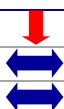


Estimate change

TP change

Rating change



Bloomberg	HPCL IN
Equity Shares (m)	1419
M.Cap.(INRb)/(USDb)	711.5 / 8.5
52-Week Range (INR)	595 / 239
1, 6, 12 Rel. Per (%)	6/54/75
12M Avg Val (INR M)	2851

Financials & Valuations (INR b)

Y/E March	FY24	FY25E	FY26E
Sales	4,338.6	4,197.0	4,317.1
EBITDA	249.3	188.4	193.6
Adj. PAT	160.1	101.9	102.1
Adj. EPS (INR)	112.9	71.8	72.0
EPS Gr. (%)	LP	-36.4	0.2
BV/Sh.(INR)	330.7	382.7	434.3

Ratios

Net D:E	1.3	1.1	1.0
RoE (%)	40.4	20.1	17.6
RoCE (%)	15.9	9.2	8.5
Payout (%)	27.9	27.6	28.2

Valuations

P/E (x)	4.4	7.0	7.0
P/BV (x)	1.5	1.3	1.2
EV/EBITDA (x)	5.4	7.1	6.9
Div. Yield (%)	6.3	4.0	4.1
FCF Yield (%)	19.6	7.4	7.1

Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	54.9	54.9	54.9
DII	22.2	21.3	21.4
FII	13.8	14.3	14.4
Others	9.1	9.6	9.3

FII Includes depository receipts

CMP: INR502

TP: INR600 (+20%)

BUY

Weaker refining offset by stronger marketing performance

- HPCL beat our EBITDA estimate in 4QFY24, aided by higher-than-expected marketing margin of INR4.8/lit (est. INR4.1/lit). However, refining segment performance was below expectations, with GRM at USD6.9/bbl (our est. USD12.4/bbl).
- Refinery throughput was above our estimate at 5.8mmt (up 18% YoY) and should improve by another 1.3mmt annually once the bottom upgrade unit is commissioned. The lower-than-expected refining margin in 4QFY24 was attributable to 1) buildup of inter-mediate products (USD1.5/bbl), 2) lower-than-expected Russian crude discounts, and 3) INR6b inventory loss.
- We have moderated our refining margin assumption to USD8/bbl (from USD9/bbl), given weak start to refining GRM, a decline in Russian crude discounts, and costs related to the commissioning of a bottom upgrade unit. Accordingly, we cut our FY25/FY26 EBITDA estimates by 8% each.
- Other notable updates during the quarter included: 1) Rajasthan refinery remaining on track for commissioning in 4QFY25, and 2) petchem unit at HMEL achieved 90%+ utilization in Jan'24.
- In the marketing segment, sales volumes came in 8% above our est. at 12.3mmt (up 11% YoY). The company expects to clock marketing sales volume of 44mmt/45mmt in FY24/25. OMCs are again generating strong gross marketing margin of ~INR5 per liter on both petrol/diesel. Among OMCs, HPCL has the highest leverage in marketing and would benefit the most due to an uptick in marketing margins.
- The commissioning of a bottom upgradation unit at its Visakhapatnam refinery would result in distillate yield improving by 10% from FY25 onward. The company expects to maintain a GRM delta of ~USD3/bbl over SG GRM. The demerger of lubricant business also provides a value unlocking opportunity.
- Our marketing margin assumption of INR3.3/lit on petrol and diesel in FY25/FY26 is materially below current margins. We maintain a BUY rating on the stock, valuing it at 1.4x FY26E P/BV to arrive at our TP of INR600.

EBITDA/PAT beat expectations amid strong marketing performance

- Refining throughput was above our estimate at 5.8mmt (+18% YoY). Reported GRM was below our estimate at USD6.9/bbl (-51% YoY).
- Marketing volumes stood at 12.3mmt (vs. our estimate of 11.4mmt, +11% YoY). Marketing margin (including inv.) stood at ~INR4.8/lit (vs. our estimate of INR4.1/lit, +29% YoY).
- Resultant EBITDA stood at INR51.3b (vs. our estimate of INR41b). PAT came in at INR28.4b (vs. our estimate of INR22.1b) due to a lower tax rate.
- **For FY24**, EBITDA was INR253.6b (vs. a loss of INR57.1b in FY23) and PAT stood at INR146.9b (vs. a loss of INR89.7b in FY23).
- Refining throughput stood at 22.3mmt (+17% YoY). GRM stood at USD9.1/bbl (-25% YoY). Marketing volumes stood at 46.8mmt (+8% YoY).
- Marketing margin stood at INR5.4/lit (loss of INR0.8/lit in FY23).

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

- HPCL had a cumulative negative net buffer of INR1b as of 31 Mar'24, due to the under recovery on LPG cylinders (INR9.9b as on 31 Mar'23).
- The board has recommended a final dividend of INR16.5/share, i.e. 165% of FV.
- The board has also recommended the issuance of bonus equity shares in the ratio 1:2.

Valuation and view

- We maintain our BUY rating on HPCL and it remains our preferred pick among the three OMCs. We build in marketing margin of INR3.3/ltr in FY25-26E, while MS/HSD marketing margins currently are ~INR5/ltr. We see the following as key catalysts for the stock: 1) demerger and potential listing of lubricant business, 2) the commissioning of its bottom upgrade unit, and 3) the start of Rajasthan refinery in 4QFY25.
- HPCL currently trades at 1.2x FY26E PB, which we think offers a reasonable margin of safety as we estimate FY26 ROE at 17.6%. We value the stock at 1.4x FY26E P/BV to arrive at our TP of INR600.

Standalone - Quarterly Earning Model

	FY23				FY24				FY23	FY24	FY24	Var.
Y/E March	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	(%)
Net Sales	1,144.5	1,084.2	1,096.0	1,079.3	1,119.6	957.0	1,113.1	1,148.2	4,404.0	4,337.9	1,025.8	12%
YoY Change (%)	58.0	30.5	13.5	10.6	-2.2	-11.7	1.6	6.4	25.9	-1.5	-5.0	
EBITDA	-115.5	-8.9	20.7	46.6	95.2	85.8	21.3	51.3	-57.1	253.6	41.0	25%
Margins (%)	-10.1	-0.8	1.9	4.3	8.5	9.0	1.9	4.5	-1.3	5.8	4.0	
Depreciation	10.9	10.8	11.1	10.4	13.6	12.4	13.4	16.1	43.3	55.5	13.6	
Forex loss	9.5	6.0	4.0	-1.4	-1.3	3.6	-0.4	0.6	18.1	2.6	-0.1	
Interest	3.3	5.9	6.8	5.2	5.9	5.8	6.1	7.3	21.3	25.2	6.0	
Other Income	3.4	2.8	2.9	11.6	6.3	3.4	5.6	5.9	20.7	21.2	8.0	
PBT before EO expense	-135.8	-28.9	1.7	43.9	83.3	67.4	7.7	33.1	-119.1	191.5	29.5	12%
PBT	-135.8	-28.9	1.7	43.9	83.3	67.4	7.7	33.1	-119.1	191.5	29.5	12%
Tax Rate (%)	24.9	24.9	-2.4	26.6	25.5	24.1	31.1	14.2	24.7	23.3	25.2	
Adj PAT	-102.0	-21.7	1.7	32.2	62.0	51.2	5.3	28.4	-89.7	146.9	22.1	29%
YoY Change (%)	PL	PL	-80.2	79.5	LP	LP	206.8	-11.8	PL	LP	-31.6	
Key Assumptions												
Refining throughput (mmt)	4.8	4.5	4.8	5.0	5.4	5.8	5.3	5.8	19.1	22.3	4.8	22%
Reported GRM (USD/bbl)	16.7	8.3	9.1	14.1	7.4	13.3	8.5	6.9	12.0	9.1	12.4	-44%
Marketing sales volume incl exports (mmt)	10.7	10.4	11.3	11.1	11.9	10.7	11.9	12.3	43.5	46.8	11.4	8%
Marketing GM incl inv (INR/liter)	-9.9	0.7	2.2	3.7	8.4	5.9	2.7	4.8	-0.8	5.4	4.1	17%

Key assumptions for HPCL

Particulars	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Exchange Rate (INR/USD)	70.0	70.9	74.3	74.5	80.4	82.8	83.9	85.0
Brent Crude (USD/bbl)	70.1	61.2	44.4	80.5	96.1	83.0	85.0	85.0
Market Sales (MMT)	38.7	39.6	36.6	39.1	43.5	46.8	48.7	50.6
YoY (%)	5	2	(8)	7	11	8	4	4
GRM (USD/bbl)	5.0	1.0	3.9	7.2	12.1	9.1	8.0	8.0
Singapore GRM (USD/bbl)	4.9	3.2	0.5	5.0	10.7	6.6	6.0	6.0
Prem/(disc) (USD/bbl)	0	(2)	3	2	1	2	2.0	2.0
Total Refinery throughput (MMT)	18.4	17.2	16.4	14.0	19.1	22.3	24.5	24.5
YoY (%)	1%	-7%	-4%	-15%	37%	17%	10%	0%
Refining capacity utilization (%)	117%	109%	104%	88%	85%	91%	100%	100%
Blended marketing margin incl inventory (INR/lit)	4.3	4.0	6.3	4.3	(0.8)	5.4	4.5	4.5
Consolidated EPS	47.2	25.7	75.1	51.4	-49.2	112.9	71.8	72.0



Highlights from the management commentary

Performance

- HPCL reported a consolidate PAT of INR160b in FY24 (loss of INR69.8b in FY23). In 4QFY24, PAT jumped 437% QoQ.
- Debt declined by INR60b and capex stood at INR143.4b via internal funding.
- GRM was negatively impacted by USD1.5/bbl due to the build-up in intermediate products and lower Russian crude discounts. Russian crude accounted for 30-40% of imported crude.
- HPCL recorded the highest-ever pipeline throughput of 25.83mmt in FY24 (+11% YoY).
- For 4QFY24, HPCL recorded a gain of approximately INR3.5b in its marketing inventory and a loss of around INR6b was incurred in its refining inventory.
- HMEL, in 4QFY24, incurred a loss amid low polymer margins. However, HMEL's petchem facility is working at 95%-100% capacity and posted a PAT of INR18-19b in FY24.
- On the CGD business front, HPCL is now present in 25 GAs across the country in 18 states. HPCL achieved the milestone of 22,000+ retail outlets, out of which 428 outlets were commissioned in 4QFY24. Also, 17 new LPG distributorships were added in 4Q, taking the total LPG distributorship number to 6,349 as of Mar'24.
- The installation of solar power capacity of 22.36 MW has taken the total renewable power capacity to 208 MW as of Mar'24.
- HPCL has a total of 1,690 CNG stations, of which 328 stations are on the standalone basis.

Update on ongoing projects:

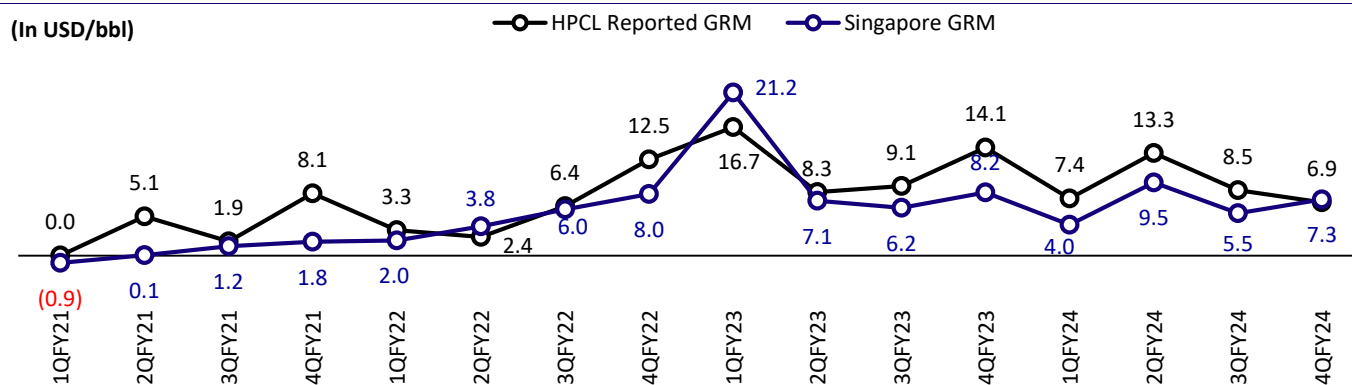
- To strengthen its refining & marketing infrastructure, HPCL has invested INR143.4b in FY24 (including equity investment in its JVCs and subsidiaries).
- To cater to the demand for LPG in the region, 120 TMTPA capacity new LPG bottling plant at Varanasi (Uttar Pradesh) was commissioned in 4QFY24.
- HPCL's new subsidiary, HPCL Renewable and Green Energy, is fully operational and commenced supplies of renewable energy from its newly commissioned 5 MW solar power project at Jhansi (Uttar Pradesh). The 6MW solar project at Panipat (Haryana) has been mechanically completed and supplies are expected to commence shortly.
- Visakhapatnam refinery modernization is complete, except for the bottom upgradation facility, with full operation expected by 3QFY25. After the commissioning of the bottom upgradation unit, capacity would enhance by about 1.3 metric million ton and margins would also stabilize.
- HRRL: The construction of all process units for the ongoing 9mmtpa integrated grassroots refinery and petrochemical project is currently underway. As of the latest update, the total commitment stands at INR693.7b, with a capex of INR454.8b as of Mar'24. Key process units such as Diesel Hydrotreating (DHDT) and Hydrogen Generation Unit (HGU) are in the pre-commissioning phase. In 4QFY24, mechanical completion was achieved for cooling tower 1, raw water treatment plant, compressed air & cryogenic nitrogen plant. The physical progress for other key process units, including CDU/VDU, DCU, PFCCU & VGO-HDT, is over 90%, and efforts are being intensified across all other packages and units, with an average daily manpower deployment of 25,000 at the site.

Outlook

- HPCL plans a capex of around INR180b in FY25, focusing on refining, marketing, and green energy initiatives. Approximately INR50b would be spent on refining business, INR65b would be spent on market business, corporate level spending shall be INR8b, and approximately INR56b shall be equity contributions in JVs.
- Enhancing its footprints in CGD business, HPCL won the bid for Sikkim GA in PNGRB's 12th bidding round.
- Transition to a low-carbon economy:
 - Ethanol blending of 12.13% in FY24 (10.59% in FY23).
 - In 4QFY24, HPCL successfully commissioned E20 facilities at 1,328 retail outlets, bringing the total number of retail outlets with E20 facilities to 4,355 as of 31st Mar'24. Additionally, CNG facilities were commissioned at 120 retail outlets in 4QFY24, increasing the total number of retail outlets with CNG facilities to 1,690 as of 31st Mar'24.
 - HPCL has signed an MoU with Tata Electric Mobility to enhance EV charging.

4QFY24 story in charts

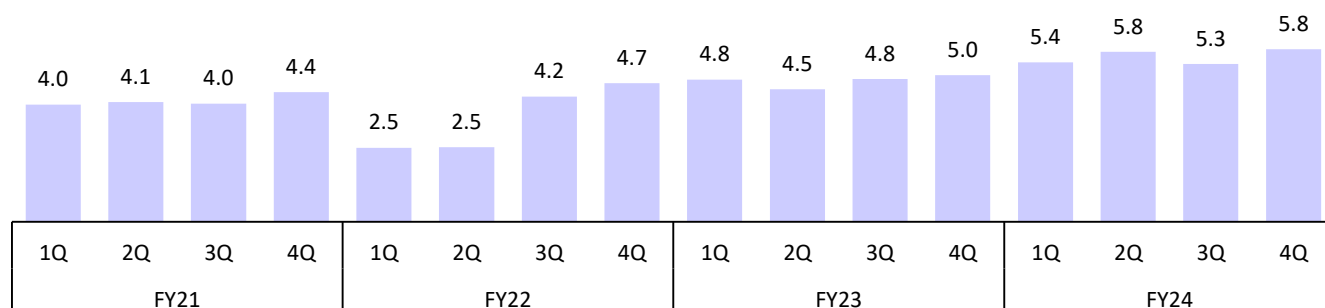
Exhibit 1: Reported GRM stood at USD6.9/bbl, down 51% YoY



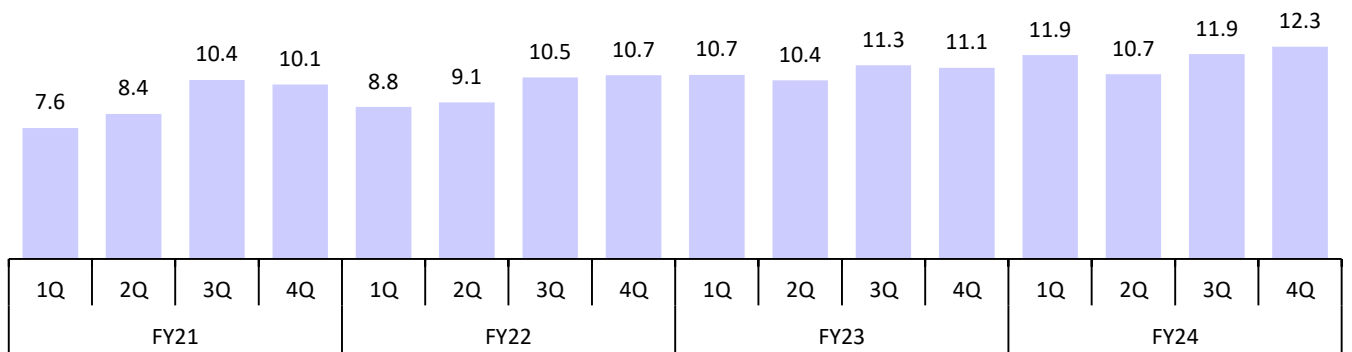
Source: Company, MOFSL

Exhibit 2: Throughput was at 5.8mmt, up 18% YoY

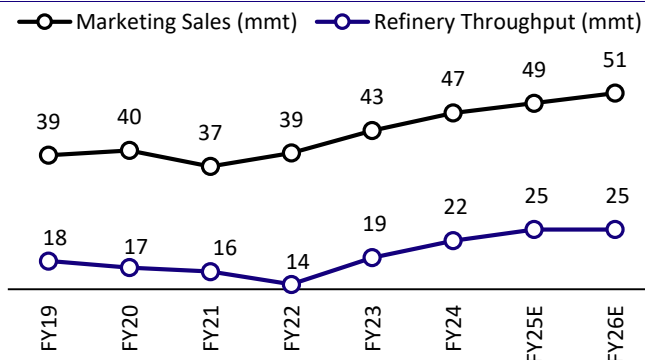
Refinery throughput (mmt)



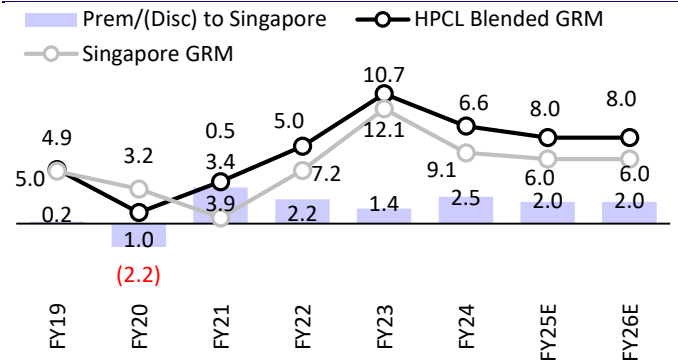
Source: Company, MOFSL

Exhibit 3: Marketing volumes grew ~11% YoY to 12.3mmt

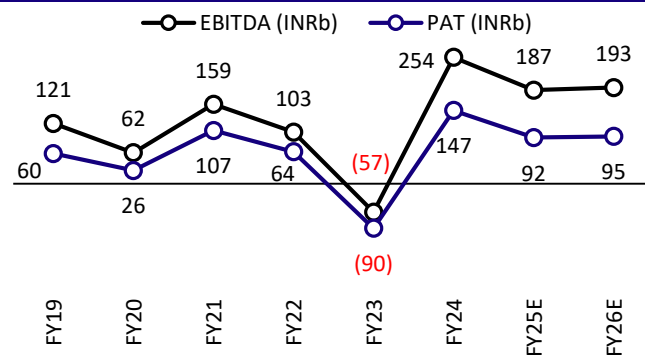
Source: Company, MOFSL

Story in charts**Exhibit 4: Refining throughput/marketing sales of HPCL**

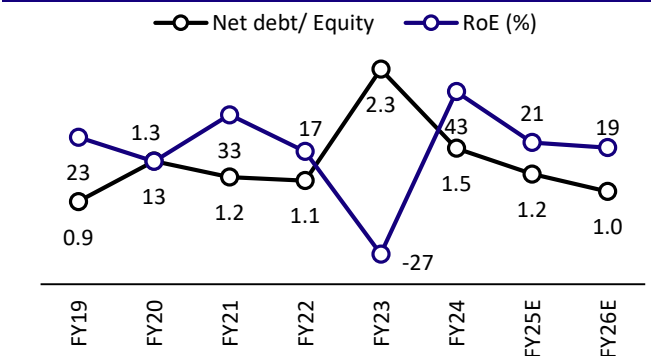
Source: Company, MOFSL

Exhibit 5: GRM trend of HPCL

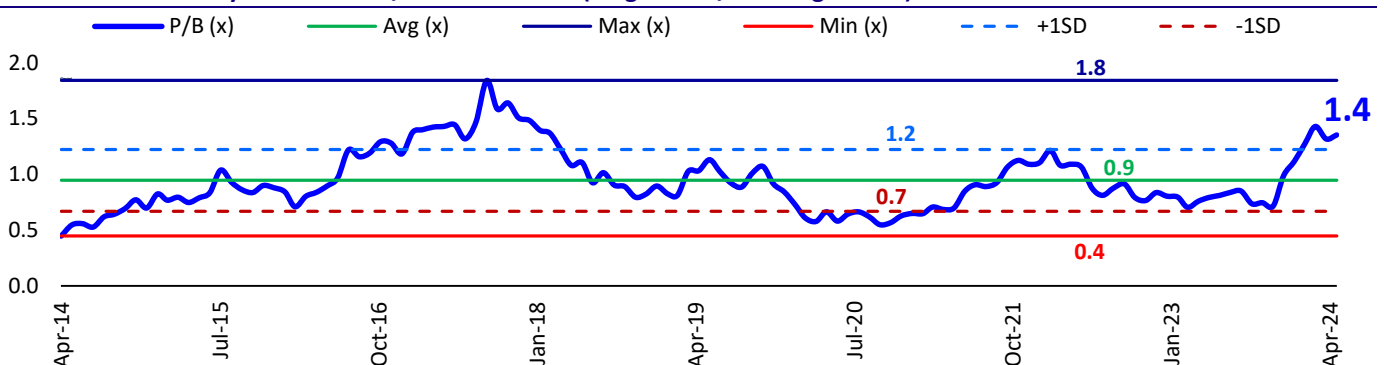
Source: Company, MOFSL

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 1.4x (long term P/B average - 0.9x)

Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement

(INR b)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Total Income from Operations	2,755	2,691	2,332	3,499	4,407	4,339	4,197	4,317
Change (%)	26%	-2%	-13%	50%	26%	-2%	-3%	3%
EBITDA	115	57	160	102	-72	249	188	194
Margin (%)	4.2	2.1	6.9	2.9	-1.6	5.7	4.5	4.5
Depreciation	31	34	36	40	46	56	71	77
EBIT	84	23	124	62	-118	193	117	117
Interest Charges (incl'd forex)	8	11	10	10	22	26	25	26
Other Income	15	17	26	24	15	19	24	27
PBT bef. JVs/associates EO	91	28	141	77	-125	187	117	117
EO Items	0	-10	0	0	0	0	0	0
JV and Associate Income	9	-5	1	15	25	18	19	19
PBT after EO Exp.	100	14	142	91	-100	205	136	136
Tax Rate (%)	33.4	-92.0	24.9	20.2	30.1	21.9	25.2	25.2
Reported PAT	67	26	107	73	-70	160	102	102
Adjusted PAT	67	36	107	73	-70	160	102	102
Change (%)	-7%	-46%	193%	-32%	PL	LP	-36%	0%
Margin (%)	2.4	1.4	4.6	2.1	-1.6	3.7	2.4	2.4

Consolidated - Balance Sheet

(INR b)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	15	15	15	14	14	14	14	14
Total Reserves	289	295	366	400	308	455	529	602
Net Worth	304	310	381	414	323	469	543	616
Total Loans	260	394	427	450	671	628	666	706
Deferred Tax Liabilities	74	55	55	60	29	69	69	69
Capital Employed	638	759	862	924	1,023	1,167	1,278	1,391
Net Fixed Assets	416	489	506	578	681	795	823	846
Capital WIP	95	172	253	289	256	201	251	301
Total Investments	143	144	151	189	189	295	295	295
Curr. Assets, Loans&Adv.	395	337	397	453	447	489	512	560
Inventory	204	193	288	355	296	342	331	340
Account Receivables	57	39	69	63	68	93	90	93
Cash and Bank Balance	2	2	6	3	7	5	42	78
Cash	2	2	5	2	5	3	40	76
Bank Balance	0	0	1	0	2	2	2	2
Loans and Advances	20	18	11	11	11	13	13	13
Others	112	84	24	21	64	36	36	36
Curr. Liability & Prov.	435	411	479	622	591	661	652	660
Account Payables	191	115	178	265	229	273	264	272
Other Current Liabilities	223	269	272	332	334	353	353	353
Provisions	21	27	29	25	28	35	35	35
Net Current Assets	-40	-74	-82	-169	-144	-172	-140	-100
Appl. of Funds	638	759	862	924	1,023	1,167	1,278	1,391

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Basic (INR)								
EPS	47.2	25.7	75.1	51.4	-49.2	112.9	71.8	72.0
Cash EPS	68.9	49.4	100.7	79.6	-17.1	152.3	121.8	126.2
BV/Share	214.2	218.3	268.4	291.8	227.4	330.7	382.7	434.3
DPS	15.9	9.8	22.8	14.0	0.0	31.5	19.8	20.3
Payout (%)	43.0	76.0	30.3	27.2	0.0	27.9	27.6	28.2
Valuation (x)								
P/E	10.6	19.5	6.7	9.7	-10.2	4.4	7.0	7.0
Cash P/E	7.3	10.1	5.0	6.3	-29.4	3.3	4.1	4.0
P/BV	2.3	2.3	1.9	1.7	2.2	1.5	1.3	1.2
EV/Sales	0.4	0.4	0.5	0.3	0.3	0.3	0.3	0.3
EV/EBITDA	8.4	19.5	7.1	11.3	-19.1	5.4	7.1	6.9
Dividend Yield (%)	3.2	1.9	4.5	2.8	0.0	6.3	4.0	4.1
FCF per share	-19.1	-58.7	43.9	26.7	-90.3	98.0	37.1	35.7
Return Ratios (%)								
RoE	23.9	11.9	30.9	18.4	-19.0	40.4	20.1	17.6
RoCE	12.9	12.0	14.9	8.3	-7.8	15.9	9.2	8.5
RoIC	15.1	10.5	20.8	11.1	-16.2	24.4	13.0	12.4
Working Capital Ratios								
Fixed Asset Turnover (x)	5.2	4.2	3.4	4.4	4.6	3.9	3.4	3.3
Asset Turnover (x)	4.3	3.5	2.7	3.8	4.3	3.7	3.3	3.1
Inventory (Days)	27	26	45	37	24	29	29	29
Debtor (Days)	8	5	11	7	6	8	8	8
Creditor (Days)	25	16	28	28	19	23	23	23
Leverage Ratio (x)								
Current Ratio	0.9	0.8	0.8	0.7	0.8	0.7	0.8	0.8
Interest Cover Ratio	10.7	2.0	12.8	6.3	-5.4	7.6	4.8	4.5
Net Debt/Equity	0.8	1.3	1.1	1.1	2.1	1.3	1.1	1.0

Consolidated - Cash Flow Statement

(INR b)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
OP/(Loss) before Tax	100	14	142	91	-100	205	136	136
Depreciation	31	34	36	40	46	56	71	77
Interest expense	8	11	10	10	22	26	25	26
Interest income and dividend	-4	-4	-4	-4	-4	-4	0	0
Direct Taxes Paid	-21	-17	-32	-15	-2	-3	-34	-34
MI and others	-4	10	-3	-20	-10	-13	0	0
(Inc)/Dec in WC	-24	7	29	55	13	-28	5	-4
CF from Operations	86	55	178	158	-35	239	203	201
(Inc)/Dec in FA	-113	-138	-116	-120	-93	-99	-150	-150
Free Cash Flow	-27	-83	62	38	-128	139	53	51
Others	9	6	7	9	12	4	0	0
CF from Investments	-111	-142	-123	-137	-114	-130	-150	-150
Inc/(Dec) in Debt	51	115	3	39	213	-100	38	40
Interest Paid	-8	-13	-16	-17	-32	-41	-25	-26
Dividend Paid	-17	-17	-15	-32	-20	-21	-28	-29
CF from Fin. Activity	26	87	-53	-23	151	-111	-15	-15
Inc/Dec of Cash	1	0	3	-2	3	-2	38	36
Opening Balance	1	2	2	5	2	5	3	40
Closing Balance	2	2	5	2	5	3	40	76

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

NOTES

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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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