

Estimate change



TP change



Rating change



CMP: INR279

TP: INR315 (+13%)

Neutral

Higher-than-expected marketing margins drive beat

- HPCL beat our EBITDA estimate in 2QFY24 thanks to higher-than-expected marketing margin of INR5.9/lit (est. of INR5.1/lit). It was partially offset by lower-than-expected GRM at USD13.3/bbl (est. of USD15.1/bbl).
- Refinery throughput was in line at 5.8mmt (up 28% YoY). Singapore GRM of USD9.8/bbl in 2QFY24 has now declined to ~USD3.9/bbl in 3QFY24 to date, which could adversely impact refining margins in the coming quarter.
- In 2QFY24, Vizag refinery operated at 11mmt capacity and is expected to operate at 13.5-13.7mmt capacity in 3QFY24, aided by the commissioning of new Hydrogen Generation Unit, Sulphur Recovery Unit and 3.05mmt capacity Fully Convertible Hydrocracking Unit.
- In the **marketing segment**, sales volumes were in line with est. at 10.7mmt (up 3% YoY). OMCs are estimated to be generating gross marketing margin of INR8.4/liter on petrol while making a loss of INR3.4/lit on diesel in 3QFY24 so far. **Among OMCs, HPCL has the highest leverage to marketing.**
- Owing to its outperformance in 2QFY24, we raise our FY24E/FY25E EBITDA by 7%/11%. We value the stock at 0.9x FY25E P/BV and maintain our **Neutral rating** with a TP of INR315.

Refining throughput and marketing sales volume in line

- HPCL's refining throughput was at 5.8mmt (in line with our est., +28% YoY). Reported GRM stood at USD13.3/bbl (our est. of USD15.1/bbl, +61% YoY).
- Marketing volumes stood at 10.7mmt (our est. of 11mmt, +3% YoY). However, marketing margins (incl. inv.) stood higher at ~INR5.9/lit (our est. of INR5.1/lit, +8.5x YoY) during the quarter.
- Resultant EBITDA stood at INR81b (est. INR77b). PAT came in at INR51b (est. INR45b).
- For 1HFY24**, EBITDA stood at INR176b (vs. a loss of INR124b in 1HFY23) and PAT came in at INR113b (vs. loss of INR124b in 1HFY23).
- Refining throughput was at 11.2mmt (+20% YoY), while GRM stood at USD10.4/bbl (-17% YoY). Marketing volumes stood at 22.6mmt (+7% YoY). Marketing margin was at INR7.2/lit (vs. loss of 4.6/bbl in 1HFY23).
- 1HFY24 EBITDA was at 73% of our full-year FY24 estimate.
- HPCL had a cumulative negative net buffer of INR9.9b as of 31st Mar'23 due to under-recovery on LPG cylinders. The same has been recognized as part of revenue upon its recovery in 1HFY24.

Valuation and view

- 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 4.6mmt capacity petrochemical capacity by FY25E through JVs. This strategic initiative aims to position the company as the second-largest petrochemical production facility in India

Bloomberg	HPCL IN
Equity Shares (m)	1419
M.Cap.(INRb)/(USDb)	395.3 / 4.7
52-Week Range (INR)	310 / 204
1, 6, 12 Rel. Per (%)	9/2/26
12M Avg Val (INR M)	1022

Financials & Valuations (INR b)

Y/E March	FY23	FY24E	FY25E
Sales	4,407.1	4,218.4	4,385.6
EBITDA	-72.1	258.5	159.8
Adj. PAT	-69.8	160.9	78.3
Adj. EPS (INR)	-49.2	113.4	55.2
EPS Gr. (%)	PL	LP	-51.3
BV/Sh.(INR)	227.4	309.0	349.9
Ratios			
Net D:E	2.1	1.4	1.3
RoE (%)	-19.0	42.3	16.8
RoCE (%)	-7.8	15.2	7.2
Payout (%)	0.0	28.0	26.1
Valuations			
P/E (x)	-5.7	2.5	5.1
P/BV (x)	1.2	0.9	0.8
EV/EBITDA (x)	-14.7	4.0	6.6
Div. Yield (%)	0.0	11.4	5.2
FCF Yield (%)	-32.4	25.7	4.0

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	54.9	54.9	54.9
DII	22.6	22.3	18.0
FII	13.3	14.0	16.7
Others	9.2	8.8	10.4

FII Includes depository receipts

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- The mechanical completion of Vizag refinery is expected to be completed by Jan-Feb'24. Post expansion, the refinery will have the highest diesel yield in the country and the management expects incremental GRM of USD3-4/bbl on the commissioning of the bottom upgrade unit.
- The stock currently trades at 0.9x FY24E BV per share of INR309. We value the stock at 0.9x FY25E P/BV to arrive at a TP of INR315. Reiterate our Neutral rating on the stock.

Standalone - Quarterly Earning Model

(INR b)

Y/E March	FY23				FY24				FY23	FY24E	FY24 2QE	Var (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Net Sales	1,144.5	1,084.2	1,096.0	1,079.3	1,119.6	957.0	1,019.8	1,119.0	4,404.0	4,215.4	1,204.0	-21%
YoY Change (%)	58.0	30.5	13.5	10.6	-2.2	-11.7	-7.0	3.7	25.9	-4.3	11.1	
EBITDA	-115.5	-8.9	20.7	46.6	95.2	81.2	37.5	41.5	-57.1	255.3	76.9	6%
Margins (%)	-10.1	-0.8	1.9	4.3	8.5	8.5	3.7	3.7	-1.3	6.1	6.4	
Depreciation	10.9	10.8	11.1	10.4	13.6	12.4	14.3	16.2	43.3	56.5	14.1	
Forex loss	9.5	6.0	4.0	-1.4	-1.3	-1.0	0.0	0.0	18.1	-2.3	2.1	
Interest	3.3	5.9	6.8	5.2	5.9	5.8	6.1	6.7	21.3	24.5	6.2	
Other Income	3.4	2.8	2.9	11.6	6.3	3.4	5.5	8.0	20.7	23.3	5.8	
PBT before EO expense	-135.8	-28.9	1.7	43.9	83.3	67.4	22.6	26.6	-119.1	199.9	60.2	12%
PBT	-135.8	-28.9	1.7	43.9	83.3	67.4	22.6	26.6	-119.1	199.9	60.2	12%
Rate (%)	24.9	24.9	-2.4	26.6	25.5	24.1	25.2	25.2	24.7	25.0	25.2	
Adj PAT	-102.0	-21.7	1.7	32.2	62.0	51.2	16.9	19.9	-89.7	150.0	45.1	14%
YoY Change (%)	PL	PL	-80.2	79.5	LP	LP	881.5	-38.3	PL	LP	LP	
Key Assumptions												
Refining throughput (mmt)	4.8	4.5	4.8	5.0	5.4	5.8	5.9	6.0	19.1	23.0	5.8	0%
Reported GRM (USD/bbl)	16.7	8.3	9.1	14.1	7.4	13.3	6.0	8.0	12.0	8.7	15.1	-11%
Marketing sales volume incl exports (mmt)	10.7	10.4	11.3	11.1	11.9	10.7	11.6	12.3	43.5	46.5	11.0	-3%
Marketing GM incl inv (INR/litre)	-9.9	0.7	2.2	3.7	8.4	5.9	4.4	4.4	-0.8	5.8	5.1	16%

Key assumptions for HPCL

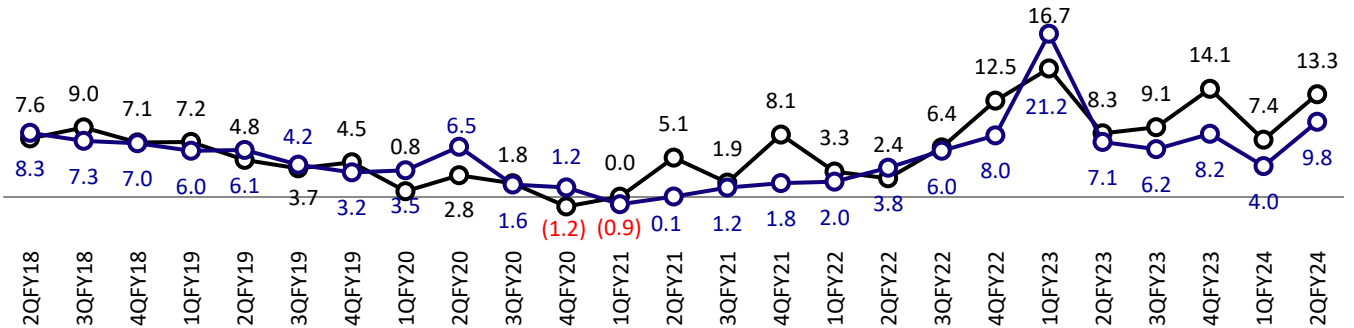
Particulars	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Exchange Rate (INR/USD)	64.5	70.0	70.9	74.3	74.5	80.4	83.1	84.6
Brent Crude (USD/bbl)	57.6	70.1	61.2	44.4	80.5	96.1	85.0	90.0
Market Sales (MMT)	36.9	38.7	39.6	36.6	39.1	43.5	46.5	48.4
YoY (%)	6	5	2	(8)	7	11	7	4
GRM (USD/bbl)	7.4	5.0	1.0	3.9	7.2	12.1	8.7	6.0
Singapore GRM (USD/bbl)	7.3	4.9	3.2	0.5	5.0	10.7	6.4	6.0
Prem/(disc) (USD/bbl)	0	0	(2)	3	2	1	2.2	0.0
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%
Refining capacity utilization (%)	116%	117%	109%	104%	88%	85%	94%	98%
Blended marketing margin incl inventory (INR/lit)	3.6	4.3	4.0	6.3	4.3	(0.8)	5.8	4.5
Consolidated EPS	50.9	47.2	25.7	75.1	51.4	-49.2	113.4	55.2

2QFY24 story in charts

Exhibit 1: Reported GRM stood at USD13.3/bbl, up 61% YoY

(In USD/bbl)

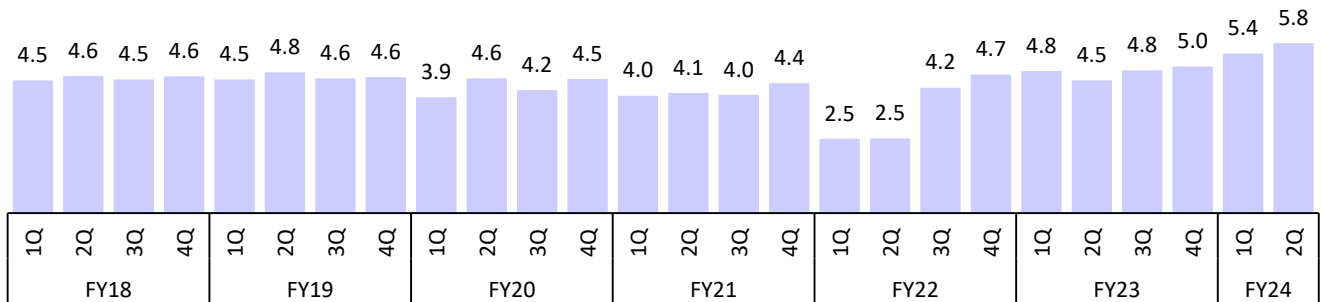
—○— HPCL Reported GRM —○— Singapore GRM



Source: Company, MOFSL

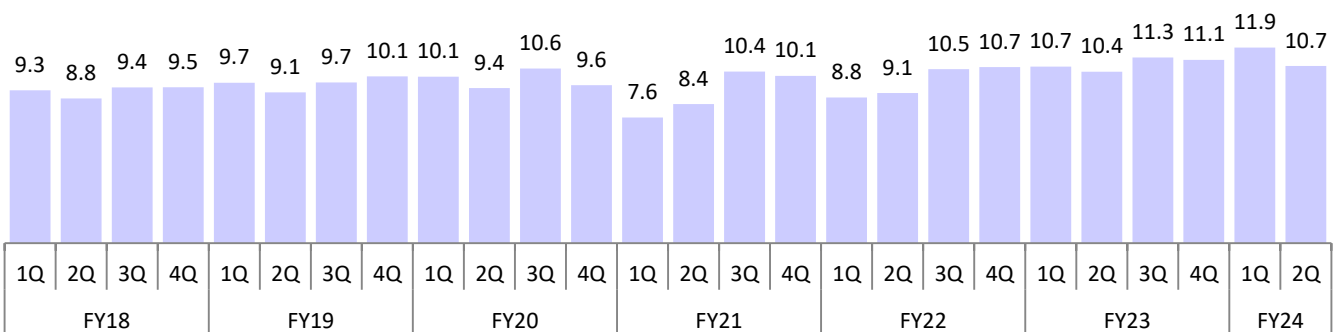
Exhibit 2: Throughput was at 5.8mmt, up 28% YoY

Refinery throughput (mmt)



Source: Company, MOFSL

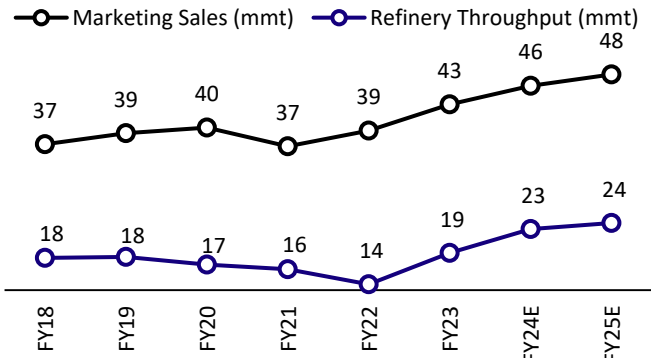
Exhibit 3: Marketing volumes grew ~3% YoY to 10.7mmt



Source: Company, MOFSL

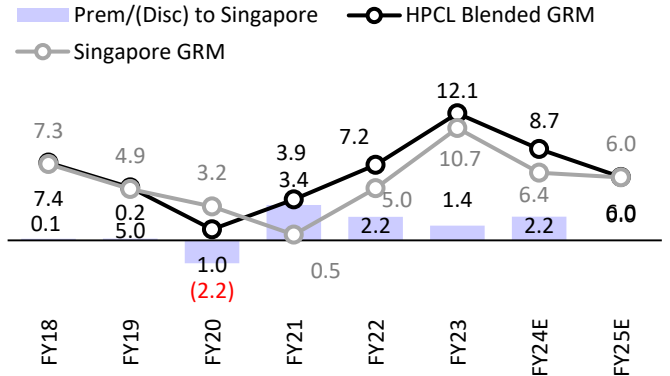
Story in charts

Exhibit 4: Refining throughput/marketing sales of HPCL



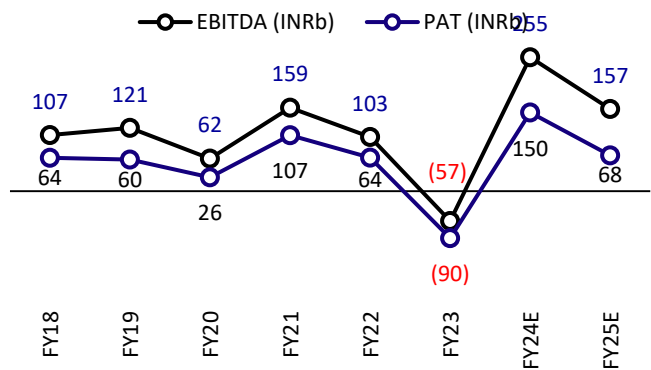
Source: Company, MOFSL

Exhibit 5: GRM trend of HPCL



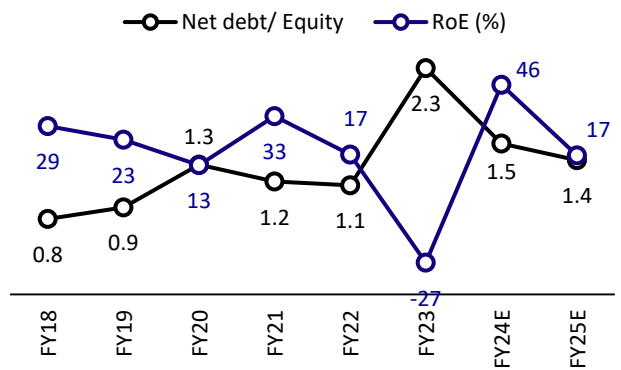
Source: Company, MOFSL

Exhibit 6: EBITDA vs. PAT (standalone)



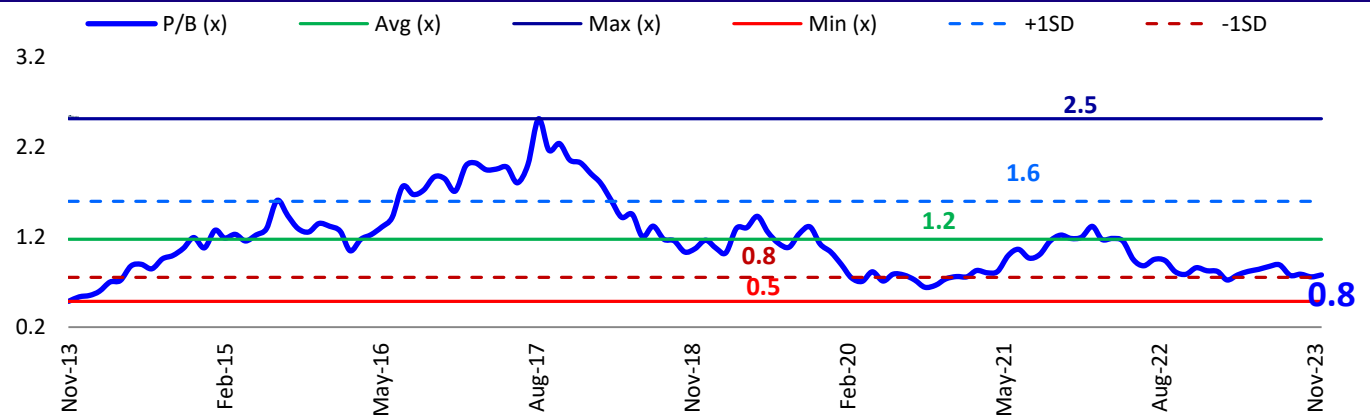
Source: Company, MOFSL

Exhibit 7: Standalone ratios



Source: Company, MOFSL

Exhibit 8: HPCL – One-year forward P/B trades at a 33% 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	4,218	4,386
Change (%)	17%	26%	-2%	-13%	50%	26%	-4%	4%
EBITDA	107	115	57	160	102	-72	258	160
Margin (%)	4.9	4.2	2.1	6.9	2.9	-1.6	6.1	3.6
Depreciation	28	31	34	36	40	46	59	65
EBIT	79	84	23	124	62	-118	200	95
Interest Charges (incl. forex)	6	8	11	10	10	22	26	28
Other Income	15	15	17	26	24	15	18	20
PBT bef. JVs/associates EO	88	91	28	141	77	-125	192	88
EO Items	0	0	-10	0	0	0	0	0
Minority Interest	13	9	-5	1	15	25	23	17
PBT after EO Exp.	101	100	14	142	91	-100	215	105
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	161	78
Adjusted PAT	72	67	36	107	73	-70	161	78
Change (%)	-12%	-7%	-46%	193%	-32%	PL	LP	-51%
Margin (%)	3.3	2.4	1.4	4.6	2.1	-1.6	3.8	1.8

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	424	482
Net Worth	255	304	310	381	414	323	439	496
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	1,179	1,280
Net Fixed Assets	387	416	489	506	578	681	722	757
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	502	526
Inventory	186	204	193	288	355	296	283	294
Account Receivables	56	57	39	69	63	68	65	68
Cash and Bank Balance	13	2	2	6	3	7	77	88
Cash	1	2	2	5	2	5	76	86
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	581	590
Account Payables	158	191	115	178	265	229	219	228
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	-79	-64
Appl. of Funds	529	638	759	862	924	1,023	1,179	1,280

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	113.4	55.2
Cash EPS	70.8	68.9	49.4	100.7	79.6	-17.1	154.8	100.8
BV/Share	179.9	214.2	218.3	268.4	291.8	227.4	309.0	349.9
DPS	17.0	15.9	9.8	22.8	14.0	0.0	31.7	14.4
Payout (%)	42.0	43.0	76.0	30.3	27.2	0.0	28.0	26.1
Valuation (x)								
P/E	5.5	5.9	10.9	3.7	5.4	-5.7	2.5	5.1
Cash P/E	3.9	4.1	5.6	2.8	3.5	-16.4	1.8	2.8
P/BV	1.6	1.3	1.3	1.0	1.0	1.2	0.9	0.8
EV/Sales	0.3	0.2	0.3	0.4	0.2	0.2	0.2	0.2
EV/EBITDA	5.5	5.7	13.9	5.1	8.2	-14.7	4.0	6.6
Dividend Yield (%)	6.1	5.7	3.5	8.2	5.0	0.0	11.4	5.2
FCF per share	30.5	-19.1	-58.7	43.9	26.7	-90.3	71.7	11.1
Return Ratios (%)								
RoE	31.0	23.9	11.9	30.9	18.4	-19.0	42.3	16.8
RoCE	15.8	12.9	12.0	14.9	8.3	-7.8	15.2	7.2
RoIC	17.0	15.1	10.5	20.8	11.1	-16.2	25.4	11.4
Working Capital Ratios								
Fixed Asset Turnover (x)	4.7	5.2	4.2	3.4	4.4	4.6	4.0	3.8
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
Leverage Ratio (x)								
Current Ratio	0.9	0.9	0.8	0.8	0.7	0.8	0.9	0.9
Interest Cover Ratio	12.8	10.7	2.0	12.8	6.3	-5.4	7.6	3.4
Net Debt/Equity	0.8	0.8	1.3	1.1	1.1	2.1	1.4	1.3

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	215	105
Depreciation	28	31	34	36	40	46	59	65
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	-54	-26
MI and others	-11	-4	10	-3	-20	-10	0	0
(Inc)/Dec in WC	9	-24	7	29	55	13	6	-5
CF from Operations	110	86	55	178	158	-35	252	166
(Inc)/Dec in FA	-67	-113	-138	-116	-120	-93	-150	-150
Free Cash Flow	43	-27	-83	62	38	-128	102	16
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	-45	-20
CF from Fin. Activity	-44	26	87	-53	-23	151	-31	-6
Inc/Dec of Cash	0	1	0	3	-2	3	71	10
Opening Balance	1	1	2	2	5	2	5	76
Closing Balance	1	2	2	5	2	5	76	86

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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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