

February 5, 2021

Q3FY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	315		280	
Sales (Rs. m)	2,472,228	2,774,385	2,483,509	2,771,023
% Chng.	(0.5)	0.1		
EBITDA (Rs. m)	117,379	129,145	127,209	132,782
% Chng.	(7.7)	(2.7)		
EPS (Rs.)	40.1	44.6	41.9	40.9
% Chng.	(4.3)	9.1		

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. bn)	2,688	2,022	2,472	2,774
EBITDA (Rs. bn)	51	125	117	129
Margin (%)	1.9	6.2	4.7	4.7
PAT (Rs. bn)	38	77	61	68
EPS (Rs.)	25.2	50.4	40.1	44.6
Gr. (%)	(36.2)	99.8	(20.5)	11.2
DPS (Rs.)	9.8	20.6	16.4	18.2
Yield (%)	4.2	9.0	7.1	7.9
RoE (%)	13.5	24.9	17.5	17.3
RoCE (%)	3.0	13.9	9.4	9.3
EV/Sales (x)	0.3	0.3	0.3	0.3
EV/EBITDA (x)	13.3	4.7	6.7	5.7
PE (x)	9.1	4.6	5.7	5.1
P/BV (x)	1.2	1.1	0.9	0.8

Key Data

HPCL.BO | HPCL IN

52-W High / Low	Rs.245 / Rs.150
Sensex / Nifty	50,614 / 14,896
Market Cap	Rs.343bn/ \$ 4,704m
Shares Outstanding	1,495m
3M Avg. Daily Value	Rs.3679.9m

Shareholding Pattern (%)

Promoter's	51.57
Foreign	15.92
Domestic Institution	20.81
Public & Others	11.71
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	3.1	6.8	(0.9)
Relative	(1.9)	(20.5)	(20.1)

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Healthy performance

Quick Pointers:

- Sales growth at 2.7%YoY vs 0.3% for industry is encouraging.
- HPCL's higher marketing share is best placed to benefit from benign crude oil prices.

We increase our FY21E earnings estimates by 30% to incorporate 9MFY21 inventory gains of Rs37.4bn and higher other income; FY22-23E estimates changed by -4/9% to factor in higher depreciation and increased marketing volumes. During Q3FY21, core standalone EBIDTA adjusted for inventory and forex gains was at Rs16.8bn (17%YoY) due to higher marketing earnings. Uncertain global demand and high inventory levels will likely 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. Maintain BUY with a TP of Rs315 (Rs280 earlier).

- Operationally healthy results:** HPCL reported results which were in line with our estimates with standalone EBITDA of Rs33.0bn (PLe Rs35.1bn) and PAT of Rs23.5bn (PLe Rs22.5bn). However, EBIDTA adjusted for inventory and forex gains was at Rs16.8bn (17%YoY; +29%QoQ); 9M EBIDTA growth of 11%YoY.
- Refining margins were weak, in line with global trends:** HPCL's refining margins for Q3 came in at US\$1.9/bbl (Q2FY21 at US\$5.1/bbl) and included inventory gains of US\$2.8/bbl. For Q3, refining throughput was flat at 4.0MTPA. HPCL plans to match refinery thrupt with marketing demand. HPCL's GRMs are likely to remain under pressure due to **1)** weak demand in a Covid pandemic scenario **2)** new capacity addition.
- Marketing profitability support earnings:** HPCL's core Q3 marketing EBIDTA was at Rs23.0bn against Rs19.3bn in Q2FY21, in our view. For Q3, core marketing margins were at Rs2,294/ton (Rs2,387/ton in Q2FY21). HPCL's marketing volumes vis-à-vis the industry run rate was encouraging with HSD (1.3% YoY vs -1.1% for industry), and MS (6.6% YoY against industry rate of 6.3%YoY) respectively.
- Earnings change to factor in inventory gains; Reiterate BUY:** HPCL remains one of our preferred pics in the oil and gas sector given higher share of marketing to refining- Q2 marketing sales were at 10.3MTPA vs refining volumes of ~4.0MTPA. Reiterate BUY with a PT of Rs338 (Rs280 earlier) as we value on 7x (6.5x earlier) FY22E.



Exhibit 1: Q3FY21 Result Overview (Rs mn)

Y/e March	Q3FY21	Q3FY20	YoY gr. (%)	Q2FY21	9MFY21	9MFY20	YoY gr. (%)
Net sales	7,74,127	7,45,894	3.8	6,16,025	21,58,527	18,51,228	(14.2)
Inc/dec in stock	-28,852	21,194	NA	-23,014	2,677	-49,563	NA
Raw material cons	1,00,444	1,47,145	(31.7)	1,03,568	4,49,646	2,72,025	(39.5)
Staff cost	8,836	7,677	15.1	10,053	23,561	27,532	16.9
Purchases	5,40,445	4,77,992	13.1	3,60,679	13,96,837	11,30,104	(19.1)
Duties	87,535	38,398	128.0	98,292	1,32,509	2,69,694	103.5
Other expenditure	32,703	34,855	(6.2)	30,408	95,036	88,844	(6.5)
Exp	-7,41,111	-7,27,262	NA	-5,79,987	-21,00,266	-17,38,636	NA
Operating profit	33,016	18,633	77.2	36,039	58,261	1,12,592	93.3
Interest	-1,274	-2,524	NA	-2,604	-7,443	-7,095	NA
Depreciation	-8,811	-8,659	NA	-8,683	-24,930	-26,155	NA
Other income	8,648	4,058	113.1	8,168	14,180	22,442	58.3
Profit before tax	31,580	11,508	174.4	32,920	40,068	1,01,784	154.0
Current tax	-7,556	-3,790	NA	-7,963	-11,973	-23,879	NA
Profit after current tax	24,024	7,718	211.3	24,956	28,096	77,905	177.3
Deferred tax	-477	-246	NA	-182	-1,992	-1,445	NA
Net profit	23,547	7,472	215.1	24,774	26,104	76,460	192.9

Source: Company, PL

Exhibit 2: HPCL quarterly details

	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Total throughput	3.92	4.56	4.16	4.54	3.97	4.06	4.00
Market sales							
High sulphur crude as a % of total crude	67.00	54.80	55.80	55.50	50.00	56.00	63.20
Distillate yield (%)	70.00	75.40	76.70	75.00	74.80	79.50	73.50
Pipeline throughput (MMT)	5.34	5.05	5.09	5.72	3.54	4.70	5.52
Mkt sales (MMT)	10.09	9.4	9.76	9.25	7.24	8.10	10.03
GRMs (\$/bbl)	0.75	2.83	1.79	-1.23	0.04	5.11	1.87
Inventory gains (Marketing) (Rs m)	-200	-130	2690	-15290	4,320	12,570	7,070
Inventory gains (Refining) (Rs m)	(5,160)	660	740	(25,840)	2,010	5,230	6,160
Total	(5,360)	530	3,430	(41,130)	6,330	17,800	13,230
Forex gains/losses (Rs m)	1,937.7	(1,220.0)	820.0	(9,750)	493	5,235	2,970
Inventory gains Refining/bbl	(2.6)	0.3	0.3	(10.7)	0.9	2.4	2.8

Source: Company, PL

Exhibit 3: EBITDA Breakup

	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
EBIDTA	16,439	23,189	18,633	(7,066)	43,536	36,039	33,017
Adj for forex		(1,142)	820	(9,750)	493	5,235	2,970
Adj for inventory	(5,360)	530	3,430	(41,130)	6,330	17,800	13,230
Core EBIDTA	21,799	23,802	15,203	43,814	37,206	18,239	16,816
Marketing	24,296	21,849	14,986	25,769	43,523	24,571	23,005
Refining	(2,496)	1,953	217	18,045	(6,317)	(6,332)	(6,189)

Source: Company, PL

Conference Call Highlights:

- Debt as on Dec end stands at Rs333bn vs Rs430bn as on Q4FY20 end.
- HPCL Q3 sales growth was at 2.7%YoY vis-à-vis 0.3% for the industry. # HPCL plans to add 2,000 retail outlets for FY21/22E.
- HPCL has a pipeline network of 3,700kms and another 1,600kms is under completion. However, with most pipeline connected to refineries and marketing outlets, company will evaluate all value accretion possibilities.
- Capex for FY21/22E will be at Rs120/Rs140bn vs Rs150bn in FY20. The company has already spent Rs88bn by Jan 21.
- Rajasthan refinery to be commissioned by CY23E and the company has already provided Rs40bn out of Rs100bn. Orders worth Rs350bn have already been placed.
- The company plans to commission the Mumbai and Vizag refinery by CY21E but the bottom upgradation project at Vizag will be commissioned by Q2CY22.
- Crude price rally is due to production cuts by OPEC + countries and expect prices to range between USD50-60/bbl.



Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	2,687,664	2,021,847	2,472,228	2,774,385
YoY gr. (%)	-	-	-	-
Cost of Goods Sold	2,465,661	1,721,731	2,167,468	2,435,446
Gross Profit	222,003	300,115	304,760	338,939
Margin (%)	8.3	14.8	12.3	12.2
Employee Cost	31,935	32,254	34,512	42,449
Other Expenses	138,834	142,439	152,869	167,344
EBITDA	51,235	125,422	117,379	129,145
YoY gr. (%)	(55.2)	144.8	(6.4)	10.0
Margin (%)	1.9	6.2	4.7	4.7
Depreciation and Amortization	33,044	34,867	47,554	49,129
EBIT	18,191	90,555	69,825	80,017
Margin (%)	0.7	4.5	2.8	2.9
Net Interest	8,749	8,528	9,949	11,824
Other Income	18,382	21,854	22,756	23,704
Profit Before Tax	27,824	103,880	82,633	91,897
Margin (%)	1.0	5.1	3.3	3.3
Total Tax	(10,647)	27,009	21,485	23,893
Effective tax rate (%)	(38.3)	26.0	26.0	26.0
Profit after tax	38,470	76,871	61,148	68,004
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	38,470	76,871	61,148	68,004
YoY gr. (%)	(36.2)	99.8	(20.5)	11.2
Margin (%)	1.4	3.8	2.5	2.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	38,470	76,871	61,148	68,004
YoY gr. (%)	-	-	-	-
Margin (%)	1.4	3.8	2.5	2.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	38,470	76,871	61,148	68,004
Equity Shares O/s (m)	1,524	1,524	1,524	1,524
EPS (Rs)	25.2	50.4	40.1	44.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	610,292	641,746	1,056,746	1,126,746
Tangibles	610,292	641,746	1,056,746	1,126,746
Intangibles	-	-	-	-
Acc: Dep / Amortization	132,823	167,690	215,243	264,372
Tangibles	132,823	167,690	215,243	264,372
Intangibles	-	-	-	-
Net fixed assets	477,470	474,056	841,503	862,374
Tangibles	477,470	474,056	841,503	862,374
Intangibles	-	-	-	-
Capital Work In Progress	171,437	198,496	80,000	80,000
Goodwill	5,435	5,638	5,638	5,638
Non-Current Investments	85,888	89,653	97,255	105,695
Net Deferred tax assets	(54,915)	(55,937)	(60,895)	(66,408)
Other Non-Current Assets	26,954	28,339	31,172	34,290
Current Assets				
Investments	53,449	54,498	59,948	65,943
Inventories	191,412	214,730	259,160	289,512
Trade receivables	39,227	46,455	56,342	62,926
Cash & Bank Balance	1,132	833	917	1,008
Other Current Assets	4,159	5,115	5,627	6,190
Total Assets	1,140,109	1,183,593	1,506,920	1,569,033
Equity				
Equity Share Capital	15,242	15,242	15,242	15,242
Other Equity	274,382	312,750	353,893	399,648
Total Networkth	289,624	327,992	369,135	414,890
Non-Current Liabilities				
Long Term borrowings	222,872	230,497	330,497	280,497
Provisions	502	496	546	600
Other non current liabilities	2,115	2,569	2,826	3,109
Current Liabilities				
ST Debt / Current of LT Debt	161,458	67,451	167,451	167,451
Trade payables	112,952	134,499	175,011	195,461
Other current liabilities	295,664	364,146	400,560	440,616
Total Equity & Liabilities	1,140,108	1,183,593	1,506,920	1,569,033

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	25,755	103,880	82,633	91,897
Add. Depreciation	33,044	34,867	47,554	49,129
Add. Interest	10,817	8,528	9,949	11,824
Less Financial Other Income	18,382	21,854	22,756	23,704
Add. Other	-	-	-	-
Op. profit before WC changes	69,617	147,276	140,135	152,850
Net Changes-WC	12,981	76,618	15,563	33,647
Direct tax	13,812	(20,776)	(16,527)	(18,379)
Net cash from Op. activities	96,410	203,117	139,172	168,117
Capital expenditures	(189,633)	(63,568)	(303,926)	(78,164)
Interest / Dividend Income	-	-	-	-
Others	2,681	(201)	(250)	(275)
Net Cash from Inv. activities	(186,952)	(63,769)	(304,176)	(78,439)
Issue of share cap. / premium	(13,776)	(13,353)	-	-
Debt changes	133,226	(86,382)	200,000	(50,000)
Dividend paid	(17,916)	(31,383)	(24,964)	(27,762)
Interest paid	(10,817)	(8,528)	(9,949)	(11,824)
Others	-	-	-	-
Net cash from Fin. activities	90,718	(139,646)	165,088	(89,586)
Net change in cash	175	(298)	83	92
Free Cash Flow	(93,223)	139,549	(164,754)	89,953

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Net Revenue	6,61,549	3,77,209	5,17,733	6,86,592
YoY gr. (%)	(2.6)	(46.9)	(14.9)	(3.0)
Raw Material Expenses	6,16,297	2,99,296	4,41,233	6,12,037
Gross Profit	45,252	77,913	76,500	74,555
Margin (%)	6.8	20.7	14.8	10.9
EBITDA	(7,066)	43,536	36,039	33,016
YoY gr. (%)	(113.7)	164.8	55.4	77.2
Margin (%)	(1.1)	11.5	7.0	4.8
Depreciation / Depletion	8,114	8,661	8,683	8,811
EBIT	(15,180)	34,875	27,356	24,206
Margin (%)	(2.3)	9.2	5.3	3.5
Net Interest	3,374	3,217	2,604	1,274
Other Income	4,241	5,626	8,168	8,648
Profit before Tax	(14,313)	37,284	32,920	31,580
Margin (%)	(2.2)	9.9	6.4	4.6
Total Tax	(24,611)	9,146	8,146	8,033
Effective tax rate (%)	171.9	24.5	24.7	25.4
Profit after Tax	10,297	28,138	24,774	23,547
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	268	28,138	24,774	23,547
YoY gr. (%)	(99.1)	247.0	135.4	215.1
Margin (%)	-	7.5	4.8	3.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	268	28,138	24,774	23,547
YoY gr. (%)	(99.1)	247.0	135.4	215.1
Margin (%)	-	7.5	4.8	3.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	268	28,138	24,774	23,547
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	50.4	40.1	44.6
CEPS	46.9	73.3	71.3	76.8
BVPS	190.0	215.2	242.2	272.2
FCF	(61.2)	91.6	(108.1)	59.0
DPS	9.8	20.6	16.4	18.2
Return Ratio(%)				
RoCE	3.0	13.9	9.4	9.3
ROIC	1.7	8.0	4.8	5.3
RoE	13.5	24.9	17.5	17.3
Balance Sheet				
Net Debt : Equity (x)	1.1	0.7	1.2	0.9
Net Working Capital (Days)	16	23	21	21
Valuation(x)				
PER	9.1	4.6	5.7	5.1
P/B	1.2	1.1	0.9	0.8
P/CEPS	4.9	3.1	3.2	3.0
EV/EBITDA	13.3	4.7	6.7	5.7
EV/Sales	0.3	0.3	0.3	0.3
Dividend Yield (%)	4.2	9.0	7.1	7.9

Source: Company Data, PL Research

Key Operating Metrics

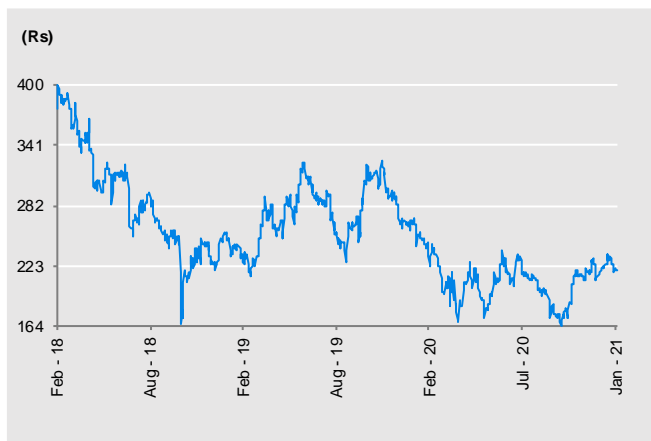
Y/e Mar	FY20	FY21E	FY22E	FY23E
Crude /bbl	61	45	55	60
US\$/Rs	71	74	77	79
GRM (US\$/bbl)	1	3	4	4
Refining volume (MTPA)	17	16	20	23

Source: Company Data, PL Research



Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jan-21	BUY	280	223
2	05-Nov-20	BUY	280	186
3	07-Oct-20	BUY	280	171
4	07-Aug-20	BUY	280	214
5	07-Jul-20	BUY	280	211
6	17-Jun-20	BUY	280	214
7	08-Apr-20	BUY	280	200
8	06-Feb-20	BUY	295	237

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	BUY	1,314	1,159
2	Bharat Petroleum Corporation	BUY	479	392
3	GAIL (India)	UR	-	133
4	Gujarat Gas	BUY	403	387
5	Hindustan Petroleum Corporation	BUY	280	223
6	Indian Oil Corporation	BUY	124	96
7	Indraprastha Gas	BUY	603	540
8	Mahanagar Gas	BUY	1,275	1,117
9	NOCIL	BUY	182	143
10	Oil & Natural Gas Corporation	BUY	114	98
11	Oil India	Accumulate	117	113
12	Petronet LNG	BUY	399	260
13	Reliance Industries	BUY	2,232	2,050

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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