

Estimate change



TP change



Rating change


CMP: INR244
TP: INR267 (+9%)
Neutral
GRMs remain strong but marketing leverage poses risk

- HPCL's reported EBITDA beat on our estimates was primarily driven by higher-than-estimated marketing gross margin (INR2.7/liter, -54% YoY, -9% QoQ), while GRM was a miss by 37% and stood at USD12.5/bbl. Refining throughput was in line and stood at 4.7mmt (+7% YoY, +11% QoQ).
- Singapore GRM has been at a record high of USD22.6/bbl in May'22 from a loss of USD1.5/bbl in May'20 (during the pandemic). It stood at USD2.1/USD18.6 per bbl in May'21/Apr'22. However, OMCs are estimated to be generating losses of INR8.8/INR12.9 per liter on petrol/diesel at prevailing benchmark prices, respectively. **HPCL has the highest leverage to marketing and would suffer from mounting losses in the marketing segment.**
- Factoring in the aforementioned, we raise our FY23 EBITDA/EPS estimate by 19%/31%, respectively, due to an upward revision in our GRM assumption for 1QFY23E (keeping FY24E EBITDA/EPS unchanged).
- We also highlight that the company is Battling a three headed-monster – a) loss of marketing leverage, b) rising debt, and c) project execution risk.**
- We expect consolidated net debt to rise ~1.1x to INR467b in FY24 from INR421b in FY21. We project interest costs to increase to INR24.3b by FY24 from INR9.6b in FY21. We value the stock at 0.8x FY24E P/BV and recommend a **Neutral** rating with a TP of INR267 (implying 10% potential upside). **Major upside risk to our call will be stronger gross marketing margin.**

Reported GRM below estimate; refinery throughput in line

- HPCL's refining throughput was in line with our estimate at 4.7mmt (+7% YoY, +11% QoQ). However, reported GRM was below estimate at USD12.5/bbl (v/s USD6.4/bbl in 3QFY22).
- Marketing volumes were higher than estimate at 10.7mmt (+12% est., flat QoQ). While, marketing margins (including inv.) stood at INR2.7/liter (v/s INR6.0/INR3.0 in 4QFY21/3QFY22, respectively).
- Resultant EBITDA came higher than our estimate at INR21.9b. PAT came in at INR18b (-41% YoY, +107% QoQ).
- In FY22, EBITDA decreased 35% YoY to INR103.3b, with PAT at INR63.8b (-40% YoY).** This was primarily on account of lower average marketing margin (including inv.) at INR4.3/liter (v/s INR6.3 in FY21), with marketing volumes rising 7% YoY to 39.1mmt. Reported GRM stood at USD7.2/bbl in FY22 (v/s USD3.9 in FY21), with refining throughput being down 15% YoY to 14mmt.
- HPCL declared a dividend of INR14/share for FY22.

Valuation and view: Maintain neutral

- FY22 capex stood at INR120b and is likely to be on similar level in FY23E.** The management has guided that ~30% of its investments in the next five years would be channelized towards non-traditional businesses including chemicals, green hydrogen, wind, power, solar energy, etc.

Bloomberg	HPCL IN
Equity Shares (m)	1,452
M.Cap.(INRb)/(USDb)	346 / 4.5
52-Week Range (INR)	355 / 237
1, 6, 12 Rel. Per (%)	-14/-16/-18
12M Avg Val (INR M)	1384

Financials & Valuations (INR b)

Y/E March	FY22	FY23E	FY24E
Sales	3,499	3,529	3,288
EBITDA	102.4	140.2	126.2
Adj. PAT	72.9	78.8	61.1
Adj. EPS (INR)	47.9	51.7	40.1
EPS Gr. (%)	(31.6)	8.0	(22.4)
BV/Sh.(INR)	271.6	307.1	333.7

Ratios

Net D:E	1.1	1.0	0.9
RoE (%)	18.4	17.9	12.5
RoCE (%)	8.3	9.1	6.9
Payout (%)	27.9	31.3	33.6

Valuations

P/E (x)	5.1	4.7	6.1
P/BV (x)	0.9	0.8	0.7
EV/EBITDA (x)	8.0	6.1	6.6
Div. Yield (%)	5.5	6.6	5.5
FCF Yield (%)	10.2	2.2	16.8

Shareholding pattern (%)

As On	Mar-22	Dec-21	Mar-21
Promoter	54.9	54.9	53.5
DII	15.1	15.1	18.9
FII	19.9	20.2	16.3
Others	10.1	9.8	11.3

FII Includes depository receipts

- Completion of various ongoing projects will drive growth over the next 3-5 years, such as: Bhatinda refinery expansion in 1QFY23, bottom up gradation unit at Vizag by 3QFY23, and Rajasthan (Barmer) refinery in FY24.
- Further, HPCL is working on the petchem integration projects totaling ~6.2mmt (~15% of total refining capacity) over the next 3–4 years:
 - Additional cracker at HMEL would have a capacity of ~2.7mmt.
 - The Rajasthan refinery would have 2.2mmt of petchem capacity.
 - OMPL and MRPL combined should have another 1.2–1.4mmt capacity.
- **Despite the potential highlighted above, we maintain our Neutral rating on the stock because of the project execution risk at Vizag and rising debt levels. We value HPCL at 0.8x FY24E P/BV and arrive at our TP of INR267.**

Standalone - Quarterly Earnings Model

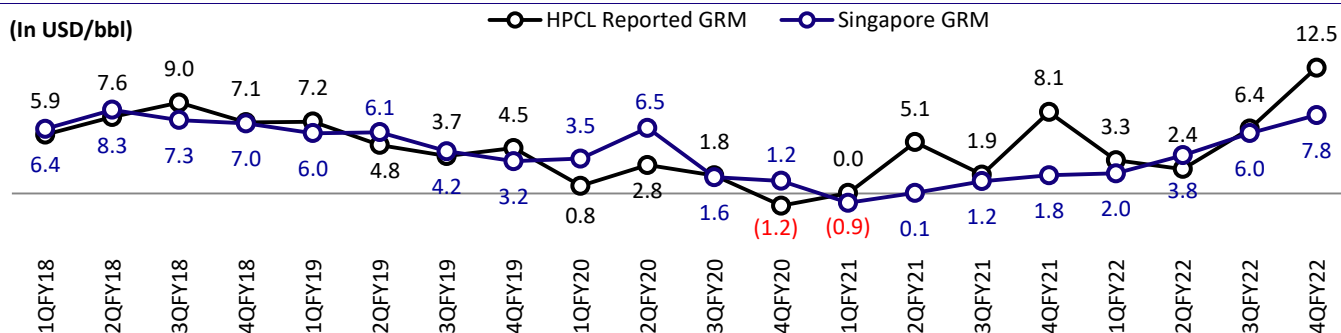
Y/E March	FY21				FY22				FY21	FY22	FY22	Var (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		4QE		
Net Sales	377.2	517.7	686.6	748.4	724.4	830.6	966.0	975.7	2,330.0	3,496.8	1,172.2	-17%
YoY Change (%)	-46.9	-14.9	-3.0	13.1	92.1	60.4	40.7	30.4	-13.3	50.1	56.6	
EBITDA	43.5	36.0	33.0	46.7	32.6	30.1	18.7	21.9	159.3	103.3	2.4	804%
Margins (%)	11.5	7.0	4.8	6.2	4.5	3.6	1.9	2.2	6.8	3.0	0.2	
Depreciation	8.7	8.7	8.8	9.4	9.1	9.5	10.2	10.8	35.5	39.7	10.9	
Forex loss	0.0	-5.7	-3.0	-1.4	0.7	-1.1	-1.4	0.9	-10.1	-1.0	-1.6	
Interest	3.2	2.6	1.3	2.1	2.5	1.5	2.4	3.3	9.1	9.7	3.0	
Other Income	5.6	2.4	5.7	4.0	3.7	3.4	4.1	16.0	17.8	27.2	3.1	
PBT before EO expense	37.3	32.9	31.6	40.7	24.0	23.6	11.6	22.8	142.5	82.0	-6.7	LP
PBT	37.3	32.9	31.6	40.7	24.0	23.6	11.6	22.8	142.5	82.0	-6.7	LP
Tax	9.1	8.1	8.0	10.5	6.0	4.4	2.9	4.9	35.8	18.2	-1.7	
Rate (%)	24.5	24.7	25.4	25.8	25.1	18.5	25.1	21.4	25.1	22.2	25.2	
Adj PAT	28.1	24.8	23.5	30.2	18.0	19.2	8.7	18.0	106.6	63.8	-5.0	LP
YoY Change (%)	247.0	135.4	215.1	193.1	-36.2	-22.4	-63.1	-40.5	192.9	-40.1	-116.7	
Key Assumptions												
Refining throughput (mmt)	4.0	4.1	4.0	4.4	2.5	2.5	4.2	4.7	16.4	14.0	4.7	-1%
Reported GRM (USD/bbl)	0.0	5.1	1.9	8.1	3.3	2.4	6.4	12.5	3.8	6.2	19.8	-37%
Marketing sales volume incl exports (mmt)	7.6	8.4	10.4	10.1	8.8	9.1	10.5	10.7	36.6	39.1	9.5	12%

Key Assumptions- HPCL

Y End: March 31	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Exchange Rate (INR/USD)	67.1	64.5	70.0	70.9	74.3	74.5	75.6	76.8
Brent Crude (USD/bbl)	48.6	57.6	70.1	61.2	44.4	81.6	80.0	75.0
Market Sales (MMT)	35	37	39	40	37	39	41	42
YoY (%)	3	6	5	2	(8)	7	4	4
GRM (USD/bbl)	6.2	7.4	5.0	1.0	3.9	7.2	8.8	5.0
Singapore GRM (USD/bbl)	5.8	7.3	4.9	3.2	0.5	4.9	8.3	6.0
Prem/(disc) (USD/bbl)	0	0	0	(2)	3	2	0.5	(1.0)
Total Refinery throughput (MMT)	17.8	18.3	18.4	17.2	16.4	14.0	22.0	24.0
YoY (%)	3%	3%	1%	-7%	-4%	-15%	57%	9%
Refining capacity utilization (%)	120%	116%	117%	109%	104%	88%	98%	98%
Blended marketing margin incld inventory (INR/lit)	4.0	3.6	4.3	4.0	6.3	4.3	4.5	4.5
Cons EPS	54.0	47.4	43.9	23.9	70.0	47.9	51.7	40.1

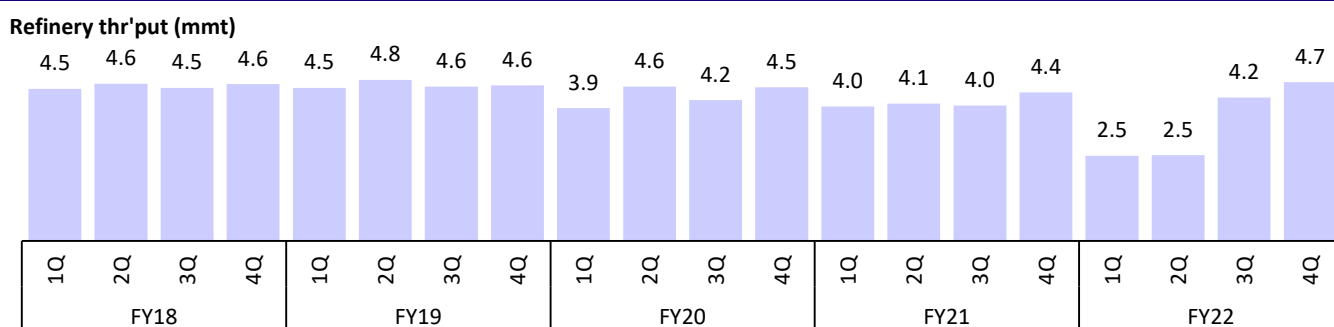
Story in charts – 4QFY22

Exhibit 1: Reported GRM stood at USD12.5/bbl (v/s our estimate of USD19.8), while SG GRM stood at USD7.8/bbl in 4QFY22



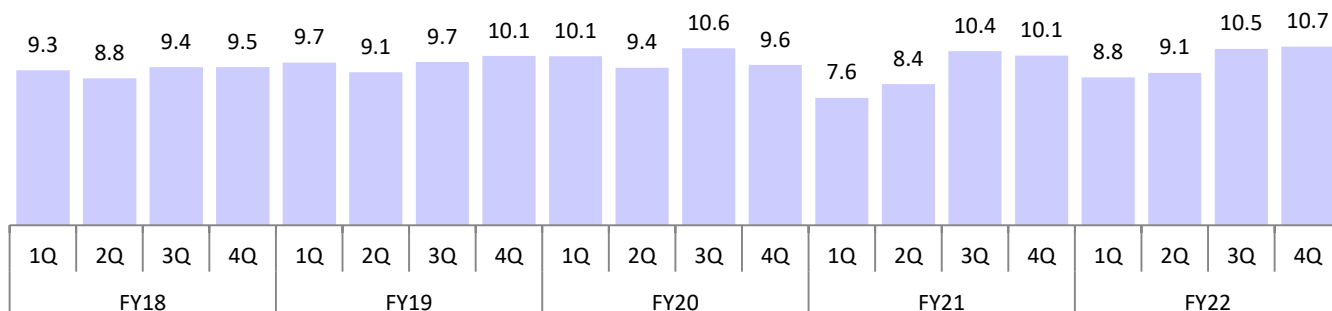
Source: Company, MOFSL

Exhibit 2: Throughput at 4.7mmt (utilization at 120%) in 4QFY22 (+7% YoY, +11% QoQ)



Source: Company, MOFSL

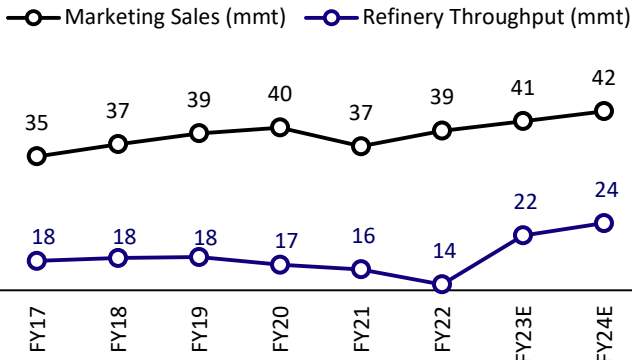
Exhibit 3: Marketing volume was +54% YoY (+94% QoQ) to 10.7mmt



Source: Company, MOFSL

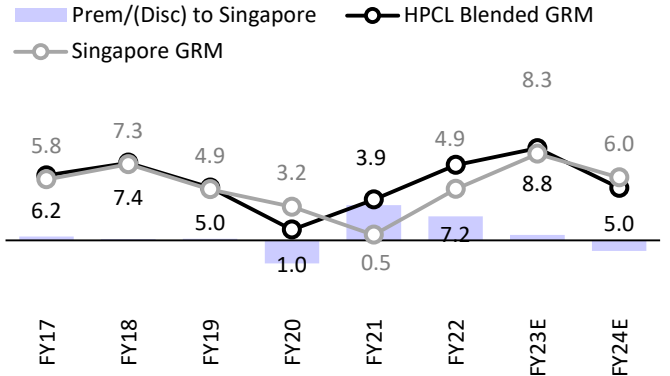
Story in charts

Exhibit 4: Refining throughput/marketing sales of HPCL



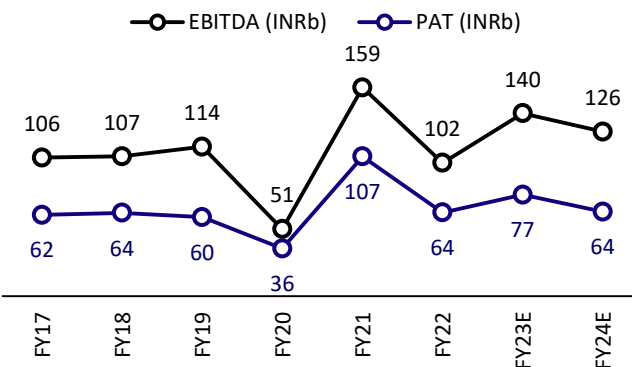
Source: Company, MOFSL

Exhibit 5: GRM trend of HPCL



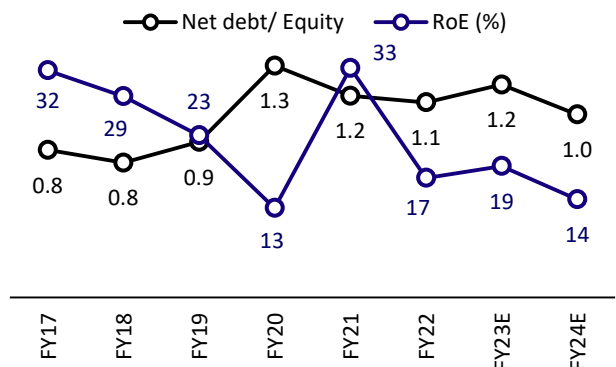
Source: Company, MOFSL

Exhibit 6: EBITDA v/s PAT (standalone)



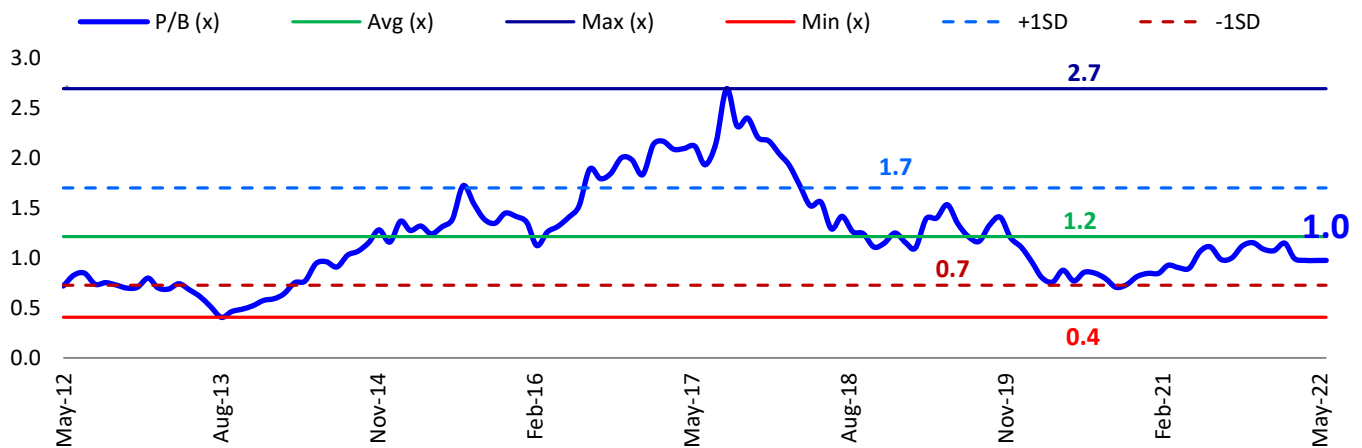
Source: Company, MOFSL

Exhibit 7: Standalone ratios



Source: Company, MOFSL

Exhibit 8: HPCL – 1-year forward P/B trades at 17% discount to its long-term average of 1.2x



Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement								(INR b)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Total Income from Operations	1,874.9	2,195.1	2,754.9	2,690.9	2,332.5	3,499.1	3,528.8	3,288.0
Change (%)	5.4	17.1	25.5	-2.3	-13.3	50.0	0.8	-6.8
EBITDA	108.8	107.1	115.3	56.6	160.0	102.4	140.2	126.2
Margin (%)	5.8	4.9	4.2	2.1	6.9	2.9	4.0	3.8
Depreciation	27.8	28.3	30.9	33.7	36.3	40.0	47.0	53.7
EBIT	81.0	78.8	84.4	22.9	123.8	62.4	93.2	72.4
Interest Charges (incld forex)	6.1	6.2	7.9	11.4	9.6	10.0	20.8	24.3
Other Income	13.8	15.3	14.5	16.8	26.4	24.4	17.2	17.9
PBT bef. JVs/associates EO	88.8	87.9	91.1	28.4	140.6	76.9	89.6	66.1
EO Items	0.0	0.0	0.0	-10.0	0.0	0.0	0.0	0.0
Minority Interest	23.2	13.2	9.3	-4.6	1.4	14.6	15.8	15.8
PBT after EO Exp.	112.0	101.1	100.4	13.7	142.0	91.4	105.4	81.8
Total Tax	29.6	28.9	33.5	-12.6	35.3	18.5	26.5	20.6
Tax Rate (%)	26.4	28.6	33.4	-92.0	24.9	20.2	25.2	25.2
Reported PAT	82.4	72.2	66.9	26.4	106.6	72.9	78.8	61.2
Adjusted PAT	82.4	72.2	66.9	36.4	106.6	72.9	78.8	61.2
Change (%)	76.2	-12.4	-7.3	-45.6	192.8	-31.6	8.1	-22.3
Margin (%)	4.4	3.3	2.4	1.4	4.6	2.1	2.2	1.9

Consolidated - Balance Sheet								(INR b)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	10.2	15.2	15.2	15.2	14.5	14.2	14.2	14.2
Total Reserves	200.6	240.1	288.8	294.6	366.3	399.9	454.0	494.7
Net Worth	210.7	255.3	304.0	309.8	380.8	414.0	468.2	508.9
Total Loans	180.3	205.4	260.4	393.9	427.1	450.3	486.3	486.3
Deferred Tax Liabilities	61.5	68.0	74.0	54.9	54.6	59.6	59.6	59.6
Capital Employed	452.5	528.7	638.3	758.6	862.5	923.9	1,014.1	1,054.8
Net Fixed Assets	368.6	386.8	416.2	489.4	505.9	578.0	680.7	727.0
Capital WIP	18.7	40.1	95.2	171.7	253.4	289.1	276.4	263.4
Total Investments	117.7	128.8	143.0	144.0	150.9	188.7	188.7	188.7
Curr. Assets, Loans&Adv.	283.6	322.5	395.5	336.8	397.3	453.0	455.5	444.8
Inventory	186.3	186.1	204.4	193.3	287.6	355.1	358.2	333.7
Account Receivables	40.9	55.9	56.7	39.3	68.7	63.4	63.9	59.6
Cash and Bank Balance	1.4	12.9	2.2	2.2	5.7	2.6	1.5	19.6
Cash	1.1	1.2	2.0	2.0	4.8	2.3	1.3	19.3
Bank Balance	0.2	11.7	0.2	0.2	0.9	0.2	0.2	0.2
Loans and Advances	5.3	10.4	19.9	18.2	11.1	10.8	10.8	10.8
Others	49.7	57.1	112.3	83.8	24.1	21.1	21.1	21.1
Curr. Liability & Prov.	350.7	368.0	435.1	410.5	479.1	622.3	624.6	606.4
Account Payables	127.0	157.8	190.5	114.7	178.0	264.8	267.0	248.8
Other Current Liabilities	199.1	185.0	223.2	268.9	272.3	332.2	332.2	332.2
Provisions	24.5	25.2	21.4	26.9	28.8	25.4	25.4	25.4
Net Current Assets	-67.1	-45.5	-39.7	-73.7	-81.8	-169.3	-169.1	-161.6
Appl. of Funds	453	529	638	759	862	924	1,014.1	1,054.8

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)								
EPS	54.0	47.4	43.9	23.9	70.0	47.9	51.7	40.2
Cash EPS	72.2	66.0	64.1	46.0	93.7	74.1	82.6	75.4
BV/Share	138.2	167.5	199.5	203.3	249.8	271.6	307.2	333.9
DPS	22.8	16.2	15.2	9.3	21.7	13.3	16.2	13.5
Payout (%)	50.8	42.8	43.8	77.2	31.0	27.9	31.3	33.5
Valuation (x)								
P/E	4.5	5.2	5.6	10.2	3.5	5.1	4.7	6.1
Cash P/E	3.4	3.7	3.8	5.3	2.6	3.3	3.0	3.2
P/BV	1.8	1.5	1.2	1.2	1.0	0.9	0.8	0.7
EV/Sales	0.3	0.3	0.2	0.3	0.3	0.2	0.2	0.3
EV/EBITDA	5.1	5.3	5.5	13.5	5.0	8.0	6.1	6.6
Dividend Yield (%)	9.4	6.6	6.2	3.8	8.9	5.5	6.6	5.5
FCF per share	28.9	28.4	-17.8	-54.6	40.8	24.8	5.5	41.3
Return Ratios (%)								
RoE	43.7	31.0	23.9	11.9	30.9	18.4	17.9	12.5
RoCE	17.9	15.8	12.9	12.0	14.9	8.3	9.1	6.9
RoIC	18.7	17.0	15.1	10.5	20.8	11.1	14.1	9.6
Working Capital Ratios								
Fixed Asset Turnover (x)	4.4	4.7	5.2	4.2	3.4	4.4	3.7	3.1
Asset Turnover (x)	4.1	4.2	4.3	3.5	2.7	3.8	3.5	3.1
Inventory (Days)	36	31	27	26	45	37	37	37
Debtor (Days)	8	9	8	5	11	7	7	7
Creditor (Days)	25	26	25	16	28	28	28	28
Leverage Ratio (x)								
Current Ratio	0.8	0.9	0.9	0.8	0.8	0.7	0.7	0.7
Interest Cover Ratio	13.3	12.8	10.7	2.0	12.8	6.3	4.5	3.0
Net Debt/Equity	0.8	0.8	0.8	1.3	1.1	1.1	1.0	0.9

Consolidated - Cash Flow Statement

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
(INR b)								
OP/(Loss) before Tax	112.0	101.1	100.4	13.7	142.0	91.4	105.4	81.8
Depreciation	27.8	28.3	30.9	33.7	36.3	40.0	47.0	53.7
Interest expense	6.1	6.2	7.9	11.4	9.6	10.0	20.8	24.3
Interest income and dividend	-3.5	-4.0	-4.0	-4.0	-4.0	-4.0	0.0	0.0
Direct Taxes Paid	-21.8	-20.0	-20.8	-17.2	-31.9	-14.5	-26.5	-20.6
MI and others	-24.6	-10.7	-4.5	9.7	-2.7	-20.3	0.0	0.0
(Inc)/Dec in WC	6.6	9.4	-24.3	7.4	28.9	55.5	-1.3	10.6
CF from Operations	102.5	110.4	85.5	54.7	178.3	158.1	145.4	149.9
(Inc)/Dec in FA	-58.5	-67.0	-112.7	-137.9	-116.1	-120.3	-137.0	-87.0
Free Cash Flow	44.0	43.3	-27.1	-83.2	62.2	37.8	8.4	62.9
Others	-2.8	3.7	9.3	5.6	7.0	9.0	0.0	0.0
CF from Investments	-60.4	-66.0	-110.7	-141.7	-122.8	-137.4	-137.0	-87.0
Inc/(Dec) in Debt	5.3	-11.2	51.0	114.6	2.9	39.2	36.0	0.0
Interest Paid	-5.9	-5.1	-8.5	-12.9	-16.0	-17.2	-20.8	-24.3
Dividend Paid	-41.8	-27.9	-16.5	-17.3	-14.8	-32.2	-24.7	-20.5
CF from Fin. Activity	-42.4	-44.2	26.0	87.0	-52.8	-23.1	-9.4	-44.9
Inc/Dec of Cash	-0.3	0.1	0.8	0.1	2.8	-2.5	-1.1	18.0
Opening Balance	1.4	1.1	1.2	2.0	2.0	4.8	2.3	1.3
Closing Balance	1.1	1.2	2.0	2.0	4.8	2.3	1.3	19.3

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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

Disclosures

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