

CMP: ₹ 264

Target: ₹ 265 (0%)

Target Period: 12 months

HOLD

August 9, 2021

Subdued refining performance

About the stock: Hindustan Petroleum Corporation (HPCL) is one of India's largest public sector refining & marketing companies.

- The company operates 18776 retail outlets
- Petrol & diesel together contribute more than 60% of total sales

Q1FY22 Results: HPCL's results were better than estimates on profitability front.

- Revenue was down 8.9% QoQ to ₹ 77585.5 crore (estimate: ₹ 86400.4 crore) as product sales fell 14% QoQ on account of second wave of Covid-19
- Reported GRMs were at US\$3.3/bbl while throughput fell 42.8% QoQ to 2.5 MMT due to shutdown and low demand. Marketing performance must have been better than expected as per our understanding. Subsequently, EBITDA was at ₹ 3193 crore, down 31.6% QoQ (estimate: ₹ 3061 crore)
- PAT was at ₹ 1795 crore, down 40.5% QoQ (estimate: ₹ 1520.7 crore)

What should investors do? Global product cracks continue to remain weak and volatile in the current market environment. HPCL's refining performance was weak due to refinery shutdown and lower demand.

- We retain our HOLD rating on the stock

Target Price and Valuation: We value HPCL at ₹ 265 i.e. average of P/BV multiple: ₹ 311/share and P/E multiple: ₹ 218/share

Key triggers for future price performance:

- Crude throughput to improve with Mumbai refinery getting commissioned and increase in fuel demand
- Recovery in global refining product cracks (mainly diesel)
- Pick-up in transport fuel demand with relaxations in lockdown and steady marketing margins
- Consistent dividend payout

Alternate Stock Idea: Apart from HPCL, in our oil & gas coverage we also like IOC.

- IOC with its pan-India presence offers exposure to steady pipeline business along with improving profitability in refining and petchem segments. It trades at relatively cheaper valuation compared to peers
- BUY with a target price of ₹ 120



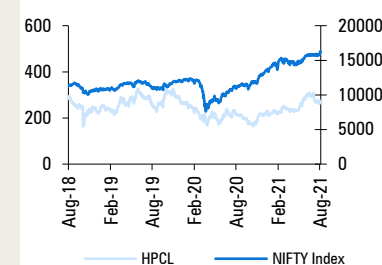
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	38,343.6
Total Debt (FY 20) (₹ Crore)	43,020.9
Cash and Investments (FY 20)	113.2
EV (₹ Crore)	81,251.3
52 week H/L	312/163
Equity capital (₹ Crore)	1,524.2
Face value (₹)	10.0

Shareholding pattern

(in %)	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	51.1	51.1	51.6	53.5	54.9
FII	16.1	15.5	15.9	16.3	17.8
DII	23.6	22.3	20.8	18.9	16.3
Others	9.2	11.1	11.7	11.3	11.0

Price Chart



Recent event & key risks

- Mumbai refinery to operate at full capacity from October 2021.
- Key Risk:** (i) Faster than expected recovery in GRMs, (ii) Inability to pass on higher oil costs to customers

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Key Financial Summary

(Year-end March)	FY19	FY20	FY21E	5 year CAGR (FY16-21E)	FY22E	FY23E	2 year CAGR (FY21-23E)
Revenues (₹ crore)	296,928.4	287,407.3	270,326.3	8.5	380,077.1	425,193.4	25.4
EBITDA (₹ crore)	11,442.0	5,123.2	15,925.4	15.0	10,383.6	10,598.1	(18.4)
Net Profit (₹ crore)	6,028.7	2,637.3	10,663.9	22.5	4,882.6	4,110.6	(37.9)
EPS (₹)	39.5	17.3	70.6		34.3	29.0	
P/E (x)	6.7	15.3	3.7		7.7	9.1	
Price / Book (x)	1.4	1.4	1.1		1.0	1.0	
EV/EBITDA (x)	5.9	16.2	5.3		7.6	7.4	
RoCE (%)	15.2	2.5	14.9		7.4	6.1	
RoE (%)	21.4	9.1	29.5		13.0	10.6	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q1FY22 Results: Subdued refining performance

- Reported GRMs at US\$3.3/bbl were lower than expectations of US\$5.5/bbl. GRMs reduced QoQ as the company had reported strong inventory gains in Q4FY21. We estimate GRMs at US\$3.5/bbl, US\$3.8/bbl in FY22E, FY23E, respectively
- On account of increase in refining capacity, we estimate crude throughput of 16.7 MMT and 22 MMT for FY22E and FY23E, respectively
- We believe the marketing segment's overall performance must have been better than expected, as the company passed on increase in crude oil costs to consumers
- We estimate marketing sales at 40 MMT and 43.1 MMT in FY22E and FY23E, respectively

Q1FY22 Earnings Conference Call highlights

- According to the management, there were refining inventory gains in Q1FY22. However, the management declined to disclose the details
- Compared to pre-Covid level (July 2019), petrol demand in July 2021 was up 5%. Diesel demand was down 8.9% while ATF demand was down 45%
- Mumbai refinery will have 9 MMT capacity while Vizag refinery capacity will be 13 MMT by the end of FY22 as per the management. Post upgradation, Vizag refinery GRMs are expected to improve
- Planned capital expenditure for FY22E is ₹ 14500 crore, including ₹ 5000 crore capex each in marketing and refining. Capex in FY23E will be similar to FY22E and will taper off later

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
BPCL (BHAPET)	446	495	Hold	87,723	91.0	35.2	39.0	4.9	12.7	11.4	7.1	9.0	8.2	14.7	11.3	12.0	35.6	16.6	17.1
HPCL (HINPET)	264	265	Hold	38,344	70.6	34.3	29.0	3.7	7.7	9.1	5.3	7.6	7.4	14.9	7.4	6.1	29.5	13.0	10.6
Indian Oil Corp (INDOIL)	104	120	Buy	95,483	23.8	15.8	15.6	4.4	6.6	6.7	2.5	2.9	2.9	13.3	10.0	9.5	19.8	12.2	11.5

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
Total Revenues	77,585.5	86,400.4	46,107.6	68.3	85203.55	-8.9	
Raw materials costs	65,433.3	71,394.1	29,929.6	118.6	65,167.4	0.4	
Employees Cost	835.9	890.3	864.3	-3.3	435.2	92.1	
Other Expenses	8,123.3	11,055.0	10,960.0	-25.9	14,934.6	-45.6	
Total Expenditure	74,392.6	83,339.4	41,753.9	78.2	80,537.2	-7.6	
EBITDA	3,193.0	3,061.0	4,353.6	-26.7	4,666.4	-31.6	Higher-than-expected due to better performance in marketing segment as per our understanding
EBITDA margins (%)	4.1	3.5	9.4	-533 bps	5.5	-136 bps	
Depreciation	913.9	1,140.4	866.1	5.5	937.2	-2.5	
EBIT	2,279.0	1,920.5	3,487.5	-34.7	3,729.2	-38.9	
Interest	254.2	362.5	321.7	-21.0	205.3	23.8	
Other Income	372.0	475.0	562.6	-33.9	544.6	-31.7	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	2,396.9	2,033.1	3,728.4	-35.7	4,068.5	-41.1	
Total Tax	601.9	512.3	914.6	-34.2	1,050.6	-42.7	
PAT	1,795.0	1,520.7	2,813.8	-36.2	3,018.0	-40.5	

Key Metrics

Exchange rate (₹/\$)	73.9	73.9	75.9	-2.7	72.9	1.3	
Throughput (mmt)	2.5	2.9	4.0	-36.8	4.4	-42.8	
Sales (mmt)	8.5	9.0	7.2	16.7	9.8	-14.0	Lower than estimates
GRM (\$/barrel)	3.3	5.5	0.0	8,175.0	8.1	-59.2	Reported GRMs below estimates. The company did not disclose inventory gains

Source: Company, ICICI Direct Research

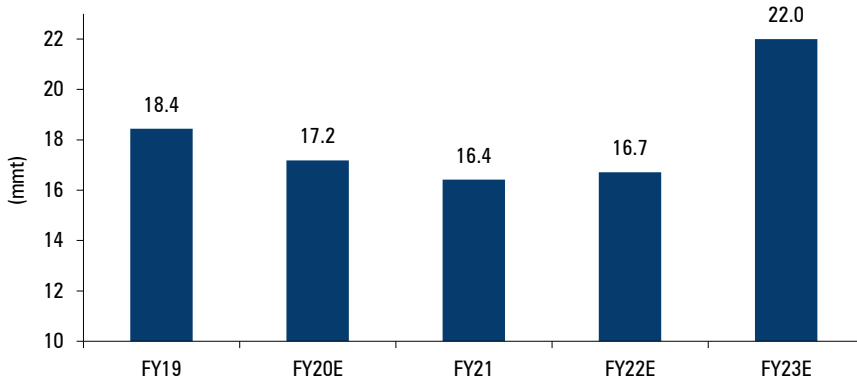
Exhibit 3: Assumptions

	Current				Earlier		Comments
	FY20E	FY21	FY22E	FY23E	FY22E	FY23E	
Exchange rate (₹/\$)	70.9	74.0	74.4	74.5	75.0	NA	
Throughput (mmt)	17.2	16.4	16.7	22.0	21.5	NA	Introduced FY23E estimates
Sales (mmt)	37.8	35.2	40.0	43.1	42.2	NA	
GRM (\$/barrel)	1.0	3.9	3.5	3.8	3.5	NA	

Source: ICICI Direct Research

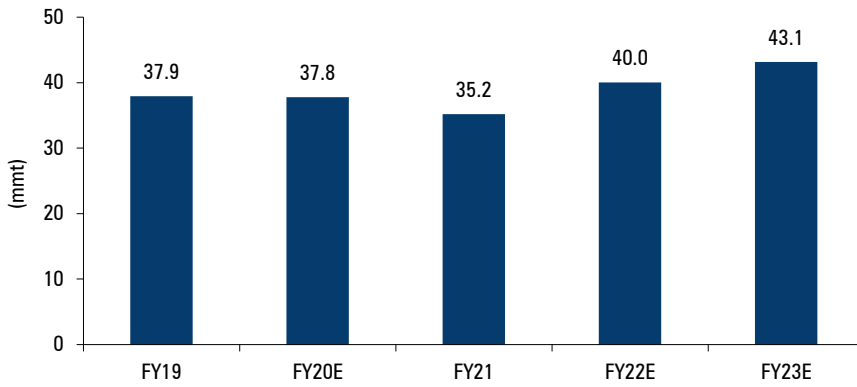
Story in charts

Exhibit 4: Oil throughput trend



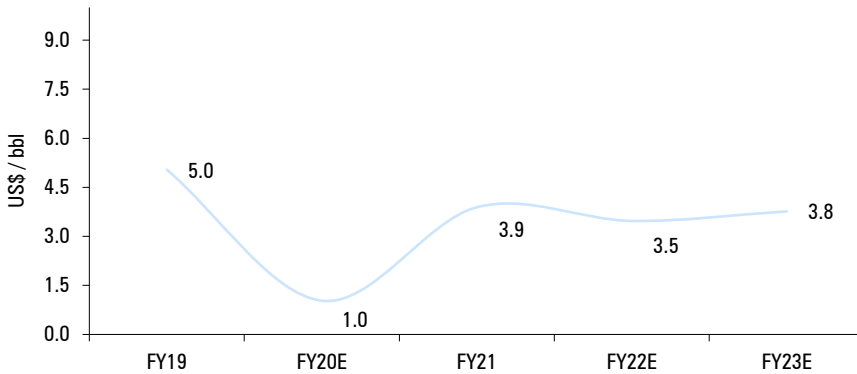
Source: Company, ICICI Direct Research

Exhibit 5: Marketing sales trend



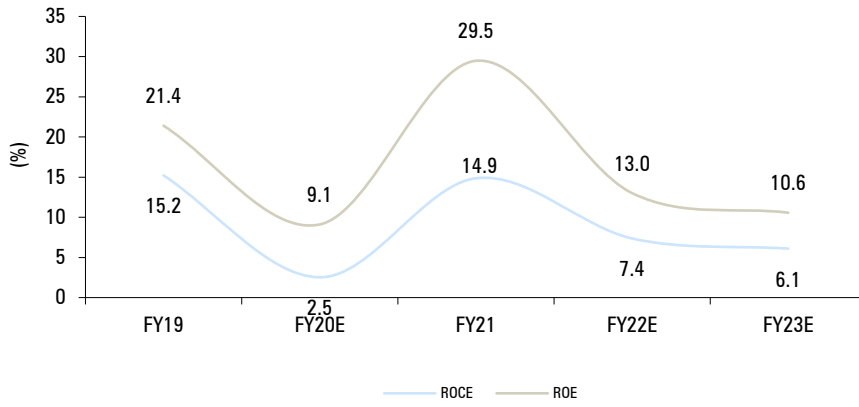
Source: Company, ICICI Direct Research

Exhibit 6: Refining margin trend



Source: Company, ICICI Direct Research

Exhibit 7: Return ratios



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20E	FY21E	FY22E	FY23E
Revenue	287407.3	270326.3	380077.1	425193.4
Growth (%)	-3.2	-5.9	40.6	11.9
(Inc.)/(Dec.) in stock in tra	-418.5	-8533.0	3133.5	0.0
Raw material Costs	59734.5	41102.0	66203.0	87856.8
Purchase of Products	187205.1	167855.1	255838.9	279191.8
Employee Costs	3194.7	3188.4	3229.7	3326.6
Other Expenditure	32568.3	50788.4	41288.3	44220.0
Op. Expenditure	282284.1	254400.9	369693.5	414595.2
EBITDA	5123.2	15925.4	10383.6	10598.1
Growth (%)	-55.2	210.8	-34.8	2.1
Depreciation	3304.4	3552.7	4335.2	5658.1
EBIT	1818.8	12372.8	6048.4	4940.0
Interest	1081.7	914.7	1320.7	1344.5
Other Income	835.5	2788.7	1797.0	1900.0
PBT	1572.6	14246.8	6524.7	5495.5
Growth (%)	-83.2	805.9	-54.2	-15.8
Tax	-1064.7	3582.9	1642.1	1384.9
Reported PAT	2637.3	10663.9	4882.6	4110.6
Growth (%)	-56.3	304.4	-54.2	-15.8
EPS	17.3	70.6	34.3	29.0

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY20E	FY21E	FY22E	FY23E
Profit after Tax	2,637.3	10,663.9	4,882.6	4,110.6
Add: Depreciation	3,304.4	3,552.7	4,335.2	5,658.1
Add: Others	-1,673.2	19.6	600.0	600.0
Cash Profit	2,541.6	10,259.1	7,085.4	7,636.3
Increase/(Decrease) in CL	-4,635.5	7,751.2	9,361.5	5,902.4
(Increase)/Decrease in CA	7,136.3	-2,507.6	1,518.4	-892.9
CF from Operating Activities	3315.6	11525.7	15232.8	9913.4
Purchase of Fixed Assets	18,263.3	13,513.7	8,623.5	8,850.0
(Inc)/Dec in Investments	-693.0	-2,481.2	-250.0	-250.0
Others	0.0	0.0	0.0	0.0
CF from Investing Activities	-18956.3	-15994.8	-8873.5	-9100.0
Inc/(Dec) in Loan Funds	15,781.2	4,100.0	-2,500.0	-2,500.0
Less: Dividend Paid	1,726.8	3,977.0	2,732.5	2,732.5
Inc/(Dec) in Sh. Cap. & Res.	-122.9	528.2	-798.5	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activities	13,931.4	651.2	-6,031.0	-5,232.5
Change in cash Eq.	17.5	159.1	3,060.8	-1,686.6
Op. Cash and cash Eq.	95.6	113.2	272.3	3,333.1
Cl. Cash and cash Eq.	113.2	272.3	3,333.1	1,646.4

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet				
	₹ crore			
(Year-end March)	FY20E	FY21E	FY22E	FY23E
Source of Funds				
Equity Capital	1,524.2	1,452.4	1,418.9	1,418.9
Preference capital	0.0	0.0	0.0	0.0
Reserves & Surplus	27,438.2	34,725.1	36,110.2	37,488.4
Shareholder's Fund	28,962.4	36,177.5	37,529.1	38,907.3
Loan Funds	43,020.9	47,120.9	44,620.9	42,120.9
Deferred Tax Liability	5,491.5	5,511.1	6,111.1	6,711.1
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	77474.8	88809.4	88261.1	87739.3
Application of Funds				
Gross Block	61,750.5	68,600.5	86,200.5	103,800.5
Less: Acc. Depreciation	13,460.0	17,258.6	21,820.3	27,478.4
Net Block	48,290.4	51,341.8	64,380.1	76,322.0
Capital WIP	17,143.7	24,053.3	15,303.3	6,553.3
Total Fixed Assets	65,434.1	75,395.1	79,683.4	82,875.3
Investments	12,511.6	14,992.8	15,242.8	15,492.8
Inventories	19,141.2	28,592.2	29,677.3	33,200.0
Debtor	3,922.7	6,856.3	7,809.8	8,736.9
Cash	113.2	272.3	3,333.1	1,646.4
Loan & Advance, Other C	12888.1	6988.1	6163.6	5339.1
Total Current assets	36065.1	42708.8	46983.7	48922.4
Current Liabilities	33170.5	40734.1	51024.1	57080.8
Provisions	3365.6	3553.1	2624.7	2470.4
Total CL and Provisions	36536.1	44287.2	53648.8	59551.2
Net Working Capital	-470.9	-1578.4	-6665.1	-10628.8
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	77474.8	88809.4	88261.1	87739.3

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY20E	FY21E	FY22E	FY23E
Per share data (₹)				
Book Value	189.8	239.4	263.9	274.2
Cash per share	0.7	1.8	23.4	11.6
EPS	17.3	70.6	34.3	29.0
Cash EPS	38.9	94.1	64.8	68.8
DPS	9.8	22.8	16.0	16.0
Profitability & Operating Ratios				
EBITDA Margin (%)	1.8	5.9	2.7	2.5
PAT Margin (%)	0.9	3.9	1.3	1.0
Fixed Asset Turnover (x)	4.4	3.6	4.8	5.1
Inventory Turnover (Days)	24.3	38.6	28.5	28.5
Debtor (Days)	5.0	9.3	7.5	7.5
Current Liabilities (Days)	42.1	55.0	49.0	49.0
Return Ratios (%)				
RoE	9.1	29.5	13.0	10.6
RoCE	2.5	14.9	7.4	6.1
RoIC	2.7	15.9	8.2	6.6
Valuation Ratios (x)				
PE	15.3	3.7	7.7	9.1
Price to Book Value	1.4	1.1	1.0	1.0
EV/EBITDA	16.2	5.3	7.6	7.4
EV/Sales	0.3	0.3	0.2	0.2
Leverage & Solvency Ratios				
Debt to equity (x)	1.5	1.3	1.2	1.1
Interest Coverage (x)	1.7	13.5	4.6	3.7
Debt to EBITDA (x)	8.4	3.0	4.3	4.0
Current Ratio	1.0	1.0	0.9	0.8
Quick ratio	0.5	0.3	0.3	0.3

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct coverage universe (Oil & gas)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
BPCL (BHAPET)	446	495	Hold	87,723	91.0	35.2	39.0	4.9	12.7	11.4	7.1	9.0	8.2	14.7	11.3	12.0	35.6	16.6	17.1
GAIL (India) (GAIL)	147	175	Hold	65,274	11.0	15.7	16.4	13.3	9.4	9.0	10.9	6.9	7.0	8.7	14.0	12.5	10.6	13.8	13.3
Gujarat Gas (GUJGA)	722	735	Hold	49,702	18.5	24.9	26.3	39.0	29.0	27.5	24.1	18.7	17.4	33.0	36.5	32.8	29.0	29.6	25.4
HPCL (HINPET)	264	265	Hold	38,344	70.6	34.3	29.0	3.7	7.7	9.1	5.3	7.6	7.4	14.9	7.4	6.1	29.5	13.0	10.6
Indian Oil Corp (INDOIL)	104	120	Buy	95,483	23.8	15.8	15.6	4.4	6.6	6.7	2.5	2.9	2.9	13.3	10.0	9.5	19.8	12.2	11.5
Indraprastha Gas (INDGAS)	558	595	Hold	39,060	14.4	18.8	21.0	38.8	29.7	26.6	25.6	20.0	17.6	20.7	23.7	22.7	17.4	19.6	18.8
Mahanagar Gas (MAHGAS)	1167	1340	Buy	11,527	62.7	95.6	107.2	18.6	12.2	10.9	11.9	7.9	6.6	22.6	29.7	28.1	18.7	23.9	22.5
Petronet LNG (PETLNG)	218	250	Hold	32,700	19.7	18.8	21.7	11.1	11.6	10.1	6.7	6.7	5.9	25.3	22.9	24.6	24.4	22.0	23.3

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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