

May 14, 2023

## Q4FY23 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	340		310	
Sales (Rs. m)	37,54,375	35,99,418	38,48,592	35,74,502
% Chng.	(2.4)	0.7		
EBITDA (Rs. m)	1,39,961	1,47,483	1,42,198	1,47,954
% Chng.	(1.6)	(0.3)		
EPS (Rs.)	43.3	54.9	41.1	51.9
% Chng.	5.5	5.9		

### Key Financials - Standalone

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. bn)	3,510	4,404	3,754	3,599
EBITDA (Rs. bn)	115	(75)	140	147
Margin (%)	3.3	(1.7)	3.7	4.1
PAT (Rs. bn)	77	(90)	61	78
EPS (Rs.)	54.0	(63.2)	43.3	54.9
Gr. (%)	(26.4)	(217.0)	(168.5)	26.7
DPS (Rs.)	15.0	-	14.5	18.4
Yield (%)	5.8	-	5.6	7.0
RoE (%)	20.5	(27.0)	20.5	22.1
RoCE (%)	9.4	(13.6)	10.5	12.1
EV/Sales (x)	0.2	0.2	0.2	0.2
EV/EBITDA (x)	6.5	(12.7)	4.7	4.1
PE (x)	4.8	(4.1)	6.0	4.7
P/BV (x)	1.0	1.3	1.1	1.0

### Key Data

HPCL.BO | HPCL IN

52-W High / Low	Rs.267 / Rs.200
Sensex / Nifty	62,028 / 18,315
Market Cap	Rs.370bn/ \$ 4,501m
Shares Outstanding	1,419m
3M Avg. Daily Value	Rs.867.92m

### Shareholding Pattern (%)

Promoter's	54.90
Foreign	14.36
Domestic Institution	21.40
Public & Others	9.34
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	13.4	25.5	(0.7)
Relative	10.4	25.1	(15.2)

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## Marketing profitability outlook improves

### Quick Pointers:

- Blended marketing margins turn positive - Rs7/ltr for Q1FY24E vs Rs3/ltr in Q4.
- Geopolitical uncertainty to keep refining product spreads healthy.

**We change our FY24/25E earnings estimate by ~6%, as we incorporate actual FY23 numbers. Hindustan Petroleum Corporation (HPCL) reported better than expected Q4 results with EBITDA of Rs47.9bn (+187% Q/Q; PLe: Rs 40.7bn) and PAT of Rs32.3bn (+1769% Q/Q; PLe : Rs24.7bn), due to better than expected refining profitability (Q4 GRMs USD14.1/bbl). Improving marketing environment will drive near term earnings as Q1FY24E blended marketing margins are at ~Rs7/ltr post drop in international diesel prices to ~\$90 (recent peak of USD170/bbl) along with 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 Rs340 (Rs310) based on 5.5x EV/E FY24E.**

- Better refining profitability drive earnings:** HPCL reported Q4 standalone EBITDA/PAT of Rs47.9bn (+187% Q/Q; PLe: Rs 40.7bn) and Rs32.3bn (+176.9% Q/Q; PLe: Rs24.7bn). Consolidated EBITDA/PAT was at Rs51.3bn (+136% Y/Y) and Rs36.1bn (+79% Y/Y) respectively. Q4 GRMs were surprisingly high at USD14.0/bbl (Q3: USD 9.1) despite drop in diesel and ATF spreads by USD14/7/bbl QoQ. We calculate Q4 core marketing EBITDA at Rs12.2bn vs Q3 levels of Rs1.5bn, as blended marketing margins were at Rs3/ltr vs loss of Rs3/tr in Q3.
- Q4 petrol/diesel volume growth at 13.6%/11.0%YoY:** HPCL's Q4 marketing volumes were impressive on YoY basis with MS sales at 2.2MTPA (+14% YoY) and HSD sales at 4.9MTPA (+11% YoY). This is ahead of industry volume growth rate of 10% and 7% for petrol and diesel respectively. For FY23, HPCL's overall market sales was at 43.5MTPA included exports of 1.26MTPA.
- Improving fuel marketing environment is a positive:** Fuel marketing environment continues to improve as blended marketing margins have improved to ~Rs7/litre in Q1. For FY24/25E we have assumed marketing margins at Rs3.0/3.5/ltr.for petrol and diesel.
- Refining spreads come off high for FY23, but remain at elevated levels:** HPCL's Q4 refining margins were at USD14/bbl (Q3 at USD9.1/bb; PLe USD5.8/bbl), before export cess. Refining throughput was at 4.9 MTPA (4.8 in Q3). For FY23 GRMs were at USD12.1/bbl (USD7.2 in FY22). Refining margins are likely to remain healthy, as diesel demand along with ATF remains strong, due to continued geopolitical uncertainty. We have factored in GRMs of USD7.5/6.3/bbl for FY24/25E, given increased recessionary concerns.

**Exhibit 1: Q4FY23 Result Overview (Rs mn); Better refining performance drives earnings surprise**

Y/e March	Q4FY23	Q4FY22	YoY gr. (%)	Q3FY23	FY23	FY22	YoY gr. (%)
<b>Net sales</b>	<b>11,44,447</b>	<b>10,52,885</b>	<b>8.7</b>	<b>11,61,266</b>	<b>46,61,924</b>	<b>37,38,968</b>	<b>24.7</b>
Inc/dec in stock	(20,676)	(26,955)	NA	25,993	14,919	(6,296)	NA
Raw material cons	2,81,979	2,62,952	7.2	3,07,718	12,39,326	6,81,986	81.7
Staff cost	8,010	7,416	8.0	7,163	29,628	29,825	(0.7)
Purchases	7,18,636	6,65,416	8.0	6,97,547	30,15,943	25,44,467	18.5
Duties	65,169	77,157	(15.5)	65,234	2,57,894	2,42,138	6.5
Other expenditure	43,344	45,912	(5.6)	40,894	1,79,436	1,45,090	23.7
Exp	(10,96,461)	(10,31,899)	NA	(11,44,550)	(47,37,146)	(36,37,209)	NA
<b>Operating profit</b>	<b>47,986</b>	<b>20,986</b>	<b>128.7</b>	<b>16,717</b>	<b>(75,222)</b>	<b>1,01,759</b>	<b>(173.9)</b>
Interest	(5,226)	(3,283)	NA	(6,817)	(21,319)	(9,728)	NA
Depreciation	(10,442)	(10,832)	NA	(11,105)	(43,300)	(39,691)	NA
Other income	11,600	15,979	(27.4)	2,889	20,691	29,697	(30.3)
<b>Profit before tax</b>	<b>43,918</b>	<b>22,850</b>	<b>92.2</b>	<b>1,684</b>	<b>(1,19,149)</b>	<b>82,037</b>	<b>(245.2)</b>
Current tax	1	(2,523)	NA	460	461	(13,534)	NA
<b>Profit after current tax</b>	<b>43,920</b>	<b>20,327</b>	<b>116.1</b>	<b>2,144</b>	<b>(1,18,688)</b>	<b>68,503</b>	<b>(273.3)</b>
Deferred tax	(11,694)	(2,374)	NA	(420)	28,948	(4,677)	NA
<b>Net profit</b>	<b>32,226</b>	<b>17,953</b>	<b>79.5</b>	<b>1,724</b>	<b>(89,740)</b>	<b>63,826</b>	<b>(240.6)</b>

Source: Company, PL

**Exhibit 2: HPCL quarterly details – Refining volumes improved to 4.96MTPA in Q4FY23**

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-22
<b>Total throughput</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>4.96</b>
<b>Market sales</b>										
Pipeline throughput (MMT)	5.52	5.36	4.34	4.7	5.5	5.32	5.75	5.53	5.84	6.13
Mkt sales (MMT)	10.03	9.83	8.45	9.1	10.0	10.3	10.4	9.97	10.95	10.92
GRMs (\$/bbl)	1.87	8.11	3.31	2.44	6.39	12.4	16.7	8.4	9.1	14.0

Source: Company, PL

**Exhibit 3: Q4FY23 domestic fuel demand growth show strong growth**

	Q4FY23	Q4FY22	YoY gr. (%)	Q3FY23	QoQ gr. (%)
LPG	7,304	7,448	-2%	7,425	-2%
Gasoline	8,710	7,933	10%	8,840	-1%
Jet Fuel	1,978	1,433	38%	1,892	4%
Kerosene	96	357	-73%	112	-14%
Gasoil/Diesel	21,972	20,590	7%	22,535	-2%
Gasoil (LDO)	185	260	-29%	187	-1%
Bitumen	2,393	2,582	-7%	2152	11%
Lubes/Grs	1,139	1,265	-10%	954	19%
Naphtha	3,368	3,586	-6%	2,832	19%
F.O.	1,754	1,647	6%	1,793	-2%
Petcoke	4,435	4,153	7%	4,656	-5%

Source: Industry, PL



## Financials

## Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
<b>Net Revenues</b>	<b>35,09,682</b>	<b>44,04,030</b>	<b>37,54,375</b>	<b>35,99,418</b>
YoY gr. (%)	-	-	-	-
Cost of Goods Sold	32,20,157	42,70,188	33,92,034	32,15,786
Gross Profit	2,89,525	1,33,842	3,62,341	3,83,632
Margin (%)	8.2	3.0	9.7	10.7
Employee Cost	29,825	29,628	35,554	38,042
Other Expenses	1,45,090	1,79,436	1,86,826	1,98,107
<b>EBITDA</b>	<b>1,14,611</b>	<b>(75,222)</b>	<b>1,39,961</b>	<b>1,47,483</b>
YoY gr. (%)	(28.0)	(165.6)	(286.1)	5.4
Margin (%)	3.3	(1.7)	3.7	4.1
Depreciation and Amortization	39,691	43,300	48,408	51,119
<b>EBIT</b>	<b>74,920</b>	<b>(1,18,522)</b>	<b>91,554</b>	<b>96,363</b>
Margin (%)	2.1	(2.7)	2.4	2.7
Net Interest	9,727	21,319	22,570	6,703
Other Income	29,697	20,691	14,111	15,658
<b>Profit Before Tax</b>	<b>94,889</b>	<b>(1,19,149)</b>	<b>83,094</b>	<b>1,05,318</b>
Margin (%)	2.7	(2.7)	2.2	2.9
Total Tax	18,211	(29,409)	21,605	27,383
Effective tax rate (%)	19.2	24.7	26.0	26.0
<b>Profit after tax</b>	<b>76,679</b>	<b>(89,741)</b>	<b>61,490</b>	<b>77,935</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>76,679</b>	<b>(89,741)</b>	<b>61,490</b>	<b>77,935</b>
YoY gr. (%)	(28.1)	(217.0)	(168.5)	26.7
Margin (%)	2.2	(2.0)	1.6	2.2
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>76,679</b>	<b>(89,741)</b>	<b>61,490</b>	<b>77,935</b>
YoY gr. (%)	-	-	-	-
Margin (%)	2.2	(2.0)	1.6	2.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	76,679	(89,741)	61,490	77,935
<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>(63.2)</b>	<b>43.3</b>	<b>54.9</b>

Source: Company Data, PL Research

## Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>7,64,467</b>	<b>9,12,266</b>	<b>9,62,266</b>	<b>10,17,266</b>
Tangibles	7,64,467	9,12,266	9,62,266	10,17,266
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>2,01,354</b>	<b>2,44,654</b>	<b>2,93,062</b>	<b>3,44,182</b>
Tangibles	2,01,354	2,44,654	2,93,062	3,44,182
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>5,63,113</b>	<b>6,67,612</b>	<b>6,69,204</b>	<b>6,73,085</b>
Tangibles	5,63,113	6,67,612	6,69,204	6,73,085
Intangibles	-	-	-	-
Capital Work In Progress	2,65,574	2,25,092	80,533	1,00,000
Goodwill	10,308	10,710	10,710	10,710
Non-Current Investments	1,37,581	1,72,120	1,86,238	2,03,884
Net Deferred tax assets	(59,783)	(30,110)	(35,096)	(41,415)
Other Non-Current Assets	29,313	32,872	36,159	39,775
<b>Current Assets</b>				
Investments	53,715	51,689	56,858	62,544
Inventories	3,53,456	2,93,440	2,52,425	2,43,413
Trade receivables	63,318	68,172	58,845	56,763
Cash & Bank Balance	1,310	5,386	1,48,773	1,03,966
Other Current Assets	5,670	5,072	5,580	6,137
<b>Total Assets</b>	<b>15,01,604</b>	<b>15,44,851</b>	<b>15,18,222</b>	<b>15,13,407</b>
<b>Equity</b>				
Equity Share Capital	14,189	14,189	14,189	14,189
Other Equity	3,72,581	2,62,945	3,08,863	3,67,061
<b>Total Networkth</b>	<b>3,86,770</b>	<b>2,77,134</b>	<b>3,23,052</b>	<b>3,81,251</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	3,12,270	4,64,030	3,14,030	2,14,030
Provisions	450	441	485	534
Other non current liabilities	4,452	7,062	7,768	8,545
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	1,19,659	1,81,142	1,81,142	1,81,142
Trade payables	2,64,479	2,28,524	2,64,600	2,55,238
Other current liabilities	3,23,357	3,24,843	3,57,327	3,93,060
<b>Total Equity &amp; Liabilities</b>	<b>15,01,604</b>	<b>15,44,851</b>	<b>15,18,222</b>	<b>15,13,407</b>

Source: Company Data, PL Research



## Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	82,037	(1,19,149)	83,094	1,05,318
Add. Depreciation	39,691	43,300	48,408	51,119
Add. Interest	9,727	21,319	22,570	6,703
Less Financial Other Income	29,697	20,691	14,111	15,658
Add. Other	-	-	-	-
Op. profit before WC changes	1,31,455	(54,531)	1,54,073	1,63,141
Net Changes-WC	88,616	(416)	1,20,544	37,989
Direct tax	(13,230)	-	(16,619)	(21,064)
<b>Net cash from Op. activities</b>	<b>2,06,841</b>	<b>(54,947)</b>	<b>2,57,998</b>	<b>1,80,066</b>
Capital expenditures	(1,64,180)	(1,41,865)	79,228	(91,332)
Interest / Dividend Income	-	-	-	-
Others	(3,136)	(550)	(711)	(782)
<b>Net Cash from Inv. activities</b>	<b>(1,67,316)</b>	<b>(1,42,415)</b>	<b>78,518</b>	<b>(92,113)</b>
Issue of share cap. / premium	(23,143)	9,513	-	-
Debt changes	13,038	2,13,243	(1,50,000)	(1,00,000)
Dividend paid	(20,754)	-	(20,558)	(26,056)
Interest paid	(9,727)	(21,319)	(22,570)	(6,703)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(40,587)</b>	<b>2,01,438</b>	<b>(1,93,128)</b>	<b>(1,32,759)</b>
<b>Net change in cash</b>	<b>(1,062)</b>	<b>4,076</b>	<b>1,43,387</b>	<b>(44,807)</b>
Free Cash Flow	42,661	(1,96,813)	3,37,226	88,734

Source: Company Data, PL Research

## Quarterly Financials (Rs m)

Y/e Mar	Q1FY23	Q2FY23	Q3FY23	Q4FY23
<b>Net Revenue</b>	<b>11,44,547</b>	<b>10,84,173</b>	<b>10,96,032</b>	<b>10,79,278</b>
YoY gr. (%)	58.0	30.5	13.5	10.6
Raw Material Expenses	12,13,482	10,45,509	10,31,258	9,79,939
Gross Profit	(68,935)	38,663	64,774	99,339
Margin (%)	(6.0)	3.6	5.9	9.2
<b>EBITDA</b>	<b>(1,24,946)</b>	<b>(14,979)</b>	<b>16,717</b>	<b>47,986</b>
YoY gr. (%)	(491.3)	(149.7)	(10.6)	128.7
Margin (%)	(10.9)	(1.4)	1.5	4.4
Depreciation / Depletion	10,945	10,809	11,105	10,442
<b>EBIT</b>	<b>(1,35,890)</b>	<b>(25,788)</b>	<b>5,612</b>	<b>37,544</b>
Margin (%)	(11.9)	(2.4)	0.5	3.5
Net Interest	3,327	5,950	6,817	5,226
Other Income	3,397	2,805	2,889	11,600
<b>Profit before Tax</b>	<b>(1,35,820)</b>	<b>(28,932)</b>	<b>1,684</b>	<b>43,918</b>
Margin (%)	(11.9)	(2.7)	0.2	4.1
Total Tax	(33,850)	(7,211)	(40)	11,692
Effective tax rate (%)	24.9	24.9	(2.4)	26.6
<b>Profit after Tax</b>	<b>(1,01,969)</b>	<b>(21,721)</b>	<b>1,724</b>	<b>32,226</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>(1,01,969)</b>	<b>(21,721)</b>	<b>1,724</b>	<b>32,226</b>
YoY gr. (%)	(668.1)	(212.9)	(80.2)	79.5
Margin (%)	(8.9)	(2.0)	0.2	3.0
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>(1,01,969)</b>	<b>(21,721)</b>	<b>1,724</b>	<b>32,226</b>
YoY gr. (%)	(668.1)	(212.9)	(80.2)	79.5
Margin (%)	(8.9)	(2.0)	0.2	3.0
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	FY23	FY24E	FY25E
<b>Per Share(Rs)</b>				
EPS	54.0	(63.2)	43.3	54.9
CEPS	82.0	(32.7)	77.5	91.0
BVPS	272.6	195.3	227.7	268.7
FCF	30.1	(138.7)	237.7	62.5
DPS	15.0	-	14.5	18.4
<b>Return Ratio(%)</b>				
RoCE	9.4	(13.6)	10.5	12.1
ROIC	5.2	(8.0)	7.0	7.2
RoE	20.5	(27.0)	20.5	22.1
<b>Balance Sheet</b>				
Net Debt : Equity (x)	1.0	2.1	0.9	0.6
Net Working Capital (Days)	16	11	5	5
<b>Valuation(x)</b>				
PER	4.8	(4.1)	6.0	4.7
P/B	1.0	1.3	1.1	1.0
P/CEPS	3.2	(8.0)	3.4	2.9
EV/EBITDA	6.5	(12.7)	4.7	4.1
EV/Sales	0.2	0.2	0.2	0.2
Dividend Yield (%)	5.8	-	5.6	7.0

Source: Company Data, PL Research

## Key Operating Metrics

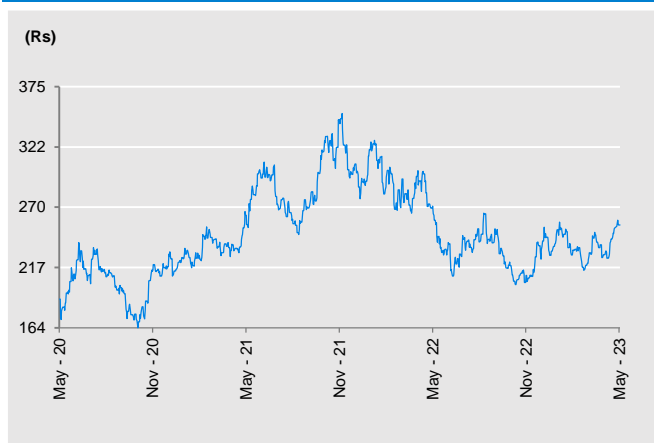
Y/e Mar	FY22	FY23	FY24E	FY25E
Crude /bbl	65	96	80	80
US\$/Rs	77	80	83	85
GRM (US\$/bbl)	7	12	7	6
Refining volume (MTPA)	14	19	23	23
Net subsidy burden (Rs m)				

Source: Company Data, PL Research



## Price Chart

## Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Apr-23	BUY	310	226
2	10-Feb-23	BUY	310	232
3	03-Jan-23	BUY	350	237
4	09-Dec-22	BUY	350	240
5	03-Nov-22	Hold	195	211
6	01-Oct-22	Hold	195	217
7	08-Aug-22	Hold	247	251
8	05-Jul-22	BUY	368	226
9	23-May-22	BUY	368	244

## Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bharat Petroleum Corporation	BUY	420	328
2	Bharti Airtel	BUY	977	763
3	GAIL (India)	BUY	118	105
4	Gujarat Gas	Hold	450	463
5	Hindustan Petroleum Corporation	BUY	310	226
6	Indian Oil Corporation	BUY	125	77
7	Indraprastha Gas	BUY	564	444
8	Mahanagar Gas	BUY	1,260	1,074
9	Oil & Natural Gas Corporation	BUY	210	153
10	Oil India	BUY	325	262
11	Petronet LNG	BUY	326	237
12	Reliance Industries	BUY	2,822	2,349

## 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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