

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR261 TP: INR270 (+4%) Neutral

Higher-than-expected GRM leads to a beat on our estimate

Bloomberg	HPCL IN
Equity Shares (m)	1452
M.Cap.(INRb)/(USD\$b)	370 / 4.5
52-Week Range (INR)	274 / 200
1, 6, 12 Rel. Per (%)	11/26/-17
12M Avg Val (INR M)	999

Financials & Valuations (INR b)

Y/E March	FY23	FY24E	FY25E
Sales	4407	4249	4248
EBITDA	-72	137	140
Adj. PAT	-70	72	66
Adj. EPS (INR)	-49.2	51.0	46.6
EPS Gr. (%)	PL	LP	-8.5
BV/Sh.(INR)	227.4	265.7	299.7

Ratios

Net D:E	2.1	1.9	1.8
RoE (%)	-19.0	20.7	16.5
RoCE (%)	-7.8	7.5	6.5
Payout (%)	0.0	24.7	27.2

Valuations

P/E (x)	NA	5.1	5.6
P/BV (x)	1.1	1.0	0.9
EV/EBITDA (x)	NA	7.8	8.0
Div. Yield (%)	0.0	4.8	4.9
FCF Yield (%)	NA	0.9	0.9

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	54.9	54.9	54.9
DII	21.4	19.6	15.1
FII	14.4	15.7	19.9
Others	9.3	9.8	10.1

FII Includes depository receipts

- HPCL reported a beat on our 4QFY23 EBITDA estimate led by higher-than-expected GRM of USD14.1/bbl (v/s est. of USD10.6/bbl; up 12% YoY). PAT was at INR32.2b (v/s est. of INR20.7b) due to higher-than-estimated other income.
- Refinery throughput stood at 5mmt (est. of 4.8mmt; up 6% YoY). Singapore GRM of USD8.2/bbl in 4QFY23 has now dropped to ~USD3.3/bbl in 1QFY24'td, which could hit refining margins in the coming quarter. Besides, over the past few quarters, HPCL's GRM has been lower than other OMCs (IOCL, BPCL), owing to the ongoing expansion at the Vizag refinery.
- In the **marketing segment**, sales volumes were in line at 11.1mmt (up 4% YoY). OMCs are estimated to be generating a gross marketing margin of INR7.6/INR10.2 per liter on petrol/diesel in 1QFY24'td. **HPCL has the highest leverage to marketing among OMCs and would benefit the most due to improvement in marketing margins.**
- We highlight that the company is battling a three headed-monster – a) project execution risk, b) rising debt (INR671b in Mar'23 v/s INR450b in Mar'22) as a result of poor refining margin with delayed stabilization, and c) a loss of marketing leverage in the longer term with capacity expansion at Vizag and the upcoming Rajasthan refinery.**
- We expect consolidated net debt to rise to INR747b in FY25 from INR664b in FY23. We value the stock at 0.9x FY25E P/BV and maintain our **Neutral rating** with a TP of INR270.

Reported GRM above estimate; refinery throughput in line

- HPCL's refining throughput was at 5mmt (our est. 4.8mmt, +6% YoY, +3% QoQ). Reported GRM stood at USD14.1/bbl in 4QFY23 (v/s our est. of USD10.6/bbl and USD9.1/bbl in 3QFY23).
- Marketing volumes were in line at 11.1mmt (+4% YoY, -1% QoQ) while marketing margins (incl. inv.) stood at INR3.7/lit (v/s INR2.2/lit in 3QFY23).
- Resultant EBITDA stood at INR46.6b (v/s our est. of INR43.3b). PAT came in at INR32.2b (v/s our est. of INR20.7b) due to higher-than-estimated other income at INR11.6b (v/s 2.9b in 3QFY23).
- For FY23**, EBITDA loss was at INR57.1b (v/s EBITDA of INR103.3b in FY22), with net loss at INR89.7b (v/s PAT of INR63.8b in FY22). This was primarily due to lower average marketing margin (incl. inv.) at -INR0.8/lit (v/s INR4.3 in FY22), with marketing volumes rising 11% YoY to 43.5mmt.
- Reported GRM stood at USD12.1/bbl in FY23 (v/s USD6.2/bbl in FY22), with refining throughput being up 37% YoY to 19.1mmt.

Valuation and view

- We expect capex at ~INR150b** annually during FY24-25. The company plans to enhance its refining and marketing infrastructure, foray into petrochemicals, and expand footprints in Alternate Energy.

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- Completion of various ongoing projects is expected to drive growth over the next three to five years such as: Bhatinda refinery expansion, expansion of Vizag refinery, and new Rajasthan (Barmer) refinery in FY24.
- Further, HPCL is working on petchem projects such as setting up of a 4.6mmta petrochemical capacity by FY25E along with JVs, which will help the company become the second largest petrochemicals production facility in India.
- **Despite the potential highlighted above, we reiterate our Neutral rating on the stock because of the project execution risk at Vizag and rising debt levels. We value the stock at 0.9x FY25E P/BV to arrive at our TP of INR270.**

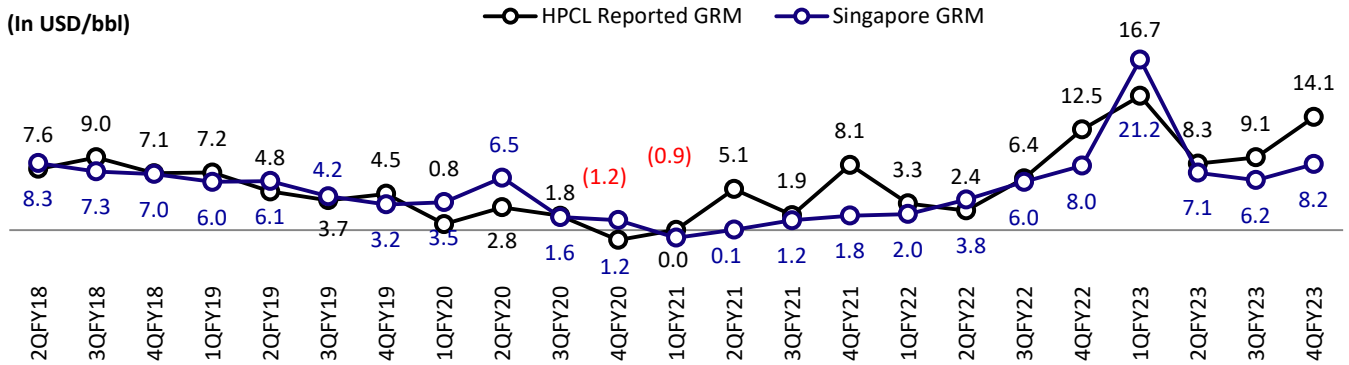
Standalone - Quarterly Earnings Model

Y/E March	(INR b)											
	FY22				FY23				FY22	FY23	FY23	Var (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		4QE		
Net Sales	724.4	830.6	966.0	975.7	1,144.5	1,084.2	1,096.0	1,079.3	3,496.8	4,404.0	999.7	8%
YoY Change (%)	92.1	60.4	40.7	30.4	58.0	30.5	13.5	10.6	50.1	25.9	2.5	
EBITDA	32.6	30.1	18.7	21.9	-115.5	-8.9	20.7	46.6	103.3	-57.1	43.3	7%
Margins (%)	4.5	3.6	1.9	2.2	-10.1	-0.8	1.9	4.3	3.0	-1.3	4.3	
Depreciation	9.1	9.5	10.2	10.8	10.9	10.8	11.1	10.4	39.7	43.3	11.5	
Forex loss	0.7	-1.1	-1.4	0.9	9.5	6.0	4.0	-1.4	-1.0	18.1	0.2	
Interest	2.5	1.5	2.4	3.3	3.3	5.9	6.8	5.2	9.7	21.3	7.2	
Other Income	3.7	3.4	4.1	16.0	3.4	2.8	2.9	11.6	27.2	20.7	3.2	
PBT before EO expense	24.0	23.6	11.6	22.8	-135.8	-28.9	1.7	43.9	82.0	-119.1	27.7	59%
PBT	24.0	23.6	11.6	22.8	-135.8	-28.9	1.7	43.9	82.0	-119.1	27.7	59%
Rate (%)	25.1	18.5	25.1	21.4	24.9	24.9	-2.4	26.6	22.2	24.7	25.2	
Adj PAT	18.0	19.2	8.7	18.0	-102.0	-21.7	1.7	32.2	63.8	-89.7	20.7	55%
YoY Change (%)	-36.2	-22.4	-63.1	-40.5	PL	PL	-80.2	79.5	-40.1	PL	15.5	
Key Assumptions												
Refining throughput (mmt)	2.5	2.5	4.2	4.7	4.8	4.5	4.8	5.0	14.0	19.1	4.8	4%
Reported GRM (USD/bbl)	3.3	2.4	6.4	12.5	16.7	8.3	9.1	14.1	6.2	12.0	10.6	32%
Marketing sales volume incl. exports (mmt)	8.8	9.1	10.5	10.7	10.7	10.4	11.3	11.1	39.1	10.9	10.8	3%
Marketing GM incl. inv. (INR/liter)	5.8	5.9	3.0	2.7	-9.9	0.7	2.2	3.7	4.3	-0.8	4.7	-22%

Particulars	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Exchange Rate (INR/USD)	64.5	70.0	70.9	74.3	74.5	80.4	84.4	83.0
Brent Crude (USD/bbl)	57.6	70.1	61.2	44.4	80.5	96.1	90.0	90.0
Market Sales (MMT)	37	39	40	37	39	43	43	44
YoY (%)	6	5	2	(8)	7	11	(2)	4
GRM (USD/bbl)	7.4	5.0	1.0	3.9	7.2	12.1	5.0	5.0
Singapore GRM (USD/bbl)	7.3	4.9	3.2	0.5	5.0	10.7	6.0	6.0
Prem/(disc) (USD/bbl)	0	0	(2)	3	2	1	(1.0)	(1.0)
Total Refinery throughput (MMT)	18.3	18.4	17.2	16.4	14.0	19.1	24.0	24.0
YoY (%)	3%	1%	-7%	-4%	-15%	37%	26%	0%
Refining capacity utilization (%)	116%	117%	109%	104%	88%	85%	98%	98%
Blended marketing margin incl. inventory (INR/lit)	3.6	4.3	4.0	6.3	4.3	(0.8)	4.5	4.6
Consolidated EPS	50.9	47.2	25.7	75.1	51.4	-49.2	51.0	46.6

Story in charts

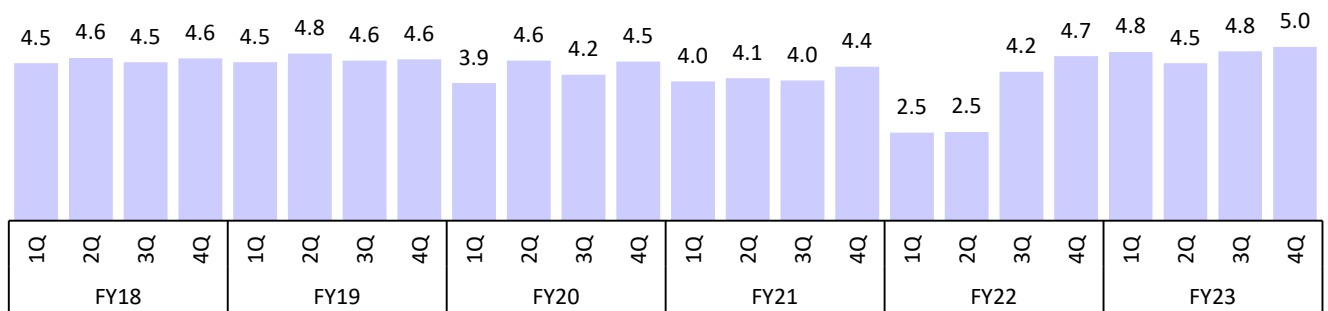
Exhibit 1: Reported GRM stood at USD14.1/bbl, while SG GRM stood at USD8.2/bbl in 4QFY23



Source: Company, MOFSL

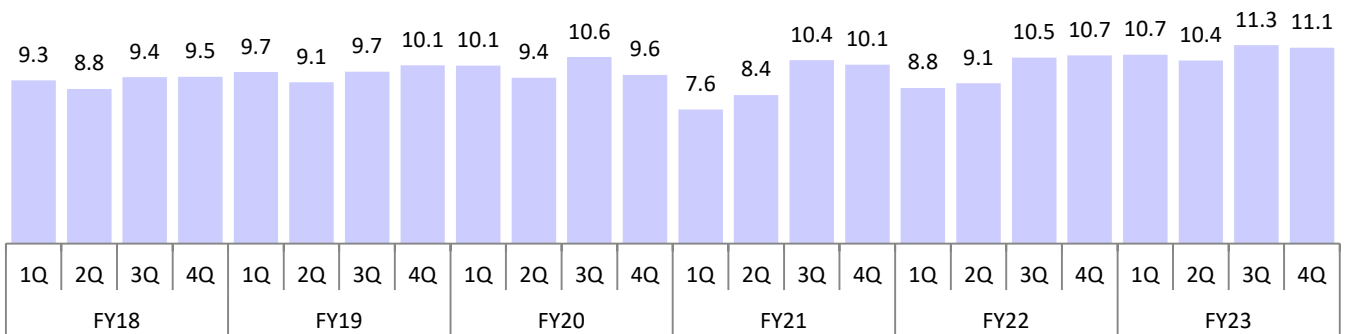
Exhibit 2: Throughput was at 5mmt in 4QFY23 (up 6% YoY, up 3% QoQ)

Refinery throughput (mmt)



Source: Company, MOFSL

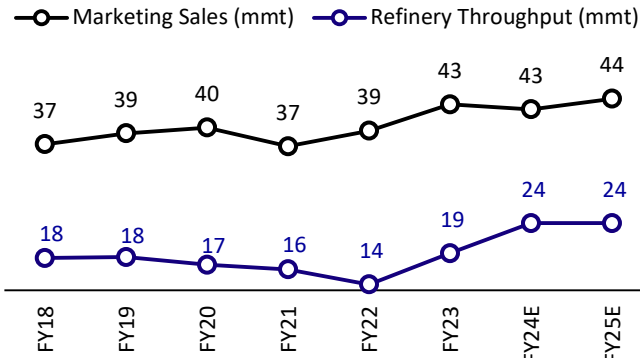
Exhibit 3: Marketing volumes grew 4% YoY but declined 1% QoQ to 11.1mmt



Source: Company, MOFSL

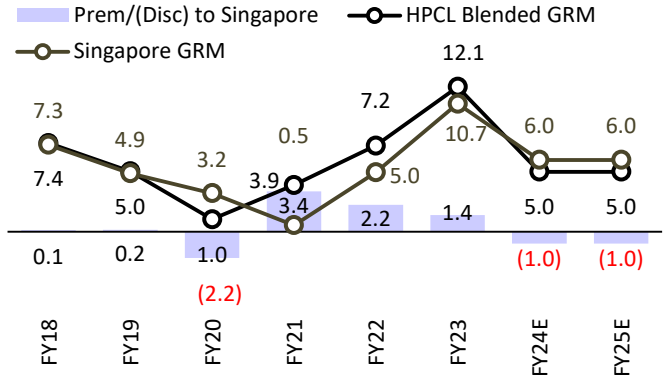
Story in charts

Exhibit 4: Refining throughput/marketing sales of HPCL



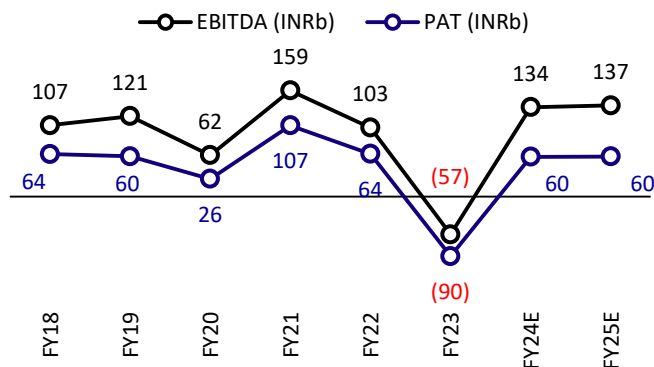
Source: Company, MOFSL

Exhibit 5: GRM trend of HPCL



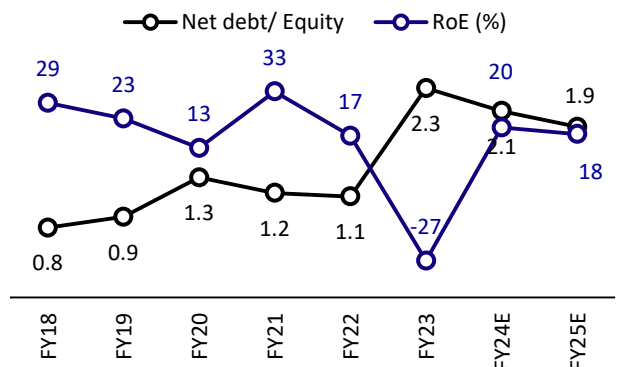
Source: Company, MOFSL

Exhibit 6: EBITDA v/s PAT (standalone)



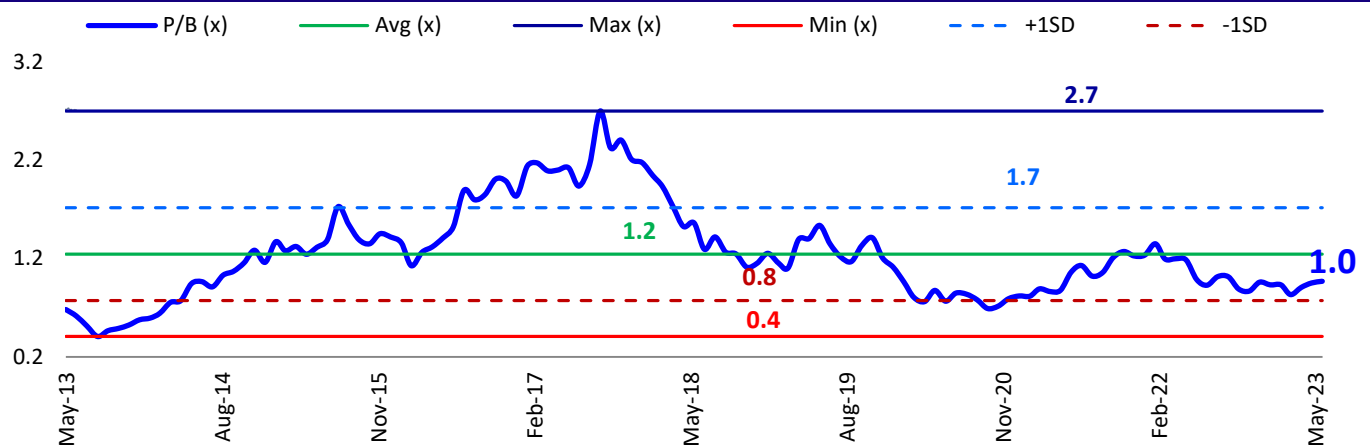
Source: Company, MOFSL

Exhibit 7: Standalone ratios



Source: Company, MOFSL

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



Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement

(INR b)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Total Income from Operations	2,195	2,755	2,691	2,332	3,499	4,407	4,249	4,248
Change (%)	17%	26%	-2%	-13%	50%	26%	-4%	0%
EBITDA	107	115	57	160	102	-72	137	140
Margin (%)	4.9	4.2	2.1	6.9	2.9	-1.6	3.2	3.3
Depreciation	28	31	34	36	40	46	50	59
EBIT	79	84	23	124	62	-118	87	81
Interest Charges (incl. forex)	6	8	11	10	10	22	26	28
Other Income	15	15	17	26	24	15	18	18
PBT bef. JVs/associates EO	88	91	28	141	77	-125	79	70
EO Items	0	0	-10	0	0	0	0	0
Minority Interest	13	9	-5	1	15	25	18	18
PBT after EO Exp.	101	100	14	142	91	-100	97	89
Tax Rate (%)	28.6	33.4	-92.0	24.9	20.2	30.1	25.2	25.2
Reported PAT	72	67	26	107	73	-70	72	66
Adjusted PAT	72	67	36	107	73	-70	72	66
Change (%)	-12%	-7%	-46%	193%	-32%	PL	LP	-8%
Margin (%)	3.3	2.4	1.4	4.6	2.1	-1.6	1.7	1.6

Consolidated - Balance Sheet

(INR b)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	15	15	15	15	14	14	14	14
Total Reserves	240	289	295	366	400	308	363	411
Net Worth	255	304	310	381	414	323	377	426
Total Loans	205	260	394	427	450	671	711	754
Deferred Tax Liabilities	68	74	55	55	60	29	29	29
Capital Employed	529	638	759	862	924	1,023	1,118	1,209
Net Fixed Assets	387	416	489	506	578	681	731	771
Capital WIP	40	95	172	253	289	256	306	356
Total Investments	129	143	144	151	189	189	189	189
Curr. Assets, Loans&Adv.	322	395	337	397	453	447	433	434
Inventory	186	204	193	288	355	296	285	285
Account Receivables	56	57	39	69	63	68	66	66
Cash and Bank Balance	13	2	2	6	3	7	6	7
Cash	1	2	2	5	2	5	5	5
Bank Balance	12	0	0	1	0	2	2	2
Loans and Advances	10	20	18	11	11	11	11	11
Others	57	112	84	24	21	64	64	64
Curr. Liability & Prov.	368	435	411	479	622	591	583	583
Account Payables	158	191	115	178	265	229	221	221
Other Current Liabilities	185	223	269	272	332	334	334	334
Provisions	25	21	27	29	25	28	28	28
Net Current Assets	-46	-40	-74	-82	-169	-144	-150	-149
Appl. of Funds	529	638	759	862	924	1,023	1,118	1,209

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)								
EPS	50.9	47.2	25.7	75.1	51.4	-49.2	51.1	46.8
Cash EPS	70.8	68.9	49.4	100.7	79.6	-17.1	86.3	88.7
BV/Share	179.9	214.2	218.3	268.4	291.8	227.4	265.8	300.0
DPS	17.4	16.3	10.0	23.3	14.3	0.0	12.6	12.7
Payout (%)	42.8	43.8	77.2	31.0	27.9	0.0	24.7	27.1
Valuation (x)								
P/E	5.1	5.5	10.2	3.5	5.1	NA	5.1	5.6
Cash P/E	3.7	3.8	5.3	2.6	3.3	NA	3.0	2.9
P/BV	1.4	1.2	1.2	1.0	0.9	1.1	1.0	0.9
EV/Sales	0.3	0.2	0.3	0.3	0.2	0.2	0.3	0.3
EV/EBITDA	5.3	5.5	13.5	4.9	8.0	NA	7.8	8.0
Dividend Yield (%)	6.7	6.2	3.8	8.9	5.5	0.0	4.8	4.9
FCF per share	30.5	-19.1	-58.7	43.9	26.7	-90.3	2.5	2.7
Return Ratios (%)								
RoE	31.0	23.9	11.9	30.9	18.4	-19.0	20.7	16.6
RoCE	15.8	12.9	12.0	14.9	8.3	-7.8	7.5	6.5
RoIC	17.0	15.1	10.5	20.8	11.1	-16.2	11.0	9.5
Working Capital Ratios								
Fixed Asset Turnover (x)	4.7	5.2	4.2	3.4	4.4	4.6	4.0	3.7
Asset Turnover (x)	4.2	4.3	3.5	2.7	3.8	4.3	3.8	3.5
Inventory (Days)	31	27	26	45	37	24	24	24
Debtor (Days)	9	8	5	11	7	6	6	6
Creditor (Days)	26	25	16	28	28	19	19	19
Leverage Ratio (x)								
Current Ratio	0.9	0.9	0.8	0.8	0.7	0.8	0.7	0.7
Interest Cover Ratio	12.8	10.7	2.0	12.8	6.3	-5.4	3.3	2.9
Net Debt/Equity	0.8	0.8	1.3	1.1	1.1	2.1	1.9	1.8

Consolidated - Cash Flow Statement

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
(INR b)								
OP/(Loss) before Tax	101	100	14	142	91	-100	97	89
Depreciation	28	31	34	36	40	46	50	59
Interest expense	6	8	11	10	10	22	26	28
Interest income and dividend	-4	-4	-4	-4	-4	-4	0	0
Direct Taxes Paid	-20	-21	-17	-32	-15	-2	-24	-22
MI and others	-11	-4	10	-3	-20	-10	0	0
(Inc)/Dec in WC	9	-24	7	29	55	13	5	0
CF from Operations	110	86	55	178	158	-35	154	154
(Inc)/Dec in FA	-67	-113	-138	-116	-120	-93	-150	-150
Free Cash Flow	43	-27	-83	62	38	-128	4	4
Others	4	9	6	7	9	12	0	0
CF from Investments	-66	-111	-142	-123	-137	-114	-150	-150
Inc/(Dec) in Debt	-11	51	115	3	39	213	40	43
Interest Paid	-5	-8	-13	-16	-17	-32	-26	-28
Dividend Paid	-28	-17	-17	-15	-32	-20	-18	-18
CF from Fin. Activity	-44	26	87	-53	-23	151	-4	-3
Inc/Dec of Cash	0	1	0	3	-2	3	0	1
Opening Balance	1	1	2	2	5	2	5	5
Closing Balance	1	2	2	5	2	5	5	5

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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

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