

One-time LPG grant helps narrow losses...

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

Q2FY23 Results: HPCL's results were above our estimates on the profitability front.

- Revenue was up 30.3% YoY (down 6% QoQ) to ₹ 114172.3 crore (I-direct estimate: ₹ 105392.3 crore). Product sales grew 12.3% YoY (down 5.6% QoQ) to 9.9 MMT
- Reported GRMs were at US\$8.4/bbl while throughput was up 77.5% YoY (down 6.7% QoQ) to 4.5 MMT. EBITDA loss was at ₹ 1497.9 crore (I-direct estimated EBITDA loss: ₹ -4333.9 crore). HPCL received a one-time grant of ₹ 5617 crore from the Government of India for under-recoveries on sale of domestic LPG
- Subsequently, net loss was at ₹ 2172.1 crore (I-direct estimated loss: ₹ 4079.8 crore)

What should investors do? HPCL's refining profitability declined QoQ due to a decline in product cracks. It 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 ₹ 220 i.e. average of P/BV multiple: ₹ 195/share and P/E multiple: ₹ 245/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 ₹ 100



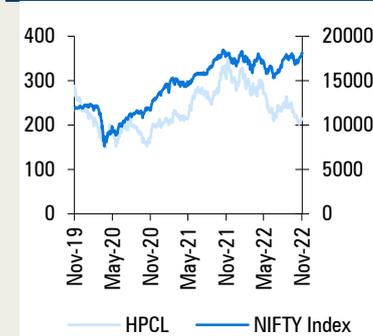
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	28,946.4
Total Debt (FY22) (₹ Crore)	46,590.3
Cash and Investments (FY22)	131.0
EV (₹ Crore)	75,405.7
52 week H/L	354/200
Equity capital (₹ Crore)	1,418.9
Face value (₹)	10.0

Shareholding pattern

(in %)	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	54.9	54.9	54.9	54.9
FII	20.2	19.9	18.2	16.7
DII	15.1	15.1	16.4	18.0
Others	9.8	10.1	10.5	10.4

Price Chart



Recent event & key risks

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

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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	4,28,099.5	3,95,603.3	2.9
EBITDA (₹ crore)	11,442.0	5,123.2	15,925.4	10,175.9	(0.8)	(5,082.5)	14,163.7	18.0
Net Profit (₹ crore)	6,028.7	2,637.3	10,663.9	6,382.6	0.6	(5,618.2)	6,786.0	3.1
EPS (₹)	39.5	17.3	70.6	44.9		(39.6)	47.8	
P/E (x)	5.2	11.8	2.9	4.5		(5.2)	4.3	
Price / Book (x)	1.1	1.1	0.9	0.7		0.9	0.8	
EV/EBITDA (x)	5.1	14.4	4.5	7.4		(17.4)	6.4	
RoCE (%)	15.2	2.5	15.6	7.3		(9.9)	8.3	
RoE (%)	21.4	9.1	29.5	16.5		(17.0)	18.3	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q2FY23 Results: Refining profitability better than estimates

- HPCL's results were better than our estimates on account of the one-time grant. While refining margins were higher than estimated, marketing losses were higher than estimates, as per our understanding
- Reported GRMs at US\$8.4/bbl were higher than expectations of US\$5.1/bbl. The company did not disclose refining inventory details. We estimate GRMs at US\$9.1/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 MMT and 24.5 MMT for FY23E and FY24E, respectively
- We estimate marketing sales at 41.2 MMT and 43 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 (%)		
					FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
BPCL (BHAPET)	339	350	Hold	68,840	41.3	-19.3	82.3	8.2	-17.5	4.1	6.4	173.4	3.4	15.1	-2.8	24.4	17.5	-9.0	29.8
HPCL (HINPET)	204	220	Hold	28,946	44.9	-39.6	47.8	4.5	-5.2	4.3	7.4	-17.4	6.4	7.3	-9.9	8.3	16.5	-17.0	18.3
Indian Oil Corp (INDOIL)	68	75	Hold	96,024	17.1	3.4	14.0	4.0	19.9	4.8	2.2	4.9	2.3	12.9	2.9	10.1	18.4	3.8	14.8

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Total Revenues	114,172.3	105,392.3	87,600.4	30.3	121,448.8	-6.0	Higher than estimates
Raw materials costs	104,550.9	97,983.6	75,814.0	37.9	121,348.2	-13.8	
Employees Cost	739.5	837.6	782.8	-5.5	706.0	4.7	
Other Expenses	10,379.7	10,905.0	7,990.0	29.9	11,889.2	-12.7	
Total Expenditure	115,670.1	109,726.2	84,586.8	36.7	133,943.4	-13.6	
EBITDA	-1,497.9	-4,333.9	3,013.6	-149.7	-12,494.6	-88.0	Better than estimates due to better refining margins and one-time LPG grant
EBITDA margins (%)	-1.3	-4.1	3.4	-475 bps	-10.3	898 bps	
Depreciation	1,080.9	1,157.3	947.3	14.1	1,094.5	-1.2	
EBIT	-2,578.8	-5,491.2	2,066.3	-224.8	-13,589.0	-81.0	
Interest	595.0	413.2	154.5	285.2	332.7	78.8	
Other Income	280.5	450.0	449.4	-37.6	339.7	-17.4	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	-2,893.2	-5,454.3	2,361.2	-222.5	-13,582.0	-78.7	
Total Tax	-721.1	-1,374.5	437.7	-264.7	-3,385.0	-78.7	
PAT	-2,172.1	-4,079.8	1,923.5	-212.9	-10,196.9	-78.7	

Key Metrics

Exchange rate (₹/\$)	79.8	79.8	74.1	7.7	77.3	3.3	
Throughput (mmt)	4.49	4.4	2.5	77.5	4.8	-6.7	In line with estimates
Sales (mmt)	9.9	9.5	8.8	12.3	10.5	-5.6	Higher than estimates
GRM (\$/barrel)	8.4	5.1	2.4	245.2	16.7	-49.7	Higher than estimates

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(\$ Crore)	FY23E			FY24E			Comments
	Old	New	Change	Old	New	Change	
Revenue	430190.3	428099.5	-0.5	403445.5	395603.3	-1.9	
EBITDA	-8667.1	-5,082.5	-41.4	13129.5	14,163.7	7.9	We revise GRM and marketing profitability estimates. We realign FY23E estimates post Q2FY23 results
EBITDA Margin (%)	-2.0	-1.2	83bps	3.3	3.6	33bps	
PAT	-9567.5	-5,618.2	-41.3	6012.4	6,786.0	12.9	
EPS (₹)	-67.4	-39.6	-41.3	42.4	47.8	12.9	

Source: ICICI Direct Research

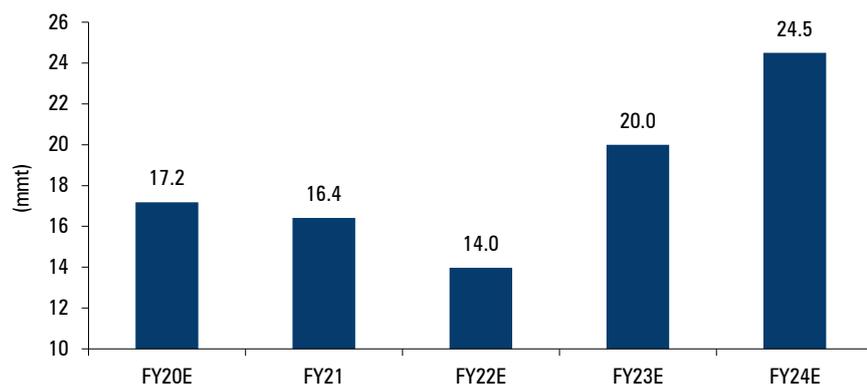
Exhibit 4: Assumptions

	Current				Earlier		Comments
	FY21	FY22	FY23E	FY24E	FY23E	FY24E	
Exchange rate (₹/\$)	74.0	74.6	79.1	80.0	78.7	79.0	
Throughput (mmt)	16.4	14.0	20.0	24.5	19.9	24.5	
Sales (mmt)	35.2	37.5	41.2	43.1	40.9	42.7	
GRM (\$/barrel)	3.9	7.2	9.1	8.0	9.5	8.0	We revise GRM estimates taking into account current product cracks trend

Source: ICICI Direct Research

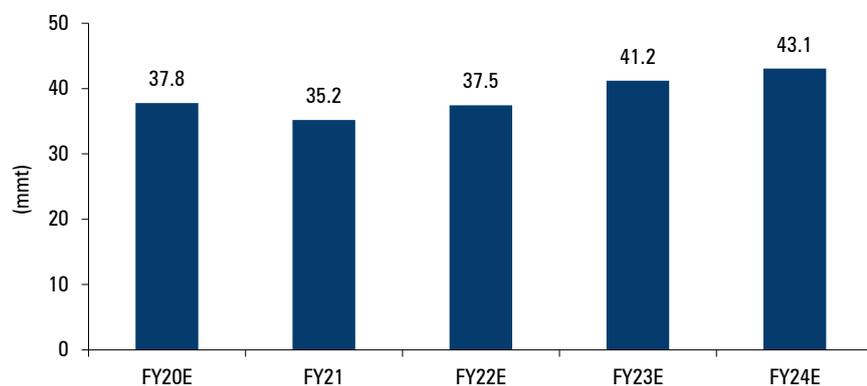
Story in charts

Exhibit 5: Oil throughput trend



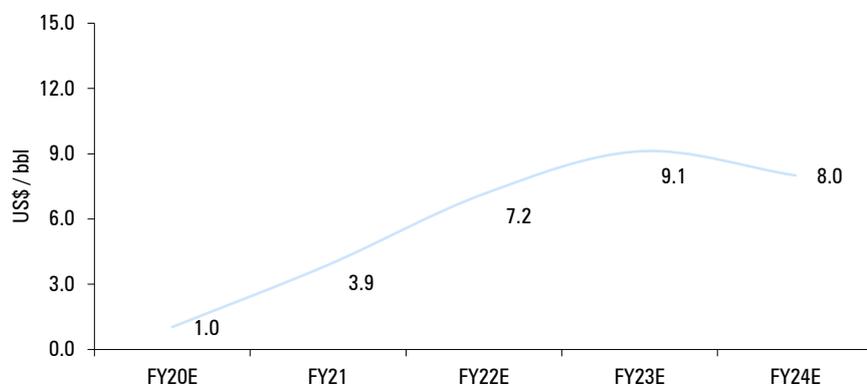
Source: Company, ICICI Direct Research

Exhibit 6: Marketing sales trend



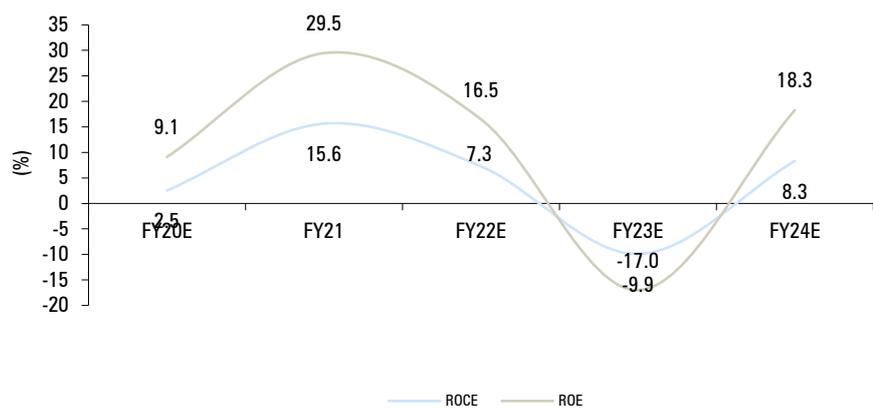
Source: Company, ICICI Direct Research

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
Revenue	270326.3	373896.7	428099.5	395603.3
Growth (%)	-5.9	38.3	14.5	-7.6
(Inc.)/(Dec.) in stock in trade	-8533.0	-629.6	960.1	0.0
Raw material Costs	41716.5	69435.9	106187.6	103403.9
Purchase of Products	167240.6	253209.4	279050.7	229765.9
Employee Costs	3188.4	2982.5	2904.6	3049.8
Other Expenditure	50788.4	38722.8	44078.9	45220.0
Op. Expenditure	254400.9	363720.9	433181.9	381439.6
EBITDA	15925.4	10175.9	-5082.5	14163.7
Growth (%)	210.8	-36.1	-149.9	-378.7
Depreciation	3552.7	3969.1	4490.0	5543.3
EBIT	12372.8	6206.7	-9572.4	8620.4
Interest	914.7	972.7	1754.0	1948.2
Other Income	2788.7	2969.7	1520.2	2400.0
PBT	14246.8	8203.7	-9806.2	9072.2
Growth (%)	805.9	-42.4	-219.5	-192.5
Tax	3582.9	1821.1	-4188.0	2286.2
Reported PAT	10663.9	6382.6	-5618.2	6786.0
Growth (%)	304.4	-40.1	-188.0	-220.8
EPS	70.6	44.9	-39.6	47.8

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	-5,618.2	6,786.0
Add: Depreciation	3,552.7	3,969.1	4,490.0	5,543.3
Add: Others	19.6	467.2	600.0	300.0
Cash Profit	12,750.4	7,591.7	-528.2	9,896.8
Increase/(Decrease) in CL	10,090.0	12,288.4	5,285.9	-3,481.5
(Increase)/Decrease in CA	-4,437.5	-3,083.7	-5,760.5	8,116.6
CF from Operating Activi	16917.2	13569.2	-1002.8	11799.3
Purchase of Fixed Assets	12,252.6	13,734.4	11,960.8	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
CF from Investing Activi	-14733.7	-16685.4	-12210.8	-13350.0
Inc/(Dec) in Loan Funds	-105.0	3,674.4	17,000.0	2,700.0
Less: Dividend Paid	1,485.7	3,227.2	0.0	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
CF from financing activi	-3,545.1	-217.2	17,000.0	-32.5
Change in cash Eq.	124.1	-106.3	3,786.4	1,149.3
Op. Cash and cash Eq.	113.2	237.2	131.0	3,917.4
Cl. Cash and cash Eq.	237.2	131.0	3,917.4	5,066.7

Source: Company, ICICI Direct Research

Exhibit 11: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Source of Funds				
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	31,640.0	35,693.5
Shareholder's Fund	36,186.1	38,677.2	33,059.0	37,112.4
Loan Funds	42,915.9	46,590.3	63,590.3	66,290.3
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
Source of Funds	84613.1	91245.7	103227.5	110280.9
Application of Funds				
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	41,050.6	36,850.7
Debtor	6,856.3	6,331.8	7,037.3	6,503.1
Cash	237.2	131.0	3,917.4	5,066.7
Loan & Advance, Other CA	6426.7	6508.7	5858.7	5208.7
Total Current assets	42112.4	48317.1	57864.0	53629.2
Current Liabilities	43077.9	55766.6	60989.5	57443.8
Provisions	3548.3	3147.9	3210.9	3275.1
Total CL and Provisions	46626.1	58914.5	64200.4	60718.8
Net Working Capital	-4513.7	-10597.4	-6336.4	-7089.6
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	84613.1	91245.7	103227.5	110280.9

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
Book Value	239.4	272.0	233.0	261.6
Cash per share	1.6	0.9	27.6	35.7
EPS	70.6	44.9	-39.6	47.8
Cash EPS	94.1	72.8	-8.0	86.9
DPS	22.8	14.0	0.0	16.0
Profitability & Operating Ratios				
EBITDA Margin (%)	5.9	2.7	-1.2	3.6
PAT Margin (%)	3.9	1.7	-1.3	1.7
Fixed Asset Turnover (x)	3.6	4.5	4.7	4.0
Inventory Turnover (Days)	38.6	34.5	35.0	34.0
Debtor (Days)	9.3	6.2	6.0	6.0
Current Liabilities (Days)	58.2	54.4	52.0	53.0
Return Ratios (%)				
RoE	29.5	16.5	-17.0	18.3
RoCE	15.6	7.3	-9.9	8.3
RoIC	16.8	7.8	-10.8	9.2
Valuation Ratios (x)				
PE	2.9	4.5	-5.2	4.3
Price to Book Value	0.9	0.7	0.9	0.8
EV/EBITDA	4.5	7.4	-17.4	6.4
EV/Sales	0.3	0.2	0.2	0.2
Leverage & Solvency Ratios				
Debt to equity (x)	1.2	1.2	1.9	1.8
Interest Coverage (x)	13.5	6.4	-5.5	4.4
Debt to EBITDA (x)	2.7	4.6	-12.5	4.7
Current Ratio	0.9	0.8	0.9	0.9
Quick ratio	0.3	0.2	0.3	0.3

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 (%)		
					FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
BPCL (BHAPET)	339	350	Hold	68,840	41.3	-19.3	82.3	8.2	-17.5	4.1	6.4	173.4	3.4	15.1	-2.8	24.4	17.5	-9.0	29.8
GAIL (India) (GAIL)	84	100	Buy	55,231	23.3	13.7	8.9	3.6	6.1	9.4	3.0	4.7	7.2	18.8	15.1	8.4	18.6	14.7	9.1
Gujarat Gas (GUJGA)	500	480	Hold	34,420	18.9	23.4	20.9	26.4	21.4	23.9	16.4	13.5	14.6	27.0	28.2	21.8	23.1	23.2	17.9
HPCL (HINPET)	204	220	Hold	28,946	44.9	-39.6	47.8	4.5	-5.2	4.3	7.4	-17.4	6.4	7.3	-9.9	8.3	16.5	-17.0	18.3
Indian Oil Corp (INDOIL)	68	75	Hold	96,024	17.1	3.4	14.0	4.0	19.9	4.8	2.2	4.9	2.3	12.9	2.9	10.1	18.4	3.8	14.8
Indraprastha Gas (INDGAS)	381	430	Hold	26,670	18.8	21.7	20.9	20.3	17.6	18.3	13.5	11.5	10.8	22.3	22.5	20.2	19.0	18.8	16.1
Mahanagar Gas (MAHGAS)	845	820	Hold	8,347	60.4	58.9	84.8	14.0	14.3	10.0	8.6	8.6	6.0	19.8	17.7	23.1	16.6	15.0	19.0
ONGC (ONGC)	124	135	Hold	1,59,133	8.9	32.0	37.1	13.9	3.9	3.3	5.4	2.8	2.0	4.5	14.8	20.9	5.5	17.0	17.3
Petronet LNG (PETLNG)	200	210	Hold	30,000	22.3	17.7	19.2	8.9	11.3	10.4	5.5	6.6	5.8	27.0	20.0	20.8	25.0	19.0	19.5
Reliance Industries (RELIND)	2,472	2,700	Hold	16,72,274	89.7	94.5	118.0	27.5	26.2	20.9	18.0	13.6	11.2	7.1	8.7	10.3	7.8	7.6	8.7

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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