

November 2, 2021

Q2FY22 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	445		404	
Sales (Rs. m)	3,190,061	3,306,526	2,774,385	372,287
% Chng.	15.0	788.2		
EBITDA (Rs. m)	131,244	146,673	129,662	147,647
% Chng.	1.2	(0.7)		
EPS (Rs.)	51.2	56.1	46.2	53.5
% Chng.	10.9	4.9		

Key Financials - Standalone

Y/e Mar	FY21	FY22E	FY23E	FY24E
Sales (Rs. bn)	2,330	2,862	3,190	3,307
EBITDA (Rs. bn)	159	105	131	147
Margin (%)	6.8	3.7	4.1	4.4
PAT (Rs. bn)	107	65	74	82
EPS (Rs.)	73.4	45.0	51.2	56.1
Gr. (%)	190.9	(38.8)	14.0	9.5
DPS (Rs.)	23.9	14.6	16.7	18.3
Yield (%)	7.9	4.8	5.5	6.0
RoE (%)	32.7	16.9	16.9	16.4
RoCE (%)	17.0	8.0	8.7	8.6
EV/Sales (x)	0.3	0.3	0.3	0.3
EV/EBITDA (x)	5.0	9.5	7.2	7.1
PE (x)	4.1	6.7	5.9	5.4
P/BV (x)	1.2	1.1	0.9	0.8

Key Data

HPCL.BO | HPCL IN

52-W High / Low	Rs.355 / Rs.181
Sensex / Nifty	60,029 / 17,889
Market Cap	Rs.430bn / \$ 5,764m
Shares Outstanding	1,419m
3M Avg. Daily Value	Rs.2527.5m

Shareholding Pattern (%)

Promoter's	54.90
Foreign	18.29
Domestic Institution	15.93
Public & Others	10.88
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	1.5	29.3	62.0
Relative	(0.6)	5.1	7.3

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Refinery segment disappoint, likely to improve

Quick Pointers:

- Plant shutdown at Mumbai and Vizag refinery impacted Q2 performance. Mumbai expansion is likely to be commissioned in Q3FY22.
- Petrol and diesel October 21 demand above pre-pandemic levels augurs well for marketing segment.

We increase our FY22-24E estimates by 5-11% to factor in to factor in higher GRMs led by 1) pickup in global economic activity and 2) gas to oil shift due to high prices even as there has been softening of marketing margins. HPCL reported lower than expected Q2 results with standalone EBITDA of Rs30.1bn (-6%QoQ; PLe Rs36.7bn) and PAT of Rs19.2bn (+7%QoQ; PLe Rs25.43bn), led by lower than expected refining earnings. Refinery operations were hit by shutdown of one unit each at Mumbai and Vizag refinery and high fuel & loss. OMCs are well placed to benefit from global pickup in economic activity post pandemic as their refining and marketing earnings will improve. Maintain 'BUY' with a revised PT of Rs445 (Rs404) based on 8x PER FY23E and add value of investments.

- Refining profits disappoint:** HPCL's refining margins for Q2 came in at US\$2.4/bbl (Q1 at US\$3.1/bbl). For Q2, refining throughput was steady at 2.5MTPA (flat QoQ) due to shutdown of one unit each at Mumbai and Vizag. Last unit of Mumbai refinery expansion likely to be completed by November and full thruput will be available from Q4FY22.
- We expect GRMs to improve as global economic activity picks up with rising vaccination drive and accordingly factored in USD5.5/6.4/bbl (USD3.7/4.4/bbl for FY22/23E).
- Marketing profitability remain muted:** In the absence of inventory gain numbers, we calculate marketing EBITDA adjusted for refinery opex of \$2/bbl, at Rs28.4bn (Rs30.8bn in Q1).
- HPCL's marketing volumes came in ahe vis-à-vis the industry for HSD was at 3.7MTA (2 yr CAGR -3.7% vs industry rate of -4.2%) while for MS it was at 1.9MTPA (2 yr CAGR 3.3% vs industry rate of 3%) respectively. October 21 petroleum product demand has recovered above pre pandemic levels for petrol and diesel while they are at 65% for ATF. Recovering volumes due to pick up of economic activity augurs well for the OMCs.
- However, sharp spike in international product prices have meant that price hikes continue to lag the required amount. Accordingly, for October 21 marketing margins for petrol and diesel have corrected to Rs1.0/3.3/litre vis-à-vis Q2 average of Rs2.8/5.5/litre respectively.
- Reiterate BUY:** We maintain BUY on HPCL with a PT of Rs445 (Rs404), as we value based on 8x PER core EPS FY23E and add value of investments (Rs34/sh).

Exhibit 1: Q2FY22 Result Overview (Rs mn)

Y/e March	Q2FY22	Q2FY21	YoY gr. (%)	Q1FY22	H1FY22	H1FY21	YoY gr. (%)
Net sales	876,004	461,076	90.0	775,855	1,651,860	1,077,101	53.4
Inc/dec in stock	(14,543)	2,303	(731.5)	31,335	16,792	(20,711)	(181.1)
Raw material cons	120,520	68,013	77.2	94,955	215,474	171,581	25.6
Staff cost	7,828	8,643	(9.4)	8,359	16,188	18,696	(13.4)
Purchases	652,163	228,980	184.8	528,043	1,180,207	589,659	100.2
Duties	45,359	83,867	(45.9)	51,421	96,781	182,159	(46.9)
Other expenditure	34,541	25,733	34.2	29,812	64,353	56,141	14.6
Exp	(845,868)	(417,539)	102.6	(743,926)	(1,589,794)	(997,526)	59.4
Operating profit	30,136	43,536	(30.8)	31,930	62,066	79,575	(22.0)
Interest	(1,545)	(3,217)	(52.0)	(2,542)	(4,087)	(5,821)	(29.8)
Depreciation	(9,473)	(8,661)	9.4	(9,139)	(18,612)	(17,344)	7.3
Other income	4,494	5,626	(20.1)	3,720	8,214	13,794	(40.4)
Profit before tax	23,613	37,284	(36.7)	23,969	47,581	70,204	(32.2)
Current tax	(4,231)	(8,359)	(49.4)	(4,314)	(8,545)	(16,323)	(47.6)
Profit after current tax	19,382	28,925	(33.0)	19,654	39,036	53,881	(27.6)
Deferred tax	(147)	(787)	(81.4)	(1,704)	(1,851)	(969)	91.1
Net profit	19,235	28,138	(31.6)	17,950	37,185	52,913	(29.7)

Source: Company, PL

Exhibit 2: HPCL quarterly details

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Total throughput	4.16	4.54	3.97	4.06	4.00	4.39	2.51	2.53
Market sales								
High sulphur crude as a % of total crude	55.80	55.50	50.00	56.00	63.20	57.00	70.80	70.70
Distillate yield (%)	76.70	75.00	74.80	79.50	73.50	75.50	65.50	67.60
Pipeline throughput (MMT)	5.09	5.72	3.54	4.70	5.52	5.36	4.34	4.7
Mkt sales (MMT)	9.76	9.25	7.24	8.10	10.03	9.83	8.45	9.1
GRMs (\$/bbl)	1.79	-1.23	0.04	5.11	1.87	8.11	3.31	2.44
Inventory gains (Marketing) (Rs m)	2690	-15290	4,320	12,570	7,070	29,954		
Inventory gains (Refining) (Rs m)	740	(25,840)	2,010	5,230	6,160	10,556		
Total	3,430	(41,130)	6,330	17,800	13,230	40,510		
Forex gains/losses (Rs m)	820.0	(9,750)	493	5,235	2,970	11,160		
Inventory gains Refining/bbl	0.3	(10.7)	0.9	2.4	2.8	4.5		

Source: Company, PL

Conference Call Highlights

- 440 new retail outlets were opened in Q2FY22 taking total count to 19,216.
- FY22 capex was at Rs145bn with refining at Rs60bn, marketing Rs50bn and JV at Rs25bn; expect similar levels for FY23E.
- Ethanol blending was at 8.9% in Q2.
- Mumbai refinery expansion is expected to be commissioned in Q3FY22 and Vizag expansion by CY22 end.
- Rajasthan refinery capex till date stands at Rs130bn and is likely to be commissioned by FY24 end.
- Shutdown of one unit of Mumbai and Vizag refinery in Q2 impacted profits and performance.
- Going forward company will focus on petrochemicals, green hydrogen projects and no new refinery expansion project is planned.

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Net Revenues	2,329,968	2,861,594	3,190,061	3,306,526
YoY gr. (%)	-	-	-	-
Cost of Goods Sold	2,004,241	2,561,553	2,841,354	2,926,594
Gross Profit	325,727	300,041	348,708	379,932
Margin (%)	14.0	10.5	10.9	11.5
Employee Cost	31,884	33,159	40,786	43,641
Other Expenses	134,589	161,618	176,678	189,619
EBITDA	159,254	105,263	131,244	146,673
YoY gr. (%)	210.8	(33.9)	24.7	11.8
Margin (%)	6.8	3.7	4.1	4.4
Depreciation and Amortization	35,527	32,766	41,720	50,114
EBIT	123,728	72,497	89,524	96,559
Margin (%)	5.3	2.5	2.8	2.9
Net Interest	9,147	9,081	14,847	15,597
Other Income	27,887	24,839	25,891	29,205
Profit Before Tax	142,468	88,256	100,568	110,167
Margin (%)	6.1	3.1	3.2	3.3
Total Tax	35,829	22,947	26,148	28,643
Effective tax rate (%)	25.1	26.0	26.0	26.0
Profit after tax	106,639	65,309	74,420	81,523
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	106,639	65,309	74,420	81,523
YoY gr. (%)	177.2	(38.8)	14.0	9.5
Margin (%)	4.6	2.3	2.3	2.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	106,639	65,309	74,420	81,523
YoY gr. (%)	-	-	-	-
Margin (%)	4.6	2.3	2.3	2.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	106,639	65,309	74,420	81,523
Equity Shares O/s (m)	1,452	1,452	1,452	1,452
EPS (Rs)	73.4	45.0	51.2	56.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Non-Current Assets				
Gross Block	659,151	819,151	1,144,151	1,214,151
Tangibles	659,151	819,151	1,144,151	1,214,151
Intangibles	-	-	-	-
Acc: Dep / Amortization	166,543	199,309	241,029	291,143
Tangibles	166,543	199,309	241,029	291,143
Intangibles	-	-	-	-
Net fixed assets	492,609	619,843	903,122	923,009
Tangibles	492,609	619,843	903,122	923,009
Intangibles	-	-	-	-
Capital Work In Progress	240,533	200,533	15,533	85,533
Goodwill	8,199	8,199	8,199	8,199
Non-Current Investments	107,279	116,666	127,199	138,785
Net Deferred tax assets	(55,111)	(60,406)	(66,440)	(73,050)
Other Non-Current Assets	27,665	30,432	33,475	36,822
Current Assets				
Investments	54,176	59,593	65,553	72,108
Inventories	285,922	342,837	379,371	393,597
Trade receivables	68,563	82,537	91,315	94,746
Cash & Bank Balance	2,372	2,609	2,870	3,157
Other Current Assets	4,269	4,695	5,165	5,681
Total Assets	1,312,392	1,634,005	1,702,001	1,925,374
Equity				
Equity Share Capital	14,524	14,524	14,524	14,524
Other Equity	347,337	396,705	452,960	514,584
Total Network	361,861	411,229	467,484	529,108
Non-Current Liabilities				
Long Term borrowings	270,697	370,697	320,697	330,697
Provisions	517	568	625	688
Other non current liabilities	3,700	4,070	4,477	4,925
Current Liabilities				
ST Debt / Current of LT Debt	148,194	248,194	248,194	348,194
Trade payables	176,973	213,976	236,734	245,626
Other current liabilities	295,330	324,863	357,350	393,085
Total Equity & Liabilities	1,312,392	1,634,005	1,702,001	1,925,374

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	142,468	88,256	100,568	110,167
Add. Depreciation	35,527	32,766	41,720	50,114
Add. Interest	9,147	9,081	14,847	15,597
Less Financial Other Income	27,887	24,839	25,891	29,205
Add. Other	-	-	-	-
Op. profit before WC changes	187,142	130,103	157,135	175,878
Net Changes-WC	5,526	(152,321)	102,818	(69,865)
Direct tax	(35,862)	(17,651)	(20,114)	(22,033)
Net cash from Op. activities	156,806	(39,870)	239,840	83,979
Capital expenditures	(145,490)	(129,233)	(150,157)	(151,172)
Interest / Dividend Income	-	-	-	-
Others	(1,120)	(342)	(376)	(414)
Net Cash from Invt. activities	(146,610)	(129,575)	(150,533)	(151,586)
Issue of share cap. / premium	307	-	-	-
Debt changes	34,561	200,000	(50,000)	110,000
Dividend paid	(34,676)	(21,237)	(24,199)	(26,509)
Interest paid	(9,147)	(9,081)	(14,847)	(15,597)
Others	-	-	-	-
Net cash from Fin. activities	(8,955)	169,683	(89,047)	67,894
Net change in cash	1,241	238	261	287
Free Cash Flow	11,316	(169,103)	89,684	(67,193)

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Net Revenue	686,592	748,434	724,434	904,564
YoY gr. (%)	(3.0)	13.1	92.1	74.7
Raw Material Expenses	612,037	651,674	654,333	822,265
Gross Profit	74,555	96,761	70,101	82,300
Margin (%)	10.9	12.9	9.7	9.1
EBITDA	33,016	46,664	31,930	36,800
YoY gr. (%)	77.2	(760.4)	(26.7)	2.1
Margin (%)	4.8	6.2	4.4	4.1
Depreciation / Depletion	8,811	9,372	9,139	10,000
EBIT	24,206	37,292	22,791	26,800
Margin (%)	3.5	5.0	3.1	3.0
Net Interest	1,274	2,053	2,542	2,500
Other Income	8,648	5,446	3,720	6,000
Profit before Tax	31,580	40,685	23,969	30,300
Margin (%)	4.6	5.4	3.3	3.3
Total Tax	8,033	10,506	6,019	4,848
Effective tax rate (%)	25.4	25.8	25.1	16.0
Profit after Tax	23,547	30,179	17,950	25,452
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	23,547	30,179	17,950	25,452
YoY gr. (%)	215.1	11,165.2	(36.2)	2.7
Margin (%)	3.4	4.0	2.5	2.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	23,547	30,179	17,950	25,452
YoY gr. (%)	215.1	11,165.2	(36.2)	2.7
Margin (%)	3.4	4.0	2.5	2.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	23,547	30,179	17,950	25,452
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	-	-	-	-

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22E	FY23E	FY24E
Per Share(Rs)				
EPS	73.4	45.0	51.2	56.1
CEPS	97.9	67.5	80.0	90.6
BVPS	249.1	283.1	321.9	364.3
FCF	7.8	(116.4)	61.7	(46.3)
DPS	23.9	14.6	16.7	18.3
Return Ratio(%)				
RoCE	17.0	8.0	8.7	8.6
ROIC	9.9	4.6	5.5	5.2
RoE	32.7	16.9	16.9	16.4
Balance Sheet				
Net Debt : Equity (x)	1.0	1.4	1.1	1.1
Net Working Capital (Days)	28	27	27	27
Valuation(x)				
PER	4.1	6.7	5.9	5.4
P/B	1.2	1.1	0.9	0.8
P/CEPS	3.1	4.5	3.8	3.3
EV/EBITDA	5.0	9.5	7.2	7.1
EV/Sales	0.3	0.3	0.3	0.3
Dividend Yield (%)	7.9	4.8	5.5	6.0

Source: Company Data, PL Research

Key Operating Metrics

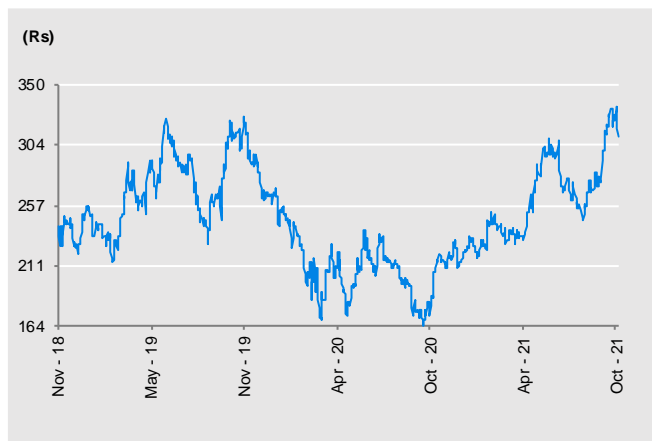
Y/e Mar	FY21	FY22E	FY23E	FY24E
Crude /bbl	45	65	70	70
US\$/Rs	74	77	79	81
GRM (US\$/bbl)	3	6	6	7
Refining volume (MTPA)	16	17	23	23

Source: Company Data, PL Research



Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	5-Oct-21	BUY	404	303
2	5-Aug-21	BUY	404	265
3	2-Jul-21	BUY	365	298
4	21-May-21	BUY	404	276
5	5-Apr-21	BUY	338	235
6	5-Feb-21	BUY	315	230
7	8-Jan-21	BUY	280	223
8	5-Nov-20	BUY	280	186

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Hold	985	1,021
2	Bharat Petroleum Corporation	BUY	589	418
3	Burger King India	BUY	250	168
4	GAIL (India)	BUY	184	149
5	Gujarat Gas	BUY	845	594
6	Hindustan Petroleum Corporation	BUY	404	303
7	Indian Oil Corporation	BUY	205	132
8	Indraprastha Gas	BUY	662	528
9	Mahanagar Gas	BUY	1,345	997
10	NOCIL	BUY	393	296
11	Oil & Natural Gas Corporation	UR	-	148
12	Oil India	BUY	328	242
13	Petronet LNG	BUY	351	236
14	Reliance Industries	BUY	2,955	2,627

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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