

November 7, 2023

Q2FY24 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	HOLD		HOLD	
Target Price	272		263	
Sales (Rs.bn)	4,165	4,297	4,572	4,254
% Chng.	(8.9)	1.0		
EBITDA (Rs.bn)	238	156	223	142
% Chng.	6.8	10.3		
EPS (Rs.)	107.6	57.5	99.1	48.9
% Chng.	8.5	17.6		

Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. bn)	4,407	4,165	4,297	4,273
EBITDA (Rs. bn)	(72)	238	156	157
Margin (%)	(1.6)	5.7	3.6	3.7
PAT (Rs. bn)	(70)	153	82	78
EPS (Rs.)	(49.2)	107.6	57.5	54.8
Gr. (%)	(195.7)	(318.7)	(46.5)	(4.8)
DPS (Rs.)	-	28.8	15.2	14.6
Yield (%)	-	10.3	5.5	5.2
RoE (%)	(19.0)	40.3	17.6	14.9
RoCE (%)	(12.7)	17.5	7.9	6.9
EV/Sales (x)	0.2	0.2	0.2	0.3
EV/EBITDA (x)	(14.7)	4.4	6.9	7.0
PE (x)	(5.7)	2.6	4.8	5.1
P/BV (x)	1.2	0.9	0.8	0.7

Key Data

HPCL.BO | HPCL IN

52-W High / Low	Rs.310 / Rs.204
Sensex / Nifty	64,942 / 19,407
Market Cap	Rs.395bn/ \$ 4,747m
Shares Outstanding	1,419m
3M Avg. Daily Value	Rs.1030.73m

Shareholding Pattern (%)

Promoter's	54.90
Foreign	13.26
Domestic Institution	22.61
Public & Others	9.23
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	8.1	9.7	32.8
Relative	9.9	3.1	25.1

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Strong marketing performance drives earnings

Quick Pointers:

- Implied gross marketing margin of Rs 5.9/ltr in Q2FY24, against margin of Rs0.7/ltr in Q2FY23.
- Refining inventory gain stood at Rs 9bn, while marketing inventory gain came in at Rs 12bn.

We change our FY24/25 EPS estimates by 8.5/17.6% due to changes in GRM estimates. Hindustan Petroleum Corporation (HPCL) reported better than expected Q2 results with EBITDA of Rs82.2bn (-14% Q/Q; PLe: Rs 59.2bn) and PAT of Rs51.2bn (-18% Q/Q; PLe: Rs34.1bn). Refining margins and gross marketing margins(GMM) came in higher than estimates at US\$13.3/bbl and Rs 5.9/ltr. Going ahead, we build in GRMs of US\$6/bbl and GMM of Rs4.5/ltr for FY25-26E. The stock is currently trading at 0.9x P/BV and 4.4x EV/EBITDA. On account of weakening Singapore GRMs and inability to pass on increase in fuel costs coupled with upcoming elections, we maintain 'Hold' rating with a TP of Rs272 (earlier Rs263) based on 0.7x FY26 P/BV.

- Operating profit grows YoY :** HPCL reported Q2 EBITDA of Rs82.2bn, down 14% QoQ and PAT of Rs 51.2bn, down 18% QOQ. Decline in earnings was due to lower GMMs. On a YoY basis, EBITDA/PAT turned positive against EBITDA loss of Rs8.9 bn and net loss of Rs 21.7 bn. For H1FY24, EBITDA came in at Rs 177.4bn against EBITDA loss of 124.4 bn in H1FY23. Similarly, PAT stood at Rs 113.2bn, against net loss of Rs123.7bn in H1FY23.
- GRMs come in at US\$13.3/bbl:** HPCL's GRM stood at US\$13.3/bbl, up 79% QoQ (PLe: US\$11.4/bbl). Refining margins grew on the back of rising Singapore GRMs and inventory gains. Refining throughput came in at 5.8 mmt, up 6% QoQ (Ple: 5.8 mmt). Singapore GRMs have softened to an average of US\$3.8/bbl in Q3-TD amid demand concerns. Going ahead, we build in GRM of US\$6/bbl for FY25/26E.
- Implied GMM higher than anticipated:** Marketing sales came in at 10.7 mmt, down 6% QoQ (Ple: 11.1 mmt). GMMs came in at Rs5.9/ltr against our estimate of Rs 4.8/ltr. GMMs declined QoQ due to rise in benchmark petrol, diesel prices and capped retail prices. Going ahead, factoring in upcoming elections we estimate GMMs at Rs 4.5/ltr for FY25-26E.
- Conference call highlights:1)** HPCL commissioned the fully convertible hydro cracker unit at Vizag, which will help improve distillate yields. The refinery will ramp up to 13-13.5 mmt in Q3. **2)** 72% work on Rajasthan refinery has been completed and operations are expected to commence in CY24. Capex of Rs 370bn out of total cost of Rs730bn has already been incurred. GRM of US\$20/bbl can be expected post commissioning. **3)** HPCL is largest vendor of ethanol in the country and has achieved 12% blending. **4)** CBG plant in Uttar Pradesh has been commissioned and is in advanced stage of commissioning CBG retailing. **5)** The company has 22,000 retail outlets and 9.3 crore LPG customers.**6)** Incurred capex of Rs 750bn over next 5 yrs, 25-30% would be towards renewable/gas, 20% towards refinery and rest would be downstream marketing.

Exhibit 1: Quarterly and Half Yearly Income Statement (Rs bn)

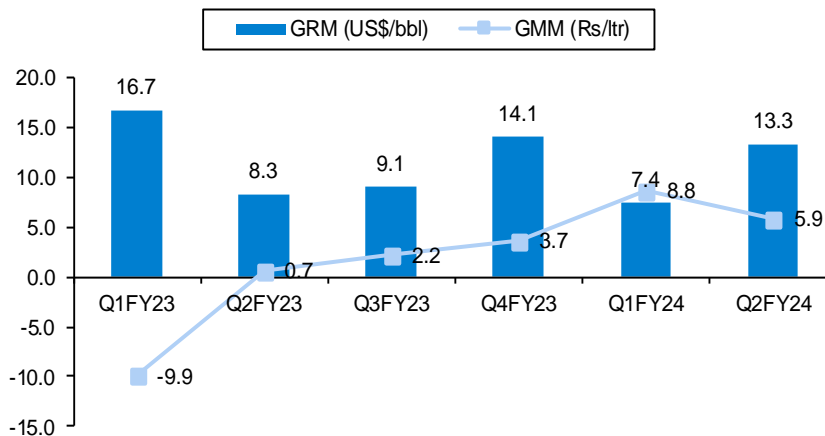
Y/e March	Q2FY24	Q1FY24	QoQ gr.	Q2FY23	YoY gr.	H1FY24	H1FY23	YoY gr.
Net Sales	957.0	1,119.6	-14.5%	1,084.2	-11.7%	2,076.6	2,228.7	-6.8%
Total Expenditure	874.8	1,024.4	-14.6%	1,093.1	-20.0%	1,899.2	2,353.2	-19.3%
EBITDA	82.2	95.2	-13.7%	-8.9	NA	177.4	-124.4	NA
<i>Margins (%)</i>	<i>8.6</i>	<i>8.5</i>		<i>-0.8</i>				
Depreciation	12.4	13.6	-9.1%	10.8	14.7%	26.0	21.8	19.7%
Interest	5.8	5.9	-1.5%	5.9	-2.6%	11.7	9.3	25.9%
Other Income	3.4	6.3	-45.1%	2.8	22.8%	9.7	6.2	56.7%
PBT	67.4	83.3	-19.1%	-28.9	NA	150.7	-164.8	NA
<i>Rate (%)</i>	<i>24</i>	<i>26</i>		<i>25</i>				
Reported PAT	51.2	62.0	-17.5%	-21.7	NA	113.2	-123.7	NA
EPS (Rs)	36.1	43.7	-17.5%	-15.3	NA	79.8	-87.2	NA

Source: Company, PL

Exhibit 2: Key Operating Metrics

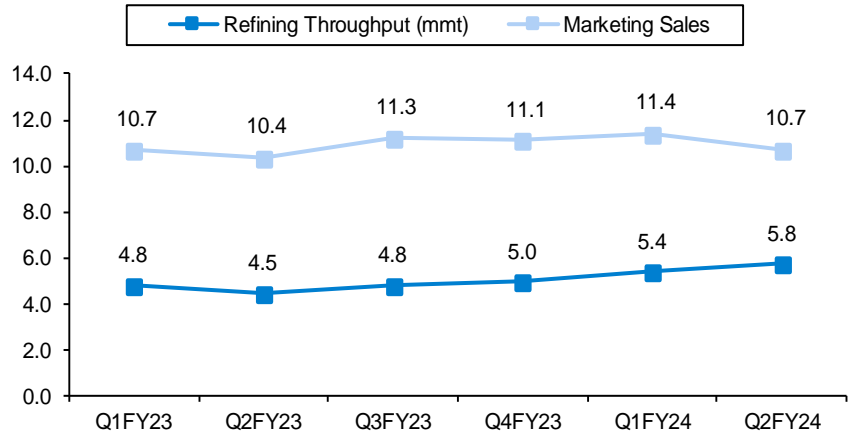
Y/ March	Q2FY24	Q1FY24	QoQ gr.	Q2FY23	YoY gr.
Refining throughput (mmt)	5.8	5.4	6.5%	4.5	28.1%
Reported GRM (USD/bbl)	13.3	7.4	79.2%	8.3	61.4%
Marketing sales volume incl exports (mmt)	10.7	11.4	-6.0%	10.4	3.4%
Marketing GM incld inv (INR/litre)	5.9	8.8	-32.1%	0.7	755.2%

Source: Company, PL

Exhibit 3: GRMs grew 79% QoQ


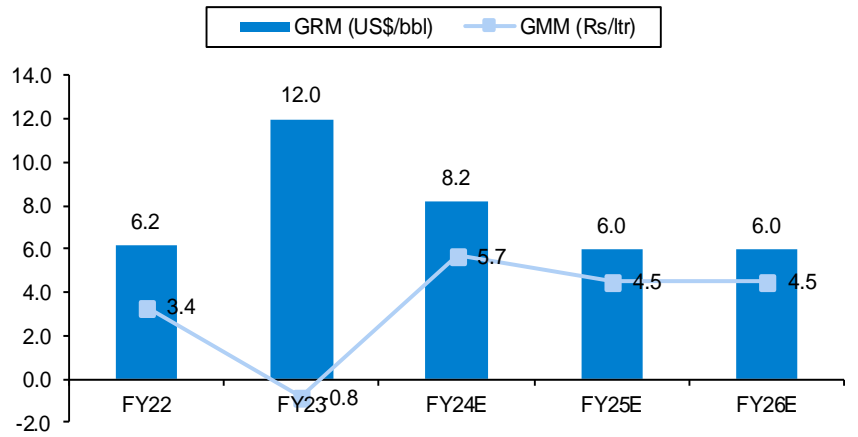
Source: Company, PL

Exhibit 4: Marketing Sales declined 6% QoQ



Source: Company, PL

Exhibit 5: Estimate GRM of US\$6/bbl in FY25-26E



Source: Company, PL

Financials

Income Statement (Rs bn)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	4,407	4,165	4,297	4,273
YoY gr. (%)	-	-	-	-
Cost of Goods Sold	4,272	3,728	3,937	3,914
Gross Profit	135	437	360	360
Margin (%)	3.1	10.5	8.4	8.4
Employee Cost	-	-	-	-
Other Expenses	207	200	203	203
EBITDA	(72)	238	156	157
YoY gr. (%)	(170.4)	(429.8)	(34.3)	0.2
Margin (%)	(1.6)	5.7	3.6	3.7
Depreciation and Amortization	46	50	61	67
EBIT	(118)	188	95	90
Margin (%)	(2.7)	4.5	2.2	2.1
Net Interest	22	26	28	30
Other Income	15	20	23	25
Profit Before Tax	(125)	182	91	86
Margin (%)	(2.8)	4.4	2.1	2.0
Total Tax	(30)	51	27	26
Effective tax rate (%)	24.1	28.3	30.3	30.6
Profit after tax	(95)	130	63	59
Minority interest	(25)	(22)	(18)	(18)
Share Profit from Associate	-	-	-	-
Adjusted PAT	(70)	153	82	78
YoY gr. (%)	(195.7)	(318.7)	(46.5)	(4.8)
Margin (%)	(1.6)	3.7	1.9	1.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	(70)	153	82	78
YoY gr. (%)	-	-	-	-
Margin (%)	(1.6)	3.7	1.9	1.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	-	-	-	-
Equity Shares O/s (m)	1	1	1	1
EPS (Rs)	(49.2)	107.6	57.5	54.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs bn)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	950	1,050	1,150	1,250
Tangibles	950	1,050	1,150	1,250
Intangibles	-	-	-	-
Acc: Dep / Amortization	269	319	380	447
Tangibles	269	319	380	447
Intangibles	-	-	-	-
Net fixed assets	681	731	769	803
Tangibles	681	731	769	803
Intangibles	-	-	-	-
Capital Work In Progress	256	306	356	396
Goodwill	3	3	3	3
Non-Current Investments	189	189	189	189
Net Deferred tax assets	(29)	(29)	(29)	(29)
Other Non-Current Assets	39	39	39	39
Current Assets				
Investments	-	-	-	-
Inventories	296	280	288	287
Trade receivables	68	65	67	66
Cash & Bank Balance	7	66	76	106
Other Current Assets	64	64	64	64
Total Assets	1,614	1,753	1,863	1,964
Equity				
Equity Share Capital	14	14	14	14
Other Equity	308	420	480	537
Total Networkth	323	434	494	551
Non-Current Liabilities				
Long Term borrowings	671	711	754	799
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	229	217	223	222
Other current liabilities	362	362	362	362
Total Equity & Liabilities	1,614	1,753	1,863	1,964

Source: Company Data, PL Research



Cash Flow (Rs bn)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	(100)	204	109	104
Add. Depreciation	46	50	61	67
Add. Interest	22	26	28	30
Less Financial Other Income	15	20	23	25
Add. Other	(14)	-	-	-
Op. profit before WC changes	(46)	280	198	200
Net Changes-WC	13	7	(4)	1
Direct tax	(2)	(51)	(27)	(26)
Net cash from Op. activities	(35)	236	167	175
Capital expenditures	(93)	(150)	(150)	(140)
Interest / Dividend Income	-	-	-	-
Others	(20)	-	-	-
Net Cash from Inv. activities	(114)	(150)	(150)	(140)
Issue of share cap. / premium	-	-	-	-
Debt changes	213	40	43	45
Dividend paid	(20)	(41)	(22)	(21)
Interest paid	(32)	(26)	(28)	(30)
Others	(9)	-	-	-
Net cash from Fin. activities	151	(27)	(7)	(5)
Net change in cash	3	59	10	30
Free Cash Flow	(35)	236	167	175

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Net Revenue	1,096	1,079	1,120	888
YoY gr. (%)	13.5	10.6	(2.2)	(18.1)
Raw Material Expenses	1,031	980	969	827
Gross Profit	65	99	151	61
Margin (%)	5.9	9.2	13.5	6.8
EBITDA	17	48	95	82
YoY gr. (%)	(10.6)	128.7	(176.2)	(1,018.3)
Margin (%)	1.5	4.4	8.5	9.3
Depreciation / Depletion	11	10	14	12
EBIT	6	38	82	70
Margin (%)	0.5	3.5	7.3	7.9
Net Interest	7	5	6	6
Other Income	3	12	6	3
Profit before Tax	2	44	83	67
Margin (%)	0.2	4.1	7.4	7.6
Total Tax	-	12	21	16
Effective tax rate (%)	(2.4)	26.6	25.5	24.1
Profit after Tax	2	32	62	51
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	2	32	62	51
YoY gr. (%)	(80.2)	79.5	(160.8)	(335.6)
Margin (%)	0.2	3.0	5.5	5.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2	32	62	51
YoY gr. (%)	(80.2)	79.5	(160.8)	(335.6)
Margin (%)	0.2	3.0	5.5	5.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	-	-	-	-
Avg. Shares O/s (m)	1	1	1	1
EPS (Rs)	1.2	22.7	43.7	36.1

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	(49.2)	107.6	57.5	54.8
CEPS	(17.1)	142.8	100.6	101.7
BVPS	227.4	306.2	348.5	388.6
FCF	(24.4)	166.5	117.4	123.1
DPS	-	28.8	15.2	14.6
Return Ratio(%)				
RoCE	(12.7)	17.5	7.9	6.9
ROIC	(7.3)	11.1	5.3	4.8
RoE	(19.0)	40.3	17.6	14.9
Balance Sheet				
Net Debt : Equity (x)	2.1	1.5	1.4	1.3
Net Working Capital (Days)	11	11	11	11
Valuation(x)				
PER	(5.7)	2.6	4.8	5.1
P/B	1.2	0.9	0.8	0.7
P/CEPS	(16.3)	2.0	2.8	2.7
EV/EBITDA	(14.7)	4.4	6.9	7.0
EV/Sales	0.2	0.2	0.2	0.3
Dividend Yield (%)	-	10.3	5.5	5.2

Source: Company Data, PL Research

Key Operating Metrics

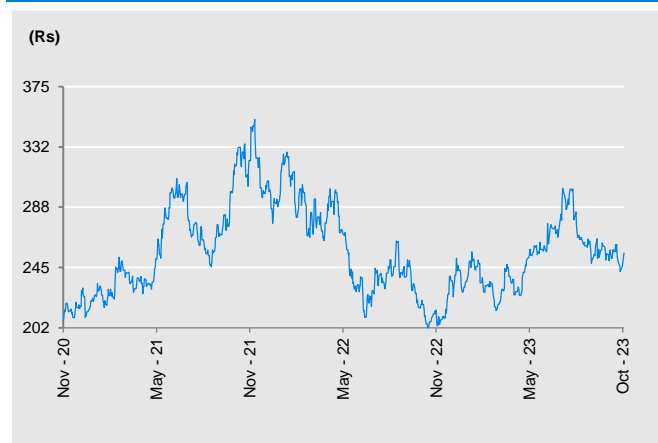
Y/e Mar	FY23	FY24E	FY25E	FY26E
Crude (US\$/bbl)	96	89	90	90
GRM (US\$/bbl)	12	8	6	6
Refining throughput (mmtpa)	19	23	24	24
Gross Marketing Margins (Rs/ltr)	(1)	6	5	5
Marketing Sales (mmtpa)	43	44	46	46

Source: Company Data, PL Research



Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Oct-23	Hold	263	258
2	22-Aug-23	Hold	263	261
3	03-Aug-23	Hold	264	276
4	04-Jul-23	BUY	340	284
5	14-May-23	BUY	340	261
6	06-Apr-23	BUY	310	226
7	10-Feb-23	BUY	310	232
8	03-Jan-23	BUY	350	237
9	09-Dec-22	BUY	350	240

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Hold	472	489
2	Bayer Cropscience	Accumulate	5,920	5,193
3	Bharat Petroleum Corporation	Hold	365	347
4	Bharti Airtel	Accumulate	993	924
5	Clean Science and Technology	Hold	1,368	1,374
6	Deepak Nitrite	Reduce	1,854	2,125
7	Dhanuka Agritech	BUY	950	854
8	Fine Organic Industries	Hold	4,252	4,303
9	GAIL (India)	BUY	139	120
10	Godrej Agrovet	Hold	420	515
11	Gujarat Fluorochemicals	Reduce	2,413	2,780
12	Gujarat Gas	Accumulate	477	419
13	Gujarat State Petronet	BUY	328	273
14	Hindustan Petroleum Corporation	Hold	263	258
15	Indian Oil Corporation	Hold	94	92
16	Indraprastha Gas	Hold	406	390
17	Insecticides India	Accumulate	600	519
18	Jubilant Ingrevia	Hold	433	412
19	Laxmi Organic Industries	Reduce	220	254
20	Mahanagar Gas	Hold	1,065	1,015
21	Mangalore Refinery & Petrochemicals	Hold	94	96
22	Navin Fluorine International	BUY	4,007	3,430
23	NOCIL	Hold	226	216
24	Oil & Natural Gas Corporation	BUY	202	181
25	Oil India	BUY	341	296
26	P.I. Industries	BUY	4,850	3,421
27	Petronet LNG	Hold	208	196
28	Rallis India	Reduce	190	217
29	Reliance Industries	BUY	2,618	2,266

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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