

## Marketing losses negate refining gains...

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

- The company operates more than 19000 retail outlets
- Petrol & diesel together historically contributed more than 60% of total sales

**Q1FY23 Results:** HPCL's results were significantly below our estimates on the profitability front.

- Revenue was up 15.3% QoQ to ₹ 121448.8 crore (estimate: ₹ 115787.2 crore). Product sales grew 1.9% QoQ to 10.5 MMT
- Reported GRMs were at US\$16.7/bbl while throughput was up 2.6% QoQ to 4.8 MMT. EBITDA loss was at ₹ 12494.6 crore against EBITDA of ₹ 2098.6 crore in Q4FY22 (estimated EBITDA loss: ₹ -3399.2 crore)
- Subsequently, net loss was at ₹ 10196.9 crore compared to PAT of ₹ 1795.3 crore in Q4FY22 (estimated loss: ₹ 3271.6 crore)

**What should investors do?** HPCL's refining performance has improved QoQ. We expect it to stabilise at lower levels taking into account recent product spreads trend. The company has not passed on higher crude oil costs to customers while weaker marketing profitability is likely to impact earnings in the near term.

- We retain our **HOLD** rating on the stock

**Target Price and Valuation:** We value HPCL at ₹ 230 i.e. average of P/BV multiple: ₹ 231/share and P/E multiple: ₹ 229/share.

### Key triggers for future price performance:

- Crude throughput to improve with increased capacity getting commissioned
- Product cracks sustaining at higher level
- Passing on higher crude oil costs to customers
- Consistent dividend payout

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

- Gail is a beneficiary of increasing gas consumption. Stable volume growth along with higher profitability from gas trading, petchem and LPG segment due to higher oil prices will add value
- BUY with a target price of ₹ 160



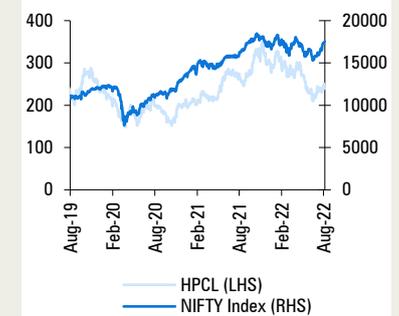
### Particulars

Particular	Amount
Market Capitalization (₹ Crore)	33,912.7
Total Debt (FY22) (₹ Crore)	46,590.3
Cash and Investments (FY22)	131.0
EV (₹ Crore)	80,372.0
52 week H/L	354/207
Equity capital (₹ Crore)	1,418.9
Face value (₹)	10.0

### Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	54.9	54.9	54.9	54.9
FII	18.3	20.2	19.9	18.2
DII	15.9	15.1	15.1	16.4
Others	10.9	9.8	10.1	10.5

### Price Chart



### Recent event & key risks

- Key Risk:** (i) Higher than expected GRMs, (ii) Inability to pass on higher oil costs to customers

### Research Analyst

Harshal Mehta  
harshal.mehta@icicisecurities.com

Amogh Deshpande  
amogh.deshpande@icicisecurities.com

### Key Financial Summary

(Year-end March)	FY19	FY20	FY21	FY22	5 yr CAGR (FY17-22E)	FY23E	FY24E	2 yr CAGR (FY22-24E)
Revenues (₹ crore)	2,96,928.4	2,87,407.3	2,70,326.3	3,73,896.7	11.8	4,71,264.1	4,59,008.0	10.8
EBITDA (₹ crore)	11,442.0	5,123.2	15,925.4	10,175.9	(0.8)	(5,082.1)	12,284.2	9.9
Net Profit (₹ crore)	6,028.7	2,637.3	10,663.9	6,382.6	0.6	(6,536.8)	5,404.8	(8.0)
EPS (₹)	39.5	17.3	70.6	44.9		(46.1)	38.1	
P/E (x)	6.0	13.8	3.4	5.3		(5.2)	6.3	
Price / Book (x)	1.3	1.3	1.0	0.9		1.1	1.1	
EV/EBITDA (x)	5.6	15.5	4.9	7.9		(18.8)	8.1	
RoCE (%)	15.2	2.5	15.6	7.3		(10.5)	6.9	
RoE (%)	21.4	9.1	29.5	16.5		(22.1)	16.8	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlights

### Q1FY23 Results: Refining and marketing profitability lower than estimates

- HPCL’s results were sharply lower than our estimates. Both refining as well as marketing profitability was weaker than estimated
- Reported GRMs at US\$16.7/bbl were lower than expectations of US\$26.6/bbl. The company did not disclose refining inventory details. We estimate GRMs at US\$11.8/bbl, US\$8/bbl in FY23E, FY24E, respectively taking into account recent product cracks trend
- On account of increase in refining capacity, we estimate crude throughput of 20.7 MMT and 24.5 MMT for FY23E and FY24E, respectively
- We estimate marketing sales at 40.9 MMT and 42.7 MMT in FY23E and FY24E, respectively

## Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
BPCL (BHAPET)	326	320	Hold	69,420	41.3	-7.9	42.2	7.9	-41.4	7.7	6.5	27.4	6.3	13.2	-1.7	13.2	17.7	-3.8	18.6
HPCL (HINPET)	239	230	Hold	33,913	44.9	-46.1	38.1	5.3	-5.2	6.3	7.9	-18.8	8.1	7.3	-10.5	6.9	16.5	-22.1	16.8
Indian Oil Corp (INDOIL)	71	80	Hold	1,00,614	17.1	7.7	13.1	4.2	9.3	5.4	2.3	3.4	2.5	12.9	6.4	9.6	18.4	8.3	13.3

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Total Revenues	121,448.8	115,787.2	77,585.5	56.5	105,288.5	15.3	Revenue increased on account of higher product prices
Raw materials costs	121,348.2	106,795.3	65,433.3	85.5	90,141.3	34.6	
Employees Cost	706.0	886.1	835.9	-15.5	741.6	-4.8	
Other Expenses	11,889.2	11,505.0	8,123.3	46.4	12,307.0	-3.4	
Total Expenditure	133,943.4	119,186.4	74,392.6	80.0	103,189.9	29.8	
EBITDA	-12,494.6	-3,399.2	3,193.0	-491.3	2,098.6	-695.4	Sharply lower-than-expected due to weaker-than-expected GRMs and marketing margins
EBITDA margins (%)	-10.3	-2.9	4.1	-1440 bps	2.0	-1228 bps	
Depreciation	1,094.5	1,160.7	913.9	19.8	1,083.2	1.0	
EBIT	-13,589.0	-4,559.9	2,279.0	-696.3	1,015.4	-1,438.3	
Interest	332.7	388.8	254.2	30.9	328.3	1.3	
Other Income	339.7	575.0	372.0	-8.7	1,597.9	-78.7	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	-13,582.0	-4,373.7	2,396.9	-666.7	2,285.0	-694.4	
Total Tax	-3,385.0	-1,102.2	601.9	-662.4	489.7	-791.3	
PAT	-10,196.9	-3,271.6	1,795.0	-668.1	1,795.3	-668.0	

Key Metrics

Exchange rate (₹/\$)	77.3	77.3	73.9	4.6	75.2	2.7	
Throughput (mmt)	4.8	4.8	2.5	91.6	4.7	2.6	In line with estimates
Sales (mmt)	10.5	10.3	8.5	23.7	10.3	1.9	
GRM (\$/barrel)	16.7	26.6	3.3	404.2	12.4	34.2	Reported GRMs below estimates

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(\$ Crore)	FY23E			FY24E			Comments
	Old	New	Change	Old	New	Change	
Revenue	450490.2	471264.1	4.6	418002.0	459008.0	9.8	
EBITDA	5894.5	-5,082.1	-186.2	13075.5	12,284.2	-6.1	We revise GRM and marketing profitability estimates. We realign FY23E estimates post Q1FY23 results
EBITDA Margin (%)	1.3	-1.1	-239bps	3.1	2.7	-45bps	
PAT	1493.3	-6,536.8	-537.7	6077.1	5,404.8	-11.1	
EPS (₹)	10.5	-46.1	-537.7	42.8	38.1	-11.1	

Source: ICICI Direct Research

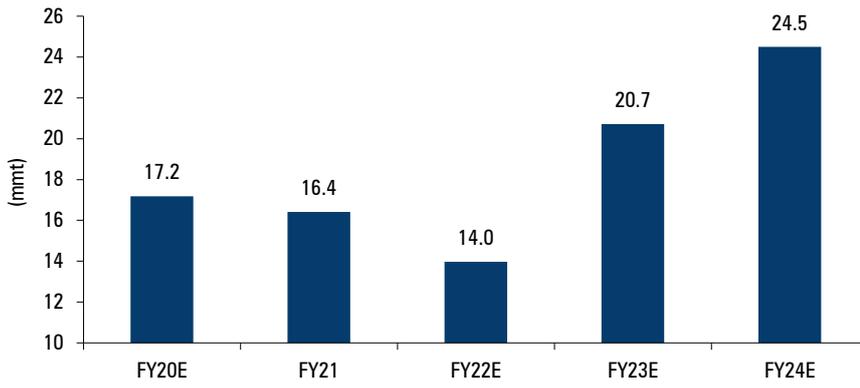
Exhibit 4: Assumptions

	Current				Earlier		Comments
	FY21	FY22	FY23E	FY24E	FY23E	FY24E	
Exchange rate (₹/\$)	74.0	74.6	78.5	79.0	76.5	76.5	
Throughput (mmt)	16.4	14.0	20.7	24.5	21.4	23.0	
Sales (mmt)	35.2	37.5	40.9	42.7	42.0	43.9	
GRM (\$/barrel)	3.9	7.2	11.8	8.0	13.5	8.0	We revise GRM estimates taking into account current product cracks trend

Source: ICICI Direct Research

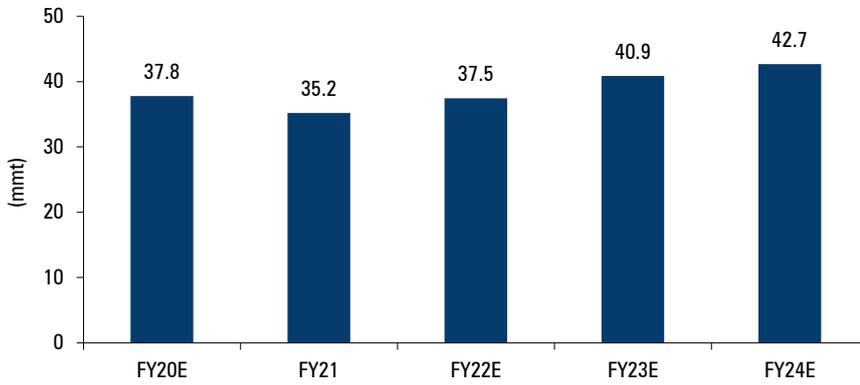
## Story in charts

Exhibit 5: Oil throughput trend



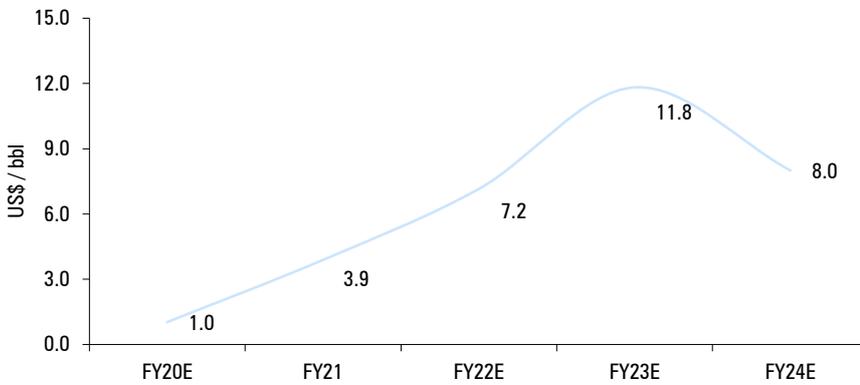
Source: Company, ICICI Direct Research

Exhibit 6: Marketing sales trend



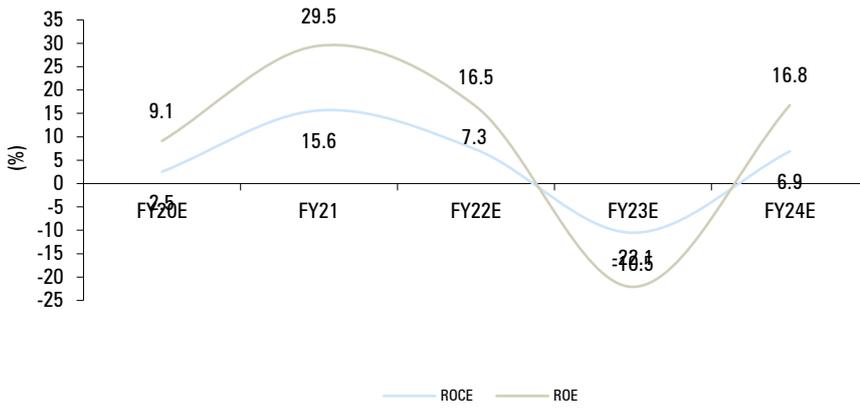
Source: Company, ICICI Direct Research

Exhibit 7: Refining margin trend



Source: Company, ICICI Direct Research

**Exhibit 8: Return ratios**



Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 9: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Revenue</b>	<b>270326.3</b>	<b>373896.7</b>	<b>471264.1</b>	<b>459008.0</b>
Growth (%)	-5.9	38.3	26.0	-2.6
(Inc.)/(Dec.) in stock in trade	-8533.0	-629.6	-1114.2	0.0
Raw material Costs	41716.5	69435.9	118831.9	118896.8
Purchase of Products	167240.6	253209.4	311021.6	279256.2
Employee Costs	3188.4	2982.5	3002.8	3350.8
Other Expenditure	50788.4	38722.8	44604.2	45220.0
Op. Expenditure	254400.9	363720.9	476346.2	446723.8
<b>EBITDA</b>	<b>15925.4</b>	<b>10175.9</b>	<b>-5082.1</b>	<b>12284.2</b>
Growth (%)	210.8	-36.1	-149.9	-341.7
Depreciation	3552.7	3969.1	4566.4	5543.3
EBIT	12372.8	6206.7	-9648.5	6740.9
Interest	914.7	972.7	1555.3	1915.2
Other Income	2788.7	2969.7	2139.7	2400.0
PBT	14246.8	8203.7	-9064.1	7225.7
Growth (%)	805.9	-42.4	-210.5	-179.7
Tax	3582.9	1821.1	-2527.3	1820.9
<b>Reported PAT</b>	<b>10663.9</b>	<b>6382.6</b>	<b>-6536.8</b>	<b>5404.8</b>
Growth (%)	304.4	-40.1	-202.4	-182.7
<b>EPS</b>	<b>70.6</b>	<b>44.9</b>	<b>-46.1</b>	<b>38.1</b>

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	10,663.9	6,382.6	-6,536.8	5,404.8
Add: Depreciation	3,552.7	3,969.1	4,566.4	5,543.3
Add: Others	19.6	467.2	600.0	300.0
Cash Profit	12,750.4	7,591.7	-3,932.2	8,515.6
Increase/(Decrease) in CL	10,090.0	12,288.4	11,435.4	-424.3
(Increase)/Decrease in CA	-4,437.5	-3,083.7	-8,047.3	4,759.2
<b>CF from Operating Activities</b>	<b>16917.2</b>	<b>13569.2</b>	<b>-3105.9</b>	<b>10118.0</b>
Purchase of Fixed Assets	12,252.6	13,734.4	12,037.2	13,100.0
(Inc)/Dec in Investments	-2,481.2	-2,951.0	-250.0	-250.0
Others	0.0	0.0	0.0	0.0
<b>CF from Investing Activities</b>	<b>-14733.7</b>	<b>-16685.4</b>	<b>-12287.2</b>	<b>-13350.0</b>
Inc/(Dec) in Loan Funds	-105.0	3,674.4	15,500.0	3,500.0
Less: Dividend Paid	1,485.7	3,227.2	2,561.8	2,732.5
Inc/(Dec) in Sh. Cap. & Res.	-1,954.4	-664.4	0.0	0.0
Others	0.0	0.0	0.0	0.0
<b>CF from financing activities</b>	<b>-3,545.1</b>	<b>-217.2</b>	<b>12,938.2</b>	<b>767.5</b>
Change in cash Eq.	124.1	-106.3	106.9	268.0
Op. Cash and cash Eq.	113.2	237.2	131.0	237.9
<b>Cl. Cash and cash Eq.</b>	<b>237.2</b>	<b>131.0</b>	<b>237.9</b>	<b>505.9</b>

Source: Company, ICICI Direct Research

Exhibit 11: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Source of Funds</b>				
Equity Capital	1,452.4	1,418.9	1,418.9	1,418.9
Preference capital	0.0	0.0	0.0	0.0
Reserves & Surplus	34,733.7	37,258.2	28,159.7	30,832.0
Shareholder's Fund	36,186.1	38,677.2	29,578.6	32,250.9
Loan Funds	42,915.9	46,590.3	62,090.3	65,590.3
Deferred Tax Liability	5,511.1	5,978.3	6,578.3	6,878.3
Minority Interest	0.0	0.0	0.0	0.0
<b>Source of Funds</b>	<b>84613.1</b>	<b>91245.7</b>	<b>98247.1</b>	<b>104719.4</b>
<b>Application of Funds</b>				
Gross Block	66,946.6	78,046.6	95,396.6	1,10,996.6
Less: Acc. Depreciation	16,865.9	20,704.7	25,333.9	30,877.2
Net Block	50,080.8	57,342.0	70,062.8	80,119.4
Capital WIP	24,053.3	26,557.4	21,307.4	18,807.4
Total Fixed Assets	74,134.0	83,899.4	91,370.2	98,926.9
Investments	14,992.8	17,943.7	18,193.7	18,443.7
Inventories	28,592.2	35,345.6	45,189.7	44,014.5
Debtor	6,856.3	6,331.8	7,746.8	7,545.3
Cash	237.2	131.0	237.9	505.9
Loan & Advance, Other CA	6426.7	6508.7	5858.7	5208.7
Total Current assets	42112.4	48317.1	59033.1	57274.4
Current Liabilities	43077.9	55766.6	67139.0	66650.5
Provisions	3548.3	3147.9	3210.9	3275.1
Total CL and Provisions	46626.1	58914.5	70349.8	69925.6
Net Working Capital	-4513.7	-10597.4	-11316.8	-12651.1
Miscellaneous expense	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>84613.1</b>	<b>91245.7</b>	<b>98247.1</b>	<b>104719.4</b>

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>				
Book Value	239.4	272.0	208.5	227.3
Cash per share	1.6	0.9	1.7	3.6
EPS	70.6	44.9	-46.1	38.1
Cash EPS	94.1	72.8	-13.9	77.2
DPS	22.8	14.0	15.0	16.0
<b>Profitability &amp; Operating Ratios</b>				
EBITDA Margin (%)	5.9	2.7	-1.1	2.7
PAT Margin (%)	3.9	1.7	-1.4	1.2
Fixed Asset Turnover (x)	3.6	4.5	5.2	4.6
Inventory Turnover (Days)	38.6	34.5	35.0	35.0
Debtor (Days)	9.3	6.2	6.0	6.0
Current Liabilities (Days)	58.2	54.4	52.0	53.0
<b>Return Ratios (%)</b>				
RoE	29.5	16.5	-22.1	16.8
RoCE	15.6	7.3	-10.5	6.9
RoIC	16.8	7.8	-11.1	7.3
<b>Valuation Ratios (x)</b>				
PE	3.4	5.3	-5.2	6.3
Price to Book Value	1.0	0.9	1.1	1.1
EV/EBITDA	4.9	7.9	-18.8	8.1
EV/Sales	0.3	0.2	0.2	0.2
<b>Leverage &amp; Solvency Ratios</b>				
Debt to equity (x)	1.2	1.2	2.1	2.0
Interest Coverage (x)	13.5	6.4	-6.2	3.5
Debt to EBITDA (x)	2.7	4.6	-12.2	5.3
Current Ratio	0.9	0.8	0.8	0.8
Quick ratio	0.3	0.2	0.2	0.2

Source: Company, ICICI Direct Research

Exhibit 13: ICICI Direct coverage universe (Oil & gas)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
BPCL (BHAPET)	326	320	Hold	69,420	41.3	-7.9	42.2	7.9	-41.4	7.7	6.5	27.4	6.3	13.2	-1.7	13.2	17.7	-3.8	18.6
GAIL (India) (GAIL)	133	160	Buy	59,057	23.3	22.2	15.1	5.7	6.0	8.8	4.6	4.5	6.5	18.8	16.3	9.6	18.6	15.7	10.1
Gujarat Gas (GUJGA)	444	500	Hold	30,565	18.9	18.3	21.7	23.5	24.3	20.5	15.0	15.1	12.7	26.9	22.9	23.4	23.2	19.2	19.3
HPCL (HINPET)	239	230	Hold	33,913	44.9	-46.1	38.1	5.3	-5.2	6.3	7.9	-18.8	8.1	7.3	-10.5	6.9	16.5	-22.1	16.8
Indian Oil Corp (INDOIL)	71	80	Hold	1,00,614	17.1	7.7	13.1	4.2	9.3	5.4	2.3	3.4	2.5	12.9	6.4	9.6	18.4	8.3	13.3
Indraprastha Gas (INDGAS)	366	440	Buy	25,620	18.8	20.6	23.0	19.4	17.7	15.9	12.9	11.1	9.7	22.3	22.0	21.1	19.0	18.1	17.5
Mahanagar Gas (MAHGAS)	817	850	Hold	8,070	60.4	75.7	81.9	13.5	10.8	10.0	8.3	6.5	5.8	19.8	22.4	21.6	16.6	18.5	17.8
Petronet LNG (PETLNG)	216	215	Hold	32,400	22.3	18.1	19.5	9.7	11.9	11.1	5.9	7.0	6.2	27.0	20.3	21.1	25.0	19.3	19.7
Reliance Industries (RELIND)	2,572	2,700	Hold	17,39,958	89.7	104.1	123.7	28.7	24.7	20.8	18.6	13.8	11.5	7.1	9.2	10.4	7.8	8.3	9.1

Source: Bloomberg, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

[pankaj.pandey@icicisecurities.com](mailto:pankaj.pandey@icicisecurities.com)

ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, AkruTI Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
[research@icicidirect.com](mailto:research@icicidirect.com)

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