1	4.1	4.2	4.3	3.5	2.1	2.4	2.2
Inventory (Days)	27	36	31	27	26	26	26	26
Debtor (Days)	8	8	9	8	5	5	5	5
Creditor (Days)	19	25	26	25	26	26	26	26
Leverage Ratio (x)								
Current Ratio	0.9	0.8	0.9	0.9	0.8	1.0	0.9	0.9
Interest Cover Ratio	7.5	13.3	12.8	10.7	2.0	4.7	2.9	2.8
Net Debt/Equity	0.8	0.3	0.2	0.4	0.8	0.9	1.2	1.4

Consolidated - Cash Flow Statement

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
OP/(Loss) before Tax	67,351	1,11,974	1,01,101	1,00,392	13,743	90,596	77,836	85,391
Depreciation	28,461	27,764	28,344	30,853	33,699	40,252	46,608	52,387
Change in deferred tax liability	22,298	11,151	6,556	5,914	-19,048	0	0	0
Direct Taxes Paid	-20,604	-29,616	-28,919	-33,486	12,644	-22,803	-19,591	-21,493
(Inc)/Dec in WC	-24,836	53,619	-10,000	-16,592	34,053	11,525	-7,356	-1,238
CF from Operations	71,526	1,74,891	97,082	87,082	75,091	1,19,570	97,497	1,15,047
CF from Operating incl EO	72,545	1,74,891	97,082	87,082	75,091	1,19,570	97,497	1,15,047
(Inc)/Dec in FA	1,04,262	-55,194	-67,963	-1,15,399	-1,83,312	-1,63,840	-1,63,840	-1,63,840
Free Cash Flow	1,76,807	1,19,698	29,119	-28,317	-1,08,221	-44,270	-66,343	-48,793
CF from Investments	73,545	-95,507	-83,009	-1,34,581	-1,87,950	-1,36,772	-1,63,840	-1,63,840
Inc/(Dec) in Debt	-1,47,554	-41,280	25,032	55,011	1,33,493	1,46,143	60,000	1,00,000
Dividend Paid	-17,525	-41,857	-32,118	-30,442	-21,068	-45,816	-39,363	-43,184
CF from Fin. Activity	-1,66,907	-79,562	-2,541	36,787	1,12,905	1,00,326	20,637	56,816
Inc/Dec of Cash	-20,817	-178	11,533	-10,711	46	83,124	-45,706	8,023
Opening Balance	22,358	1,542	1,364	12,897	2,185	2,231	85,355	39,649
Closing Balance	1,542	1,364	12,897	2,185	2,231	85,355	39,649	47,672

NOTES

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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