

Estimate change



TP change



Rating change



**CMP: INR276**

**TP: INR265 (-4%)**

**Neutral**

## Weaker-than-expected GRM and marketing margins lead to miss

- HPCL reported a miss on our 1QFY24 EBITDA estimate, due to lower-than-expected GRM of USD7.4/bbl (vs. est. of USD10.5/bbl) and marketing margins of INR8.4/lit (vs. est. of INR9.6/lit).
- Refinery throughput was in line at 5.4mmt (up 12% YoY). Singapore GRM of USD4/bbl in 1QFY24 has now improved to ~USD6.6/bbl in 2QFY24'td, which could positively impact refining margins in the coming quarter. However, 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 7% above est. at 11.9mmt (up 11% YoY). OMCs are estimated to be generating a healthy gross marketing margin of INR9.3/INR10 per liter on petrol/diesel in 2QFY24'td. Among OMCs, **HPCL possesses the highest leverage in marketing and would benefit the most due to strong marketing margins.**
- However, margins may be adversely impacted by retail fuel price cuts due to the upcoming elections and/or a potential increase in crude oil prices, resulting quota management decisions by OPEC+ nations. The next OPEC+ meeting **is scheduled to take place today**, which could have significant implications for the global oil market.
- We highlight that the company is battling a three-headed monster – a) project execution risk, b) rising debt (INR671b in Mar'23 vs. 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.**
- Owing to underperformance in 1QFY24, we cut our EBITDA/PAT estimates by 4/8% for FY24, while keeping FY25 estimates broadly unchanged. We value the stock at 0.8x FY25 P/BV and reiterate our **Neutral rating** on the stock with a TP of INR265.



Equity Shares (m)	HPCL IN
M.Cap.(INRb)/(USD\$b)	392 / 4.7
52-Week Range (INR)	310 / 200
1, 6, 12 Rel. Per (%)	-1/9/0
12M Avg Val (INR M)	996
Free float (%)	45.1

### Financials & Valuations (INR b)

Y/E March	FY23	FY24E	FY25E
Sales	4,407.1	4,172.2	4,298.4
EBITDA	-72.1	213.7	140.6
Adj. PAT	-69.8	128.2	68.9
Adj. EPS (INR)	-49.2	90.4	48.6
EPS Gr. (%)	PL	LP	-46.3
BV/Sh.(INR)	227.4	293.4	330.7

### Ratios

	FY23	FY24E	FY25E
Net D:E	2.1	1.6	1.5
RoE (%)	-19.0	34.7	15.6
RoCE (%)	-7.8	12.5	6.5
Payout (%)	0.0	26.9	23.3

### Valuations

	FY23	FY24E	FY25E
P/E (x)	NA	3.1	5.7
P/BV (x)	1.2	0.9	0.8
EV/EBITDA (x)	NA	4.9	7.8
Div. Yield (%)	0.0	8.8	4.1
FCF Yield (%)	-32.7	17.1	1.0

### Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	54.9	54.9	54.9
DII	22.3	21.4	16.4
FII	14.0	14.4	18.2
Others	8.8	9.3	10.5

FII Includes depository receipts

## Throughput in line; marketing sales volume above estimates

- Refining throughput was in line at 5.4mmt (up 12% YoY)
- Reported GRM stood at USD7.4/bbl (vs. our est. GRM of USD10.5/bbl and USD14.1/bbl in 4QFY23)
- Marketing sales volumes were 7% above our estimate at 11.9mmt (up 11% YoY).
- Marketing margin (incl. Inv.) stood at INR8.4/lit (vs. our est. of INR9.6/lit and INR3.7/lit in 4QFY23)
- Resultant EBITDA stood at INR95.2b (vs. our est. EBITDA of INR119.8b).
- PAT came in at INR62b (vs. our est. of INR80.2b).
- HPCL had a net negative buffer of INR9.9b in 1QFY24 due to under recoveries on the sale of retail LPG cylinders.
- The same has been recognized as a part of income in 1QFY24 on its recovery during the quarter.

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

**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 into Alternate Energy.
- 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 May'24.
- Further, HPCL is working on petchem projects, including the establishment of a 4.6mmtpa petrochemical capacity by FY25E through JVs. This strategic initiative aims to position the company as the second-largest petrochemical 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 0.8x FY25E P/BV to arrive at our TP of INR265.

**Standalone - Quarterly Earnings Model**

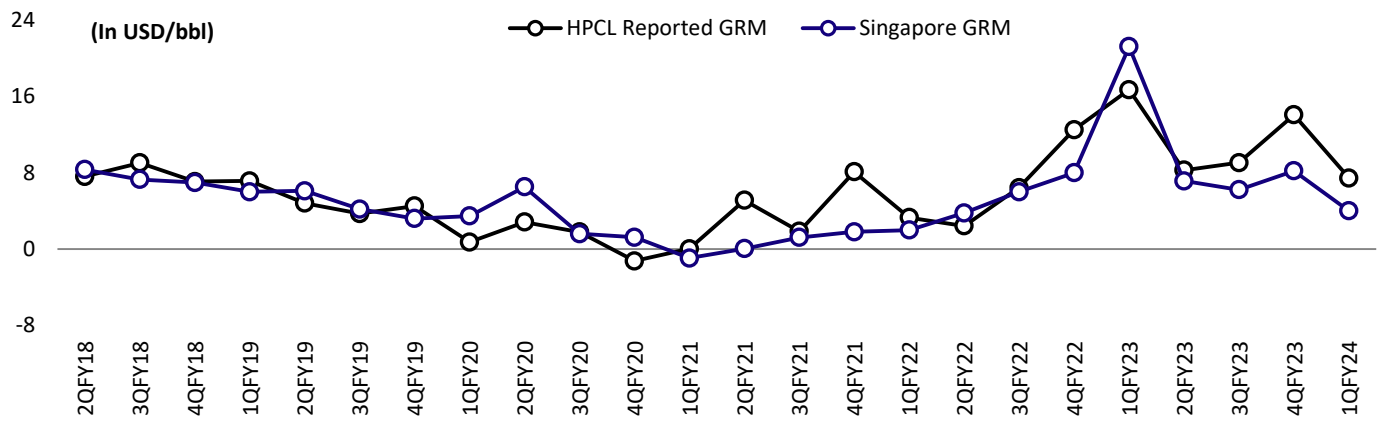
(INR b)

Y/E March	FY23				FY24				FY23	FY24E	FY24	Var
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
<b>Net Sales</b>	<b>1,144.5</b>	<b>1,084.2</b>	<b>1,096.0</b>	<b>1,079.3</b>	<b>1,119.6</b>	<b>990.9</b>	<b>994.3</b>	<b>1,064.4</b>	<b>4,404.0</b>	<b>4,169.2</b>	<b>951.5</b>	<b>18</b>
YoY Change (%)	58.0	30.5	13.5	10.6	-2.2	-8.6	-9.3	-1.4	25.9	-5.3	-16.9	
<b>EBITDA</b>	<b>-115.5</b>	<b>-8.9</b>	<b>20.7</b>	<b>46.6</b>	<b>95.2</b>	<b>52.4</b>	<b>33.3</b>	<b>29.7</b>	<b>-57.1</b>	<b>210.5</b>	<b>119.8</b>	<b>-21</b>
Margins (%)	-10.1	-0.8	1.9	4.3	8.5	5.3	3.3	2.8	-1.3	5.0	12.6	
Depreciation	10.9	10.8	11.1	10.4	13.6	14.1	14.3	14.5	43.3	56.5	12.5	
Forex loss	9.5	6.0	4.0	-1.4	-1.3	0.0	0.0	0.0	18.1	-1.3	-1.4	
Interest	3.3	5.9	6.8	5.2	5.9	6.2	6.1	6.2	21.3	24.5	6.9	
Other Income	3.4	2.8	2.9	11.6	6.3	5.8	5.5	5.7	20.7	23.3	5.2	
<b>PBT before EO expense</b>	<b>-135.8</b>	<b>-28.9</b>	<b>1.7</b>	<b>43.9</b>	<b>83.3</b>	<b>37.8</b>	<b>18.4</b>	<b>14.6</b>	<b>-119.1</b>	<b>154.1</b>	<b>107.1</b>	<b>-22</b>
<b>PBT</b>	<b>-135.8</b>	<b>-28.9</b>	<b>1.7</b>	<b>43.9</b>	<b>83.3</b>	<b>37.8</b>	<b>18.4</b>	<b>14.6</b>	<b>-119.1</b>	<b>154.1</b>	<b>107.1</b>	<b>-22</b>
Rate (%)	24.9	24.9	-2.4	26.6	25.5	25.2	25.2	25.2	24.7	25.4	25.2	
<b>Adj PAT</b>	<b>-102.0</b>	<b>-21.7</b>	<b>1.7</b>	<b>32.2</b>	<b>62.0</b>	<b>28.3</b>	<b>13.8</b>	<b>10.9</b>	<b>-89.7</b>	<b>115.0</b>	<b>80.2</b>	<b>-23</b>
YoY Change (%)	PL	PL	-80.2	79.5	LP	LP	698.3	-66.1	PL	LP	LP	
<b>Key Assumptions</b>												
Refining throughput (mmt)	4.8	4.5	4.8	5.0	5.4	5.8	6.0	5.9	19.1	23.0	5.3	2
Reported GRM (USD/bbl)	16.7	8.3	9.1	14.1	7.4	5.0	5.0	5.0	12.0	5.6	10.5	-29
Marketing sales vol. incl exports (mmt)	10.7	10.4	11.3	11.1	11.9	10.7	10.7	9.5	43.5	42.7	11.1	7
Marketing GM incl inv (INR/litre)	-9.9	0.7	2.2	3.7	8.4	6.1	4.5	4.7	-0.8	6.0	9.6	-12

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	82.9	84.1
Brent Crude (USD/bbl)	57.6	70.1	61.2	44.4	80.5	96.1	83.8	90.0
Market Sales (MMT)	37	39	40	37	39	43	43	44
YoY (%)	6	5	2	(8)	7	11	(2)	4
<b>GRM (USD/bbl)</b>	<b>7.4</b>	<b>5.0</b>	<b>1.0</b>	<b>3.9</b>	<b>7.2</b>	<b>12.1</b>	<b>5.6</b>	<b>5.0</b>
Singapore GRM (USD/bbl)	7.3	4.9	3.2	0.5	5.0	10.7	5.5	6.0
Prem/(disc) (USD/bbl)	0	0	(2)	3	2	1	0.1	(1.0)
Total Refinery throughput (MMT)	18.3	18.4	17.2	16.4	14.0	19.1	23.0	24.0
YoY (%)	3%	1%	-7%	-4%	-15%	37%	20%	4%
<b>Refining capacity utilization (%)</b>	<b>116%</b>	<b>117%</b>	<b>109%</b>	<b>104%</b>	<b>88%</b>	<b>85%</b>	<b>94%</b>	<b>98%</b>
<b>Blended marketing margin incl. inventory (INR/lit)</b>	<b>3.6</b>	<b>4.3</b>	<b>4.0</b>	<b>6.3</b>	<b>4.3</b>	<b>(0.8)</b>	<b>6.0</b>	<b>4.6</b>
<b>Consolidated EPS</b>	<b>50.9</b>	<b>47.2</b>	<b>25.7</b>	<b>75.1</b>	<b>51.4</b>	<b>-49.2</b>	<b>90.4</b>	<b>48.6</b>

Story in charts

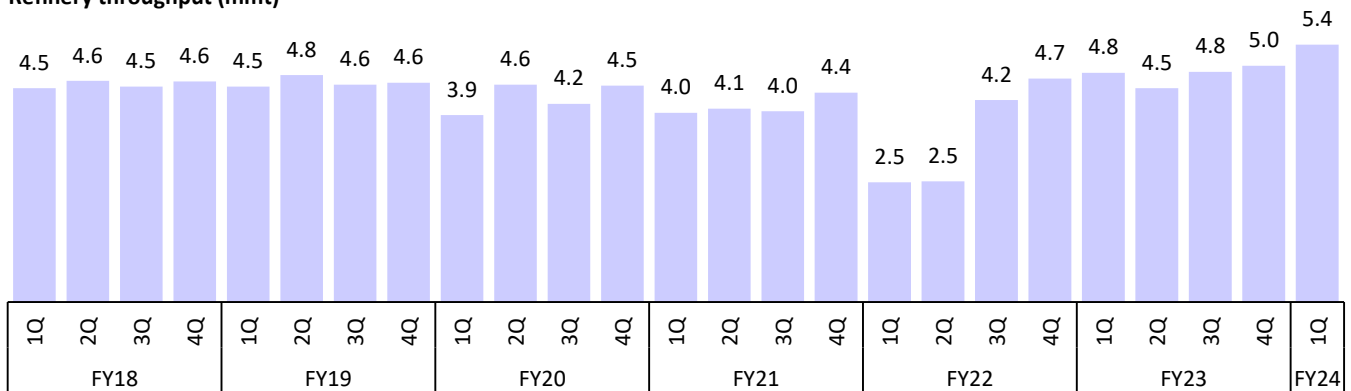
Exhibit 1: Reported GRM stood at USD7.4/bbl, while SG GRM stood at USD4/bbl in 1QFY24



Source: Company, MOFSL

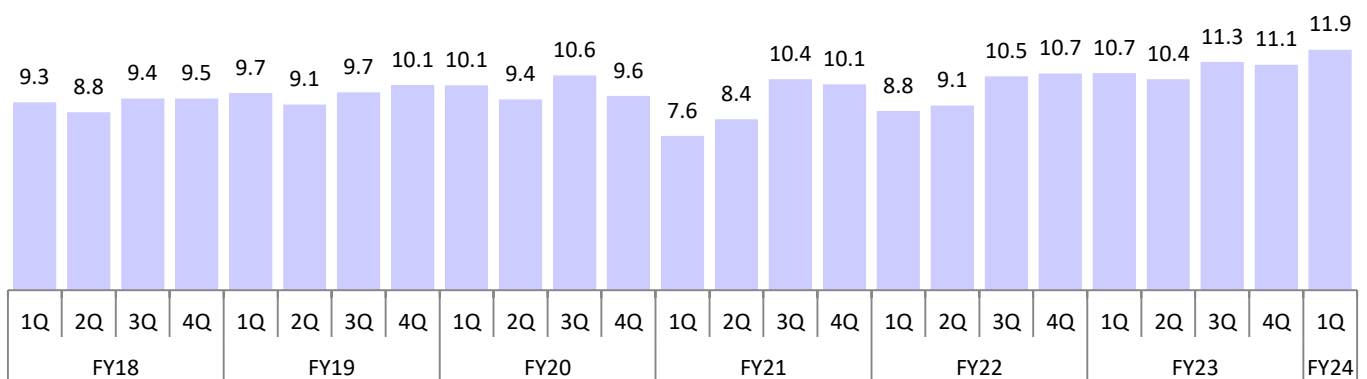
Exhibit 2: Throughput was at 5.4mmt in 1QFY24 (up 12% YoY, up 9% QoQ)

Refinery throughput (mmt)



Source: Company, MOFSL

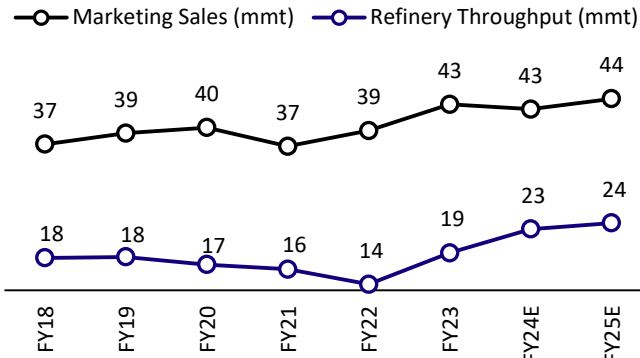
Exhibit 3: Marketing volumes grew 11% YoY and 7% QoQ to 11.9mmt



Source: Company, MOFSL

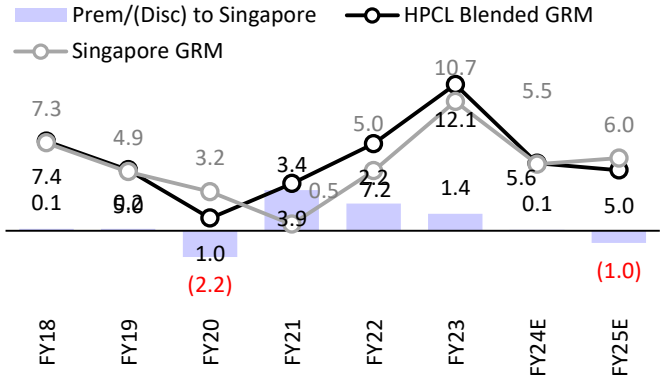
Story in charts

Exhibit 4: Refining throughput/marketing sales of HPCL



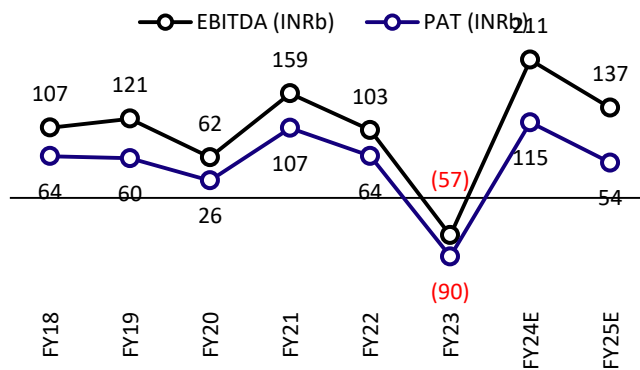
Source: Company, MOFSL

Exhibit 5: GRM trend of HPCL



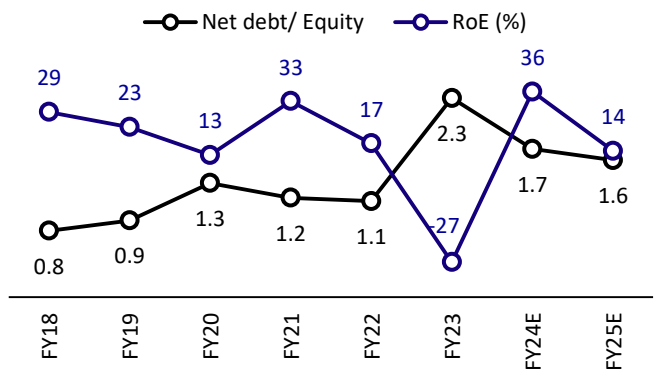
Source: Company, MOFSL

Exhibit 6: EBITDA vs. PAT (standalone)



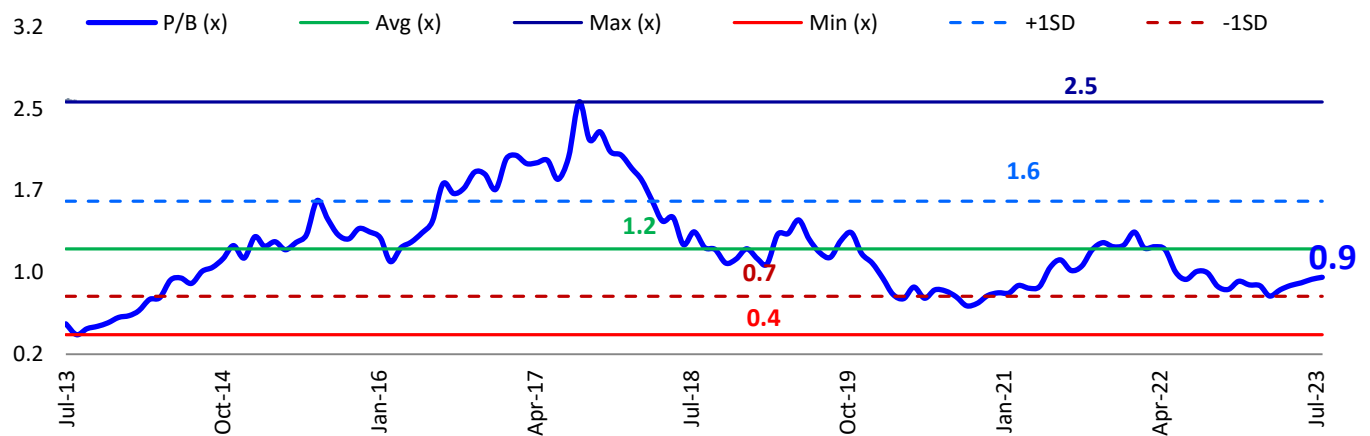
Source: Company, MOFSL

Exhibit 7: Standalone ratios



Source: Company, MOFSL

Exhibit 8: HPCL – One-year forward P/B trades at a 25% 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
<b>Total Income from Operations</b>	<b>2,195</b>	<b>2,755</b>	<b>2,691</b>	<b>2,332</b>	<b>3,499</b>	<b>4,407</b>	<b>4,172</b>	<b>4,298</b>
Change (%)	17%	26%	-2%	-13%	50%	26%	-5%	3%
<b>EBITDA</b>	<b>107</b>	<b>115</b>	<b>57</b>	<b>160</b>	<b>102</b>	<b>-72</b>	<b>214</b>	<b>141</b>
Margin (%)	4.9	4.2	2.1	6.9	2.9	-1.6	5.1	3.3
Depreciation	28	31	34	36	40	46	56	61
<b>EBIT</b>	<b>79</b>	<b>84</b>	<b>23</b>	<b>124</b>	<b>62</b>	<b>-118</b>	<b>158</b>	<b>79</b>
Interest Charges (incl. forex)	6	8	11	10	10	22	26	28
Other Income	15	15	17	26	24	15	20	22
<b>PBT bef. JVs/associates EO</b>	<b>88</b>	<b>91</b>	<b>28</b>	<b>141</b>	<b>77</b>	<b>-125</b>	<b>152</b>	<b>74</b>
EO Items	0	0	-10	0	0	0	0	0
Minority Interest	13	9	-5	1	15	25	20	19
<b>PBT after EO Exp.</b>	<b>101</b>	<b>100</b>	<b>14</b>	<b>142</b>	<b>91</b>	<b>-100</b>	<b>171</b>	<b>92</b>
Tax Rate (%)	28.6	33.4	-92.0	24.9	20.2	30.1	25.2	25.2
<b>Reported PAT</b>	<b>72</b>	<b>67</b>	<b>26</b>	<b>107</b>	<b>73</b>	<b>-70</b>	<b>128</b>	<b>69</b>
<b>Adjusted PAT</b>	<b>72</b>	<b>67</b>	<b>36</b>	<b>107</b>	<b>73</b>	<b>-70</b>	<b>128</b>	<b>69</b>
Change (%)	-12%	-7%	-46%	193%	-32%	PL	LP	-46%
Margin (%)	3.3	2.4	1.4	4.6	2.1	-1.6	3.1	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	402	455
<b>Net Worth</b>	<b>255</b>	<b>304</b>	<b>310</b>	<b>381</b>	<b>414</b>	<b>323</b>	<b>416</b>	<b>469</b>
Total Loans	205	260	394	427	450	671	711	754
Deferred Tax Liabilities	68	74	55	55	60	29	29	29
<b>Capital Employed</b>	<b>529</b>	<b>638</b>	<b>759</b>	<b>862</b>	<b>924</b>	<b>1,023</b>	<b>1,157</b>	<b>1,252</b>
<b>Net Fixed Assets</b>	<b>387</b>	<b>416</b>	<b>489</b>	<b>506</b>	<b>578</b>	<b>681</b>	<b>725</b>	<b>764</b>
Capital WIP	40	95	172	253	289	256	306	356
<b>Total Investments</b>	<b>129</b>	<b>143</b>	<b>144</b>	<b>151</b>	<b>189</b>	<b>189</b>	<b>189</b>	<b>189</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>322</b>	<b>395</b>	<b>337</b>	<b>397</b>	<b>453</b>	<b>447</b>	<b>474</b>	<b>487</b>
Inventory	186	204	193	288	355	296	280	288
Account Receivables	56	57	39	69	63	68	65	67
Cash and Bank Balance	13	2	2	6	3	7	53	56
Cash	1	2	2	5	2	5	52	55
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
<b>Curr. Liability &amp; Prov.</b>	<b>368</b>	<b>435</b>	<b>411</b>	<b>479</b>	<b>622</b>	<b>591</b>	<b>579</b>	<b>585</b>
Account Payables	158	191	115	178	265	229	217	223
Other Current Liabilities	185	223	269	272	332	334	334	334
Provisions	25	21	27	29	25	28	28	28
<b>Net Current Assets</b>	<b>-46</b>	<b>-40</b>	<b>-74</b>	<b>-82</b>	<b>-169</b>	<b>-144</b>	<b>-105</b>	<b>-98</b>
<b>Appl. of Funds</b>	<b>529</b>	<b>638</b>	<b>759</b>	<b>862</b>	<b>924</b>	<b>1,023</b>	<b>1,157</b>	<b>1,252</b>

## Financials and valuations

### Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>50.9</b>	<b>47.2</b>	<b>25.7</b>	<b>75.1</b>	<b>51.4</b>	<b>-49.2</b>	<b>90.4</b>	<b>48.6</b>
Cash EPS	70.8	68.9	49.4	100.7	79.6	-17.1	129.5	91.6
BV/Share	179.9	214.2	218.3	268.4	291.8	227.4	293.4	330.7
DPS	17.0	15.9	9.8	22.8	14.0	0.0	24.3	11.3
Payout (%)	42.0	43.0	76.0	30.3	27.2	0.0	26.9	23.3
<b>Valuation (x)</b>								
P/E	5.4	5.9	10.8	3.7	5.4	-5.6	3.1	5.7
Cash P/E	3.9	4.0	5.6	2.7	3.5	-16.2	2.1	3.0
P/BV	1.5	1.3	1.3	1.0	0.9	1.2	0.9	0.8
EV/Sales	0.3	0.2	0.3	0.3	0.2	0.2	0.3	0.3
EV/EBITDA	5.5	5.6	13.8	5.1	8.2	-14.7	4.9	7.8
Dividend Yield (%)	6.1	5.8	3.5	8.2	5.1	0.0	8.8	4.1
FCF per share	30.5	-19.1	-58.7	43.9	26.7	-90.3	47.4	2.8
<b>Return Ratios (%)</b>								
RoE	31.0	23.9	11.9	30.9	18.4	-19.0	34.7	15.6
RoCE	15.8	12.9	12.0	14.9	8.3	-7.8	12.5	6.5
RoIC	17.0	15.1	10.5	20.8	11.1	-16.2	20.1	9.4
<b>Working Capital Ratios</b>								
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	3.6	3.4
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
<b>Leverage Ratio (x)</b>								
Current Ratio	0.9	0.9	0.8	0.8	0.7	0.8	0.8	0.8
Interest Cover Ratio	12.8	10.7	2.0	12.8	6.3	-5.4	6.0	2.9
Net Debt/Equity	0.8	0.8	1.3	1.1	1.1	2.1	1.6	1.5

### Consolidated - Cash Flow Statement

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>(INR b)</b>								
OP/(Loss) before Tax	101	100	14	142	91	-100	171	92
Depreciation	28	31	34	36	40	46	56	61
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	-43	-23
MI and others	-11	-4	10	-3	-20	-10	0	0
(Inc)/Dec in WC	9	-24	7	29	55	13	7	-4
<b>CF from Operations</b>	<b>110</b>	<b>86</b>	<b>55</b>	<b>178</b>	<b>158</b>	<b>-35</b>	<b>217</b>	<b>154</b>
(Inc)/Dec in FA	-67	-113	-138	-116	-120	-93	-150	-150
<b>Free Cash Flow</b>	<b>43</b>	<b>-27</b>	<b>-83</b>	<b>62</b>	<b>38</b>	<b>-128</b>	<b>67</b>	<b>4</b>
Others	4	9	6	7	9	12	0	0
<b>CF from Investments</b>	<b>-66</b>	<b>-111</b>	<b>-142</b>	<b>-123</b>	<b>-137</b>	<b>-114</b>	<b>-150</b>	<b>-150</b>
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	-35	-16
<b>CF from Fin. Activity</b>	<b>-44</b>	<b>26</b>	<b>87</b>	<b>-53</b>	<b>-23</b>	<b>151</b>	<b>-21</b>	<b>-1</b>
<b>Inc/Dec of Cash</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>3</b>	<b>-2</b>	<b>3</b>	<b>47</b>	<b>3</b>
Opening Balance	1	1	2	2	5	2	5	52
<b>Closing Balance</b>	<b>1</b>	<b>2</b>	<b>2</b>	<b>5</b>	<b>2</b>	<b>5</b>	<b>52</b>	<b>55</b>

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
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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