

February 10, 2023

## Q3FY23 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	310		350	
Sales (Rs. m)	38,48,592	35,74,502	37,76,918	35,08,986
% Chng.	1.9	1.9		
EBITDA (Rs. m)	1,42,198	1,47,954	1,40,127	1,46,165
% Chng.	1.5	1.2		
EPS (Rs.)	47.0	58.7	47.2	57.7
% Chng.	(0.4)	1.6		

### Key Financials - Standalone

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. bn)	3,510	4,375	3,849	3,575
EBITDA (Rs. bn)	115	(81)	142	148
Margin (%)	3.3	(1.9)	3.7	4.1
PAT (Rs. bn)	77	(88)	67	83
EPS (Rs.)	54.0	(61.8)	47.0	58.7
Gr. (%)	(26.4)	(214.4)	(176.0)	24.8
DPS (Rs.)	15.0	-	15.7	19.6
Yield (%)	6.5	-	6.8	8.5
RoE (%)	20.5	(25.9)	21.1	22.3
RoCE (%)	9.4	(14.3)	8.4	8.3
EV/Sales (x)	0.2	0.2	0.2	0.2
EV/EBITDA (x)	6.2	(11.5)	6.2	5.4
PE (x)	4.3	(3.8)	4.9	4.0
P/BV (x)	0.9	1.1	1.0	0.8

### Key Data

HPCL.BO | HPCL IN

52-W High / Low	Rs.307 / Rs.200
Sensex / Nifty	60,806 / 17,893
Market Cap	Rs.329bn/ \$ 3,989m
Shares Outstanding	1,419m
3M Avg. Daily Value	Rs.969.15m

### Shareholding Pattern (%)

Promoter's	54.90
Foreign	15.65
Domestic Institution	19.62
Public & Others	9.82
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(5.3)	(2.9)	(21.6)
Relative	(5.4)	(6.0)	(24.6)

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# Hindustan Petroleum Corporation (HPCL IN)

Rating: BUY | CMP: Rs232 | TP: Rs310

## Marketing profitability outlook improves

### Quick Pointers:

- Blended marketing margins turn positive Rs1.8/ltr in Q4 vs loss of Rs1.6 in Q3
- Low product inventory, ban on Russian oil products to EU, to support GRMs

**We lower our FY23 estimates in view of Rs123bn losses in 9MFY23 and low probability of further government support with small tweak in FY24/25E earnings estimate by -0.4%/1.6%. Hindustan Petroleum Corporation (HPCL) reported better than expected Q3 results with EBITDA of Rs16.7bn (Q2: loss of Rs14.9bn; PLe loss of Rs 37.9bn) and PAT of Rs1.7bn (Q2: loss of Rs21.7bn; PLe loss of Rs48.4bn), due to better than expected marketing profitability. Improving marketing environment along with strong GRMs will drive near term earning given 1) improved marketing margin (Rs1.8/ltr) post sharp correction in international diesel prices to ~\$110 (recent peak of USD170/bbl) 2) firm refining product spreads due to ban on import of Russian oils 3) range bound oil prices due to global recessionary pressure and high interest rates, despite increased demand from China.**

**We believe HPCL along with other OMCs, are all well placed to benefit from improving marketing situation and healthy refining profitability. Maintain 'BUY' with a PT of Rs310 (Rs350) based on 7x EV/E FY24E.**

- Better marketing profitability drive earnings:** HPCL reported standalone EBITDA/PAT of Rs16.7bn (Q2: loss of Rs14.9bn) and Rs11.7bn (Q2: loss of Rs21bn), Consolidated EBITDA/PAT was at Rs16.7bn (Q2:loss of Rs15.1bn) and Rs4.4bn (Q2: loss of Rs24.7bn) respectively. We calculate Q3 core marketing EBITDA at Rs1.5bn vs Q2 loss levels of Rs24.4bn, due to reduced diesel losses (company stopped sharing segment's EBITDA). Q3 GRMs were strong at \$9.1/bbl, given healthy product spreads.
- Q3 petrol/diesel volume growth at 10.5%/14.7%YoY:** HPCL's marketing volumes were impressive on YoY basis with MS sales at 2.2MTPA (+10.5% YoY) and HSD sales at 5.1MTPA (+14.7% YoY). For Q3, petrol and diesel industry volumes were at 8.8MTPA (+8%YoY) and 22.5MTPA (+10%YoY).
- Improving fuel marketing environment is a positive:** Fuel marketing environment continues to improve as petrol margins improved to ~Rs5/litre in Q4, diesel margins are close to breakeven. Blended marketing margins (incl export duty benefits) for Q4FY23E stands at ~Rs1.8/litre vs loss of Rs1.6/ltr in Q3 and Rs11/ltr for H1FY23. We maintain our FY24/25 marketing margins at Rs3.5/4.0/ltr.
- Ban on Russian oil products to support GRMs:** HPCL's Q3 refining margins were at USD9.1/bbl (Q2 at USD8.4/bb; PLe USD12.0/bbl), before export cess. Refining throughput was higher at 4.8 MTPA (4.5 in Q2), post maintenance shutdown. Refining margins are likely to remain healthy, as diesel demand along with ATF remains strong, due to ban on Russian oil products imports to EU; Russia exported 1.5mbpd oil products to EU before conflict.

**Exhibit 1: Q3FY23 Result Overview (Rs mn); Better marketing performance drives earnings surprise**

Y/e March	Q3FY23	Q3FY22	YoY gr. (%)	Q2FY23	9MFY23	9MFY22	YoY gr. (%)
<b>Net sales</b>	<b>11,61,266</b>	<b>10,34,224</b>	<b>12.3</b>	<b>11,41,723</b>	<b>35,17,477</b>	<b>26,86,083</b>	<b>31.0</b>
Inc/dec in stock	25,993	3,867	572.1	20,744	9,601	16,792	(42.8)
Raw material cons	3,07,718	2,03,560	51.2	3,12,563	6,49,630	2,15,474	201.5
Staff cost	7,163	6,221	15.2	7,395	14,455	16,188	(10.7)
Purchases	6,97,547	6,98,844	(0.2)	7,12,203	15,99,760	11,80,207	35.5
Duties	65,234	68,200	(4.3)	57,550	1,27,491	96,781	31.7
Other expenditure	40,894	34,825	17.4	46,248	95,199	64,353	47.9
Exp	(11,44,550)	(10,15,517)	NA	(11,56,701)	(24,96,135)	(15,89,794)	NA
<b>Operating profit</b>	<b>16,717</b>	<b>18,707</b>	<b>(10.6)</b>	<b>(14,979)</b>	<b>(1,39,924)</b>	<b>62,066</b>	<b>(325.4)</b>
Interest	(6,817)	(2,358)	NA	(5,950)	(9,276)	(4,087)	NA
Depreciation	(11,105)	(10,247)	NA	(10,809)	(21,754)	(18,612)	NA
Other income	2,889	5,504	(47.5)	2,805	6,202	8,214	(24.5)
<b>Profit before tax</b>	<b>1,684</b>	<b>11,607</b>	<b>(85.5)</b>	<b>(28,932)</b>	<b>(1,64,752)</b>	<b>47,581</b>	<b>NA</b>
Current tax	460	(2,466)	NA	-	-	(8,545)	NA
<b>Profit after current tax</b>	<b>2,144</b>	<b>9,140</b>	<b>(76.5)</b>	<b>(28,932)</b>	<b>(1,64,752)</b>	<b>39,036</b>	<b>NA</b>
Deferred tax	(420)	(452)	NA	7,211	41,061	(1,851)	NA
<b>Net profit</b>	<b>1,724</b>	<b>8,688</b>	<b>(80.2)</b>	<b>(21,721)</b>	<b>(1,23,691)</b>	<b>37,185</b>	<b>NA</b>

Source: Company, PL

**Exhibit 2: HPCL quarterly details – Refining volumes improved to 4.8MTPA in Q3FY23**

	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
<b>Total throughput</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>4.49</b>	<b>4.83</b>
<b>Market sales</b>										
Pipeline throughput (MMT)	4.70	5.52	5.36	4.34	4.7	5.5	5.32	5.75	5.53	5.84
Mkt sales (MMT)	8.10	10.03	9.83	8.45	9.1	10.0	10.3	10.4	9.97	10.95
GRMs (\$/bbl)	5.11	1.87	8.11	3.31	2.44	6.39	12.4	16.7	8.4	9.1

Source: Company, PL

**Exhibit 3: Q3FY23 domestic fuel demand growth show strong growth**

	Q3FY23	Q3FY22	YoY	Q2FY23	QoQ
LPG	7,444	7,304	1.9%	7,252	2.7%
Gasoline	8,840	8,212	7.6%	8,641	2.3%
Jet Fuel	1,892	1,535	23.3%	1,759	7.6%
Kerosene	112	367	-69.6%	96	16.7%
Gasoil/Diesel	22,523	20,437	10.2%	19,235	17.1%
Gasoil (LDO)	189	248	-23.9%	190	-0.7%
Bitumen	1,972	1,915	3.0%	1,385	42.4%
Lubes/Grs	1,243	1,205	3.1%	1,069	16.2%
Naphtha	3,071	3,680	-16.5%	3,405	-9.8%
F.O.	3,071	1,613	90.4%	1,757	74.7%
Petcoke	3,793	3,461	9.6%	3,917	-3.2%

Source: Industry, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Net Revenues</b>	<b>35,09,682</b>	<b>43,74,701</b>	<b>38,48,592</b>	<b>35,74,502</b>
YoY gr. (%)	-	-	-	-
Cost of Goods Sold	32,20,157	42,23,544	34,80,200	31,86,317
Gross Profit	2,89,525	1,51,157	3,68,392	3,88,185
Margin (%)	8.2	3.5	9.6	10.9
Employee Cost	29,825	32,807	39,368	42,124
Other Expenses	1,45,090	1,99,768	1,86,826	1,98,107
<b>EBITDA</b>	<b>1,14,611</b>	<b>(81,418)</b>	<b>1,42,198</b>	<b>1,47,954</b>
YoY gr. (%)	(28.0)	(171.0)	(274.7)	4.0
Margin (%)	3.3	(1.9)	3.7	4.1
Depreciation and Amortization	39,691	46,723	56,473	59,098
<b>EBIT</b>	<b>74,920</b>	<b>(1,28,141)</b>	<b>85,724</b>	<b>88,856</b>
Margin (%)	2.1	(2.9)	2.2	2.5
Net Interest	9,727	13,923	21,058	5,080
Other Income	29,697	23,485	25,454	28,702
<b>Profit Before Tax</b>	<b>94,889</b>	<b>(1,18,579)</b>	<b>90,120</b>	<b>1,12,478</b>
Margin (%)	2.7	(2.7)	2.3	3.1
Total Tax	18,211	(30,831)	23,431	29,244
Effective tax rate (%)	19.2	26.0	26.0	26.0
<b>Profit after tax</b>	<b>76,679</b>	<b>(87,748)</b>	<b>66,689</b>	<b>83,234</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>76,679</b>	<b>(87,748)</b>	<b>66,689</b>	<b>83,234</b>
YoY gr. (%)	(28.1)	(214.4)	(176.0)	24.8
Margin (%)	2.2	(2.0)	1.7	2.3
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>76,679</b>	<b>(87,748)</b>	<b>66,689</b>	<b>83,234</b>
YoY gr. (%)	-	-	-	-
Margin (%)	2.2	(2.0)	1.7	2.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	76,679	(87,748)	66,689	83,234
<b>Equity Shares O/s (m)</b>	<b>1,419</b>	<b>1,419</b>	<b>1,419</b>	<b>1,419</b>
<b>EPS (Rs)</b>	<b>54.0</b>	<b>(61.8)</b>	<b>47.0</b>	<b>58.7</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>7,64,467</b>	<b>11,04,467</b>	<b>11,54,467</b>	<b>12,09,467</b>
Tangibles	7,64,467	11,04,467	11,54,467	12,09,467
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>2,01,354</b>	<b>2,48,077</b>	<b>3,04,551</b>	<b>3,63,649</b>
Tangibles	2,01,354	2,48,077	3,04,551	3,63,649
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>5,63,113</b>	<b>8,56,390</b>	<b>8,49,916</b>	<b>8,45,818</b>
Tangibles	5,63,113	8,56,390	8,49,916	8,45,818
Intangibles	-	-	-	-
Capital Work In Progress	2,65,574	30,533	80,533	1,00,000
Goodwill	10,308	10,308	10,308	10,308
Non-Current Investments	1,37,581	1,48,703	1,62,533	1,77,745
Net Deferred tax assets	(59,783)	(52,668)	(58,075)	(64,824)
Other Non-Current Assets	29,313	32,244	35,469	39,015
<b>Current Assets</b>				
Investments	53,715	59,087	64,995	71,495
Inventories	3,53,456	4,36,209	3,87,496	3,62,669
Trade receivables	63,318	78,368	69,654	65,219
Cash & Bank Balance	1,310	15,244	1,02,703	1,41,687
Other Current Assets	5,670	6,237	6,861	7,547
<b>Total Assets</b>	<b>15,01,604</b>	<b>16,91,873</b>	<b>17,89,354</b>	<b>18,40,760</b>
<b>Equity</b>				
Equity Share Capital	14,189	14,189	14,189	14,189
Other Equity	3,72,581	2,77,718	3,27,518	3,89,673
<b>Total Network</b>	<b>3,86,770</b>	<b>2,91,907</b>	<b>3,41,708</b>	<b>4,03,862</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	3,12,270	5,62,270	5,02,270	4,62,270
Provisions	450	495	544	599
Other non current liabilities	4,452	4,897	5,386	5,925
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	1,19,659	1,19,659	2,19,659	2,19,659
Trade payables	2,64,479	3,04,285	2,70,449	2,53,232
Other current liabilities	3,23,357	3,55,693	3,91,262	4,30,389
<b>Total Equity &amp; Liabilities</b>	<b>15,01,604</b>	<b>16,91,873</b>	<b>17,89,354</b>	<b>18,40,760</b>

Source: Company Data, PL Research



## Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	82,037	(1,18,579)	90,120	1,12,478
Add. Depreciation	39,691	46,723	56,473	59,098
Add. Interest	9,727	13,923	21,058	5,080
Less Financial Other Income	29,697	23,485	25,454	28,702
Add. Other	-	-	-	-
Op. profit before WC changes	1,31,455	(57,932)	1,67,652	1,76,656
Net Changes-WC	88,616	(70,396)	55,015	47,410
Direct tax	(13,230)	23,716	(18,024)	(22,496)
<b>Net cash from Op. activities</b>	<b>2,06,841</b>	<b>(1,04,612)</b>	<b>2,04,643</b>	<b>2,01,571</b>
Capital expenditures	(1,64,180)	(1,16,875)	(1,13,108)	(88,887)
Interest / Dividend Income	-	-	-	-
Others	(3,136)	(656)	(721)	(793)
<b>Net Cash from Invt. activities</b>	<b>(1,67,316)</b>	<b>(1,17,531)</b>	<b>(1,13,829)</b>	<b>(89,680)</b>
Issue of share cap. / premium	(23,143)	-	-	-
Debt changes	13,038	2,50,000	40,000	(40,000)
Dividend paid	(20,754)	-	(22,296)	(27,827)
Interest paid	(9,727)	(13,923)	(21,058)	(5,080)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(40,587)</b>	<b>2,36,077</b>	<b>(3,354)</b>	<b>(72,908)</b>
<b>Net change in cash</b>	<b>(1,062)</b>	<b>13,934</b>	<b>87,459</b>	<b>38,984</b>
Free Cash Flow	42,661	(2,21,487)	91,534	1,12,685

Source: Company Data, PL Research

## Quarterly Financials (Rs m)

Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
<b>Net Revenue</b>	<b>9,75,727</b>	<b>11,44,547</b>	<b>10,84,173</b>	<b>10,96,032</b>
YoY gr. (%)	30.4	58.0	30.5	13.5
Raw Material Expenses	9,01,413	12,13,482	10,45,509	10,31,258
Gross Profit	74,315	(68,935)	38,663	64,774
Margin (%)	7.6	(6.0)	3.6	5.9
<b>EBITDA</b>	<b>20,986</b>	<b>(1,24,946)</b>	<b>(14,979)</b>	<b>16,717</b>
YoY gr. (%)	(55.0)	(491.3)	(149.7)	(10.6)
Margin (%)	2.2	(10.9)	(1.4)	1.5
Depreciation / Depletion	10,832	10,945	10,809	11,105
<b>EBIT</b>	<b>10,154</b>	<b>(1,35,890)</b>	<b>(25,788)</b>	<b>5,612</b>
Margin (%)	1.0	(11.9)	(2.4)	0.5
Net Interest	3,283	3,327	5,950	6,817
Other Income	15,979	3,397	2,805	2,889
<b>Profit before Tax</b>	<b>22,850</b>	<b>(1,35,820)</b>	<b>(28,932)</b>	<b>1,684</b>
Margin (%)	2.3	(11.9)	(2.7)	0.2
Total Tax	4,897	(33,850)	(7,211)	(40)
Effective tax rate (%)	21.4	24.9	24.9	(2.4)
<b>Profit after Tax</b>	<b>17,953</b>	<b>(1,01,969)</b>	<b>(21,721)</b>	<b>1,724</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>17,953</b>	<b>(1,01,969)</b>	<b>(21,721)</b>	<b>1,724</b>
YoY gr. (%)	(40.5)	(668.1)	(212.9)	(80.2)
Margin (%)	1.8	(8.9)	(2.0)	0.2
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>17,953</b>	<b>(1,01,969)</b>	<b>(21,721)</b>	<b>1,724</b>
YoY gr. (%)	(40.5)	(668.1)	(212.9)	(80.2)
Margin (%)	1.8	(8.9)	(2.0)	0.2
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Avg. Shares O/s (m)	-	-	-	-
<b>EPS (Rs)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Source: Company Data, PL Research

## Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Per Share(Rs)</b>				
EPS	54.0	(61.8)	47.0	58.7
CEPS	82.0	(28.9)	86.8	100.3
BVPS	272.6	205.7	240.8	284.6
FCF	30.1	(156.1)	64.5	79.4
DPS	15.0	-	15.7	19.6
<b>Return Ratio(%)</b>				
RoCE	9.4	(14.3)	8.4	8.3
ROIC	5.2	(7.9)	5.3	5.5
RoE	20.5	(25.9)	21.1	22.3
<b>Balance Sheet</b>				
Net Debt : Equity (x)	1.0	2.1	1.6	1.2
Net Working Capital (Days)	16	18	18	18
<b>Valuation(x)</b>				
PER	4.3	(3.8)	4.9	4.0
P/B	0.9	1.1	1.0	0.8
P/CEPS	2.8	(8.0)	2.7	2.3
EV/EBITDA	6.2	(11.5)	6.2	5.4
EV/Sales	0.2	0.2	0.2	0.2
Dividend Yield (%)	6.5	-	6.8	8.5

Source: Company Data, PL Research

## Key Operating Metrics

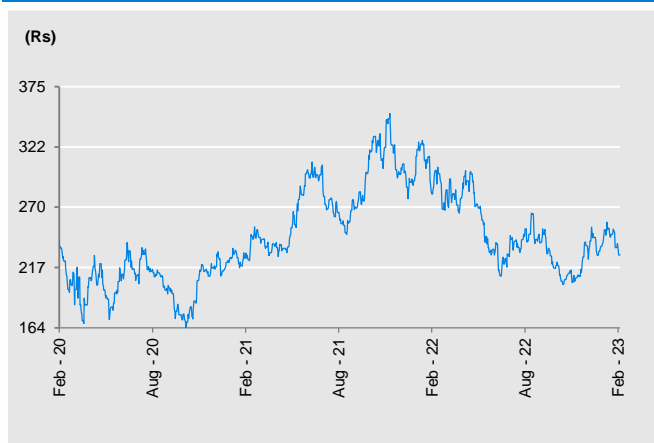
Y/e Mar	FY22	FY23E	FY24E	FY25E
Crude /bbl	65	100	80	80
US\$/Rs	77	80	82	85
GRM (US\$/bbl)	7	9	7	6
Refining volume (MTPA)	14	23	23	23
Net subsidy burden (Rs m)				

Source: Company Data, PL Research



## Price Chart

## Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	03-Jan-23	BUY	350	237
2	09-Dec-22	BUY	350	240
3	03-Nov-22	Hold	195	211
4	01-Oct-22	Hold	195	217
5	08-Aug-22	Hold	247	251
6	05-Jul-22	BUY	368	226
7	23-May-22	BUY	368	244
8	04-Apr-22	BUY	349	280

## Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bharat Petroleum Corporation	BUY	420	335
2	Bharti Airtel	BUY	1,008	775
3	GAIL (India)	BUY	123	95
4	Gujarat Gas	Hold	530	490
5	Hindustan Petroleum Corporation	BUY	350	237
6	Indian Oil Corporation	BUY	125	82
7	Indraprastha Gas	BUY	564	413
8	Mahanagar Gas	BUY	1,103	850
9	Oil & Natural Gas Corporation	BUY	180	150
10	Oil India	BUY	300	215
11	Petronet LNG	BUY	326	223
12	Reliance Industries	BUY	2,878	2,443

## 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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