

August 8, 2022

## Q1FY23 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
<b>Rating</b>	<b>HOLD</b>		<b>BUY</b>	
<b>Target Price</b>	<b>247</b>		<b>368</b>	
Sales (Rs. m)	30,72,871	32,31,551	31,04,656	33,12,579
% Chng.	(1.0)	(2.4)		
EBITDA (Rs. m)	(943)	94,092	67,295	1,42,397
% Chng.	(101.4)	(33.9)		
EPS (Rs.)	(14.2)	30.5	21.4	55.7
% Chng.	(166.4)	(45.3)		

### Key Financials - Standalone

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. bn)	2,330	3,510	3,073	3,232
EBITDA (Rs. bn)	159	115	(1)	94
Margin (%)	6.8	3.3	0.0	2.9
PAT (Rs. bn)	107	77	(20)	43
EPS (Rs.)	73.4	54.0	(14.2)	30.5
Gr. (%)	190.9	(26.4)	(126.3)	(314.6)
DPS (Rs.)	23.9	14.6	(4.6)	9.9
Yield (%)	9.5	5.8	(1.8)	4.0
RoE (%)	32.7	20.5	(5.3)	11.1
RoCE (%)	17.0	9.4	(5.2)	5.6
EV/Sales (x)	0.3	0.2	0.2	0.2
EV/EBITDA (x)	4.6	6.4	(718.4)	8.3
PE (x)	3.4	4.6	(17.7)	8.2
P/BV (x)	1.0	0.9	1.0	0.9

### Key Data

HPCL.BO | HPCL IN

52-W High / Low	Rs.355 / Rs.207
Sensex / Nifty	58,388 / 17,398
Market Cap	Rs.356bn / \$ 4,488m
Shares Outstanding	1,419m
3M Avg. Daily Value	Rs.1157.82m

### Shareholding Pattern (%)

Promoter's	54.90
Foreign	18.21
Domestic Institution	16.41
Public & Others	10.47
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	10.8	(10.8)	(5.4)
Relative	0.8	(10.4)	(11.7)

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## Marketing loss plays havoc

### Quick Pointers:

- Marketing margins remain a concern due to geopolitical tension, despite drop in crude and product prices.
- GRMs likely to remain supportive, given low product inventory and lower exports from China & Russia.

**We lower our FY24E earnings by 45% and downgrade to 'HOLD' from 'BUY' with a revised PT of Rs247 (Rs368 earlier) based on 7x PER FY24E (6x PER FY23 earlier) and add value of investments. We also lower our marketing margins assumptions and factor loss of Rs20.1bn in FY23 vs PAT of Rs30bn earlier.**

**HPCL reported lower than expected Q1 results with standalone EBITDA of -Rs125bn (Q4: +Rs 21bn; PLe -Rs61bn) and PAT of -Rs102bn (Q4: Rs17.9bn; PLe -Rs70.4bn), led by loss of Rs9.8bn due to steep marketing loss and excise duty cuts on petrol and diesel's unsold inventory. Core EBITDA adjusted for inventory and forex loss was at -Rs105.7bn vs Rs21.8bn in Q4. We believe uncertain geopolitical environment will keep diesel marketing losses high given 1) gas to oil switch from high spot LNG prices 2) global low inventory and 3) lower exports from China and Russia.**

- High marketing, excise duty and forex loss drag performance:** HPCL reported lower than expected Q1 results with standalone EBITDA/PAT of -Rs125bn (PLe -Rs60.9bn) and -Rs102bn (PLe -Rs70.4bn) due to marketing and inventory losses and lower than expected GRMs. Q1 GRMs were at \$16.7/bbl (Q4: 12.4/bbl; PLe \$23/bbl), lower than benchmark levels of \$21.5/bbl. Refining throughput improved to 4.81MTPA (Q4: 4.7; PLe 4.8).
- GRMs are likely to remain healthy as economic activity recovers along with geopolitical disruptions.
- Marketing profitability remain a drag:** HPCL earnings were hit by inventory loss of Rs9.8bn post excise duty cuts on petrol and diesel by Rs8/6litre on unsold inventory. We calculate marketing EBITDA loss at -Rs144bn vs -Rs3.7bn in Q4, due to unchanged retail fuel prices. Q1 petrol and diesel marketing loss was at -11/15litre vs Q4 levels of -2/litre. We lower diesel marketing margins to -Rs6/+1litre (-Rs3/+3 for FY23/24E earlier) and change our FY23/24 gasoline marketing margins to Rs1.5/2.0litre (Rs0/3.5 earlier).
- HPCL's marketing volumes were higher vis-à-vis the industry. For HSD it was at 4.9MTA (+11%Q/Q vs industry rate of 7.7%) while for MS it was at 2.1MTPA (+12%Q/Q vs industry rate of 10.7%). Recovering volumes due to pick up in economic activity augurs well for OMCs.
- Downgrade to HOLD from BUY:** We downgrade to 'HOLD' from 'BUY' with a PT of Rs247 (Rs368), as we value based on 7x PER core EPS FY24E (6x FY23 earlier) and add value of investments (Rs34/sh). Higher multiple leads to an upside risk to our earnings which factors conservative assumptions.



## Exhibit 1: Q1FY23 Result Overview (Rs mn)

Y/e March	Q1FY23	Q1FY22	YoY gr. (%)	Q4FY22	FY23E	FY22	YoY gr. (%)
<b>Net sales</b>	<b>12,14,488</b>	<b>7,75,855</b>	<b>56.5</b>	<b>10,52,885</b>	<b>33,12,359</b>	<b>37,38,968</b>	<b>(11.4)</b>
Inc/dec in stock	-11,142	31,335	(135.6)	-26,955	-13,439	-6,296	113.5
Raw material cons	3,37,067	94,955	255.0	2,62,952	7,83,147	6,81,986	14.8
Staff cost	7,060	8,359	(15.5)	7,416	32,807	29,825	10.0
Purchases	8,87,557	5,28,043	68.1	6,65,416	20,58,207	25,44,467	(19.1)
Duties	69,941	51,421	36.0	77,157	2,52,926	2,42,138	4.5
Other expenditure	48,951	29,812	64.2	45,912	1,99,653	1,45,090	37.6
Exp	-13,39,434	-7,43,926	80.0	-10,31,899	-33,13,301	-36,37,209	(8.9)
<b>Operating profit</b>	<b>-1,24,946</b>	<b>31,930</b>	<b>(491.3)</b>	<b>20,986</b>	<b>-943</b>	<b>1,01,759</b>	<b>(100.9)</b>
Interest	-3,327	-2,542	30.9	-3,283	-10,173	-9,728	4.6
Depreciation	-10,945	-9,139	19.8	-10,832	-39,603	-39,691	(0.2)
Other income	3,397	3,720	(8.7)	15,979	23,485	29,697	(20.9)
<b>Profit before tax</b>	<b>-1,35,820</b>	<b>23,969</b>	<b>(666.7)</b>	<b>22,850</b>	<b>-27,234</b>	<b>82,037</b>	<b>(133.2)</b>
Current tax	0	-4,314	(100.0)	-2,523	5,447	-13,534	(140.2)
<b>Profit after current tax</b>	<b>-1,35,820</b>	<b>19,654</b>	<b>(791.0)</b>	<b>20,327</b>	<b>-32,681</b>	<b>68,503</b>	<b>(147.7)</b>
Deferred tax	33,850	-1,704	(2,086.3)	-2,374	1,634	-4,677	(134.9)
<b>Net profit</b>	<b>-1,01,969</b>	<b>17,950</b>	<b>(668.1)</b>	<b>17,953</b>	<b>-20,153</b>	<b>63,826</b>	<b>(131.6)</b>

Source: Company, PL

## Exhibit 2: HPCL quarterly details

	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
<b>Total throughput</b>	<b>3.97</b>	<b>4.06</b>	<b>4.00</b>	<b>4.39</b>	<b>2.51</b>	<b>2.53</b>	<b>4.24</b>	<b>4.69</b>	<b>4.81</b>
<b>Market sales</b>									
Pipeline throughput (MMT)	3.54	4.70	5.52	5.36	4.34	4.7	5.5	5.32	5.75
Mkt sales (MMT)	7.24	8.10	10.03	9.83	8.45	9.1	10.0	10.3	10.4
GRMs (\$/bbl)	0.04	5.11	1.87	8.11	3.31	2.44	6.39	12.4	16.7

Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
<b>Net Revenues</b>	<b>23,29,968</b>	<b>35,09,682</b>	<b>30,72,871</b>	<b>32,31,551</b>
YoY gr. (%)	-	-	-	-
Cost of Goods Sold	20,04,241	32,20,157	28,41,354	29,26,594
Gross Profit	3,25,727	2,89,525	2,31,517	3,04,957
Margin (%)	14.0	8.2	7.5	9.4
Employee Cost	31,884	29,825	32,807	39,368
Other Expenses	1,34,589	1,45,090	1,99,653	1,71,496
<b>EBITDA</b>	<b>1,59,254</b>	<b>1,14,611</b>	<b>(943)</b>	<b>94,092</b>
YoY gr. (%)	210.8	(28.0)	(100.8)	(10,083.3)
Margin (%)	6.8	3.3	0.0	2.9
Depreciation and Amortization	35,527	39,691	39,603	47,997
<b>EBIT</b>	<b>1,23,728</b>	<b>74,920</b>	<b>(40,546)</b>	<b>46,095</b>
Margin (%)	5.3	2.1	(1.3)	1.4
Net Interest	9,147	9,727	10,173	13,108
Other Income	27,887	29,697	23,485	25,454
<b>Profit Before Tax</b>	<b>1,42,468</b>	<b>94,889</b>	<b>(27,234)</b>	<b>58,441</b>
Margin (%)	6.1	2.7	(0.9)	1.8
Total Tax	35,829	18,211	(7,081)	15,195
Effective tax rate (%)	25.1	19.2	26.0	26.0
<b>Profit after tax</b>	<b>1,06,639</b>	<b>76,679</b>	<b>(20,153)</b>	<b>43,247</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>1,06,639</b>	<b>76,679</b>	<b>(20,153)</b>	<b>43,247</b>
YoY gr. (%)	177.2	(28.1)	(126.3)	(314.6)
Margin (%)	4.6	2.2	(0.7)	1.3
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>1,06,639</b>	<b>76,679</b>	<b>(20,153)</b>	<b>43,247</b>
YoY gr. (%)	-	-	-	-
Margin (%)	4.6	2.2	(0.7)	1.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,06,639	76,679	(20,153)	43,247
<b>Equity Shares O/s (m)</b>	<b>1,452</b>	<b>1,419</b>	<b>1,419</b>	<b>1,419</b>
<b>EPS (Rs)</b>	<b>73.4</b>	<b>54.0</b>	<b>(14.2)</b>	<b>30.5</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>6,59,151</b>	<b>7,69,347</b>	<b>10,94,347</b>	<b>11,64,347</b>
Tangibles	6,59,151	7,69,347	10,94,347	11,64,347
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>1,66,543</b>	<b>2,06,234</b>	<b>2,45,837</b>	<b>2,93,834</b>
Tangibles	1,66,543	2,06,234	2,45,837	2,93,834
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>4,92,609</b>	<b>5,63,113</b>	<b>8,48,510</b>	<b>8,70,512</b>
Tangibles	4,92,609	5,63,113	8,48,510	8,70,512
Intangibles	-	-	-	-
Capital Work In Progress	2,40,533	2,65,574	15,533	85,533
Goodwill	8,199	10,308	10,308	10,308
Non-Current Investments	1,07,279	1,37,581	1,48,703	1,62,533
Net Deferred tax assets	(55,111)	(59,783)	(58,149)	(61,655)
Other Non-Current Assets	27,665	29,313	32,244	35,469
<b>Current Assets</b>				
Investments	54,176	53,715	59,087	64,995
Inventories	2,85,922	3,53,456	3,13,127	3,29,147
Trade receivables	68,563	63,318	56,321	59,203
Cash & Bank Balance	2,372	1,310	1,441	1,585
Other Current Assets	4,269	5,670	6,237	6,861
<b>Total Assets</b>	<b>13,12,392</b>	<b>15,01,604</b>	<b>13,91,381</b>	<b>15,84,877</b>
<b>Equity</b>				
Equity Share Capital	14,524	14,189	14,189	14,189
Other Equity	3,47,337	3,72,581	3,57,347	3,90,038
<b>Total Networkth</b>	<b>3,61,861</b>	<b>3,86,770</b>	<b>3,71,537</b>	<b>4,04,227</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	2,70,697	3,12,270	2,62,270	2,72,270
Provisions	517	450	495	544
Other non current liabilities	3,700	4,452	4,897	5,386
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	1,48,194	1,19,659	1,19,659	2,19,659
Trade payables	1,76,973	2,64,479	2,18,683	2,29,873
Other current liabilities	2,95,330	3,23,357	3,55,693	3,91,262
<b>Total Equity &amp; Liabilities</b>	<b>13,12,392</b>	<b>15,01,604</b>	<b>13,91,381</b>	<b>15,84,877</b>

Source: Company Data, PL Research



## Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	1,42,468	82,037	(27,234)	58,441
Add. Depreciation	35,527	39,691	39,603	47,997
Add. Interest	9,147	9,727	10,173	13,108
Less Financial Other Income	27,887	29,697	23,485	25,454
Add. Other	-	-	-	-
Op. profit before WC changes	1,87,142	1,31,455	22,543	1,19,546
Net Changes-WC	5,526	88,616	1,13,292	(36,714)
Direct tax	(35,862)	(13,230)	5,447	(11,688)
<b>Net cash from Op. activities</b>	<b>1,56,806</b>	<b>2,06,841</b>	<b>1,41,282</b>	<b>71,144</b>
Capital expenditures	(1,45,490)	(1,64,180)	(86,875)	(1,53,108)
Interest / Dividend Income	-	-	-	-
Others	(1,120)	(3,136)	(656)	(721)
<b>Net Cash from Inv. activities</b>	<b>(1,46,610)</b>	<b>(1,67,316)</b>	<b>(87,531)</b>	<b>(1,53,829)</b>
Issue of share cap. / premium	307	(23,143)	-	-
Debt changes	34,561	13,038	(50,000)	1,10,000
Dividend paid	(34,676)	(20,754)	6,553	(14,063)
Interest paid	(9,147)	(9,727)	(10,173)	(13,108)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(8,955)</b>	<b>(40,587)</b>	<b>(53,620)</b>	<b>82,830</b>
<b>Net change in cash</b>	<b>1,241</b>	<b>(1,062)</b>	<b>131</b>	<b>144</b>
Free Cash Flow	11,316	42,661	54,407	(81,964)

Source: Company Data, PL Research

## Quarterly Financials (Rs m)

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
<b>Net Revenue</b>	<b>8,30,645</b>	<b>9,66,024</b>	<b>9,75,727</b>	<b>11,44,547</b>
YoY gr. (%)	60.4	40.7	30.4	58.0
Raw Material Expenses	7,58,140	9,06,271	9,01,413	12,13,482
Gross Profit	72,505	59,753	74,315	(68,935)
Margin (%)	8.7	6.2	7.6	(6.0)
<b>EBITDA</b>	<b>30,136</b>	<b>18,707</b>	<b>20,986</b>	<b>(1,24,946)</b>
YoY gr. (%)	(16.4)	(43.3)	(55.0)	(491.3)
Margin (%)	3.6	1.9	2.2	(10.9)
Depreciation / Depletion	9,473	10,247	10,832	10,945
<b>EBIT</b>	<b>20,663</b>	<b>8,460</b>	<b>10,154</b>	<b>(1,35,890)</b>
Margin (%)	2.5	0.9	1.0	(11.9)
Net Interest	1,545	2,358	3,283	3,327
Other Income	4,494	5,504	15,979	3,397
<b>Profit before Tax</b>	<b>23,612</b>	<b>11,607</b>	<b>22,850</b>	<b>(1,35,820)</b>
Margin (%)	2.8	1.2	2.3	(11.9)
Total Tax	4,377	2,918	4,897	(33,850)
Effective tax rate (%)	18.5	25.1	21.4	24.9
<b>Profit after Tax</b>	<b>19,235</b>	<b>8,688</b>	<b>17,953</b>	<b>(1,01,969)</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>19,235</b>	<b>8,688</b>	<b>17,953</b>	<b>(1,01,969)</b>
YoY gr. (%)	(22.4)	(63.1)	(40.5)	(668.1)
Margin (%)	2.3	0.9	1.8	(8.9)
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>19,235</b>	<b>8,688</b>	<b>17,953</b>	<b>(1,01,969)</b>
YoY gr. (%)	(22.4)	(63.1)	(40.5)	(668.1)
Margin (%)	2.3	0.9	1.8	(8.9)
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>19,235</b>	-	-	-
Avg. Shares O/s (m)	-	-	-	-
<b>EPS (Rs)</b>	-	-	-	-

Source: Company Data, PL Research

## Key Financial Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
<b>Per Share(Rs)</b>				
EPS	73.4	54.0	(14.2)	30.5
CEPS	97.9	82.0	13.7	64.3
BVPS	249.1	272.6	261.8	284.9
FCF	7.8	30.1	38.3	(57.8)
DPS	23.9	14.6	(4.6)	9.9
<b>Return Ratio(%)</b>				
RoCE	17.0	9.4	(5.2)	5.6
ROIC	9.9	5.2	(3.0)	3.0
RoE	32.7	20.5	(5.3)	11.1
<b>Balance Sheet</b>				
Net Debt : Equity (x)	1.0	1.0	0.9	1.1
Net Working Capital (Days)	28	16	18	18
<b>Valuation(x)</b>				
PER	3.4	4.6	(17.7)	8.2
P/B	1.0	0.9	1.0	0.9
P/CEPS	2.6	3.1	18.3	3.9
EV/EBITDA	4.6	6.4	(718.4)	8.3
EV/Sales	0.3	0.2	0.2	0.2
Dividend Yield (%)	9.5	5.8	(1.8)	4.0

Source: Company Data, PL Research

## Key Operating Metrics

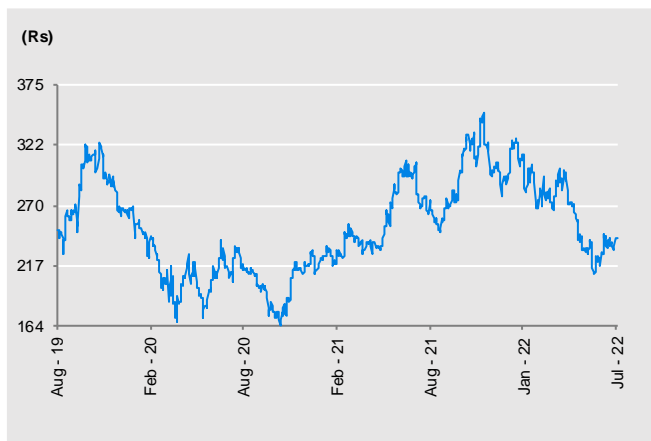
Y/e Mar	FY21	FY22	FY23E	FY24E
Crude /bbl	45	65	70	70
US\$/Rs	74	77	79	81
GRM (US\$/bbl)	3	7	14	9
Refining volume (MTPA)	16	14	23	23

Source: Company Data, PL Research



## Price Chart

## Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Jul-22	BUY	368	226
2	23-May-22	BUY	368	244
3	04-Apr-22	BUY	349	280
4	31-Jan-22	BUY	445	314
5	06-Jan-22	BUY	445	314
6	02-Nov-21	BUY	445	303
7	05-Oct-21	BUY	404	303

## Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bharat Petroleum Corporation	BUY	416	313
2	GAIL (India)	BUY	180	140
3	Gujarat Gas	BUY	553	463
4	Hindustan Petroleum Corporation	BUY	368	226
5	Indian Oil Corporation	Hold	81	73
6	Indraprastha Gas	BUY	589	361
7	Mahanagar Gas	BUY	1,103	767
8	Oil & Natural Gas Corporation	BUY	160	127
9	Oil India	BUY	300	191
10	Petronet LNG	BUY	315	217
11	Reliance Industries	BUY	3,165	2,572

## PL's Recommendation Nomenclature (Absolute Performance)

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



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