

November 5, 2020

Q2FY21 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)	24,83,509	27,71,023	24,83,509	27,71,023
% Chng.	-	-	-	-
EBITDA (Rs. m)	1,27,209	1,32,782	1,27,209	1,32,782
% 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	2,019	2,484	2,771
EBITDA (Rs. bn)	51	121	127	133
Margin (%)	1.9	6.0	5.1	4.8
PAT (Rs. bn)	38	70	64	62
EPS (Rs.)	25.2	45.6	41.9	40.9
Gr. (%)	(36.2)	80.7	(8.0)	(2.5)
DPS (Rs.)	9.8	18.6	17.1	16.7
Yield (%)	5.3	10.0	9.2	9.0
RoE (%)	13.5	22.2	17.9	15.6
RoCE (%)	3.0	11.3	7.9	6.5
EV/Sales (x)	0.2	0.4	0.4	0.3
EV/EBITDA (x)	12.0	5.9	7.2	6.4
PE (x)	7.4	4.1	4.4	4.5
P/BV (x)	1.0	0.8	0.7	0.7

Key Data

HPCL.BO | HPCL IN

52-W High / Low	Rs.326 / Rs.150
Sensex / Nifty	40,261 / 11,814
Market Cap	Rs.283bn/ \$ 3,804m
Shares Outstanding	1,524m
3M Avg. Daily Value	Rs.2997.7m

Shareholding Pattern (%)

Promoter's	51.11
Foreign	15.49
Domestic Institution	22.29
Public & Others	11.11
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	5.8	(15.7)	(42.1)
Relative	1.7	(29.4)	(42.3)

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Inventory gains drive earnings

Quick Pointers:

- High inventory gains mask weak refinery and marketing profitability.
- HPCL with higher share of marketing is best placed to benefit from benign crude oil prices.

We increase our FY21E earnings estimates by 35% to incorporate inventory gains of Rs24bn in H1FY21 and make minor changes; FY22-23E estimates are unchanged. During Q2FY21, core standalone EBITDA adjusted for inventory gains was lower at Rs18.2bn (-51%QoQ) due to lower marketing earnings. Weak global demand and high inventory levels is likely to keep crude oil prices range bound, which will support 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. Decision to buy back 6.6% of equity at Rs250/sh for Rs25bn is value accretive, in our view. Maintain BUY with a TP of Rs280 (unchanged).

- Operationally weak results:** HPCL reported results higher than our estimates with standalone EBITDA of Rs36.0bn (PLe Rs28.0bn) and PAT of Rs24.8bn (PLe Rs15.2bn). However, EBITDA adjusted for inventory gains was at Rs18.2bn (-51%QoQ).
- Refining margins were weak, in line with global trends:** HPCL's refining margins for Q2 came in at US\$5.1/bbl (Q1FY21 at US\$0.04/bbl) and included inventory gains of US\$2.4/bbl. For Q2, refining throughput was higher at 4.06MTPA vis-à-vis 3.97MTPA in Q1. However, the thruput was lower than Q2FY20 levels of 4.56MTPA due to weak demand. HPCL plans to match refinery thruput with marketing demand. It's GRMs are likely to remain under pressure due to **1)** weak demand in a Covid pandemic scenario **2)** new capacity addition.
- Marketing profitability was also impacted:** HPCL's core Q2 marketing EBITDA was at Rs24.5bn against Rs43.5bn in Q1FY21. Profitability was hit by lower margins even as volumes improved post pandemic led lockdown. For Q2, core marketing margins were at Rs3,033/ton (Rs6,011/ton in Q1FY21). HPCL's marketing volumes vis-à-vis the industry run rate was weak with HSD (-15.0% YoY vs -15.7% for industry), and MS (-5.5% YoY against industry rate of -5.1%YoY) respectively.
- Earnings change to factor in inventory gains; Reiterate BUY:** We incorporate Rs24bn towards inventory gains in H1FY21 and increase estimates by 35% for FY21. Earnings for FY22-23E remain unchanged. 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 8.1MTPA vs refining volumes of ~4.0MTPA. Reiterate BUY with a TP of Rs280 (unchanged).

Exhibit 1: Q2FY21 Result Overview (Rs mn)

Y/e March	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	H1FY21	H1FY20	YoY gr. (%)
Net sales	6,16,025	6,64,552	(7.3)	4,61,076	10,77,101	14,12,633	(23.8)
Inc/dec in stock	-23,014	-17,768	NA	2,303	-20,711	-18,517	NA
Raw material cons	1,03,568	1,56,798	(33.9)	68,013	1,71,581	3,02,501	(43.3)
Staff cost	10,053	7,758	29.6	8,643	18,696	15,884	17.7
Purchases	3,60,679	4,07,228	(11.4)	2,28,980	5,89,659	9,18,846	(35.8)
Duties	98,292	55,918	75.8	83,867	1,82,159	94,111	93.6
Other expenditure	30,408	31,427	(3.2)	25,733	56,141	60,181	(6.7)
Exp	-5,79,987	-6,41,362	NA	-4,17,539	-9,97,526	-13,73,004	NA
Operating profit	36,039	23,189	55.4	43,536	79,575	39,629	100.8
Interest	-2,604	-2,856	NA	-3,217	-5,821	-4,919	NA
Depreciation	-8,683	-8,121	NA	-8,661	-17,344	-16,272	NA
Other income	8,168	3,957	106.4	5,626	13,794	10,122	36.3
Profit before tax	32,920	16,170	103.6	37,284	70,204	28,560	145.8
Current tax	-7,963	-4,820	NA	-8,359	-16,323	-8,183	NA
Profit after current tax	24,956	11,350	119.9	28,925	53,881	20,378	164.4
Deferred tax	-182	-827	NA	-787	-969	-1,745	NA
Net profit	24,774	10,523	135.4	28,138	52,913	18,632	184.0

Source: Company, PL

Exhibit 2: HPCL quarterly details

	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Total throughput	4.60	3.92	4.56	4.16	4.54	3.97	4.06
Market sales							
High sulphur crude as a % of total crude	60.40	67.00	54.80	55.80	55.50	50.00	56.00
Distillate yield (%)	75.90	70.00	75.40	76.70	75.00	74.80	79.50
Pipeline throughput (MMT)	5.61	5.34	5.05	5.09	5.72	3.54	4.70
Mkt sales (MMT)	10.03	10.09	9.4	9.76	9.25	7.24	8.10
GRMs (\$/bbl)	4.51	0.75	2.83	1.79	-1.23	0.04	5.11
Inventory gains (Marketing) (Rs m)	3440	-200	-130	2690	-15290	4,320	12,570
Inventory gains (Refining) (Rs m)	5,720	(5,160)	660	740	(25,840)	2,010	5,230
Total	9,160	(5,360)	530	3,430	(41,130)	6,330	17,800
Forex gains/losses (Rs m)	2,480.0	1,937.7	(1,220.0)	820.0	(9,750)	493	5,235
Inventory gains Refining/bbl	2.4	(2.6)	0.3	0.3	(10.7)	0.9	2.4

Source: Company, PL

Exhibit 3: EBITDA Breakup

	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
EBIDTA	51,662	16,439	23,189	18,633	(7,066)	43,536	36,039
Adj for forex	2,480		(1,142)		(9,750)		
Adj for inventory	9,160	(5,360)	530	3,430	(41,130)	6,330	17,800
Core EBIDTA	40,022	21,799	23,802	15,203	43,814	37,206	18,239
Marketing	34,030	24,296	21,849	14,986	25,769	43,523	24,571
Refining	5,992	(2,496)	1,953	217	18,045	(6,317)	(6,332)

Source: Company, PL

Conference Call Highlights:

- Government dues for LPG/Kerosene stands at Rs40bn as on Q2 end vs Rs47bn as on Q1 end.
- Capex for FY21 will be at Rs115bn vs Rs150bn in FY20. The company had spent Rs50bn over April-Sept20.
- Lubricant volumes were up 22.5% YoY for Q2FY21. Volume growth was healthy for bitumen and fuel oil.
- For Q2, HPCL opened 898 new retail outlet and plans to open 1,800 outlets for FY21.
- HPCL valued crude at USD40/bbl as on Q1 end while it was at USD30/bbl for Q4 end.
- HPCL plans to spend Rs100bn for gas business over next five years and Rs30bn for renewable business.
- HPCL is on track to complete the Vizag and Mumbai refinery upgradation projects by CY21.



Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	26,87,664	20,18,546	24,83,509	27,71,023
YoY gr. (%)	-	-	-	-
Cost of Goods Sold	24,65,661	17,21,731	21,67,468	24,35,446
Gross Profit	2,22,003	2,96,815	3,16,040	3,35,577
Margin (%)	8.3	14.7	12.7	12.1
Employee Cost	31,935	32,254	34,512	36,928
Other Expenses	1,38,833	1,43,686	1,54,320	1,65,868
EBITDA	51,235	1,20,875	1,27,209	1,32,782
YoY gr. (%)	(55.2)	135.9	5.2	4.4
Margin (%)	1.9	6.0	5.1	4.8
Depreciation and Amortization	33,044	36,136	52,435	62,785
EBIT	18,191	84,739	74,774	69,997
Margin (%)	0.7	4.2	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	27,824	93,939	86,381	84,217
Margin (%)	1.0	4.7	3.5	3.0
Total Tax	(10,647)	24,424	22,459	21,896
Effective tax rate (%)	(38.3)	26.0	26.0	26.0
Profit after tax	38,470	69,515	63,922	62,320
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	38,470	69,515	63,922	62,320
YoY gr. (%)	(36.2)	80.7	(8.0)	(2.5)
Margin (%)	1.4	3.4	2.6	2.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	38,470	69,515	63,922	62,320
YoY gr. (%)	-	-	-	-
Margin (%)	1.4	3.4	2.6	2.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	38,470	69,515	63,922	62,320
Equity Shares O/s (m)	1,524	1,524	1,524	1,524
EPS (Rs)	25.2	45.6	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	6,15,215	9,70,215	13,60,215	14,30,215
Tangibles	6,15,215	9,70,215	13,60,215	14,30,215
Intangibles	-	-	-	-
Acc: Dep / Amortization	1,37,746	1,73,882	2,26,316	2,89,101
Tangibles	1,37,746	1,73,882	2,26,316	2,89,101
Intangibles	-	-	-	-
Net fixed assets	4,77,469	7,96,333	11,33,899	11,41,114
Tangibles	4,77,469	7,96,333	11,33,899	11,41,114
Intangibles	-	-	-	-
Capital Work In Progress	1,71,437	1,71,437	80,000	80,000
Goodwill	5,435	5,435	5,435	5,435
Non-Current Investments	85,888	92,992	1,00,875	1,09,547
Net Deferred tax assets	(54,915)	(60,552)	(65,735)	(70,788)
Other Non-Current Assets	26,954	29,649	32,614	35,875
Current Assets				
Investments	53,449	58,793	64,673	71,140
Inventories	1,91,412	1,46,045	1,77,062	1,96,327
Trade receivables	39,227	30,059	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	11,40,109	13,58,168	16,75,711	17,27,716
Equity				
Equity Share Capital	15,242	15,242	15,242	15,242
Other Equity	2,74,382	3,21,153	3,64,162	4,06,093
Total Networkth	2,89,624	3,36,396	3,79,404	4,21,336
Non-Current Liabilities				
Long Term borrowings	2,22,872	2,32,872	3,32,872	2,82,872
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	1,61,458	2,61,458	3,61,458	3,61,458
Trade payables	1,12,952	1,38,783	1,75,324	1,94,252
Other current liabilities	2,95,664	3,25,230	3,57,753	3,93,528
Total Equity & Liabilities	11,40,108	13,58,168	16,75,711	17,27,716

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	25,755	93,939	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	1,40,645	1,49,375	1,57,703
Net Changes-WC	12,981	1,69,372	11,127	24,093
Direct tax	13,812	(18,788)	(17,276)	(16,843)
Net cash from Op. activities	96,410	2,91,230	1,43,226	1,64,952
Capital expenditures	(1,89,633)	(3,61,937)	(3,06,193)	(78,394)
Interest / Dividend Income	-	-	-	-
Others	2,681	(230)	(253)	(278)
Net Cash from Inv. activities	(1,86,952)	(3,62,167)	(3,06,446)	(78,672)
Issue of share cap. / premium	(13,776)	-	-	-
Debt changes	1,33,226	1,10,000	2,00,000	(50,000)
Dividend paid	(17,916)	(28,379)	(26,096)	(25,442)
Interest paid	(10,817)	(10,570)	(10,559)	(10,701)
Others	-	-	-	-
Net cash from Fin. activities	90,718	71,050	1,63,345	(86,144)
Net change in cash	175	114	124	137
Free Cash Flow	(93,223)	(70,707)	(1,62,967)	86,559

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	7,07,496	6,61,549	3,77,209	5,17,733
YoY gr. (%)	(1.9)	(2.6)	(46.9)	(14.9)
Raw Material Expenses	6,46,331	6,16,297	2,99,296	4,41,233
Gross Profit	61,165	45,252	77,913	76,500
Margin (%)	8.6	6.8	20.7	14.8
EBITDA	18,633	(7,066)	43,536	36,039
YoY gr. (%)	93.4	(113.7)	164.8	55.4
Margin (%)	2.6	(1.1)	11.5	7.0
Depreciation / Depletion	8,659	8,114	8,661	8,683
EBIT	9,974	(15,180)	34,875	27,356
Margin (%)	1.4	(2.3)	9.2	5.3
Net Interest	2,524	3,374	3,217	2,604
Other Income	4,058	4,241	5,626	8,168
Profit before Tax	11,508	(14,313)	37,284	32,920
Margin (%)	1.6	(2.2)	9.9	6.4
Total Tax	4,036	(24,611)	9,146	8,146
Effective tax rate (%)	35.1	171.9	24.5	24.7
Profit after Tax	7,472	10,297	28,138	24,774
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	7,472	268	28,138	24,774
YoY gr. (%)	201.9	(99.1)	247.0	135.4
Margin (%)	1.1	-	7.5	4.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	7,472	268	28,138	24,774
YoY gr. (%)	201.9	(99.1)	247.0	135.4
Margin (%)	1.1	-	7.5	4.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	7,472	268	28,138	24,774
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	25.2	45.6	41.9	40.9
CEPS	46.9	69.3	76.3	82.1
BVPS	190.0	220.7	248.9	276.4
FCF	(61.2)	(46.4)	(106.9)	56.8
DPS	9.8	18.6	17.1	16.7
Return Ratio(%)				
RoCE	3.0	11.3	7.9	6.5
ROIC	1.7	6.5	4.6	4.2
RoE	13.5	22.2	17.9	15.6
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	7.4	4.1	4.4	4.5
P/B	1.0	0.8	0.7	0.7
P/CEPS	4.0	2.7	2.4	2.3
EV/EBITDA	12.0	5.9	7.2	6.4
EV/Sales	0.2	0.4	0.4	0.3
Dividend Yield (%)	5.3	10.0	9.2	9.0

Source: Company Data, PL Research

Key Operating Metrics

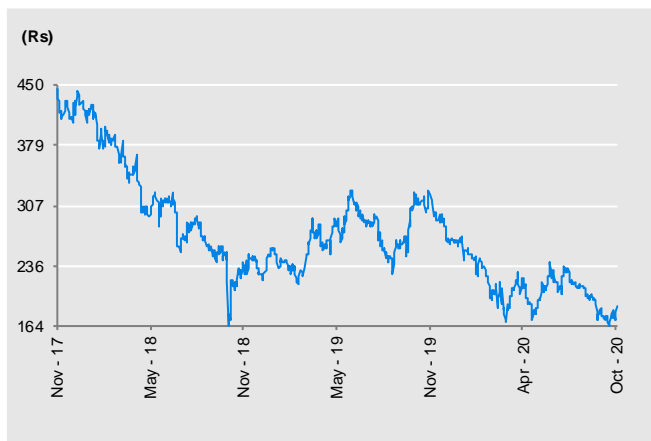
Y/e Mar	FY20	FY21E	FY22E	FY23E
Crude /bbl	61	45	55	60
US\$/Rs	71	74	77	79
GRM (US\$/bbl)	1	3	4	5
Refining volume (MTPA)	17	17	23	23

Source: Company Data, PL Research



Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Oct-20	BUY	280	171
2	07-Aug-20	BUY	280	214
3	07-Jul-20	BUY	280	211
4	17-Jun-20	BUY	280	214
5	08-Apr-20	BUY	280	200
6	06-Feb-20	BUY	295	237
7	03-Jan-20	BUY	354	264
8	07-Nov-19	BUY	354	310

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Accumulate	1,024	1,007
2	Bharat Petroleum Corporation	BUY	479	342
3	GAIL (India)	Accumulate	108	87
4	Gujarat Gas	BUY	388	304
5	Hindustan Petroleum Corporation	BUY	280	171
6	Indian Oil Corporation	BUY	118	78
7	Indraprastha Gas	BUY	590	384
8	Mahanagar Gas	BUY	1,226	829
9	NOCIL	BUY	153	154
10	Oil & Natural Gas Corporation	BUY	96	71
11	Oil India	Accumulate	117	92
12	Petronet LNG	BUY	384	219
13	Reliance Industries	BUY	2,232	2,055

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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