

BSE SENSEX 52,574 **S&P CNX** 15,747

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Bloomberg	HPCL IN
Equity Shares (m)	1,452
M.Cap.(INRb)/(USD b)	429.1/5.8
52-Week Range (INR)	312 / 163
1, 6, 12 Rel. Per (%)	6/29/-16
12M Avg Val (INR M)	1811

Financials & Valuations (INR b)

Y/E March	2021	2022E	2023E
Sales	2,332	2,691	2,675
EBITDA	160.0	93.7	119.3
Adj. PAT	106.6	49.0	63.9
Adj. EPS (INR)	70.0	32.2	41.9
EPS Gr. (%)	192.8	(54.0)	30.3
BV/Sh.(INR)	249.8	263.6	281.8

Ratios

Net D:E	1.1	1.3	1.3
RoE (%)	30.9	12.5	15.4
RoCE (%)	14.9	5.6	6.3
Payout (%)	31.0	57.2	56.6

Valuations

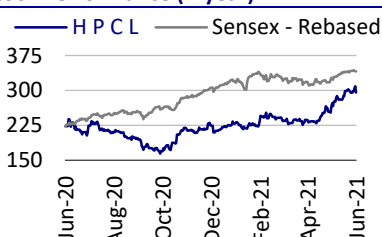
P/E (x)	4.2	9.2	7.1
P/BV (x)	1.2	1.1	1.1
EV/EBITDA (x)	5.5	10.2	8.5
Div. Yield (%)	7.3	6.2	8.0
FCF Yield (%)	13.8	(19.3)	(5.5)

Shareholding pattern (%)

As On	Mar-21	Dec-20	Mar-20
Promoter	53.5	51.6	51.1
DII	18.9	20.8	21.7
FII	16.3	15.9	17.7
Others	11.3	11.7	9.5

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR303

TP: INR310 (+2%)

Neutral

Battling a three headed-monster

Loss of marketing leverage, rising debt, and project execution key risk

- HPCL, the darling of deregulation due to its highest leverage to marketing, is soon going to lose its crown with the addition of 5mmtpa/2mmtpa refining capacity at Visakhapatnam/Mumbai by the end of FY22/CY21. Marketing will account for only 52% of total consolidated EBITDA in FY23E v/s 88% in FY21.
- Due to Visakhapatnam expansion, Rajasthan greenfield project, and marketing, consolidated debt is expected to rise to INR641b in FY23E from INR427b in FY21, 1.5x its current market capitalization.
- The residual upgradation project (slurry hydrocracker) at Visakhapatnam is of a relatively new technology, with very few precedents globally. It is likely to take longer to stabilize, thereby putting pressure on HPCL's GRMs.

Loss of marketing leverage

- By FY22-end, HPCL is expected to add 5mmtpa/2mmtpa capacity at Visakhapatnam/Mumbai, taking its standalone refining capacity in FY22E/FY23E to 18 mmtpa/22mmtpa.
- Combing the commensurate stakes in MRPL (16.95%), HMEL (49%), and the upcoming Rajasthan refinery (74%), we expect the marketing/refining ratio to decline to 1.4x/1.1x in FY23E/FY25E from 1.6x in FY21.
- Our estimate suggests that contribution of marketing to consolidated EBITDA would decline to 52% in FY23E from 88% in FY21. This compares with 43% for BPCL (62% in FY21) and 32% for IOCL (54% in FY21) in FY23E.

Debt to rise to INR641b by FY23E

- Major projects under execution are: 1) the ~INR250b Visakhapatnam refinery expansion, 2) the ~INR440b greenfield Rajasthan refinery, and 3) ongoing expansion in marketing and pipelines in addition to the smaller ones in JVs.
- As a result of these projects, we expect consolidated net debt to rise further to INR566b in FY23E from INR421b in FY21, almost 1.4x its current m-cap. We expect interest costs to rise to INR13.3b by FY23E from INR9.6b in FY21.

Project execution risk

- Its most recent and major refinery expansion had taken 1.5-2 years to stabilize. The Kochi refinery also took almost 1.5 years to completely stabilize. Expansion at Visakhapatnam is expected to be completed by FY22-end, while the slurry hydrocracker is likely to come up only by CY22-end.
- The above mismatch would result in implied complexity suffering till the time all units are stabilized, thereby adversely impacting GRMs for Visakhapatnam.
- The slurry hydrocracker itself is a relatively new technology, without a large number of commercial installations. In fact, a [CY20 paper](#) highlights only two commercial installations globally. Lack of sufficient experience in stabilization of such a complex package is likely to delay stabilization of Visakhapatnam expansion.

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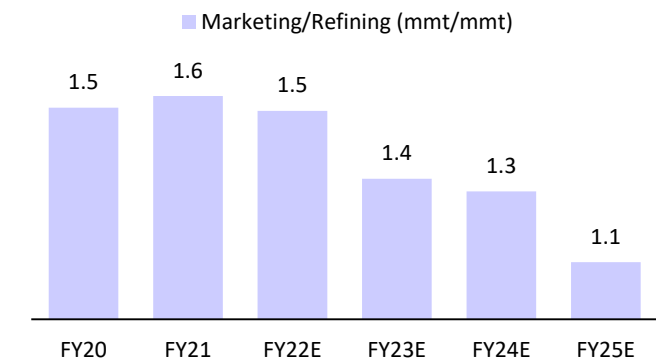
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Valuation and recommendation

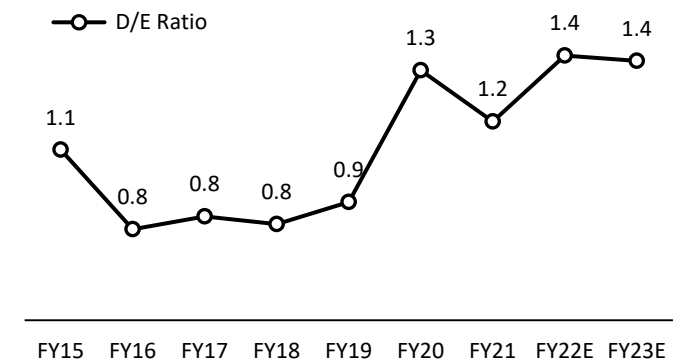
- We estimate a cumulative FCFF loss of INR112b in FY22 and FY23 due to high capex.
- The stock trades at 7.1x FY23E P/E and 8.5x FY23E EV/EBITDA. We value the stock at 1.1x FY23E P/BV and recommend a **Neutral** rating on the stock with a TP of INR310/share. Major risk to our call would be sustainability of high marketing margin.

Exhibit 1: Marketing/refining ratio to decrease



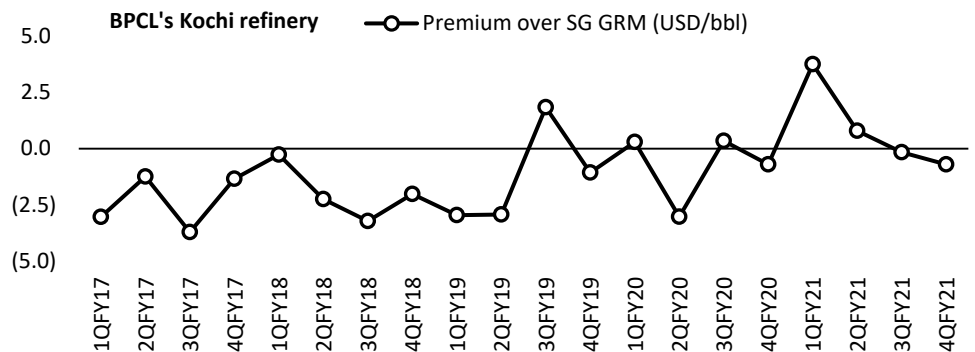
Source: Company, MOFSL

Exhibit 2: D/E ratio to increase to 1.4x in FY23E



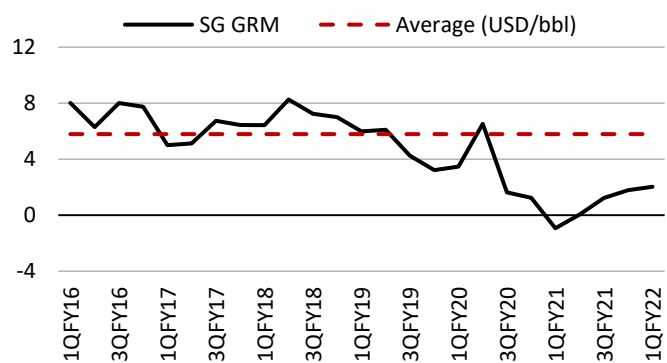
Source: Company, MOFSL

Exhibit 3: BPCL's Kochi refinery took more than 17 months to stabilize post expansion



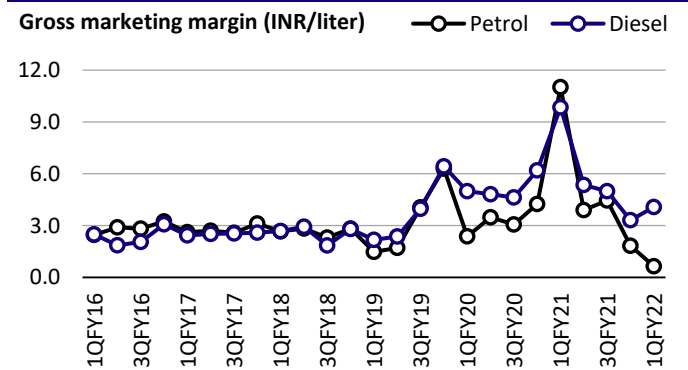
Source: Company, MOFSL

Exhibit 4: SG GRM stands at USD2/bbl in 1QFY22



Source: Reuters, MOFSL

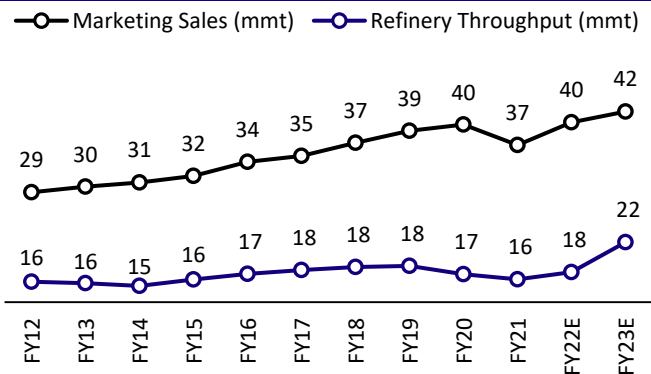
Exhibit 5: Gross marketing margin at INR0.6-4.1/liter in 1QFY22



Source: IOCL, MOFSL

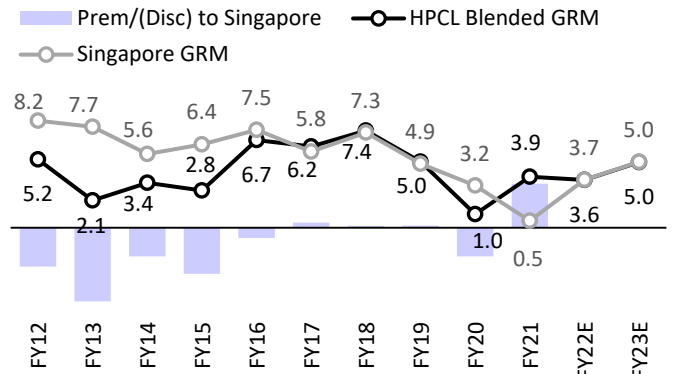
Story in charts

Exhibit 6: Refining throughput/marketing sales of HPCL



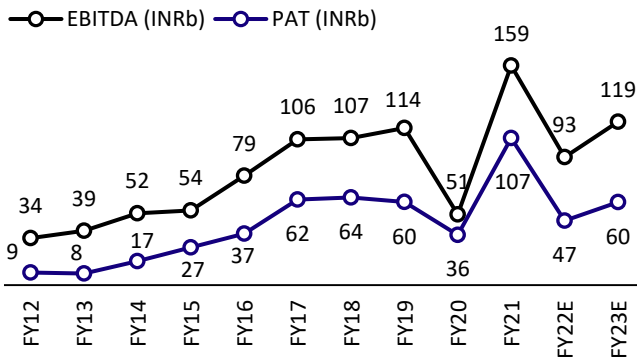
Source: Company, MOFSL

Exhibit 7: GRM trend of HPCL



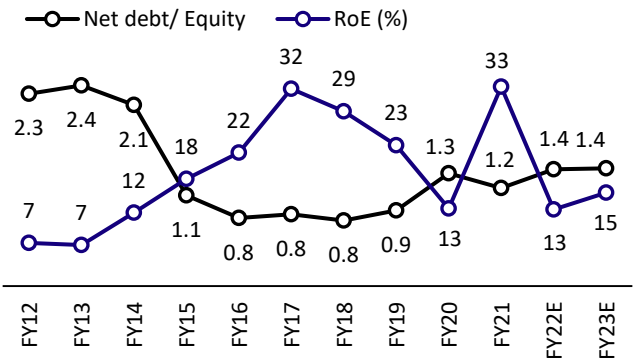
Source: Company, MOFSL

Exhibit 8: EBITDA v/s PAT (standalone)



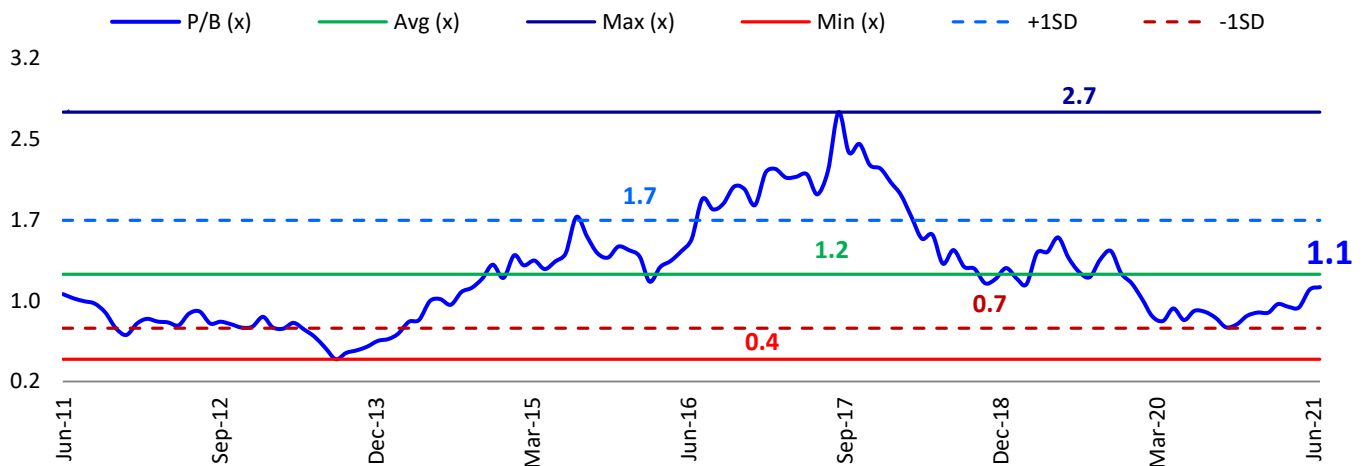
Source: Company, MOFSL

Exhibit 9: Standalone return ratios



Source: Company, MOFSL

Exhibit 10: One-year forward P/B, HPCL trades at par with its long-term average



Source: Company, MOFSL

Financials and valuations

Consolidated Income Statement

(INR b)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Total Income from Operations	1,779.1	1,874.9	2,195.1	2,754.9	2,690.9	2,332.5	2,691.0	2,675.3
Change (%)	-22.8	5.4	17.1	25.5	-2.3	-13.3	15.4	-0.6
EBITDA	82.8	108.8	107.1	115.3	56.6	160.0	93.7	119.3
Margin (%)	4.7	5.8	4.9	4.2	2.1	6.9	3.5	4.5
Depreciation	28.5	27.8	28.3	30.9	33.7	36.3	39.5	48.2
EBIT	54.3	81.0	78.8	84.4	22.9	123.8	54.2	71.1
Interest Charges (incl. forex)	7.2	6.1	6.2	7.9	11.4	9.6	12.6	13.3
Other Income	10.8	13.8	15.3	14.5	16.8	26.4	11.2	13.2
PBT bef. JVs/associates EO	57.9	88.8	87.9	91.1	28.4	140.6	52.8	71.0
EO Items	0.0	0.0	0.0	0.0	-10.0	0.0	0.0	0.0
Minority Interest	9.4	23.2	13.2	9.3	-4.6	1.4	12.7	14.4
PBT after EO Exp.	67.4	112.0	101.1	100.4	13.7	142.0	65.5	85.4
Total Tax	20.6	29.6	28.9	33.5	-12.6	35.3	16.5	21.5
Tax Rate (%)	30.6	26.4	28.6	33.4	-92.0	24.9	25.2	25.2
Reported PAT	46.7	82.4	72.2	66.9	26.4	106.6	49.0	63.9
Adjusted PAT	46.7	82.4	72.2	66.9	36.4	106.6	49.0	63.9
Change (%)	212.9	76.2	-12.4	-7.3	-45.6	192.8	-54.0	30.3
Margin (%)	2.6	4.4	3.3	2.4	1.4	4.6	1.8	2.4

Consolidated Balance Sheet

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Equity Share Capital	3.4	10.2	15.2	15.2	15.2	14.5	14.5	14.5
Total Reserves	163.2	200.6	240.1	288.8	294.6	366.3	387.3	415.0
Net Worth	166.6	210.7	255.3	304.0	309.8	380.8	401.8	429.5
Total Loans	221.6	180.3	205.4	260.4	393.9	427.1	533.8	640.6
Deferred Tax Liabilities	50.3	61.5	68.0	74.0	54.9	54.6	54.6	54.6
Capital Employed	438.6	452.5	528.7	638.3	758.6	862.5	990.2	1,124.8
Net Fixed Assets	336.6	368.6	386.8	416.2	489.4	505.9	666.1	767.9
Capital WIP	23.2	18.7	40.1	95.2	171.7	253.4	201.7	189.7
Total Investments	91.8	117.7	128.8	143.0	144.0	150.9	150.9	150.9
Curr. Assets, Loans and Adv.	243.7	283.6	322.5	395.5	336.8	397.3	474.8	518.3
Inventory	133.5	186.3	186.1	204.4	193.3	287.6	331.8	329.9
Account Receivables	37.8	40.9	55.9	56.7	39.3	68.7	79.3	78.8
Cash and Bank Balance	1.5	1.4	12.9	2.2	2.2	5.7	28.5	74.4
Cash	1.4	1.1	1.2	2.0	2.0	4.8	27.5	73.4
Bank Balance	0.2	0.2	11.7	0.2	0.2	0.9	0.9	0.9
Loans and Advances	70.8	5.3	10.4	19.9	18.2	11.1	11.1	11.1
Others	0.0	49.7	57.1	112.3	83.8	24.1	24.1	24.1
Curr. Liability and Prov.	256.9	350.7	368.0	435.1	410.5	479.1	506.5	505.3
Account Payables	94.6	127.0	157.8	190.5	114.7	178.0	205.3	204.1
Other Current Liabilities	140.6	199.1	185.0	223.2	268.9	272.3	272.3	272.3
Provisions	21.7	24.5	25.2	21.4	26.9	28.8	28.8	28.8
Net Current Assets	-13.3	-67.1	-45.5	-39.7	-73.7	-81.8	-31.7	13.0
Appl. of Funds	439	453	529	638	759	862	990.2	1,124.8

E: MOFSL estimates

Financials and valuations

Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Basic (INR)								
EPS	30.7	54.0	47.4	43.9	23.9	70.0	32.2	41.9
Cash EPS	49.3	72.2	66.0	64.1	46.0	93.7	58.1	73.5
BV/Share	109.3	138.2	167.5	199.5	203.3	249.8	263.6	281.8
DPS	9.6	22.8	16.2	15.2	9.3	21.7	18.4	23.7
Payout (%)	37.5	50.8	42.8	43.8	77.2	31.0	57.2	56.6
Valuation (x)								
P/E	9.7	5.5	6.3	6.7	12.4	4.2	9.2	7.1
Cash P/E	6.0	4.1	4.5	4.6	6.4	3.2	5.1	4.0
P/BV	2.7	2.1	1.8	1.5	1.5	1.2	1.1	1.1
EV/Sales	0.4	0.3	0.3	0.3	0.3	0.4	0.4	0.4
EV/EBITDA	8.1	5.8	6.0	6.2	14.9	5.5	10.2	8.5
Dividend Yield (%)	3.2	7.7	5.5	5.1	3.1	7.3	6.2	8.0
FCF per share	12.0	28.9	28.4	-17.8	-54.6	40.8	-57.0	-16.2
Return Ratios (%)								
RoE	30.6	43.7	31.0	23.9	11.9	30.9	12.5	15.4
RoCE	10.1	17.9	15.8	12.9	12.0	14.9	5.6	6.3
RoIC	10.3	18.7	17.0	15.1	10.5	20.8	7.6	8.1
Working Capital Ratios								
Fixed Asset Turnover (x)	4.9	4.4	4.7	5.2	4.2	3.4	3.0	2.6
Asset Turnover (x)	4.1	4.1	4.2	4.3	3.5	2.7	2.7	2.4
Inventory (Days)	27	36	31	27	26	45	45	45
Debtor (Days)	8	8	9	8	5	11	11	11
Creditor (Days)	19	25	26	25	16	28	28	28
Leverage Ratio (x)								
Current Ratio	0.9	0.8	0.9	0.9	0.8	0.8	0.9	1.0
Interest Coverage Ratio	7.5	13.3	12.8	10.7	2.0	12.8	4.3	5.3
Net Debt/Equity	1.3	0.8	0.8	0.8	1.3	1.1	1.3	1.3

Consolidated Cash Flow Statement

(INR b)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
OP/(Loss) before Tax	67.4	112.0	101.1	100.4	13.7	142.0	65.5	85.4
Depreciation	28.5	27.8	28.3	30.9	33.7	36.3	39.5	48.2
Interest expense	6.8	6.1	6.2	7.9	11.4	9.6	0.0	0.0
Interest income and dividend	-4.2	-3.5	-4.0	-4.0	-4.0	-4.0	0.0	0.0
Direct Taxes Paid	-12.1	-21.8	-20.0	-20.8	-17.2	-31.9	-16.5	-21.5
MI and others	-3.9	-24.6	-10.7	-4.5	9.7	-2.7	0.0	0.0
(Inc.)/Dec. in WC	-15.8	6.6	9.4	-24.3	7.4	28.9	-27.4	1.2
CF from Operations	66.5	102.5	110.4	85.5	54.7	178.3	61.1	113.3
(Inc.)/Dec. in FA	-48.2	-58.5	-67.0	-112.7	-137.9	-116.1	-148.0	-138.0
Free Cash Flow	18.3	44.0	43.3	-27.1	-83.2	62.2	-86.9	-24.7
Others	13.6	-2.8	3.7	9.3	5.6	7.0	30.9	0.0
CF from Investments	-37.5	-60.4	-66.0	-110.7	-141.7	-122.8	-117.1	-138.0
Inc./(Dec.) in Debt	-12.4	5.3	-11.2	51.0	114.6	2.9	106.8	106.8
Interest Paid	-7.0	-5.9	-5.1	-8.5	-12.9	-16.0	0.0	0.0
Dividend Paid	-17.5	-41.8	-27.9	-16.5	-17.3	-14.8	-28.0	-36.1
CF from Fin. Activity	-36.7	-42.4	-44.2	26.0	87.0	-52.8	78.7	70.6
Inc./Dec. in Cash	-7.7	-0.3	0.1	0.8	0.1	2.8	22.7	45.9
Opening Balance	9.1	1.4	1.1	1.2	2.0	2.0	4.8	27.5
Closing Balance	1.4	1.1	1.2	2.0	2.0	4.8	27.5	73.4

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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